



## WisdomTree Research

# High Yield Indexes Rebalance [November 2023]

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### WisdomTree U.S. High Yield Corporate Bond Index (WFCHY) and WisdomTree U.S. Short-term High Yield Corporate Bond Index (WFCHYS)

WisdomTree U.S. High Yield Corporate Bond Indexes are structured to screen the available universe of non-investment-grade corporate bonds for sufficient liquidity and fundamentals, and then tilt toward those with attractive income and valuation characteristics.

On November 30, 2023, the WisdomTree U.S. High Yield Corporate Bond Index (WFCHY) and the WisdomTree U.S. Short-term High Yield Corporate Bond Index (WFCHYS) were rebalanced in accordance with the Index methodologies. The WFCHY index serves as the underlying benchmark for the WisdomTree U.S. High Yield Corporate Bond Fund (WFHY).

#### KEY REBALANCE HIGHLIGHTS

- At this rebalance, we updated the methodology for identifying distressed bonds in the index by removing issues with OAS of above 3x overall broad universe OAS. By implementing this filter, we brought the index/portfolio closer to its investment objective, which is avoiding riskiest (mostly distressed) issues and reinforcing the inherent higher quality bias of the strategy.
- As a result of this implementation, the allocation to the issuers in the riskier part of credit spectrum, namely CCC rating, decreased. As stated above, this will increase the quality bias of index/portfolio
- With the November 2023 rebalance, the index yield for WFCHY and WFCHYS decreased by 63bps and 68bps respectively, and the duration extended by 0.2 and 0.4 years respectively.
- The composition of WFCHY suggested extending duration for decreased yield compared with the market cap benchmark. Both indexes maintain strategic over-weights in health care and real estate. Both underweight in industrials and materials relative to the benchmarks.
- Post-rebalance, the rebalanced indexes hold constituents with stronger fundamentals relative to the market cap-weighted benchmark
- The next semi-annual rebalance for both Indexes is scheduled for May 2024.

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### INDICATIVE INDEX STATS

Post-rebalance, the yield was lower by 63 basis points (bps), and the duration was longer by 0.2 years for WFCHY. The yield was lower by 68 bps and the duration was longer by 0.4 years for WFCHYS.

INDEX STATISTICS	Post-Rebalance Index		Current Index		Benchmark	
	WFCHY	WFCHYS	WFCHY	WFCHYS	H0A0	HUCC
Yield to Worst	7.85%	7.92%	8.48%	8.60%	8.45%	8.75%
Duration	4.1	2.7	3.9	2.3	3.4	2.3
Minimum Par Size (\$Mil)	500	350	500	350	250	250
Issuer Cap	2%	3%	2%	3%	-	2%
# of Bonds	662	421	689	391	1,827	1,011

Sources: WisdomTree, Bloomberg, Merrill Lynch, with data as of 11/30/2023. H0A0: BofA Merrill Lynch U.S. High Yield Index, which tracks the performance of U.S. dollar denominated below investment grade corporate debt securities issued in the U.S. HUCC: BofA Merrill Lynch 1-5 Year U.S. High Yield Constrained Index, which tracks the performance of short-term US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. Projected Index represents the projected index after rebalancing. Current index represents the latest index before rebalancing.

### INDEX SECTOR BREAKDOWNS

With the rebalance, WFCHY observed increased weights in Consumer Discretionary (+1.4%) and Real Estate (+0.7%), and reduced weights in Communications (-2.6%) and Financials (-0.8%) after rebalancing. WFCHYS observed increased weights in Health Care (+1.9%) and Consumer Discretionary (+1.7%), and reduced weights in Communications (-2.8%), Industrials (-2.1%) after rebalancing.

#### Most Significant Sector Changes After Rebalance

WFCHY			WFCHYS		
<b>Top 3 Exposure Increases</b>			<b>Top 3 Exposure Increases</b>		
1	Consumer Discretionary	1.4%	1	Health Care	1.9%
2	Real Estate	0.7%	2	Consumer Discretionary	1.7%
3	Consumer Staples	0.7%	3	Materials	1.6%
<b>Top 3 Exposure Reductions</b>			<b>Top 3 Exposure Reductions</b>		
1	Communications	-2.6%	1	Communications	-2.8%
2	Financials	-0.8%	2	Industrials	-2.1%
3	Technology	-0.7%	3	Energy	-1.1%

