

# Opportunities and challenges of thematic investing: how to diversify your exposure

Published December 11, 2024

**Pierre Debru**

Head of Research, WisdomTree Europe.

## Key Takeaways

- 92% of professional investors surveyed have existing investment in thematic strategies
- Investors continue to face investment barriers in thematic, such as too many strategies, too high overlap with market indices, and difficulty in choosing themes.
- In response to those difficulties, more and more investors are turning towards thematic investment experts and multi-thematic strategies.
- Related Products WisdomTree Megatrends UCITS ETF - USD Acc Find out more

Thematic investing has gained significant traction amongst investors. In our annual professional investor survey, an impressive 92% of investors indicated that they allocate capital to thematic strategies<sup>2</sup>. Total assets under management (AUM) globally in the thematic space now stands at \$554.2 billion as of end of November 2024<sup>3</sup>.

## Thematic strategies: an established investment

The appeal of thematic investing is undeniable. Technology advancements, demographic shifts, or sustainability initiatives can drive growth over long periods of time and create the giants of tomorrow. This allows investors to align their portfolios with long-term trends, invest early in future winners, and potentially yield substantial returns.

Over the last few years, more and more investors have turned to thematic strategies, with exchange-traded fund (ETF) strategies proving a popular investment vehicle for thematic exposures: nearly a quarter (24.7%) of investors exclusively use ETFs and just over a quarter (25.2%) use both ETFs and active funds<sup>4</sup>.

## The paradox of choice

Despite the enthusiasm for thematic strategies, several barriers hinder effective allocation. One of the most significant challenges is the number of themes themselves (and then the number of available strategies for each theme). Over 21% of survey respondents cited 'too many strategies to choose from' as a key barrier<sup>5</sup>. It appears the overwhelming variety can lead to analysis paralysis.

Theme selection and allocation can be further complicated by timing. Identifying the right theme to invest in and the right moment to overweight or underweight that theme can be challenging. This difficulty is echoed in the survey results, where nearly 19% of professional investors expressed concerns about existing products following fads rather than sustainable trends<sup>6</sup>.

Thematic strategies with a high market overlap can also cause problems within a portfolio. A lack of differentiation can dilute the intended benefits of thematic investing and its diversification potential. High overlap between themes can also be an issue when constructing a multi-thematic portfolio: 20.44% of investors noted that they often encounter too much overlap with existing portfolio allocations when considering new thematic investments<sup>7</sup>. This overlap can lead to unintended risk concentrations and hinder overall portfolio diversification.

## The case for multi-thematic strategies

Given these challenges, delegating thematic investment decisions to a specialised manager may be a prudent approach. Multi-thematic strategies allow investors to tap into various themes without the burden of selecting individual themes or timing their investments perfectly. Multi-thematic strategies can provide a one-stop shop solution to investors and offer a more diversified exposure, while mitigating some risks associated with single-theme investments.

Single-theme strategies saw a period of dominance between 2019-2021, which led to the proportion of thematic assets invested in multi-thematic strategies dropping to 10% at the end of 2021. Since then, multi-thematic strategies have had a resurgence, and now account for 17.5% of all thematic assets<sup>8</sup>.

## WisdomTree Megatrends UCITS ETF (WMGT)

The **WisdomTree Megatrends UCITS ETF (WMGT)** employs a top-down, expert-driven approach to the construction of a multi-thematic strategy. The investment process aims to balance diversification and targeted exposure with high-growth stocks. It integrates three layers of alpha generation:

- Strategic allocation: annually select around 15 themes based on growth potential, diversification potential, and alignment with UN SDGs.
- Tactical adjustments: apply a quarterly momentum-based tactical overlay to adjust theme weights to capitalise on changing opportunities.
- Stock selection: use expert-driven stock selection to create a portfolio of pure play, future-focused companies.

*Source: WisdomTree. As of 18 October 2024. Historical performance is not an indication of future performance, and any investments may go down in value.*

The resulting portfolio is composed of 651 stocks, with only 17.7% overlap with the MSCI All Country World, 14% overlap with the Nasdaq and 2.3% in the Magnificent Seven. The strategy, therefore, offers investors a diversified portfolio of growth-oriented companies tilting toward mid and small caps that is highly differentiated from their core investments.

