Time to re-think your Eurozone exposure: Introducing WisdomTree Eurozone Efficient Core

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Key Takeaways

- The WisdomTree Eurozone Efficient Core UCITS ETF, the third strategy in the WisdomTree Efficient Core family (US in October 2023, Global in November 2024), brings 'return stacking' to European investors' home market to deliver a smarter, capital-efficient Eurozone core amid the rotation toward Europe.
- The ETF maintains 90% exposure to a broad developed Eurozone equity universe. It overlays 60% exposure to government bonds from Germany, France and Italy, supported by 10% held in euro cash. The result is equity-and-bond diversification in a single, capital-efficient core holding.
- By combining core Eurozone equities with a government bond overlay, Eurozone Efficient Core is designed to deliver more return per unit of risk than a standard equity benchmark. The ETF targets higher long-term returns, lower volatility and drawdowns, and a stronger Sharpe ratio, while keeping close correlation to the Eurozone market.
- Every 10% allocated to Eurozone Efficient Core can free 5% of a portfolio for diversifiers without sacrificing core Eurozone exposure. This is thanks to the strategy's capital-efficient, stacked equity-and-bond design.

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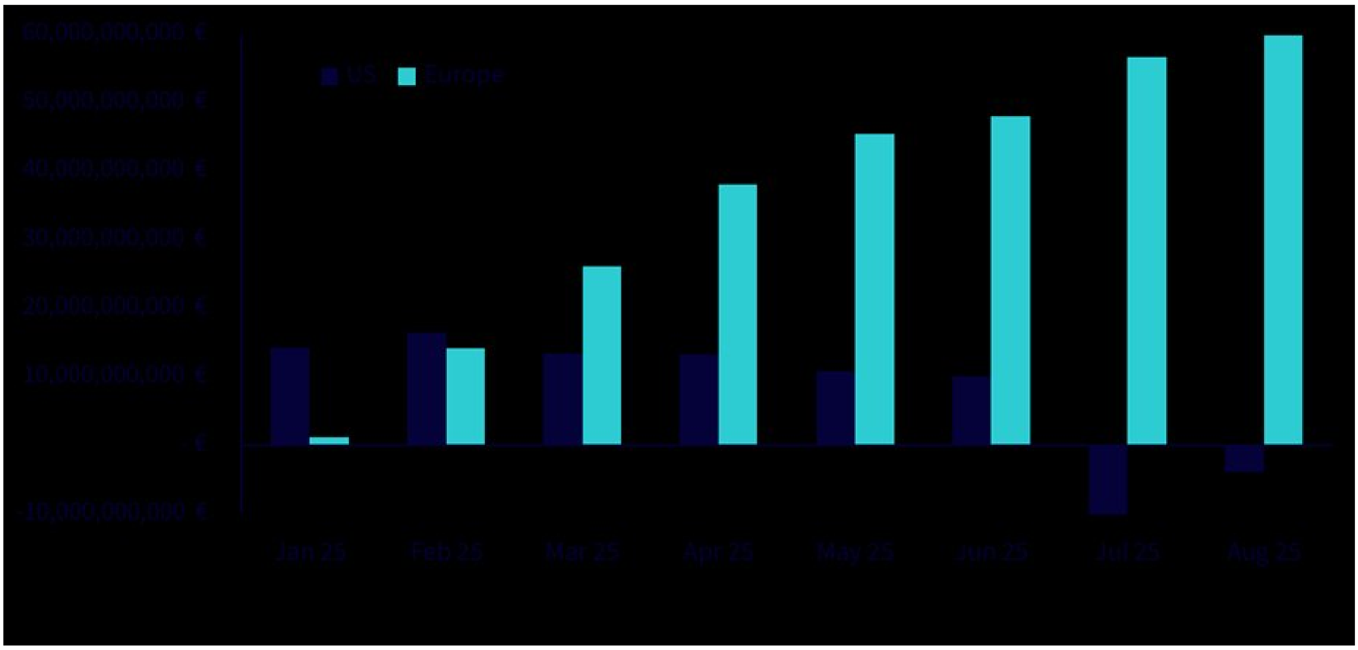
In October 2023, WisdomTree became the first asset manager in Europe to deliver the 'portfolio scaling', also known as 'return staking', concept to European investors in an exchange-traded fund (ETF) wrapper. Building on the foundations of financial theory dating back to the 1950s and 1960s, the idea involved using leverage to deliver a more capital-efficient approach to investing in equities and bonds. The WisdomTree US Efficient Core UCITS ETF offers a way to enhance long-term returns and portfolio efficiency by levering the 60/40 portfolio with 90% allocated to a diversified basket of US equities and 60% exposure to US Treasuries created through futures with 10% cash collateral. Delivering diversification and leverage in a single wrapper, the strategy is designed to offer a more efficient way to build US equity exposure with the potential for improved risk-adjusted returns.