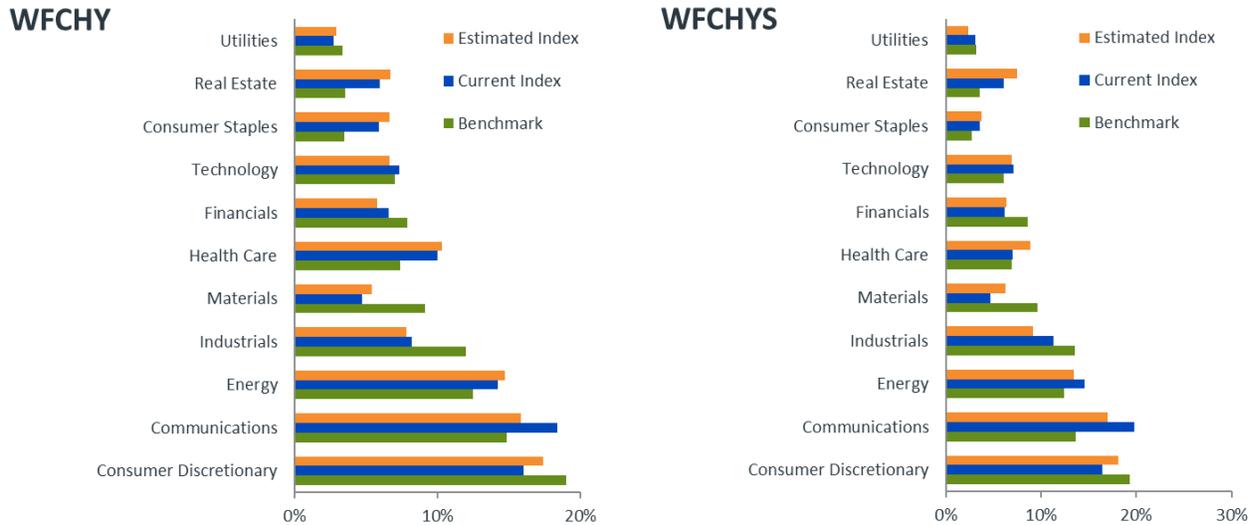
Sources: WisdomTree, Bloomberg, with data as of 11/30/2023. Exposures subject to change.

Compared to the market cap benchmark, WFCHY is under-weight in Industrials (-4.1%), Materials (-3.7%) and Financials (-2.1%), and over-weight in Real Estate (+3.1%), Consumer Staples (+3.1%) and Health Care (+2.9%). WFCHYS is under-weight in Industrials (-4.4%), Materials (-3.3%), and Financials (-2.2%) and over-weight in Real Estate Communications (+3.3%), Real Estate (+3.9%) and Health Care (+1.9%).

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Sector Breakdown Comparisons, Before and After Rebalance



Sources: WisdomTree, Bloomberg, Merrill Lynch, with data as of 11/30/2023. Exposures subject to change. The WFCY benchmark is represented by H0A0. The WFCYS benchmark is represented by HUCC.

