REVISITING THE WISDOMTREE ESG MODEL PORTFOLIOS

Scott Welch — Chief Investment Officer – 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.

A little more than 18 months ago, WisdomTree launched our ESG (environmental, social and governance) Model Portfolios—our first U.S. Models with explicit and specific ESG objectives.

The ensuing 18 months have been volatile, both for the markets overall and for ESG investing specifically. The war between Ukraine and Russia, with its corresponding energy shortages for much of western Europe, as well as the West's decision to support and arm Ukraine, brought home to many investors the occasional "cognitive dissonance" of ESG investing.

Furthermore, some investors are openly rebelling. The pension funds of several U.S. states, specifically those with heavy energy resources and/or conservative state governments (e.g., Texas, West Virginia, Florida, Arizona), are actively seeking to minimize their allocations to what they believe are overly ESG-intensive asset management firms. There have even been new products launched that actively allocate to non-ESG industry sectors (weapons, energy, tobacco, etc.).

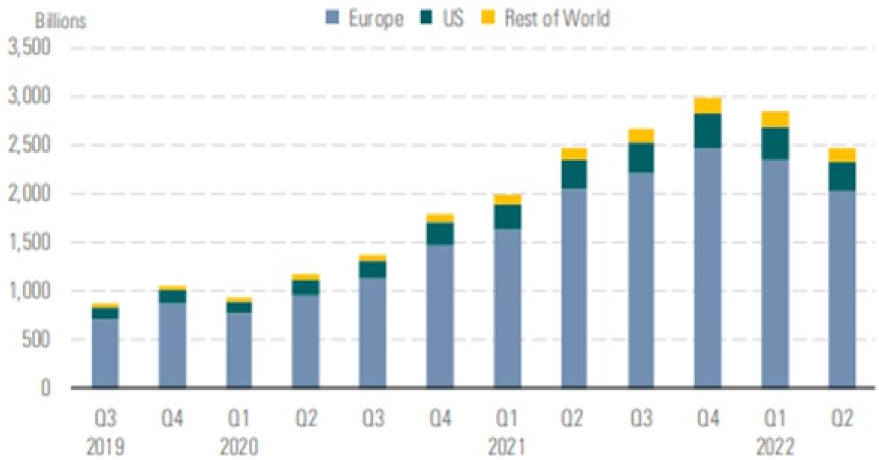
After years of uninterrupted growth, ESG investing has definitely entered a transitional, maturation stage, but there is no indication that it will fall in importance, despite some degree of market pushback. A 2021 Global Fund Survey from Ernst & Young indicates that 65% of respondents place a high level of importance on the diversity, equity and inclusion policies of a given firm in making their investment decisions. Furthermore, that same survey indicated that 39% of respondent investors are currently invested in ESG products—up from 33% in 2020.

At the same time, according to Morningstar, both fund flows and total assets in ESG strategies have fallen (though demand remains high in Europe).

Exhibit 2 Quarterly Global Sustainable Fund Flows (USD Billion)

Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Exhibit 3 Quarterly Global Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

As a reminder, the challenge we set for ourselves at WisdomTree when we launched our ESG Models in 2021 was to build differentiated strategies that (a) hold their own from a risk-adjusted performance perspective, (b) are not just "run of the mill" with respect to their ESG objectives and (c) are—as all are WisdomTree Models—diversified at both the asset class and risk factor levels.

So, we set five standards for our asset allocation and portfolio construction decisions:

1. The Models, like all WisdomTree Models, are "open architecture," that is, include both WisdomTree and third-party strategies. Further, they are ETF-centric, to optimize cost and tax efficiency.
2. The Models include multiple rating/ranking approaches to evaluate ESG adherence.
3. Further, while there will always be a certain amount of exclusion associated with ESG (that is, taking things out of a portfolio that are viewed to be bad or harmful), we want to make sure we take an inclusionary approach as well—allocating to things that are positive or impactful.
4. While we always seek for our portfolios to be diversified at the asset class and risk factor levels, we also want these portfolios to be diversified at the ESG "theme" level.
5. Our investment objectives for these portfolios are not simply to be "hygienic" from an ESG perspective, but to achieve maximum risk-adjusted long-term capital appreciation.

In constructing these portfolios, we opted for a "core/satellite" approach. We built core equity positions that all take fairly traditional, broad-based screening approaches. We allocated to five strategies, three of which are WisdomTree solutions: RESP, our factor-based core U.S. large-cap ESG strategy; RESD, our factor-based core developed international ESG strategy; and XSOE, our emerging markets ex-state-owned enterprises strategy. (In addition to removing state-owned enterprises, XSOE also incorporates several explicit ESG filters in the security selection process.)

The other two core strategies are third-party strategies. One takes a more concentrated and growth-oriented large-cap approach than RESP, and the other takes an explicit SMID-cap approach.

With our satellite allocations, we opted for a more thematic approach, focusing on positive or impactful objectives.

Ultimately, we landed on three key pillars to focus on with respect to security selection:

1. **Environmental**—A focus on sustainable water and agriculture, alternative energy, energy efficiency, pollution control and prevention, and green buildings.
2. **Diversity, equity and inclusion**—A focus on exposure to companies with strong policies and practices in support of women's empowerment and gender equality.
3. **Health and wellness**—A focus on exposure to global companies that help people prevent cardiovascular disease through healthier lifestyles and/or treatment.

