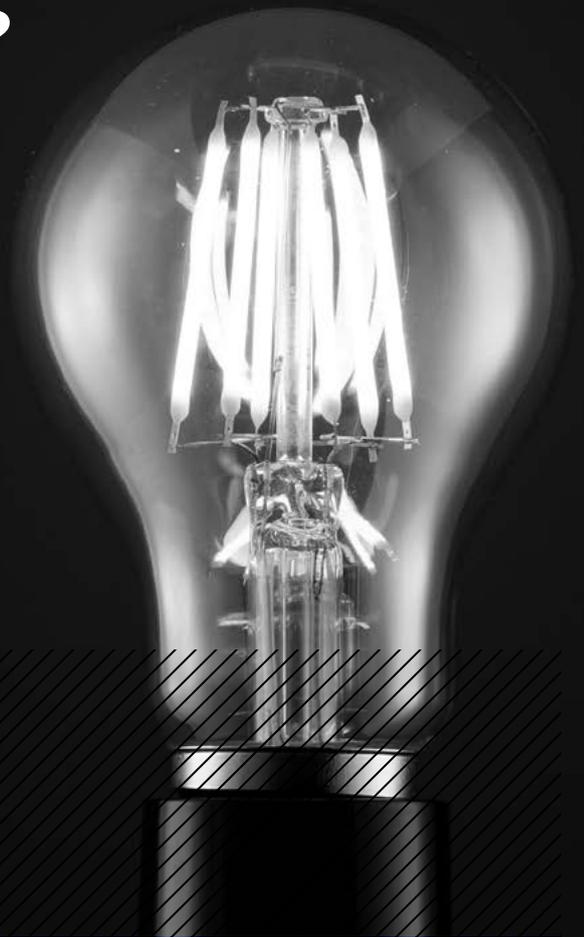


Thematic investment shows rapid growth. Are investors ready?



Focus region: UK and Ireland

Introduction

Growth in demand for thematic investment funds has accelerated over the past 12 months, with both active funds and passive vehicles picking up significant inflows. Assets under management in thematic exchange-traded funds more than doubled during 2020.¹ And in the active space, thematic funds defied the outflows seen in most sectors in 2020.²

This remarkable growth reflects a broad range of drivers. Even before the pandemic, several big-picture themes – including climate change, technology transformation, and demographic shifts – were attracting significant attention. But Covid-19 has served as a catalyst for many of these, and the market cycle also appears to have shifted in favor of thematic drivers.

This research therefore sets out to answer key questions. To what extent have institutions and intermediaries embraced a thematic approach to asset allocation? Which themes do investors and intermediaries find most compelling? And how are leading thematic investment product providers seeking to respond to this appetite?

Investors are enthusiastic

Our survey of 300 leading institutional investors and intermediaries across Europe suggests that investors' approaches to thematic investment are evolving and maturing. Some of these investors are changing their asset-allocation strategies in the light of the pandemic, as their views shift about where the greatest opportunities lie. Many are increasing their exposures to thematic funds and developing more holistic approaches, often encompassing multi-asset remits.

As part of this evolution, investors are thinking anew about how to capture opportunity while managing risk, maintaining diversification, and monitoring performance. For most investors, the debate is no longer about whether to invest thematically, but about how to do so most effectively – including whether to use active or passive funds. They recognize the powerful structural reasons to invest thematically and are implementing their strategies with greater sophistication.

What comes next?

There is scope for greater demand for thematic investment strategies and vehicles. Our research reveals appetite for increased allocations to a broad range of themes – particularly among investors who have only made modest thematic investments so far. Those with greater allocations are also optimistic, but they are more cautious about the outlook.

In this report, we hear the views of these institutions and intermediaries.

- **What are their plans for thematic investments and how will they execute them?**
- **What issues are they struggling to overcome?**
- **How are they managing risk and return within their portfolios?**
- **And how will they judge long-term success?**

Download the full study here:
vontobel.com/tiam

¹ <https://www.morningstar.co.uk/uk/news/208785/the-rise-of-thematic-etfs.aspx>

² <https://www.ftadviser.com/investments/2020/08/21/the-pursuit-of-thematic-happiness>



James Clark
Senior Fund Analyst,
Hawksmoor Investment Management

“Covid has really accelerated changes in the sustainability area.”

