WisdomTree Global Efficient Core UCITS ETF: the latest addition to our innovative range

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Key Takeaways

- The WisdomTree Global Efficient Core UCITS ETF is the second ETF in our Efficient Core range. It delivers a leveraged exposure to a 60/40 portfolio between global equities and global government bonds.
- The Global Efficient Core Strategy exhibits historically similar volatility to an equity exposure but improved returns and Sharpe ratio. The Sharpe ratio is in line with that of the 60/40 portfolio, which benefits from the diversification between equity and bonds.
- The ETF can be used as a replacement for a global equity exposure (since it exhibits higher return and Sharpe than the benchmark) or as an efficiency tool in multi-asset portfolios as it creates space for diversifiers.

- Related Products WisdomTree Global Efficient Core UCITS ETF - USD Acc, WisdomTree US Efficient Core UCITS ETF - USD Acc Find out more

On 10 October 2023, WisdomTree launched the first ETF to deliver the “portfolio scaling” or “return stacking” concept to European investors. This new idea involves mixing multiple assets and adding leverage to boost returns and diversification. The WisdomTree US Efficient Core UCITS ETF offered a turnkey solution aimed at improving portfolio efficiency by levering the 60/40 portfolio and, therefore, investing simultaneously 90% of its assets in a diversified portfolio of US Equities and 60% of its assets in a portfolio of US Treasury futures contracts. By combining Diversification and Leverage in a single product, the ETF aimed to deliver an enhanced risk-return profile to investors in US equities.

This year, WisdomTree has decided to extend this range to global developed equities with the WisdomTree Global Efficient Core UCITS ETF.

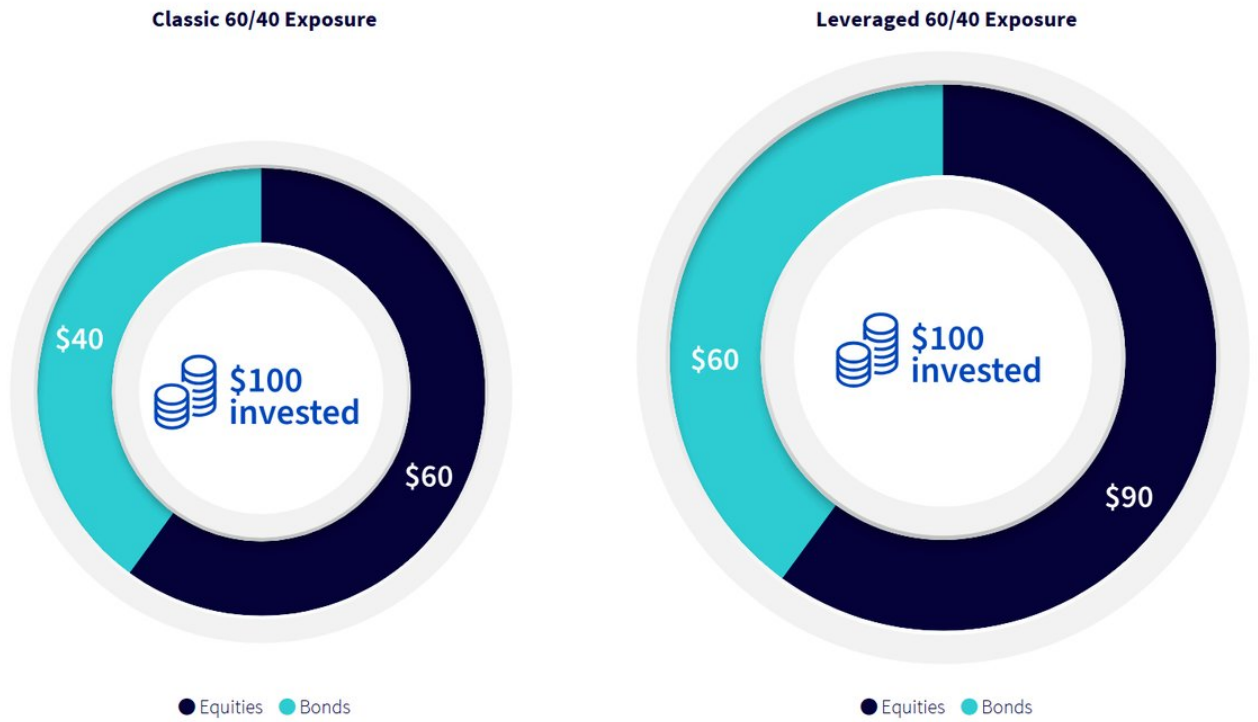
A 60/40 portfolio investing 60% of its assets in the MSCI World net TR index and 40% in the Bloomberg US Treasury TR index exhibits lower volatility than global equities (9.4% vs 15%1) and an improved Sharpe Ratio (0.37 vs 0.25). Unfortunately, the returns dropped from 8.1% annually to 7.7% because of the lower risk. By leveraging this 60/40 portfolio to match equity-level volatility, it is possible to keep an elevated

Sharpe ratio and outperform equities with a 9.4% return, achieving a more efficient portfolio. Diversification and leverage work synergistically to deliver optimal efficiency. Diversification combines assets with low correlation to spread risk across the portfolio and improve efficiency. On the other hand, leverage allows investors to tailor the desired level of risk.

