

# How to invest today for the world of tomorrow

Capturing future returns with  
thematic investing



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## Foreword



Dear Investors

What are your dreams for your children's future?

As every parent, I think about this often. While it is easy to focus on the bright future that every parent sincerely hopes for, I also reflect on the problems that still need to be addressed by society, and wonder how we will solve these.

As an investor and an optimist, I believe many of the answers are within our own hands: If we direct capital to support solutions to the largest and most significant problems we face, we will make significant progress. To do this, we must empower investors to support companies that will deliver change. This is not an easy task, as traditional investment taxonomies defined by industry sectors, geographies and credit ratings do not link to amorphous problems like climate change, changing demographics, the need for cyber security or how to care for an aging population. Here, thematic investments can play an important role as they enable investors to direct their money to companies which help solve the most pressing problems of the day, while also generating attractive returns. Indeed, using a thematic lens to construct portfolios means focusing on long-term structural trends, thus de-averaging the market to deliver above-average returns over the medium to longer term. In today's inflationary and volatile environment, an anchored thematic approach with a long-term vision is relevant for every investor.

With this white paper, we aim to provide a high-level map of the thematic investment landscape, and both enthuse and support anyone thinking about including thematic investments in their portfolio.

Sincerely,

A handwritten signature in blue ink that reads "CRendu de Lint".

**Christel Rendu de Lint**

Deputy Head of Investments, Vontobel

# What is thematic investing?

**Thematic investing is a forward-looking investment strategy focused on long-term trends.**

Thematic investing is an investment approach that identifies investment opportunities associated with a topic, with the intention of benefiting from long-term structural market developments or macroeconomic changes rather than concentrating on specific geographies or sectors.

People sometimes think that thematic investing is synonymous with investing narrowly. It is not. Thematic investing must include intentionality—that is to say, the conscious decision to invest in relation to a topic. As we will see later in this paper, following clearly defined themes from beginning to end, across its breadth, results in a surprisingly wide spread of investment opportunities.

**“Thematic investing strategies strive to align investment decisions with notable long-term social, corporate, or economic trends. They anticipate and take advantage of ongoing societal shifts—themes—by capturing the ‘zeitgeist’ of today and tomorrow.”**

**Daniel Maier**  
Head of Thematic Investing, Vontobel

## Common denominators of thematic investment approaches



Long-term, forward-looking, structural growth



Capture secular trends that reflect a changing world



Cut across traditional sector / geographic view

A thematic approach enables investors to pursue growth opportunities through themes selected according to their beliefs about the future, their interests and personal values. Thematic investing allows for a personalization of investment strategies.

# Adoption of a thematic investment strategy

The easiest and most common way to adopt a thematic investing strategy is to invest in thematic funds. And the choice is vast. There are around 700 different thematic funds available. They are all based one or more powerful investment themes selected to benefit from large-scale disruption, so-called “megatrends<sup>1</sup>,” or macroeconomic development.

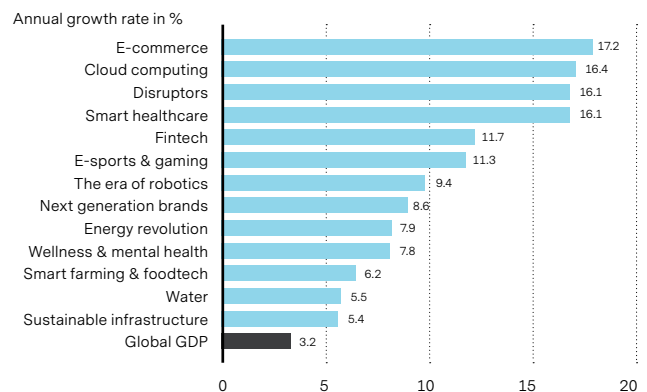
**“Megatrends are like continental plates: moving without cease, and independent of any particular event.”**

**Daniel Maier**  
Head of Thematic Investing, Vontobel

Megatrends look at the bigger picture: They are long-term trends that trigger global shifts and have irreversible consequences affecting all our lives. Megatrends thus bring up thematic investment opportunities in diverse areas, ranging from technological change, solutions to climate change and resource scarcity to the effects of changing demographics. According to Bloomberg, themes supported by megatrends have the potential to grow significantly faster—i.e. the respective companies should post a better growth rate—than global GDP, putting investors in a position to harvest attractive returns in the long run.

## Sales growth tied to global themes exceeding GDP growth rate

Estimated revenue increase of companies within selected themes vs. expected global GDP growth 2022–2024 (CAGR)



Source: Bloomberg, MSCI, IMF, Vontobel. Data as of April 29, 2022.

But thematic investing strategies do not necessarily need to be based on identified megatrends. Some investors prefer a thematic strategy based on macroeconomic developments—trends affecting the broader economic environment. These range from the rise of the middle class in emerging countries, changing global trade patterns or increasing defense spending.

