Why active management matters for defined return investing

Published October 27, 2026

Jack Roberts
Fund Manager

Key Takeaways

- Implementation determines success. Defined return investing aims to increase the probability of achieving a target return, but how well a strategy is built and managed in practice is what turns that aim into investor outcomes.
- Interest rates, dividends and implied volatility are constantly moving, and each defined return investment has many adjustable characteristics. Active management gives the manager the flexibility to optimise those choices as conditions evolve.
- Multiple swap providers improve execution. Pricing follows risk appetite, so the best-priced provider changes frequently. Seeking pricing from several providers on multiple structures at once helps the manager minimise counterparty exposure and secure better terms.

The philosophy of defined return investing is to prioritise the probability of achieving a target return over maximising potential upside. But as with any good investment idea, success ultimately comes down to implementation.

Traditionally, investors have accessed defined return investments through individual structured products. The outcomes of these investments are predictable, but a single structured product in a portfolio, although easy to implement, exposes investors to individual product risks as well as timing risks on both entry and exit. More sophisticated defined return investors have often developed portfolios of individual structured products, providing a level of diversification, but such portfolios are operationally intensive to run, have liquidity limitations, and are still associated with issuer credit and concentration risks.

When looking at a single structured product vs a structured product portfolio, there are trade-offs. Implementation here can be thought of as a weighing scale, which balances operational intensity against investor outcomes. The same principle applies to defined outcome mutual funds and ETFs, where operational complexity and investor outcomes for passive index-based approaches and actively managed approaches, sit at different points on that scale.

Index-based passive ETF solutions are relatively simple to implement. However, they are rigid, and the underlying index to which the defined return investments are linked tends to be financially engineered. This engineered index can behave very differently to the equity market, sacrificing real-world predictability for

investors. Passive ETF implementations are simpler for the investment manager, generally being formed of a single swap with a single swap provider, but this is likely at the expense of investor outcomes.

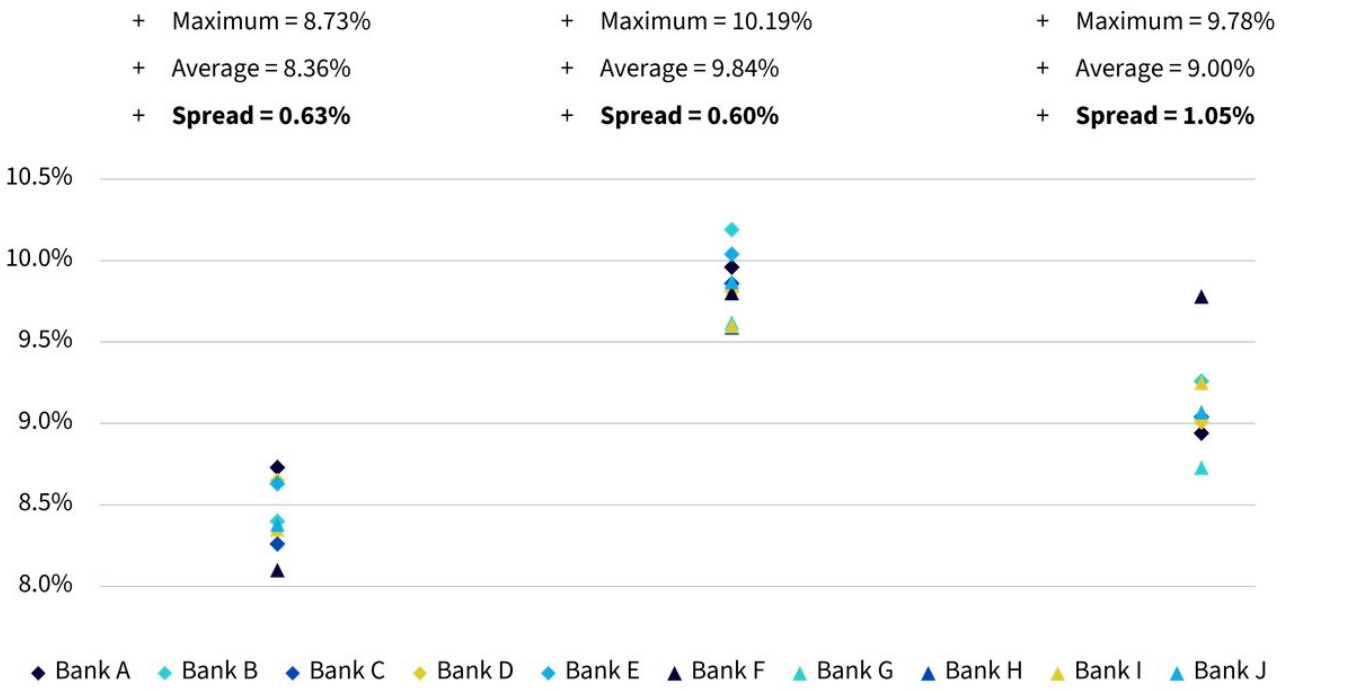
An actively managed ETF or mutual fund approach does not track an index, and so unlike most passive defined outcome ETFs, it can use real-world equity indices to retain the predictability that defined return investors expect. When using real-world indices such as S&P 500, Euro Stoxx 50 and FTSE 100 to build a defined return portfolio, active management becomes especially important. This is because pricing parameters for these indices such as interest rates, dividends and implied volatility are constantly changing. Additionally, an individual defined return investment has many characteristics that can be adjusted, leading to numerous potential investment decisions, and active management allows the investment manager the flexibility to optimise these choices.

