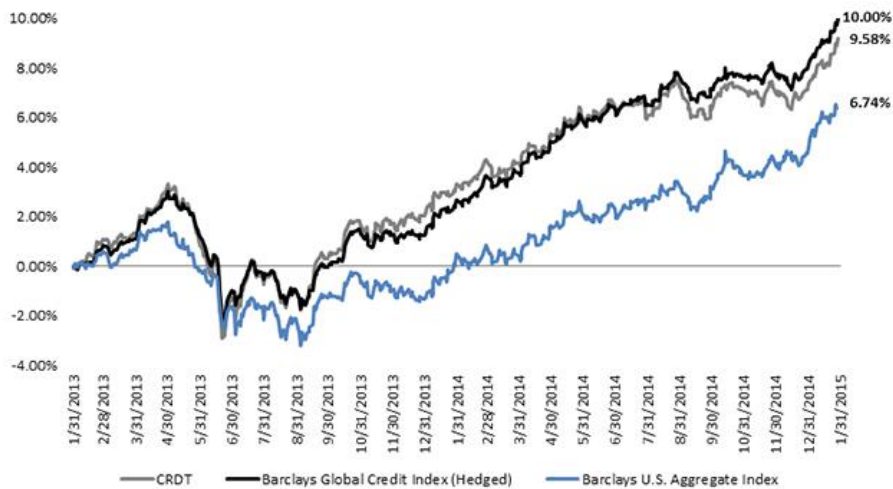


# WISDOMTREE STRATEGIC CORPORATE BOND FUND (CRDT) OUTPERFORMS 90% OF PEERS

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Near the end of 2014, [we discussed](#) the potential benefits of [actively managed exchange-traded funds \(ETFs\)](#) in helping investors navigate the [credit cycle](#). In early 2012, WisdomTree selected Western Asset Management Company (Western) to serve as sub-advisor for certain fixed income strategies, including the [WisdomTree Strategic Corporate Bond Fund \(CRDT\)](#).<sup>1</sup> Looking ahead, we anticipate that many other well-respected managers will begin to enter the actively managed ETF space. A key question from many investors will be how these managers plan to transfer the success they’ve had in mutual funds or separately managed accounts to the ETF structure. Looking back over the past two years, we seek to highlight some of the attributes that contributed to CRDT beating 90% of all other open-ended mutual funds and ETFs in the Morningstar “world Bond” category since its inception (CRDT ranked 37th out of 367 funds for the period 1/31/12 to 12/31/14, based on total return).<sup>2</sup> [WisdomTree Strategic Corporate Bond Fund \(CRDT\) vs. Barclays Global Credit Index \(Hedged\) & Barclays U.S. Aggregate Index \(1/31/13-](#)



Source: Bloomberg, as of 1/31/15.

1/31/15)

Past performance is not indicative of future results. You cannot invest directly in an index.

For current

performance of CRDT, [click here](#). #1: Team-Based Approach That Identifies Value  
Western’s key investment philosophy hinges on long-term, [fundamental](#) value and diversification. what this means is that it tries to combine the fundamental view of a security with the security’s pricing in the marketplace. Identifying dislocations between fundamentals and prices is its definition of value. As a result, since Western has done its homework on the way in, it’s easier to have conviction to stay invested. If current market pricing drops, and the fundamental value view has not changed, then Western would potentially add to the position or strategy. A perfect example of this process in practice is investments in the debt of certain banks in the U.S. In the last few years, many banks have spun off noncore businesses and reduced debt. While earnings

may have recently disappointed equity markets,<sup>3</sup> continued [deleveraging](#) and back-to-basics banking are clear positives for investing in their debt. #2: **Combination of [Top-Down](#) & [Bottom-up](#) Analysis** Top-down analysis often refers to the [macroeconomic](#) view: which countries and sectors look attractively priced? Bottom-up analysis looks at the underlying fundamentals of a specific issuer compared to its competitors. You can see the integration of the top-down and bottom-up processes when you look at the structure of Western's trading floor. Analysts, traders and portfolio managers (PMs) all sit next to one another on the floor to exchange ideas. On the desk, the analyst role is not considered a junior position or a necessary rotation on the path to becoming a PM. In fact, this role is generally considered a career-track position. Analysts are able to take ownership of a specific trade idea from the very early stages all the way through implementation and monitoring. In a largely policy-driven market, macro strategies are extremely important, particularly in terms of being a complement, or [hedge](#), to some of the positions in the portfolio. Every week, the U.S. Broad Strategy Committee at Western discusses [interest rates](#), broad sector allocation and potentially even some subsector allocations. Each of the sector heads on the Committee, which is chaired by Western CIO Ken Leech, plays a major role in debating market views and portfolio composition. Throughout most of 2014, Western's view was that longer-term interest rates would remain contained or fall. As a result, CRDT's portfolio was invested in slightly longer-[duration](#) securities than its performance benchmark. #3: **Global Approach to [Credit](#)** As we have mentioned [previously](#), investing in stocks and bonds has evolved into a global pursuit. As of December 31, 2014, a full 60% of the investable universe for credit is domiciled outside the United States.<sup>4</sup> It is important to remember that many of these foreign bonds are denominated in U.S. dollars and constitute sizable portions of index-based strategies that many investors may already unknowingly have exposure to in their portfolios. However, all risks are not created equal. By taking a global view of credit, the team at Western is able to think strategically about what risks around the world are ultimately worth taking. This global approach is complemented by having boots on the ground in major market centers around the world. Having local affiliate offices managing money represents one way to understand potential drivers of return and identify future [risk](#) and opportunities. At the beginning of 2015, Western had 47 research analysts covering markets around the world. 2014 saw a sharp differentiation in performance across sectors and quality. Going forward, we believe a large, experienced analyst pool will prove extremely beneficial in taking advantage of the greater opportunities this differentiation has created. Ultimately, effective bond managers are only as good as their investment process. As we have outlined in this piece, we believe Western's approach to fixed income can be a valuable resource to investors seeking to navigate the evolution of global credit markets. <sup>1</sup>Western sub-advises five WisdomTree Funds, as of 12/31/14. <sup>2</sup>Source: Morningstar, as of 12/31/14. For the 1-year period, CRDT ranked 75th out of 405 funds, beating 82% of its peers. <sup>3</sup>Source: Bloomberg, as of 1/20/15. <sup>4</sup>As represented by the Barclays Global Credit Index, as of 12/31/14.

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## DEFINITIONS

**Actively managed ETFs**: Investment strategy where a manager selects securities in an attempt to outperform the performance benchmark.

**credit cycle**: the process in which the pricing of and access to credit evolves over time.

**Barclays Global Credit Index**: Index which contains investment grade and high yield credit securities from the Barclays Multiverse Index.

**Bloomberg Barclays U.S. Aggregate Index OAS**: the amount of compensation in excess of Treasuries that investors demand for lending to borrowers in the Bloomberg Barclays U.S. Aggregate Index.

**Fundamental value**: The value of a firm that is related to a company's actual operations and production as opposed to changes in share price.

**Deleverage**: Bring down levels of debt.

**Top-down**: A method of analysis that involves looking at the "big picture" first and then analyzing the details of smaller components.

**Bottom-up**: An investment approach that de-emphasizes the significance of economic and market cycles. This approach focuses on the analysis of individual securities.

**Macro**: Focused on issues impacting the overall economic landscape as opposed to those only impacting individual companies.

**Hedge**: Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

**Interest rates**: The rate at which interest is paid by a borrower for the use of money.

**Duration**: A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

**Credit**: A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future.

**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.