<sup>1</sup> Asset managers including Blackrock, Vontobel, Fidelity and Pictet use the term “megatrends”. Other participants may use different terms such as “supertrends” or “long-term investment themes”, which have a similar focus.

# **Mono-themed versus a multi-themed approach**








After choosing to invest using a thematic approach, investors need to decide whether to pick a number of mono-themed funds focused on a single theme, or to use one or more multi-themed funds to provide broad access across the whole thematic spectrum.

One common misconception is that mono-themed funds are not at all diversified. That is not entirely true. Many thematic funds break down the theme into relevant sub-trends to capture all growth drivers within the chosen theme. The example below shows how a smart farming and food technology theme can be sub-divided to cover a diverse range of investment opportunities.

After identifying these opportunities top-down, fund managers typically work bottom-up to spot companies that are “thematically pure”, typically based on achieving a significant percentage of revenues from the theme. This is a major challenge as larger and more accessible firms tend to have a more diverse range of business activities. Following thematic purity screening, portfolio managers narrow down the list even further, using a broad range of measures focused on areas such as valuation, industry positioning and management quality. Mono-themed funds then construct a portfolio of around fifty to eighty stocks aligned with the theme.

#### Example structure of a mono-themed approach focused on smart farming and food technology

<b>Digital agriculture</b>	Sensors, satellite imagery, precision agriculture software, smart equipment	
<b>Crop, plant and animal health</b>	Animal health, biotechnology, biologicals, active ingredients, animal feed, animal genetics	
<b>Controlled-environment agriculture (CEA)</b>	Vertical farming, aquaculture, horticulture	
<b>Food technology</b>	Sustainable protein, alternative protein, food ingredients, functional food / nutraceuticals, personalized nutrition	
<b>Post-farming supply chain</b>	Food loss and food waste management, water waste management, sustainable packaging, food transportation, digital marketplaces	

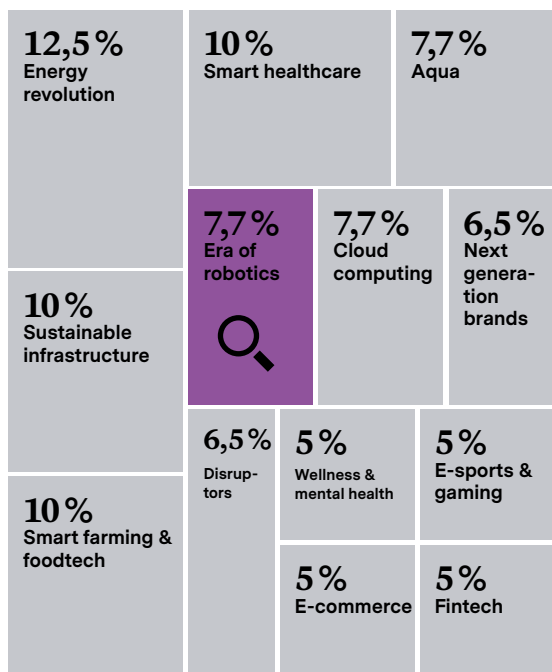
Source: Vontobel

Turning to multi-themed funds, these repeat a similar screening process to cover each theme within their fund, but there is a key difference between multi-themed funds that simply add up the holdings of mono-themed funds, and multi-themed funds with a fully integrated investment approach. These integrated products enable the portfolio

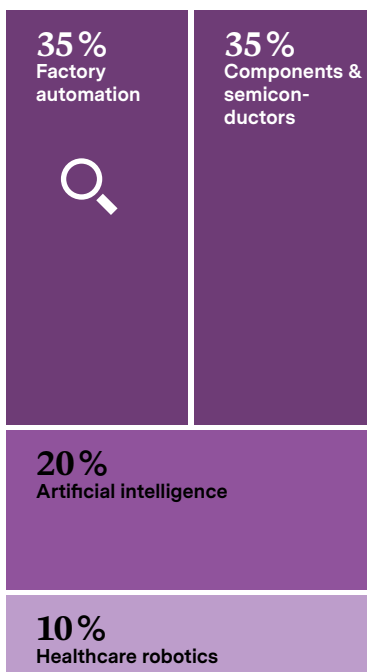
manager to include companies whose activities straddle multiple themes. Thus, integrated multi-themed funds may hold hundreds of stocks and achieve broad diversification, whilst keeping a laser-like focus on the promised themes.

