

Portfolio Pilates: Building a Strong Core, Part II

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This article is relevant to financial professionals who are considering offering Model Portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.

In the first of this two-part blog “mini-series,” we focused on our [Core Equity Model Portfolio](#). In this one, we focus on our **Fixed Income Model Portfolio**.

As a reminder, these two Model Portfolios serve as the base for almost every other Model Portfolio we manage, including our **Strategic Multi-Asset** Model Portfolios, [Endowment Model Portfolios](#), [Multi-Asset Income Model Portfolios](#) and [Siegel-WisdomTree Longevity Model Portfolio](#).

As with all WisdomTree Model Portfolios, our Core Equity and Fixed Income Model Portfolios share certain common characteristics, with some differences for the Fixed Income Model Portfolio, given it is a fundamentally different asset class:

1. They are global in nature. WisdomTree is a global asset management firm, and we believe in global diversification.
2. They are ETF-centric, which we believe helps optimize fees and taxes.
3. They are “open architecture” and allocate to both WisdomTree and third-party strategies. This (a) is just the right thing to do for advisors and end clients, (b) allows us the freedom to deploy other firms’ “best ideas” and (c) helps us build both asset class and risk factor [diversified portfolios](#).
4. The factor characteristics (quality, duration, yield, etc.) embedded into most WisdomTree fixed income ETFs allow us to construct “core/satellite” portfolios in a more cost- and tax-effective manner than the traditional approach of using mostly active managers when running a fixed income portfolio. Fixed income mutual funds, in particular, tend to be more expensive and less tax-efficient than ETFs.
5. WisdomTree charges no strategist fee on any of its Model Portfolios—our revenue is generated only by the expense ratios of the WisdomTree products that are included in any given Model Portfolio.

As one of our “strategic building blocks,” our Fixed Income Model Portfolio is used as a stand-alone Model Portfolio and serves as a foundation for our fixed income exposures within multi-asset models. Adjustments

to this core are often made to enhance diversification as the targeted asset class mix changes across balanced models, but the Fixed Income Model Portfolio lies at the core of our relative thinking.

The Fixed Income Model Portfolio

Let's now dive into the Model Portfolio itself. The investment mandate of the overall Model Portfolio is as follows:

- 1. Investment Objective:** Deliver superior risk-adjusted total return and yield to its benchmark, the Bloomberg Aggregate Bond Index (the “Agg”), which broadly tracks the performance of the U.S. investment-grade bond market and is composed of both government and investment-grade corporate bonds (including U.S. Treasuries and the debt of major industries such as real estate, industrial companies, financial institutions and utilities).
- 2. Investment Strategic Framework:** Establish defined risk parameters for key fixed income attributes—interest rate risk, credit risk, volatility risk, currency risk—to frame the investment approach in meeting the objective.
- 3. Investment Approach:** The portfolio is actively managed with respect to duration, credit quality and security selection to achieve the desired objective through prudent investment management.

The portfolio contains eight individual line items of globally diversified fixed income ETFs. It is primarily a U.S.-focused portfolio, with only a small allocation (4%) devoted to emerging market local debt via our own [ELD](#). Of the eight line-item allocations, the Model Portfolio holds six WisdomTree products (84% of the dollar allocation) and two third-party strategies (16% of the dollar allocation).

The “core” of the Model Portfolio is a 35% allocation to our own core-plus bond strategy, [AGGY—the WisdomTree Yield Enhanced U.S. Aggregate Bond Fund](#). This Fund is designed and managed to track the Agg but generate superior risk-controlled yield and total return.

We then surround that core position with individual sector allocations, including mortgages and other securitized credit (via our own [MTGP](#)), high yield (via [WFHY](#), our primary high-yield strategy that screens for quality by eliminating negative earners from inclusion in the underlying Index), longer-duration Treasuries that may serve as a hedge to the broader portfolio equity allocations and shorter-duration/floating rate strategies that we use as duration management tools.

The overall Model Portfolio is short duration and slightly over-weight in quality credit relative to the Agg, and we remain comfortable with that positioning.

As you see in the performance summary below, depending on whether you look at net asset value (NAV) or market price (MP) returns for a given time frame, the Fixed Income Model Portfolio has outperformed the Agg over almost every period since its inception in 2013—not an easy thing to do in an actively managed fixed income portfolio.

