

IT'S TIME TO GIVE THE ENDOWMENT MODEL A CLOSER LOOK

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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.

It has been more than a year since we last visited the [WisdomTree Endowment models](#), and given the current market conditions, we think it is high time to revisit and give them a closer look.

Let's begin with a reminder of how we define an "endowment model" with respect to tax-paying individual investors (as opposed to the tax-exempt institutional world where it originated):

- Broad and global diversification
- Intelligent use of active versus passive investment strategies (i.e., a cost/benefit optimization of active management fees or, in WisdomTree's phrase, [Modern Alpha](#)[®])
- Prudent use of non-traditional or lower correlation investments in an attempt to improve overall portfolio diversification (i.e., real assets and alternatives)
- A long-term time horizon; and
- Investment discipline through full market cycles

We manage our different risk-banded **Endowment Models** in exactly this way. All these models are multi-asset, with allocations to global equities, fixed income, real assets and alternative investments. Somewhat uniquely, we believe, is that we are able to fund the less-traditional asset class positions because we allocate to [NTSX](#), the U.S. version of our "efficient core" strategies that takes a leveraged 90/60 position in large-cap U.S. equities and [U.S. Treasuries](#). This provides us with a "core" allocation to stocks and bonds while leaving capital to allocate to other strategies.

Before we move on, let's define what we mean by "real assets" and "alternatives":

Real assets are strategies that historically have proven to be sensitive to longer-term changes in inflation and may include but are not limited to gold, broad-basket commodities, real estate, energy [Master Limited Partnerships \(MLPs\)](#) and diversified inflation-sensitive products. The use of these strategies is designed to (a) provide diversification to the portfolio's equity risk, (b) access additional sources of potential return and (c) provide purchasing power protection of the portfolio against rising inflation.

Alternatives are strategies that may include but are not limited to equity long/short, global macro, managed futures, event-driven, short-bias, inflation [hedge](#), and options based. The use of these strategies is designed to (a) provide [diversification](#) to portfolio equity, [interest rate](#), and inflation risk, (b) access a more diverse set of potential sources of return, and (c) reduce the [volatility](#) of the overall portfolio over time.

This is just a summary of the potential strategies available—we may or may not deploy all of them in our Endowment Models at any given time, but we will include some mixture and combination of them.

Let's now look at why we think the endowment model may be especially timely in the current market environment.

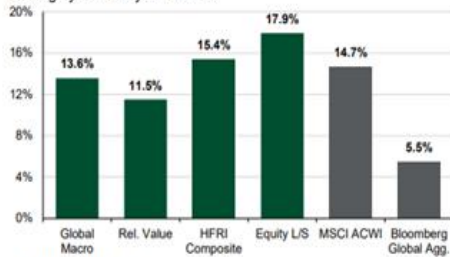
First, let's remember that alternative investments historically have performed best when inflation, interest rates and volatility (to a certain point) are rising.

Hedge fund returns across inflationary regimes

GTA U.S. 62

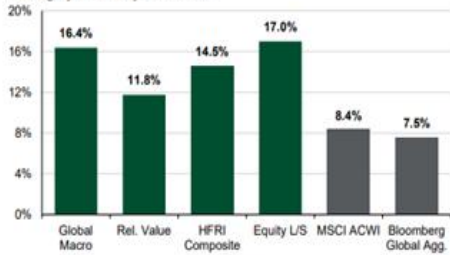
High and rising

Average year-over-year returns



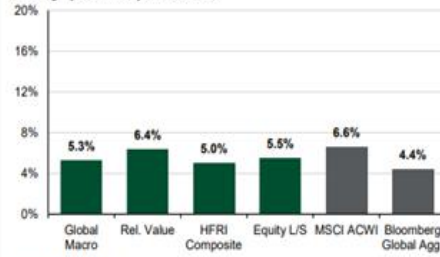
High and falling

Average year-over-year returns



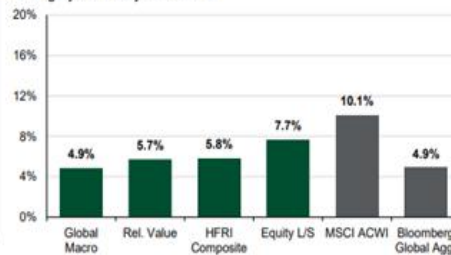
Low and falling

Average year-over-year returns



Low and rising

Average year-over-year returns



Source: FactSet, HFRI, U.S. Department of Labor, J.P. Morgan Asset Management. All hedge fund returns are from HFRI, HFRI Composite, HFRI FW Composite Index. "High" inflation is defined as any year-over-year headline CPI reading above the historical median, while "low" inflation is defined as any year-over-year headline CPI reading below the historical median. The median y/y headline CPI for period between 1991 through March 2022 is 2.43%. Data is based on availability as of May 31, 2022.

