

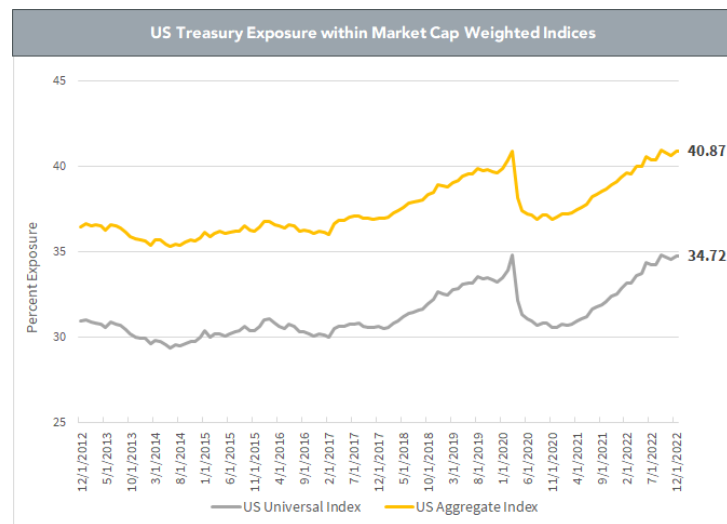
# WisdomTree Voya Yield Enhanced USD Universal Bond Fund

# UNIY

With trillions of dollars<sup>1</sup> benchmarked against the Bloomberg U.S. Aggregate Index (Agg), many investors view the Agg as a broad approximation of a generic U.S. investment-grade<sup>2</sup> bond portfolio. But the universe of debt denominated in U.S. dollars is broader and by expanding beyond the Agg, investors can potentially enhance yield and diversify their core bond exposures through investments in the U.S. High Yield Corporate bonds, dollar debt issued in Europe, and a broader selection of the debt of EM issuers.

In recent years, however, the issuance of U.S. Treasury debt has expanded to dominate both the risk profile of the U.S. Aggregate and the broader index the U.S. Universal Index, which extends to capture some of those opportunities beyond the Agg, representing over 40% of the Agg's market value and 35% of the Universal's market value. For investors seeking income, concentrating positions to this lower yielding segment of the market appears contrary to their investment objectives, regardless of whether they take a core or core plus approach.

To address investors' desire for income, WisdomTree and Voya worked with Bloomberg to develop a different approach to potentially take advantage of the broad opportunity set in U.S. Dollar debt. The Bloomberg U.S. Universal Enhanced Yield Index (Univ Enhanced Yield) uses a rules-based approach to enhanced income potential by accessing investable debt beyond the Agg and reallocating across subcomponents within the investment grade core, while maintaining a similar risk profile to the broad universe.

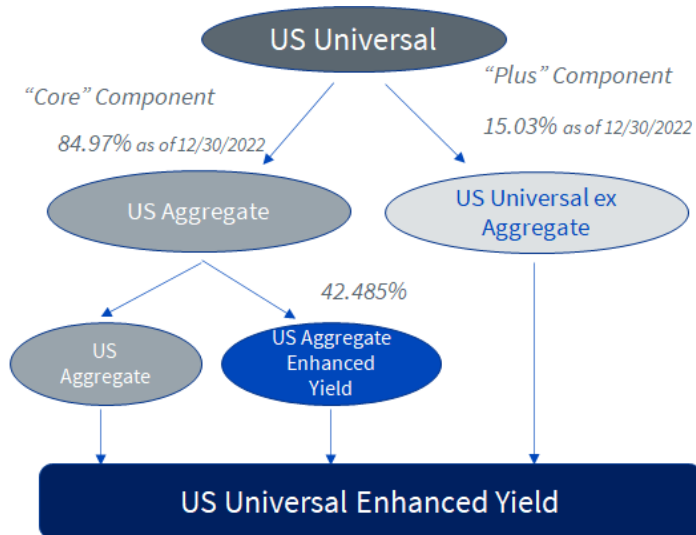


Source: Bloomberg as of 12/30/2022. The U.S. Universal Index represents the Bloomberg U.S. Universal Index, which covers a more comprehensive universe of USD Dollar Debt, including not only investment grade debt, but also high yield debt of corporate, sovereign, and government related issuers, as well as investment grade debt which exists outside of the criteria of the Agg. The U.S. Aggregate Index is the Bloomberg U.S. Aggregate Index, which is a proxy for the USD Investment Grade Debt market. Past performance is not indicative of future results. It is not possible to invest in an index.

