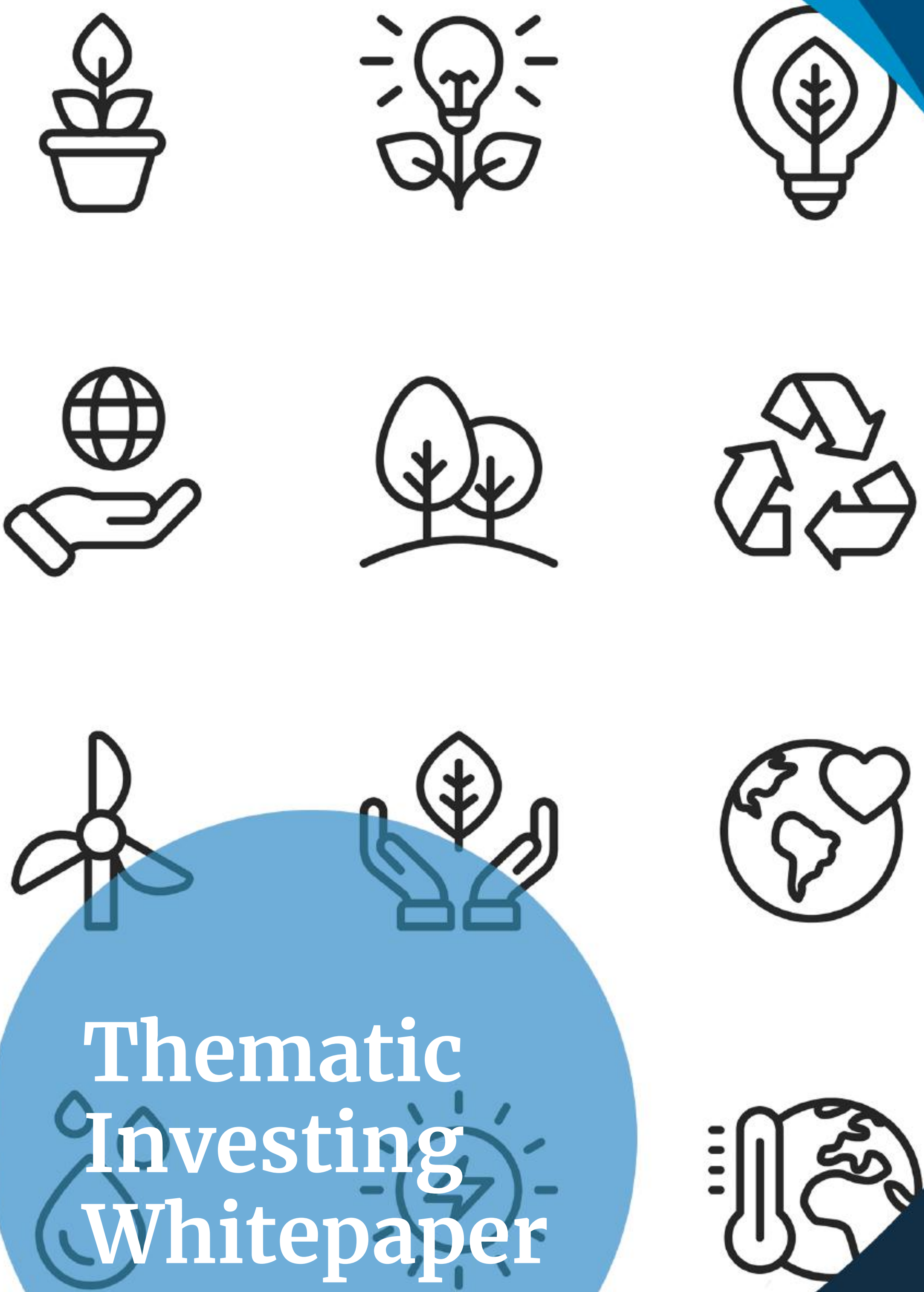
CAMRADATA



Thematic Investing Whitepaper

Sponsored by

cpr asset management

SARASIN & PARTNERS

Clear and Independent Institutional Investment Analysis

We provide institutional investors, including pension funds, insurance companies and consultants, with data and analysis to assess, research and report on their investments. We are committed to fostering and nurturing strong, productive relationships across the institutional investment sector and are continually innovating new solutions to meet the industry's complex needs.

We enable institutional investors, including pension funds, insurance companies and consultants, to conduct rigorous, evidence-based assessments of more than 5,000 investment products offered by over 700 asset managers.

