PORTFOLIO CRUNCHES: BUILDING A STRONG CORE

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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.

We last visited our core strategic Model Portfolios back in April. We will once again "get back to basics" by focusing on our core strategic Model Portfolios, specifically our **Core Equity** model. This equity model serves as the foundational base for almost every other model we manage, including our Strategic Multi-Asset models, our Endowment models, our Multi-Asset Income models and the Siegel-WisdomTree Longevity model.

As with all WisdomTree models, our Core Equity model has certain characteristics:

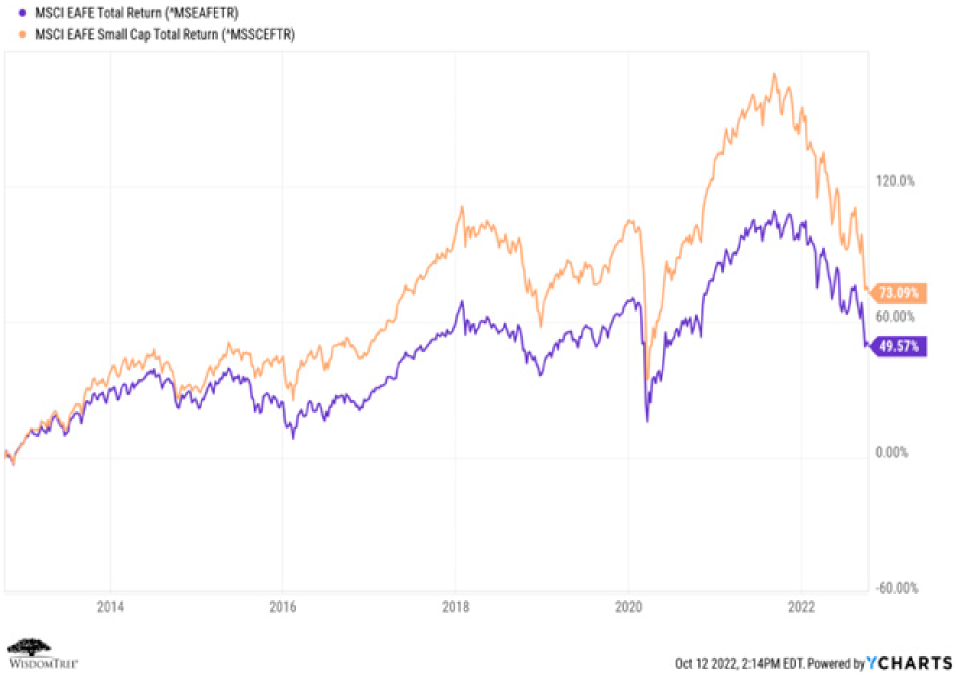
1. Unless asked to customize differently, it is global in nature.
2. It is ETF-centric, which we believe helps to optimize fees and taxes.
3. It is "open architecture" and allocates to both WisdomTree and third-party strategies. This is (a) just the right thing to do for advisors and end clients, (b) allows us the freedom to deploy other firms' "best ideas" and (c) helps us to build both asset class and risk factor diversified portfolios.
4. The factor tilts (dividends, quality, value, size, etc.) embedded into most WisdomTree ETFs allow us to construct "core/satellite" portfolios in a more cost- and tax-effective manner than the traditional approach of building an inexpensive passive (i.e., market cap-weighted) core and surrounding that core with actively managed mutual funds or separately managed accounts. Mutual funds tend to be more expensive and less tax efficient than ETFs.
5. WisdomTree charges no strategist fee on any of its models—our revenue is generated only by the expense ratios of the WisdomTree products that are included in any given model.

We refer to the Core Equity model as our "strategic building block." While it can be and is used as a stand-alone model, it is more often mixed and matched with other models to create different variations of multi-asset models.

