
NAVIGATING VOLATILE MARKETS WITH THE ENDOWMENT MODEL

Scott Welch – Chief Investment Officer, Model Portfolios, Andrew Okrongly – Director, Model Portfolios
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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.

It has been almost a year since we last visited the [WisdomTree Endowment Model Portfolios](#) and, given current market conditions, we think it is high time to revisit and give them a closer look.

Let's begin with a reminder of how we define an "endowment model" with respect to tax-paying individual investors (as opposed to the tax-exempt institutional world where they originated):

- Broad and global [diversification](#)
- Intelligent use of active versus passive investment strategies (i.e., a cost/benefit optimization of active management fees or, in WisdomTree's phrase, [Mode rn Alpha[®]](#))
- Prudent use of non-traditional or lower correlation investments in an attempt to improve overall portfolio diversification and maintain [purchasing power](#) (i.e., real assets and alternatives, or what we refer to collectively as the [volatility management sleeve](#))
- A long-term time horizon
- Investment discipline through full market cycles

We manage our different risk-banded Endowment Model Portfolios in exactly this way. All these Models are multi-asset, with allocations to global equities, fixed income, real assets and alternative investments.

Somewhat uniquely, we believe, we are able to fund liquid, less-traditional asset class positions because we allocate to [NTSX](#), the U.S. version of our Efficient Core strategies, which takes a leveraged 90/60 position in large-cap U.S. equities and [U.S. T reasury futures](#). This provides us with a core allocation to stocks and bonds, while freeing up capital to allocate to diversifying strategies, all while maintaining a fully liquid portfolio.

Before we move on, let's define what we mean by our volatility management, or "Vol Man," sleeve – real assets and alternatives:

Real Assets are strategies that historically have proven to be sensitive to longer-term changes in inflation and may include, but are not limited to, gold, broad-basket commodities, real estate, energy [master limited partnerships \(MLPs\)](#) and diversified [infl ation](#)-sensitive products. The use of these strategies is designed to (a) provide diversification to equity risk in the portfolio, (b) provide access to additional sources of potential return, and (c) protect purchasing power from the long-term effects of inflation.

Alternatives are strategies that may include, but are not limited to, equity

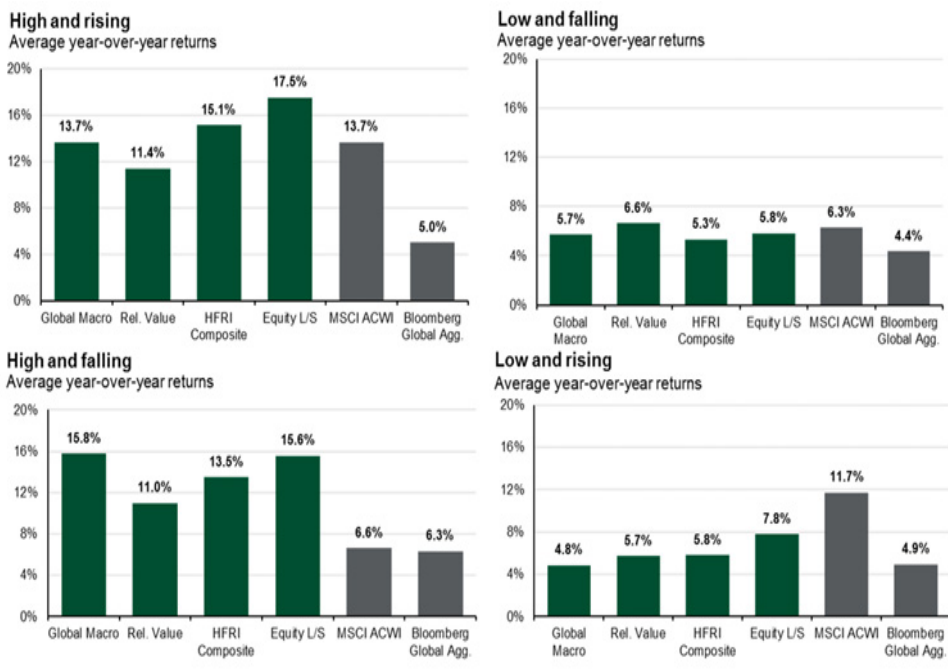
Long/short, global macro, managed futures, event-driven, short-bias, inflation hedge and options based. The use of these strategies is designed to (a) provide diversification to equity, [interest rate](#) and inflation risk, (b) provide access a more diverse set of potential sources of return, and (c) reduce the volatility of the overall portfolio over time.

This is just a summary of the potential strategies available—we may or may not deploy all of them in our Endowment Models at any given time, but we will include some mixture and combination of them.

Let’s now look at why we think the Endowment Model may be especially timely in the current market environment.

First, alternative investments historically have performed well in market environments that can be particularly challenging for traditional portfolios. This includes periods of high inflation risk (proxied by hedge funds below), rising interest rates and (to a certain extent) elevated volatility.

