

The case for defined return: reshaping the distribution of returns with autocallables

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Traditional equity investing offers strong long-term return potential, but investment outcomes over shorter and medium-term horizons can be highly uncertain. Wide distributions of returns and large drawdowns can create challenges for investors constructing diversified portfolios and seeking more consistent investment journeys.

Defined return or defined outcome strategies seek to reshape this return distribution by narrowing the range of potential outcomes while maintaining exposure to long-term equity market growth.

Autocallables represent one of the most established and scalable forms of defined outcome investing. By combining exposure to both the equity risk premium and volatility risk premium within a contractual payoff structure, autocallables can provide a differentiated source of equity-like returns with potentially more controlled investment outcomes over medium to long-term horizons.

Historically, access to autocallables has largely been through individual structured products, often introducing issuer concentration risk, operational complexity, and limited portfolio flexibility. The exchange-traded fund (ETF) structure enables autocallables to be implemented through a diversified, actively managed and institutional portfolio framework.

This paper explores:

+ the role of autocallables in reshaping equity return distributions
+ the structural return drivers underpinning the asset class
+ the importance of active portfolio management
+ how institutional ETF implementation could improve long-term investor outcomes

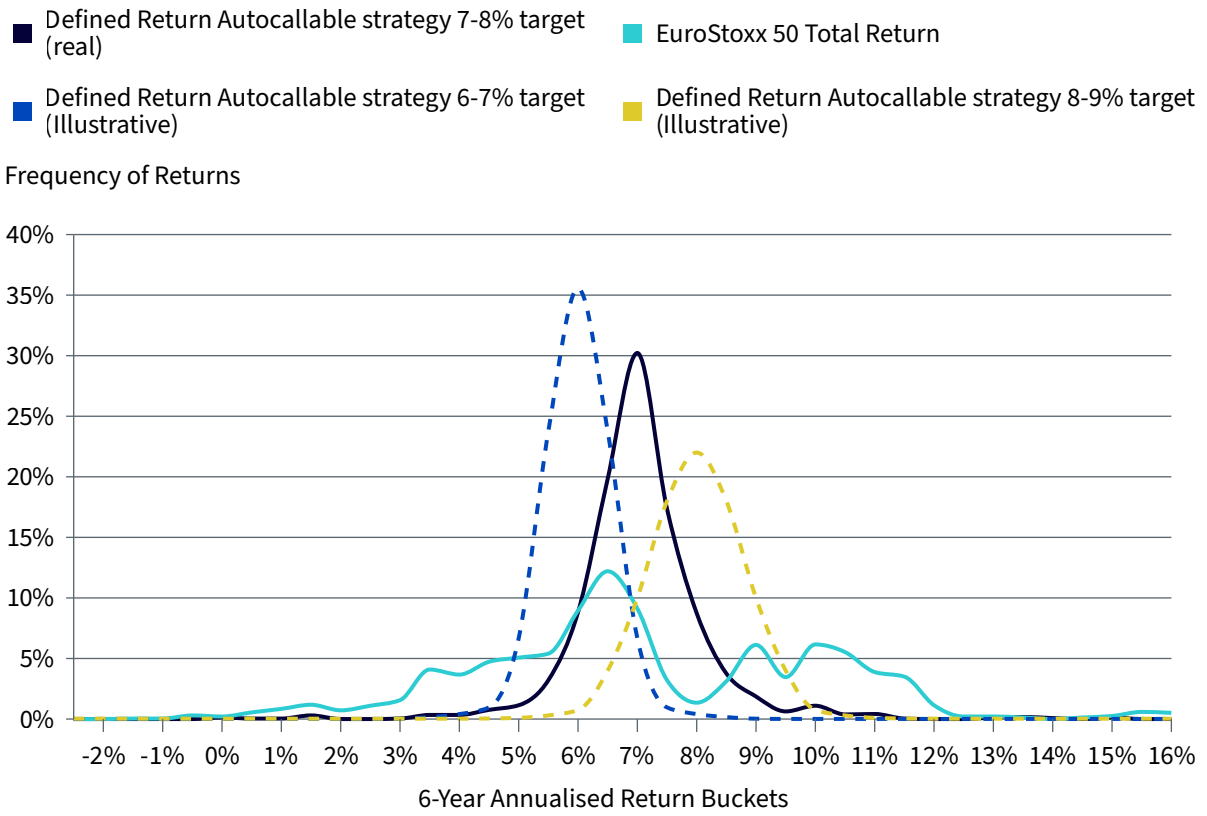
1. Reshaping return distributions

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.

