Thematic ETFs unchained: why they are the best vehicle to invest in differentiated innovation

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Key Takeaways

- ETFs are no longer just passive. Modern thematic ETFs embed expert insight and proprietary design, combining systematic rules with active intelligence.
- Pure-play exposure matters. Tailored strategies target emerging innovators outside traditional benchmarks.
- Liquidity is built in. The ETF structure ensures daily tradability even in specialised themes.

2025 is shaping up to be the year of thematic investing. Year-to-date, 22 themes have outperformed the market (out of 42)[1] and four themes have delivered more than 50% of absolute performance in nine months (Nuclear, Rise of Tension, Energy Transition Metals and Space)[1]. Assets in thematic exchange-traded funds (ETFs) are at an all-time high, now representing US $76.4 billion in assets in Europe. While thematic mutual funds have historically dominated the space, the market share of thematic ETFs has increased from barely 12% five years ago to 15% last year and now stands at 22%[1]. Year-to-date, thematic ETFs have seen a total of US $14.7 billion in inflows in 2025, while thematic mutual funds have suffered an outflow of US $31.9 billion[1].

Despite all of this, many misconceptions about thematic ETFs persist, influencing investors' views. In our annual WisdomTree survey, when asked about the main barriers to investing in thematic ETFs, European investors have cited:

- Passive strategies don't provide expert stock selection (26%)
- Overlap with established indices (22%)
- Liquidity concerns (25%)
- Perception that products follow fads (20%)
- Too many strategies to choose from (25%)

These challenges can affect some ETFs, but systematic thematic strategies, when thoughtfully designed, can overcome them. Let's explore these barriers in more detail.

Systematic investing does not mean passive

It has been a long time since ETFs have been synonymous with passive investing. At WisdomTree, we develop our own proprietary strategies across most asset classes, aiming to deliver investment profiles and outcomes that differ from classic, market-weighted indices. In thematic investing, we build a distinct strategy for every theme, ensuring each one reflects the specific dynamics of that area. Many of these strategies are developed with specialist partners who bring deep, often non-financial, industry expertise to the design and stock selection process. For example, our WisdomTree Quantum Computing UCITS ETF is built in collaboration with Classiq, a leader in quantum software whose technology supports the creation and optimisation of advanced quantum algorithms. These partnerships allow our thematic exchange-traded funds to embed genuine, theme-specific insights, a feature that many thematic mutual funds lack, often run by generalist portfolio managers.

Well-designed, expert-driven thematic strategies go beyond traditional benchmarks

A direct consequence of tailoring an expert-driven, pure-play focused strategy for each theme is that it enables us to focus on lesser-known, higher-growth companies within each theme. Our strategies focus on selecting and overweighting pure-play companies, resulting in a stronger tilt towards up-and-coming mid- and small-cap companies that have the potential to become tomorrow's Nvidia and Amazon, rather than investing in today's giants. At WisdomTree, we offer 15 thematic products, and 12 of them have less than 10% overlap with the MSCI World[2].

ETFs are the structure of choice for daily liquidity

Although thematic portfolios often include smaller-cap exposures, ETF issuers' focus on liquidity and tradability can be an advantage in delivering accessible strategies. While fund managers can use tools such as gating, switch pricing or infrequent net asset values (NAVs) to manage illiquidity, ETF issuers must design portfolios that remain highly liquid and tradeable throughout the day, regardless of size. As a result, tradability becomes a core requirement when building thematic ETF portfolios, whereas it is often a lower priority for active managers.

Thematic investing is conviction-based investing

At WisdomTree, our thematic strategies are built around long-term structural trends with clear economic, geopolitical or technological foundations. Themes are vetted through a disciplined research process and shaped with input from industry experts. A clear illustration of this approach is our early move into artificial intelligence (AI) back in 2018, when we launched the WisdomTree Artificial Intelligence UCITS ETF. Although AI was not yet a mainstream theme, we partnered with the Consumer Technology Association (CTA) to design an innovative ETF strategy that has since grown to more than US $1 billion in assets.

From complexity to clarity: multi-thematic strategies can help investors capture innovation

Thematic investing moves quickly, and portfolios need to evolve just as fast to stay relevant. This creates opportunity, but also complexity. For investors who are not specialised in the space, keeping pace with shifting themes, capital allocation decisions and stock selection can be challenging.

Multi-thematic strategies offer a practical, one-stop solution. When thoughtfully designed, they provide a single entry point into long-term equity growth across multiple megatrends. They also allow investors to delegate theme selection, capital allocation and portfolio construction to thematic specialists.

The WisdomTree Megatrends UCITS ETF, for example, offers a unique top-down approach to allocate across themes based on conviction and diversification, complemented by a tactical overlay that adjusts for sentiment and momentum. Combined with our unique thematic investment philosophy, the fund provides exposure to a diversified basket of growing, emerging companies, rather than today's established tech mega caps.

Conclusion

The concerns often raised about thematic ETFs say more about perception than reality.

At WisdomTree, we have developed a unique thematic investment philosophy that enables us to deliver thoughtfully built, expert-driven, liquid and highly differentiated thematic portfolios that rival traditional active approaches. The result is a more transparent, efficient way to invest in change itself.

[1] Source: WisdomTree, Morningstar, Bloomberg. As of 30 September 2025. All data based on WisdomTree's internal classification of thematic funds. Performance is based on monthly returns from Morningstar. **Historical performance is not an indication of future performance, and any investments may go down in value.**
[2] Source: WisdomTree, Bloomberg, MSCI, FactSet. The holdings data is as of 30 September 2025 and for the respective underlying indices. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

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