Considering Commodity Exposures within a Portfolio Context

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Key Takeaways

- Investors seeking to diversify beyond traditional 60/40 portfolios can use WisdomTree's Efficient Core approach to add exposure to commodities and gold without significantly reducing equity or fixed income allocations.
- Hypothetical blends incorporating leveraged ETFs like NTSX, GCC and GDE have historically outperformed a standard 60/40 allocation, with gold exposure playing a key role in boosting returns.
- While efficient core strategies can create space for alternative asset classes, investors should carefully consider the risks of leverage and how different exposures interact in various market conditions.

We have been writing about concepts of broad commodity exposure and efficient core for some time, but we wanted to step back and consider how these ideas might come together in a broader portfolio context.

Within this piece, we will set up an array of hypothetical exposures that utilize different WisdomTree ETFs as building blocks. We also created a hypothetical benchmark, 60/40 U.S. equity to U.S. fixed income exposure. With these blends, we are not seeking to recommend anything specific but rather to illustrate what types of characteristics different hypothetical blends might have.

Introducing the ETF Toolkit

- **WisdomTree U.S. Efficient Core Fund (NTSX):** The exposure is defined at 90% invested in the 500 largest U.S. equities, defined by market capitalization, with the other 10% in short-term U.S. Treasuries as collateral for a futures position. The futures position is defined as a 60% notional exposure to U.S. Treasury futures. The total exposure therefore includes the impact of leverage, as 90% exposure to equities + 60% exposure to U.S. Treasury futures = 150% combined exposure, or, put another way, every $100 invested leads to a notional exposure of $150. Leverage has the potential to increase the volatility of an investment relative to either of the underlying asset classes viewed individually.

- **WisdomTree Enhanced Commodity Strategy Fund (GCC):** GCC represents a broadly diversified basket of commodities and intends to provide broad-based exposure to the following four commodity sectors: Energy, Agriculture, Industrial Metals and Precious Metals, primarily through investments in futures contracts. The Fund may also invest up to 10% of its net assets in any combination of shares of one or more exchange-traded products that primarily hold bitcoin and in bitcoin futures contracts. The Fund will not invest in bitcoin directly.
- **iShares Core S&P 500 ETF (IVV):** IVV seeks to track the price and yield performance of an Index, the S&P 500, that is comprised of large-market-capitalization U.S. companies.
- **iShares Core U.S. Aggregate Bond ETF (AGG):** AGG seeks to track the price and yield performance of an Index, the Bloomberg U.S. Aggregate Index, comprised of certain segments of investment-grade U.S. fixed income.

Figure 1: Standardized Returns

Fund/Blend Name	Blend Short Name	Fund Ticker Symbol	Fund/Blend Inception Date	Fund Expense Ratio	1-Year	3-Year	5-Year	10-Year	Since Fund Inception
60% NTSX, 20% GCC, 20% GDE (NAV)	Blend 1		3/17/22		23.98%	N/A	N/A	N/A	8.68%
60% IVV, 40% AGG (NAV)	Baseline 60/40		9/22/03		15.54%	4.58%	8.72%	8.51%	7.91%
67% NTSX, 33% GCC (NAV)	Blend 2		12/21/20		18.27%	4.90%	N/A	N/A	9.07%
WisdomTree U.S. Efficient Core Fund (NAV)		NTSX	8/2/18	0.20%	19.76%	3.15%	10.87%	N/A	11.58%
WisdomTree U.S. Efficient Core Fund (MP)		NTSX	8/2/18	0.20%	20.13%	3.21%	10.94%	N/A	11.63%
WisdomTree Enhanced Commodity Strategy Fund (NAV)		GCC	12/21/20	0.55%	15.26%	6.11%	N/A	N/A	9.77%
WisdomTree Enhanced Commodity Strategy Fund (MP)		GCC	12/21/20	0.55%	14.98%	5.96%	N/A	N/A	9.67%
WisdomTree Efficient Gold Plus Equity Strategy Fund (NAV)		GDE	3/17/22	0.20%	45.39%	N/A	N/A	N/A	18.63%
WisdomTree Efficient Gold Plus Equity Strategy Fund (MP)		GDE	3/17/22	0.20%	44.62%	N/A	N/A	N/A	18.63%
iShares Core S&P 500 ETF (NAV)		IVV	5/15/00	0.03%	24.98%	8.91%	14.49%	13.06%	7.79%
iShares Core S&P 500 ETF (MP)		IVV	5/15/00	0.03%	24.93%	8.90%	14.51%	13.07%	7.79%
iShares Core U.S. Aggregate Bond ETF (NAV)		AGG	9/22/03	0.03%	1.37%	-2.37%	-0.34%	1.31%	3.00%
iShares Core U.S. Aggregate Bond ETF (MP)		AGG	9/22/03	0.03%	1.31%	-2.36%	-0.35%	1.29%	2.99%

Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, accessed 2/27/25, with returns as of 12/31/24. NAV denotes total return performance at net asset value. MP denotes market price performance. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performances, click the relevant ticker: NTSX, GCC, GDE, IVV, AGG.**

Introducing the Blends

In figure 2, we showcase two distinct hypothetical allocations or blends that focus on thinking about different levels of broad commodity exposure and sometimes utilize WisdomTree's Efficient Core methodology through either NTSX, GDE or both.

- **Blend 1:** Here, we see 60% NTSX, 20% GDE and 20% GCC. This leads to 72% exposure to U.S. equities, 36% exposure to U.S. fixed income, 18% exposure to gold and 20% exposure to broad commodities. Due to Efficient Core, which does incorporate leverage and, therefore, a greater overall notional exposure, each hypothetical $100 allocated into blend 1 leads to $146 of notional exposure.
- **Blend 2:** Here, we see 67% NTSX and 33% GCC. This leads to 60.3% exposure to U.S. equities, 40.2% exposure to U.S. fixed income and 33% exposure to broad commodities. This blend does incorporate exposure to Efficient Core and does include leverage, so a hypothetical $100 invested leads to $133.5 of notional exposure.
- **Baseline 60/40 Exposure:** An allocation to U.S. assets, 60% equity and 40% fixed income, is one of the most widely followed starting points in asset allocation. IVV and AGG are among the largest ETFs that represent market capitalization-weighted benchmark exposures.

Figure 2: The Blends

Blend	Fund Exposure		Notional Asset Class Exposure	
Blend 1	NTSX	60%	U.S. Equity	54%
			U.S. Fixed Income	36%
	GDE	20%	U.S. Equity	18%
			Gold	18%
	GCC	20%	Broad Commodities	20%
	Total	**100%**	**Total**	**146%**
Blend 2	NTSX	67%	U.S. Equity	60.3%
			U.S. Fixed Income	40.2%
	GCC	33%	Broad Commodities	33.0%
	Total	**100%**	**Total**	**133.5%**
Baseline 60/40 Exposure	IVV	60%	U.S. Equity	60%
	AGG	40%	U.S. Fixed Income	40%
	Total	**100%**	**Total**	**100%**

Source: WisdomTree. Blends are created for hypothetical illustration purposes only and should not be construed as recommendations. Strategies that incorporate leverage could lead to higher overall portfolio volatility.

Efficient Core: Making Room within Portfolio Allocations

Investors take a lot of time to craft appropriate asset allocations, and 60% equity, 40% fixed income is often a starting point. At the same time, the options on the overall investment menu have dramatically expanded. Many might feel like they are sitting on a seesaw—on one side, considering an appropriate asset allocation for their goals and risk tolerance, and on the other side, wanting to represent some of the "new, cool tools" in their portfolio.

Efficient Core allocations represent one way to create space in a portfolio for some of those "interesting options," if that is indeed desired. In this piece, we showcase using it to add exposures to commodities and gold without dramatically reducing either the equity or fixed income component. To be fair, this approach does use leverage, and leverage may increase the overall volatility of returns, so it is important to always have this in mind when looking at Efficient Core.