At regular observation dates, the investment is assessed against a predefined index level. If the underlying index is above this level, the investment matures early and delivers a predefined positive return. If not, the investment continues to the next observation date. At maturity, the final outcome depends on the performance of the underlying index relative to predefined protection barriers.

The outcome profile of autocallables can therefore differ materially from traditional equity investments. Rather than fully participating in the broad distribution of equity market returns, autocallables seek to reshape the 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 - Autocallables can reshape the distribution of returns



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.**

By investing through a diversified portfolio of autocallables, the impact of both entry ("market timing") risk and exit ("pin") risk can also be reduced. The portfolio approach seeks to deliver smoother and more consistent investment journeys through time while increasing the probability of achieving returns within a targeted range over rolling medium-term periods.

The contractual nature of autocallables also allows for stress testing of exposures and the generation of scenario analysis across a wide range of market conditions. This enables a more robust understanding of potential portfolio behaviour under different market environments.

Figure 2: Potential outcomes can be modelled across different market scenarios

	Market move	-30%	-20%	-10%	0%	10%	20%	30%
Scenario analysis	3 months	-18.82%	-9.34%	-2.37%	2.17%	4.05%	4.54%	4.93%
	1 year	-15.41%	-5.02%	3.06%	7.65%	9.58%	10.17%	10.65%
	2 years	-10.45%	1.84%	10.61%	15.26%	17.13%	17.69%	18.17%
	3 years	-4.74%	9.36%	18.31%	22.90%	24.73%	25.25%	25.73%

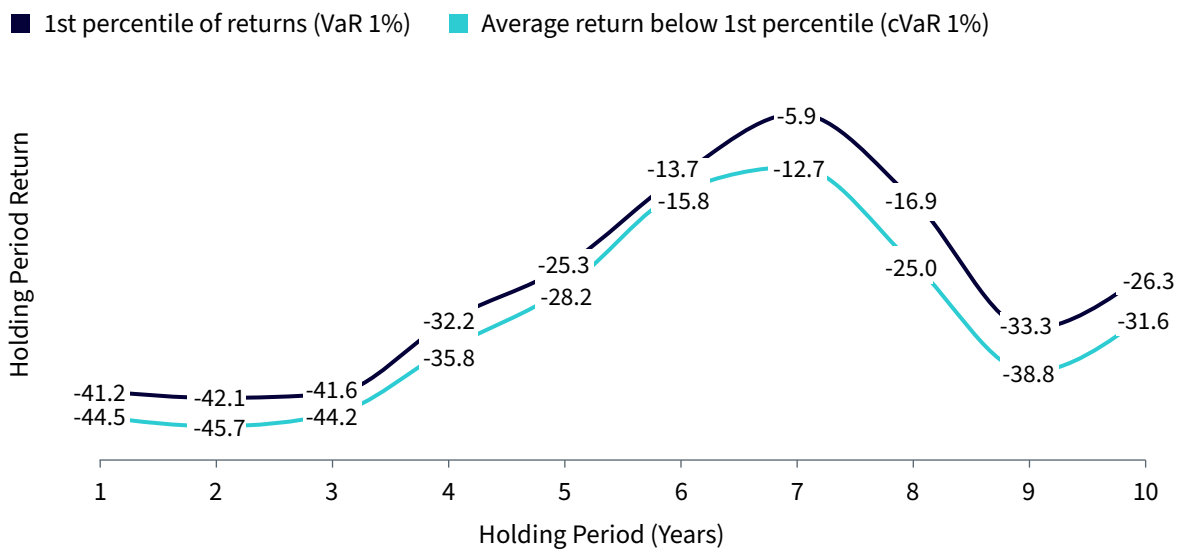
Source: WisdomTree. For Illustrative purposes only. The scenarios presented show estimates of future performance based on example derivative market conditions and are not an exact or reliable indicator. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Longer maturities are particularly important for defined outcome investments. The autocallable feature allows investments to mature early during favourable market conditions, while the longer maximum maturity provides underlying equity markets and autocallables with additional time to recover from periods of market stress.