Since launch, the strategy has returned 46.8%, beating the MSCI All Country World by 7.05% 10. Despite clear headwinds in thematic equities, the strategy created outperformance thanks to the top-down approach used in the portfolio construction:

- First, the strategic asset allocation was detrimental. Overall, 2024 has been a difficult year for thematic, with 11 themes underperforming the market. This led to -6.3% of relative underperformance created by this layer.
- Second the tactical asset allocation performed very well, creating 7.6% of outperformance. The tactical allocations to Blockchain (overweighted), Artificial Intelligence (AI) (mostly overweighted), Cybersecurity (oscillating between overweight and underweight), Nuclear (mostly overweighted until recently) and Semiconductors (overweighted) were particularly positive.
- Finally, our expertise-driven, pure-play stock selection led to a contribution of +5.75% versus the benchmark, with Blockchain and Semiconductors being strong drivers<sup>11</sup>.

	Relative Contribution of Strategic Allocation (vs MSCI ACWI)	Relative Contribution of Tactical Allocation (vs MSCI ACWI)	Relative Contribution of Stock Selection (vs MSCI ACWI)	Total Relative Contribution (vs MSCI ACWI)
<b>Total</b>	<b>-6.30%</b>	<b>7.60%</b>	<b>5.75%</b>	<b>7.05%</b>

Source: WisdomTree, Bloomberg. In USD. From 27 October 2023 to 2 December 2024. You cannot invest directly in an index. **Historical performance is not an indication of future performance and any investments may go down in value.**

## Conclusion

Thematic investing presents an exciting opportunity for professional investors seeking to capitalise on long-term trends. However, the complexities surrounding theme selection, timing, and portfolio overlap make it a challenging endeavour. As such, delegating these responsibilities to a multi-thematic strategy may prove more effective in navigating the intricacies of thematic investing while maximising potential returns. The **WisdomTree Megatrends UCITS ETF (WMGT)** could mitigate some of these typical barriers to entry and prove a useful tool in portfolios.

*1 WisdomTree Pan European Professional Investor Survey, June-July 2024, 800 respondents, conducted by Censurwide.*

*2 WisdomTree Pan European Professional Investor Survey, June-July 2024, 800 respondents, conducted by Censurwide.*

*3 WisdomTree, Morningstar, Bloomberg. All data as of 30/11/2024 and based on WisdomTree's internal classification of thematic funds. Performance is based on monthly returns from Bloomberg and Morn-*

ingstar. **Historical performance is not an indication of future performance, and any investments may go down in value.**

4 WisdomTree Pan European Professional Investor Survey, June-July 2024, 800 respondents, conducted by Censuswide.

5 WisdomTree Pan European Professional Investor Survey, June-July 2024, 800 respondents, conducted by Censuswide.

6 Ibid.

7 Ibid.

8 WisdomTree, Morningstar, Bloomberg. All data as of 30/11/2024 and based on WisdomTree's internal classification of thematic funds. Performance is based on monthly returns from Bloomberg and Morningstar. **Historical performance is not an indication of future performance, and any investments may go down in value.**

9 WisdomTree. As of 18 October 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

10 WisdomTree, Bloomberg. In USD. From 27 October 2023 to 2 December 2024. You cannot invest directly in an index. **Historical performance is not an indication of future performance and any investments may go down in value.**

11 WisdomTree, Bloomberg. In USD. From 27 October 2023 to 2 December 2024. You cannot invest directly in an index. **Historical performance is not an indication of future performance and any investments may go down in value.**

## 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. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment. An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks. The information contained in 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 in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes. This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. 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. This document may contain forward looking statements including statements regarding our

belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements. WisdomTree Issuer ICAV The products discussed in this document are issued by WisdomTree Issuer ICAV (“WT Issuer”). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland (“CBI”). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities (“UCITS”) under the laws of Ireland and shall issue a separate class of shares (“Shares”) representing each fund. Investors should read the prospectus of WT Issuer (“WT Prospectus”) before investing and should refer to the section of the WT Prospectus entitled » Risk Factors¼ for further details of risks associated with an investment in the Shares. WisdomTree Artificial Intelligence UCITS ETF Nasdaq® and the Nasdaq CTA Artificial intelligence Index are registered trademarks of Nasdaq, Inc. (which with its ailiates is referred to as the “Corporations”) and are licensed for use by WisdomTree Management Limited. The WisdomTree Artificial Intelligence UCITS ETF (the “Fund”) has not been passed on by the Corporations as to its legality or suitability. Shares in the Fund are not issued, endorsed, sold, or promoted by the Corporations. THE CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE FUND. Notice to Investors in Switzerland – Qualified Investors This document constitutes an advertisement of the financial product(s) mentioned herein. The prospectus and the key investor information documents (KIID) are available from WisdomTree¼s website <https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports> Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory Authority (“FINMA”). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent. For Investors in France: The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge

at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto. **For Investors in Malta:** This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority. **For Investors in Monaco:** This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.