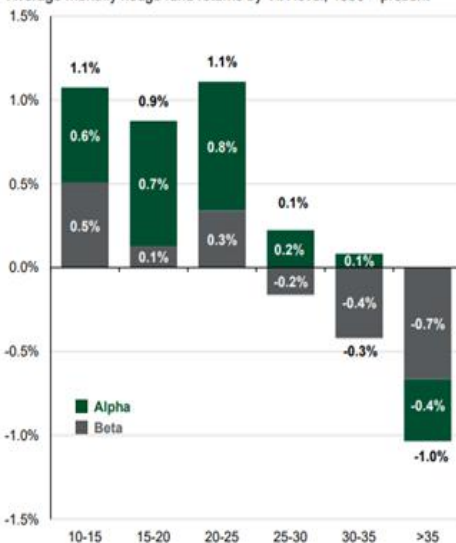
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Hedge fund and volatility

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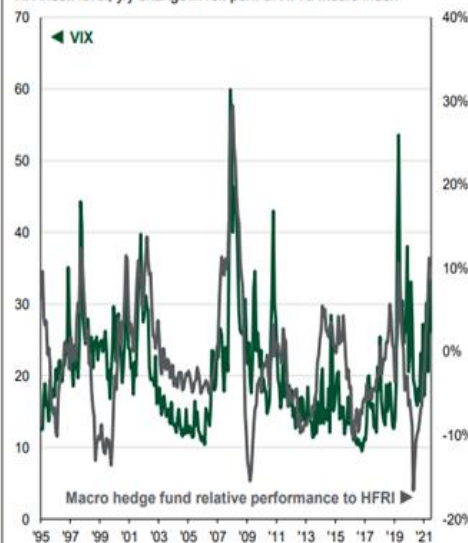
Hedge funds and volatility

Average monthly hedge fund returns by VIX level, 1990 – present



Macro hedge fund relative performance & volatility

VIX index level, y/y change in rel. perf. of HFRI Macro index



Source: HFRI, CBOE, MSCI, FactSet, J.P. Morgan Asset Management. Historical beta is based on regression analysis, where the HFRI is the dependent variable and the MSCI AC World Index is the independent variable. Monthly VIX reading is an average. Numbers may not sum to 100% due to rounding. Data is based on availability as of May 31, 2022.

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

Currently, we certainly seem to be in a rising interest rate and volatility environment

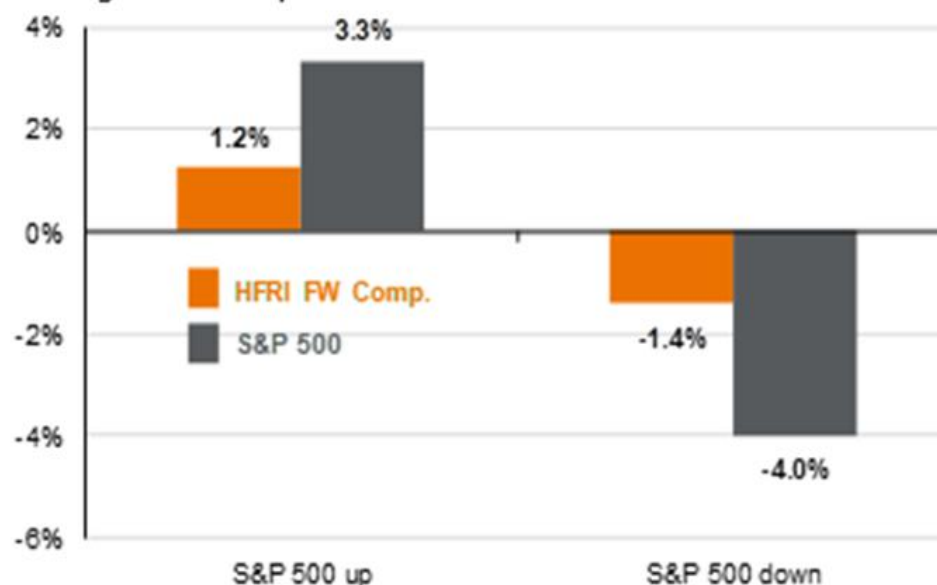


Source: Ycharts, 12-month data through 06/27/22. You cannot invest in an index and past performance is no guarantee of future results.