Introducing Eurozone Efficient Core

In October 2025, following the November 2024 launch of WisdomTree Global Efficient Core UCITS ETF, WisdomTree launched the WisdomTree Eurozone Efficient Core UCITS ETF, giving European investors a smarter, more capital-efficient way to build core exposure to their home market. The ETF allocates 90% of its assets to a diversified basket of large- and mid-cap developed Eurozone equities and builds 60% exposure to a portfolio of government bonds issued by Germany, Italy and France through futures, supported by 10% cash collateral.

This launch is timely, as European investors have expressed a stronger preference for home allocations (Figure 1) amid macroeconomic and geopolitical crosscurrents and signs of weakness in US equities after years of dominance. At the end of August, year-to-date total cumulative flows in Europe into broad European equities climbed to €59.8 billion, while flows into broad US equities after a strong start in January turned negative with €3.9 billion cumulative outflows. Performance echoed the shift: year-to-date the STOXX Europe 600 returned 10.93% versus 0.25% for the S&P 500 in euro terms1.

Figure 1. Cumulative year-to-date flows in European ETFs and mutual funds.



Source: WisdomTree, Morningstar. Based on flows into European ETFs and open-ended funds. **Europe** is represented by flows into the following Global categories: Europe Equity Large Cap and Europe Equity Mid/Small Cap. **US** is represented by flows into the following Global categories: US Equity Large Cap Blend, US Equity Large Cap Growth, US Equity Large Cap Value, US Equity Mid Cap, US Equity Small Cap. **Historical performance is not an indication of future performance and any investments may go down in value.**

In this moment of shifting dynamics in European investor preferences, the WisdomTree Eurozone Efficient Core UCITS ETF allows investors to enhance their exposure to the Eurozone by harnessing diversification between equities and bonds without compromising on the return upside offered by the equity market. This is how it works:

Equity exposure

During quarterly rebalances, the strategy allocates 90% of its assets to a portfolio of around 250 large- and mid-cap companies from 10 developed markets in the Eurozone2. The portfolio is ESG-filtered, liquidity adjusted and weighted by free float market capitalisation. Single stock weights are capped at 10%.

Fixed income exposure

The strategy builds a 60% exposure to liquid government bond futures funded through 10% cash collateral. The selected futures provide exposure to four German government bonds with 2, 5, 10 and 30-year maturities and 10-year government bonds from Italy and France. The index uses a 'rolling' method, meaning it replaces contracts that are about to expire with the next available contracts on a quarterly basis. All futures are equally weighted at the rebalance.

Cash collateral

The Cash is held in euro and returns an overnight interest rate.

If exposure to equities and bonds deviates by more than 5% from the targeted 90% and 60%, the portfolio is rebalanced back to its target weights.

A smarter equity replacement

Efficient Core offers investors a way to achieve better long-term returns than a comparable full-equity portfolio while having lower volatility. This positions the strategy as a smart equity replacement option that can make your core allocation work harder. In Figure 2, we compare the hypothetical backtested performance of the WisdomTree Eurozone Efficient Core strategy with a widely used Eurozone equity benchmark. Over the 25-year backtest, Eurozone Efficient Core delivered:

Return:

- Annualised return around 60 bps higher vs. benchmark
- Cumulative outperformance of 41.3%

Risk:

- Volatility around 2.6% lower vs. benchmark
- Lower value at risk
- High correlation with the benchmark but lower beta due to lower volatility
- Reduced maximum drawdown

Risk-adjusted return:

- Higher Sharpe ratio

Figure 2. Historical backtest of the WisdomTree Eurozone Efficient Core strategy (without the ESG filter).

Source: Bloomberg, WisdomTree, MSCI®. From 29 December 2000 to 29 August 2025. Daily data in EUR. **Eurozone Efficient Core** is represented by the backtested index performance without the ESG filter. **You cannot invest in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

A capital efficient way to invest in the Eurozone

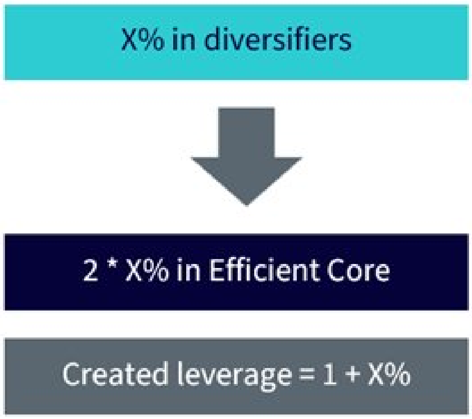
Efficient Core introduces a more capital-efficient way to build portfolios due to the space that it can create for other diversifiers outside of equities and bonds. This space is created through a leveraged exposure to equities and bonds, thus requiring less capital deployment to achieve the targeted allocation to two traditional asset classes. The released capital can be redeployed into assets with different return drivers, broadening diversification and potentially improving risk-adjusted returns over time.

