A Pragmatic Approach to Fixed Income Investment

With rates rising to levels not seen since the early 2000s, we have left behind the zero-interest rate environment that has dominated the past 15 years. We are now at the precipice of either a return to normality in the bond market with substantive yields and diversification versus equities restored or marking year four in a new bond bear market. Either way, bond managers face challenges uniquely different from those that preceded the last 15 years. This calls for new strategies that reimagine the implementation of fixed income portfolios.

In order to address these challenges, WisdomTree has collaborated with Bianco Research Advisors to take a different approach to core fixed income. Unencumbered by the biases of traditional Wall Street research, Bianco Research and its President and Market Strategist Jim Bianco have built a decades long reputation for objective, incisive commentary that challenges consensus thinking on subjects as wide ranging as monetary policy, the intersection of markets and politics, the role of government in the economy, fund flows and positioning in financial markets. Jim appears regularly on CNBC, Bloomberg, and Fox Business, and is often featured in the Wall Street Journal, Bloomberg News, Grants Interest Rate Observer, and MarketWatch.

The WisdomTree Bianco Total Return Fund (WTBN) and the index that it tracks, the Bianco Research Fixed Income Total Return Index, combine the experience of Bianco Research in developing factor-based views on the fixed income markets with the efficiency of fixed income ETFs in expressing these views.

What is the Bianco Research Fixed Income Total Return Index?
Bianco Research Advisors LLC developed the Bianco Research Fixed Income Total Return Index (“the Index”) to provide exposure to factors that can provide the potential for outperformance relative to a market cap weighted universe exposure of U.S. Dollar-denominated investment grade debt (“the Baseline Universe”).

The Index comprises fixed-income exchange-traded funds (collectively, “Fixed Income ETFs”) and is reconstituted at the end of each month or on an ad-hoc basis as circumstances dictate, such as rebalancing after an extreme market event or change in government policy. The Fixed Income ETFs may provide exposure to one or more of the following fixed income investments: government bonds, corporate bonds, mortgage-backed securities, high yield securities, inflation-protected securities, municipal securities, and international and emerging markets fixed income securities.

How is the Index Constructed?
1. Define Total Return Factors
2. Filter Process
3. Screen the Universe
4. Establish Neutral Portfolio
5. Determine Factor Tilts versus Neutral Portfolio + Construct the Tilted Portfolio
6. Risk Guardrails – Range of Allocation
1. **Define Total Return Factors**

Different factors define bond returns. The overall level of interest rate risk, investments across maturities (curve positioning), the degree of credit risk, and how an investor is positioned for increases and decreases in volatility are all common decisions made by portfolio managers in positioning fixed income portfolios. Within the index, the investment committee alters exposure to these factors within the index to generate potential excess return versus a market-based universe, as represented by the Neutral Portfolio:

- **Duration** – Option-adjusted modified duration, or a measure of the Index’s sensitivity to interest rate movements.
- **Curve** – Yield curve weightings, or how the option-adjusted modified duration is owned across the yield curve.
- **Credit** – Credit weightings, or the Index weighting of credit-related exposure relative to that of the Baseline Universe.
- **Volatility** – Structure/MBS weightings, or the Index weighting of structure/mortgage exposure relative to that of the Baseline Universe.
- **Diversification and High Conviction** – Outlier exposure or Index components not included in the Baseline Universe or neutral portfolio.

2. **Filter Process**

Bianco Research Advisors LLC (the “Index Provider”) first establishes a baseline of aggregate exposures based on the duration, curve, credit and volatility risk (collectively, “Baseline Exposures”) of a universe of U.S. dollar-denominated investment grade debt meeting certain criteria selected by the Index Provider and excluding certain types of investment grade debt securities such as those with floating rate coupons and tax-exempt securities issued by U.S. municipal issuers (the “Baseline Universe”).
3. **Screen the Universe**

   Bianco first selects a deep pool of eligible ETFs covering a wide spectrum of available exposures. This universe feeds the index construction process for the coming year. Only a select number of ETFs will be index constituents at a given time, but all the index constituents will be drawn from the pool. To be eligible for the pool, a fixed income ETF must satisfy several conditions.

   - Additional consideration is given to developing a deep bench for achieving and adjusting desired tilts to Fixed Income factors.
   - Reconstituted annually, but a few funds can be added on an ad-hoc basis if there is a compelling case for inclusion.
   - Current pool of 53 ETFs covering Treasury, Corporate, Securitized, and outlier exposures.

Source: Bianco Research, as of 12/07/2023

4. **Establish the Neutral Portfolio**

   Use a portfolio of fixed income ETFs to reflect the Baseline Exposures and weight in accordance with the Factor Exposures to serve as the “neutral” portfolio.