WisdomTree Global Efficient Core UCITS ETF

This ETF delivers 90% exposure to ESG-screened, large cap global developed equities and 60% exposure to a portfolio of government bond future contracts across four currencies (USD, EUR, GBP and JPY), equating to a leveraged 150% position compared to a conventional 60/40 portfolio.

Figure 1: Exposure in the WisdomTree Global Efficient Core UCITS ETF



Source: WisdomTree. For illustrative purposes only.

The ETF is comprised of three key exposures:

- **Equity exposure**: 90% invested in a diversified ESG-screened basket of global developed large cap stocks.
- **Bond exposure**: 60% in a diversified basket of government bond future contracts, ranging from two- to 30-year maturities and across four currencies (USD, EUR, GBP and JPY).
- **Cash collateral**: 10% cash, serving as collateral for Treasury futures contracts.

1. Equity component

The strategy allocates 90% of its assets quarterly to a portfolio of around 1500 large-cap companies in the global developed universe. The portfolio is ESG-filtered, and liquidity adjusted. Single stock weights are capped at 10%.

2. Bond component

The strategy invests in a 60% exposure to liquid government bond futures contract using the 10% of cash collateral to fund the margin account. The futures portfolio comprises three US Treasury contracts, three EUR government bond futures contracts, one GBP government bond futures contracts and one JPY government bond futures contracts2. The Index implements a “rolling” methodology to replace the “first near futures contract” (the front month contract) into the “second near future contract”, which occurs over a one-day rolling period every quarter.

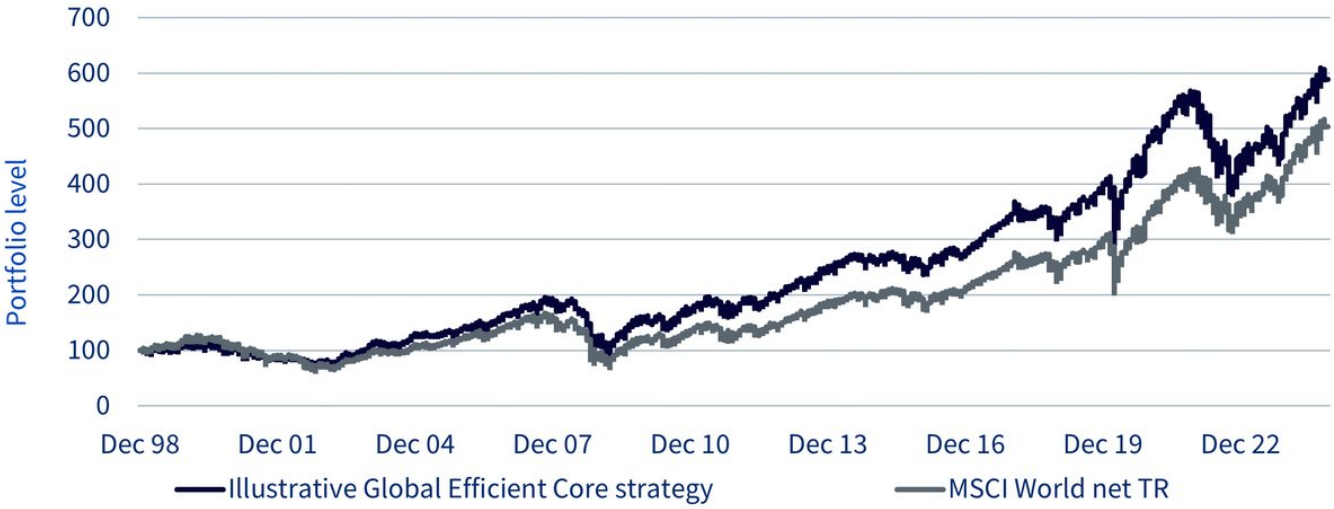
3. Cash collateral

The cash is spread across four currencies. The weight of each currency matches the currency weight in the bond exposure.

All weights are rebalanced, and futures are rolled quarterly on the last business day of February, May, August, and November, with intra-quarter rebalancing if asset weights deviate by over 5%.

Figure 2 shows a backtest of the WisdomTree Global Efficient Core strategy from December 1998 using the MSCI World as the equity portfolio for longer-term analysis. The analysis exhibits a 0.6% outperformance annually over a pure equity investment, owing to diversification and leverage. Volatility is reduced by about 1.3%, resulting in a Sharpe ratio of 0.34 compared to 0.28 for the MSCI World alone.