**Example structure showing how a multi-themed fund covers the era of robotics, one of 13 themes within the fund**

**Fund breakdown**  
(Vontobel terminology)



**Theme breakdown**  
(Example: The era of robotics)



**Sub-theme breakdown**  
(Factory automation)

NAME	SUB-THEME
Siemens AG	Factory Automation
Parker-Hannifin Corp	Factory Automation
Schneider Electric SE	Factory Automation
Omron Corp	Factory Automation
Rockwell Automation Inc	Factory Automation
Estun Automation Co Ltd	Factory Automation
FANUC Corp	Factory Automation
Shenzhen Inovance Tech.	Factory Automation
ABB Ltd	Factory Automation
Daifuku Co Ltd	Factory Automation
Marel HF	Factory Automation
Valmet Oyj	Factory Automation

Source: Vontobel, data as of end of 2021. Company examples in “era of robotics” are for illustrative purposes.

Investors with a “high-conviction” approach tend to choose monothematic funds that zoom in on themes in-line with their ideas. They are typically willing to thoroughly research the investment style of each fund and actively manage exposure. In contrast, investors wishing to retain a longer-term focus on themes without a high level of engagement, tend to buy multi-themed funds. Costs of mono and multi-themed funds are similar, so the decision comes down to conviction, diversification and the desired degree of involvement in the portfolio.

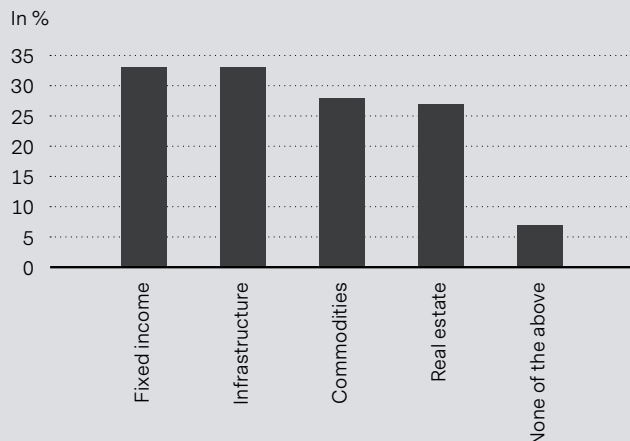
The advantage of multi-themed funds is that they enable analysts and portfolio managers to take a holistic view, allowing them to consider thematic developments as well as macroeconomic factors and risk views in their decisions. This is mostly reflected in the themes they pick or what weight they ascribe to them in a multi-themed portfolio.

**Thematic investing goes beyond equities**

Thematic investing is normally thought of as equity focused. Whilst this is true, many investors are broadening their thinking to use a thematic approach for other asset classes as well. They typically look for other assets classes with direct or indirect exposure to the theme through industries, clients, services, product lines or business models, with fixed income and infrastructure in particular focus.

**Bonds, infrastructure, and other asset classes also in focus**

In which of the following asset classes, beyond equities, do you employ thematic approaches?



Source: Vontobel Thematic Investing survey 2021



# What makes thematic investing different to other investment approaches?

## **Thematic and sustainable investing are converging**

Investing along thematic lines and sustainable investing are both growing strongly, so many people assume that all thematic investments are sustainable and integrate environmental, social and governance (ESG) criteria in the investment decision process. This is not always the case.

Whilst most thematic investments consider sustainability information in their investment policy (Article 8 under European SFDR regulations), and some may have an impact objective (Article 9 under European SFDR regulations), a thematic investment is not necessarily sustainable. Hypothetically speaking, a thematic fund designed to benefit from oil tar sands exploration and advancements in fracking would not be classed as sustainable.

It is important to check how each thematic investment approaches sustainability and incorporates this into key areas including the investment policy, portfolio construction and reporting to ensure consistency with your beliefs and objectives.

## **Thematic investing is not the same as a sector or a growth investment style**

Both sector and growth investing strategies appear to be very similar to thematic investing, but there are key differences.

Sector investments are generally defined in terms of the industry sectors included in the investment universe, using a tool like the Global Industry Classification Standard (GICS) to define what is included and excluded, typically based on the percentage of a company's revenues in a specific sector. In contrast, the fund researcher Morningstar defines thematic investments based on their intentionality to focus on a theme—how they invest—rather than the holdings that result. By focusing on intentionality, thematic funds often have broader investment universes than sector funds, and may cut across multiple sectors.

For example, an investor wishing to tap into disruption in the financial sector could select a thematic fund to benefit from opportunities within both the GICS financial services sector, as well as other business areas such as fintechs, which are often classified by GICS as part of the technology sector. This flexibility differentiates thematic investing from sector investing. For both types of investment, research is needed to really understand what you are investing in—a thematic approach is more complex, but can provide additional investment opportunity as it allows active investors to cover a wider range of businesses models and value shifts across multiple sectors.

Thematic investing also differs from growth investing even if most thematic funds display a growth tilt. Growth investors typically focus exclusively on companies whose earnings are expected to increase at a faster rate than the market average. While many companies included in thematic portfolios are growth companies, again, thematic products are typically more flexible. A thematic portfolio may include some value stocks, i.e., those trading for less than their intrinsic value, or even early-stage companies which have not yet delivered growth.