This is important because shorter-dated structures may crystallise losses before markets have recovered from drawdowns, reducing the probability of achieving the desired investment outcome. Conversely, significantly longer maturities may increase exposure to multiple market cycles and 'double-dip' scenarios.

Figure 3 illustrates this relationship by showing how downside outcomes for global equities evolve across different investment horizons. The chart highlights why maturities of approximately six to seven years may represent an attractive balance between allowing sufficient recovery time following market drawdowns, while limiting exposure to multiple market cycles.

Figure 3: Longer horizons reduce the risk of capital loss



Source: WisdomTree, Bloomberg. Results are computed using MSCI Global Equity Market Returns from 31/12/1969 to 24/04/2026.
Historical performance is not an indication of future performance and any investments may go down in value.

2. Structural return drivers

Autocallables derive their return profile from exposure to two important structural market premia:

+ the equity risk premium ('ERP')
+ and the volatility risk premium ('VRP')

The **equity risk premium** is the excess return investors require to hold equities rather than risk-free assets. It compensates for bearing non-diversifiable risks: earnings cyclicality, drawdowns, valuation compression, liquidity stress, and uncertainty around long-term cash flows. Autocallables benefit from exposure to the equity risk premium through their equity-linked payoff structure. Historically, realised equity market returns have tended to exceed option-implied forward returns (calculated by looking at risk free rates and dividend yield for the index) over long investment horizons, reflecting the compensation investors require for bearing equity-market risk.

Figure 4 illustrates this relationship for major market indices in Europe, the US and the UK, where realised returns have historically exceeded implied forward returns materially more frequently over six-year horizons than over one-year horizons.

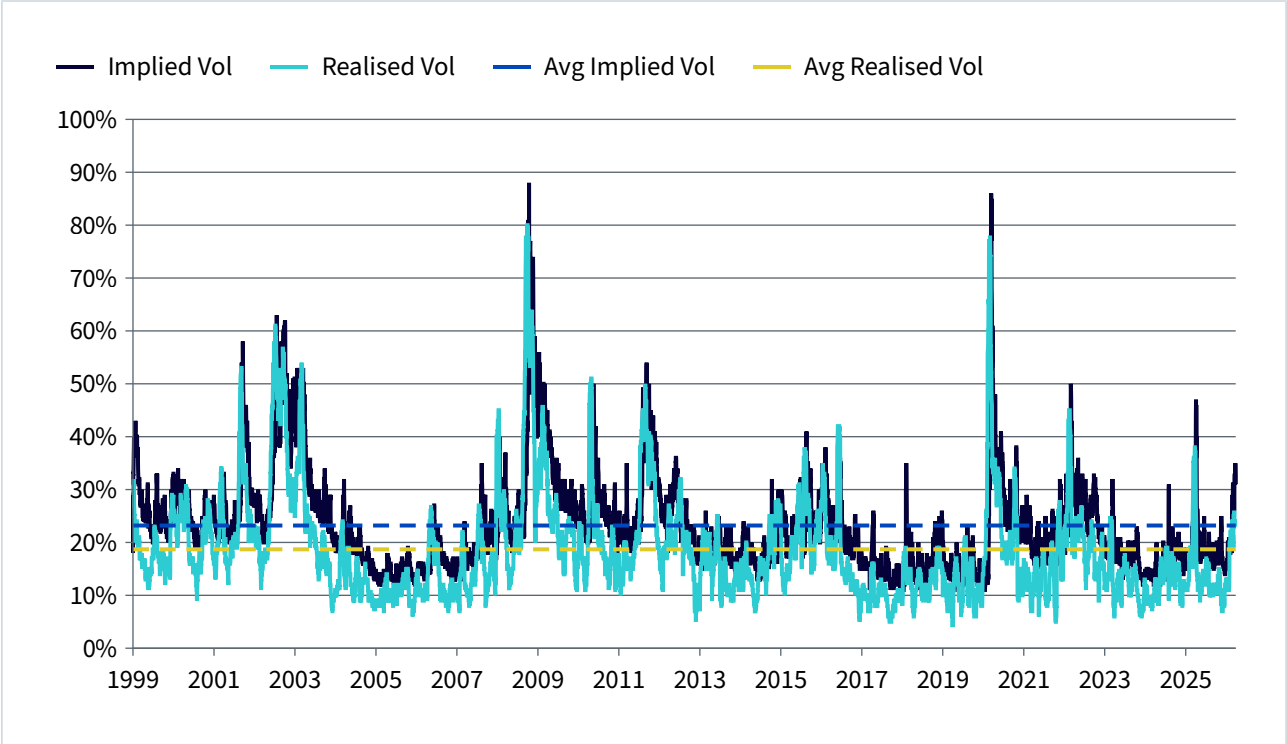
Figure 4: Realised market returns consistently beat implied expectations