“This applies particularly to global themes, such as health and safety, wellbeing, improving connectivity, and making transport more efficient.”

“We are very much active, and fitting with the sustainable approach we are 100% active,”

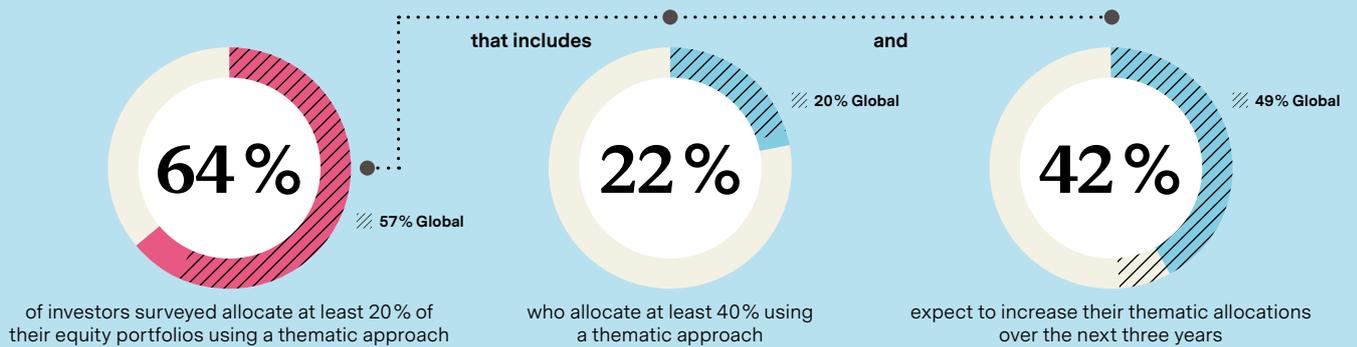
“We are by no means big fans of passive sustainable investment.”

“When you have an internal risk-scoring process, a fairly regular developed market global equity fund might score at five or five and a half, while with thematic equity funds, you are looking at more like six to eight,”

“They might well be slightly more concentrated.”

Thematic investing: Are you ready to invest with purpose?

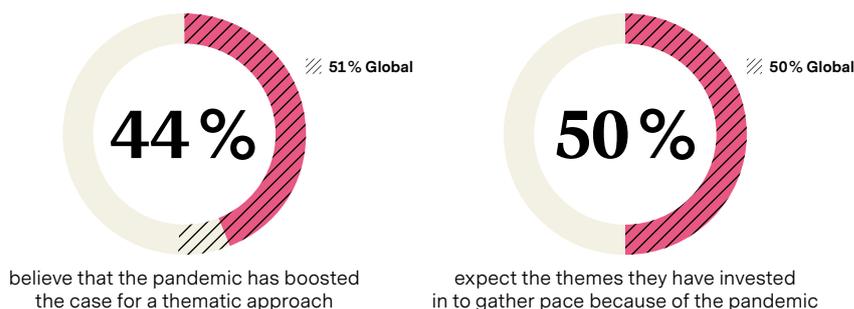
Thematic exposures are set to soar



Some countries are powering ahead on thematic investing

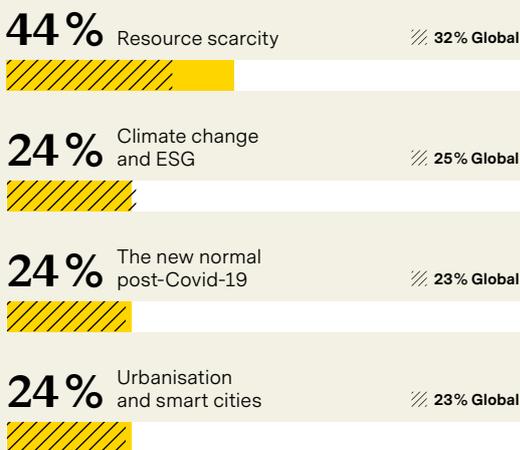


Could Covid-19 put a rocket under those numbers?

