Same theme, different outcomes: why alignment matters

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Key Takeaways

- Portfolios, not labels, decide outcomes. Wide performance dispersion between strategies focusing on the same theme shows that how a manager builds exposure matters far more than the theme name.
- WisdomTree Thematic Investment Philosophy rests on 5 pillars: alignment to the theme, expertise, purity, differentiation, discipline, and transparency.
- Alignment to the theme is the linchpin of thematic investing.

Reflecting on history, a clear pattern emerges: leading megatrends tend to seed tomorrow's mega-caps. The internet is the obvious example: a structural shift in the early 2000s that helped produce Amazon, Alphabet, and Meta as some of the world's largest companies two decades on. Put simply, thematic investing is a repeatable way to target structural growth by signposting the most promising corners of the equity universe.

Yet naming a theme and owning it are two different things. Once investors decide that Artificial intelligence (AI) or European infrastructure matter for multi-decade growth, the hard question is: what does investing in AI or investing in EU infrastructure actually mean in practice?

At WisdomTree, our thematic investment philosophy is built around one priority: delivering thematic portfolios that are as aligned as possible to the theme.

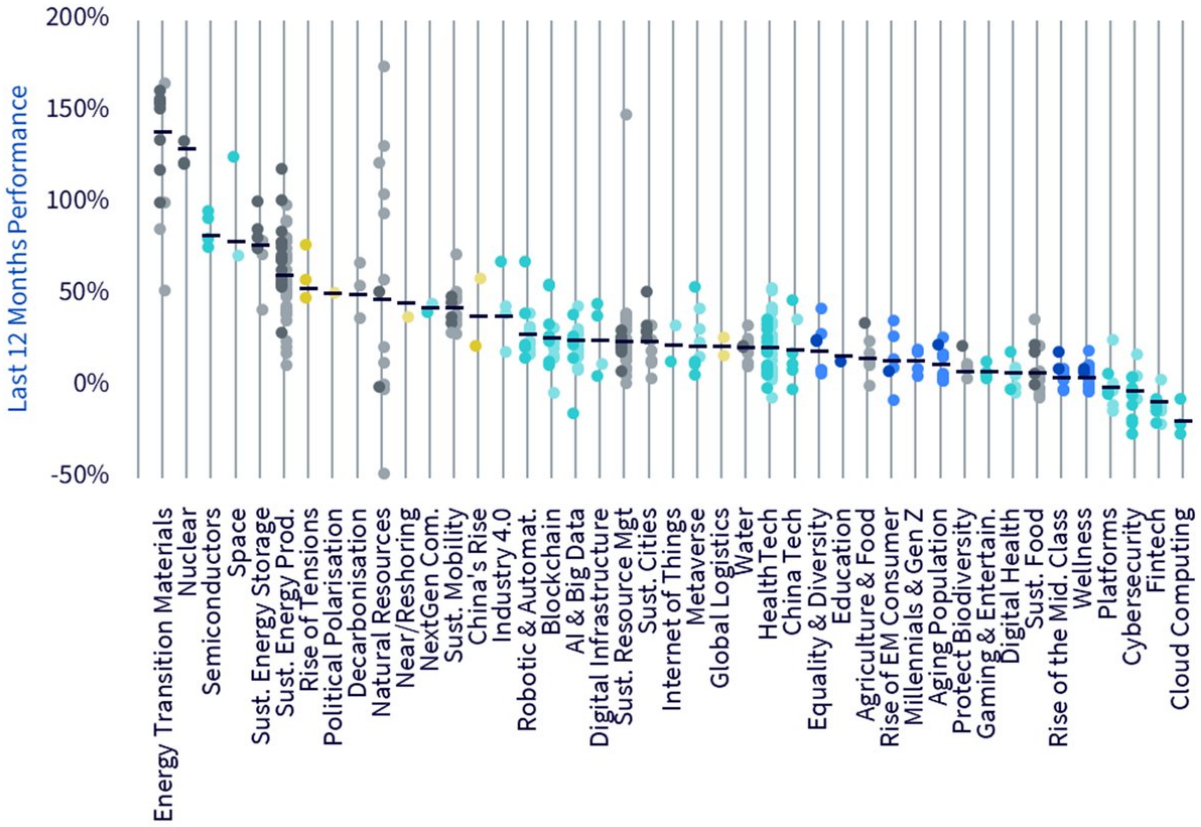
Same theme, different stocks: the dispersion problem

One clear empirical lesson from studying thematic active funds and ETFs is that, even when they claim to provide access to the same theme, they often hold very different baskets and therefore deliver very different returns.

In Figure 1, we show the performance over the last 12 months for all European-domiciled thematic active mutual funds and exchange-traded funds (ETFs), organised by theme. Each column in the graph represents a theme, and each dot represents a strategy. Looking at the dispersion of the dots in each column, it is very clear that the performance of strategies in the same theme diverges a lot. Taking two examples:

- Energy Transition Materials is the best performing theme for the period with an average performance of 139% over the period. However, the best strategy returned 234% while the worst one returned 52.4%. This is a 182% performance gap for 2 strategies in the same theme1.
- Semiconductors is the third best theme. It is also a theme that should be pretty well defined and yet the best strategy returned 96.1% in the last 12 months when the worst one returned 76.2%2.

