Is your thematic investment just a Nasdaq Doppelgänger?

Published March 30, 2026

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Key Takeaways

- Thematic investment often hides high concentration in mega-cap names. Lifting the bonnet and seeing which companies the strategy owns is key to a successful investment.
- Not all thematic investments are created equal, even if their names are similar. There are key considerations when creating thematic portfolios that investors should know about and look for before buying.
- High overlap with market benchmarks is one easy giveaway to badly constructed thematic portfolios.

How do you tell if a car is built for speed or simply dressed up to look fast? The easiest way is to open the bonnet and inspect the engine. Similarly, marketing can make any thematic strategy look good, but what lies under the 'AI'[1] or 'Nuclear' sticker is key to long-term success.

Many funds that sell themselves as 'thematic' end up overweighting the same handful of mega-cap tech names you already own through an S&P 500 or a Nasdaq-100 investment. The point of thematic investing is to add new growth exposures to your portfolio and create diversification, not duplicate what you already have and pay extra for the privilege.

Why overlap happens

There are two simple reasons thematic funds drift into being Nasdaq-100 doubles. First, stock picking often favours large, diversified companies that can claim relevance to many themes.

Second, poorly designed thematic strategies or portfolios won't focus on the most important, but smaller, lesser-known pure players in the theme, but instead will favour the biggest, most liquid stocks.

Why that's a problem for investors

If your thematic exposure is mostly large tech names, you increase your portfolio's concentration and sensitivity to a single market cycle: a tech sell-off hits both your core allocation and your thematic sleeve at once. Also, you may miss the very companies that will benefit from the growth of the theme you initially wanted to invest in. Put simply, you pay for thematic marketing but end up with broad-market or tech risks, missing the theme's long-term structural growth.

How to check a thematic strategy: a quick checklist

We believe there are 5 key pillars that any thematic investment manager should follow when creating a thematic portfolio. These pillars can also offer a helpful checklist for investors selecting a thematic investment:

1. Alignment to the theme: Is the investment process designed specifically for this theme, or is it the same across all themes and markets?

2. Expertise: What is the real 'on-the-ground' expertise for the investment theme? Is the manager demonstrating real research capacity of the theme outside of pure financial know-how?

3. Purity: Do you see pure-play specialist firms or just the same mega-caps? How many of the Magnificent 7 are there, and how high are their weights in the strategy?

4. Differentiation: What is the overlap with the broad market (MSCI World) and the broad tech markets?

5. Discipline: Is the process clear and consistent over time, or is the manager following the latest hot stocks irrespective of the relevance to the theme?

How this reduces Nasdaq-100 overlap in practice

Purity and differentiation are the two practical pillars for avoiding the Nasdaq trap. Pure exposure means the portfolio is focused on companies whose revenue, products or services are directly tied to the theme. Differentiation means the manager explicitly measures and limits overlap with broad market and broad tech benchmarks. The result is a portfolio that keeps the thematic upside (ownership of specialist, highly relevant firms) while reducing the chance of becoming a re-packaged market exposure.

Taking a few WisdomTree strategies as an example, we can show how our 5 pillars keep our strategies differentiated[2]:

- Our Cybersecurity strategy exhibits a 2.1% overlap with the Nasdaq-100
- Our Europe Defence strategy exhibits a 0.8% overlap with the MSCI World
- Our Strategic Metals and Rare Earth Miners strategy exhibits a 0.4% overlap with the MSCI All Country World
- Our Physical AI strategy exhibits a 12.2% overlap with the Nasdaq-100

What about multi-thematic portfolios?

Investors often view multi-thematic strategies as a one-stop shop for investing in themes without having to pick and choose themselves. The pitfalls listed above are even more acute for this type of strategy, as the tendency to pick large, diversified companies that dabble in all the key themes is even more tempting. The objective of such an investment is clear: provide exposure to a basket of growing, emerging companies that capture structural tailwinds. To do so, such a strategy should focus on offering a clear answer to 3 key questions:

- Which themes does the strategy invest in?
- How does the strategy allocate to those themes over time, and how does the strategy take advantage of sentiment shifts over time?
- Which stocks are selected to represent each theme?

At WisdomTree, we believe that only a top-down approach (and not a bottom-up one) that follows our 5 key pillars can properly answer those 3 questions.

The WisdomTree Megatrends UCITS ETF (WMGT) offers a distinctive top-down approach to allocate across themes. Our three-step process selects themes based on conviction and diversification potential, adjusts allocations quarterly to respond to the changing macro environment, and leverages expertise, purity and discipline when selecting stocks within the high-conviction themes.

Overall, the exchange-traded fund (ETF) provides exposure to a diversified basket of growing, emerging companies, rather than today's established tech mega caps.

Conclusion

The next time a fund's marketing materials promise AI, Clean Energy, or Europe Defence, don't just buy what's written on the tin, lift the bonnet. Check the investment process and the holdings. Good thematic investing should add genuine, differentiated growth exposure, not duplicate existing risks. If a fund follows our five pillars, theme first, expert selection, purity, differentiation and strict discipline, you're far more likely to get the car you thought you were buying.

[1] Artificial intelligence.
[2] Source: WisdomTree, Nasdaq, MSCI. Index constituents and overlap analysis as of 31 January 2026. **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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