Beyond 60/40: Boosting Portfolio Efficiency

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Key Takeaways

- Capital efficiency can help investors preserve core stock and bond exposure while creating capacity for alternative strategies.
- WisdomTree Efficient Core Models combine capital-efficient equity and fixed income exposure with traditional equities, fixed income and alternatives.
- The Moderate and Aggressive models use different allocations to address varying risk tolerances while maintaining meaningful exposure to alternatives.

For decades, the 60/40 portfolio has served as a foundational framework for investors, pairing equities for growth potential with fixed income for diversification and stability. But today, portfolio construction has become increasingly complex with higher yields, heightened inflation uncertainty, and shifting correlations between stocks and bonds.

As investors look to broaden their sources of return and diversification, one of the challenges is preserving core equity and fixed income exposure while creating room for alternative strategies.

This is the idea behind capital efficiency. Rather than viewing a portfolio as a fixed amount of capital that must be divided among stocks, bonds and alternatives, capital efficient strategies allow investors to think differently about how that capital is deployed.

The goal isn't necessarily to move beyond the core. It is to make the core work harder.

WisdomTree Efficient Core Models build on this concept by combining capital efficient equity and fixed income exposure with traditional equity, fixed income and alternative strategies. The result is a multi-asset portfolio designed to provide diversified sources of return while maintaining a core allocation of stocks and bonds.

From a 60/40 Portfolio to a More Diversified Portfolio

Consider a hypothetical investor who wants a traditional 60/40 portfolio but also wants a 20% allocation to alternative strategies.

A conventional approach would require a reduction in the allocation to stocks and bonds:

50% Equity + 30% Fixed Income + 20% Alternatives

The investor has added alternatives but at the expense of the traditional portfolio's core allocation.

A capital efficient approach provides another option. By using equities and overlays of Treasury futures to maintain core stock and bond exposure, investors can create additional capacity that can be used to expand the investment opportunity set.

60% Equity + 40% Fixed Income + 20% Alternatives

This is the role capital efficiency plays within the WisdomTree Efficient Core Model Portfolios.

Capital Efficiency is the Starting Point, Not the Destination

The WisdomTree U.S. Efficient Core Fund (NTSX) illustrates this concept.

NTSX seeks to provide exposure to U.S. large-cap equities while using Treasury futures to obtain additional fixed income exposure. Approximately 90% of the portfolio is allocated to equities, with approximately 60% notional exposure to Treasury futures and the remaining 10% of capital invested as collateral.

The result is approximately 150% notional exposure to 60/40 from 100% of invested capital.

To diversify outside the U.S., we apply this concept to international developed and emerging markets through WisdomTree International Efficient Core Fund (NTSI) and WisdomTree Emerging Markets Efficient Core Fund (NTSE).

Two Models, Many Ways to Implement the Approach

The WisdomTree Efficient Core Moderate Model Portfolio and the WisdomTree Efficient Core Aggressive Model Portfolio provide different starting points for investors with different risk tolerances.

The Moderate Model is designed around a 60/40 risk profile placing greater emphasis on capital-efficient core exposure and maintains a meaningful allocation to alternatives and fixed income.

The Aggressive model is designed around an 80/20 risk profile and has greater allocation to traditional equities and less traditional fixed income exposure, while maintaining a meaningful alternatives allocation.

Building Portfolios Around the Core

Efficient Core models employ capital efficiency as a tool to actively construct and optimize portfolios. The models are built using four structural components:

Target Allocation	WisdomTree Efficient Core Moderate Model	WisdomTree Efficient Core Aggressive Model
Capital Efficient Core	47%	31%
Equity	18%	47%
Fixed Income	10%	0%
Alternatives	25%	22%

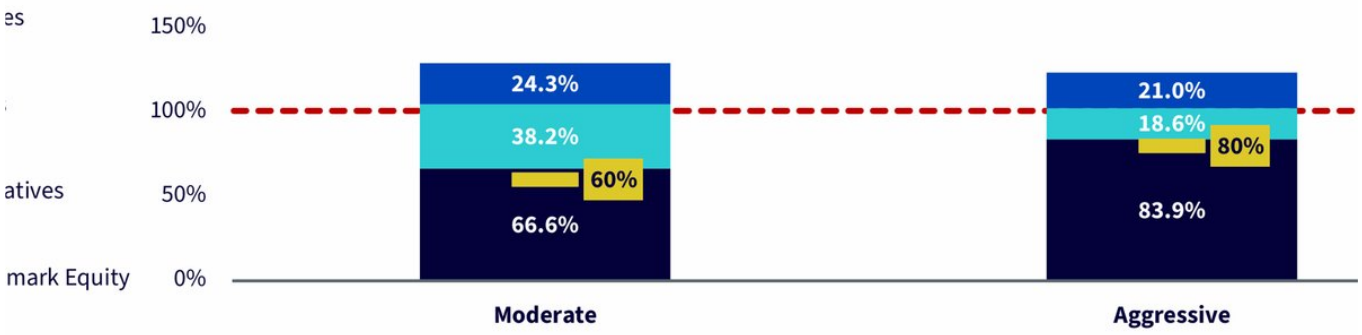
Model portfolio allocations as of 8/31/26.

1. **Capital Efficient Core** is the foundation of both portfolios providing broad equity and Treasury exposure with less invested capital using strategies such as NTSX, NTSI and NTSE.
2. The models also complement the beta exposure with **traditional equity strategies**. This allows the portfolios to tilt broad market exposure with more differentiated equity characteristics or factor exposures.
3. **Fixed Income** retains an important portfolio role even though Treasury futures are part of the Efficient Core allocation. We complement Treasuries with dedicated exposures to mortgages and high yield.
4. Capital efficiency becomes particularly interesting when it comes to **alternatives**. A meaningful portion of the portfolio is allocated to strategies designed to provide sources of return and diversification beyond traditional stocks and bonds. These include managed futures, gold, anti-beta and other alternative approaches.

The objective isn't to identify one asset class that will outperform. It is to build a portfolio where different return drivers can potentially contribute during different market environments.

WisdomTree Efficient Core Model Portfolios Notional Exposure

The capital efficiency of the models becomes particularly apparent when looking at notional exposure, i.e. the economic exposure a portfolio has to each asset class, rather than simply the amount of capital allocated to each holding. Because the Efficient Core ETFs use Treasury futures to supplement their underlying equity exposure, a portion of the portfolio's capital can generate exposure greater than the amount invested.



Conclusion

The traditional 60/40 portfolio remains a useful starting point for thinking about portfolio construction. Today, investors have access to a much broader range of strategies than they did when the framework first became popular. The challenge is not simply finding additional investments. It is finding a way to incorporate them without unnecessarily sacrificing the core exposures that investors still require.

Capital efficiency provides one potential solution and Efficient Core Model Portfolios take the concept one step further by using that capital efficiency as part of a broader multi-asset portfolio construction framework.

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