# INTRODUCING THE WISDOMTREE ESG MODEL PORTFOLIOS

**Scott Welch — Chief Investment Officer – Model Portfolios**
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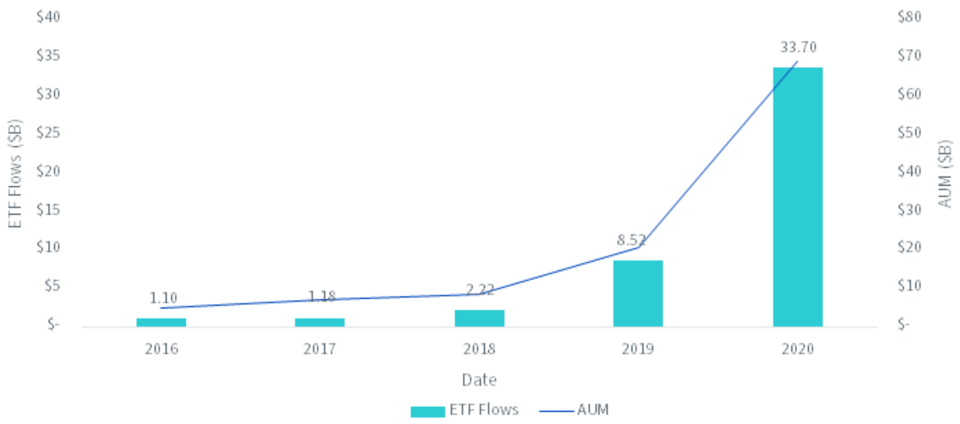
*This article is relevant to financial professionals who are considering offering model portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.*

Last year, WisdomTree launched our [Disruptive Growth Model](), aimed at advisors and end clients looking to potentially capitalize on [megatrend, or thematic](), investing. The idea was to put together a diversified portfolio of high-growth thematic sectors and industries that could potentially realize ultra-high growth as disruptive technologies evolved. This was the first of our **thematic** Model Portfolios.

We are happy now to introduce our new **ESG (environmental, social and governance)**[1] Model Portfolios—our first Models with explicit and specific ESG objectives.

There is no question that advisor and investor demand for ESG solutions in the ETF space is growing rapidly.

**ESG ETF AUM & Flows**




Sources: Morningstar and WisdomTree, as of 12/31/20.

While demand clearly is growing, the challenge is to build differentiated models 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—like all WisdomTree Models—[diversified]() at both the asset class and [risk factor]() levels.

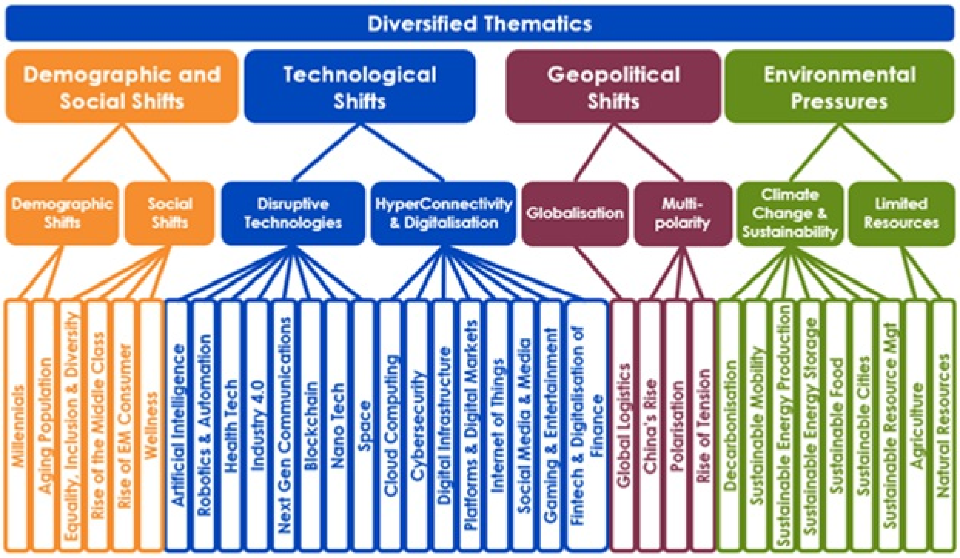
So, we set five standards for our asset allocation and portfolio construction decisions:

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. We 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 want these portfolios to be diversified at the ESG theme level as well.
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.

We believe we accomplished all our objectives with our new Models. Let's dive in.

Our WisdomTree colleagues in London created a useful hierarchy for categorizing different thematic and disruptive trends, since many of them don't fall naturally into traditional asset class or asset style boxes.




Source: WisdomTree

If we use this hierarchy as a guide, our new ESG models are split roughly between the Demographic and Social Shift and Environmental Pressures families. Or, if you will, the 'S' and the 'E' of ESG.

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

1. **Environmental**
2. **Diversity, Equity and Inclusion (DEI), with a focus on women**
3. **Health and Wellness**

In constructing these portfolios, we opted for a "core/satellite" approach. We built core equity positions that 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 non-state-owned enterprises strategy.

The other two core strategies are third-party strategies, one that takes a more concentrated and growth-oriented large-cap approach than RESP, and one that takes an explicit small and mid-cap approach.

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

1. Sustainable water and agriculture, alternative energy, energy efficiency, pollution control and prevention, and green buildings.
2. Exposure to global companies that help people prevent cardiovascular disease through healthier lifestyles and/or treatment.
3. Exposure to companies with strong policies and practices in support of women's empowerment and gender equality.

One of our three models is 100% equity, as summarized above. The other two have fixed income exposure as well, and we allocated across five diversified strategies, four of which are third-party solutions with explicit ESG mandates, plus an allocation to MTGP, the WisdomTree Mortgage Plus Bond Fund.

**Conclusions**

ESG can be challenging from an asset management perspective because it means different things to different people—there really is no "one size fits all" answer.

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

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

We are delighted to bring these Models to market. Financial advisors registered on the WisdomTree website can learn more about them at our Model Adoption Center.

We hope you will take a look.

[1] *Environmental criteria considers how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.*

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ESG investment strategy limits the types and number of investment opportunities available to the Fund and, as a result, the Fund may underperform other funds that do not have an ESG focus. 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.

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Please read each Funds' prospectus for specific details regarding the Funds' risk profile.

For more investing insights, check out our Economic & Market Outlook

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## DEFINITIONS

**Risk-adjusted returns** : Returns measured in relation to their own variability. High returns with a high level of risk indicate a lower probability that actual returns were close to average returns. High returns with a low level of risk would be more desirable, as they indicate a higher probability that actual returns were close to average returns.

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

**Risk** : Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.