<sup>1</sup> Source: Bloomberg, as of 12/30/2022.

<sup>2</sup> Investment grade: A rating given to a municipal or corporate bond. It is a relatively favorable rating by ratings agencies, indicating a higher chance an issuer performs interest and principal obligations as promised by the terms of the debt issuance.

**UNIV ENHANCED YIELD'S FOUR-STEP METHODOLOGY**



1. Decompose the Universal universe into core and non-core pieces.
2. Split the Core Fixed Income in half – 50% Market Cap / 50% Yield-Enhanced
3. Apply the methodology to the Enhanced Yield portion.
  - a. Divide the Agg into 20 Subcomponents
  - b. Develop and Apply Constraints
4. Aggregate pieces and Determine Index Weights

**1. Decompose the Universal universe into core and non-core pieces.**

The U.S. Universal Index extends beyond the constraints of the Agg by incorporating U.S. High Yield Corporates<sup>3</sup>, Eurodollar Bonds<sup>4</sup>, 144A securities without registration rights<sup>5</sup>, and EM USD Debt<sup>6</sup>. In total, it amounts to over \$4.2 T in additional investable market value. Combined with the \$24T currently in the constituents of the U.S. Aggregate, the total market cap within the U.S. Universal was \$28.9 T as of 12/30/2022. The Ex-Agg portion (decomposed into greater detail below) thus represents about 15% of the U.S. Universal’s market cap, with the constituents yielding 7.44% with a duration<sup>7</sup> of 4.76, versus the 4.68% yield and 6.2 duration for the U.S. Aggregate, as of 12/30/2022.

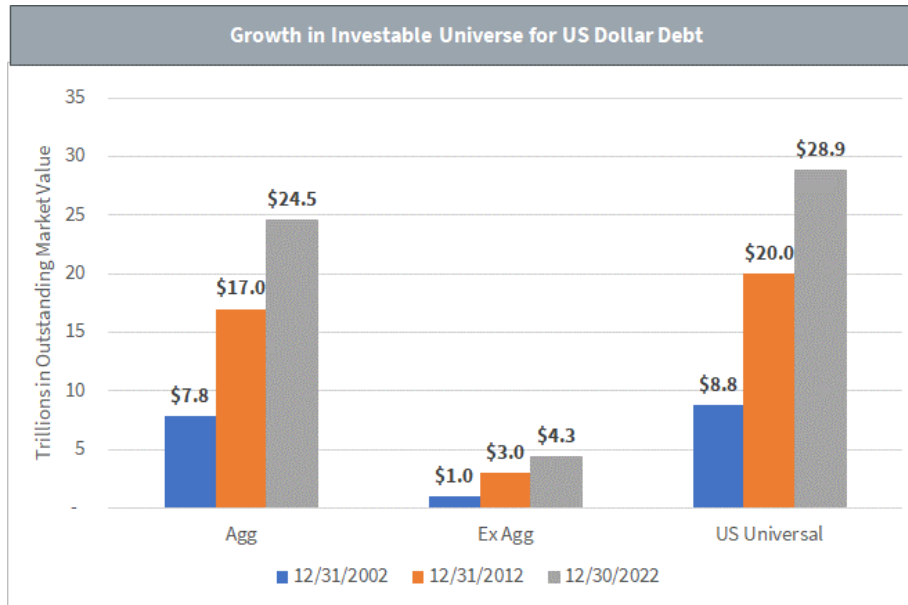
<sup>3</sup> U.S. High Yield Corporates: The Bloomberg U.S. Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Bonds from issuers with an emerging markets country of risk, based on the indices’ EM country definition, are excluded.

<sup>4</sup> Eurodollar Bonds: Investment grade debt denominated in U.S. Dollars and publicly issued in Eurobond markets.

