

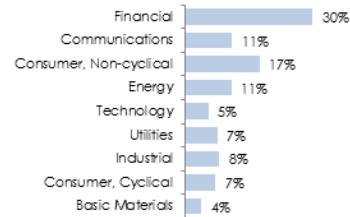
U.S. FIXED INCOME: GETTING BACK TO THE FUNDAMENTALS

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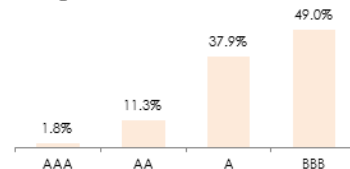
The recent [Federal Open Market Committee \(FOMC\)](#) meeting and subsequent release of Q1 real [gross domestic product \(GDP\)](#) data seemed to underscore the point that U.S. [interest rates](#) will more than likely remain in a range-bound pattern. As a result, fixed income investors have increasingly turned their attention to the U.S. [corporate bond](#) market as a source to potentially improve their income opportunities. WisdomTree continues to see more relative value in [investment-grade \(IG\)](#) corporates than in interest-sensitive vehicles such as [Treasuries](#), and our preferred strategy is to focus on a qualitative approach while tilting for income. Prior to the evolution of [smart beta](#), or fundamentally weighted index methodologies, investors relied on a [market cap-weighted](#) approach to investing. For the fixed income investor, this is actually a counterintuitive approach, as it increases exposure to companies simply because they have issued more debt. As a result, the market cap-weighted strategy does not necessarily focus on [credit](#) quality, an important consideration in any fixed income asset allocation. Given the heightened level of credit concerns (downgrades and defaults) permeating market psychology, we believe fixed income investors would benefit from getting back to the [fundamentals](#). Within our smart beta, or fundamental, approach, we define the investable corporate bond universe focusing on publicly traded, U.S.- domiciled issues. In our April 27 blog post "[U.S. Fixed Income: Get Smart ... Beta](#)", we highlighted our fixed income team's work in screening for quality in both the IG and [high-yield \(HY\)](#) arenas. After implementing the fundamental screening process (for IG, we cut the worst 20% from the defined universe; for HY, we eliminate all issuers with negative free cash flow and also remove the 5% with the lowest estimated [liquidity](#)), we then redefine the post-fundamental- cut universe and tilt for income. Within this process, we (1) **score the remaining issues:** utilize [spreads](#) versus like-[maturity](#) Treasuries, consider [duration](#)/interest rate risk and factor in the context of potential default risk; (2) **rank the issues:** compare to other credits within the same industry groups (Financials versus Financials, Industrials versus Industrials, etc.) and (3) **weight:** tilt toward issues based on the results of the scoring/rank steps. The accompanying charts illustrate the final outcome of the WisdomTree fundamental fixed income strategy as compared to the market cap benchmark. Let's first take a look at the sector breakdown. In IG, the most noteworthy difference is that our smart beta approach results in an over-weight to the Communications grouping and under-weighting to Energy issues. For HY, our methodology results in a visible over-weight to Communications and Non-cyclical Consumer, while under-weighting the Energy and Financial sectors. Notwithstanding the recent bounce, crude oil prices have dropped in a precipitous fashion over the last two years, and this action, as well as potential knock-on effects, has given rise to the aforementioned credit concerns rearing up throughout this year and perhaps 2017, once again placing an emphasis on quality investments. From a ratings perspective, the fundamental strategy for IG tilts toward the BBB category versus the market cap benchmark. This difference is the direct result of the screening and weighting process whereby we tilt toward the higher- quality BBBs in order to add back income. Within HY, the weighting shifts from the CCC and below ratings into the BB and single-B groupings. **WisdomTree Fundamental U.S. Corporate Bond Index Comparison**

