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1/5 For institutional / professional investors only

Taking a tilt in Asia Pacific towards thematic strategies

Exclusive research by Vontobel shows that while new and emerging themes are gaining traction with the region's intermediaries and institutions alike in equities allocations, there is scope for thematic investing to play a more meaningful role in portfolios.

Executive summary

It is easy to see why there is so much excitement in the financial community about the potential for thematic investing.

Various structural trends are shaping the world around us in different ways – and all at a rapid pace. As a result, portfolio strategies are looking more closely than ever at how to capitalize on the longer-term socio-economic, geopolitical, demographic, technological and behavioural shifts underway.

Fund flows reflect this, and continue to break records every quarter. The latest Morningstar data, for example, shows global sustainable fund assets hitting a new high of USD 2.3 trillion in the second quarter of 2021, led by equities. By region, Europe secured the majority of net inflows, at USD 112.4 billion, followed by the US at USD 17.6 billion and then Asia at USD 1.2 billion.

Even despite a deceleration in Asia Pacific in the pace of net inflows from the first three months of 2021, it was the fifth consecutive quarter of growth overall.

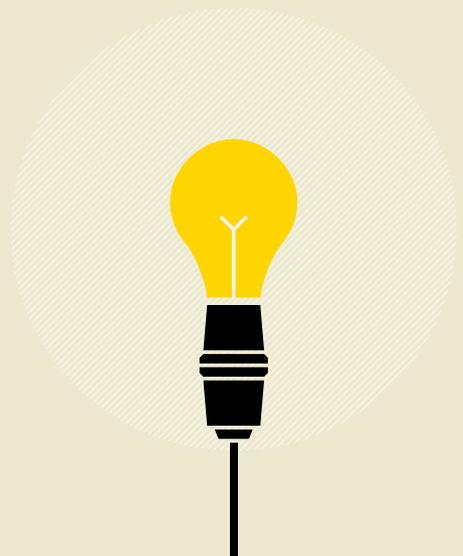
This tallies with the views of over 40 intermediaries and institutions in Asia Pacific whom Vontobel surveyed in mid-2021. They were mostly located in Hong Kong and Singapore, but respondents were also from Australia and New Zealand.

The objective was to highlight what investors in this region think about thematic investing and how they are implementing these strategies – plus, how this compares with the views of professional investors in Europe, based also on a recent Vontobel study.

Key takeaways among investors in Asia Pacific

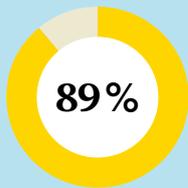
- The majority allocate some of their equity portfolios to a thematic approach
- Over the next one to three years, three-quarters expect to increase these allocations
- The clear preference among investors in the target countries is climate change and ESG themes, along with new technologies such as artificial intelligence (AI), robotics and 5G
- Well over half of investors take an active approach to thematic investing
- Just under half intend to increase the number of third-party managers they use in this space over the next 12 months

Yet regardless of the high-level appetite for thematic strategies, fuelled in part by the acceleration of certain market trends due to Covid-19, there are notable differences from one portfolio to the next in Asia Pacific, in relation to exposure, priorities and future plans.

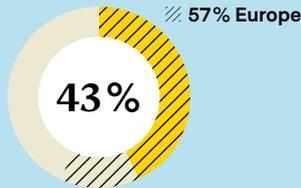


Thematic investing in Asia Pacific – at a glance

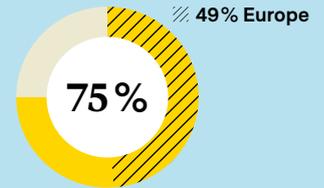
Thematic appetite – today and tomorrow



investors who allocate at least some of their equity portfolios to a thematic approach

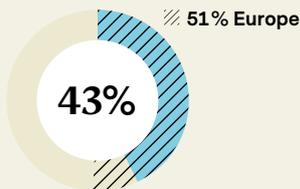


investors who allocate more than 20% of their equity holdings to a thematic approach

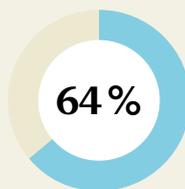


investors who expect to increase their thematic allocations over the next one to three years

Covid-19 sharpens the focus on thematics



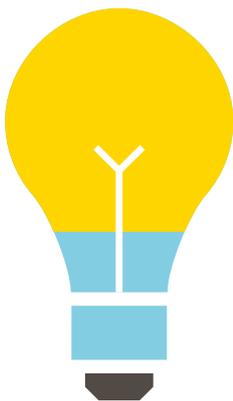
investors who believe the pandemic greatly boosted the case for a thematic approach



investors who disagree that uncertainties due to the pandemic make it the wrong time to change investment approaches, such as adding exposure to thematic strategies



Asian investors opt for a more active style



57% Europe 29%
Active
 investors who take either an entirely active 11% or mostly active 46% approach to thematic investing

36% Europe 48%
A bit of both
 investors who prefer a mix of active and passive investing

7% Europe 23%
Passive
 investors who take a largely passive approach

Catering to investor preferences

Today – preferred themes

- 1 climate change and ESG investing
- 2 new technologies (AI, robotics and 5G)
- 3 digital transformation of the global economy

One to three 3 years' time – increases in allocation

- 1 climate change and ESG investing
- 2 urbanization and smart cities
- 3 carbon neutral investing

Diversifying thematic providers

46% 67% Europe



investors who intend to increase the number of third-party managers they use for thematic strategies in the next 12 months

Allocating to thematic – trends and expectations

This proprietary research study highlights some interesting trends in terms of current and expected equity allocations to thematic in Asia Pacific.

