
INTRODUCING THE WISDOMTREE 90/60 U.S. BALANCED FUND (NTSX)

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For many investors, a balanced portfolio (60% equities,¹ 40% bonds²) serves as the bedrock (and benchmark) for their asset allocation (AA) decisions. From this core, they will often seek to select securities with characteristics that can provide diversification, return enhancement or manage [volatility](#).

Thanks in large part to investment community feedback we received on Twitter, WisdomTree saw the need to create a more capital-efficient vehicle for providing exposure to the traditional 60/40 AA vehicles.

The general concept is that if an investor could potentially free up capital for diversifying strategies, that investor could complement a 60/40 allocation with alternative strategies that might assist in lowering volatility. While [risk parity](#) strategies employ some similar tactics, and there are some actively managed bond managers who then try to add equity index returns on top of the bonds, until now, there was no models-based implementation of this more capital-efficient 60/40 concept.

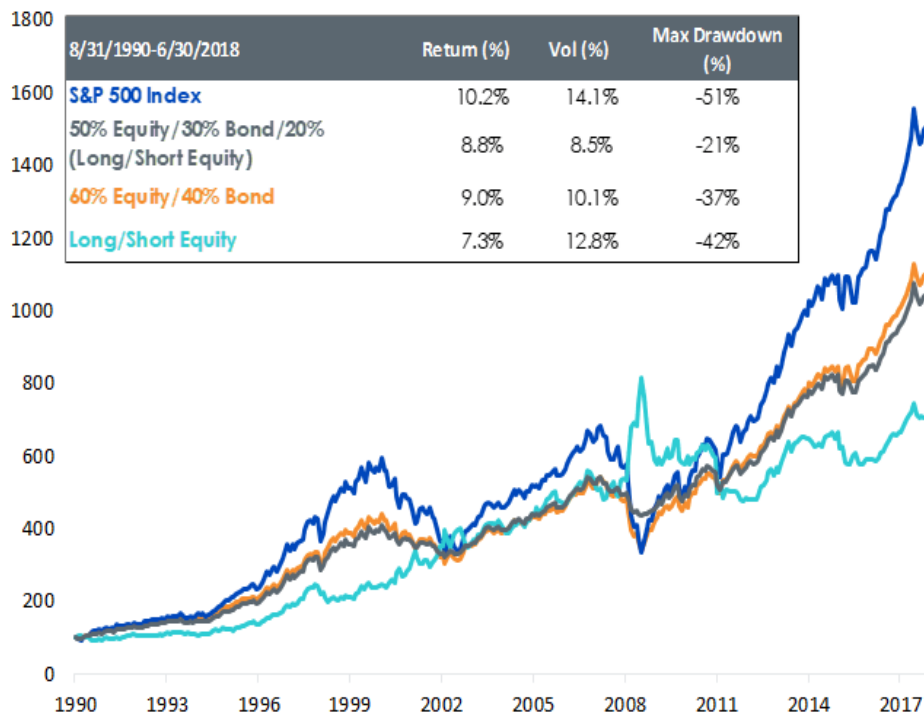
Balancing Trade-offs in 60/40

Historically, if investors wanted to make an allocation to commodities or alternatives, they would need to fund those positions by selling from their core holdings. Allocations to diversifying assets such as these have primarily sought to reduce volatility or limit drawdowns. While these assets could potentially add [value](#), if they underperformed stocks or bonds, the returns of the portfolio could lag.

Relatively strong equity performance post-2008 typically has meant that any approach that reduced exposure to stocks has resulted in a portfolio with suboptimal returns. However, we also know that even a 60/40 portfolio can be prone to periods of significant drawdowns.

By combining a hypothetical portfolio of uncorrelated assets, the total volatility and drawdown profile of a 50% equity/30% bond/20% [long/short](#) equity portfolio offers meaningful enhancement compared with the alternatives. One challenge is in maintaining exposure to the core of the portfolio while adding these desirable portfolio traits.

Risk, Returns and Drawdowns



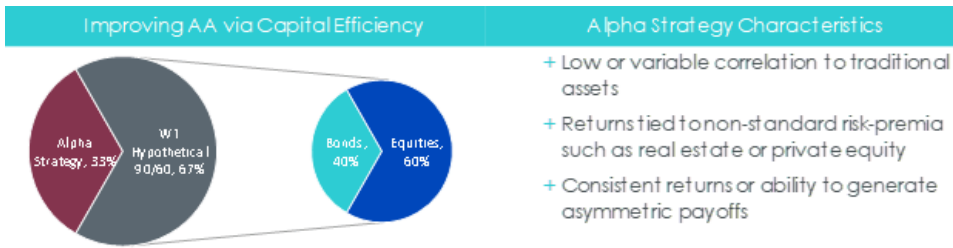
Sources: Bloomberg, WisdomTree, as of 6/30/18. Equities and bonds proxied by the S&P 500 Index and the Bloomberg Barclays U.S. Aggregate Index, respectively. Long/Short Equity proxied by the Morningstar Global Long/Short Equity Index. Past performance is not indicative of future results. You cannot invest directly in an index.