Additionally, our software solutions enable insurance companies to produce consistent accounting, regulatory and audit-ready reports.

To discuss your requirements
+44 (0)20 3327 5600
info@camradata.com

Find us at camradata.com

Join us on LinkedIn
Follow us on Twitter @camradata

Contents

03 **Introduction**
04 **Thematic Investing Roundtable**
09 **Roundtable Sponsors**
11 **Roundtable Participants**
14 **CPR Asset Management - Central Banks: leading the path towards Impact Investing**
18 **Sarasin & Partners - Theme or fad? How to invest for the long term**

Welcome to CAMRADATA's Thematic Investing Whitepaper

In these seminal times, thematic investing plays a crucial role in asset management. It has the potential to shape how the future unfolds, yet running a successful thematic fund is no easy feat. To an extent, it is like navigating unchartered waters, trying to identify the trends that permeate society and traverse sectors.

As the world shifts into a new paradigm, global trends accelerated by Covid-19 and spurred by technology present a wealth of opportunity.

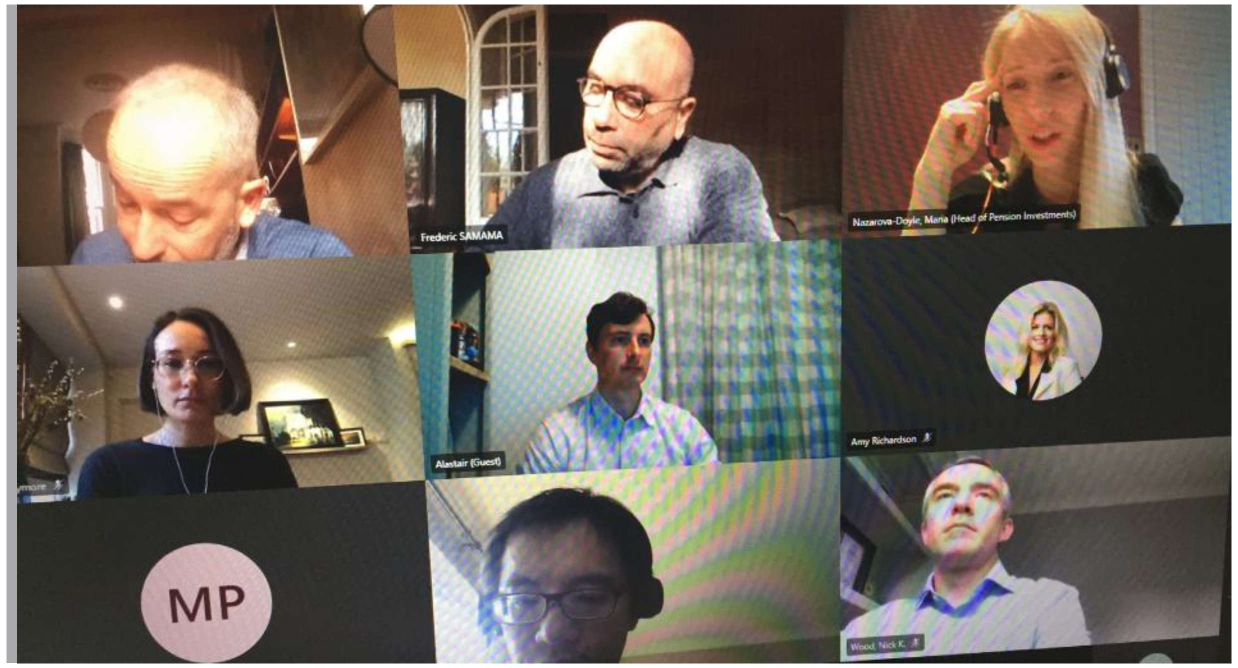
There are vast amounts of industry-specific data to deal with, however, and no guarantees as to how the route taken will pan out. Trends such as AI and biotechnology are still in their relatively early days, for example, and global economies are undergoing dramatic changes.

In a rapidly changing world, where are the long-term opportunities? Themes such as ageing demographics, robotics, automation, and healthcare innovation are becoming increasingly prominent, to an extent exacerbated by the pandemic. Other key areas to keep an eye on include water, food, and education. Digitisation runs through them all. These developments are not going to disappear, they will only evolve.

Mapping out certain trends, identifying potential sustainable returns through a unifying thread that spans multiple sectors, could help future-proof investments. For thematic investors, these interconnected motifs can provide a roadmap to light the path through this ongoing uncertainty and these will be discussed in this CAMRADATA Thematic Investing Whitepaper.

