



April 2024

WisdomTree Global Megatrends Equity Index Methodology



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The WisdomTree Global Megatrends Equity Index is designed to track the performance of global listed companies involved in global megatrends including social, demographic, technological, environmental or geopolitical shifts defined in the WisdomTree Thematic Classification¹.

The Index is built around 4 layers of alpha generation:

1. The Strategic Thematic Asset Allocation:

The index invests in a curated portfolio of investment themes to focus on the most promising themes at a given time whilst maximising diversification amongst themes.

2. The Tactical Thematic Asset Allocation:

Themes are driven by various factors over time, from regulatory changes, macro-economic background, to technological advances and evolving consumer preferences. This can produce both tailwinds and headwinds in a theme's development.

The index uses momentum signals to overweight and underweight themes to adapt to the prevailing market conditions.

3. The Thematic Stock Selection:

The index uses multiple thematic experts to build a systematic framework to identify the most relevant, pure-play companies for each theme.

4. Final Momentum Stock Selection:

The number of holdings is reduced to around 650 stocks by focusing on the stocks with the highest momentum within each theme. The relative weight of each theme remains unchanged.

¹ For the WisdomTree Thematic Classification please refer to the Appendix at the end of the document

Rebalancing Process



Theme Selection: Annually, the theme selection process is executed in April.

Weights for Tactical Themes and

Underlying Stocks: The Index is rebalanced on a quarterly basis in January, April, July and October. This is when the different theme tactical weights and the underlying stocks’ weights are adjusted.

Thematic Stock Selection: The Thematic Stock Selection takes place semi-annually.

Index Construction

1. The Strategic Thematic Asset Allocation

On an annual basis, around 15 themes are selected from the “WisdomTree Thematic Classification”, which classifies themes across 4 megatrends:



Technological Shifts



Demographic and Social Shifts



Environmental Pressures



Geopolitical Shifts

The theme selection is based on qualitative and quantitative indicators, focusing on 3 main criteria:

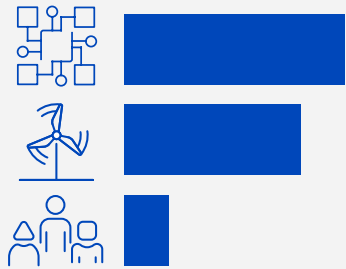
- + **Conviction:** High-conviction themes are the themes with greater market size, growth potential and investable universe.
- + **Diversification Potential:** Themes are assessed through a combination of hierarchical clustering calculated on the excess returns (vs. global equity benchmark) of each of the themes, along with the WisdomTree Thematic Classification as defined above.
- + **Alignment with the UN Sustainable Development Goals (SDGs):** Themes are assessed by looking at the proportion of revenues aligned to the different SDGs for all the stocks in each theme. Themes with differentiated SDG exposure and higher revenue exposure to SDGs are prioritised.

The 3 relevant Megatrends are weighted on rebalancing as follows:

50% for Technological Shifts

40% for Environmental Pressures

10% for Demographic and Social Shifts



The themes are then equally weighted within each megatrend.

2. The Tactical Thematic Asset Allocation

The tactical allocation is based every quarter on a **momentum score** calculated independently for each theme by looking at the crossings of the 3-month and 12-month moving averages of the relative performance of the theme compared to the global equity benchmark. Depending on the momentum scores, the weighting of each theme is modified by a multiplier ranging from 0.5 to 1.5.

The final weight of each theme at the quarterly rebalancing is its strategic weight multiplied by the theme's tactical multiplier.

3. Thematic Stock Selection

The theme basket means a portfolio of companies, which have high exposure and are considered as the good representation of the relevant theme.

When available, the theme basket is derived from the portfolio of the relevant **WisdomTree equity Thematic ETFs** for that Theme. This allows investors to benefit from all the work done by WisdomTree and the relevant thematic expert for that theme. All the eligibility criteria, selection rules and weighting rules are those defined in partnership with the relevant thematic expert.

Hence, each theme basket is a diversified portfolio of expert-picked, pure-play, up-and-coming companies that are highly relevant to the theme.