As market conditions evolve over time, the investment most likely to help the portfolio achieve its objective changes meaningfully. And when it comes to a portfolio of defined return investments, every new investment needs to be viewed in the context of the whole portfolio, where each incremental decision maximises the probability of the ETF or mutual fund achieving its target objectives. Therefore, an actively managed approach for defined return investing is vital, and even though this is operationally more complex, it allows an investment manager to optimise portfolio decisions with the aim of improving long-term investment outcomes, while retaining the predictability that investors expect.

Flexibility is also key for execution, and that comes from having multiple swap providers. The ability to trade defined return investments institutionally through swaps, not notes, allows the investment manager to minimise counterparty exposure, largely removing credit considerations from the investment decision. When swap providers are placed on a level playing field, it is risk appetite that drives differences in pricing, and this appetite, like market conditions, is always shifting. A swap provider may be offering the best pricing on one index underlying but poor pricing on another or be strong on aggressive barrier shapes but weak on defensive barrier shapes. Often, the swap provider that is pricing best one month may be pricing worst the next. Overall, this pricing disparity changes frequently, and so an investment manager should consider multiple structures for the portfolio at the same time and ask for pricing from multiple swap providers. Figure 1 shows how much pricing can differ between swap providers. It compares real quotes for defensive autocallables from ten providers across three auctions.

Figure 1: Trading with multiple counterparties allows for better pricing over time

Real auction pricing for defensive autocallables over multiple months



Source: WisdomTree from 7 November 2019 to 2 June 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

Once executable pricing is received, trades should then be assessed again in the context of the wider portfolio. Only then can the investment manager determine and execute the investment that maximises the probability of achieving the ETF or mutual fund's target objectives. This process requires continuous optimisation and alongside multiple swaps with multiple providers, is operationally demanding for the manager; but for the investor, it is likely to lead to improved long-term outcomes.

Defined return investing aims to increase the probability of delivering a target investment return, but how well such a strategy is implemented is fundamental for providing effective investor outcomes in practice. Active management allows an investment manager the agility to optimise portfolio decisions, pricing, and execution, as market conditions evolve, helping maximise the likelihood that long-term target investment outcomes are ultimately achieved.

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area ("EEA") & Switzerland: This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA, except Switzerland: This document has been issued and approved by WisdomTree UK Limited or Atlantic House Investments Limited, which are both authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited, WisdomTree UK Limited and Atlantic House Investments Limited are referred to as "WisdomTree" (as applicable) throughout. Our Conflicts of Interest Policy and Inventory are available on request.

This marketing communication is intended for all investors; however, the WisdomTree products described in this document and related materials may be restricted in certain jurisdictions and may only be available to particular categories of investors in accordance with applicable laws and regulations. Where a product is not authorised or its distribution is restricted in your jurisdiction, it is the responsibility of any person or entity in possession of this information to inform themselves of, and comply with, all relevant restrictions. Before making any investment, investors should seek appropriate legal, regulatory, tax and investment advice to assess the suitability and implications of investing in these products. Information about WisdomTree products is available at wisdomtree.eu. WisdomTree does not offer investment advice tailored to individual circumstances. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

This marketing communication should be read in conjunction with the relevant WisdomTree products' Prospectus, Key Investor Information Document ("KIID"), Key Information Document ("PRIIPS KID") as relevant. In particular, investors should carefully read the specific risks detailed under the section entitled 'Risk and Reward Profile' in the KIID, 'What are the risks and what could I get in return?' in PRIIPs KID and under the section entitled 'Risk Factors' in the Prospectus of the Issuer for further details of risks associated with an investment in the product(s) detailed herein. Further information regarding the WisdomTree exchange-traded product(s) detailed herein, such as a detailed list of the underlying investments and the indicative net asset value, can be obtained by visiting the WisdomTree website at (www.wisdomtree.eu).

An investment in WisdomTree exchange-traded products ("ETPs") is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. An investment in WisdomTree funds is dependent on the performance of the underlying investments, less costs.

Both WisdomTree ETPs and funds involve numerous risks including among others, general market risks relating to any relevant underlying index, credit risks on the provider of index swaps utilised in ETPs, exchange rate risks, interest rate risks, inflationary risks, liquidity risks, derivatives risk and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

WisdomTree Issuer ICAV

Certain funds referred to in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an open-ended, umbrella-type Irish Collective Asset-management Vehicle with segregated liability between sub-funds and is authorised by the Central Bank of Ireland ("CBI") as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under Irish law. Each fund is represented by a separate class of shares (the "Shares") issued by WT Issuer.