% of time realised market return exceeded implied forward return	European Large Cap	US Large Cap	UK Large Cap
1-Year Holding Period	68%	84%	74%
6-Year Holding Period	93%	100%	94%

Source: WisdomTree, Bloomberg, GS Marquee. Risk-neutral forward returns are computed using option-derived forward data, and realised market returns using relevant market index price returns, from 31/01/2002 to 31/03/2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

The **volatility risk premium** reflects the tendency for option-implied volatility to exceed subsequently realised volatility through time. Figure 5 compares the VIX[1] one-month implied volatility measure with realised volatility for the S&P 500. Historically, implied volatility (navy line) has generally traded above realised volatility (teal line), indicating that investors have often paid a premium for downside protection.

Figure 5: Historically, investors overpaid for downside protection



Source: WisdomTree, Bloomberg. Implied volatility is measured using the VIX Index, while realised volatility is measured using a rolling 20-day window based on S&P 500 daily price returns from 04/01/1999 to 28/04/2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

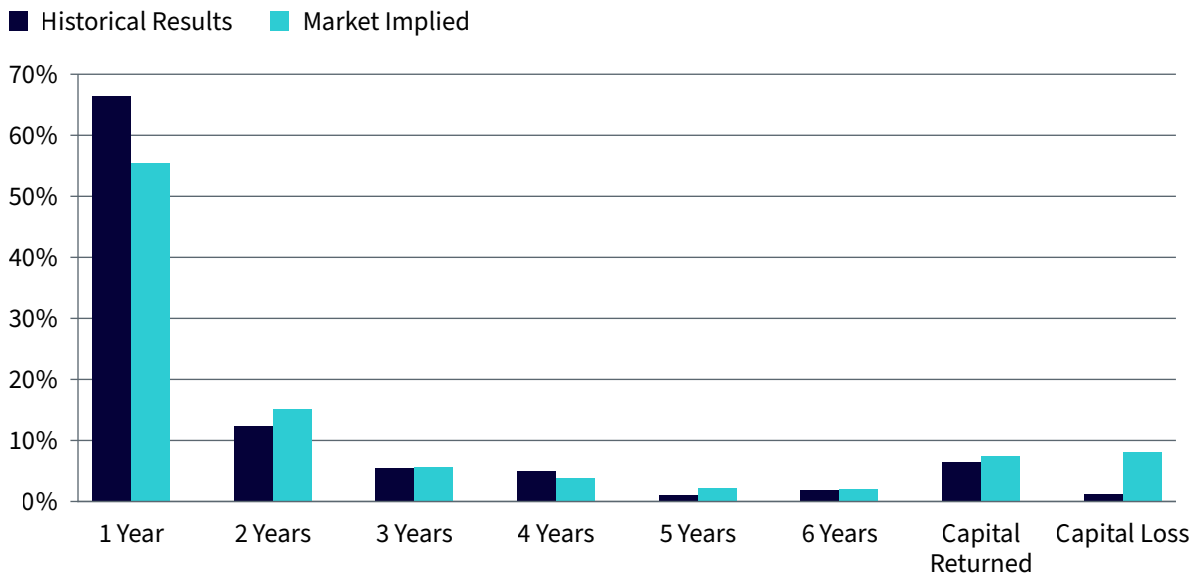
1 The VIX measure is derived from S&P 500 option prices across strikes and reflects the square root of the market-implied variance for a given time to expiration.