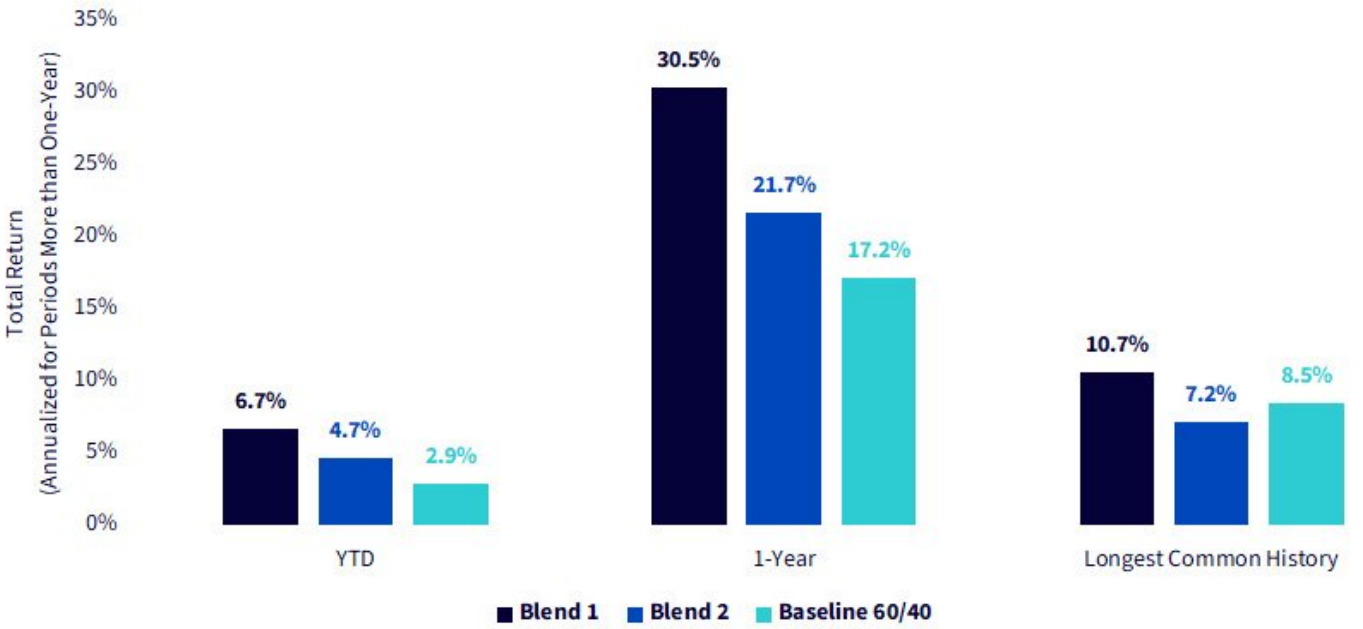
- **Blend 1:** Created space for 38% exposure to the combination of gold and broad commodities. U.S. fixed income exposure was not dramatically reduced—still at 36%. U.S. equity exposure was actually increased to 72%. This hypothetical allocation might allow someone to think about adding exposure to hard assets in case the U.S. dollar exhibits weakness after its period of prolonged strength. The risk in such an allocation is that the long exposures to U.S. equity, U.S. fixed income, gold and broad commodities play out in a manner that each of these components is contributing a negative return at a similar time.
- **Blend 2:** Created space for 33% exposure to broad commodities. Neither U.S. fixed income exposure nor U.S. equity exposure was dramatically shifted if we begin our thinking from a 60/40 baseline. Investors may believe in an exposure to commodities for many different reasons—this is simply one example that is possibly supported by a thesis of stickier inflation or a weaker U.S. dollar.

Where the Rubber Meets the Road: Performance

The concept of hypothetical blends, in our opinion, makes a lot of sense, but it's important to consider how these ideas have translated back to performance. In figure 3, we look across the available live history of the underlying ETFs and indicate how these different blends have performed over a few periods.

- **YTD:** Over this period, each of the WisdomTree hypothetical blends did outperform the baseline 60/40 allocation.
- **One-Year:** Over this period, the two WisdomTree hypothetical blends outperformed the baseline 60/40 allocation. Blend 1 was the clear leader, but blend 2 was also strong. If people are curious about the primary difference between these two allocations, it is the 18% exposure to gold that is present in blend 1 and not in blend 2. Gold's price has been dramatically appreciating.
- **Longest Common History:** Over this period, blend 1 was able to outperform the baseline 60/40 exposure. When considering the difference in performance between blend 1 and blend 2, investors must look toward gold and how gold's price has appreciated significantly over the period. Blend 1 is 18% exposed to gold, whereas blend 2's gold exposure would just be one of the commodities on the broad list included within GCC.

Figure 3: Performance



Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, accessed 2/17/25, with returns as of 12/31/24. Longest Common History denotes the period starting at GDE's inception and going through 2/14/25. NAV denotes total return performance at net asset value. MP denotes market price performance. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performances and to download the respective Fund prospectuses, click the relevant ticker: NTSX, GCC, GDE, IVV, AGG.**

Conclusion

The inherent challenge to thinking about blends and portfolios is that the options are truly limitless. Each investor might have different goals, risk tolerances and other preferences. In this piece, we were seeking to look at a few hypothetical allocations that could help investors picture how using Efficient Core might open up space in an asset allocation to bring in other exposures. While these illustrations brought in gold and broad commodities, we'd note that these are far from the only options.

