

Why expertise matters for thematic ETFs

Published 10 January 2024

Mobeen Tahir

Director, Research

Key Takeaways

- At WisdomTree, we have designed an approach that embeds expertise into thematic strategies giving investors a potential way to not only suitably capture the state of different megatrends today, but also better position themselves with an informed view of where the megatrend is headed.
- At WisdomTree, we partner with industry experts with domain knowledge and experience in the theme under consideration.
- Experts guide investors on the best ways to represent and capture the theme. Incorporating expertise into strategies enables us to build thematic solutions that have a low overlap with major equity benchmarks but also among the different themes.
- Related Products WisdomTree Megatrends UCITS ETF - USD Acc, WisdomTree Artificial Intelligence UCITS ETF – USD Acc, WisdomTree Cybersecurity UCITS ETF – USD Acc, WisdomTree Cloud Computing UCITS ETF - USD Acc, WisdomTree BioRevolution UCITS ETF – USD Acc, WisdomTree New Economy Real Estate UCITS ETF – USD Acc, WisdomTree Renewable Energy UCITS ETF - USD Acc, WisdomTree Blockchain UCITS ETF - USD Acc, WisdomTree Battery Solutions UCITS ETF - USD Acc Find out more

In our recent survey of professional investors in Europe¹, around 25% of all respondents said that passive strategies don't provide expert stock selection. While it is true that many passive strategies are designed to give investors a pure beta exposure to known benchmarks like the MSCI World or the S&P 500, passive vehicles have immense scope to adopt a smart approach where it makes sense.

Thematic investing is one such area. Investing in megatrends is all about having a vision for the future and putting money behind things that will change the world. In such a space, adopting a beta approach does not work as it is tantamount to looking backwards rather than focusing on what lies ahead. At WisdomTree, we believe that expert stock selection in passive exchange-traded funds (ETFs) can be immensely valuable for investors.

Different themes require different approaches

Certain rules can be applied universally. When building products you can mandate broadly similar filters across themes on things like stock liquidity, market capitalisation, and basic ESG². But stock selection

itself, from defining a universe of eligible companies to picking and weighting the stocks, requires a bespoke approach which makes sense for the given theme.

At WisdomTree, we partner with industry experts with domain knowledge and experience in the theme under consideration. For example, in [artificial intelligence \(AI\)](#), our partnership with the Consumer Technology Association (CTA) helped us identify the AI value chain and the relative importance of the various components within it. We define the AI value chain as engagers – companies whose focus is in providing AI-powered products and services, enablers – companies who are key players in this space, with some of their core products and services enabling AI, and enhancers – companies who are a prominent force in AI but whose relevant product or service is not currently a core part of their revenue.

This approach is in stark contrast with how we view the [automotive theme](#) with our two partners Berylls and LeanVal. To capture trends of connectivity, autonomous driving, shared mobility, and electrification, we look to capture the 5 key categories of global automotive innovators. This includes suppliers, original equipment manufacturers, dealers and aftermarkets, mobility service providers, and infrastructure.

Approaching each theme differently in partnership with experts who fully understand the space helps us build strategies which give exposures that are representative of the underlying megatrend.

Informed view of the world

In our [monthly report](#) on the European thematic universe, we highlight how performance does not only vary among themes, but also differs significantly among funds within themes. We know there are no guaranteed recipes for success in investing. It can't be said that an expert-led approach will always result in the best possible returns. However, we certainly claim that having expertise embedded within a product allows investors to make informed decisions.

For example, our [Cybersecurity strategy](#) developed in partnership with Team8 seeks to capture 8 different sub-themes. These include data security, cloud security, shift-left, smarter security, security of things, perimeterless world, resilience & recovery, and layer 8.

