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# The dawn of thematic investing

**T**echnological and economic advancement are no longer buzzwords, especially as we are currently experiencing the fourth industrial revolution. What is becoming more evident, is that this revolution is about more than just technology.

## Building the world of tomorrow

Development is also not limited to just economic development, business and profits, but it touches massively on the environment and society as well. Those words ring truer today, especially given events unfolding across the globe, and the impact it has on scarce resources, people and their communities.

The COVID-19 pandemic has made us realise even more prominently, that the world is changing and so too should our response to the world's challenges. We are facing an increasingly complex, connected, and ever-changing world, where unprecedented digital innovations are disrupting value chains, and we are facing major human and climate challenges. We, therefore, need to proactively respond by building the world of tomorrow for future generations.

## The art of identifying opportunities

The thematic investment approach rose to popularity after the 2008 global financial crisis that caused investors' focus to shift away from traditional investment methods. Before the global financial crisis, the defining investment principle was focused on forecasting future stock movements, by analysing data from the past.

Today, past fundamentals are still widely being used to classify instruments, but as we experienced in 2020, any financial crisis makes forecasting similar future events complex. For this reason, many investors have come to base their investment decisions on in-depth analysis of expected changes in the future, as they seek to capitalise on opportunities shaped by transforming developments.

Disruptive innovations, ideas and societal changes are embraced in today's world, and this is creating opportunities alongside it. Technological innovations, demographic and social trends,

urbanisation and environmental challenges are here to stay, and the importance thereof, is continuously being forced into the spotlight. These developments converge into larger themes that will endure over the longer term.

All of these themes create unique investment opportunities that will persist, as disruptive ideas and technological advancements are rapidly reshaping the world, we live in. However, not all themes are created equal. Some are structural and long-term in nature, and some are short-term anomalies, but every change represents an investment opportunity.

Thematic investing encapsulates the art of identifying these opportunities, based on personal experiences and aligning investments with beliefs and ideas. Simply put, thematic investing is a top-down investment approach that helps investors gain exposure to trends and ideas through a portfolio of companies expected to benefit most from such transformative and structural changes.

## Concentrating on the big picture

Looking ahead, certain trends will provide compelling investment opportunities for those who are willing to take a different perspective and concentrate on the big picture.

Identifying the right themes to consider is essential. Implementing a thematic investment strategy requires accurately recognising structural shifts, identifying companies with direct exposure to the trend, and then investing into the trend before the future potential growth is fully priced into earnings forecasts.

Identifying trends is a lot harder than it sounds. While successful thematic investors do not need to be clairvoyant, understanding what the future holds does in fact form part of their strategy.

Trends that seem steady today can be derailed tomorrow, therefore humbleness needs to remain part of this investment journey. Investing in the right trends and themes does not only give us as the investors the opportunity to grow our clients' assets, but also gives us the opportunity to "fund" the way the future will shape and unfold. •