BUILDING MODEL PORTFOLIOS TO ADDRESS MULTIPLE INVESTOR OBJECTIVES

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This article is relevant to financial professionals who are considering offering Model Portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.

As we begin a new year (thank goodness!), we thought it an appropriate title for a blog post reviewing the WisdomTree Model Portfolio lineup.

As a quick reminder, WisdomTree has managed model portfolios since 2013, and 2020 saw accelerating AUM growth and increased adoption by RIAs, banks, and wire house platforms. All model allocations, holdings, and performance results are available to financial professional who register on the WisdomTree website.

We've organized our Model Portfolios into three categories:

1. **Strategic**: Think of these as traditional stock and bond portfolios that can be deployed as total portfolio solutions. We run **global equity** and **global fixed income** models, as well as **global multi-asset** models where our equity and fixed income portfolios are combined to address different risk profiles and risk/return characteristics.

We also run a series of "endowment" models that combine our equity and fixed income models with allocations to real assets (e.g., commodities, infrastructure, master limited partnerships, etc.) and alternative investments (e.g., option-based strategies, hedged equity, etc.) for advisors and end clients seeking to increase diversification within their portfolios.

2. **Outcome-Focused:** While these models can be (and are) used as stand-alone portfolios, each one is designed to address a very specific investment objective, and frequently are deployed as "portfolio sleeves" to complement an existing portfolio. These models include:

- **Global Dividends** – an all equity portfolio designed to maximize current income and yield while controlling for risk;
- **Global Multi-Asset Income** – this portfolio is also designed to maximize risk-controlled current income and yield, but incorporates equity, fixed income and other allocations (e.g., master limited partnerships, covered calls, preferreds, etc.);
- **Volatility Management** – this portfolio allocates to nontraditional/alternative positions (e.g., merger arbitrage, hedged equity, option-based, etc.) and is deployed by advisors seeking to add additional potential return drivers and/or increase the overall diversification of a broader portfolio;

- **Disruptive Growth** – this portfolio is designed to capture the performances of high-growth industries, sectors and companies that fundamentally are changing the way we work, interact with each other, entertain ourselves and keep ourselves healthy; and
- **Multifactor** – these models are built to increase the risk factor diversification of an overall portfolio and are used by advisors to potentially reduce the volatility of more traditional portfolios that may have more concentrated risk factor exposures. These models are available in U.S., developed international and emerging market versions.

3. **Collaboration/Partnership:** These models are based on two fundamental WisdomTree beliefs: (1) We don't own all the intellectual capital in the world—there are other people and other firms that are smart; and (2) Many advisors are happy to use Model Portfolios to help run their practices but want to be involved in the construction and ongoing management of those models.

With these beliefs in mind, we offer a series of collaboration models, either (a) partnering with other asset management firms (to build multi-asset "best ideas" portfolios), or (b) working with advisory firms and platforms to build customized portfolios designed to address specific mandates or end client investment preferences.

In particular, in late 2019 we launched two Model Portfolios in collaboration with Dr. Jeremy Siegel, Professor at The Wharton School and a since-inception Strategic Advisor to WisdomTree. Both models (the "**Siegel-WisdomTree Longevity**" model and the "**Siegel-WisdomTree Global Equity**" model) are based on challenging the traditional "60/40" mind set and on several underlying core beliefs about the current investment landscape:

1. ***Stocks for the Long Run***[1] – Dr. Siegel has long advocated (and published on) the idea that, over reasonable time horizons, stocks will deliver the best returns and lowest long-term volatility of any asset class.
2. **Demographics and longevity** – The evidence is clear—as a society we are both aging and living longer. This has profound implications for portfolio construction, where both income generation and an improved longevity profile (i.e., not outliving your money) are increasingly important.
3. **Interest rates will remain lower for longer** – We simply do not see any catalyst for a dramatic increase in interest rates in the foreseeable future. This means it will remain difficult to generate current income out of a traditional fixed income allocation, and we believe a "better mousetrap" is to increase equity allocations but focus those allocations on yield- and income-generating securities.

Common Characteristics of WisdomTree Model Portfolios

While each WisdomTree model is designed to address different investment mandates and end client objectives, they each share certain common characteristics (though some of our customized models may differ, based on advisor specifications):

1. They are global in nature. We are a global asset management firm, and we believe in global investing;
2. They are constructed primarily with ETFs, which we believe helps to optimize both costs and tax efficiency;
3. They are diversified at both the asset class and risk factor levels, which we believe helps to improve performance consistency over full market cycles;
4. They are "open architecture"—i.e., they include both WisdomTree and third-party strategies. We believe this is what end clients expect and advisors demand, and that it helps to improve the diversification profiles of the models;
5. We charge no strategist fee; and
6. All models are fully "GIPS compliant" from a performance perspective. We believe in full transparency with respect to our allocations and performances.

Conclusion

As we head into 2021 – a year we believe we will see positive global economic and earnings growth, we like how our models are positioned and allocated at both the asset class and risk factor levels. They should benefit from what we anticipate will be a "risk on" market environment but are also built as "all weather" portfolios to handle whatever may come their way.

We believe that advisors may find that our model portfolio line-up can address diverse investment objectives and help deliver a differentiated end client experience.

[1]Jeremy J. Siegel, Stocks for the Long Run, McGraw-Hill Education, 2014.

Important Risks Related to this Article

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WisdomTree primarily uses WisdomTree Funds in the Model Portfolios unless there is no WisdomTree Fund that is consistent with the desired asset allocation or Model Portfolio strategy. As a result, WisdomTree Model Portfolios are expected to include a substantial portion of WisdomTree Funds notwithstanding that there may be a similar fund with a higher rating, lower fees and expenses or substantially better performance. Additionally, WisdomTree and its affiliates will indirectly benefit from investments made based on the Model Portfolios through fees paid by the WisdomTree Funds to

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Jeremy Siegel serves as Senior Investment Strategy Advisor to WisdomTree Investments, Inc., and its subsidiary, WisdomTree Asset Management, Inc. (“WTAM” or “WisdomTree”). He serves on the Asset Allocation Committee of WisdomTree, which develops and rebalances WisdomTree’s Model Portfolios. In serving as a consultant to WisdomTree in such roles, Mr. Siegel is not attempting to meet the objectives of any person, does not express opinions as to the investment merits of any particular securities and is not undertaking to provide and does not provide any individualized or personalized advice attuned or tailored to the concerns of any person.

The Siegel-WisdomTree Longevity Model Portfolio seeks to address increasing longevity by shifting the focus to potential long-term growth through a higher stock allocation versus more traditional “60/40” portfolios.

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You cannot invest directly in an index.

DEFINITIONS

Dividend : A portion of corporate profits paid out to shareholders.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Interest rates : The rate at which interest is paid by a borrower for the use of money.