This additional flexibility increases the chance that thematic investments will capture value from the sort of one-off shifts that can change industries. At the same time, investment managers must pick companies more carefully to manage volatility and risks.



# Size and growth of thematic investing

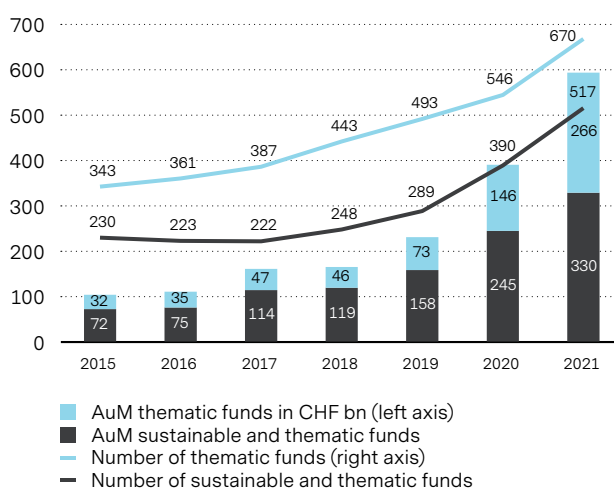
## Thematic investing has taken off over the past decade

Thematic investing is now a mature and mainstream investment approach. An interest that originally started among retail intermediaries has now extended to institutional clients, who have increasingly taken up thematic investing.

The growth trend is clear. Assets managed in thematic funds across the globe have grown at 37 percent per annum since 2018. Last year, assets under management approached a total of 600 billion Swiss francs.<sup>2</sup> There are now nearly 700 thematic funds to choose from, of which three quarters focus on sustainability-related themes (see chart below).

## Rapid growth in thematic funds since 2015

In billions of Swiss francs



Source: Broadridge, Vontobel. Data as of December 31, 2021

The most recent data as per end of 2021 shows that the shift toward thematic investing continues unabated. Assets under management for thematic funds more than tripled between 2018 and 2021, with Europe holding just over half of the global assets invested in thematic funds.

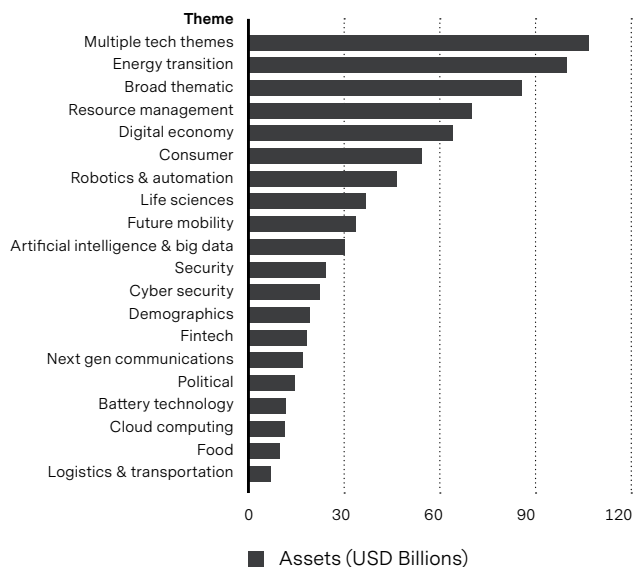
Thematic investing is going mainstream. Assets managed in thematic funds accounted for 2.7 percent of all assets invested in equity funds globally in 2021, up from 0.8 percent a decade ago. Most of the offerings were managed actively.

For the moment, two broad themes stand out in the thematic universe: sustainability in the widest sense and technology (see chart below). European investors are going for multi-themed funds with a sustainability focus, such as energy transition and resource management. Their North American and Asian counterparts prefer tech themes such as opportunities arising from the digital economy, robotics, artificial intelligence and fintech. A side-effect of the Covid-19 pandemic is the increased interest in themes such as future mobility, next generation communications tools and cybersecurity.

<sup>2</sup> «Thematic Investing Set to Transform Asset Management», Broadridge/AXA Investment Managers, 2021

<sup>3</sup> Morningstar Global Thematic Funds Landscape, March 2022

**Assets under management in global thematic funds by theme in USD billion**



Source: Morningstar Research, data as of December 31, 2021

**Swiss and Benelux-based investors, the keenest thematic investors**

Europe distributes most thematic funds, accounting for just over half of global thematic fund assets.<sup>4</sup> In Europe, Swiss and Benelux-based institutional investors are the most enthusiastic thematic investors, with three quarters of those surveyed by Vontobel already deploying thematic strategies.<sup>5</sup> Thematic exposures are lower in Germany, France, and the Nordics, where less than half of the respondents do so.