This effect is also visible in the shape of the volatility surface. Investor demand for downside protection often contributes to downside skew, where lower strike options exhibit structurally higher implied volatility levels. As a result, downside protection tends to carry elevated option premia.

For autocallables, the defined return offered is partly funded through exposure to downside put optionality. Higher implied volatility and steeper downside skew therefore improve achievable returns and protection levels. When looking at defined outcome type strategies it is important to ensure the strategy is exposed positively to this VRP as it is a key part of the long-term returns that investors should receive.

The impact of autocallables' exposure to ERP and VRP is illustrated in Figure 6 by comparing historically realised outcomes with the probabilities implied by derivative pricing models.

Figure 6: Historically, autocallable outcomes have repeatedly surpassed model probabilities



Source: WisdomTree, Bloomberg. Historical barrier results use European Large Cap market from 01/01/1987 to 20/04/2026. Market Implied Probability is calculated using proprietary equity derivative pricing models. **Historical performance is not an indication of future performance and any investments may go down in value.**

Capital losses have historically occurred less frequently than implied by derivative models, as these models are unable to fully capture the impact of ERP and VRP on realised market outcomes. While these historical relationships have been persistent over time, future market environments may evolve differently. Having said that, over longer investment horizons, the differential between realised and model-implied outcomes has tended to widen. For

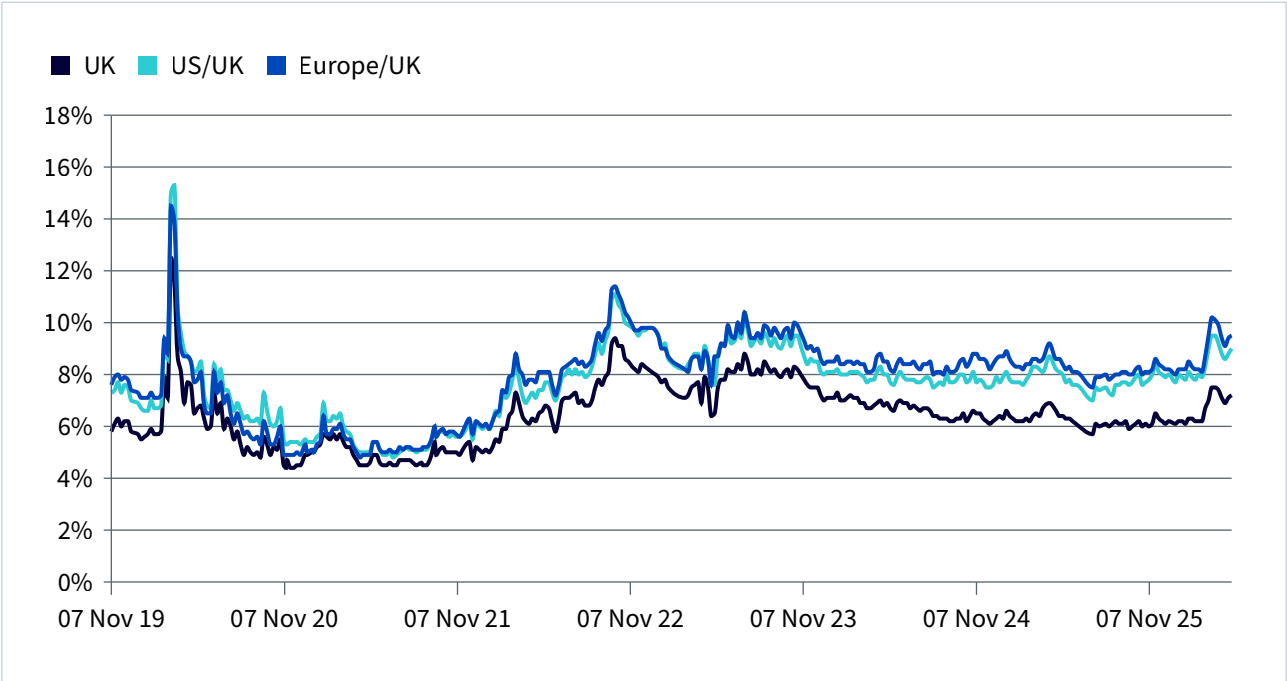
example, the difference between historical and model-implied probabilities of the European market falling by 35% over one-year and six-year horizons is approximately 2% and 10%, respectively. This highlights the importance of longer maturities in defined outcome investing. Longer-dated autocallables provide underlying markets with additional time to recover from periods of market stress, while also allowing investors to benefit more fully from ERP and VRP over time. As a result, longer-term defined outcome structures may improve the probability of achieving the desired investment outcome relative to shorter-dated approaches.