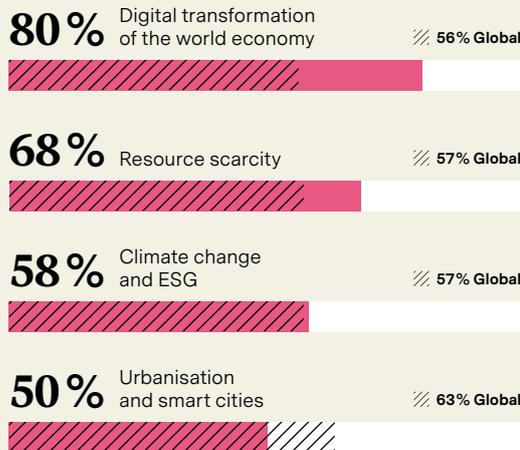


What themes are popular now—and what is rising up the agenda?

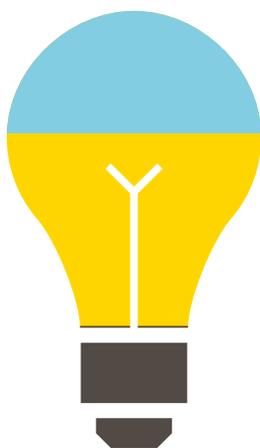
Top themes now



Top themes in the next 1–3 years



Active trumps passive in the move to thematic funds



Active

28% 29% Global
favor an explicitly active approach to thematic investment

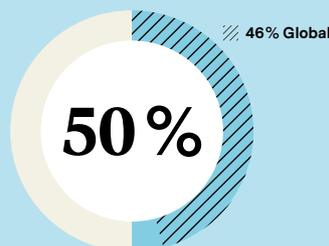
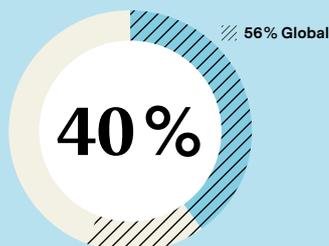
A bit of both

44% 48% Global
prefer a bit of both

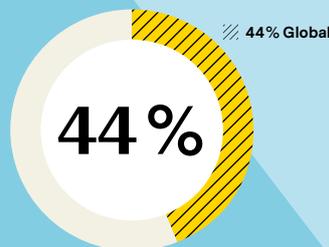
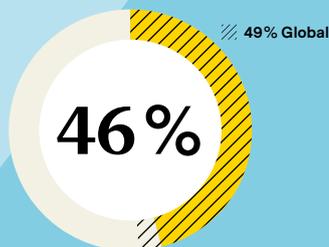
Passive

28% 23% Global
favor an explicitly passive approach

Risk management is a crucial driver of the shift to thematic strategies



And as volatility leads to uncertainty ...



Investors are looking to diversify their thematic providers

76% 67% Global



of institutional investors and intermediaries expect to diversify their thematic investment providers as allocations increase

Conclusion

This research finds that for both institutional investors and intermediaries the question is not whether to invest in thematic strategies, but how to do so effectively.

Many are determined to raise their exposures to thematic funds, often taking the view that Covid-19 has strengthened the case for such investments. And they are embracing a broader range of themes, convinced that the structural drivers underpinning them will drive growth.

The challenge now is to execute on their ambitions and manage risk effectively. Respondents are looking for support and guidance on:

How to allocate assets across themes.

Thematic fund managers offer a broad and growing range of ideas and strategies, particularly in areas such as sustainability and technology. But investors may struggle to choose between so many different options and build portfolios that blend different ideas.

How to select managers and hold them to account.

While investors are prepared to be patient with investments that may play out over an extended period, there is little consensus about how to benchmark performance. And with growing numbers of funds – both active and passive – appealing to investors keen to take a thematic approach, fund selection is becoming more challenging.

How to manage risk and volatility.

