Prior to the launch of the WisdomTree Western Asset Unconstrained Bond Fund (UBND), we thought it could be helpful to provide investors with a consolidated question-and-answer session with Western Asset Management Company, the sub-advisor of the Fund. We are fortunate to be joined by Mark Lindbloom, the Fund’s portfolio manager, who was named the Morningstar Fixed Income Fund Manager of the Year for 2014.

**WHAT DOES UNCONSTRAINED INVESTING MEAN FOR FIXED INCOME INVESTORS?**

*Mark Lindbloom:* Quite simply, an unconstrained fixed income strategy provides an investment manager greater flexibility to seek returns and manage risk. In practice, an unconstrained strategy untethers a manager’s investment decisions from a traditional fixed income benchmark. In this approach, investment managers seek to provide exposure to the desirable characteristics of fixed income—including income, diversification and risk reduction—while avoiding the undesirable—certain segments of the market with overvalued securities and unattractive risk/return trade-offs. At its core, unconstrained investing allows the flexibility to allocate capital based on an independent assessment of value rather than the issuance patterns of the major constituents in an underlying index. Traditional market capitalization-weighted benchmarks reflect supply, not necessarily value.

Western Asset’s approach to unconstrained investing allows investors to access a wider opportunity set for total returns in fixed income. In today’s markets, opportunities for bond investors evolve rapidly and may not necessarily be reflected in traditional market benchmarks. Historically, the Barclays U.S. Aggregate Index (Agg) has been thought of as a good proxy for fixed income markets. However, today it excludes a substantial portion of the global investable universe. In fact, the Agg captures only 35% of the investable universe of global fixed income markets. With such a large portion of global markets excluded from consideration, returns in traditional strategies may remain constrained.

Although most unconstrained strategies lack a formal definition or benchmark, their objectives and implementation can vary greatly. At one end of the spectrum are core-based strategies that target bond-like volatilities with a focus on total returns and greater consistency across market cycles. These strategies tend to have a longer-term investment bias and generally do not make sudden allocation changes. At the other end of the spectrum are more aggressive strategies that target higher returns and a greater level of volatility. Western Asset defines unconstrained bond investing as strategies that can have greater flexibility to seek

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1 Morningstar Fixed Income Fund Manager of the Year (2014) was awarded to Western Asset CIO S. Kenneth Leech and portfolio managers Carl Eichstaedt and Mark Lindbloom for management of the Western Asset Core Bond and the Western Asset Core Plus Bond Funds. S. Kenneth Leech and Lindbloom, along with Christopher Omdorf, Michael Buchanan, Chia-Liang Lian and Anup Agarwal, will serve as portfolio managers for the WisdomTree Western Asset Unconstrained Bond Fund (UBND).

2 Market capitalization weighting: Market cap = share price x number of shares outstanding. Firms with the highest values receive the highest weights. As a result, an entity issues more debt, it makes up a greater share of the index.

3 Based on the Barclays Multiverse Index. Source: Barclays, as of 3/31/15.

4 Volatility: A measure of the dispersion of actual returns around a particular average level.
seek returns and to manage risk independent of market movement. Western Asset’s approach in its unconstrained core-based strategy has a focus on risk-adjusted returns5 and targets a volatility of approximately 3% to 5%.6

WHY IS TAKING AN UNCONSTRAINED APPROACH SO RELEVANT NOW IN TODAY’S FIXED INCOME ENVIRONMENT?

M.L.: Today, traditional fixed income benchmarks combine historically low yields and extended duration.7 With rates near generational lows, this current trade-off leaves traditional fixed income exposures vulnerable on a total return basis. In short, the margin for error in interest rate risk8 remains very low. When Western Asset first launched its flagship unconstrained bond strategy 11 years ago (2004), the market was grappling with many of the same issues it is wrestling with today: What are the likely implications for fixed income markets following the end of extremely accommodative policies by the Federal Reserve (Fed)? Today, the Fed’s balance sheet9 remains at historic highs while the Federal Funds Rate remains anchored near historic lows. As a result, traditional approaches to fixed income may need to evolve. If we consider how investors have traditionally used fixed income in their asset allocation—a diversifier or offset to equity risk and as a source of income that seeks to stabilize overall portfolio returns—then exiting fixed income completely could leave them exposed to substantially greater total portfolio risk. In the current environment, the actual conundrum is not in bonds, but rather in the approach taken by traditional fixed income indexes.