### CHANGES IN FUNDAMENTAL FACTORS

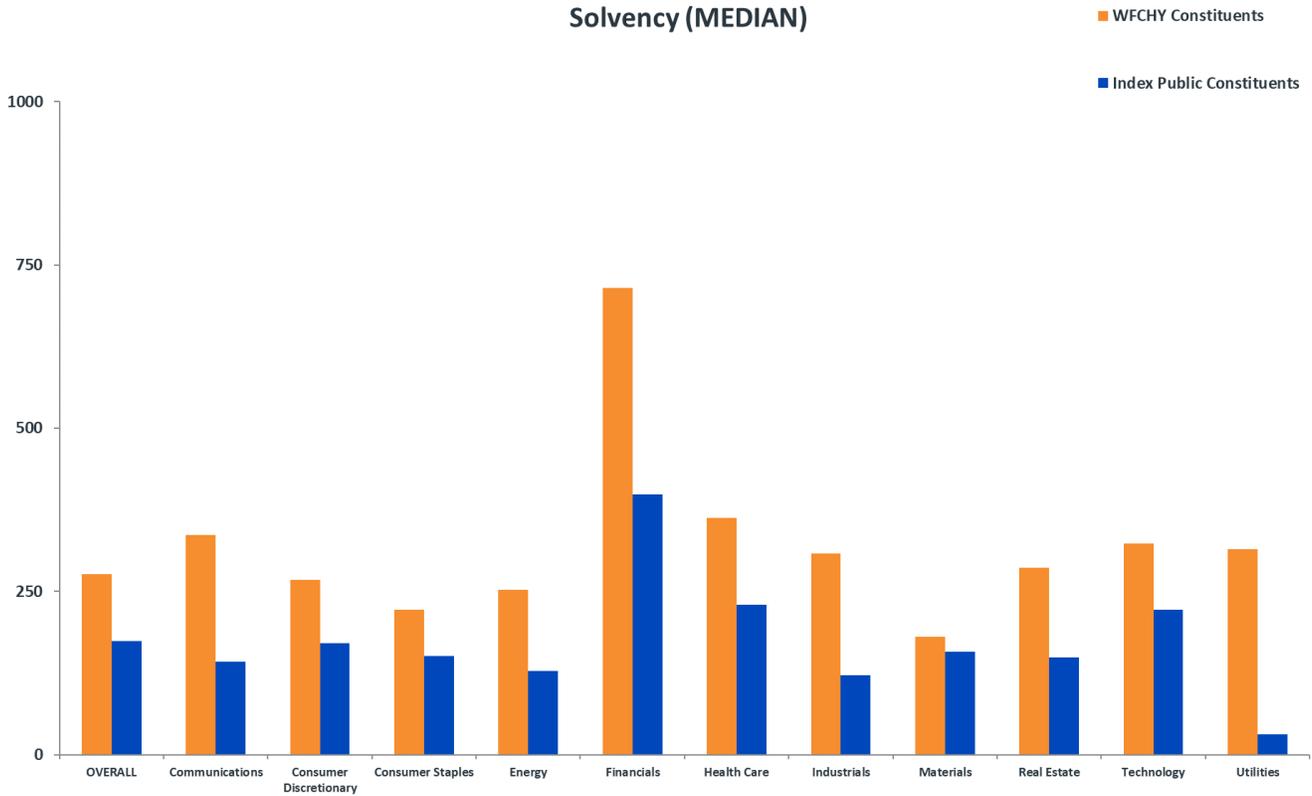
For non-investment-grade corporate bond Indexes, we use free cash flow as a measure of solvency. Our research highlighted that cash flow problems were a common flash point among companies falling into distressed conditions. Companies with inadequate or negative free cash flows are under constant pressure to find the necessary resources to service their debts on time. Without sufficient cash flow, leveraged businesses can service their obligations with only a small set of options: tap short-term revolvers, raise additional debt or equity, or generate cash via asset sales. With this limited set of options, companies with sustained negative trends in cash flow may eventually become insolvent.

The rebalanced index reflects the stronger cash flow of the constituents relative to the market cap-weighted public benchmark.

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### Solvency (MEDIAN)



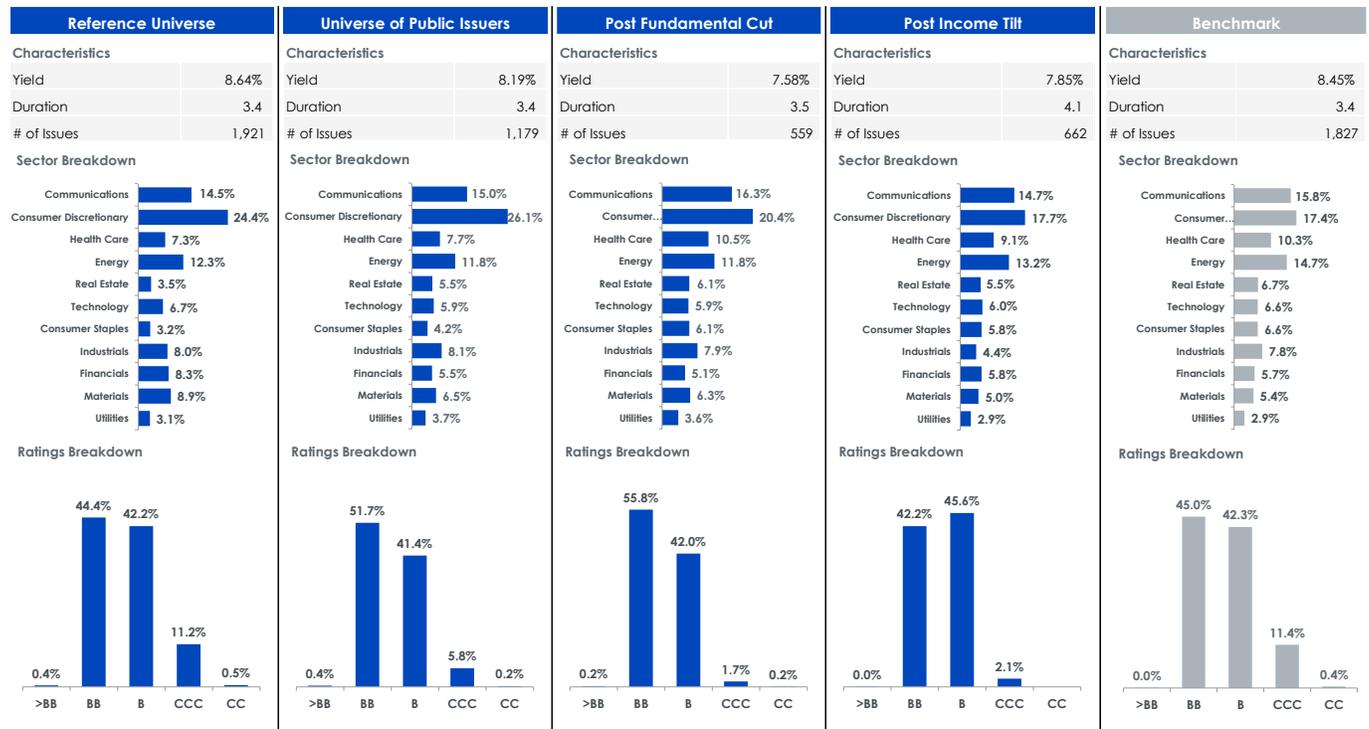
Sources: WisdomTree, FactSet, Bloomberg, with data as of 11/30/2023. Subject to change.