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**Fund of Funds Method**

*Market Efficient Strategy Based on Macro Factors*

- **Screening the Universe**
  - Starting with a universe of U.S. domiciled passive managed fixed income ETFs, ensuring proper liquidity

- **Total Return Factors**
  - Use factor-based analysis to determine portfolio structure

- **Implementation**
  - Implementation of profitable deviations from the benchmark

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<th>01.</th>
<th>02.</th>
<th>03.</th>
<th>04.</th>
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<tbody>
<tr>
<td>SUFFICIENT LIQUIDITY</td>
<td>COST EFFECTIVE</td>
<td>PRUDENT MANAGEMENT</td>
<td>DESIRED EXPOSURE</td>
</tr>
</tbody>
</table>
5. **Determine Factor Tilts to Neutral Portfolio + Construct the Tilted Portfolio**

In calibrating the tilts to the factors listed above, the Index Provider considers both quantitative inputs (e.g., statistical studies of past relationships, valuation measures, and momentum) and qualitative inputs (e.g., a historical understanding of government policy and interpretations of economic statistics and central bank communications).

**Portfolio Construction**

- The portfolio strategy is based on qualitative and quantitative inputs including economic data and interpretations of government policy. The Index is managed both by a top-down fund level approach and by looking through to underlying holding characteristics. Asset allocation guardrails include 50% - 200% allocation relative to the benchmark for credit, duration, and structure/mortgage weight.
- An outlier weight to facilitate high conviction exposure to more speculative or diversifying positions is constrained to 0% - 20%.
- In extraordinary market environments, the Investment Committee can select index constituents that are entirely composed of Treasury components.

After determining the desired factor tilts to Neutral portfolio, the Investment Committee will implement those tilts by selecting ETFs from the universe selected in Step 3.
6. **Risk Guardrails - Range of Allocation**

- **DURATION:** The option-adjusted modified duration of the Index will be constrained to 50% to 200% of the duration of the Baseline.
- **CURVE:** The Index Committee will also determine how the option-adjusted modified duration will be apportioned across the yield curve.
- **CREDIT:** The corporate bond or credit weighting will be constrained to between 50% to 200% of the weighting in the Baseline.
- **VOLATILITY:** The structure/mortgage weighting will be constrained to between 50% to 200% of the weighting in the Baseline.
- **DIVERSIFICATION AND HIGH CONVICTION:** The Outlier or Out of Benchmark weighting will range between 0% and 20% of the Index. The Outlier weighting will facilitate exposures to more speculative or diversifying credit positions, such as high yield corporates or emerging market debt, and positioning against inflation risks or positioning for potential declines or appreciation in the dollar relative to non-US currencies.
- The structure and weighting to U.S. Treasury ETFs complements the other exposures to complete the Index and finalize the desired factor exposures.
- **EXTRAORDINARY CONDITIONS:** In deteriorating market environments, the Index Committee may, but is not obligated to, select Index constituents that are entirely composed of Treasury components.

**THE RESULT**

As of 11/30/2023, The Index was positioned to have 90% of Neutral, Baseline’s duration with no active Yield Curve positioning. The Index was neutral Corporate Credit exposure while being underweighted to Agency MBS. The biggest outlier exposure in the Index versus Neutral Portfolio was 20% max allocation of outlier bucket to U.S. TIPS.

**Current Positioning**

- **Duration:** 90% short duration
- **Corporate Credit:** Neutral credit exposure
- **Yield Curve:** No current positions
- **Securitized:** 72% underweight MBS
- **Outliers:** 20% max allocation to U.S. TIPS
Current Index Positioning, as of 11/30/2023

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Ticker</th>
<th>Bianco TR</th>
</tr>
</thead>
<tbody>
<tr>
<td>iShares MBS ETF</td>
<td>MBB</td>
<td>21.0%</td>
</tr>
<tr>
<td>iShares 0-5 Year TIPS BOND ETF</td>
<td>STIP</td>
<td>20.0%</td>
</tr>
<tr>
<td>Vanguard Long-Term Corporate Bond ETF</td>
<td>VCLT</td>
<td>9.0%</td>
</tr>
<tr>
<td>WisdomTree Floating Rate Treasury Fund</td>
<td>USFR</td>
<td>8.0%</td>
</tr>
<tr>
<td>Vanguard Short-Term Corporate Bond ETF</td>
<td>VCSH</td>
<td>8.0%</td>
</tr>
<tr>
<td>Vanguard Intermediate-Term Corporate Bond ETF</td>
<td>VCIT</td>
<td>7.1%</td>
</tr>
<tr>
<td>Schwab Long-Term U.S. Treasury ETF</td>
<td>SCHQ</td>
<td>7.0%</td>
</tr>
<tr>
<td>Schwab Short-Term U.S. Treasury ETF</td>
<td>SCHO</td>
<td>5.9%</td>
</tr>
<tr>
<td>iShares 7-10 Year Treasury Bond ETF</td>
<td>IEF</td>
<td>5.5%</td>
</tr>
<tr>
<td>iShares BBB Rated Corporate Bond ETF</td>
<td>LQDB</td>
<td>5.0%</td>
</tr>
<tr>
<td>iShares 3-7 Year Treasury Bond ETF</td>
<td>IEI</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

Source: Bianco Research Advisors and Bloomberg, as of 11/30/2023. Subject to change.

