UNCONSTRAINED ? UNDISCIPLINED BOND INVESTING

Rick Harper – Chief Investment Officer, Fixed Income and Model Portfolios
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As unconstrained fixed income investing has grown in popularity in recent years, many strategies and approaches have been marketed under this generic term. To WisdomTree, an unconstrained fixed income strategy allows an investment manager increased flexibility to generate total returns and manage risk compared to an index-based approach. Unconstrained investment managers choose the investments as opposed to tracking traditional index methodologies—the most common of which just allocate the most weight to issues with the most debt outstanding. **Unconstrained ? Undisciplined Approach** Despite the name, unconstrained strategies are not undisciplined—a focus on risk is essential to management of these strategies. The specific level of risk that the manager targets is a primary differentiating factor among unconstrained strategies; some target bond-like volatility, while others are more opportunistic and target much higher levels of risk. As we outline below, an unconstrained approach to fixed income may help investors navigate today's particularly uncertain market environment. **Traditional Fixed Income Benchmarks: Less Yield, More Interest Rate Risk** Why are these strategies in such high demand today? On a risk-adjusted basis, the Barclays U.S. Aggregate Index (Agg) has been one of the best performing strategies over the last 10 years as interest rates fell to record lows.[1] Unfortunately, the fall in rates has coincided with a rise in interest rate risk sensitivity over time. Today, the balance between yield and interest rate risk leaves many bond investors more vulnerable to the potential for negative returns. As we show in the graph below, the amount of income potential has slowly decoupled from the amount of interest rate risk that an investor must assume to own strategies tracking the Barclays U.S. Aggregate Index. While this has been great for total returns in a falling rate environment, what happens should this trend reverse? **Evolution of Risk vs. Return of the Barclays U.S. Aggregate**

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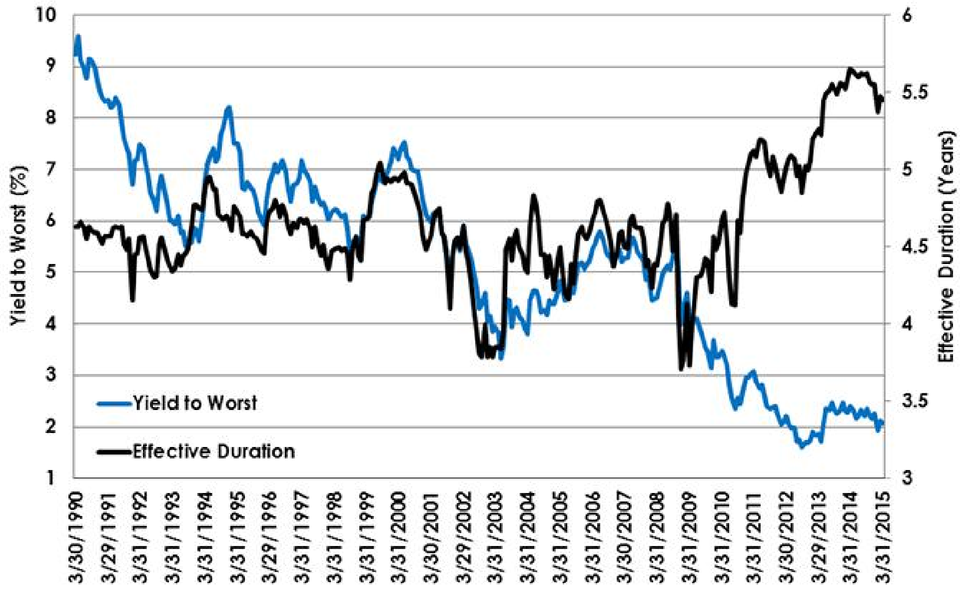

Source: Barclays, as of 3/31/15. Past performance is not indicative of future results. You cannot invest directly in an index.

For definitions of terms in the chart, visit our glossary.

Growing Headwinds for Core Fixed Income As the Federal Reserve (Fed) looks to lift rates for the first time in nearly a decade, we believe that interest rate risk is likely to serve as a headwind rather than a tailwind going forward. In this investment environment, investors should ask themselves if the Agg's current composition is reflective of their investment goals. As government issuance has risen in the United States, will this subset of the market offer compelling opportunities for income given the current interest rate environment? Put simply, an index is a reflection of issuance, not value.

What to Do? With greater risks and lower income potential, traditional fixed income investors will need to accept either lower returns or greater volatility. In a worst-case scenario, they could experience both. Unconstrained approaches are designed to address this challenge. Unconstrained strategies focused on delivering bond-like volatility can be used as either a complement or a replacement for core-based fixed income strategies. Given the increased flexibility for positioning and managing interest rate risk, unconstrained exchange-traded funds (ETFs) are, in our view, one potential solution to the uncertain environment.

Partnering with Western Asset Management Company to Offer an Unconstrained ETF WisdomTree believes unconstrained fixed income strategies can also serve as core bond allocations. While there is a plethora of traditional fixed income-oriented benchmark ETFs, WisdomTree saw limited ETF solutions and a growing need. To marry the benefits of the ETF structure—which includes full transparency into holdings of the unconstrained investment manager and the tax efficiency of the ETF structure—WisdomTree partnered with one of the leading fixed income managers in the world to offer an unconstrained ETF. On June 11, WisdomTree launched the WisdomTree Western Asset Unconstrained Bond Fund (UBND). In an upcoming blog post, we will go into more detail on Western Asset's approach to unconstrained investing and how it will be implemented in UBND. Quite simply, WisdomTree believes UBND can serve as a core fixed income allocation given Western Asset's focus on delivering bond-like volatility with its unconstrained yet very disciplined focus on fixed income.

[1]Source: Barclays, as of 3/31/15.

Important Risks Related to this Article

UBND is new and has limited operating history. There are risks associated with investing, including possible loss of principal. 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. 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. High-yield or "junk" bonds have lower credit ratings and involve a greater risk to principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. The Fund may engage in "short sale" transactions where losses may be exaggerated, potentially losing more money than the actual cost of the investment, and the third party to the short sale may fail to honor its contract terms, causing a loss to the Fund. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile. Foreside Fund Services, LLC. is not affiliated with Western Asset Management Company.

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You cannot invest directly in an index.

DEFINITIONS

Risk : Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.

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

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Interest rate risk : The risk that an investment's value will decline due to an increase in interest rates.

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

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

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.