Figure 1: Last 12-month performance dispersion by theme in European domiciled thematic strategies



Source: WisdomTree, Morningstar, Bloomberg. From 28 February 2025 to 28 February 2026. Performance is calculated in US Dollars. The list of Europe-Domiciled ETFs and Open-ended mutual funds has been compiled by WisdomTree as part of the WisdomTree's own thematic classification. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

Why such divergence? Because there is no single, recognised benchmark for a theme like AI or quantum computing. When a manager invests in a US small cap, it is clear what the investment universe is and what the benchmark is. As a result, managers make very different stock-selection and weighting choices and outcomes vary accordingly.

The pitfalls to avoid

When considering which portfolio is relevant to a given theme, there are two serious mistakes to avoid:

1. **Overconcentration in a few names.** The late-1990s internet example shows the risk: buying the ten largest dot-com names would have beaten the market long term only because the basket happened to include Amazon; many other names failed. Because equity returns are highly asymmetric (few winners drive most of the wealth creation), being right about which companies win matters far more than avoiding the many losers. The antidote is humility: broaden the net to increase the probability of owning future winners.

2. **Mistaking today's mega-caps for thematic exposure.** Mega-caps have ridden prior waves of structural change. But they cannot keep compounding at the same exponential rates indefinitely, nor should a thematic strategy be a rerun of the Nasdaq top-ten. If a thematic sleeve leans heavily on current hyperscalers, it is functionally a market or sector bet, not a true thematic exposure. Thematic portfolios must be differentiated from broad market and tech indices if they are to capture tomorrow's growth.

When it comes to thematic investing, there is a clear case for a disciplined, research-driven approach that maximises thematic beta while controlling for concentration and benchmark overlap.

WisdomTree philosophy: alignment first, then expertise and purity

WisdomTree Thematic Investment Philosophy rests on 5 pillars:

- **Alignment to the theme:** Opportunities within each theme are captured with a tailored methodology to maximise their investment potential.
- **Expertise:** We collaborate with external industry experts where beneficial while leveraging WisdomTree's in-house research and product development capabilities.
- **Purity:** Companies are selected based on their strong alignment with the theme offering pure-play exposure and growth potential.
- **Differentiation:** Our strategies stand out from broad benchmarks and other thematic products, offering investors true differentiation and diversification benefits.
- **Discipline and Transparency:** Strategies follow a clearly defined framework to ensure precision and consistency in portfolio construction.

Alignment is the lynchpin. A thematic portfolio must visibly and mechanically track the economic drivers of the theme you want to invest in. In practice, that means there is no cookie-cutter approach to a theme that can be applied successfully to every theme. In this case, one size does not fit all. Each theme requires a bespoke construction. This is why, at WisdomTree, we develop unique strategies tailored to each theme (meaning strategies differ widely from theme to theme).

What does that mean in practice?

- The WisdomTree Europe Defence UCITS ETF is focused on established sectors with a clear, established competitive landscape. Therefore, the strategy can select and weight stocks by defence revenue and apply a modified market cap weighting methodology that recognises the existing landscape.
- The WisdomTree Uranium and Nuclear Energy UCITS ETF invests in an industry in mutation with short-term tailwinds (a supply and demand deficit in Uranium), medium-term tailwinds (private and public entities are planning to increase capacity in upcoming years) and long-term tailwinds (innovations like small modular reactors). Therefore, a value-chain approach that excludes utilities lacking pricing power is well-suited to invest across those different opportunities
- The WisdomTree Physical AI, Humanoids and Drones UCITS ETF invests, by definition, in an early-stage theme where the competitive landscape is still in flux. Therefore, the portfolio may use something close to equally weighted to avoid overconcentration in a handful of incumbents.

These are not cosmetic choices. Tailor-made construction changes the portfolio's economic exposure and, when combined with the other pillars, creates a thematic sleeve that is additive to core equity allocations: higher thematic beta, lower overlap with broad indices and a clearer path to capture structural growth.

Conclusion: a short checklist for investors

Thematic ETFs offer a way to point capital at structural growth potential. But execution matters. Before allocating, ask three simple questions:

3. **Alignment:** Does the fund mechanically capture the economic exposures that define the theme?

4. **Purity and expertise:** Is stock selection expert-driven and focused on pure players with high thematic revenue?

5. **Differentiation and tradability:** What is the overlap with MSCI/Nasdaq, and is the implementation liquid and scalable?

If the answers are affirmative, the investment is a genuine thematic satellite, not another way to own today's mega-caps. That distinction is what separates talk from outcome in thematic investing.

1 Source: WisdomTree, Morningstar, Bloomberg. From 28 February 2025 to 28 February 2026. Performance is calculated in US Dollars. The list of Europe-Domiciled ETFs and Open-ended mutual funds has been compiled by WisdomTree as part of the WisdomTree's own thematic classification.
2 Ibid.

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