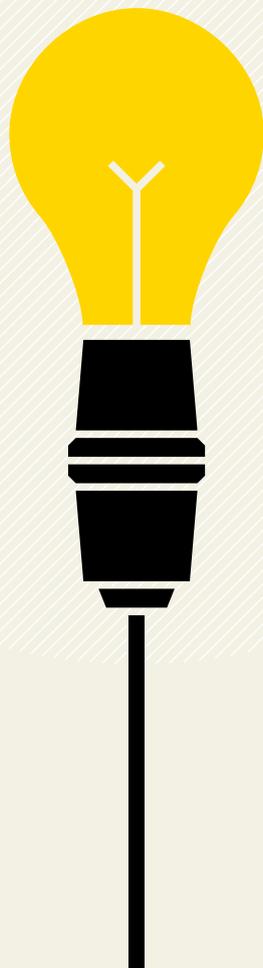
The desire not to miss out on performance in fast-moving areas of the marketplace is a driver of demand for thematic funds, but investors worry about portfolio concentration. Diversification is a central challenge to address as investors pursue a more thematic approach.

When to move on from particular themes.

Investors also worry about when to take profits from some of the themes that they have already backed. There is anxiety that in certain cases, the best of the growth may now be behind them.

How to choose the right funds to secure thematic exposure.

Thematic investment now looks set to continue growing. But helping investors to resolve these concerns is key if fund providers and other advocates of a more thematic approach to asset allocation are to rise to this challenge.



About the research

In February till April 2021, Vontobel and Longitude, a Financial Times company, surveyed 300 institutional investors and intermediaries across 14 countries.

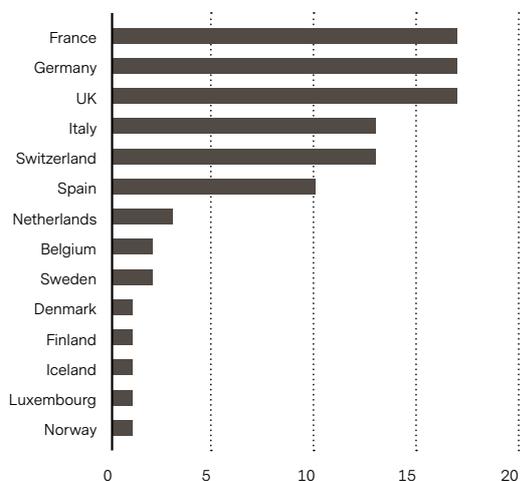
This study also draws on a number of interviews with experts in asset allocation and thematic investment. In particular, we would like to thank the following contributors:

- **Fabio Catalano**
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Portfolio Manager, 3 Banken-Generali, Austria
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Deputy Chief Investment Officer, Crossinvest SA, Switzerland
- **Jakob Trefz**
Head of Product Management at MLP Banking AG, Germany



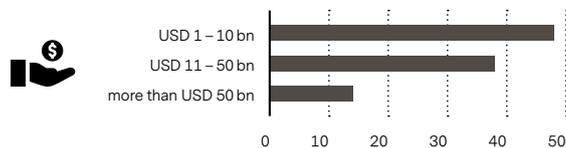
Countries

In %



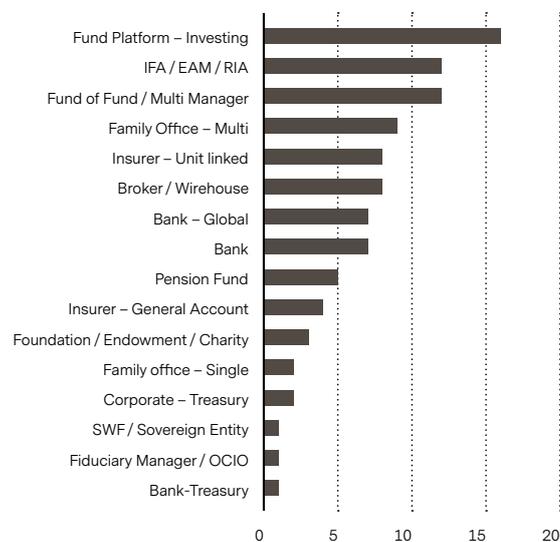
Assets under Management

In %



Organisation type

In %



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