Overwhelmed by choice? Opt for a multi-thematic approach

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Key Takeaways

- The innovation that underpins thematic investing is that it provides a novel way to split the universe of investable companies.
- Multi-thematic strategies can offer investors a one-stop solution to participate in long-term equity growth across different megatrends as they develop.
- Overall, a multi-thematic strategy can simplify investor experiences by delegating the decisions around selection of the most relevant themes, the capital allocation amongst themes over time, and the stock selection.
- The WisdomTree Global Megatrends Equity Index stands as a compelling alternative to other multi-thematic strategies or traditional growth funds as it delivers exposure to a diversified basket of growing, up-and-coming companies instead of established tech mega caps.

A thematic approach offers a forward-looking perspective for investments, aligning portfolios with world-changing structural trends and providing the potential for higher long-term growth. By leveraging today's megatrends to identify tomorrow's mega caps, investors gain valuable insights to funnel into high-growth portfolios.

The innovation that underpins thematic investing is that it provides a novel way to split the universe of investable companies. Instead of using countries or sectors and industry grouping, thematics allow us to look forward and imagine the sectors of tomorrow. Through a thematic approach, it is possible to invest early in a large panel of new technologies such as Artificial Intelligence (AI), Biotechnologies or Renewable Energies, as well as transformative trends such as Aging Population or the Rise of the Middle Class.

But here could lie their weakness as well. Many investors feel there are too many "themes" and too many strategies to choose from in thematics, making it hard for them to decide which way to go. In our recent professional investor survey[1], we asked professional investors about the biggest barriers they face when allocating to thematic strategies. Almost a quarter of them said "there are too many strategies to choose from."

At WisdomTree, we think that the answer to this conundrum is an expert-driven, ‘all-capturing’ multi-thematic strategy.

Why consider a multi-thematic strategy?

Multi-thematic strategies can offer investors a one-stop solution to participate in long-term equity growth across different megatrends as they develop. Such strategies offer investors a large panel of advantages:

- **Invest in growth**
  Multi-thematic strategies can be considered the “second generation” of growth-focused strategies. Stock selection decisions shift from being driven by fundamentals to being driven by the alignment to long-term structural growth. Arguably, this is a more intuitive and efficient way to focus on the rising stars of tomorrow, instead of the giants of yesteryears. By focusing on up-and-coming companies, such strategies can increase their growth potential and create differentiation with market indices.
- **Rely on experts to select pivotal themes**
  Multi-thematic strategies hand over the reins of theme selection to thematic experts who can focus on the most important themes and evolve the selection over time.
- **Enhance diversification**
  Themes are quite decorrelated to each other. Each theme exhibits a unique tilt to industries, sectors or regions. Themes, therefore, benefit from at least similar diversification drivers as countries and sectors. But themes are also driven by different and unique factors. Technological breakthroughs, regulatory changes, or societal trends impact themes differently, leading to very different performance over time. A robust multi-thematic strategy can leverage this diversification and maintain the growth potential while reducing the overall risk.
- **Benefit from short-term trends in thematics**
  Themes are impacted by events and technological advancements differently. An agile, tactical allocation between themes over time can potentially enhance a multi-thematic strategy’s return.
- **Focus on pure play innovators**
  Multi-thematic strategies, like single-theme strategies, should strive to invest in pure play companies, meaning those with more direct exposure rather than tangential exposure to the theme. By leveraging subject matter expertise for each theme, multi-thematic strategies can focus on pure play investment opportunities in each theme.

Overall, a multi-thematic strategy can simplify investor experiences by delegating the decisions around selection of the most relevant themes, the capital allocation amongst themes over time, and the stock selection.

What could a successful multi-thematic strategy look like?

Since 2018, WisdomTree has been at the forefront of developing single thematic Exchange Trade Funds (ETFs), continually refining our approach based on deep research and expert insights. Applying this vast thematic expertise, we consider that a top-down approach to multi-thematic investing allows investors

to control the balance between diversification and increased exposure to high-growth stocks. Such a Multi-thematic strategy would benefit from a three-layer approach.

- **Strategic Thematic Asset Allocation**
  The first layer provides investors with a curated exposure to the most promising themes for existing and future megatrends and maximises diversification between themes.
- **Tactical Thematic Asset Allocation**
  The second layer allows the strategy to lean in and overweight themes when a combination of positive factors creates a virtuous cycle for a given theme. This was the case for Cloud during COVID in 2020 or AI in 2023. Each theme's weight in the portfolio would depend on the different themes' absolute and relative strengths.
- **Thematic Stock Selection**
  The third layer brings together different theme experts to pick the most relevant and up-and-coming companies for each theme. It aims to create a diversified portfolio of stocks that best represent each theme, its underlying story, and its long-term growth potential. The objective is to ensure the portfolio invests in the future winner for each selected theme while maintaining liquidity and tradability.

WisdomTree Global Megatrends Equity Index

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- **Thoughtful strategy design:** a curated basket of investment themes with high diversification potential and alignment with structural trends that can boost the growth potential of your portfolio.
- **Guided by experts:** Benefit from an expert-driven selection of up-and-coming, pure play companies in each theme.
- **Adaptive theme allocation:** Profit from agile, tactical allocation between themes to adapt to current market environments.
- **Enhanced diversification approach:** A strategy designed with low overlap to market indices and established mega caps.

Sources

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

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