PORTFOLIO PILATES: BUILDING A STRONG CORE, PART I

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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.

In my next two blog posts, I am going to get back to basics by focusing on our core strategic Model Portfolios, specifically our **Core Equity** and our **Fixed Income** Model Portfolios. These two Model Portfolios serve as the base for almost every other Model Portfolio we manage, including our Strategic Multi-Asset Model Portfolios, our Endowment Model Portfolios, our Multi-Asset Income Model Portfolios and the Siegel-WisdomTree Longevity Model Portfolio.

As with all WisdomTree Model Portfolios, or Core Equity and Fixed Income Model Portfolios share certain common characteristics:

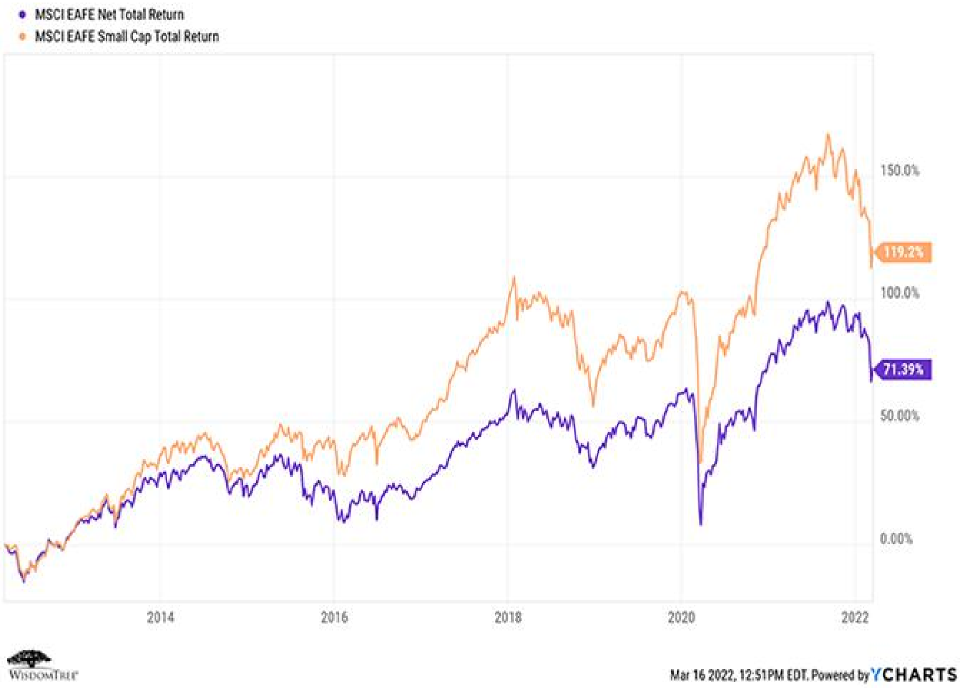
1. They are global in nature. WisdomTree is a global asset management firm, and we believe in global diversification.
2. They are ETF-centric, which we believe helps to optimize fees and taxes.
3. They are open architecture and allocate to both WisdomTree and third-party strategies. This is (a) the right 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 Model Portfolios diversified by both asset class and risk factor.
4. The factor tilts (dividends, quality, value, size, etc.) embedded into most WisdomTree ETFs allow us to construct core/satellite Model Portfolios in a more cost- and tax-effective manner than the traditional approach, that involves 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 Model Portfolios—our revenue is generated only by the expense ratios of the **WisdomTree products that are included in any given Model Portfolio.**

We refer to the Core Equity and Fixed income Model Portfolios as our "strategic building blocks." While they can be and are used as stand-alone Model Portfolios, they often are mixed and matched together to create different variations of multi-asset Model Portfolios.

Core Equity

Let's begin with the Core Equity Model Portfolio. 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 index. As of February 28, 2022, the Model Portfolio had roughly 59% allocated to U.S., 29% to EAFE (developed international) and 13% to emerging markets ("EM"). At a line allocation level, the Model Portfolio holds 71% in WisdomTree products and 29% in third-party strategies.

Somewhat uniquely, we believe, our Core Equity Model Portfolio has specific allocations to U.S. small-cap stocks (via DGRS), but also to both developed international and emerging markets (via DLS and DGS, respectively). We very much believe these allocations will play out well over full market cycles, as the size premium exists overseas as well as in the U.S. Consider how EAFE and EM small caps have performed relative to large caps over the past 10 years.



Source: YCharts, 10-year data through 3/15/22. You cannot invest in an index and past performance does not guarantee future results.

For definitions of terms in the chart above, please visit the glossary.