The Fund is described in a Key Information Document (KID) or Key Investor Information Document (KIID) for UK investors, and the prospectus of WT Issuer ("WT Prospectus"). A copy of the WT Prospectus and the KID / KIID is available, for EEA/UK only, in English at www.wisdomtree.eu. Where required under national rules, the KID will also be available in the local language of the relevant EEA Member State. Investors should read the WT Prospectus before investing and should refer to the section of the WT Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the Shares.

The summary of investor rights associated with an investment in the fund is available in English on WisdomTree Europe's website. WisdomTree Management Limited may decide to terminate the arrangements made for the marketing of its collective investment undertakings. In such circumstances, shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the fund free of any charges or deductions for at least 30 working days from the date of such notification.

For Investors in Switzerland:

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus (in English only) and the key investor information documents (KID) (in German, French and Italian) are available from WisdomTree's website: https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports

For WisdomTree UCITS products only: the representative and paying agent of the ETPs in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent. Some of the sub-funds referred to in this document may not have

been registered with the Swiss Financial Market Supervisory Authority (“FINMA”). In Switzerland, such sub-funds that have not been registered with FINMA may only be available to Qualified Investors.

FOR INVESTORS IN FRANCE:

Further information regarding the WisdomTree exchange-traded product(s) detailed herein, such as a detailed list of the underlying investments and the indicative net asset value, can be obtained by visiting the WisdomTree website at (www.wisdomtree.eu).

The product is intended for retail investors who: (i) can withstand capital loss, are not seeking to preserve capital and are not seeking a capital guarantee; (ii) have specific knowledge or experience in investing in similar products and in the financial markets; and (iii) are looking for a product that provides exposure to the performance of the underlying asset(s) and have an investment horizon in line with the recommended holding period indicated in the KID.

In addition, the indicative net asset value is shown on the Reuters and Bloomberg pages of the product and may also be mentioned on the websites of the product's listing venues.

Units in a listed exchange-traded product purchased on the secondary market generally cannot be sold directly back to the listed exchange-traded product. For investors who are not authorised participants, the purchase and sale of units must be done on a secondary market with the help of an intermediary (e.g., a broker), and may therefore be subject to additional fees and taxes. In addition, it is possible that investors may pay more than the current net asset value when purchasing units and receive less than the current net asset value when selling them.

Investors should carefully read the specific risks detailed under the section entitled ‘What are the risks and what could I get in return?’ in the Key Information Document for Packaged Retail and Insurance-based Investment Products (PRIIPs KID) and under the section entitled ‘Risk Factors’ in the Prospectus of the Issuer for further details of risks associated with an investment in the product detailed herein.

Investors are advised that the prospectus is available in French and English.

This document is a promotional material relating to the financial product(s) mentioned herein. The prospectus and the Key Investor Information Document (KIID) are available on the WisdomTree website: https://www.wisdomtree.eu/resource-library/prospectus-and-regulatory-reports

The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Central Bank of Ireland as UCITS compliant with European regulations although it may not have to comply with the same rules as those applicable to a similar product approved in France.

The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, any supplements or addenda thereto, the Key Information Document, the latest annual reports and the instrument of incorporation) are available in France, free of charge at the French centralizing agent,

Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this UCITS presents disproportionate communication on the consideration of non-financial criteria in its management.

For Investors in Malta: This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

For Investors in Monaco: This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.

For Investors in Israel: Offering materials for the offering of the Shares and securities have not been filed with or approved or disapproved by the United States Securities and Exchange Commission or any other state or federal regulatory authority, nor has any such regulatory authority passed upon or endorsed the merits of this offering or passed upon the accuracy or completeness of any offering materials. Any representation to the contrary is unlawful. The products mentioned herein have not been approved by the Israel Securities Authority and will only be distributed to Israeli residents in a manner that will not constitute “an offer to the public” under sections 15 and 15a of the Israel Securities Law, 5728-1968 (“the Securities Law”) or section 25 of the Joint Investment Trusts Law, 5754-1994 (“the Joint Investment Trusts Law “), as applicable. The products are being offered to a limited number of investors (35 investors or fewer during any given 12 month period) and/or those categories of investors listed in the First Addendum (“the Addendum”) to the Securities Law, “Sophisticated Investors”) who in each case have provided written confirmation that they qualify as Sophisticated Investors, and that they are aware of the consequences of such designation and agree thereto; in all cases under circumstances that will fall within the private placement or other exemptions of the Joint Investment Trusts Law, the Securities Law and any applicable guidelines, pronouncements or rulings issued from time to time by the Israel Securities Authority.

This prospectus or this document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Any offeree who purchases a product is purchasing such product for its own benefit and account and not with the aim or intention of distributing or offering such product to other parties (other than, in the case of an offeree which is a Sophisticated Investor by virtue of it being a banking corporation, portfolio manager or member of the Tel-Aviv Stock Exchange, as defined in the Addendum, where such offeree is purchasing a product for another party which is a Sophisticated Investor).

Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Counselling, Investment Marketing and Portfolio Management Law, 5755-1995. Investors are encouraged to seek competent investment counselling from a locally licensed investment counsel prior to making the investment. A recipient of this document may be required to

provide confirmation that it is a Sophisticated Investor purchasing a product for its own account or, where applicable, for other Sophisticated Investors.