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### UNIVERSE BREAKDOWN SHOWCASING REBALANCE PROCESS

In the panels below, we show the indexing process for WFCHY. To recap, we start with a broad non-investment-grade corporate universe with minimum size and years-to-maturity constraints and keep only the public companies with positive fundamental factors. For each broad sector, we then tilt toward the bonds with the best income characteristics. The post-cut portfolio has a similar average yield to the broad care universe, but the tilt step enhanced the yield of the final portfolio, and reduced duration.



Sources: WisdomTree, Bloomberg, data as of 11/30/2023, the weight determination date of the rebalance process. Past performance is not indicative of future results. You cannot invest directly in an index. Reference Universe is defined as the universe of bonds issued by both public and private issuers meeting the asset and ratings criteria of the WisdomTree High Yield Corporate Bond Index. Universe of Public Issuers represents a subset of the Reference Universe that excludes those with private parent companies. Post Fundamental Cut is the portfolio of the issues remaining after cutting away those with negative Free Cash Flow, poor liquidity, and outstanding par under \$500M. The Post Income Tilt represents the final index after adding in the income tilt. Benchmark is defined as the BofA Merrill Lynch U.S. High Yield Index, which tracks the performance of U.S. dollar denominated below investment grade corporate debt securities issued in the U.S. Exposures subject to change.

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### Glossary:

**Basis Point:** 1/100th of 1 percent

**Cash Flow:** a measure of how much cash a business generates after taking into account all the necessary expenses, including net capital expenditures.

**Duration** is a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates. Effective duration is a calculation used to approximate the actual, modified duration of a callable bond. It takes into account that future interest rate changes will affect the expected cash flows for a callable bond.

**Credit Quality** is the underlying credit worthiness of a bond, reflecting its risk of default. Credit quality is typically represented by the credit ratings of a bond that are assigned by rating agencies such as Moody's or Standard & Poor's.

**Yield to worst:** The rate of return generated assuming a bond is redeemed by the issuer on the least desirable date for the investor.

**Investment Grade:** A rating given to a municipal or corporate bond. It is a relatively favorable rating by either Moody's or Standard & Poor's indicating a higher chance an issuer performs interest and principal obligations as promised by the terms of the debt issuance.

**Liquidity:** The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets.

**Fundamentals:** Attributes related to a company's actual operations and production as opposed to changes in share price.

**Rebalance:** An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules-based selection and weighting process on an annual basis.

**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.



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There are risks associated with investing, including possible loss of principal. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. High-yield or “junk” bonds have lower credit ratings and involve a greater risk to principal. 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. While the Fund attempts to limit credit and counterparty exposure, the value of an investment in the Fund may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of the Fund’s portfolio investments. Please read the Fund’s prospectus for specific details regarding the Fund’s risk profile

You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein.

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