Let us walk through two steps that illustrate how investors can integrate the WisdomTree Eurozone Efficient Core UCITS ETF in their portfolios while aiming for a certain X% exposure to other diversifiers.

Step 1: What percentage do I allocate to Eurozone Efficient Core if I want X% allocation to diversifiers?

For each 10% allocation to Eurozone Efficient Core, the strategy creates 5% space in a portfolio for allocation to diversifiers. This means that for each **X%** allocation to diversifiers, investors should allocate twice as much, i.e. **2*X%**, to Eurozone Efficient Core. For example, if the goal is to create 15% allocation to diversifiers as in Figure 3, then an investor should allocate 30% to Efficient Core. This means that the current portfolio holdings have to be reduced by 15% (allocation to diversifiers) + 30% (allocation to Eurozone Efficient core) = 45%, or three times as much as their desired allocation to diversifiers, i.e. **3 * X%**. This leaves 55%, or **100% - 3 * X%**, allocated directly between equities and fixed income that formed the initial portfolio. The remaining exposure to equities and bonds is created by the allocation to Efficient Core. The created leverage in the strategy is then equal to **1 + X%** (the desired allocation to diversifiers), or 1.15 in the example in Figure 3.

Figure 3. Illustration of Step 1.



Assets	Initial portfolio	Allocation to Eff. Core and diversifiers	New portfolio
Equities	60%		33%
Fixed income	40%		22%
Efficient Core		**2 * X%**	**30%**
Diversifiers		**X%**	**15%**
Total	**100%**		**100%**

Source: WisdomTree, for illustrative purposes only.

Step 2: How do I reduce my allocation to equities and fixed income to accommodate Efficient Core?

For each 10% allocation, Eurozone Efficient Core creates a 9% exposure to developed Eurozone equities and a 6% exposure to European government bonds through futures. In Figure 4, the target is to preserve the initial 60/40 ratio, hence the reduction in equities and fixed income is equal to the targeted exposure to equities and fixed income minus the respective exposure created by Eurozone Efficient Core.

This means that with 30% allocation to Eurozone Efficient Core as in Figure 3, the created exposure in Eurozone equities is equal to 27% and to preserve 60% exposure to equities, the investor can hold only 33% (60%-27%) in Eurozone equities outside of Eurozone Efficient Core. Similarly, the exposure to European government bonds created by Eurozone Efficient Core is equal to 18%, and the investor can hold only 22% (40%-18%) in fixed income outside of Eurozone Efficient Core. To sum it up, 30% allocation to Eurozone Efficient Core, creates 1.5 levered 60/40 exposure with 27% in equities and 18% in fixed income, i.e. 45% total exposure. This allows up 15% space for allocation to diversifiers through 1.15 created leverage in the strategy.

Figure 4. Illustration of Step 2.

What is my target ratio of
Equities (E) to Fixed Income (B)?

New Equities = E
– Exposure created by Eff. Core*

New Fixed Income = B
– Exposure created by Eff. Core**

*Equity exposure created by Eff. Core = 90% * Eff Core

**Fixed Income exposure created by Eff. Core = 60% * Eff Core

Assets	Exposure created by Eff. Core	Target ratio in equities and fixed income	New allocations
Equities	30% * 90% = 27%	60%	60%-27% = 33%
Fixed income	30% * 60% = 18%	40%	40%-18% = 22%
Efficient Core			30%
Diversifiers			15%
Total	**45%**	**100%**	**100%**

Source: WisdomTree, for illustrative purposes only.

Conclusion

The Efficient Core concept marks a new era in portfolio construction, using leverage to boost long-term returns while freeing up capital for diversifiers that can drive additional growth. Efficient Core helps investors do more with their portfolios by delivering capital-efficient building blocks. The WisdomTree Eurozone Efficient Core UCITS ETF can replace part of an existing equity sleeve or free up capital for diversifiers, all while maintaining core exposure to Eurozone equities.

1Source: Bloomberg. Period from 31 December 2024 to 25 September 2025. Based on net returns in euros. **You cannot invest in an index. Historical performance is not an indication of future performance and any investments may go down in value.**
2Austria, Belgium, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain.

Important Risks Related to this Article

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