Second, it is important to remember that the use of alternatives is primarily about diversification—trying to improve the consistency of performance, regardless of stocks and bonds going up or down, by including lower-correlated strategies in the portfolio.

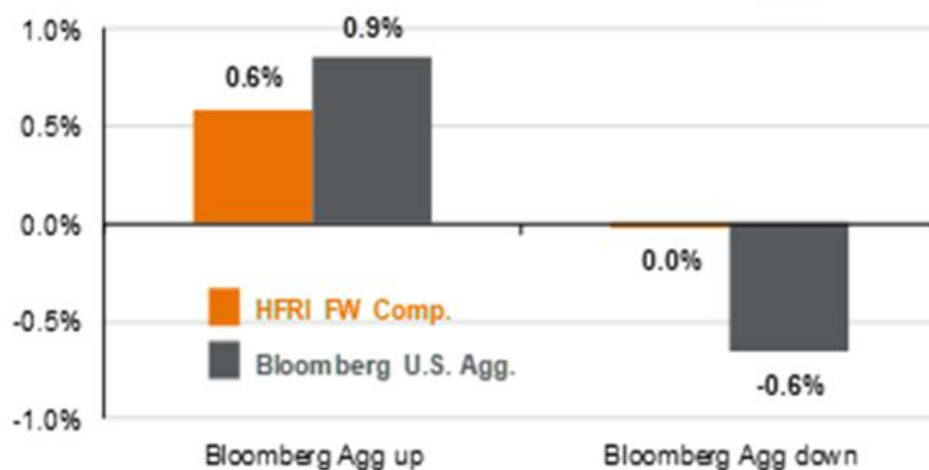
Hedge fund returns in different market environments

Average return in up and down months for S&P 500



Hedge fund returns in different market environments

Average return in up and down months for Bloomberg Agg.



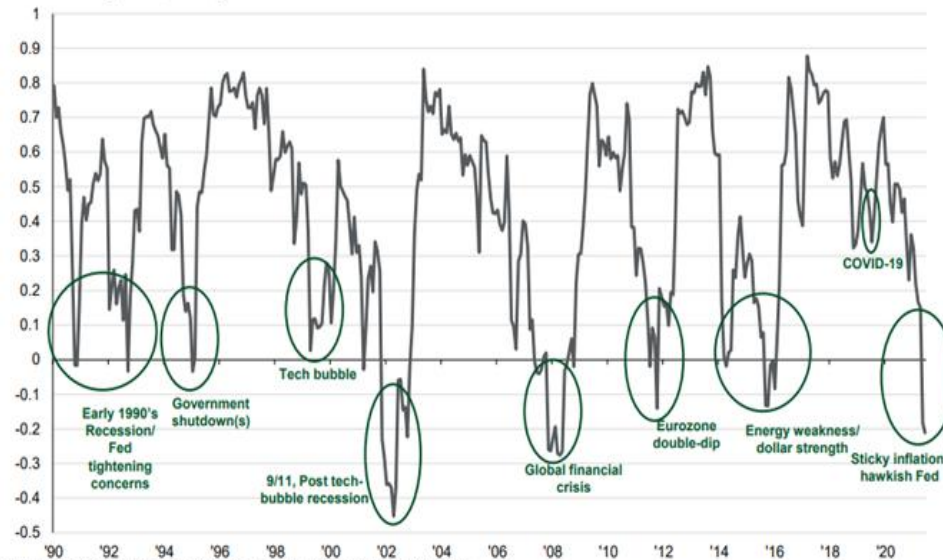
Source: BEA, Bloomberg, Clarkson, Cliffwater, Drewry Maritime Consultants, FactSet, HFRI, J.P. Morgan Asset Management. Global Transport and Direct Lending yields are as of 12/31/2021. Global Infrastructure and U.S. Europe and APAC Real Estate yields are as of 9/30/2021. Global Transport: Levered yields for transport assets calculated as the difference between charter rates (rental income), operating expenses, debt amortization and interest expenses, as a percentage of equity value. Yields for each of the sub-vessel types are calculated and respective weightings are applied to arrive at the current levered yields for Global Transportation; Direct Lending: Cliffwater Direct Lending Index; Global Infrastructure: MSCI Global Infrastructure Asset Index-Low Risk; U.S. Real Estate: NCREIF-ODCE Index; Europe core real estate: IPD Global Property Fund Index - Continental Europe. Asia Pacific (APAC) core real estate: IPD Global Property Fund Index - Asia-Pacific. Positive yield does not imply positive return. This slide comes from our [Guide to Alternatives](#).

