3 MYTHS OF UNCONSTRAINED INVESTING

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Unconstrained bond strategies have experienced rapid growth in recent years.[1] However, as with any popular concept, success often begets cynicism and criticism. While adoption has increased rapidly, unconstrained bond investing is still often misunderstood by many investors. Unconstrained strategies very simply untether the investment manager from the constraints of a benchmark, such as the market capitalization-weighted Barclays U.S. Aggregate Index. In our view, investor skepticism often arises due to the lack of transparency of the strategy and the diversity of approaches marketed under the "unconstrained" umbrella. By combining an investment process focused on risk management and daily transparency, the WisdomTree Western Asset Unconstrained Bond Fund (UBND) could help investors cut through the clutter. In our approach to unconstrained, Western Asset Management Company[2] (Western Asset) targets bond-like volatility (3% to 5%) and adheres to certain guardrails for exposures in the Fund. Given that the strategy is delivered in an exchange-traded fund (ETF), the holdings are published each day on wisdomtree.com. As a result, investors are able understand the portfolio manager's thoughts on the markets every day. Additionally, investors are able to accurately assess the risk of their total portfolios in real time. In the remainder of this discussion, we seek to highlight some of the most common misconceptions about unconstrained strategies.

Myth No. 1: Unconstrained strategies simply substitute interest rate risk for speculative plays in credit and structured products. While UBND does invest in non-investment grade securities, it employs strict guardrails to preserve the overall portfolio credit quality and resulting risk profile of the Fund. In most scenarios, the Fund will invest at least 50% of its assets in investment-grade securities, employ no financial leverage and cap unhedged non-U.S. currency exposure at 25%.[3] UBND also strives for a broad diversity of exposures, given the broad-based opportunities presented by the global fixed income market. It is important to remember that global markets are much more diverse than the Barclays U.S. Aggregate Index (Agg), the most commonly followed benchmark for the industry. In fact, the Agg represents only 35% of global fixed income opportunities.[4] By limiting a portfolio to such a narrow subset of the market, it may be difficult to generate positive returns should U.S. interest rates rise.

Myth No. 2: Unconstrained strategies combine complexity and a lack of transparency. Departing from the benchmark does not necessitate complexity. To be fair, some strategies employ sophisticated derivative strategies and utilize financial leverage as a principal strategy. But others follow very straightforward strategies with strong risk disciplines focused on delivering bond-like volatility. Since many investors in unconstrained bond strategies get only monthly or quarterly holdings on a lagged basis, investors are often forced to make investment decisions based solely on performance. In volatile markets, timely access to holdings is essential for investors to monitor and manage risk. Since UBND is an ETF, investors can see the holdings of the strategy every day. When the portfolio manager makes a change, the impact on the portfolio's exposure is updated in the next day's holdings. In our view, daily transparency enables investors to assess and monitor risk with greater precision. Should an investor's views differ from those of the portfolio management team, the investor has access to all available holdings and can then make an informed decision about whether to continue to hold the position. Additionally, daily transparency can serve as a powerful signaling tool that investors can use in other segments of their portfolios. **Myth No. 3: The benchmark is an all-weather foundation for a bond portfolio. Why should investors deviate from the market?** As we have mentioned previously, market capitalization-weighted benchmarks reflect issuance, not value. In our view, the current composition of many core benchmarks could make it difficult to generate positive total returns should interest rates rise by even a small amount. Differing objectives for fixed income issuers (lower yields, longer maturities) and investors (more income potential, less interest rate risk) often create a disconnect in the composition of broad-based indexes. In recent years, yields have fallen to very low levels, while interest rate risk has continued to rise.[5] As a result, the current market represents one of the most disadvantageous trade-offs for income potential per unit of interest rate risk in the history of the Agg. Allowing a portfolio management team the flexibility to look for value outside the constraints of a benchmark enables the unconstrained portfolio manager to harvest the desirable characteristics of fixed income while reducing exposure to less desirable ones—namely interest rate risk. While strategies marketed under the unconstrained bond fund banner will continue to evolve, we believe that delivering Western Asset's approach in an ETF is an interesting innovation for the industry. In our view, UBND has the ability to serve as a potential replacement for or a complement to an investor's core bond position. As a result of daily transparency, investors have the potential to better manage risk in their portfolios compared to other less transparent approaches.

[1]Source: Morningstar, as of 6/30/15. [2]Western Asset Management Company serves as the sub-advisor for UBND. [3]Investment guidelines targeted by the sub-advisor. Please view the Fund's prospectus for statutory limits. [4]Source: Barclays, as of 6/30/15. [5]As represented by the Barclays U.S. Aggregate Index, the most commonly followed benchmark for the industry. As of 6/30/15.

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Market capitalization-weighting : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

Barclays U.S. Aggregate Bond Index, 1-3 Year : This index is the 1-3 Yr component of the U.S. Aggregate index.

Transparency : The extent to which investors have ready access to any required financial information about a company, such as price levels, market depth and audited financial reports.

Volatility : A measure of the dispersion of actual returns around a particular average level. .