Thematic Investing Roundtable

The first CAMRADATA Thematic Investing roundtable took place virtually in London on 10 November 2020.



CAMRADATA's inaugural roundtable on Thematic Investing began by asking panellists to name up to five themes they currently like in the world of investing.

Frédéric Samama, chief responsible officer at CPR Asset Management, set the ball rolling with "the tsunami of responsible investing; financial innovation for the public good; the dialogue between asset managers, asset owners and corporates; how the institutional framework on Climate Change is evolving; and finally, society changing the objectives of corporates."

Nick Wood, head of research at Quilter Cheviot, listed Artificial Intelligence, China and energy transition.

Reza Mahmud, investment consultant at PwC - which had been producing material on megatrends for several years - began with Climate Change, demographics, technology breakthrough, shifts in global economic power plus the nearer-term trend of market dislocation.

" The panel were asked to look back at themes that have worked and those that have not "

Jerry Thomas, head of global equities at Sarasin & Partners, a thematic boutique, cited Climate Change too, which he believes will present enormous investment opportunities over the next decade. He also listed automation, evolving consumption, ageing and digitalisation.

Maria Nazarova-Doyle, head of pension investments at Scottish Widows, put clean energy first, followed by water, waste management, biodiversity and board diversity.

Bella Landymore, policy director for the Impact Investing Institute, started with Place, diversity in the workplace and a Just Transition.

Alastair Dean, investment analyst at Stonehage Fleming listed the shift of data to the Cloud; semiconductors; green materials, e.g. lithium for batteries and uranium for nuclear; medtech; and robotics.

Themes have a habit of coming and going. Wood recognised that automation and robotics, for example, were cyclical, which means that investors have to think carefully about entry-points. Looking back, the panel agreed that the commodities supercycle of the 2000s came about with the economic development of China. Many commodities-based products found their way into mainstream investing but Thomas reckoned that this won't happen again.

And so, the panel were asked to look back at themes that have worked and those that have not. Samama recalled his creation of the Sovereign Wealth Fund Research Initiative with Nobel Prize Laureate, Joseph Stiglitz and Patrick Bolton ten years ago. He also spoke of the first Low Carbon index, created

for the Swedish buffer fund, AP4, by Amundi in 2011. "There was nothing else available at the time. Now it is a $50bn market, as underscored by the Harvard Business Review last year," said Samama.

The failed theme from Samama was an attempt to build a market in contingent capital for embedded corporate risks around climate change and sudden shocks.

Wood's successful themes were automation and robotics, especially from Japanese companies. Shale gas in the US, on the other hand, had not worked out well for Quilter Cheviot.

Dean offered insurance as one of those themes that had both succeeded and disappointed, depending on point in the cycle. "We allocated in 2012 when insurance still hadn't really recovered from Hurricane Katrina. Since then we did quite nicely although this year has been tougher because of business-interruption clauses."

Nazarova-Doyle said that Scottish Widows had done a lot of research into what themes interested customers. She told the CAMRADATA panel that she had personally been surprised by their preferences. "While I wasn't surprised that Climate Change

" Explaining a Just Transition, Landymore said that it translated into many sub-themes "

would score so highly, it took me by surprise that Board Diversity was almost the lowest-ranking concern among ESG choices we listed," she said.

Landymore replied there was correlation between environmental impact and social benefits to investing. The theme that concerns the Impact Investing Institute, which is less than two years old, is improved measurement of such relationships.

Mahmud said that the PwC megatrend of a shift in economic power has not always been easy to translate into portfolios or funds. For example, Emerging Markets lagged behind until recently, in part due to the strong outlier outperformance of US tech. More generally though, he said trends had a way of finding their way into the composition of the stock markets over time anyway via passive equity investing, which he described as "auto-update" strategies. For example, 30 years ago, US equity indices had 13% in oil and 6% in tech, now it's 2% in oil and 27% in tech.

Thomas said that one clear winner due to COVID had been digitalisation, for example in processing payments. A loser had been the subset of the Ageing theme looking at older people travelling and enjoying experiences abroad later in life. He noted however, that themes were not for one-year or three-year horizons. Sarasin & Partners looks out on a ten-year view. So, for example, on Climate Change, Thomas noted that NextEra, a green US utility, already has a market cap greater than Exxon: "Climate Change is not merely about the power sector but about other enablers such as French firm, Alstom, which produces rail engines; Kingspan, the Irish insulation manufacturer; or Dutch chemical manufacturer, DSM, whose Clean Cow feed supplement reduces methane emissions from cattle."