The Efficiency of 90/60

The [WisdomTree 90/60 U.S. Balanced Fund \(NTSX\)](#) is created by investing 90% of Fund assets in equities and 10% in short-term fixed income. The 60% bond exposure is achieved by overlaying Treasury [futures contracts](#) to achieve the net 90/60 target. Through this higher-efficiency portfolio, investors can devote a smaller percentage of their assets (66.6%) to core holdings while still pursuing their desired exposure.

In addition to helping potentially boost capital efficiency, we also believe that 90/60 provides investors with the ability to enhance returns with non-core assets such as long/short equities, risk parity, [commodity trading advisors](#) or true alternatives. In other words, by deploying an overlay strategy to boost capital efficiency, a 90/60 strategy has the potential to enhance total returns while also helping to dampen volatility via alternatives.

Evolving Traditional 60/40 with Alternatives



- + Low or variable correlation to traditional assets
- + Returns tied to non-standard risk-premia such as real estate or private equity
- + Consistent returns or ability to generate asymmetric payoffs

Source: WisdomTree, as of 6/30/18. The strategy above is to illustrate various uses of the Fund when suitable. Please consult with your financial professional to determine which strategy may apply to your particular financial plan.

For definitions of terms in the chart, please visit our [glossary](#).

Tax Efficiency of Structure

Structuring NTSX using equities and bond futures instead of underlying bonds with an equity swap also aims to help improve the tax efficiency of the portfolio, in our view. We will review the tax efficiency of the strategy in a later blog post.

INVESTMENT STRATEGY OF NTSX:

- Invest 90% of its net assets in the 500 largest U.S. equities by market capitalization.
- Invest 10% in short-term fixed income that collateralizes a 60% notional exposure to U.S. Treasury futures (2-, 5-, 10-, 30-year [ladder](#)).
- Should the Fund deviate from the targeted 90% equity and 60% U.S. Treasury allocations by 5%, the Fund will be rebalanced back to target allocations.

¹As proxied by the [S&P 500 Index](#).

²As proxied by the [Bloomberg Barclays U.S. Aggregate Bond Index](#).

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal.— While the Fund is actively managed, the Fund’s investment process is expected to be heavily dependent on quantitative models, and the models may not perform as intended.— Equity securities, such as common stocks, are subject to market, economic and business risks that may cause their prices to fluctuate.— The Fund invests in derivatives to gain exposure to U.S. Treasuries.— The return on a derivative instrument may not correlate with the return of its underlying reference asset.— The Fund’s use of derivatives will give rise to leverage, and derivatives can be volatile and may be less liquid than other securities. As a result, the value of an investment in the Fund may change quickly and without warning, and you may lose money. Interest rate risk is the risk that fixed income securities, and financial instruments related to fixed income securities, will decline in value because of an increase in interest rates and changes to other factors, such as perception of an issuer’s creditworthiness.— Please read the Fund’s prospectus for specific details regarding the Fund’s risk profile.

Diversification does not eliminate the risk of experiencing investment losses. Using an asset allocation strategy does not assure a profit or protect against loss. Investors should consider their investment time frame, risk tolerance level and investment goals.

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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.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

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DEFINITIONS

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

Risk Parity: A risk management strategy that seeks to diversify assets based on their contribution to portfolio volatility.

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 time.

Long (or Long Position): The buying of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value, the opposite of Short (or Short Position).

Short (or Short Position): The sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value, the opposite of Long (or Long Position).

Futures/Futures Contract: Reflects the expected future value of a commodity, currency or Treasury security.

Commodity Trading Advisor: An investment manager that targets specific exposure to commodity or financial futures contracts.

Ladder: A fixed income strategy that seeks equal allocations across the yield curve in order to limit reinvestment risk.

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.

Bloomberg Barclays U.S. Aggregate Enhanced Yield Index: a constrained, rules-based approach that reweights the sector, maturity, and credit quality of the Barclays U.S. Aggregate Index across various sub-components in order to enhance yield.