

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

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

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.¹⁹

WHAT ARE SOME OF THE KEY ATTRIBUTES OR INVESTMENT CHARACTERISTICS IN WESTERN ASSET'S APPROACH TO UNCONSTRAINED INVESTING?²⁰

- + 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 tradability²¹ and transparency²² 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 beta²³ 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 managers²⁴ 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.

²¹ Tradability: The option to buy or sell a security on an exchange throughout the trading day.

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.

²³ Beta: A measure of volatility of an investment relative to a benchmark.

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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