Figure 2: Historical backtest of the WisdomTree Global Efficient Core strategy



Source: Bloomberg, WisdomTree. From 31 December 1998 to 1 November 2024. Daily data in USD. **Historical performance is not an indication of future performance and any investments may go down in value.**

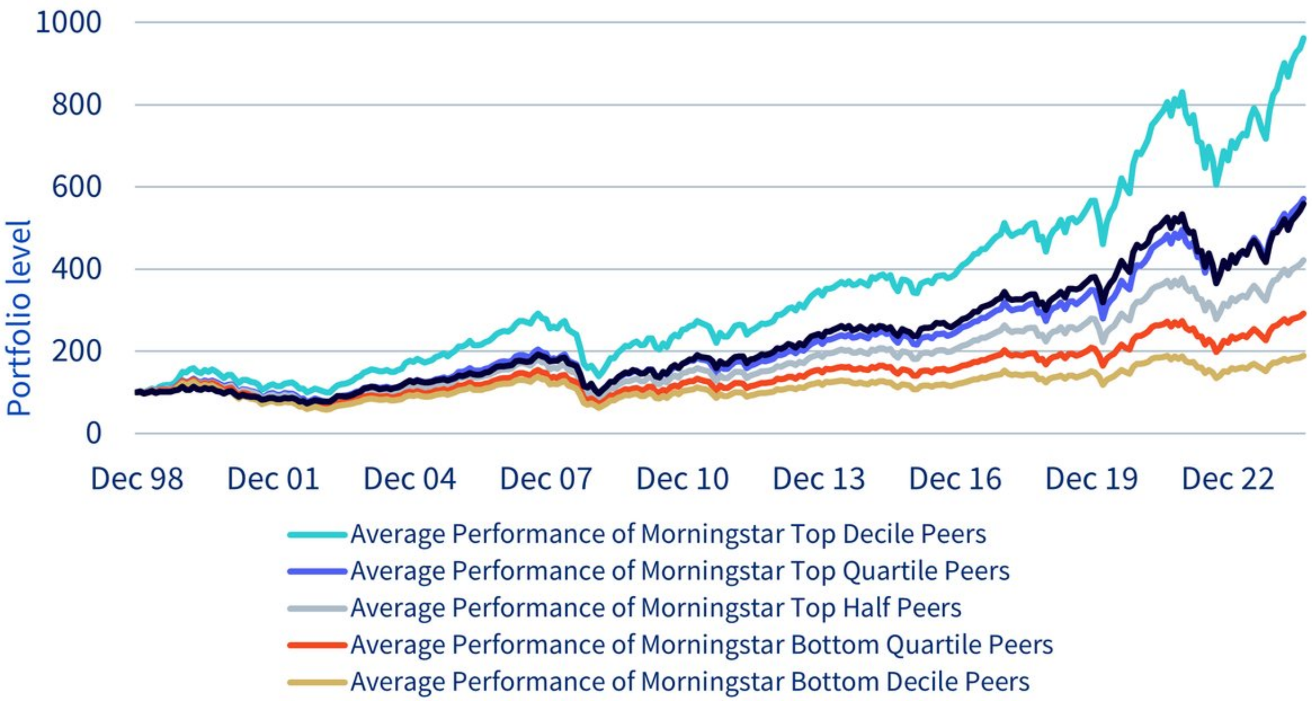
Two portfolio applications for the ETF

1. Equity replacement

This ETF can serve as a core equity replacement, offering better returns, reduced risk, and a higher Sharpe ratio than a 100% equity portfolio.

In Figure 3, we compare the performance of the backtest of the WisdomTree Global Efficient Core UCITS ETF with all the ETFs and mutual funds domiciled in Europe that track Global equities and were launched before December 1998. These ETFs and active funds are in the Morningstar Global Large Cap Value peer group, the Morningstar Global Large Cap Blend peer group, the Morningstar Global Large Cap Growth peer group, and the Morningstar Global Equity Income peer group.

Figure 3: Backtest of WisdomTree Global Efficient Core UCITS ETF versus all passive and active funds in Morningstar Global Large Cap Peer Groups (value, blend, growth, equity income)



Source: Morningstar, WisdomTree. December 1998 to August 2024. in USD. Backtest Data has been used. **Historical performance is not an indication of future performance and any investments may go down in value.**

We observe that the backtest of the ETF would have:

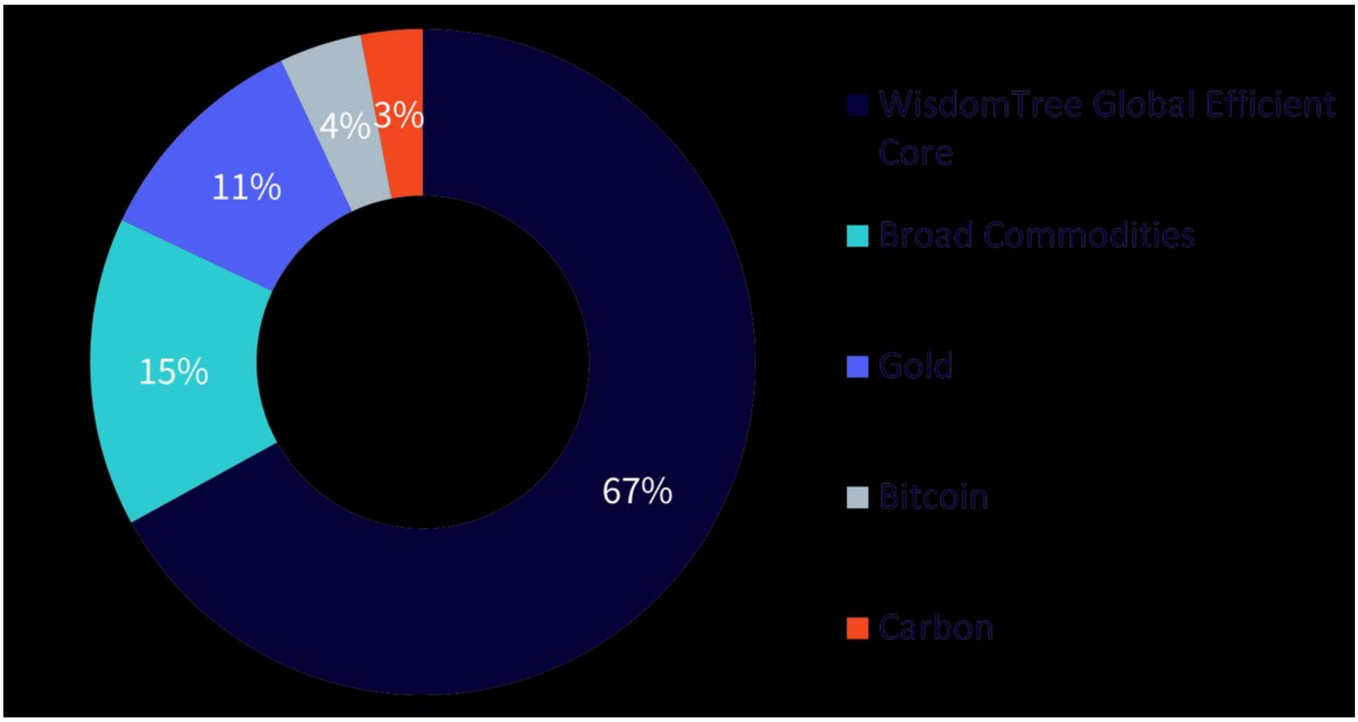
- been in the top 15% of the 239 active mutual funds and ETFs, launched before Dec 1998, in the four Morningstar Global Large Cap peer groups.
- Performed in line with the top quartile when considering all 3175 active funds and ETFs in those peer groups.

2. Capital efficiency tool

The ETF efficiently provides both equity and bond exposure, freeing up capital for additional diversifiers. By allocating 10% of a portfolio to this strategy, investors achieve 9% equity and 6% treasury exposure, freeing 6% to invest in alternatives like commodities, gold, or carbon without sacrificing diversification.

The WisdomTree Global Efficient Core UCITS ETF thus facilitates maintaining equity and bond allocations while accommodating new investments. Figure 4 illustrates how incorporating this ETF can create a 20% allocation space for diversifiers like commodities, gold, bitcoin, and carbon, forming a well-rounded portfolio. Without leverage, the portfolio would definitely be under-invested in equities. However, from an exposure point of view, thanks to the leverage in the Efficient Core strategy, the portfolio delivers 60% to equities, 40% to bonds and 20% to diversifiers.

Figure 4: Capital allocation and exposures in the illustrative WisdomTree Efficient Core model portfolio



Source: WisdomTree. Illustrative Only.

By offering investors more efficient building blocks, Efficient Core unlocks many possibilities for improving portfolios. The WisdomTree Global Efficient Core UCITS ETF can replace existing equity exposure or create space in portfolios for much-needed diversifiers.

1 Source: Morningstar Ibbotson, Bloomberg, WisdomTree. As of 30 September 2024. Monthly data in USD. Analysis started on 31 January 1973. Global equities = MSCI World TR, government Bonds = Bloomberg US Treasury TR. Historical performance is not an indication of future performance and any investments may go down in value.
2 Two-year US Treasury Note Futures, 10-year US Note Futures, 30-year US Bond Futures, Euro-Schatz Futures, Euro-Bund Futures, Euro-Buxl® Futures, Long Gilt Future, 10-year JGB Futures.

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