While all regions have experienced net inflows over three years until the end of 2021, Europe and the US have been the main beneficiaries, netting USD 200 billion and USD 97 billion in new flows over the period, respectively. The US accounts for 21 percent of the global market for thematic funds. The remaining funds are distributed in Asia and Canada.<sup>6</sup>

**Why do investors embrace thematic investing?**

Both institutional and wholesale investors expect thematic investment strategies to benefit their long-term performance. Nine out of 10 investors do so, according to a survey conducted by Greenwich Associates<sup>7</sup> covering 153 European and Asia financial intermediary distributors and institutional investors. Three quarters of them also stated that the use of thematic funds enable them to access strategies focusing on sustainable investing.

Other reasons mentioned for embracing thematic investment strategies included the ability to enhance investment returns, to include a more innovative or disruptive investment approach or to increase diversification. Between 30 and 42 percent i.e., around a third, of the investors polled by Greenwich Associates stated these were their main objectives for using thematic investing strategies.

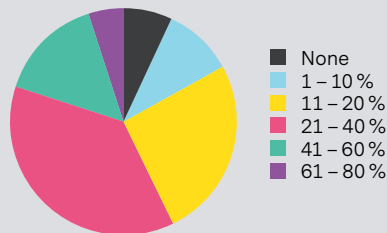
**Most professional investors already embrace thematic investing**

For most investors, it is no longer about whether to invest thematically, but how to do so most effectively. Nearly nine out of ten wholesale investors—those considered to be professional or sophisticated investors—already use or plan to use thematic strategies.

A majority of European institutional investors<sup>9</sup> also state that they already allocate more than a fifth of their equity portfolios according to a thematic approach (see pie chart below).

**Most institutional investors allocate more than 20 percent of equities using a thematic approach**

Looking at your equity portfolios, what percentage of your current holdings are allocated to a thematic approach?  
In %



Source: Vontobel Thematic Investing Survey 2021

<sup>4</sup> Morningstar, Global Thematic Funds Landscape, 2022

<sup>5</sup> Vontobel Thematic Investing survey 2021

<sup>6</sup> Morningstar, Global Thematic Funds Landscape, 2022

<sup>7</sup> BNP Paribas Asset Management study carried out by Greenwich Associates, July 2021

<sup>8</sup> BNP Paribas Asset Management, July 2021

<sup>9</sup> Vontobel Thematic Survey 2021

# Benefits and challenges of thematic investing

## The benefits of thematic investing

Due to its forward-looking nature, thematic investing enables investors to capitalize on businesses of the future, possibly before other more traditional investors tap into these opportunities.

A thematic investment approach also gives investors the opportunity to invest in-line with their own values and preferences, based on selected themes or trends. The strategy may also offer some diversification benefits compared with sectoral funds.

To limit concentration risks, thematic funds can be diversified by implementing a multi-theme rather than a mono-theme strategy. On the other hand, a mono-theme strategy enables investors to focus on the full range of opportunities within a theme (see example on page 7).

Thematic investing also gives investors an opportunity to invest in themes that grow faster than the overall economy. Given the companies selected within the thematic portfolio can turn the positive underlying drivers into earnings growth, investing into thematic strategies that have the potential to generate attractive returns for investors.

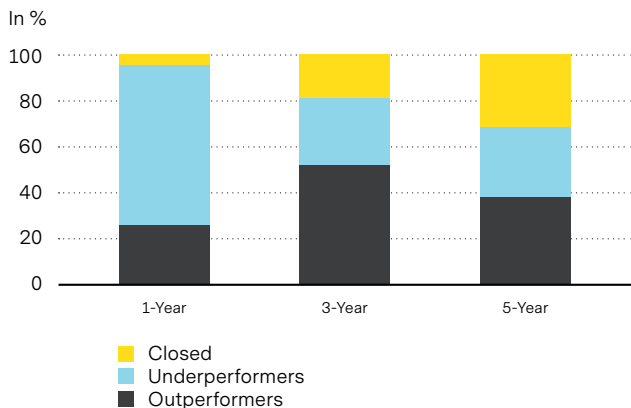
**“With new technologies transforming entire industries, investors need to think about how to position their portfolios for the future. We believe these transformations will bring new opportunities, which are best captured by actively investing in structural growth themes and selecting companies with the scope to grow multiples of their current size.”**

**Romain Hohl**  
Portfolio Manager, Thematic Investments, Vontobel

## Performance of thematic funds over the past years

In the years prior to the Covid-19 pandemic, thematic strategies generally outperformed broad global equity benchmarks such as the MSCI World Index. However, the performance over the last year has been more challenging, with around a quarter of thematic funds beating the broad market index. Over a three-year period, more than half of the global thematic funds managed to beat Morningstar's global index, and over a five-year period, just under 40 percent did so, meaning that careful choice of themes and investment approach is key for investors.