SNAPSHOT OF THE BIANCO RESEARCH FIXED INCOME TOTAL RETURN INDEX VS. THE AGG (as of 11/30/2023)

<table>
<thead>
<tr>
<th></th>
<th>Bianco TR</th>
<th>vs. Agg.</th>
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<tbody>
<tr>
<td>Yield to Worst</td>
<td>5.16</td>
<td>0.11</td>
</tr>
<tr>
<td>Duration</td>
<td>5.69</td>
<td>-0.42</td>
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Index Curve

Overweights-Underweights Relative to Agg
HOW TO IMPLEMENT WITHIN A PORTFOLIO

The WisdomTree Bianco Total Return Fund (WTBN) is designed to serve as a comprehensive fixed income solution and diversification tool within a balanced portfolio with stocks.

WisdomTree Bianco Total Return Fund (WTBN) Quick Facts

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
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<tbody>
<tr>
<td>Fund Objective</td>
<td>The Fund seeks to track the price and yield performance, before fees and expenses, of the Bianco Research Fixed Income Total Return Index.</td>
</tr>
<tr>
<td>Index Strategy</td>
<td>The index strives to outperform a market-cap weighted universe of US Dollar denominated debt by tilting exposures to select factors that have been recognized to drive fixed income performance.</td>
</tr>
<tr>
<td>Investment Approach</td>
<td>Passively Managed fund of funds based on Investment Committee constructed index</td>
</tr>
<tr>
<td>Exposure</td>
<td>United States domiciled fixed income ETFs</td>
</tr>
<tr>
<td>Subadvisor</td>
<td>Mellon Capital</td>
</tr>
<tr>
<td>Index Credit Quality</td>
<td>Investment-grade 99% as of 12/11/2023</td>
</tr>
<tr>
<td>Index Interest Rate Risk</td>
<td>Duration of 5.69 as of 12/11/2023</td>
</tr>
<tr>
<td>Inception Date</td>
<td>12/20/2023</td>
</tr>
<tr>
<td>Exchange</td>
<td>NASDAQ</td>
</tr>
<tr>
<td>Ticker</td>
<td>WTBN</td>
</tr>
<tr>
<td>Expense Ratio (net, gross)</td>
<td>0.54% net*, 0.57% gross</td>
</tr>
</tbody>
</table>

* Fee waiver is contractual through 12/31/2024.

Please reach out to your WisdomTree representative or visit WisdomTree.com/Investment to learn more.
Glossary

**Agency Mortgage-Backed Securities (MBS):** Pools of securitized residential mortgage loans that are issued and guaranteed by US government agencies. **Bear market:** A sustained downturn in market prices, increasing the chances of negative portfolio returns. **Bloomberg Aggregate Bond Index (Agg):** A broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance. **Credit risk:** The risk that a borrower will not meet their contractual obligations in conjunction with an investment. **Curve:** Refers to the yield curve. Positioning on the yield curve is important to investors, especially during non-parallel shifts. **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. **Floating rate coupon:** Fixed income securities that pay a coupon determined by a reference rate which resets periodically. **High Yield:** Sometimes referred to as “junk bonds,” these securities have a higher risk of default than investment-grade securities. **Treasury Inflation-Protected Securities (TIPS):** Bonds issued by the U.S. government. TIPS provide protection against inflation. When a TIPS matures, you are paid the adjusted principal or original principal, whichever is greater. **Investment grade:** An investment grade is a rating that signifies a municipal or corporate bond presents a relatively low risk of default. **Maturity:** The amount of time until a loan is repaid. **Mortgage-backed securities:** Fixed income securities that are composed of multiple underlying mortgages. **Securitized:** A debt security whose value is backed by an asset or pool of assets such as a mortgage. **Volatility risk:** The risk of a change of price of a portfolio as a result of changes in the volatility of a risk factor. **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. **Yield to worst:** The rate of return generated assuming a bond is redeemed by the issuer on the least desirable date for the investor.

**Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. To obtain a prospectus containing this and other important information, call 866.909.9473 or visit WisdomTree.com/investments. Investors should read the prospectus carefully before investing.**

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. 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. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Please read the Fund’s prospectus for specific details regarding the Fund’s risk profile.

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