As demand for more flexible strategies has grown, investors have become increasingly aware of the unintended consequences of index construction rules. Strategies with more sector or duration10 flexibility offer opportunities to identify value in order to navigate upcoming changes in the markets. As a result, Western Asset’s unconstrained strategy is designed to perform in multiple market environments including various growth and inflation climates. From our experience in navigating previous tightening11 cycles, we see great value in the flexibility to be more defensive than traditional approaches in rising rate environments.

WESTERN ASSET HAS BEEN A LONG-TERM INNOVATOR IN UNCONSTRAINED INVESTING. WHAT IS UNIQUE ABOUT YOUR APPROACH TO UNCONSTRAINED BOND INVESTING?

M.L.: We’re pleased to partner with WisdomTree to launch the WisdomTree Western Asset Unconstrained Bond Fund (UBND). As we noted above, unconstrained investing can encompass a wide array of strategies. We’ve been managing unconstrained mandates for over a decade, and our approach seeks to provide bond-like volatility with an emphasis on risk-adjusted total returns. This focus allows us the ability to offer investors a more consistent return profile across market cycles compared to higher-volatility strategies. With respect to implementation, the strategy has significantly more flexibility in terms of duration, yield curve12, sector and credit quality13 considerations than a traditional bond strategy. We think it important to be clear about what our objectives are and what the likely portfolio construction will be both in terms of volatility and positioning.

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5 Risk-adjusted returns: Returns measured in relation to their own variability. High returns with a high level of risk indicate a lower probability that actual returns were close to average returns. High returns with a low level of risk would be more desirable, as they indicate a higher probability that actual returns were close to average returns.  
6 Investment guidelines provided by sub-adviser.  
7 Source: Barclays, as of 3/31/15.  
8 Interest rate risk: The risk that an investment’s value will decline due to an increase in interest rates.  
10 Duration: A measure of a bond’s sensitivity to changes in interest rates.  
11 Tighten: The reduction of accommodative policy by the Federal Reserve.  
12 Yield curve: Graphic depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.  
13 Credit quality: An assessment of a borrower’s potential risk of default.
Western Asset’s unconstrained strategy adheres to certain broad parameters or guideposts. While some managers seek to actively trade as a way to add value, our approach can be described as tactical. Our strategies will adjust with the market over time. Also, an important distinction should be made about our focus on total returns. For traditional benchmark-focused investors, the emphasis is generally on relative returns. However, in the current environment, if an investment strategy simply loses less money than its benchmark, is that actually a desirable outcome? Our approach to unconstrained focuses on capital preservation and limiting downside risk while seeking to generate attractive risk-adjusted total returns independent of movements in U.S. interest rates.

YOU MENTIONED GREATER INVESTMENT FLEXIBILITY WITH DISCIPLINED RISK TARGETS IN FRAMING THE STRATEGY. CAN YOU ELABORATE ON THAT?

M.L.: UBND has greater flexibility in terms of duration, yield curve, sector and quality than traditional bond strategies. We outline each exposure to risk below:

Duration: Sensitivity to changes in interest rates can range from -3 to 8 years. However, the strategy has historically maintained a duration target of approximately 0 to 5 years. Traditional fixed income mandates typically adhere to a +/- 20% duration band relative to the Agg, which has an average duration of over 5.5 years. This implies that most managers stay within a band of an interest rate target of 4.5 to 6.5 years. Should interest rates rise, these strategies may experience negative total returns.

