Invest for outcomes, not benchmarks

Published 30 September 2026

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Key Takeaways

- Defined return investing prioritises achieving targeted financial outcomes over outperforming benchmarks or maximising upside.
- By trading some upside participation for downside resilience, defined return strategies aim to deliver more consistent returns across different market environments.
- Diversified autocallable exposures can complement traditional equity portfolios by providing a differentiated source of returns and enhanced diversification.
- WisdomTree Defined Return Autocallable Active ETFs combine the defined outcome characteristics of autocallables with the liquidity, transparency and active management benefits of the ETF structure.

Investors rarely invest with the objective of beating a benchmark. The core purpose of investing is to achieve a set of financial goals, whatever those may be. Whilst benchmarks are a useful reference point for comparing strategies and understanding how portfolios behave, it's important not to conflate the measure with the objective.

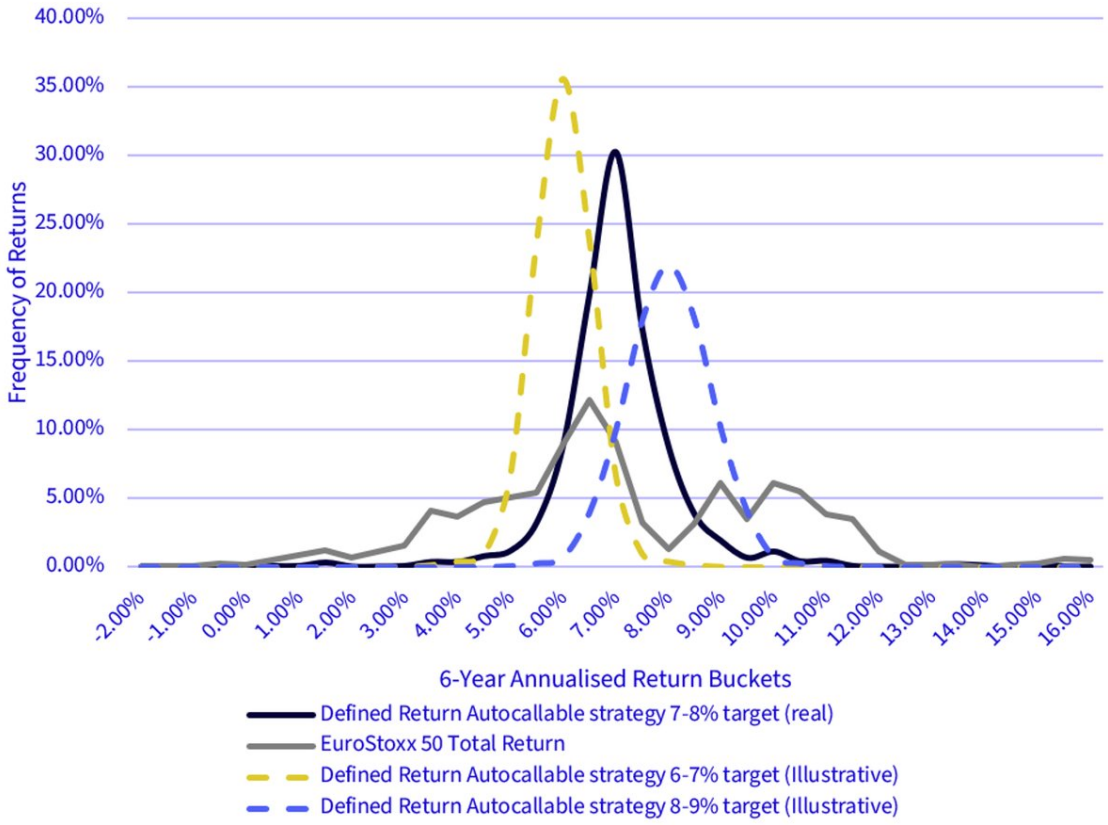
Traditional investment approaches are often built around maximising returns for a given level of risk. Defined outcome or defined return investing begins with a different question: what return do I need to achieve my objectives?

Instead of relying on strong equity market appreciation to generate good returns, defined outcome solutions can deliver attractive outcomes in rising markets, flat markets and, in defensive implementations, even moderately falling markets. As Voltaire famously observed: "The best is the enemy of the good", and defined outcome investing embraces this philosophy. In essence, investors exchange the possibility of the highest investment return in order to increase the probability of achieving a good outcome.

