EVOLVING OUR APPROACH TO EMERGING MARKETS FIXED INCOME

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When we launched the WisdomTree Emerging Markets Local Debt Fund (ELD) eight years ago, we believed that a market cap-weighted approach would have the potential to compound risk in emerging markets (EM). Given the dynamics of the asset class, we thought an index-based approach could also be challenging to construct at the time. Instead, we opted for a structured approach to portfolio management that was anchored by macro fundamentals but dynamic enough to evolve with changes in the market. At our most recent rebalance in August, we changed the way weights are assigned across ELD's tiering structure. Below, we explain the rationale and what we think it can deliver as EM countries respond to current headwinds.

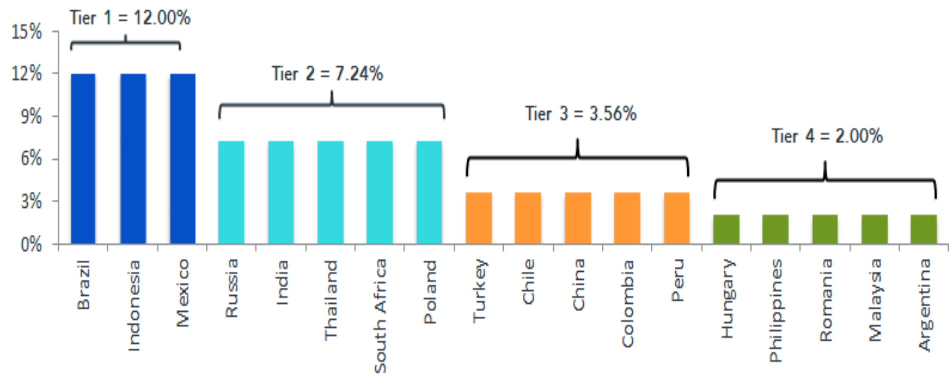
Evolution of the Investable Universe

In 2010, J.P. Morgan included 13 countries in its benchmark[1] for EM local debt. Today, there are 19.[2] Among those original countries, only Mexico and Brazil currently receive the same target weight that they did in 2010. Shifting geographic allocations along with variability in weights means that the characteristics of the asset class evolve frequently, particularly during volatile markets. In our view, incorporating fundamentals into our selection process provides a more intuitive approach than simply owning countries that have issued the most debt. Similarly, we are also able to maintain the flexibility to include EM countries like China, India and South Korea, which, despite their importance to global markets, receive no weight in the benchmark.

Updating Our Approach to Tiering

When setting up any portfolio, there are exposures to consider, to be over-weight, under-weight, or have no position at all. By moving to a four-tier structure from a three-tier structure, our top-tier positions have a 12% weight (2% minimum over-weight relative to the index). In the bottom tier, issuers with fundamentals that are in transition (such as Argentina) offer the potential to boost yield of the total portfolio while at the same time not overexposing the strategy to volatility. In the middle tiers, we're able to upgrade or downgrade countries based on their trends in debt issuance or fundamentals. In sum, a four-tier system provides us the opportunity for greater differentiation across countries to strike the right balance between risk and reward.

ELD's Target Allocations by Tier



ELD vs. Market Cap Index, Country Over-weights									
India	China	Brazil	Indonesia	Philippines	Mexico	Argentina	Chile	Peru	Turkey
7.2%	3.6%	2.5%	2.5%	1.7%	1.7%	1.3%	0.9%	0.4%	0.0%
ELD vs. Market Cap Index, Country Under-weights									
Czech	Colombia	Malaysia	Hungary	Poland	Thailand	South Africa	Romania	Uruguay	Russia
-4.7%	-4.5%	-3.8%	-2.8%	-2.4%	-1.4%	-1.1%	-0.9%	-0.2%	0.0%

Sources: WisdomTree, J.P. Morgan, as of 8/31/18. Weights subject to change.

The Results

After an impressive 2017, emerging market investing has been a challenge in 2018. However, we continue to believe that the construct of our approach can add value in the long run. Since inception, ELD has provided returns comparable to the performance benchmark with meaningfully less volatility (1.2% per year).[3] While there is no guarantee that this historic relationship will always hold, we believe our bias to fundamentals and new tiering structure could provide a more intuitive approach to EM fixed income going forward. With the vast majority of EM currencies off close to 10% year-to-date,[4] now could be a good time for investors realizing losses in other EM debt strategies to consider reallocating to our fundamentally weighted approach.

[1] J.P. Morgan GBI-EM Global Diversified Index.

[2] Source: J.P. Morgan, as of 7/31/10 and 8/31/18, respectively.

[3] Source: StyleADVISOR, as of 8/31/18.

[4] Source: Bloomberg, as of 9/30/18.

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Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. In addition, when interest rates fall, income may decline. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline. Unlike typical exchange-traded funds, there is no index that the Fund attempts to track or replicate. Thus, the ability of the Fund to achieve its objective will depend on the effectiveness of the portfolio manager. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs.

For the top 10 holdings of ELD please visit the Fund's fund detail page at https://www.wisdomtree.com/investments/etfs/fixed-income/eld

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You cannot invest directly in an index.

DEFINITIONS

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.

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