In short, there is a mixed approach among different types of investors, many of whom are less developed in their engagement of thematic investing than their counterparts in Europe.

For example, 43% of investors in Asia Pacific allocate more than 20% of their equity portfolios using a thematic approach, compared with 57% in Europe.

At the same time, as many as 32% of respondents in Asia Pacific have less than 10% of their equity holdings allocated to thematic. For 11%, meanwhile, they don't take a thematic approach at all as part of their equity exposure.

However, respondents in Asia Pacific who see value in thematic have a strong conviction when it comes to this approach; half of investors who do engage thematic strategies allocate at least 40% of their equities portfolio in this way.

When looking one to three years ahead, the lower overall base of investors in the region with exposure to thematic strategies is expected to result in higher growth in Asia Pacific during this period.

More specifically, 75% of investors believe they will increase their thematic allocations, either significantly (25%) or somewhat (50%). It is also notable that not a single respondent expects to reduce exposure to thematic.

There is also room to grow in Europe, too, with 49% of respondents to the survey planning to boost their thematic allocations over the next three years.

Asia Pacific's active mindset

There is stark contrast between the geographies in when it comes to the preferred investment style for thematic strategies.

In Asia Pacific, 57% of investors take either an entirely active (11%) or mostly active (46%) approach, with only 7% preferring to be largely passive. A mix of styles is the ideal route for just over one-third (36%) of these investors.

The research in Europe highlighted a more balanced approach; 23% of investors favour being explicitly passive, with 48% using a mix and only 29% pursuing an active style.

Picking preferred themes

The Asia Pacific study also identifies what's popular among intermediaries and institutions – both at the moment and with a one- to- three-year time horizon.

Across both types of investors, two clear themes are front-of-mind: climate change and ESG (environmental, social and governance) investing on one hand, and new technologies such as AI, robotics and 5G on the other.

The region is clearly also heavily influenced by the rate of digital adoption across sectors and markets; digital transformation of the global economy, including fintech, also has strong backing.

While social issues relating to demographics, ageing populations and emerging middle class populations are somewhat popular, they trail the most desirable themes by some distance.

By contrast, the European research pinpointed resource scarcity as the most popular theme today. There is also consistent support for the new post-pandemic normal, plus urbanization and smart cities, as well as climate change and ESG investing.

Planning for a new future

Yet the next one to three years does bring about some shifts in investor appetite in both regions, although the research shows a lot of consistency across such multi-year themes:

- Portfolios in Asia Pacific will reflect significant increases in allocation to climate change and ESG investing, however exposure to urbanization and smart cities will likely grow
- Investors in this region will also further embrace the "new normal" brought about by the pandemic and the changing behaviour of consumers, along with demographic changes and efforts to realize the goal of carbon neutrality
- In Europe, urbanization and smart cities is expected to become the most popular theme, with resource scarcity, and also climate change and ESG, also high on the list

Playing catch-up in Asia Pacific

The study of various investors in the region also shows a material impact of Covid-19 on the penetration of thematic investing within portfolios.

Unsurprisingly, the dramatic nature of how the world changed so quickly has been responsible for steering a growing number of intermediaries and institutions in Asia Pacific towards key themes as part of their asset allocation.

For example, 43% say the pandemic has greatly boosted the case for a thematic approach. This lags the findings in Europe, however, where just over half (51%) of investors think the same.

Yet 54% of Asia Pacific-based investors believe Covid-19 has accelerated the pace of trends and themes to which they either already have investment exposure or are interested in acquiring exposure. This is greater than the 50% of investors in Europe who think the equivalent.

Arguably, the unsettling nature of the pandemic has perhaps had the greatest impact on the desire among investors in Asia Pacific to adopt new ways of allocating. This is seen by the fact that nearly two-thirds (64%) disagree on the view that uncertainties due to the pandemic make it the wrong time for fundamental changes to their investment approach, such as adding exposure to thematic strategies.

In need of more external support

The growth in appetite for thematic strategies has also brought with it awareness among many investors of the need for greater levels of expertise from third party specialists.

The Asia Pacific study, for instance, suggests a strong interest in diversifying providers of thematic strategies; 46% of these investors intend to increase the number of external managers they use for thematic strategies over the next 12 months.

About the research

In July and August 2021, Vontobel surveyed 48 institutional investors and intermediaries across 5 countries in Asia Pacific.

This study is a follow-up to the study we did earlier this year across the EMEA and CH markets. The earlier study surveyed 300 institutional investors and intermediaries across 14 countries.



Countries

Singapore	56%
Hong Kong	27%
New Zealand	11%
Australia	4%
Thailand	2%

Organization type

Bank	24%
Bank – Global	21%
Private Bank	10%
Bank – Treasury	9%
EAM	9%
Family Office – Multi	9%
Family Office – Single	6%
Fiduciary Manager / OCIO	6%
Corporate – Treasury	3%
Pension Fund	3%
Consulting	2%

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