**Market Cap Benchmark:
Bloomberg U.S. Corporate Bond Index**

Sector Breakdown

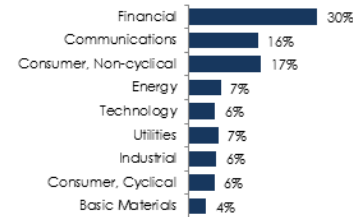


Ratings Breakdown

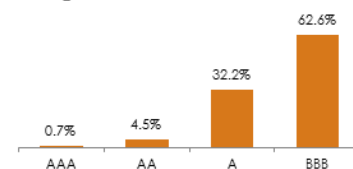


WisdomTree Fundamental U.S. Corporate Bond Index

Sector Breakdown



Ratings Breakdown



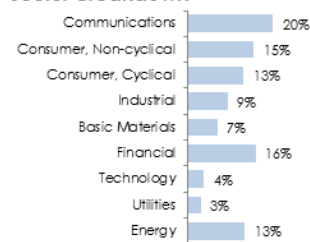
Sources: WisdomTree, FactSet, Bloomberg, as of 3/31/16. Holdings of WisdomTree Fundamental U.S. Corporate Bond Index as of rebalance at inception 2/29/16, subject to change. You cannot invest directly in an index. Past performance is not indicative of future results. Market Cap Benchmark defined as the Bloomberg U.S. Corporate Bond Index, a rules-based, market value-weighted index engineered to measure the investment-grade, fixed-rated, taxable corporate bond market.

WisdomTree Fundamental Index Comparison

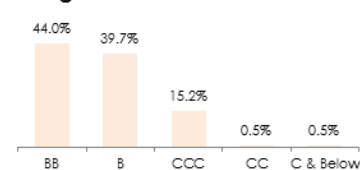
U.S. High Yield

**Market Cap Benchmark:
Bloomberg U.S. High Yield Index**

Sector Breakdown



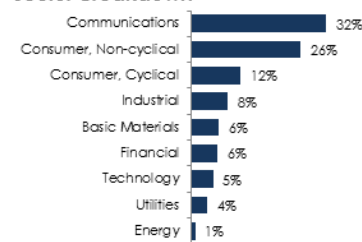
Ratings Breakdown



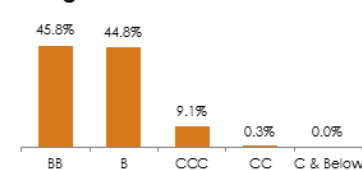
WisdomTree Fundamental U.S. High Yield Corporate Bond Index

WisdomTree Fundamental U.S. High Yield Corporate Bond Index

Sector Breakdown



Ratings Breakdown



Sources: WisdomTree, FactSet, Bloomberg, as of 3/31/16. Holdings of WisdomTree Fundamental U.S. High Yield Corporate Bond Index as of rebalance at inception 2/29/16, subject to change. You cannot invest directly in an index. Past performance is not indicative of future results. Market Cap Benchmark defined as the Bloomberg U.S. High Yield Index, a rules-based, market value-weighted index engineered to measure the high-yield, fixed-rated, taxable corporate bond market.

Conclusion

The WisdomTree fundamental fixed income funds—the [WisdomTree Fundamental U.S. Corporate Bond Fund \(WFIG\)](#), the [WisdomTree Fundamental U.S. Short-Term Corporate Bond Fund \(SFIG\)](#), the [WisdomTree Fundamental U.S. High Yield Corporate Bond Fund \(WFHY\)](#) and the [WisdomTree Fundamental U.S. Short-Term High Yield Corporate Bond Fund \(SFHY\)](#)—can be used as either a substitute or complement in a fixed income portfolio. They offer solutions for fixed income investors who are searching for investments that provide relative income opportunities in an environment in which increased credit quality is desired. These Funds fit into WisdomTree’s suite of fixed income products, potentially serving as an allocation to U.S.- based fixed income, specifically within the credit sector.

Important Risks Related to this Article

Credit ratings apply to the underlying holdings of the Fund, not to the Fund itself. Standard & Poor's, Moody's and Fitch study the financial condition of an entity to ascertain its creditworthiness. The credit ratings reflect the rating agency's opinion of the holdings' financial condition and histories. The ratings displayed are based on the highest of each portfolio constituent as currently rated by Standard & Poor's, Moody's or Fitch. Long- term ratings are generally measured on a scale ranging from AAA (highest) to D (lowest), while short- term ratings are generally measured on a scale ranging from A-1 to C.

Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. 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.

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You cannot invest directly in an index.

DEFINITIONS

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

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

Corporate Bonds : a debt security issued by a corporation.

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.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Smart Beta : A term for rules-based investment strategies that don't use conventional market-cap weightings.

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.

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.

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

High Yield : Sometimes referred to as "junk bonds," these securities have a higher risk of default than investment-grade securities.

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.

Spread : Typically refers to a difference between a measure of yield for one asset class and a measure of yield for either a different subset of that asset class or a different asset class entirely.

Maturity : The amount of time until a loan is repaid.

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.