**Global thematic funds performed relatively well over the past three and five years**



**Thematic strategies are natural diversifiers**

Since thematic investment strategies focus on future trends and disruptive changes, they can diversify a portfolio. Selected themes tend to be less correlated than to one another than the equity market is with the bond market (typically 0.4–0.6) and certainly less correlated than one equity index is to another (typically around 0.8). This means that an adding the right mix of themes to a portfolio can generate attractive returns with reasonable volatility.

Source: Morningstar Research. Data as of December 31, 2021. Past performance is not a guide to current or future performance.

**Thematic strategy correlation (Vontobel terminology)**

1 = total correlation  
0 = no correlation

	Aqua	Cloud computing	Disruptors	E-commerce	Energy revolution	E-sport	Fintech	Impact for good	Next generation brands	Smart farming & foodtech	Smart healthcare	Sustainable infrastructure	The era of robotics
Aqua	1.0	0.0	0.0	0.0	0.2	0.0	0.0	0.4	0.0	0.2	0.1	0.4	0.2
Cloud computing	0.0	1.0	0.4	0.5	0.3	0.5	0.4	-0.3	0.2	0.0	0.4	-0.2	0.4
Disruptors	0.0	0.4	1.0	0.8	0.5	0.4	0.7	0.9	0.5	-0.2	0.5	0.1	0.7
E-commerce	0.0	0.5	0.8	1.0	0.5	0.5	0.7	0.8	0.5	-0.2	0.6	0.0	0.6
Energy revolution	0.2	0.3	0.5	0.5	1.0	0.4	0.3	0.6	0.1	0.0	0.3	0.0	0.5
E-sport	0.0	0.5	0.4	0.5	0.4	1.0	0.2	0.1	0.2	-0.2	0.4	-0.3	0.4
Fintech	0.0	0.4	0.7	0.7	0.3	0.2	1.0	0.9	0.5	-0.2	0.5	0.1	0.6
Impact for good	0.4	-0.3	0.9	0.8	0.6	0.1	0.9	1.0	0.9	-0.5	0.2	0.6	0.9
Next generation brands	0.0	0.2	0.5	0.5	0.1	0.2	0.5	0.9	1.0	-0.1	0.2	0.1	0.2
Smart farming & foodtech	0.2	0.0	-0.2	-0.2	0.0	-0.2	-0.2	-0.5	-0.1	1.0	0.0	0.3	-0.2
Smart healthcare	0.1	0.4	0.5	0.6	0.3	0.4	0.5	0.2	0.2	0.0	1.0	0.1	0.4
Sustainable infrastructure	0.4	-0.2	0.1	0.0	0.0	-0.3	0.1	0.6	0.1	0.3	0.1	1.0	0.1
The era of robotics	0.2	0.4	0.7	0.6	0.5	0.4	0.6	0.9	0.2	-0.2	0.4	0.1	1.0

The out- or underperformance of the 13 different themes below was measured daily between April 2021 and April 2022. The correlation between the two time-series was then computed.

Source: Bloomberg, Vontobel. Data as of April 2022.

## Challenges of thematic investing

Thematic investing, just as any other investment approach, entails both challenges and risks. Key challenges faced by thematic investors include finding companies whose business activities align closely with relevant themes, known as thematic purity, and the identification of lasting investment themes.

### Thematic purity and “themewashing”

One hurdle is the lack of agreed classification of themes. Each thematic investor or fund provider defines the themes according to their own values and goals, sometimes investing in firms with a weak link to the theme in question. We call this “themewashing”. A specific example of this is a large index provider’s fintech product boasting holdings such as Apple, Nvidia, Amazon, Servicenow, and Salesforce. While many of these are great companies, we doubt they have much to do with what most people consider to be fintech. Thus it is crucial for any investor to understand the rules under which the investment operates. A detailed review of the portfolio manager’s investment process or fund prospectus should provide clear answers.

### Passive management

A passive approach and thematic investing do not go together, in our opinion. There are five reasons why we believe thematic investors need to employ an active approach:

#### 1. Thematic investing is an active choice

Choosing a theme requires an active choice. To do this, investors need to be clear about their goals and beliefs up-front and choose investments aligned with these.

#### 2. Deep research and understanding

Thematic investment requires in-depth qualitative research and understanding, particularly of early-stage investments where published data and backwards-looking metrics cannot tell the full story.

#### 3. Access the full investment universe

Active investors can hunt broadly to identify the full investment universe of relevant pure-play firms. Not all winners of tomorrow are included in off-the-shelf data sets and existing indexes.

#### 4. Keep up with evolving themes

Themes are far from static. For instance, an e-commerce themed portfolio only a few years ago would have focused on online shopping, whereas now there are myriad segments within this market including areas such as catering services, online fitness classes, autonomous robotic delivery and far more. An active approach enables investors to keep the overview focus on the essential.

#### 5. Active risk management

Active portfolio managers can realize gains when they see fit, which helps them to prevent single holdings from becoming clustering risks. By contrast, passive index funds rely on so-called rebalancing transactions on predetermined dates.

