A PURPOSE-FILLED PORTFOLIO

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06/25/2020

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.

To everything (turn, turn, turn)
There is a season (turn, turn, turn)
And a time to every purpose, under heaven

A time to build up, a time to break down
A time to dance, a time to mourn
A time to cast away stones, a time to gather stones together

To everything (turn, turn, turn)
There is a season (turn, turn, turn)
And a time to every purpose, under heaven

(From "Turn, Turn, Turn" by Pete Seeger, 1959, covered by The Byrds, 1965)

As advisors seek new ways of building and managing portfolios in the wake of the pandemic events of 2020, one clear trend in the advisor community is the adoption of an "outcome-focused" portfolio construction approach. What does this mean?

The high net worth consulting model is a direct descendant of the institutional model. Unfortunately, the institutional model has certain characteristics (e.g., infinite time horizon, oversight by committee and tax exemption) that do not apply to individuals—certainly not with any consistency. Rather, most individuals are goal-oriented and, in general, share the same three objectives, to differing degrees. They want to:

1. Maintain or improve their current lifestyle,
2. Not outlive their money and be able to fund their legacy objectives, and
3. Optimize fees and taxes along the way.

The concept behind outcome-focused models is to build portfolio "sleeves" or modules that target specific investment objectives, rather than the usual approach of optimizing the risk/return trade-off of the overall portfolio—a statistical portfolio property that may or may not have any real meaning or relevance to the average investor.

These "outcome-focused" sleeves also align well with the fact that many advisors still want to be actively involved in the portfolio construction aspect of their practices (for many, it is why they got into the wealth management business to begin with—they love investing).

By accessing portfolio sleeves designed to meet specific objectives or outcomes, advisors have an expanded toolkit from which to choose in constructing customized client portfolios, without outsourcing the entirety of that function.

At WisdomTree, we offer a variety of outcome-focused portfolios, each designed to address targeted investor objectives. They include:

1. **Global Dividends**, for advisors seeking an equity allocation that attempts to maximize current income/yield while controlling for risk. This portfolio sleeve may act as a stand-alone equity portfolio or make a nice complement to the overall

equity portfolio for those advisors seeking to maximize current yield generation.

2. **Global Multi-Asset Income**. In today's yield-starved market environment, many advisors are seeking to maximize the overall current income potential of their portfolios to help end clients maintain their current lifestyle. This portfolio combines yield-focused equities, fixed income and other yield-generating strategies (e.g., master limited partnerships (MLPs), option-based strategies, preferred securities, etc.) in an attempt to maximize current income without taking unnecessary risk.
3. **Volatility Management**, for advisors seeking to create a more "endowment-like" feel for their portfolios by including less traditional or lower-correlated strategies. These strategies might include, but are not limited to, short-biased, equity hedged, merger arbitrage and beta-reducing option-based strategies. We manage an overall Endowment Model that incorporates these types of strategies into a multi-asset total portfolio. This more focused portfolio sleeve is designed to complement an already existing stock/bond portfolio, allowing advisors to create a similar risk and return profile as our Endowment Model while maintaining more control over the traditional stock and bond portfolio.
4. **Multi-Factor Equity**. This portfolio is explicitly diversified across multiple risk factors in an attempt to lower overall volatility. It can act as a stand-alone portfolio for advisors seeking a lower volatility equity solution or as a complementary sleeve within a broader overall equity portfolio. Over the past several years, "low volatility" has become a very popular risk factor. The result is that securities considered to be "low vol" have become increasingly expensive (i.e., valuations have increased). By diversifying across multiple risk factors (e.g., size, value, quality, momentum, etc.), we believe our multi-factor model can potentially deliver a similar "low vol" experience using much more attractively priced securities.

As with all WisdomTree Model Portfolios, these outcome-focused sleeves have certain common characteristics:

1. They are global in nature,
2. They consist entirely of ETFs, which helps to optimize fees and taxes,
3. They are "open architecture"—that is, they include both WisdomTree and third-party strategies. We do this to optimize the active and passive mix of strategies within the portfolio and to make sure that the portfolios are *risk factor diversified*,
4. These sleeves can be "mixed and matched" with each other to create *total portfolio solutions*, or they can serve as complementary "add in" sleeves within other third-party models, and
5. They carry no strategist fee—our revenue derives entirely from the expense ratios of the WisdomTree products included in the portfolio.

We will consider adding additional outcome-focused portfolios to our solution set as our advisor clients identify specific "pain points" they want to solve for within broader investment mandates.

We think the wealth management industry is evolving away from evaluating investment performance on *a benchmark-relative basis and toward an objective of solving for specific investor goals*.

We believe our Outcome-Focused Model Portfolios can help advisors differentiate themselves in this evolving landscape.

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DEFINITIONS

Risk : Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.

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.

Stock options : Conveys to an executive the right to buy a number of shares of his firm’s stock at a pre-specified price at some time in the future. Stock option holders are not eligible for any dividend distributions to shareholders.

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

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

Arbitrage Mechanism : The ability to compare the price of an ETF and its underlying basket and exchange one for the other utilizing the creation and redemption process.

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.

Low Volatility : Characterized by lower standard deviation of price over time. This term is also associated with the Low Volatility Factor, which associates lower volatility stocks with better risk-adjusted returns vs the market over time.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

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.

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.

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.

Momentum : Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.