

Introducing WisdomTree's diversified global equity model portfolio

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WisdomTree

Contributor

Investors often ask how our individual Funds can form part of a diversified portfolio, or how to combine our Funds to gain diversified exposure to certain styles or regions. With this in mind we have constructed a diversified global model portfolio focusing on equities. This provides a practical overview of how investors might use our Funds and shows how our unique strategies can be combined to build enhanced access to broad equity exposures. The strategies have shown through their live track record an ability to deliver risk adjusted returns that are ahead of comparable benchmarks, such as MSCI ACWI, that investors tend to follow.

Why diversified global equities?

We designed this model portfolio to represent a core allocation to broad global equities with a tilt towards higher yielding companies and a strategic tilt towards small cap stocks. The overall aim has been to target the weights of the MSCI ACWI benchmark (MSCI All Country World Index) which is representative of investors' preference for diversified equities. The core portfolio holdings of broad income oriented ETFs are designed to generate above average yield and deliver better longer term risk adjusted returns. The strategic allocation to small cap equities is predicated on the view that such stocks, if selected according to a value approach, can deliver enhanced returns.

Although MSCI ACWI is the benchmark for the model portfolio, the aim is not to focus on a low tracking error but the provision of value added returns over time, within a risk managed framework. Part of this process is to respect the regional weights within the MSCI ACWI benchmark and how these have evolved over time. These have changed considerably over the past nine years with the weight of the US having risen from 45% in 2008 to 54% at the end of 2016. The weight of other developed markets has also shifted from 46% in 2008 to 36% in 2016 and whilst emerging markets ended up broadly unchanged it rose substantially from 9% in 2008 to 14% in 2010. The key here is the geographical diversification of the portfolio and an annual rebalance to get back to the benchmark weights.

Figure 1: WisdomTree model equity portfolio for MSCI ACWI Exposure

Click to enlarge

The building blocks for the model portfolio follow WisdomTree's unique methodologies with respect to stock selection and weighting using Dividend Stream, which is based on the absolute cash dividends paid by companies. Across the different geographies, equity income strategies comprise 70% of the

portfolio allocation. The combination of equity income, where the top 30% of highest yielding stocks, from a dividend paying universe, are selected and the dividend weighting methodology offers the opportunity for both higher yield and lower risk. The strategies include risk management through caps on single stocks, sectors and country exposure. The WisdomTree approach to small caps, which comprise 30% of the model portfolio, is also unique, with the US and European indices being based on the bottom 25% of dividend paying stocks once the largest 300 stocks have been removed. In emerging markets the selection is based on the bottom 10% by market cap of dividend paying stocks.

A strategic advantage of WisdomTree's unique approach to investing is that many of the core indices have had a live track record for over ten years. This means investors can compare portfolios using alternatively weighted strategies relative to market cap weighted benchmarks.

Overall, since inception, and the past five and seven years the model portfolio has outperformed MSCI ACWI, whilst recent modest underperformance has been offset by lower volatility. In fact, over seven of the past eight calendar years, the model portfolio has had a higher Sharpe ratio compared to MSCI ACWI. The outperformance since inception of 84bps per annum has been due to the positive contribution made by the allocation to small cap exposures.

Figure 2: WisdomTree portfolio performance versus MSCI ACWI

Click to enlarge

Source: WisdomTree, Bloomberg.

Compared to MSCI ACWI the model portfolio has a 22% over weight in small caps and an 11.1% overweight in mid-caps. At a country level, due to the focus on income the model portfolio has a 7.8% underweight position in Japan but is overweight the UK by 4.6% and to a lesser extent France, Italy and Spain. The sector tilts again are mainly derived from the strategy focussing on dividend paying stocks be it with high yield or in the small cap space. This results in an 8.4% underweight in Information Technology, and more modest underweights of around 4.4% in Health Care and Financials. Overweight sectors are focused on Real Estate and Utilities.

WisdomTree's unique strategies can be combined to build equity exposures that provide enhanced access to broad benchmark equities. The strategies have shown through their live track record an ability to deliver risk adjusted returns that are ahead of comparable benchmarks that investors tend to follow. Investors can access this portfolio solution through transparent and efficient UCITS ETFs.

Figure 3: Portfolio returns and volatility versus MSCI ACWI

Total returns*

Model rebalance frequency

1 year

(Annualised)

3 year

(Annualised)

5 year

(Annualised)

7 year

(Annualised)

Since inception

(Annualised)

WisdomTree Global Dividend Model

(Strict ACWI Regional Exposure)

*Annualised volatility**

Model Rebalance Frequency

1 year

(Annualised)

3 year

(Annualised)

5 year

(Annualised)

7 year

(Annualised)

Since inception

(Annualised)

WisdomTree Global Dividend Model

(Strict ACWI Regional Exposure)

**As of 31/03/2017. Over period of – 31/12/2008 – 31/03/2017*

So what does this mean for investors?

WisdomTree's Global Diversified Model portfolio highlights how investors can look at our strategies together in one holistic portfolio. By taking our unique methodology and combining various exposures, our strategies delivered improved risk-adjusted returns that compared favourably to core market-cap benchmarks such as MSCI ACWI. The UCITS ETF wrapper also allows investors to access this portfolio solution in a transparent and efficient manner.

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- + [Which India index offers the best equity market strategy?](#)
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- + [WisdomTree US Small Cap Dividend UCITS ETF \(DESE\)](#)
- + [WisdomTree Europe Equity Income UCITS ETF \(EEI\)](#)
- + [WisdomTree Europe Small Cap Dividend UCITS ETF \(DFE\)](#)
- + [WisdomTree Emerging Market Equity Income UCITS ETF \(DEM\)](#)
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