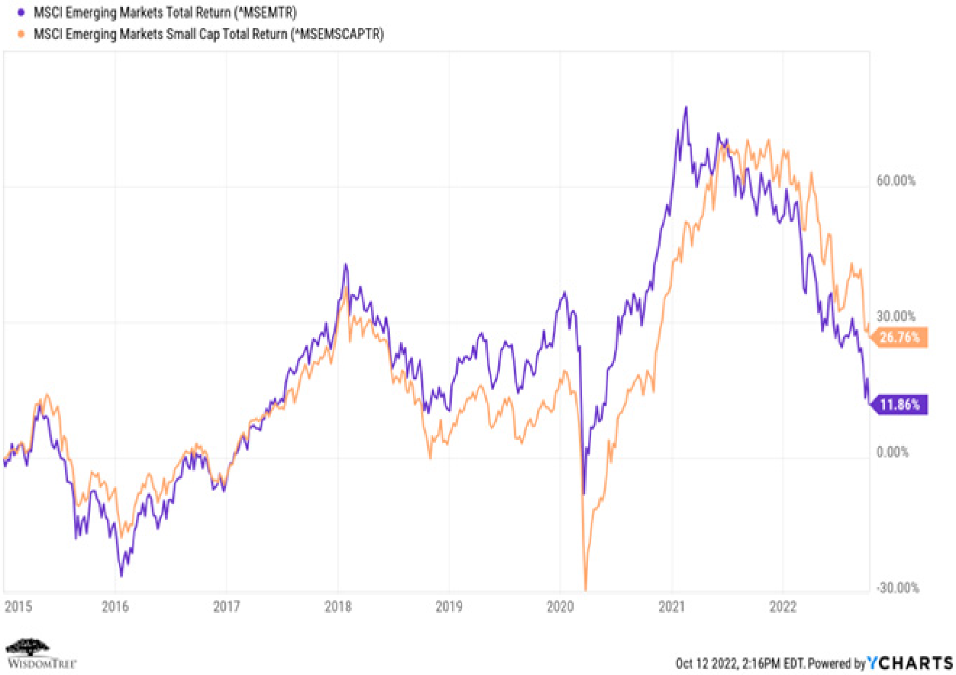
Core Equity

Let's do a refresh on our core equity model. It currently contains 11 individual line items of globally diversified equity ETFs. We maintain a geographic/regional exposure that is roughly in line with the MSCI ACWI IMI Index—as of September 30, 2022, the model had allocations of roughly 58% U.S., 30% EAFE (developed international) and 12% emerging markets.

At the asset class level, we are allocated (versus the Index) at roughly 68% large cap (82%), 19% mid-cap (14%) and 13% small cap (4%). The over-weight to mid- and small caps is not surprising given WisdomTree's heritage as a factor-based asset management firm—we believe size, value, dividends and quality can add value over time versus cap-weighted market beta. We believe we also are one of the few firms that explicitly allocates to non-U.S. small caps (both in EAFE and in EM)—allocations that have added value over time.



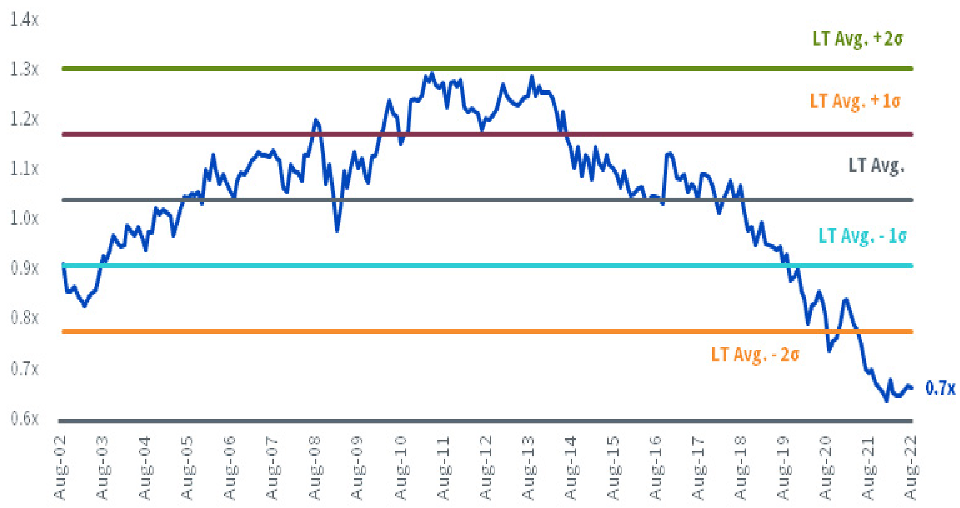
Source: YCharts, 10-year data through 10/11/22. You cannot invest in an index, and past performance is no guarantee of future results.