Figure 4: Additional Information

Fundamentals	WisdomTree U.S. Efficient Core Fund (NTSX)	WisdomTree Efficient Gold Plus Equity Strategy Fund (GDE)	iShares Core S&P 500 ETF (IVV)	SPDR Gold Shares	iShares Core U.S. Aggregate Bond ETF (AGG)
Objective	The WisdomTree U.S. Efficient Core Fund* seeks total return by investing in large-capitalization U.S. equity securities and U.S. Treasury futures contracts.	The WisdomTree Efficient Gold Plus Equity Strategy Fund seeks total return by investing, either directly or through a wholly-owned subsidiary, in a portfolio comprised of U.S.-listed gold futures contracts and U.S. large-cap equity securities.	IVV seeks to track the price and yield performance of an index, the S&P 500, that is comprised of large market capitalization U.S. companies.	The investment objective of SPDR® Gold Trust (the "Trust") is for SPDR® Gold Shares ("GLD") to reflect the performance of the price of gold bullion, less the Trust's expenses.	AGG seeks to track the price and yield performance of an index, the Bloomberg U.S. Aggregate Index, comprised of certain segments of investment grade U.S. Fixed Income.
SEC 30-Day Yield	1.34%	0.94%	1.17%	N/A	4.39%
Total Expense Ratio	0.20%	0.20%	0.03%	0.40%	0.03%
Total Assets Under Management (millions)	$1,173.76	$148.91	$591,283.60	$100,276.78	$124,824.87

Sources: WisdomTree and the Fund pages of the non-WisdomTree ETFs.

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

NTSX: While the Fund is actively managed, the Fund's investment process is expected to be heavily dependent on quantitative models, and the models may not perform as intended. Equity securities, such as common stocks, are subject to market, economic and business risks that may cause their prices to fluctuate. The Fund invests in derivatives to gain exposure to U.S. Treasuries. The return on a derivative instrument may not correlate with the return of its underlying reference asset. The Fund's use of derivatives will give rise to leverage, and derivatives can be volatile and may be less liquid than other securities. As a result, the value of an investment in the Fund may change quickly and without warning, and you may lose money. Interest rate risk is the risk that fixed income securities, and financial instruments related to fixed income securities, will decline in value because of an increase in interest rates and changes to other factors, such as the perception of an issuer's creditworthiness.

GCC: An investment in this Fund is speculative, involves a substantial degree of risk and should not constitute an investor's entire portfolio. One of the risks associated with the Fund is the complexity of the different factors that contribute to the Fund's performance. These factors include the use of commodity futures contracts. In addition, bitcoin and bitcoin futures are a relatively new asset class. They are subject to unique and substantial risks and, historically, have been subject to significant price volatility. While the bitcoin futures market has grown substantially since bitcoin futures commenced trading, there can be no assurance that this growth will continue. In addition, derivatives can be volatile and may be less liquid than other securities and more sensitive to the effects of varied economic conditions. The value of the shares of the Fund relate directly to the value of the futures contracts and other assets held by the Fund, and any fluctuation in the value of these assets could adversely affect an investment in the Fund's shares. Because of the frequency with which the Fund expects to roll futures contracts, the price of futures contracts further from expiration may be higher (a condition known as "contango") or lower (a condition known as "backwardation"), and the impact of such contango or backwardation may be greater than the impact would be if the Fund experienced less portfolio turnover.

GDE: The Fund is actively managed and invests in U.S.-listed gold futures and U.S. equity securities. The Fund's use of U.S.-listed gold futures contracts will give rise to leverage, magnifying gains and losses and causing the Fund to be more volatile than if it had not been leveraged. Moreover, the price movements in gold and gold futures contracts may fluctuate quickly and dramatically, and have a historically low correlation with the returns of the stock and bond markets. U.S. equity securities, such as common stocks, are subject to market, economic and business risks that may cause their prices to fluctuate. The Fund's investment strategy will also require it to redeem shares for cash or to otherwise include cash as part of its redemption proceeds, which may cause the Fund to recognize capital gains.

IVV: Carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and other information can be found in the Fund's prospectus and, if available,

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Investing involves risk, including the possible loss of principal.

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Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

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