Guide to the Markets - U.S. Data are as of March 31, 2022.

Hedge funds and traditional portfolios

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Hedge fund correlation with a 60/40 stock-bond portfolio*
1990 – January 2022, monthly



Sources: HFRI, Standard & Poor's, Bloomberg, FactSet, J.P. Morgan Asset Management.
*60/40 portfolio is 60% S&P 500 and 40% Bloomberg U.S. Aggregate. Hedge funds are represented by HFRI Macro. Correlation is calculated on a 12-month rolling basis.
Data is based on availability as of May 31, 2022.

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Finally, let's look at the comparative 12-month performances across different global asset classes, focusing on the relative performances of commodities, infrastructure and diversified alternatives (i.e., "real assets" and "alternatives").

- Russell 3000 Total Return
- MSCI ACWI Ex USA Total Return
- Bloomberg US Aggregate
- Bloomberg Commodity Index Total Return
- Morningstar Diversified Alternatives Total Return
- MSCI ACWI Infrastructure Total Return



Jun 28 2022, 2:31PM EDT. Powered by YCHARTS

Source: Ycharts, 12-month data through 06/27/22. You cannot invest in an index and past performance is no guarantee of future results.

The benefit of allocations to "non-traditional" asset classes over the past 12 months is clear—and this is a trend we

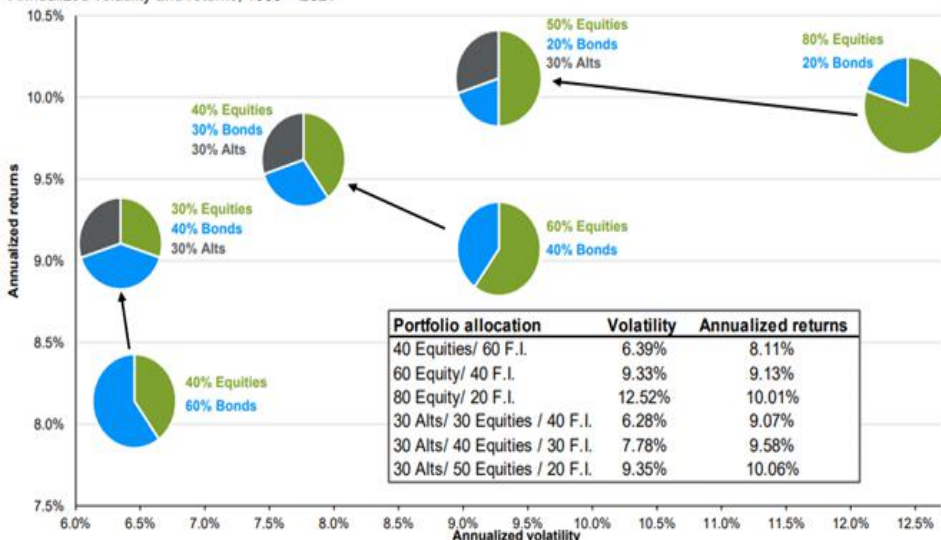
expect to continue for quite some time. Over longer-term horizons, the historical benefits of an endowment-like approach are equally clear. (We've just forgotten them over the past 10 years of low interest rates and volatility.)

Portfolio diversification

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Alternatives and portfolio risk/return