### Narrowness and volatility

Given that thematic investment strategies can be very focused, limited diversification of the portfolio can be a risk. An unexpected regulatory change, shift in tax policy or a technological breakthrough can significantly impact a chosen theme. Investors can face the consequences of such unforeseeable developments over which they have no control. This in turn may lead to volatility.

High growth in a selected theme is good news for thematic investors. But thematic investing can be prone to a downturn in a chosen theme, and consequently, heavy losses. Even if thematic funds tend to be more diversified than sector funds, they are still dependent on a small number of themes. Thus, investors should ask how thematic managers address cluster risks, or look for a broadly diversified multi-themed product.

### Quantifying the success of a thematic investment

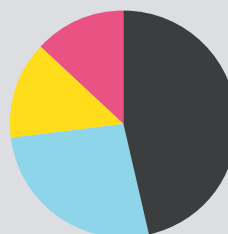
Another challenge faced by the advocates of thematic investment approaches is how to measure and report on performance. There is no clear consensus on which benchmarks are most appropriate. Investors allocate their funds based on their judgement of future trends and must take responsibility to measure and report on the performance of their thematic strategy.

Even though there is no objective benchmark for thematic strategies, there are different approaches at hand. Almost half of the thematic investors compare their thematic funds' performance to broad market cap indices such as the MSCI World Index or the MSCI ACWI Index, while around a quarter prefer to use more specialized external benchmarks.<sup>10</sup>

#### How to measure thematic performance?

What approach does your organisation take to performance measurement when it comes to thematic portfolios?

In %



- We compare the returns achieved to market cap benchmarks such as the MSCI World Index
- We compare the returns achieved to specialist external benchmarks appropriate to the theme in question
- We have developed our own benchmarks for performance comparison purposes
- We have set absolute return targets for our thematically invested portfolios

Source: Vontobel Thematic Investing Survey 2021

<sup>10</sup> Source: Vontobel Thematic Investing Survey 2021



# How to incorporate thematic investments in your portfolio

**Risks and challenges arising from a thematic investment strategy can be mitigated by implementing a rigorous and clearly articulated theme selection. So, how should you as an investor tackle this?**

## **Focus on lasting themes**

Allocations to thematic investing do, as for any investment strategy, depend on the investors' goals, risk profiles and investment horizons. Separating the wheat from the chaff is essential when selecting thematic investments. Of course, the goal is to invest in themes as they develop, rather than themes which seem promising today, but, like the internet bubble of the 1990s, turn out to be fads that can seriously damage wealth. We suggest firstly diversifying investments across a range of themes by investing in a multi-thematic fund. Then, find a fund that focuses on themes backed by strong and irreversible societal drivers. Climate change and the resulting transition to low-carbon fuel, amongst many others, meets these criteria.

## **Either use single themes to complement your existing portfolio...**

Don't just look at the theme in isolation, rather think about how the theme will complement your existing portfolio. For instance, if your portfolio focuses on growth equities, it will probably already include many technology stocks. Thus adding themes related to technology might not be the right approach. Instead, adding diversifying themes such as healthcare, water, farming or commodities could reduce volatility and offset, or at least reduce biases, hidden within a typical portfolio.

## **...or use a multi-thematic investment as a strategic building block**

If you believe conceptually that investing in companies supporting today's largest and most important societal changes will outperform, it makes sense to include a multi-thematic investment as a material item in your strategic asset allocation. Depending on risk tolerance, this could be 10–20 percent of the equity allocation within a balanced portfolio, or 30–50 percent of the equity allocation in a more adventurous "higher-octane" portfolio. In both cases however, the allocation needs to be material, that is to say at least 5 percent of the overall portfolio's risk budget in order to have a recognizable effect on performance.

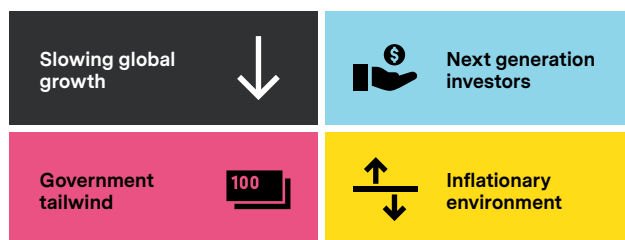


# Outlook and future developments

The current inflationary environment combined with slowing global economy entices investors to find pockets of growth elsewhere. Rather than increasing risk in the hope of finding returns, thematic investing enables investors to “de-average” the market, i.e. find growth even if the market overall is not performing. We believe a thematic approach is particularly promising in times of inflation, because products and services of technology companies with their focus on increasing efficiency should generally have a deflationary effect. Moreover, companies that provide solutions to today’s challenges should be able to thrive even in difficult periods.

