

WisdomTree 90/60 U.S. Balanced Fund

NTSX

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, enhance returns or manage volatility³. While WisdomTree also subscribes to this approach, we believe there may be a more efficient way to gain exposure to 60/40 portfolios via overlay strategies⁴. With the resulting higher capital efficiency, investors have the ability to enhance their asset allocations in noncore holdings or managers.

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 drawdowns⁵. While these assets could potentially add value, if they underperformed stocks or bonds, the returns of the portfolio could lag.

As we illustrate in the exhibit below, strong equity performance post-2008 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 the 50% equity/30% bond/20% long/short equity portfolio offers meaningful enhancement versus alternatives. The challenge is in maintaining exposure to the core of the portfolio while adding these desirable portfolio traits.

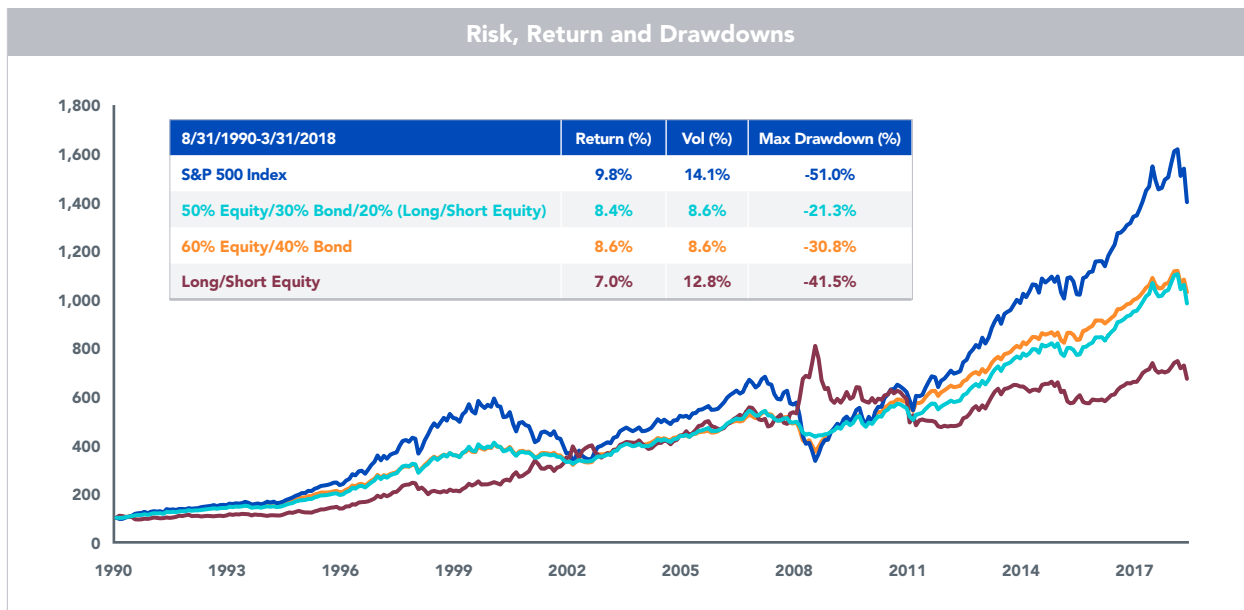
¹ As proxied by the S&P 500 Index.

² As proxied by the Bloomberg Barclays U.S. Aggregate Bond Index.

³ Volatility: A measure of the dispersion of actual returns around a particular average level.

⁴ Overlay strategy: Laying debt instruments on top of an existing portfolio.

⁵ Drawdowns: Periods of sustained negative trends of returns.



