SURPRISE—AN AI FUND WHERE NVIDIA IS NOT DRIVING ALL THE 2023 PERFORMANCE

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As investors seek to understand the performance of U.S. equities this year, one of the biggest gaps is between the Nasdaq 100 Index and the S&P 500 Index. For the first five months of 2023:

- The Nasdaq 100 Index delivered a return of 30.64%. Even though it is not called a growth index directly, we appreciate that it includes many of the largest companies that people think of as growth stocks.
- The S&P 500 is more of a core exposure, in that it contains value stocks alongside growth stocks. Since the value style is not doing as well so far in 2023, the overall S&P 500 Index only returned 9.41% over the same period.

Therefore, we're looking at a difference in performance between the two benchmarks of more than 21%. This tells us, broadly, two things:

1. The first five months of 2023 have been led by growth over value, since that is where the Nasdaq 100's exposure falls.
2. The first five months of 2023 were not simply led by broad-based growth—they were led by the biggest companies that account for a large exposure in the Nasdaq 100. Otherwise, it would be more difficult to expect a greater-than-21% difference in returns between the two indexes.

Figure 1 allows us to see the companies most directly responsible for these observed results:

- First, the story of Nvidia and its upward shift in expected results has been widely publicized. Nvidia is included in both the Nasdaq 100 and S&P 500 indexes, but it was at an average weight of 4.77% in the Nasdaq and only 1.65% in the S&P 500.
- Another company that delivered an eye-popping strong return in the first five months of 2023 was Meta Platforms—nearly 120%. Because of its higher average weight in the Nasdaq 100, this led to the company contributing nearly 3% to the index's overall return, compared less than 1% in the S&P 500.

Figure 1: The Top 10 Companies Driving Returns of S&P 500 and Nasdaq 100 Indexes

Nasdaq-100 YTD performance attribution - Top 10 holdings by CTR			
	Average weight	Total return	CTR
NVIDIA Corp	4.77%	158.93%	5.19%
Microsoft Corp	12.47%	37.57%	4.62%
Apple Inc	12.22%	36.82%	4.33%
Meta Platforms Inc - Class A	3.42%	119.98%	2.97%
Amazon.com Inc	6.35%	43.55%	2.70%
Tesla Inc	3.39%	65.55%	1.78%
Alphabet Inc - Class A	3.81%	39.26%	1.49%
Alphabet Inc - Class C	3.80%	39.04%	1.48%
Broadcom Inc	2.04%	45.55%	0.92%
Advanced Micro Devices Inc	1.12%	82.51%	0.79%
Top 10 holdings by CTR	**53.4%**		**26.25%**
Nasdaq-100	**100%**		**30.64%**

S&P 500 YTD performance attribution - Top 10 holdings by CTR			
	Average weight	Total return	CTR
Apple Inc	6.68%	36.82%	2.12%
Microsoft Corp	5.88%	37.57%	1.92%
NVIDIA Corp	1.65%	158.93%	1.63%
Meta Platforms Inc - Class A	1.18%	119.98%	0.95%
Amazon.Com Inc	2.58%	43.55%	0.93%
Tesla Inc	1.39%	65.55%	0.63%
Alphabet Inc - Class A	1.73%	39.26%	0.58%
Alphabet Inc - Class C	1.53%	39.04%	0.51%
Broadcom Inc	0.73%	45.55%	0.28%
Salesforce Inc	0.51%	68.47%	0.26%
Top 10 holdings by CTR	**23.9%**		**9.80%**
S&P 500	**100%**		**9.41%**

Sources: WisdomTree, Bloomberg. Period 12/30/22–5/31/23. Nasdaq-100 is the NASDAQ-100 Notional Net Total Return Index. S&P 500 is the S&P 500 Net Total Return Index. Average weight is the average weight of a holding in a given fund/index during the specified holding period. Total return is each stock's total return in U.S. dollars. CTR is each stock's contribution to return in a given index. You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.

Can an AI-Focused Strategy Be More than Nvidia and Some of the Big Names?

One issue with a narrow subset of stocks driving performance of many indexes is that many investors start assuming that every strategy is being driven by those same stocks.

The WisdomTree Artificial Intelligence & Innovation Index, tracked by the WisdomTree Artificial Intelligence & Innovation Fund (WTAI) focuses on four primary areas of the AI ecosystem:

1 . **Semiconductors:** At times termed the 'picks & shovels,' semiconductor and semiconductor equipment companies represent the backbone upon which AI models are trained and run.

2 . **AI software:** AI itself is software, which is, ideally, created to perform certain functions and solve certain problems.

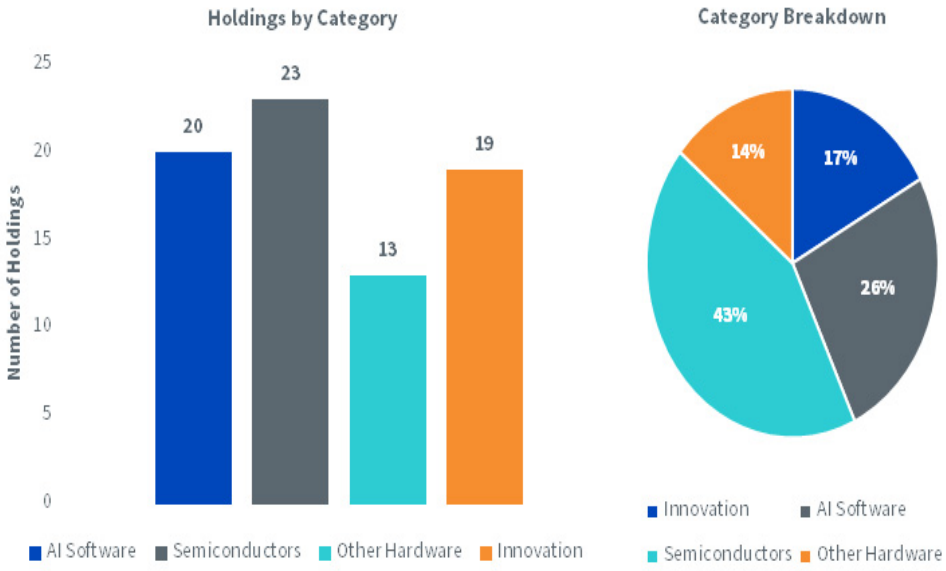
3. **Other AI hardware:** AI systems need to ingest data, which may exist in databases, a more digital format or in the physical world.