Current government policies give thematic investing an additional boost. There is currently strong government support around the globe focusing on energy transition, digitalization, and social inclusion. Governments, for instance, set up task forces to tackle climate change and invest massive amounts in infrastructure to meet the set climate goals.

All this is happening while there is an ongoing transfer of wealth from the baby boomer generation born after World War II to their children. Younger people are typically looking to invest in areas they feel comfortable and identify with. More than 15 trillion US dollars of wealth is forecast to be passed on to the next generation by 2030.<sup>11</sup>



Source: Vontobel

The demand for thematic investing thus continues unabated. This demand is set to accelerate, as an increasing number of institutional investors anticipate increasing their allocations to thematic strategies over the next one to three years.

## Investors increasingly interested in a thematic approach

Nearly three-fifth of institutional investors already allocate at least 20 percent of their equity portfolios using a thematic approach.<sup>12</sup> A fifth of them allocate more, at least 40 percent of their equity portfolios.<sup>13</sup> Half of them nevertheless expect to raise their thematic allocations over the next one to three years.<sup>14</sup>

### Thematic exposures set to soar

Thinking about your equity holdings, how do you envisage your current allocation to thematic investments changing over the next one to three years?

In %



- Decreasing significantly (more than -10%)
- Decreasing somewhat (-1 to -9%)
- Remaining constant
- Increasing somewhat (1 to 9%)
- Increasing significantly (more than 10%)

Source: Vontobel Thematic Investing Survey 2021

<sup>11</sup> Wealth-X, World ultra-wealth report, 2020

<sup>12</sup> Vontobel Thematic Investing Survey 2021

<sup>13</sup> Vontobel Thematic Investing Survey 2021

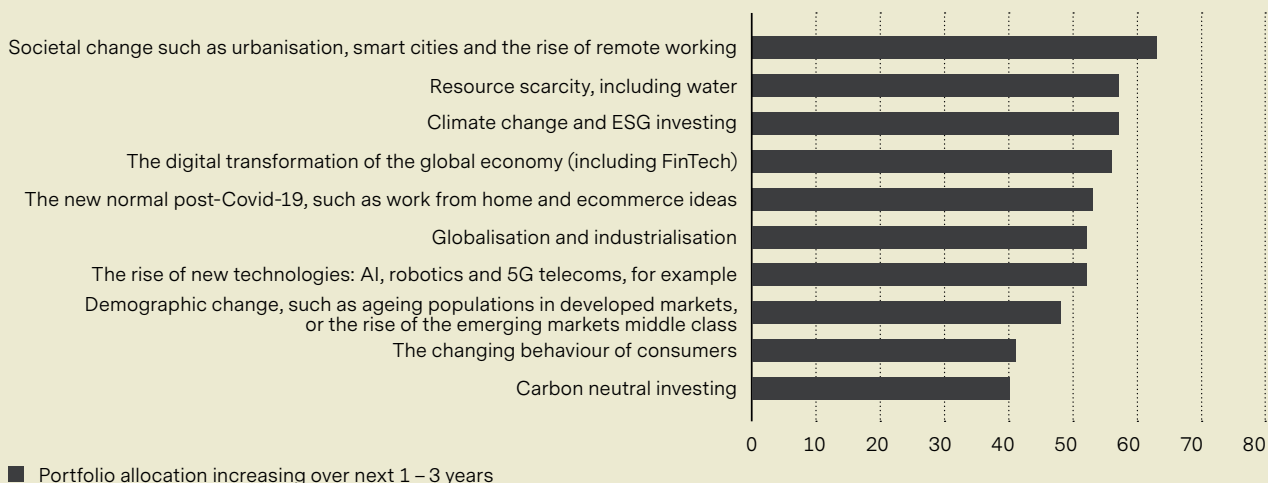
<sup>14</sup> Vontobel Thematic Investing Survey 2021

**Regulatory changes and other external factors**

Large government packages earmarked for the green transition and supportive regulatory changes drives the strong demand currently seen in the sustainability sphere. Thematic investors thus mull investments in ESG-related themes such as resource scarcity, climate change and carbon neutral investing over the next one to three years to tap these growth opportunities<sup>15</sup> (see chart below).

**Themes likely to take off in the coming years**

Which of these are thematic investment strategies that you are pursuing in one form or another?  
 How do you envisage your current portfolio allocation changing over the next one to three years?  
 In%



Source: Vontobel Thematic Survey 2021

<sup>15</sup> Vontobel Thematic Investing Survey 2021

Investors that already have high allocations of thematic assets in sustainability have identified new high-growth themes such as cyber security as well as food and energy security.

Other themes envisaged by thematic investors over the next one to three years include artificial intelligence, robotics, fifth-generation telecoms, as well as smart healthcare. All of these are likely to become more prominent across the globe in light of ageing societies in developed countries and a rising middle class in emerging economies.

In a nutshell—there is scope for greater demand for thematic investment strategies and the range of offerings they bring.



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