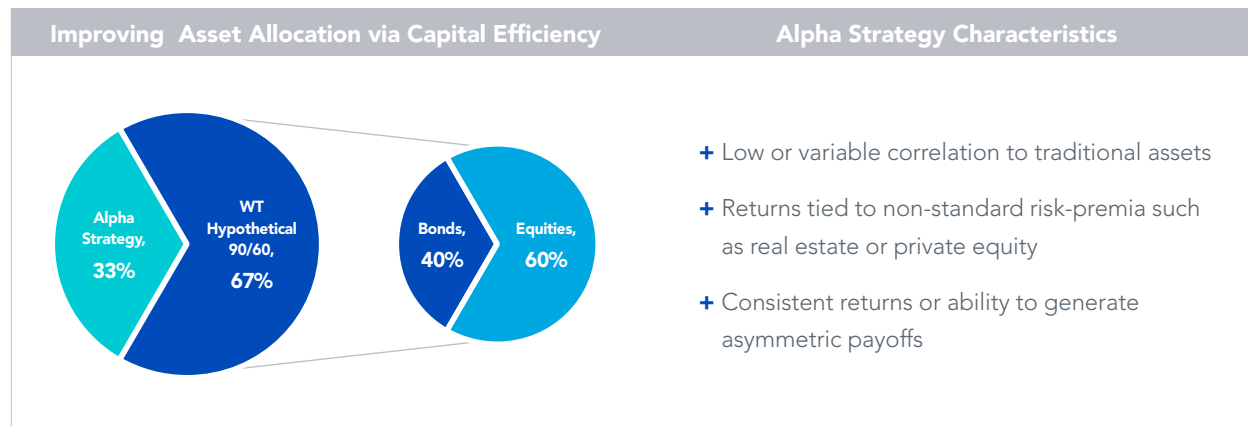
	Inception Date	Cumulative Returns				Annualized Returns				
		1-Mo.	3-Mo.	YTD	Since Inception	1-Yr.	3-Yr.	5-Yr.	10-Yr.	Since Inception
S&P 500 Index	1/29/1988	-9.03%	-13.52%	-4.38%	1835.82%	-4.38%	9.26%	8.49%	13.12%	10.05%
Bloomberg Barclays US Aggregate Index	1/30/1976	1.84%	1.64%	0.01%	1907.45%	0.01%	2.06%	2.52%	3.48%	7.23%
Morningstar Global Long Short Equity Index	1/31/1990	-7.56%	-9.88%	-5.48%	587.92%	-5.48%	5.40%	1.26%	-0.09%	6.89%

Sources: Bloomberg, WisdomTree, as of 12/31/18. 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. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

THE EFFICIENCY OF 90/60

WisdomTree’s approach applies 1.5x accounting leverage to a traditional 60/40 portfolio to create exposure equal to 90% equities, 60% bonds. This exposure 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 achieving their desired exposure.

In addition to boosting capital efficiency, we also believe that 90/60 provides investors with the ability to enhance returns with noncore assets such as long/short equities, risk parity⁶, CTAs⁷ or true alternatives. By deploying an overlay strategy to boost capital efficiency, a 90/60 strategy has the potential to enhance total returns while also helping dampen volatility via alternatives.



Source: WisdomTree.