One of our three Models is 100% equity, as summarized above, and the other two also have fixed income exposures. We allocated across multiple, diversified strategies, most of which are third-party solutions with explicit ESG mandates, plus an allocation to MTGP, our Mortgage-Backed Plus Bond Fund.

How have the Models performed?

Let's look at the total return performance of the three ESG Models we offer.

ESG All-Equity Portfolio

1.89%	0.34%	03/31/2021	100%
Model 12-Month Dividend Yield (As of 08/31/2022)	Model Expense Ratio	Inception date	Equity

Model Performance | Model Allocations | Model Exposures | Fund Performance | Fund Details

As of 8/31/2022	Cumulative Returns			Average Annual Total Returns				
Name	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
ESG All-Equity Portfolio (NAV)	-3.72%	-5.41%	-18.21%	-17.12%	-	-	-	-6.75%
ESG All-Equity Portfolio (MP)	-4.21%	-5.48%	-18.45%	-17.33%	-	-	-	-7.13%
MSCI ACWI	-3.68%	-5.64%	-17.75%	-15.88%	-	-	-	-4.82%

ESG Moderate Portfolio

2.20%	0.30%	03/31/2021	60% | 40%
Model 12-Month Dividend Yield (As of 08/31/2022)	Model Expense Ratio	Inception date	Equity Fixed Income

Model Performance | Model Allocations | Model Exposures | Fund Performance | Fund Details

As of 8/31/2022	Cumulative Returns			Average Annual Total Returns				
Name	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
ESG Moderate Portfolio (NAV)	-3.31%	-4.12%	-15.10%	-14.66%	-	-	-	-6.41%

ESG Moderate Portfolio (MP)	-3.73%	-4.27%	-15.31%	-14.88%	-	-	-	-6.77%
60% MSCI ACWI - 40% Bloomberg U.S. Aggregate Bond Index	-3.34%	-4.12%	-14.89%	-13.97%	-	-	-	-5.32%

ESG Aggressive Portfolio

2.08% Model 12-Month Dividend Yield (As of 08/31/2022)

0.32% Model Expense Ratio

03/31/2021 Inception date

75% | 25% Equity | Fixed Income

Model Performance | Model Allocations | Model Exposures | Fund Performance | Fund Details

As of 8/31/2022	Cumulative Returns			Average Annual Total Returns				
Name	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
ESG Aggressive Portfolio (NAV)	-3.46%	-4.60%	-16.27%	-15.57%	-	-	-	-6.52%
ESG Aggressive Portfolio (MP)	-3.91%	-4.72%	-16.49%	-15.78%	-	-	-	-6.89%
75% MSCI ACWI - 25% Bloomberg U.S. Aggregate Bond Index	-3.47%	-4.68%	-15.95%	-14.66%	-	-	-	-5.10%

Source: WisdomTree Model Adoption Center, as of 9/22/22. 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. 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.

Model 12-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 a trailing 12-month dividend yield. Model expense ratio refers to the weighted average expense ratios of the Fund constituents.

For most recent month-end and standardized performance of the Models and underlying Funds, please click here.

Overall, since inception, these Models have generally tracked but not quite kept up with their broad market benchmarks.

It is worth noting that our portfolio approach differs from many other ESG models, given the very typical "long technology stocks/short energy stocks" bias that so many have. Of course, energy has been one of the better performing sectors—and technology one of the worst—over the past 12–15 months. We believe our diversified approach has added value in a difficult market environment.

Conclusions

ESG is challenging from an asset management perspective because it means different things to different people—there really is no "one size fits all" answer. Despite some rough seas and a certain level of investor skepticism in the current market environment, we believe ESG as an investment theme is here to stay.

In constructing our ESG Models, we tried to integrate a broad-based approach with a more targeted thematic approach that focuses on positive and impactful social and environmental objectives.

We think this results in Models that are diversified at the asset class, risk factor and ESG levels, and that are well positioned for long-term capital appreciation.

Financial advisors registered on the WisdomTree website can learn more about them at our Model Adoption Center.

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. The Funds' ESG investment strategies limit the types and number of investment opportunities available to the Funds, and as a result, the Funds may underperform other funds that do not have an ESG focus. Companies selected for inclusion in the Funds may not exhibit positive or favorable ESG characteristics at all times and may shift into and out of favor depending on market and economic conditions. Investments in non-U.S. securities involve political, regulatory and economic risks that may not be present in U.S. securities. For example, foreign securities may be subject to risk of loss due to foreign currency fluctuations, political or economic instability or geographic events that adversely impact issuers of foreign securities. Investments in emerging markets are generally less liquid and less efficient than developed markets and are subject to additional risks, such as of adverse governmental regulation, intervention and political developments. While the Funds are actively managed, the Funds' investment processes are expected to be heavily dependent on quantitative models, and the models may not perform as intended. Please read the Funds' prospectuses for specific details regarding the Funds' risk profiles.

For the top 10 holdings of XSOE please visit the Fund's fund detail page at https://www.wisdomtree.com/investments/etfs/equity/xsoe

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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You cannot invest directly in an index.

DEFINITIONS

ESG : An acronym for environmental, social and governance, ESG standards quantify the degree to which a company is socially responsible. .

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

Ex-SOEs : ex-state owned enterprises or companies that are neither wholly or partially owned and operated by a government.

SMID caps : A contraction of “small and mid caps”, i.e. listed companies with small and medium-sized capitalizations.