Narrowing the range of outcomes

Traditional equity investing offers unlimited upside, but it also exposes investors to a very wide range of potential outcomes. Defined return strategies reshape this distribution by sacrificing some upside participation in exchange for downside resilience and a higher probability of achieving returns within a targeted range.

Figure 1: Illustration - Defined return investing can narrow the range of outcomes



Source: WisdomTree. For Illustrative purposes only. This analysis is based on assumptions and does not represent actual or guaranteed Fund performance. Actual outcomes may differ materially, including the possibility of capital loss. **Forecasts are not a reliable indicator of future performance.**

Defined return strategies can use autocallables to achieve this effect. Autocallables are contracts linked to the performance of one or multiple underlying assets, typically equity indices such as the Euro Stoxx 50, S&P 500, or FTSE 100. They are designed to deliver predefined return profiles and conditional downside protection subject to predefined contractual conditions. Autocallables have historically delivered attractive investor outcomes and generated returns comparable to long-term equity markets, whilst providing a more predictable range of potential outcomes.

The role of defined return strategies in a portfolio

Since defined return investments do not require strong equity markets to achieve attractive long-term returns, many investors have used them to complement an equity allocation and generate a more consistent return profile. Investors may also choose to overweight defined return investments when they expect equity returns to be lacklustre over the medium term, as defined return strategies have historically outperformed in these environments.

For other investors, the ability of defined return investments to generate attractive returns in sideways or even moderately falling markets, provides sufficient diversification benefits for them to be included in an alternatives allocation. Within an alternatives allocation, defined return investments generally sit at the more predictable and higher return end of the asset mix. However, investors should be mindful that if

markets were to become significantly stressed in the short-term, defined return investments are likely to behave similarly to their underlying equity exposures.

Whether they are used as part of an equity or alternatives allocation, defined return investments generally provide a differentiated source of returns within a broader portfolio, enhance diversification, and improve the consistency of investor outcomes.

The next evolution of defined return investing

Traditionally, investors have accessed defined return investments through individual structured products. While these products have historically delivered attractive investment outcomes1, they have often introduced additional considerations, including issuer credit risk, liquidity limitations, and operational complexity.

The WisdomTree Defined Return Autocallable Active ETFs were designed to address these challenges. Rather than providing exposure to a single autocallable, the exchange-traded funds (ETFs) provide access to a diversified portfolio of autocallable exposures on liquid large cap indices (such as the EURO STOXX 50), across maturities, structures and counterparties within a single vehicle. As positions mature or autocall, proceeds are actively reinvested into new opportunities, maintaining diversification and helping investors avoid the reinvestment risk associated with individual products. The ETF range includes the WisdomTree Defined Return Autocallable EUR Active UCITS ETF (DRTN) has been designed with an investment objective that seeks to deliver annualised returns in the region of 8–9% over the medium term. The WisdomTree Defensive Defined Return Autocallable EUR Active UCITS ETF (DRTD) has a similar objective targeting approximately 6–7% per annum.

Please note the target is not guaranteed and actual returns will depend on market conditions and the performance of the Fund's investments. The Fund does not provide a capital guarantee. Investors may receive a lower return than the target and may lose capital.

The active management approach is a particularly important evolution. This is because the attractiveness of autocallable opportunities is not static. Changes in interest rates, volatility, dividends and correlations can materially alter the value available to investors. Through active management, the investment team can assess relative value across opportunities, selectively allocate capital to the most attractive structures and adapt the portfolio as market conditions evolve to maintain the desired return profile and optimise the ETFs for their investment objectives.

The ETF structure also provides significant operational advantages. Investors could benefit from daily liquidity, transparency, diversification and operational simplicity, without sacrificing the defined outcome characteristics that have driven increasing investor adoption over recent decades.

Conclusion

As investors increasingly seek greater certainty around portfolio outcomes, defined return strategies offer an alternative to traditional equity investing by prioritising the probability of achieving a target return over maximising potential upside. By combining the long-established benefits of autocallable strategies with

the diversification, liquidity and operational simplicity of the ETF structure, WisdomTree Defined Return Autocallable ETFs provide a modern approach to outcome-oriented investing, helping investors align their portfolios more closely with the objectives they are ultimately trying to achieve.

1 A 2025 empirical study by the Bundesverband für Strukturierte Wertpapiere (BSW), analysing 12,445 EURO STOXX 50-linked Autocallable Certificates issued between 2018 and 2025 in the German market, found that 99.94% generated a positive return outcome over the observation period. Conducted by Prof. Dr. Christian Koziol, University of Tübingen.

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