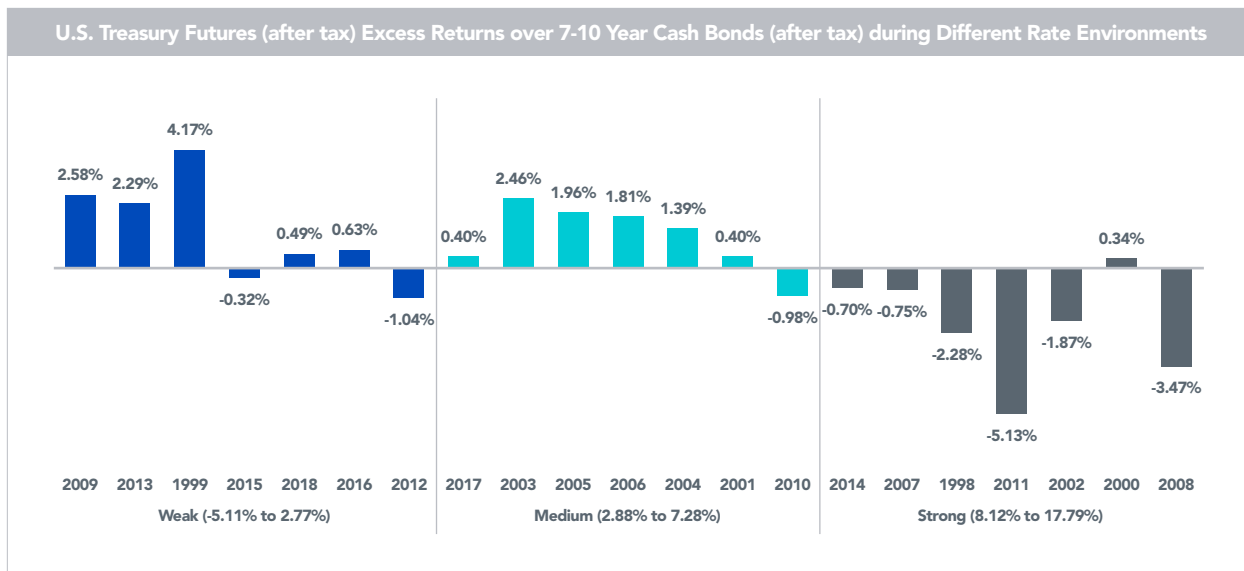
BOOSTING TAX EFFICIENCY OF FIXED INCOME

In thinking of other ways to improve on 60/40, we believe 90/60 could also boost returns via greater tax efficiency. This is primarily driven by gaining exposure to fixed income via futures contracts as opposed to cash bonds. In instances where fixed income total returns are primarily driven by interest income and held in taxable accounts, any income distributions are subject to withholding tax rates of up to 39.6%. By comparison, capital gains on Treasury futures contracts are taxed at 60% long-term, 40% short-term capital gains rates. We believe this tax advantage could be particularly important during periods of rising rates.

To illustrate this point, we compare the excess return of Treasury futures versus 7- to 10-year bonds across different rate environments. During periods of weak (low or negative) bond returns, cash bond investors will continue to be subject to income tax rates on distributions despite losses on their principal. Using Treasury futures, all profits and losses will be dealt with at the end of the fiscal year; in the case of a negative return year, losses can be carried forward to offset future gains. With U.S. interest rates still low by historical standards, we believe gaining exposure to fixed income via futures could boost tax efficiency compared to investing in cash bonds in certain market environments.

⁶ Risk parity: An investment strategy that seeks to target a specific level of risk whereby portfolio weights are determined by their relative volatility.

⁷ Commodity trading advisor (CTA): A firm or individual that manages a portfolio of commodity-related investments.



Sources: Bloomberg, WisdomTree, as of 12/31/18. Past performance is not indicative of future results.

In our view, overlay strategies can provide meaningful enhancements to traditional 60/40 portfolios. Below, we outline the construction process for the WisdomTree 90/60 U.S. Balanced Fund (NTSX).

Disrupting the Way Investors Approach Asset Allocation

- + The fund invests 90% of its net assets in the 500 largest U.S. stocks by market capitalization.
- + The Fund invests 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.

Why Invest in NTSX?

- + Enhance the efficiency of core asset allocation
- + Potential to increase tax efficiency for fixed income in taxable accounts
- + Free up capital to invest in noncore/diversifying assets

WisdomTree 90/60 U.S. Balanced Fund

Quick Facts

Ticker: NTSX

Exchange: NYSC

Expense Ratio: 0.20%

Structure: Open-end ETF

Exposure: 90% equities, 10% cash, 60% U.S. Treasury futures

Rebalancing: Quarterly

At WisdomTree, we do things differently. We build our ETFs with proprietary methodologies, smart structures and/or uncommon access to provide investors with the potential for income, performance, diversification and more.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. To obtain a prospectus containing this and other important information, please call 866.909.9473 or visit WisdomTree.com. Please read the prospectus carefully before you invest.

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.

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Morningstar Global Long/Short Equity Index: A broad-based index containing more than 500 long/short equity hedge funds. The Index captures the performance of the most investable portion of the hedge fund industry. Bloomberg Barclays U.S. Aggregate Bond Index: Represents the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, as well as mortgage- and asset-backed securities. S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard & Poor’s Index Committee, designed to represent the performance of the leading industries in the United States economy.

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