Source: YCharts, 10-year data through 10/11/22. You cannot invest in an index, and past performance is no guarantee of future results.

Within the U.S., we recently increased our allocation to small caps, [given the significant valuation difference versus large caps](#).

Russell 2000 Fwd. P/E (ex. Negative Earners) vs. Russell 1000

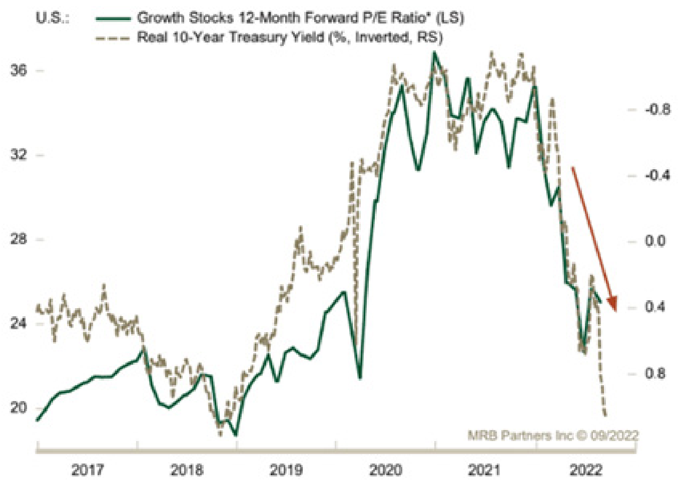


Sources: WisdomTree, FactSet, as of 8/31/22. You cannot invest directly in an Index.

Finally, at a line-item allocation level, the model holds 71% in WisdomTree products and 29% in third-party strategies.

Given the underlying factor tilts of many of the WisdomTree products, the portfolio is over-weight in allocations to smaller-cap stocks, higher-quality stocks (where “quality” is defined as companies that have stronger earnings, balance sheets and cash flows), value stocks and dividend-paying stocks. These factor tilts have benefited us this year, as growth stocks have been relatively crushed by the rising interest rate environment.

Normalizing Real Bond Yields Remain a Threat to Growth-Stock Valuations



Sources: MSCI and The Daily Shot, as of 9/23/22. You cannot invest in an index, and past performance is no guarantee of future results.

So, How Are We Doing??

Since its inception in 2013, the performance of our Core Equity model has held up very well despite a multi-year environment where large-cap growth stocks dominated market performance. We attribute this to both smart asset allocation and smart security selection decisions.

We also note our relative outperformance over the past 12 months, due primarily to our size, value and dividend tilts—tilts we believe will continue to perform well in the current market environment of rising rates, a slowing economy and an investor preference for dividends.

WisdomTree Core Equity Model Portfolio

3.45%	0.25%	12/18/2013	100%
Model 12-Month Dividend Yield (As of 09/30/2022)	Model Expense Ratio	Inception date	Equity

Model Performance | Model Allocations | Model Exposures | Fund Performance | Fund Details

As of 9/30/2022	Cumulative Returns			Average Annual Total Returns				
Name	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
WisdomTree Core Equity Model Portfolio (NAV)	-9.46%	-6.79%	-23.57%	-18.89%	3.03%	3.35%	-	5.55%
WisdomTree Core Equity Model Portfolio (MP)	-9.40%	-7.15%	-23.68%	-18.95%	2.91%	3.23%	-	5.40%
MSCI ACWI IMI	-9.65%	-6.64%	-25.72%	-21.18%	3.64%	4.16%	-	5.69%
MSCI ACWI Diversified Multi Factor	-8.91%	-5.65%	-24.45%	-18.97%	2.61%	2.57%	-	5.76%