Explaining a Just Transition, Landymore said that it translated into many sub-themes: reskilling for green jobs; inclusion; digitalisation; empowering Small and Medium Enterprises; building sustainable, safe homes and infrastructure.

Nazarova-Doyle said her favourite theme was a net-zero transition. "It's strange to talk about a favourite theme when it is an existential necessity," she observed.

Scottish Widows has developed a fund compliant with a net-zero transition by 2050 and already transferred 10% of its pension default fund into the strategy. "We have seen change driven by ESG," she said. "This theme makes people interested in their savings."

At the same time, she noted in spite of all the types of research into preferences, the majority of people still don't engage. Until that alters, addressing climate change via the default fund was extremely important "to make better investments on their behalf."

On the Cloud, Dean said there were different sectors and business models benefitting. He started with streaming services such as Netflix and Spotify. Then there is the info analytics from the likes of Amazon and Google. Then there were platform services and the actual infrastructure, bringing in the likes of Oracle and Microsoft.

All of these business models are benefitting from the trend, accelerated by COVID, that storing data physically onsite by an enterprise is not the future. Dean's two concerns were valuations and regulatory risk (Google is already the subject of a lawsuit from the US federal authorities, although this relates to web-browsing).

" Twenty years ago 30% of the world's population was living below the poverty line. Today the percentage is 10 "

For Quilter Cheviot, Wood said that robots were used extensively in logistics, such as Amazon and Ocado warehouses. Also in laboratories doing repetitive manual tasks and of course on assembly lines. In white-collar jobs, including asset management, he said that Artificial Intelligence would grow as data analysis became smarter.

He then tilted the theme to Japan, home to five of the world's top 10 automation companies. He suggested that the long-established ecosystem in Japan was one way to play the theme, picking out SMC as one attractive stock. The company manufactures pneumatic equipment and control valves. Wood said SMC's research and development budget was ten times greater than its nearest competitor.

Samama then spoke about the topic of food. "Twenty years ago 30% of the world's population was living below the poverty line. Today the percentage is 10. That is fantastic but we don't have the resources to feed everyone. This means making production more efficient, reducing water usage and offering more healthy foods. He gave Danone as an example of a food manufacturer making the right kind of impact – all with a view to halving its carbon footprint. "There is an externality alpha, not just in food production but every sector, which the market appreciates," he said. "Since the 1980s many companies lost their adaptability skills by following the mantra of shareholder value maximisation and efficiency. NextEra versus Exxon is a good example of who has been a winner by focusing on the Climate Change wave."

Samama explained that CPR makes a split in thematics between secular trends such as Ageing per se and the additionality of public good. Scoring highly on additionality puts an investment strategy into the impact category, beyond ESG. He gave the examples of education, referencing the chairman of the New York Federal Reserve, Jerome Powell's acknowledgement that inequality traces back to educational opportunities; med tech; and CPR's Future Cities fund, directed at sustainable urbanisation. For insurers, Samama said that many of these strategies offer a hedge against their liabilities. He described them as "options" on secular themes and externalities.

Thomas then explained how Sarasin & Partners uses themes for ideas generation, not as a shortcut for portfolio construction. "Themes lead you to good ideas. But we then spend at least three months researching a stock, so that the best themes are represented by the best investments. The stock selection process leads to a concentrated portfolio of 35-50 holdings."

He stressed that Sarasin does not just allocate 20% of capital to each of its five mega-themes. Risk management is based on metrics such as total potential downside from each holding but also aggregate risk modelling. As such, the themes are subsumed into portfolio management rather than discrete allocations. Thomas also stressed that Sarasin was an active investor. "We write to the company as soon as we take a position, to let them know how we will engage and what we expect of them in the future," he said.

The CAMRADATA panel was moving onto total allocation to themed funds, and whether clients might be blinded by themes to the overall risk exposure in their portfolios.

Dean said that there was a risk of unbalancing your portfolio. "Allocating 20% to biotech might not be a good idea." Likewise, overweighting robotics and semiconductors was increasing cyclical exposure. He cautioned that wealth managers needed to bear in mind factor risk and end-market revenue drivers.

Nazarova-Doyle gave more details of the Paris-aligned Climate Transition fund that Scottish Widows has just launched. As well as a 50% reduction in carbon emissions versus the global equities index, it has 60% more revenue from clean energy tech. And so, there is positive impact in addressing Climate Change.

