



Thematic investing: the best lens to look into the future

A thematic approach differs from traditional portfolio construction in that it is **unconstrained**, and therefore breaks out from the grid-like method of asset allocation. Thematic investing's search for new drivers of growth ignores geographical boundaries, style biases and market capitalization, and it cuts across traditional sector classifications that characterize equity investing most of the time. A thematic lens provides us with distinctive strategic advantages, namely the ability to look across all dimensions to identify emergent and potentially rewarding investment trends, and an analytical insight which allows to interpret the same information differently.

It also results in characteristics that differ vastly from the profile of the traditional stock-picking portfolio: it is inherently **benchmark agnostic**, breaking away from market-capitalisation weighted indices, which give more gravity to the winning industries and companies of the recent past, to invest in tomorrow's winners; these waves of change that are slow to form but impossible to reverse provide enduring growth that far outpaces quarterly or even annual earnings calendar, leading the investment horizon to be **long term by design**.



Not every trend represents a thematic investment opportunity

Primary forces may not always result in immediately actionable investments, but understanding them, what they mean and their long-term influence allows us to spot potentially nascent opportunities. From our experience, the most attractive opportunities materialize when multiple forces converge and reinforce one another to give rise to a theme.

These themes we identify as benefiting from secular shifts are judged based on 3 factors:

They must provide an opportunity to earn a sustainable long-term premium over the market (alpha).

They need to offer a duration of at least 10 years, but typically a much longer lifespan, allowing for a stable, long-term strategy that outlives business cycles and their swings as well as short-term trendiness.

They must be reasonably broad and deep to be investable and to create a diversified portfolio of high conviction stocks, and at the same time have a focused investment opportunity set.

What is in for you as an investor?

Adopting a thematic lens to equity investing has multiple merits for you as an investor.

Low correlation

Thematic investing can offer a low correlation of relative returns to traditional growth strategies and negative correlation of relative returns to traditional value strategies, offering diversification to your exiting investment portfolio, and may help in reducing its overall risk and volatility.

Sustainable alpha generation

While benchmark reflect past successes, thematic investing seeks to capture future growth through competitively advantaged firms in structurally growing industries, allowing investors to earn a market premium.

Address three major shortcomings of equity investment

First, in a context of anaemic growth, a thematic approach is the best lens to identify companies that can deliver superior growth in a sustainable way over the long term;
 Second, with markets heading towards ever-increasing short-termism in assessing companies' operating performance and in trading positions, thematic investing, which is long-term by design, seeks instead to invest in compounders and capture the opportunities that this duration gap offers;
 Last, in contrast with arbitrary market classifications (sector, geography) which are less and less relevant to grasp the reality of investment, thematic investing enables to better understand what one invests in and also gives a sense of purpose, besides financial returns.

One caveat though from the seasoned team of thematic experts at the helm of Thematic Asset Management: the way these strategies are designed, in terms of the scope of the theme, the breadth, depth and diversity of the investable universe and the robustness of the investment process are critical.



Active management is paramount

Thematic investing is intended to achieve a targeted and precise exposure to the entire value chain of an enduring theme with growth prospects. Investing today in tomorrow's winners cannot be done without opting for an active rather than passive approach to investing.

The global investment themes we identify are crucial in providing a perspective on the investment landscape, in identifying key long-term forces of change, and in giving us a framework for research and debate. For investors positioned correctly along the continuum of these themes there is the ability to witness and participate in significantly attractive returns.

But because these themes do not have a linear but rather a dynamic evolution over time, we are convinced that an active approach is key. It helps us navigate through choppy markets and steers us towards the best path to performance. Similarly, once we have identified a promising theme, a selective stock-picking based on a rigorous bottom-up analysis and the consideration of environmental, social and governance risks remain vital, as not all segments or companies of our thematic investment universes will prove as successful as the others. And there isn't a single variable that can tell you when the coast is clear or when it's time to start worrying. Only active management will help you identify at any point in time the best boats and the best skippers and monitor their route. It is the safest way to drive funds' performance and deliver value.

We believe there are several distinct themes shaping the modern world worth considering. We have created Thematics Asset Management to offer you the ability to gain exposure to such attractive investment opportunities. Thematics Artificial Intelligence & Robotics, Thematics Safety and Thematics Water funds, as well as Thematics Meta, which blends them all, are the first strategies for you to consider. All the information on the funds is available [here](#) and on the teams fully dedicated to managing them [here](#). Watch this space as we will pioneer a new theme fund shortly.