Source: WisdomTree Model Adoption Center, as of 9/30/22. Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and the principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Model Portfolio performance results shown are theoretical and do not reflect any investor's actual experience with owning, trading or managing an actual investment. Thus, the performance shown does not reflect the impact that economic and market factors had or might have had on decision-making if actual investor money had been managed and allocated per the Model Portfolio. The actual performance achieved in seeking to follow the Model Portfolio may differ from the theoretical performance shown for a number of reasons, including the timing of implementation of trades (including rebalancing trades to adjust to Model Portfolio changes), market conditions, fees and expenses (e.g., brokerage commissions, deduction of advisory or other fees or expenses charged by advisors or other third parties to investors, strategist fees and/or platform fees), contributions, withdrawals, account restrictions, tax consequences and/or other factors, any or all of which may lower returns. While the Model Portfolio performance may have been better than the benchmark for some or all periods shown, the performance during any other period may not have been, and there is no assurance that the Model Portfolio performance will be better than the benchmark in the future. The Model Portfolio performance calculations assume reinvestment of dividends, are pre-tax and are net of Fund expenses.

ETF shares are bought and sold at market price (not NAV) and are not individually redeemable from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

Model 12-month yield is calculated using the weighted average trailing 12-month distribution yields of the Fund constituents. Funds incepted less than 12 months ago do not have a trailing 12-month dividend yield. Model expense ratio refers to the weighted average expense ratios of the Fund constituents.

For the most recent month-end and standardized performance of the model and underlying Funds, please click here.

For the 30-day SEC yield for each of the underlying ETFs, please click the respective ticker: DON, DWMF, EPS, EES, XSOE, USMF, DLS, DGRW, DGS, SCHG, SPDW.

Two final observations:

1. The current expense ratio for our Core Equity model is 0.25%, which we believe is attractive for an actively managed global equity portfolio; and
2. The current 12-month dividend yield on the model (through 9/30/22) is 3.45%, which compares favorably to the 2.49% yield offered by the MSCI ACWI Index as of that same date.

Conclusion

The WisdomTree Core Equity model is the foundational base for almost every other model we manage. It is constructed to deliver risk-adjusted alpha relative to its benchmarks while delivering a superior yield and dividend profile.

Since its inception almost 10 years ago, this model has performed as expected, and we believe it is well-positioned to take advantage of the market regime we believe we will have for the foreseeable future.

That market regime (as we see it) is defined by slow economic growth, “sticky” inflation, volatile markets and a refocusing on market fundamentals (e.g., earnings, dividends, valuations and quality).

Financial advisors who register on the WisdomTree website can access fully transparent information (performance, fees, yield, allocations, etc.) via our Model Adoption Center.

Important Risks Related to this Article

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You cannot invest directly in an index.

DEFINITIONS

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

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over tim.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over tim.

Size : Characterized by smaller companies rather than larger companies by market capitalization. This term is also related to the Size Factor, which associates smaller market-cap stocks with excess returns vs the market over time.

Market capitalization-weighting : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

Mutual Funds : An investment vehicle made up of a pool of moneys collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and other assets.

MSCI ACWI IMI Index : The MSCI ACWI Investable Market Index (IMI) captures large, mid and small cap representation across 23 Developed Markets (DM) and 25 Emerging Markets (EM) countries.

EAFE : Refers to the geographical area that is made up of Europe, Australasia and the Far East.

Emerging market : Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors.

Large-Capitalization (Large-Cap) : A term used by the investment community to refer to companies with a market capitalization value of more than $10 billion. Large cap is an abbreviation of the term “large market capitalization”. Market capitalization is calculated by multiplying the number of a company’s shares outstanding by its stock price per share.

Mid-Cap : Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund’s weight.

Small caps : new or relatively young companies that typically have a market capitalization between $200 million to $2 billion.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

Stock : A stock (also known as equity) is a security that represents the ownership of a fraction of a corporation. This entitles the owner of the stock to a proportion of the corporation's assets and profits equal to how much stock they own. Units of stock are called "shares."

Balance sheet : refers to the cash and cash equivalents part of the Current Assets on a firms balance sheet and cash available for purchasing new position.

Cash flows : a measure of how much cash a business generates after taking into account all the necessary expenses, including net capital expenditures.

Value stocks : Stocks whose share prices are lower relative to their earnings per share or dividends per share. Investors pay less for these stocks because their earnings or dividend growth expectations going forward are lower.

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

Alpha : Can be discussed as both risk-adjusted excess return relative to a specific benchmark, or absolute excess return relative to a benchmark. It is sometimes more generally referred to as excess returns in general.

Inflation : Characterized by rising price levels.

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