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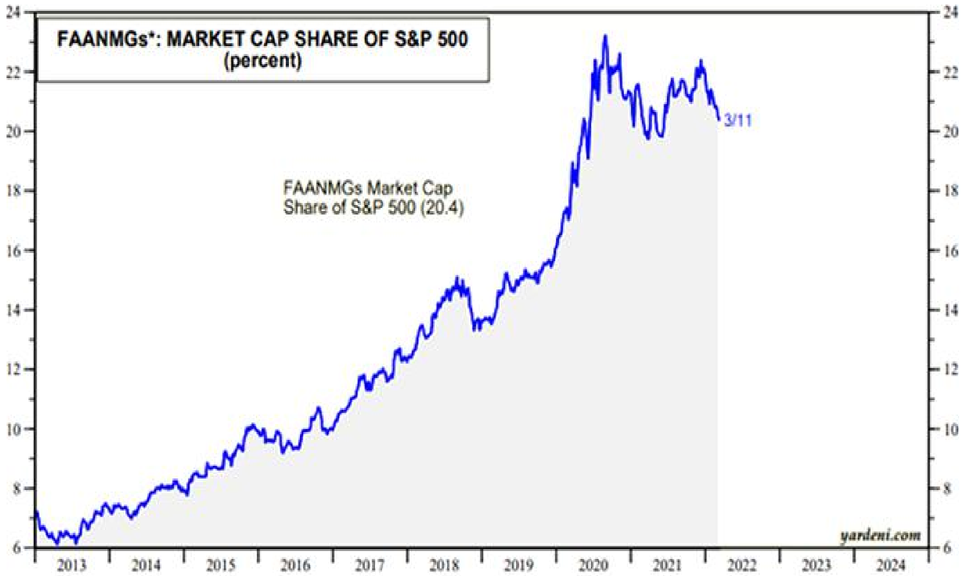
Given the underlying factor tilts of many of the WisdomTree products, the Model Portfolio has overweight allocations to smaller-cap stocks, higher quality stocks (where “quality” is defined as companies that have higher profitability metrics, stronger earnings, balance sheets and cash flows), value stocks and dividend paying stocks. It is also more diversified at the risk factor level than most broad market indexes that, because they are market cap-weighted, tend to be dominated by larger growth stocks (for example, according to Yardeni Research the six "FAANGM" stocks—Facebook (Meta), Amazon, Apple, Netflix, Google (Alphabet) and Microsoft—currently represent more than 20% of the market cap of the entire S&P 500 index).



Source: Yardeni Research, as of 3/11/22. You cannot invest in an index.
*FAANMGs stocks include Alphabet, Amazon, Apple, Meta, Microsoft, and Netflix. Both classes of Alphabet are included.

Given current market conditions, in which value, quality and dividends have rotated "into favor" and growth has rotated "out of favor," it is no surprise that our Core Equity Model Portfolio has performed well on a benchmark-relative basis over the past 12 months.

Since inception in 2013, its performance 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.

As of 2/28/2022	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)	-1.88%	-1.96%	-6.43%	8.22%	11.44%	9.65%	-	8.61%
WisdomTree Core Equity Model Portfolio (MP)	-2.61%	-2.41%	-6.66%	7.82%	11.28%	9.53%	-	8.43%
MSCI ACWI IMI	-2.29%	-3.68%	-7.36%	6.87%	13.12%	11.18%	-	9.01%
MSCI ACWI Diversified Multi Factor	-0.71%	-0.90%	-6.57%	7.43%	10.36%	9.87%	-	8.97%

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when sold, 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. 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 Model Portfolio performance may have performed better than the benchmark for some or all periods shown, the performance during any other period may not have, and there is no assurance that Model Portfolio performance will perform better than the benchmark in the future. 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.

For standardized performance, please click here.

You will note that we use two external benchmarks when evaluating the performance of this Model Portfolio: (1) the MSCI ACWI IMI index (which is a global all-cap index that includes mid- and small-cap stocks) and (2) the MSCI ACWI Diversified Multi-Factor index, given both the global nature and the emphasis on factor investing embedded in the Model Portfolio.

Our view is that the market rotation toward value, size, dividends and quality will continue for at least the rest of this year, so we are very comfortable with how our Core Equity Model Portfolio is positioned and allocated.

Two final observations:

1. The current expense ratio for our Core Equity Model Portfolio is 0.24% (24 basis points) —which we believe is very attractive for an actively managed global equity portfolio; and
2. The current 12-month dividend yield on the Model Portfolio (through 2/28/22) is 2.50%, which compares very favorably to the 1.80% yield offered by the MSCI ACWI IMI index as of that same date.

Conclusion

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

Since inception on December 18, 2013, this Model Portfolio has performed as we have expected, and we believe it is well positioned to take advantage of the market regime we believe we will have for at least the rest of this year.

Financial advisors can register with WisdomTree to access fully transparent information (performance, fees, yield, allocations, etc.) via our Model Adoption Center.

We hope you will take a look.

Part II of this blog mini-series will be a deeper dive into our Fixed Income Model Portfolio. See you there.

Important Risks Related to this Article

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and 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. Please click on wisdomtree.com/mac/model-portfolios#strategicmodelportfolios_strategicbuildingblocks and go to the Fund Performance tab for individual fund standardized performance, and go to the Fund Details tab for fund-specific links for yield, most recent month-end performance and a prospectus.

Model Portfolio12-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 trailing 12-month dividend yields.

Neither diversification nor an asset allocation strategy assures a profit or eliminates the risk of experiencing investment losses.

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You cannot invest directly in an index.

DEFINITIONS

Factor : Attributes that based on its fundamentals or share price behavior, are associated with higher return.

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.

MSCI ACWI Index : A free-float adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets.

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

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.

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.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor’s Index Committee designed to represent the performance of the leading industries in the United States economy.

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.

MSCI ACWI Diversified Multiple-Factor Index : The MSCI ACWI Diversified Multiple-Factor Index is based on MSCI ACWI Index, its parent index, which includes large and mid cap stocks across 23 Developed Markets (DM) and 25 Emerging Markets (EM) countries*. The index aims to maximize exposure to four factors – Value, Momentum, Quality and Low Size -- while maintaining a risk profile similar to that of the underlying parent index.

Basis point : 1/100th of 1 percent.

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.