Yield Curve: While investors often think about shifts in interest rates as occurring uniformly across the yield curve, this is generally not the case. Flexibility to manage exposure across the curve allows the opportunity to take advantage of dislocations in the shape of the curve. Also, having the ability to position across the term structure provides the flexibility to maintain a low duration profile without necessarily having to concentrate assets at the front end of the curve. When the Fed eventually lifts rates, this portion is likely to underperform. While the overall duration has ranged from 0 to 5 years historically, this does not imply that the strategy has never been outright short Treasury duration at times.

Sector: Removing the constraints of a benchmark removes the traditional manager concern about tracking error relative to the issuance-determined benchmark. As a result, we are not forced to maintain significant exposure to sectors that don’t offer compelling value. In UBND, if we don’t like a particular sector, whether it is investment-grade corporates or mortgage-backed securities, we’re not bound to own it in the portfolio.

Credit Risk: Compared to the Agg, UBND retains the flexibility to invest in non-investment-grade securities. However, given the strategic focus on volatility and risk management, the portfolio will always maintain at least a 50% exposure to investment-grade debt. By biasing the portfolio to investment-grade debt, this allows investors to use this strategy as a substitute for, or a complement to, their traditional bond allocation, depending on their investment objectives.
A TEAM-BASED APPROACH IS A TIME-HONORED CONCEPT AT WESTERN ASSET. CAN YOU TALK ABOUT THE PROCESS BY WHICH IDEAS FROM THE GLOBAL TEAM OF SECTOR SPECIALISTS GET INCLUDED WITHIN THE PORTFOLIO?

M.L.: Leveraging our investment expertise across nine offices on five continents and seven fully integrated investment management teams, Western Asset’s global breadth and local depth enables our unconstrained strategy to benefit from being managed across multiple time zones and all sectors of the bond market. Our global footprint provides additional perspective through presence in local markets around the world. The firm combines the insight of industry-specific fixed income analysts with dedicated risk managers for each strategy.

Western Asset’s investment process begins in the weekly Global Investment Strategy Committee meetings chaired by our CIO, Ken Leech. These meetings are attended by senior portfolio managers and sector heads from around the world. Macroeconomic developments, geopolitical trends and their implications for valuations are vigorously debated. In these discussions, the committee formulates its global investment outlook for interest rates in addition to its views on sectors and currencies. We consider the main focus of our strategies to be incorporating a long-term, fundamental value approach into a diversified portfolio. These strategies combine top-down, macroeconomic analysis with bottom-up, individual security selection. Portfolios are managed on a team basis, uniting groups of specialists dedicated to different market sectors into a cohesive whole. Chris Orndorff, the co-portfolio manager of UBND, and I have each managed through numerous different investment cycles and market backdrops. Chris started in the business in 1985 and has 30 years’ experience. I began my career in 1978 and have 37 years’ experience. This offers a great deal of perspective, particularly in such an uncertain market environment. Additionally, each of the heads of the contributing sector groups has at least 18 years’ experience.

WHAT ARE SOME OF THE KEY ATTRIBUTES OR INVESTMENT CHARACTERISTICS IN WESTERN ASSET’S APPROACH TO UNCONSTRAINED INVESTING?

+ Credit Quality: Typically >50% investment-grade securities
+ Duration: Typically -3 to 8 years
+ Currency: Typically <50% in non-dollar-denominated securities; typically <25% unhedged
+ Regional: <25% emerging markets
+ Exposure to a single corporate issuer capped at 10%
+ Exposure to a single non-U.S. sovereign issuer capped at 25%
+ Fund’s exposure to any one country (excluding the U.S.) generally limited to 30%

19 Source: Western Asset, as of 3/31/15.
20 Investment guidelines provided by sub-adviser. Please view the Fund’s prospectus for statutory limits.
HOW CAN INVESTORS INCORPORATE UNCONSTRAINED BOND STRATEGIES WITHIN THEIR CURRENT PORTFOLIOS?