Hedge Fund Returns Across Inflationary Regimes

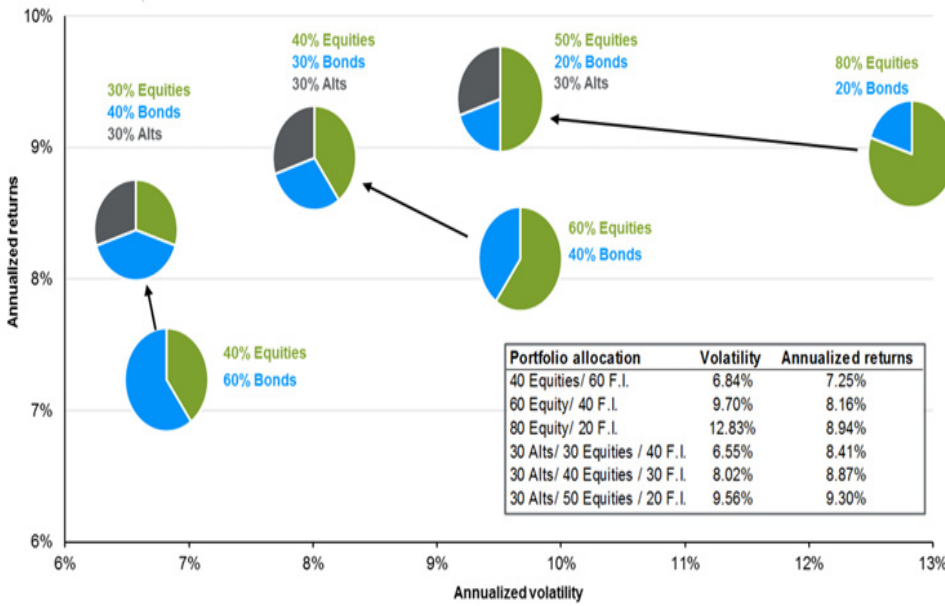


Sources: FactSet, HFRI, U.S. Department of Labor, J.P. Morgan Asset Management. All hedge fund returns are from HFRI. HFRI Composite: HFRI FW Composite Index. “High” inflation is defined as any year-over-year headline CPI reading above the historical median, while “low” inflation is defined as any year-over-year headline CPI reading below the historical median. The median y/y headline CPI for period between 1991 through January 2023 is 2.47%. Data is based on availability as of 2/28/23.

Over longer-term time horizons, there have been clear risk and return benefits in an endowment-like approach—we just forgot them during the decade from 2009 to 2019, given [Fed](#)-induced low interest rates and volatility.

These portfolio advantages are illustrated below, which shows how the incorporation of alternatives has enabled the construction of more efficient portfolios that experienced higher annualized returns for similar or lower levels of risk (annualized volatility).

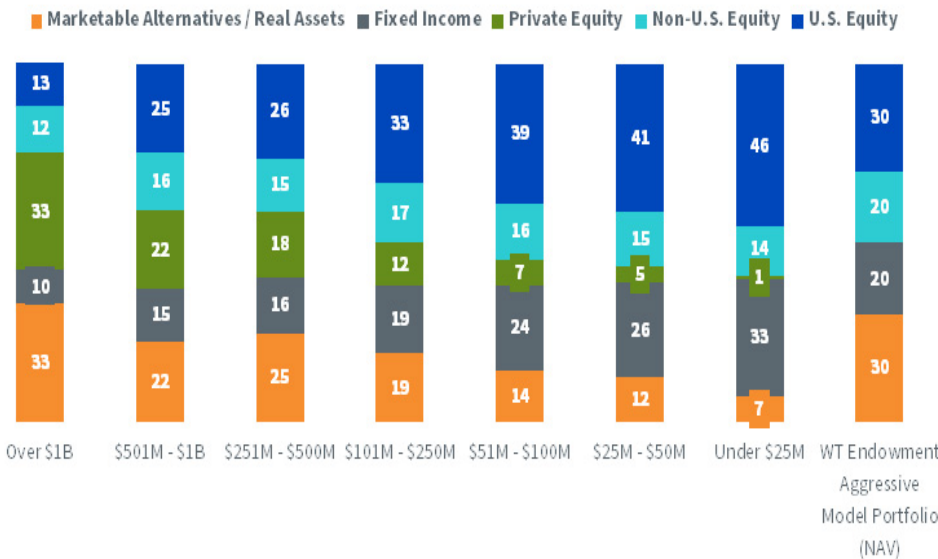
Alternatives and Portfolio Risk/Return (Annualized volatility and Returns, 1989–3Q22)



Sources: Bloomberg, Burgtiss, HRFI, NCREIF, Standard & Poor's, FactSet, J.P. Morgan Asset Management. Alts include hedge funds, real estate, and private equity, with each receiving an equal weight. Portfolios are rebalanced at the start of the year. Data is based on availability as of 2/28/23.