<sup>5</sup> 144A securities without registration rights: Consists of USD-denominated privately placed securities initially issued pursuant to the U.S. Securities and Exchange Commission Rule 144A, an exemption from the registration requirements prescribed in section 5 of the Securities Act of 1933 permitting, subject to certain conditions, the public resale of restricted securities.

<sup>6</sup> EM USD Debt: The Bloomberg Emerging Markets USD Aggregate Bond Index is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate U.S. dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. Country eligibility and classification as Emerging Markets is rules-based and reviewed annually using World Bank income group and International Monetary Fund (IMF) country classifications.

<sup>7</sup> 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.



Source: Bloomberg as of 12/30/2022. Past performance is not indicative of future results. It is impossible to invest in an index.

**Ex-Aggregate Sector Weights as of 12/30/2022\***

	Market Value (in Bns)	% of Universal
144A Ex-Aggregate	\$ 1,848	6.4%
US High Yield Corporate	\$ 1,239	4.3%
EM Seasoned Ex Agg	\$ 702	2.4%
Eurodollar Seasoned (Ex Agg)	\$ 546	1.9%
CMBS Non-ERISA ex High Yield	\$ 20	0.1%

\* Sizable portions of the EM USD , 144A, and Eurodollar market meet the criteria of the Agg.

Source: Bloomberg as of 12/30/2022. CMBS Non-ERISA ex High Yield: Non-ERISA eligible CMBS securities cover commercial mortgage backed securities, which are not eligible for investment by pension plans under Employee Retirement Income Security Act of 1974 and primary includes securities without first priority of principal repayment or not rated investment grade.

On monthly basis, the first step is to decompose the Universal Index into core and non-core buckets with the weight to be determined by outstanding market cap. As of 12/30/2022, the Universal Index could be split into a Core Component of 84.97%, which represented the relative weight of the Agg within the Universal, and an Ex-Agg or Plus Component of 15.03%. Within the Universal Index, the non-core portion has ranged from 9.29% to 17.4%, with an average 14.7% from 8/31/2002 to 12/30/2022 (the period which we have data). The non-core component is market cap weighted and each portion of the no-core component retains its relative market cap exposure to the others (i.e. High Yield Corporates remain 2% of the overall index. This weight attributed to the non-core buckets will ultimately flow through to the weight of the final USD Universal Index.

2. Split the Core Fixed Income in half – 50% Market Cap / 50% Yield Enhanced

To balance the need for yield enhancement with the risk within the overall broad universe, the core portion of 84.97% was split in half – one half 42.485% was allocated to the market cap-based Agg exposure and the other 42.485% allocated according to the yield enhanced methodology embedded in the Bloomberg U.S. Aggregate Enhanced Yield Index.

		Years to Maturity			Constraints
		1-5 Years	5-10 Years	10+ Years	
Sector	Govt	Treasury 1-5	Treasury 5-10	Treasury 10+	Tracking Error Volatility
		Agency 1-5	Agency 5-10	Agency 10+	+ <35 bps/ month
					Duration Cap
	Credit	Credit 1-5 Aaa-Aa	Credit 5-10 Aaa-Aa	Credit 10+ Aaa-Aa	+ +1 year
		Credit 1-5 A	Credit 5-10 A	Credit 10+ A	Weight Deviation
		Credit 1-5 Baa	Credit 5-10 Baa	Credit 10+ Baa	+ Major Sector: +/- 20%
Securitized	Commercial Mortgage-Backed Securities (CMBS)	Asset-Backed Securities (ABS)	Government National Mortgage Association (GNMA) 30s	+ Minor Sector: +/- 10%	
	Conventional Mortgage-Backed 30s	Conventional Mortgage-Backed 15s		+ Baa: +/- 20%	
					Turnover
					+ Up to 5% each month
					+ Increasing 1% incrementally until a solution is found or a cap of 10% is reached

Credit rating is determined using Bloomberg's index rating methodology. Commercial mortgage-backed security (CMBS): A security whose value is composed of a pool of commercial mortgages. Asset-backed security (ABS): A fixed income security whose value or cash flows depend on the value of another asset, such as a loan, lease or receivable. Government National Mortgage Association (GNMA) security: A security whose value is composed of a pool of mortgages that are guaranteed by the Government National Mortgage Association. Mortgage backed security (MBS): A fixed income security that is composed of multiple underlying mortgages.