Annualized volatility and returns, 1989 – 2021

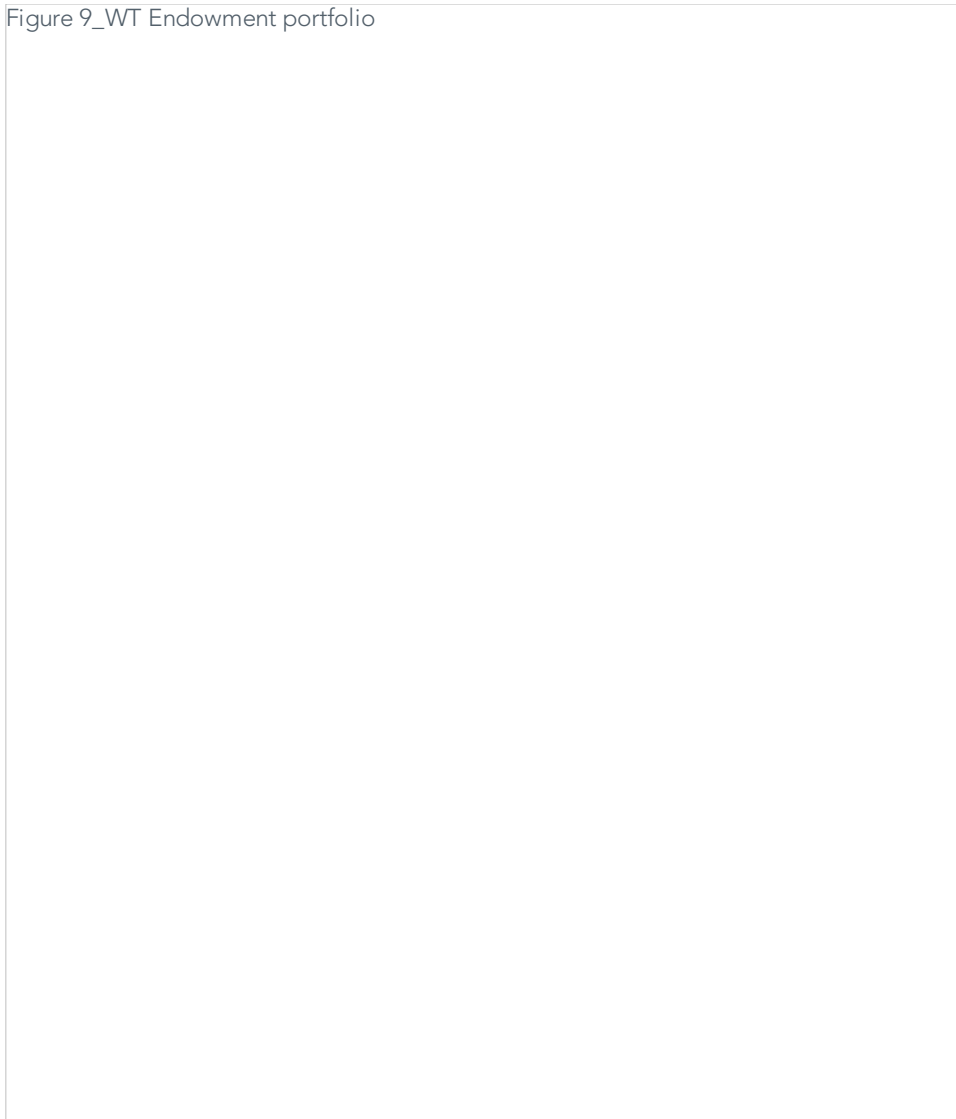


Source: Bloomberg, Burgiss, HRFI, NCREIF, Standard & Poor's, FactSet, J.P. Morgan Asset Management. Alts include hedge funds, real estate, and private equity, with each receiving an equal weight. Portfolios are rebalanced at the start of the year. Data is based on availability as of May 31, 2022

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Since the inception date of our Endowment Models back in 2016, performance has been very much as expected—they generally will not and did not keep up with a raging bull equity market, but they provided risk mitigation and consistent performance throughout varying market regimes. (Note the outperformance over the past 12 months, which were marked by rising interest rates and market volatility.)

Figure 9_WT Endowment portfolio



Please click [HERE](#) and see the Fund Performance tab for individual Fund standardized performance and the Fund Details tab for Fund-specific links for yield, most recent month-end performance and a prospectus.

As with all WisdomTree Model Portfolios, our Endowment Models share certain common characteristics:

1. They are global in nature,
2. They are ETF-centric, to optimize fees and taxes,
3. They are “open architecture” and include both WisdomTree and third-party strategies, and
4. They charge no strategist fee.

Conclusions

We’ve been believers in an endowment-like approach to long-term portfolio construction for many years and often had to defend ourselves against claims of “deworsification” during periods of low volatility, low interest rates and bullish equity markets. But we maintained our conviction that this approach has merit for long-term investors seeking a more consistent performance profile over full market cycles.

Most investment products and models have market environments where they have “the wind at their back” and perform best. Given the current market environment of economic uncertainty, high inflation, rising interest rates and increased volatility, we believe our Endowment Models are well positioned.

We hope you will take a closer look.

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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You cannot invest directly in an index.

DEFINITIONS

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

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.

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).

Hedge : Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

Diversification : A risk management strategy that mixes a wide variety of investments within a portfolio.

Real interest rate : Interest rate accounting for the impact of inflation. From the nominal interest rate, which does not account for the impact of inflation, the rate of inflation is subtracted to get to the real interest rate.

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