For the selected themes where WisdomTree equity thematic ETFs are not available, the Index uses a rule-based approach to construct the relevant theme baskets:

Eligible Universe

Companies incorporated, domiciled and listed on eligible stock exchanges in developed or emerging markets

Eligibility Screen

- + Market capitalisation of at least **\$500 million**
- + Median daily dollar volume greater than **\$1 million** for the three months

ESG Screen

Companies are excluded from the universe based on the following Environmental, Social and Governance (ESG) criteria.

WisdomTree ESG criteria include norms-based and activity-based exclusions, including:

- United Nations Global Compact (UNGC)
- Controversial weapons
- Tobacco
- Thermal Coal
- Unconventional oil and gas exploration/ production
- Small Arms

To obtain further information regarding the WisdomTree ESG exclusions, kindly refer to our [responsible investing page](#).

Stock Selection in the Theme Basket

Stocks are selected based on their economic activity related to the relevant theme.

A company's engagement in these activities is indicated via applicable language in its company description, annual report, 10K or equivalent report, earnings call transcripts, patent submissions, news and press releases, as well as via revenue exposure.

Stock Weighting in the Theme Basket

Stocks are weighted by market cap adjusted by its revenue related to the theme.



4. Final Momentum Stock Selection

Momentum Score

A momentum score is calculated for each stock, which is based on 6-month and 12-month returns for each stock.

Selection

Companies with lower momentum scores are removed from each theme proportionally such that approximately **650 stocks are selected** for the Index when combining the holdings from all the themes.

Final Weighting

The Index looks through each theme basket and derives each stock's weight as the cumulative sum of its weight in each theme basket multiplied by the theme weight in the index.

% Cap

The maximum weight of any stock in the Index is capped at 3% at rebalancing.

Liquidity Adjustment

The weight of any stock can be adjusted to make sure that its volume factor (median daily volume last 3 months divided by the weight of the stock) is at least **\$400m**.

2024 Theme Baskets for the WisdomTree Global Megatrends Equity Index

Megatrends	Selected Themes
Technological Shifts (50% weight)	Artificial Intelligence & Big Data Blockchain Cloud Computing Cybersecurity Digital Infrastructure HealthTech Semiconductors
Environmental Pressures (40% weight)	Sustainable Energy Production Sustainable Energy Storage Sustainable Food Sustainable Resource Management Nuclear Energy Transition Materials
Demographic & Social Shifts (10% weight)	Aging Population Rise of Emerging Markets Consumer Rise of the Middle Class

Appendix

WisdomTree’s Thematic Classification divides over 40 investment themes across four main megatrends: Technological Shifts, Demographic & Social Shifts, Geopolitical Shifts and Environmental Pressures.

Diversified Thematics							
Technological Shifts		Demographic and Social Shifts		Geopolitical Shifts		Environmental Pressures	
Disruptive Technologies	Hyper Connectivity & Digitalisation	Demographic Shifts	Social Shifts	Globalisation	Multi-polarity	Climate Change & Sustainability	Limited Resources
Artificial Intelligence & Big Data	Cloud Computing	Aging Population	Education	Global Logistics	China’s Rise	Decarbonisation	Agriculture & Food
Rise of China Tech		Millennials & Gen Z	Equality, Inclusion & Diversity		Political Polarisation	Protect Biodiversity	Natural Resources
Blockchain	Cybersecurity		Rise of the Middle Class		Rise of Tension	Sustainable Mobility	Water
HealthTech	Digital Health		Rise of EM Consumer		Near/Reshoring	Sustainable Energy Production	Nuclear
Industry 4.0	Digital Infrastructure		Wellness			Sustainable Energy Storage	
Next Gen Communications	Fintech & Digitalisation of Finance					Sustainable Food	
Robotics & Automation	Gaming & Entertainment					Sustainable Cities	
Semiconductors	Internet of Things					Sustainable Resource Management	
Smart Materials & Nano Tech	Metaverse					Extreme Events	
Space	Platforms & Digital Markets					Energy Transition Materials	
	Social Media & Media						

Source: WisdomTree. January 2024.

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