4. **Innovation:** We recognize that we do not know all the ways in which AI will be used and developed, and every time we look across the market we find what we term 'innovative use cases.'

The reason it is important to think about these groups is that the way in which the index is run is more focused on weighting the groups and less focused on weighting the individual companies. The individual companies within the groups typically will be equal-weighted. This means that Nvidia—certainly a member of the semiconductors group—will be weighted the same as the other semiconductor companies.

While during the first five months of 2023 we might have wished that we'd weighted Nvidia more heavily, by the same token, there will come a time in the future when having a massive exposure to this one company could be more of a weight around overall strategy performance.

Figure 2: Allocation of WisdomTree's AI & Innovation Strategy Across Groups



Source: WisdomTree, as of 3/31/23. You cannot invest directly in an index. Weightings subject to change.

Bottom Line: A Diverse Foundation of Performance in a Narrow Market

The easy story so far in 2023 has been this: you take Nvidia and you mix it with some of the biggest companies in the world associated with tech and AI and you get the recipe for strong performance.

However, structuring WTAI in the manner that we do, basically equal-weighted across groups, should allow for a more diverse contribution to performance.

Figure 3a: Standardized Performance

Name	Gross Expense	Inception Date	Ticker	YTD	1-Year	Since Inception
WisdomTree Artificial Intelligence and Innovation Fund (NAV)	0.45%	12/9/21	WTAI	23.73%	-13.07%	-24.32%
WisdomTree Artificial Intelligence and Innovation Fund (MP)	0.45%	12/9/21	WTAI	23.91%	-12.35%	-23.99%
NASDAQ-100 Notional Net Total Return Index	n.a.	n.a.	XNDXNNR	20.69%	-10.60%	-13.88%
S&P 500 Net Total Return Index	n.a.	n.a.	SPTR500N	7.36%	-8.20%	-8.24%

Sources: WisdomTree, Bloomberg, as of 3/31/23. **The performance data quoted represents past performance and is no guarantee of future results. Investment return 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. Current performance may be lower or higher than the performance data quoted.**

For the most recent month-end performance, click here.

Figure 3b: The Top 10 Contributors to WTAI's Return

The top 10 contributors accounted for only about half of the strategy's total return in for 2023 so far.

WTAI U.S. YTD Performance Attribution–Top 10 Holdings by CTR			
	Average weight	Total return	CTR
NVIDIA Corp	2.46%	158.93%	2.54%
C3.ai Inc - Class A	1.72%	257.55%	2.23%
Alchip Technologies Ltd	2.27%	109.73%	1.93%
IonQ Inc	1.05%	212.75%	1.55%
Meta Platforms Inc - Class A	1.72%	119.98%	1.48%
Advanced Micro Devices Inc	2.02%	82.51%	1.44%
Nano-X Imaging Ltd	0.62%	141.06%	1.01%
Cerence Inc	1.79%	53.91%	0.83%
Cadence Design Systems Inc	2.00%	43.74%	0.81%
Synopsys Inc	1.88%	42.49%	0.80%
Top 10 holdings by CTR	**17.5%**		**14.62%**
WTAI US	**100%**		**29.25%**

Sources: WisdomTree, Bloomberg. Period 12/30/22–5/31/23. WTAI US is the WisdomTree Artificial Intelligence and Innovation Fund. Blue-shaded cells represent the top 10 holdings by contribution to year-to-date return within the Nasdaq-100. Average weight is the average weight of a holding in a given fund/index during the specified holding period. Total return is each stock's total return in USD. CTR is each stock's contribution to return in a given fund. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

Important Risks Related to this Article

The WisdomTree Artificial Intelligence & Innovation Index is designed to measure the performance of companies primarily involved in artificial intelligence and innovation.

There are risks associated with investing, including the possible loss of principal. The Fund invests in companies primarily involved in the investment theme of artificial intelligence (AI) and innovation. Companies engaged in AI typically face intense competition and potentially rapid product obsolescence. These companies are also heavily dependent on intellectual property rights and may be adversely affected by loss or impairment of those rights. Additionally, AI companies typically invest significant amounts of spending on research and development, and there is no guarantee that the products or services produced by these companies will be successful. Companies that are capitalizing on innovation and developing technologies to displace older technologies or create new markets may not be successful. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. The composition of the Index is governed by an Index Committee and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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You cannot invest directly in an index.

DEFINITIONS

Nasdaq 100 Index : Includes 100 of the largest domestic and international non-financial companies listed on The Nasdaq Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies, including investment companies.

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.

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

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.

Semiconductor : A semiconductor is a material product usually comprised of silicon, which conducts electricity more than an insulator, such as glass, but less than a pure conductor, such as copper or aluminum. Their conductivity and other properties can be altered with the introduction of impurities, called doping, to meet the specific needs of the electronic component in which it resides.