3. Apply the enhanced yield methodology to the enhanced core allocation.

a) Decompose the Agg into 20 distinct investment buckets

In step one, the Agg is decomposed into 20 buckets across sector, maturity,<sup>8</sup> and credit quality.<sup>9</sup> While each component retains suitable size for investability and liquidity<sup>10</sup> purposes, each bucket may present a unique combination of risk and reward.

b) Develop and Apply Constraints

The following constraints are added to control risk and concentration while limiting turnover:

- + Tracking Error Constraints: Tracking error volatility (TEV)<sup>11</sup> of the Bloomberg Aggregate Enhanced Yield Index(Agg Enhanced Yield Index) relative to the Agg would be less than 0.35% (35 basis points<sup>12</sup> [bps]) each month.

<sup>8</sup> Maturity: The amount of time until a loan is repaid.

<sup>9</sup> Credit quality: A measure of a borrower's potential risk of default.

<sup>10</sup> 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.

<sup>11</sup> Tracking error volatility: The volatility of the difference between the performance of a portfolio and its benchmark. In this case, the portfolio is the Agg Enhanced Yield Index.

<sup>12</sup> 1/100th of 1 percent.

- + Duration Constraints: The duration of the Index cannot be more than one year greater than that of the Agg.
- + Sector and Subcomponent Constraints: The weight of major and minor sectors (Treasuries, credit and securitized bonds) cannot deviate by more than 20% from their weights in the Agg. The total notional weight of each of the Baa subcomponents (U.S. Credit 1-5 Years Baa, U.S. Credit 5-10 Years Baa, U.S. Credit 10+ Years Baa) cannot deviate from their weights in the Agg by more than 20%.
- + Turnover Constraints: During the monthly rebalancing, the rebalancing algorithm will attempt to meet the tracking error, duration and sector constraints, with portfolio two-way turnover of less than or equal to 5%. When this condition cannot be met, the turnover limit is increased incrementally by 1% until a solution is found or the cap of 10% is reached.

c) **Determine Weights for Yield Weights**

On a monthly basis, weights of the Index are reallocated across the 20 subcomponents to maximize yield while adhering to the four constraints. These weights are then applied at the individual issue level, such that the weight is the product of the subcomponent's determined weight and the security's weight within the subcomponent. For example, if a Treasury note maturing in three years has a 10% weight within the 1-5 Years Treasury subcomponent, the calculated weight of 12% allocated to the Treasury 1-5 subcomponent would result in a weight of 1.2% at month-end.

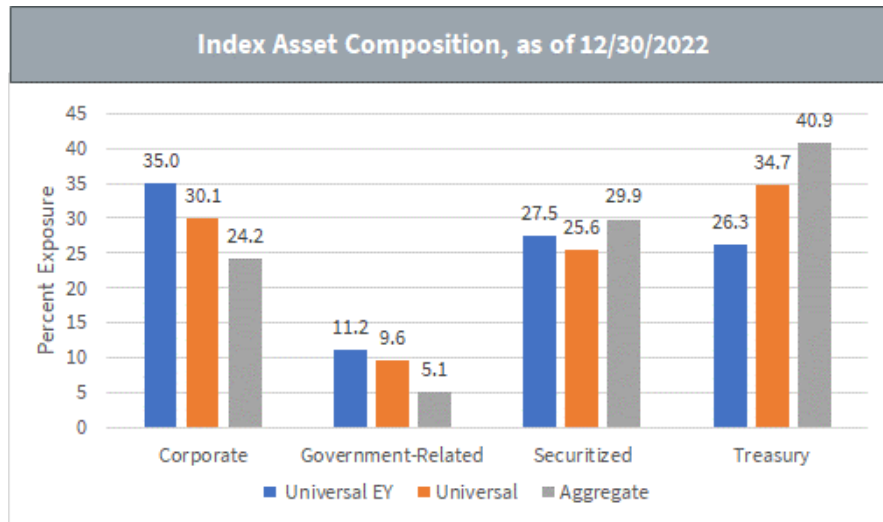
4. **Apply the weights to the holdings at the component level and aggregate the holdings.**

After the analysis is conducted at the component level, the top line weights are applied and the securities are aggregated into the final index.

