

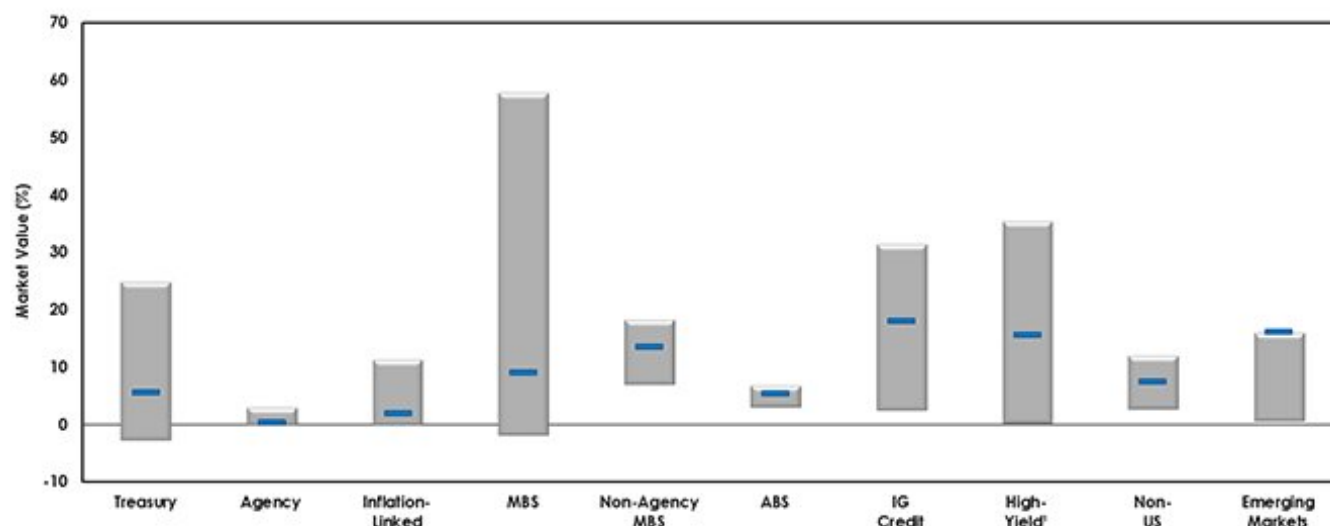
# Unconstrained Bonds in an ETF: Flexibility, Discipline and Transparency

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## Rick Harper

Chief Investment Officer, Fixed Income and Model Portfolios

While the adoption of unconstrained bond strategy mutual funds has increased markedly in recent years, some critics remain uncomfortable giving “free rein” to their portfolio managers. With transparency limited and often provided only on a lagged basis, investors are being forced to buy a manager as opposed to a portfolio of assets. Yet, in today’s uncertain market environment, investors may need to permit a more flexible approach to fixed income portfolio management. However, discipline and transparency need not be inconsistent with an unconstrained bond strategy. In fact, these benefits of the exchange-traded fund (ETF) structure form the foundation of the [WisdomTree Western Asset Unconstrained Bond Fund \(UBND\)](#). As we explained [earlier, unconstrained bond strategies](#) exist along a continuum of volatility that portfolio managers are comfortable with in order to generate total returns. Some are very aggressive and target equity-like volatility; some may also employ a fair degree of financial leverage. Others seek to generate a risk profile that is more consistent with a core fixed income portfolio. For these funds, the goal is simply to give the portfolio managers the flexibility to take advantage of value in the global fixed income universe, while enabling them to mitigate exposure to less desirable characteristics. **Traditional Bond Volatility with Value-Seeking Mandate** The WisdomTree Western Asset Unconstrained Bond ETF targets 3% to 5% volatility—very representative of traditional bond indexes—while trying to find the most value in the [fixed income universe](#). The Fund incorporates the best macroeconomic and credit selection ideas of Western Asset Management Company’s investment process into a single portfolio. **UBND: Target Allocation Ranges by Fixed Income Sector**



Source: Western Asset Management Company. All percentages are relative to market value. Data may not sum to 100% due to rounding. Includes bank loans. MBS: mortgage-backed securities. ABS: asset-backed securities. IG Credit: investment-grade credit. Allocation and duration positioning will fluctuate with market conditions and tactics. While differences could occur when the strategy is implemented with the ETF structure, we feel strongly that in terms of relative positioning and sector exposures the illustration remains reasonably accurate. Holdings subject to change.

**The Fund intends to follow these guardrails<sup>1</sup> • No financial leverage • At least 50% invested in investment-grade fixed income • No more than 25% in non-U.S. currency exposure • No more than 25% emerging markets exposure • Duration managed between-3 and 8** As we show above, while UBND is unconstrained by a mandate to track a traditional fixed income benchmark, the actual implementation of the strategy will adhere to broad guideposts and prescribed ranges. Put another way, the managers have significant latitude in navigating changes in the market, not free rein. In our view, in the current environment, Western Asset's depth of expertise across all sectors of fixed income provides investors with a powerful option to gain exposure to a much broader subset of the global fixed income markets in search of total returns. **Unconstrained Transparency Removes Black-box Element** Of course, as an active yet fully transparent ETF, the Fund's holdings are published every day at [wisdomtree.com](http://wisdomtree.com). For investors, knowing what they hold each day allows them to manage risk across their portfolios in greater detail. In our view, this enhanced visibility should help diffuse some of the "black box" anxiety that has dissuaded investors from unconstrained mandates in the past. With daily transparency into the holdings, investors can incorporate the strategy into their portfolios and manage risk with a great deal of precision. **Window into Western Asset's Views** In a similar vein, one of the least appreciated elements of an unconstrained bond ETF is the additional insight investors can receive from one of the largest fixed income-only managers in the world. With Western Asset Management Company currently managing more than \$466 billion in assets through its many offices around the world, its views on the market drive the portfolio construction process. In 2014, Morningstar named several members of UBND's portfolio management team as its Fixed Income Fund Manager of the Year. On a daily basis, investors can review the composition of the portfolio to understand Western Asset's view on interest rate and credit risk, as well as sectors and geography. So how is Western Asset Management Company currently viewing the

world? Global growth is slow and uneven, but set to improve, highlighted by the continuation of modest growth in the United States, a recovery in Europe and a soft landing in China. With global inflation subdued, global central banks will remain accommodative, and rate normalization in the United States will proceed, albeit very slowly. Western Asset Management Company is positioning assets with this recovery in mind, tilting toward credit-sensitive sectors relative to government bonds. Income opportunities exist outside of core fixed income in non-agency mortgage-backed securities, emerging market debt and high-yield corporate credit. Given the unevenness of the recovery, duration positioning will remain tactical, though the long-term bias is toward higher rates and a flatter yield curve. <sup>1</sup>Source: Western Asset, as of 3/31/15. Investment guidelines targeted by sub-advisor. Please view the Fund's prospectus for statutory limits.

## Important Risks Related to this Article

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. Foreside Fund Services, LLC, is not affiliated with Western Asset Management Company.