3. Why active management matters

Autocallables are not static instruments. Their pricing, attractiveness and risk profile evolve continuously through time as market conditions change.

Changes in interest rates, implied volatility, implied dividends and implied correlation can materially alter achievable returns, protection levels and relative value opportunities across different structures and underlying indices.

Figure 7: Dynamic markets reward active management



Source: WisdomTree, Bloomberg, 07/11/2019 – 30/04/2026. For illustrative purposes only. Represents the average pricing level of a weekly poll conducted by WisdomTree of counterparty pricing for defensive autocallables. **Historical performance is not an indication of future performance and any investments may go down in value.**

This dynamic pricing environment creates a meaningful opportunity for active management. The choice of underlying index is one of the most important drivers of both pricing and long-term investment behaviour, with different equity markets exhibiting varying levels of implied volatility,

dividend expectations, liquidity and correlation dynamics.

The ability to actively manage these exposures is particularly important in defined outcome investing, where implementation approaches can differ materially.

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Many defined outcome or autocallable ETFs have taken the approach of creating a proprietary index and trading it with a single swap provider. While simpler operationally, this approach can worsen pricing power for investors and limit flexibility to benefit from changes in interest rates, implied volatility, implied dividends and implied correlation. The reference index is also often optimised to improve headline pricing characteristics or historical backtested outcomes at the expense of real investor performance.

The behaviour of proprietary indices can therefore differ materially from the broader markets they reference due to features such as decrement mechanisms, volatility controls, or synthetic overlays, thereby reducing the transparency, predictability, and intuitiveness of long-term realised performance.

WisdomTree instead focuses on actively managing a diversified portfolio of autocallables linked to large, transparent, liquid, and widely observed developed-market equity indices such as EuroStoxx 50, S&P 500 and FTSE 100. This institutional approach is operationally more complex but possible thanks to our in-house portfolio management team, which has managed such strategies since 2013. The approach aims to improve long-term investor outcomes through active portfolio construction, competitive multi-counterparty execution, and transparent underlying market exposures.

Active management also enables portfolio managers to optimise:

+ payoff profiles
+ autocall barriers
+ downside protection levels
+ maturity profiles
+ and index pairings

through changing market environments.

The strategy primarily focuses on structures with maturities between six and seven years, broadly aligning with the length of a typical market cycle. This provides underlying equity markets with additional time to recover from periods of market stress while improving the probability of achieving the desired investment outcome over the medium to long term.

The result is a portfolio approach designed not simply to maximise headline returns, but to improve the consistency, resilience and predictability of investment outcomes through time.