WisdomTree Fixed Income Model Portfolio

1.97%Model 12-Month Dividend Yield
(As of 02/28/2022)**0.22%**

Model Expense Ratio

12/18/2013

Inception date

100%

Fixed Income

[Model Performance](#) | [Model Allocations](#) | [Model Exposures](#) | [Fund Performance](#) | [Fund Details](#)

As of 2/28/2022	Cumulative Returns			Average Annual Total Returns				
Name	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
WisdomTree Fixed Income Model Portfolio (NAV)	-1.06%	-2.81%	-2.96%	-2.35%	3.10%	2.76%	-	2.95%
WisdomTree Fixed Income Model Portfolio (MP)	-1.25%	-2.94%	-3.09%	-2.31%	2.97%	2.70%	-	2.91%
Bloomberg U.S. Aggregate Bond Index	-1.12%	-3.49%	-3.25%	-2.64%	3.30%	2.71%	-	2.84%

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost.

The Model Portfolio performance results shown are theoretical and do not reflect any investor's actual experience with owning, trading or managing an actual investment. Thus, the performance shown does not reflect the impact that economic and market factors had or might have had on decision making if actual investor money had been managed and allocated per the Model Portfolio. Actual performance achieved in seeking to follow the Model Portfolio may differ from the theoretical performance shown for a number of reasons, including the timing of implementation of trades (including rebalancing trades to adjust to Model Portfolio changes), market conditions, fees and expenses (e.g., brokerage commissions, deduction of advisory or other fees or expenses charged by advisors or other third parties to investors, strategist fees and/or platform fees), contributions, withdrawals, account restrictions, tax consequences, and/or other factors, any or all of which may lower returns. While Model Portfolio performance may have performed better than the benchmark for some or all periods shown, the performance during any other period may not have, and there is no assurance that Model Portfolio performance will perform better than the benchmark in the future. Model Portfolio performance calculations assume reinvestment of dividends, are pre-tax and are net of fund expenses.

ETF shares are bought and sold at market price (not NAV) and are not individually redeemable from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

Model 12-month yield is calculated using the weighted average trailing 12-month distribution yields of the Fund constituents. Funds inception less than 12 months do not have a trailing 12-month dividend yield.

For individual Fund standardized performance, Fund-specific links for yield, most recent month-end performance and a prospectus, please click [here](#).

Three final observations:

1. The current expense ratio for our Fixed Income Model Portfolio is 0.22% (22 basis points), which we believe is attractive for an actively managed global fixed income portfolio.
2. Through February 28, 2022, the underlying funds within the Model Portfolio had an aggregate yield of 2.97% versus 2.33% for the Agg Index.
3. Our active management of this Model Portfolio has allowed us to generally outperform the Agg on both a total return and a yield basis without taking excessive risk relative to that Index. We attribute this to both smart asset allocation and smart security decisions.

Conclusion

The WisdomTree Fixed Income Model Portfolio is a foundational base for almost every other Model Portfolio we manage. It is constructed to deliver better risk-adjusted performance relative to its benchmark, and it has consistently done so since its inception in 2013.

Given our views on the current and future evolution of both interest rates and credit spreads, we are optimistic we can continue this consistent performance well into the future.

Financial advisors can register with WisdomTree to access fully transparent information (performance, fees, yield, allocations, etc.) via our [Model Adoption Center](#).

We hope you take a look.

Important Risks Related to this Article

Neither diversification nor an asset allocation strategy assures a profit or eliminates the risk of experiencing investment losses. You cannot invest directly in an index.

For retail investors: WisdomTree's Model Portfolios are not intended to constitute investment advice or investment recommendations from WisdomTree. Your investment advisor may or may not implement WisdomTree's Model Portfolios in your account. The performance of your account may differ from the performance shown for a variety of reasons, including but not limited to: your investment advisor, and not WisdomTree, is responsible for implementing trades in the accounts; differences in market conditions; client-imposed investment restrictions; the timing of client investments and withdrawals; fees payable; and/or other factors. WisdomTree is not responsible for determining the suitability or appropriateness of a strategy based on WisdomTree's Model Portfolios. WisdomTree does not have investment discretion and does not place trade orders for your account. This material has been created by WisdomTree, and the information included herein has not been verified by your investment advisor and may differ from information provided by your investment advisor. WisdomTree does not undertake to provide impartial investment advice or give advice in a fiduciary capacity. Further, WisdomTree receives revenue in the form of advisory fees for our exchange-traded Funds and management fees for our collective investment trusts.

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WisdomTree primarily uses WisdomTree Funds in the Model Portfolios unless there is no WisdomTree Fund that is consistent with the desired asset allocation or Model Portfolio strategy. As a result, WisdomTree Model Portfolios are expected to include a substantial portion of WisdomTree Funds, notwithstanding that there may be a similar fund with a higher rating, lower fees and expenses or substantially better performance. Additionally, WisdomTree and its affiliates will indirectly benefit from investments made based on the Model Portfolios through fees paid by the WisdomTree Funds to WisdomTree and its affiliates for advisory, administrative and other services.