M.L.: UBND and other unconstrained bond strategies can serve as a complement or replacement for traditional strategies. Given that the strategy targets volatility consistent with a core bond portfolio, we believe that additional flexibility in the current environment is prudent. For investors that are more concerned about broader market valuations, the strategy’s disciplined risk management focus could add value as market cycles shift. For investors concerned about rising rates, UBND could also help mitigate downside risks with a reduced correlation to the U.S. Treasury market.

The tradability\textsuperscript{21} and transparency\textsuperscript{22} of the exchange-traded fund (ETF) structure should facilitate access and provide greater visibility into the risk exposures of the underlying securities in the Fund. This visibility enhances the ability of investors to manage their overall risk exposures in their portfolios with greater precision.

Investor interest in unconstrained strategies remains justified due to uncertainty in the current environment. The combination of low interest rates, extraordinarily easy monetary policy and an improving economy suggests that rates may soon begin to normalize. However, timing remains a critical element. In response, investors may need to consider alternative approaches that provide flexibility. While most unconstrained bond strategies will likely demonstrate somewhat greater equity beta\textsuperscript{23} than traditional bond strategies, they will also likely demonstrate substantially less beta to U.S. government rates. Therefore, investors must not only examine each strategy independently, but also assess how these allocations are likely to impact risk factors in their overall portfolio. We continue to believe that unconstrained bond strategies provide attractive investment opportunities in an otherwise uncertain environment.

IS UNCONSTRAINED INVESTING A FAD OR A PERMANENT APPROACH?

M.L.: In today’s dynamic market environment, we believe that increased investment flexibility can deliver long-term value. Traditional fixed income will always have a role in investor portfolios, but providing an investment manager the ability to delink portfolios from traditional benchmarks is important. Unconstrained investing is not a fad, but rather an increasingly popular tool for dealing with market uncertainty. We believe that unconstrained bond investing is always viable as market capitalization-based bond benchmarks are more a reflection of issuance rather than value. The relative attractiveness of assuming credit risk or interest rate risk changes over time. Active managers\textsuperscript{24} have the ability to capitalize on these shifts in value.

There may come a day when the broad market benchmarks offer more compelling characteristics and investors migrate back into those strategies. In policy-driven markets, however, unconstrained bond portfolios will likely gain popularity until bonds provide a more balanced trade-off between risk and return. The future of unconstrained bond portfolios will be largely dependent on the success managers have during the future market cycle.

\textsuperscript{21}Tradability: The option to buy or sell a security on an exchange throughout the trading day.
\textsuperscript{22}Transparency: The extent to which investors have ready access to any required financial information about a company, such as price levels, market depth and audited financial reports.
\textsuperscript{23}Beta: A measure of volatility of an investment relative to a benchmark.
\textsuperscript{24}Active managers: Portfolio managers who run funds that attempt to outperform the market by selecting those securities they believe to be the best.
This Fund is new and has limited operating history. Diversification does not eliminate the risk of experiencing investment losses. 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, please call 866.909.WISE (9473) or visit wisdomtree.com. Investors should read the prospectus carefully before investing.

There are risks associated with investing, including possible loss of principal. Unlike typical exchange-traded funds, there is no index that the Fund attempts to track or replicate. Thus, the ability of the Fund to achieve its objective will depend on the effectiveness of the portfolio manager. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. In addition, when interest rates fall, income may decline. 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. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty.

Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. 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. The Fund may engage in “short sale” transactions where losses may be exaggerated, potentially losing more money than the actual cost of the investment, and the third party to the short sale may fail to honor its contract terms, causing a loss to the Fund. Due to the investment strategy of this 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.

Barclays U.S. Aggregate Index: Represents securities that are SEC-registered, taxable and dollar denominated. The Index covers the U.S. investment-grade, fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indexes that are calculated and reported on a regular basis. Barclays Multiverse Index: Provides a broad-based measure of the global fixed income market. The Index represents the union of the Global Aggregate Index and the Global High-Yield Index and captures investment-grade and high-yield securities in all eligible currencies.

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