4. Institutional ETF implementation

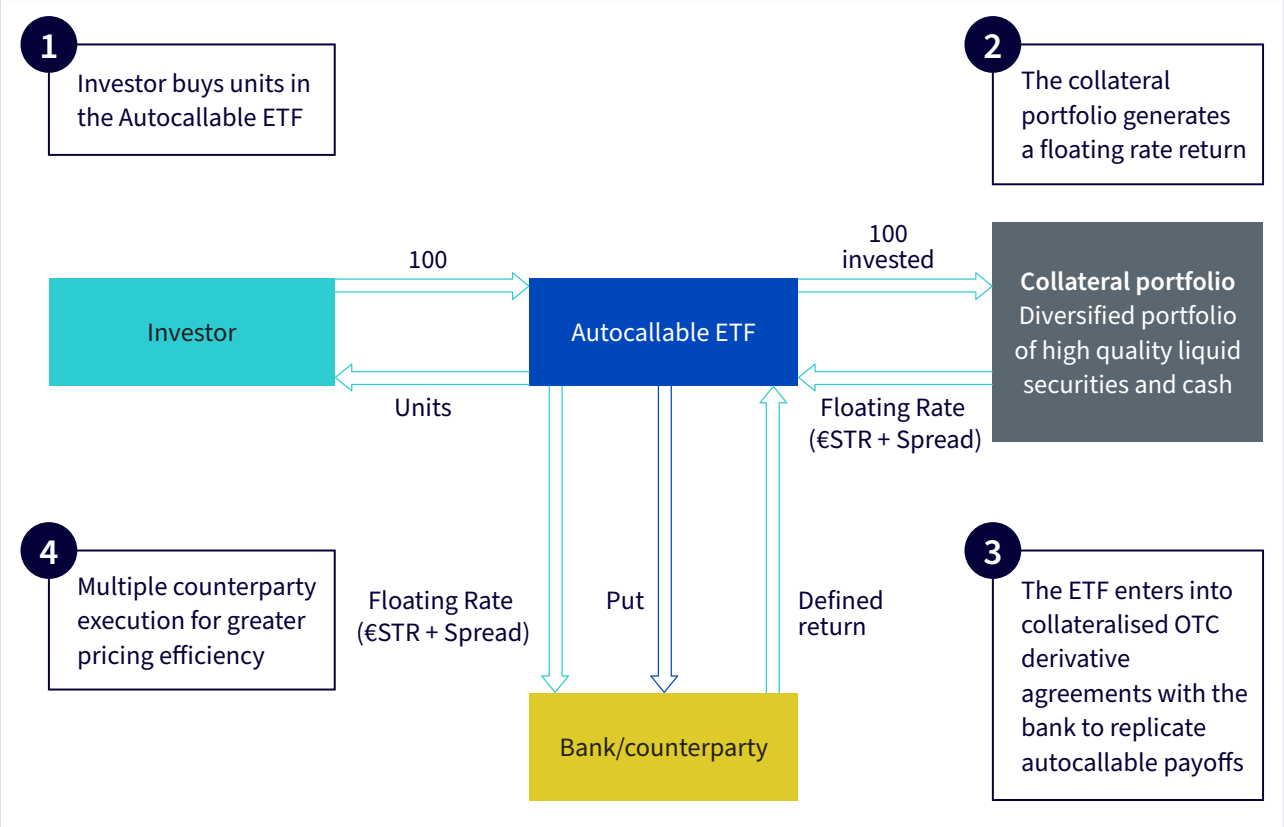
Autocallables have primarily been accessed through individual structured products. While these products have historically delivered attractive investment outcomes[2], they have often introduced issuer credit risk, liquidity limitations, and operational complexity.

Rather than investing directly into unsecured structured notes, the WisdomTree ETFs gain exposure to autocallable payoffs through collateralised OTC[3] derivative agreements with multiple counterparties. These agreements are collateralised daily, materially reducing counterparty credit risk relative to traditional structured products.

2 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. Historical observations may differ materially from future realised outcomes and the relationships described may not persist.

3 OTC = over-the-counter.

Figure 8: Institutional ETF implementation framework



The ETFs transact with a broad range of counterparties which compete on equal terms for each trade, supporting competitive execution and pricing efficiency.

As autocallables mature, the portfolio management team reinvests proceeds into new structures based on prevailing market conditions, relative value opportunities, and existing portfolio exposures. Combined with daily exchange liquidity, this provides investors with access to a continuously managed and diversified autocallable portfolio through a single open-ended investment vehicle.

Conclusion

Autocallables represent a differentiated form of defined outcome investing, capable of reshaping traditional equity return distributions. By combining exposure to both the volatility risk premium and equity risk premium within a contractual payoff structure, autocallables may provide a more controlled source of equity-like returns over medium to long-term investment horizons.

Through diversified portfolio construction, active management and institutional ETF implementation, autocallables can evolve from individual structured products into scalable portfolio building blocks designed to improve the consistency and resilience of long-term investor outcomes.

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