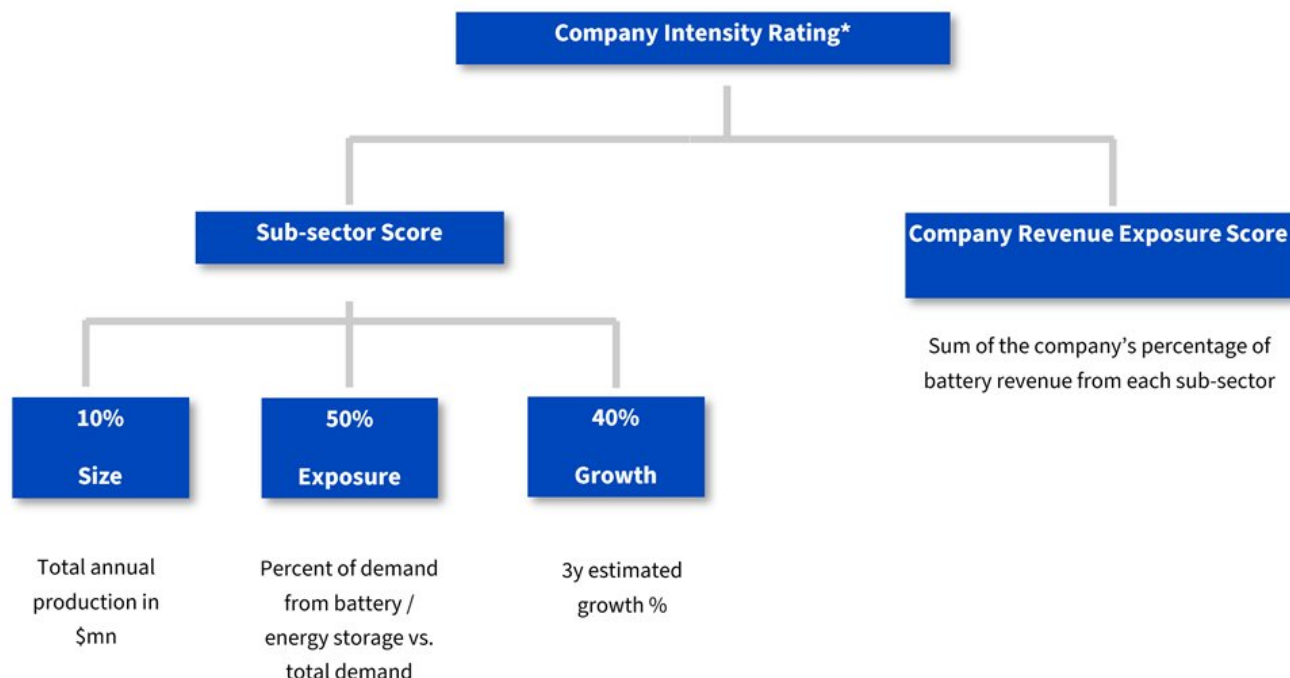
In contrast, our [Renewable Energy strategy](#) developed in partnership with Wood Mackenzie adopts an altogether different approach by conceptualising the idea of the renewable energy value chain. This comprises of 32 different subsectors within 5 major categories – raw materials, manufacturing, applications, enablers, and emerging technologies.

Experts guide investors on the best ways to represent and capture the theme. Incorporating expertise into strategies enables us to build thematic solutions that have a low overlap with major equity benchmarks but also among the different themes.

Evolving the theme over time

We know that in thematic investing the only constant is change. So how can investors ensure that their thematic investments evolve as the theme advances? Again, we believe an expert-led approach can help deliver a promising solution to this challenge.

Our [Battery Solutions strategy](#), also developed in partnership with Wood Mackenzie, implements the idea of the intensity rating for each company in the battery universe when selecting stocks. The intensity rating calculation is illustrated in the figure below.



Source: WisdomTree, Wood Mackenzie.

Each of the 37 different subsectors in the battery solutions strategy is evaluated at each rebalance every six months. The evaluation of the subsector and how much revenue the company generates from each subsector determines the company’s intensity rating which, in turn, influences the company’s selection and weighting.

Battery technology is a rapidly evolving theme. A lot can change in six months in terms of the relative attractiveness of different technologies. Having a forward-looking, bottom-up approach to evaluating the space allows the strategy to evolve with the broader theme over time. This is completely different to an approach that might use market capitalisation as a metric for selecting and weighting stocks.

Conclusion

The 25% of survey respondents who said that passive strategies don’t provide expert stock selection are almost right. Most strategies do not. But at WisdomTree, we have designed an approach that embeds expertise into thematic strategies giving investors a potential way to not only suitably capture the state of different megatrends today, but also better position themselves with an informed view of where the megatrend is headed.

Sources

1 WisdomTree, Censuswide. Pan-Europe Professional Investor Survey Research, Survey of 803 professional investors across Europe, conducted during August 2023.

2 Environmental, social, and governance.

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.