## THE RESULT

As of 12/30/2022, the U.S. Universal Enhanced Yield delivered an additional 56 bps of yield compared to the Agg and 15bp relative to the U.S. Universal, with a similar interest rate risk profile. In our view, this mechanical approach enhances the desirable characteristics of market-cap based indexes, while also enhancing the income potential of the strategy. For investors needing to hit minimum income targets, this modification could help them achieve their objectives.

**SNAPSHOT OF THE UNIV ENHANCED YIELD RELATIVE TO THE AGG and UNIV (as of 12/30/2022)**



Source: Bloomberg as of 12/30/2022. Past performance is not indicative of future results. It is impossible to invest in an index.

**Moody's Ratings, as of 12/30/2022**

Investment Grade	Aaa	Aa	A	Baa
	89.16	55.73	2.41	10.5
20.52				
Non-Investment Grade	Ba	B	Caa	Ca
	6.43	3.23	2.56	0.57
0.07				
Non-Rated				
	4.42			

Source: Moody's, Bloomberg. Ratings are expressed as letters ranging from 'Aaa', which is the highest grade, to 'C', which is the lowest grade. Unrated securities do not necessarily indicate low quality. Below investment-grade is represented by a rating of Ba1 and below. Ratings and portfolio credit quality may change over time.

**Country of Risk Exposures, 12/30/2022**

	Universal EY	Universal	Aggregate
United States	83.8	84.1	92.9
United Kingdom	1.5	1.3	1.0
Canada	1.5	1.4	1.2
China	1.3	1.3	0.2
Japan	0.9	0.8	0.6
Other	11.1	11.1	4.1

Source: WisdomTree, Bloomberg as of 12/30/2022.

**THE WISDOMTREE VOYA YIELD ENHANCED USD UNIVERSAL BOND FUND (UNIY)**

To provide tradable access to the Univ Enhanced Yield, WisdomTree and Voya launched the WisdomTree Voya Yield Enhanced USD Universal Bond Fund (UNIY). By sourcing opportunities across the broad market for U.S. Dollar debt, UNIY offers the opportunity to enhance the income potential of broad universe, while continuing to benefit from the diversification of a multi-sector portfolio.

Quick Facts <sup>13</sup>	
Ticker	UNIY
Exchange	NYSE
Expense Ratio	15 bps
Structure	Open-end ETF
Exposure	U.S. Dollar-denominated fixed income
Objective	The Fund seeks to track the price and yield performance, before fees and expenses, of the Bloomberg U.S. Universal Enhanced Yield Index

At WisdomTree and Voya, we do things differently. We build our ETFs with proprietary methodologies, smart structures and uncommon access to provide investors with the potential for income, performance, diversification and more.

**For more information about UNIY, contact your WisdomTree representative or visit [WisdomTree.com](http://WisdomTree.com).**

<sup>13</sup> As of 2/7/2023.

**INDEX DEFINITIONS**

Bloomberg U.S. Aggregate Index: Represents the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities as well as mortgage- and asset-backed securities.

Bloomberg U.S. Universal Index: Broad-based index that measures the performance of the USD-denominated taxable bond market and covers investment-grade, high yield, and emerging markets debt (i.e. Core Plus).

Bloomberg U.S. Universal Enhanced Yield Index: A rules-based index that seeks to provide both exposure and potential yield enhancement across the broad universe of U.S. Dollar-denominated market.

Bloomberg U.S. Aggregate Enhanced Yield Index: A constrained, rules-based approach that reweights the sector, maturity and credit quality of the U.S. Aggregate Index across various subcomponents in order to enhance yield.

**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. Investors should read the prospectus carefully before investing.**

**IMPORTANT RISK INFORMATION**

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. 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. Investing in mortgage- and asset-backed securities involves interest rate, credit, valuation, extension and liquidity risks and the risk that payments on the underlying assets are delayed, prepaid, subordinated or defaulted on. Due to the investment strategy of the 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.

You cannot invest directly in an index.

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