Now let's look at actual asset allocations of U.S. endowment portfolios.

The following chart is from the most recent annual NACUBO (National Association of College and University Business Officers) TIAA Study of Endowments, as of June 30, 2022. **Fiscal Year 2022 Asset Allocation for U.S. Higher Education Endowments (AUM Cohorts)**



Sources: WisdomTree, 2022 NACUBO-TIAA Study of Endowments. Data represent asset allocations by AUM cohort as of 6/30/22. Unless otherwise noted, data are dollar weighted.

Focus your attention on the “Under \$25 Million” size (AUM) cohort, as these institutions invest primarily in liquid asset classes and represent the closest asset level to most HNW families and their advisors.

Relative to the WisdomTree Endowment Aggressive Model Portfolio, the average “small” U.S. endowment has a modestly higher allocation to public equities and fixed income and a lower allocation to alternatives and real assets. However, our Model Portfolios get additional fixed income exposure via the Treasury futures held in [NTSX](#), and the level of

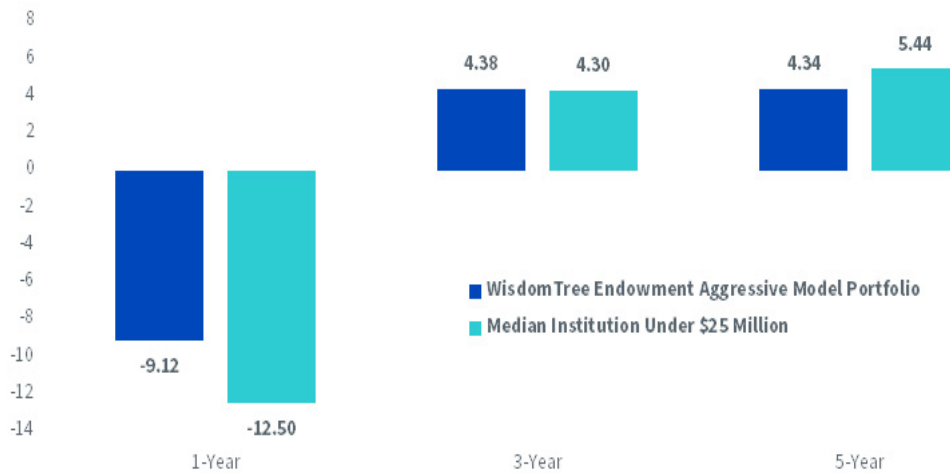
alternatives within the Endowment Model Portfolio is largely consistent with the allocations seen in the larger cohorts.

In this sense, the Model Portfolios attempt to capture the key aspects of this institutional approach, while, like the smaller endowments, focusing on fully liquid investments.

Since the inception date of our Endowment Model Portfolios back in 2016, performance has been very much as expected—they generally won't and did not keep up with a raging bull equity market, but they provided risk mitigation and consistent performance throughout varying market regimes.

Below we compare the performance of the median institution in the same "Under \$25 Million" cohort to our own WisdomTree Endowment Aggressive Model Portfolio.

Average Annual Net Investment Returns for Periods Ending June 30, 2022



Sources: WisdomTree, 2022 NACUBO-TIAA Study of Endowments. Data represent as of 6/30/22. Past performance is not indicative of future returns.

For underlying Fund performance, including standardized performance and 30-day SEC yield, please click [here](#).

As with all WisdomTree Model Portfolios, our Endowment Models share certain common characteristics:

1. They are global in nature
2. They are ETF-centric, to optimize fees and taxes
3. They are "open architecture" and include both WisdomTree and third-party strategies
4. They charge no strategist fee

Conclusions

We've been believers in an endowment-like approach to long-term portfolio construction for many years, and often had to defend ourselves against claims of "deworsification" during periods of low volatility, low interest rates and bullish equity markets. But we maintained our conviction that this approach has merit for long-term investors seeking to protect purchasing power and generate a more consistent performance profile over full market cycles.

Despite the liquidity and leverage constraints imposed by an ETF-only model, our portfolios have kept up with professionally managed endowment models. Given the liquidity advantages of ETFs, we believe that is a nice accomplishment.

Financial advisors interested in learning more about WisdomTree's services can fill out the form below or send us an email at wtpg@wisdomtree.com.

Important Risks Related to this Article

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For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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DEFINITIONS

Diversification: A risk management strategy that mixes a wide variety of investments within a portfolio.

Purchasing Power: The value of a currency expressed in terms of the number of goods or services that one unit of money can buy.

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

U.S. Treasury futures contract: A standardized contract to buy or sell a Treasury security on a specified date at a predetermined price.

Master limited partnership (MLP): Investment structure where holdings typically must derive most of their cash flows from real estate, natural resources or commodities, combining the tax benefits of a partnership—taxes occur when holders receive distributions—with the liquidity of a publicly traded company.

Inflation: Characterized by rising price levels.

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

Federal Reserve: The Federal Reserve System is the central banking system of the United States.