Using the word 'impact' is not, however, Scottish Widow's choice. "It depends on how you define impact investing," said Nazarova-Doyle. She suggested the term prioritised social or environmental outcomes before financial goals, which would make this inconsistent with fiduciary duty in DC pensions. "So you still expect something back but it is not your primary reason for investing. We have more scope to do impact investment in our annuity book. We do direct lending to environmental projects; education; social housing."

Landymore responded that for the Impact Investing Institute, impact investing is finance first and thus consistent with pension fund trustees' fiduciary duty. She added it was not a theme but a lens on the entire portfolio, stressing that it was for portfolio managers to identify solutions via this lens.

"There are impact opportunities which are higher risk but impact investing per se is not higher risk." She contrasted how comfortable the investment world is for managers to underweight or overweight stocks, regions or sectors without any need to justify taking such risks.

Nazarova-Doyle explained that Scottish Widows preferred to use the term "positive change" rather than impact because of "mythical connotations" of impact with low or no returns.

" Scottish Widows preferred to use the term "positive change" rather than impact because of "mythical connotations" of impact with low or no returns "

Landymore admitted that while in government advising on impact, her unit had "lost the battle to include impact as a financial factor" amid the revised guidance on UK pension schemes' Statement of Investment Principles.

Samama then noted that it was not only investors tackling these issues. He said that 70 Central Banks have put Climate Change on their agenda; both the New York Federal Reserve and the US Securities and Exchange Commission now acknowledge the risks. "This used to be the preserve of NGOs; now it is mainstream," he said. "Climate change is something different to anything we have ever seen. It is a Green Swan (the title of a new book he co-wrote with the BIS, Banque de France and Columbia University)."

Thomas agreed, although he warned that ESG analysis is not something an investment firm can pick up overnight. He gave the example of tyre production: "Every time we drive a car, each tyre releases microplastics into the atmosphere," he said. "Who is going to bear the environmental

costs of this degradation? The answer is complex but if you don't understand the changing regulations, then I would argue you cannot understand the tyre industry or build a fair valuation for the likes of Bridgestone or Michelin."

Thomas emphasised that Sarasin & Partners is doing impact investing, not philanthropy: "Outperformance is crucial and there are many ways to outperform."

Samama noted two aspects: on the one hand, the companies of the past, such as Big Oil, have an opportunity to shake off their legacy assets as investors tilt away from those stocks as allocators of capital.

Second, there is the chance to be innovative as financiers. He gave the example of working with the IFC, which wanted to fund green infrastructure in Emerging Markets but struggled to co-opt private finance into the deals. "I believe that policymakers can use us to achieve their goals. Our job is to invent financial products for the right parts of the market."

Both Wood and Dean, however, said there were already more than enough products out there. Forty thousand open-ended funds in the UK, according to Wood, "more than any one adviser can cover."

" Outperformance is crucial and there are many ways to outperform "

Both consultants saw their roles as providing guidance on how clients build suitable portfolios, possibly incorporating thematic funds but also impact investing.

Dean noted that the GDPs of many Emerging Markets are more dependent on fossil fuels than Developed Markets. He was cautious about the consequences for those Emerging Markets should the decarbonisation trend occur too quickly for them to adjust.

So there are sensitivities for any global investor in allocating to themes, even the biggest one of all, Climate Change. Landymore ended on a positive note that if all stakeholders can resolve their differences on definitions such as impact and ethical investing, then more capital will be readily transferred into opportunities.

Roundtable Sponsor

Frédéric Samama Chief Responsible Investment Officer

Personal Profile

Frédéric Samama, Chief Responsible Investment Officer at CPR AM, joined Amundi in 2009, the leading European Asset Manager.
He is the founder of the SWF Research Initiative and co-edited a book on long-term investing alongside Nobel Prize Laureate Joseph Stiglitz and published numerous papers on green finance.
Formerly, he oversaw Corporate Equity Derivatives within Credit Agricole Corporate Investment Banking in New York and Paris.
During his tenure, he developed and implemented the first international leveraged employee share purchase program, a technology now widely used among French companies. He has advised the French Government in different areas (employee investing mechanisms, market regulation, climate finance, etc.) and has a long track record of innovation at the crossroads of finance and government policy.
Over the past few years, his action has been focused on climate change with a mix of financial innovation, research and policy making recommendations, being an advisor of Central Banks, Sovereign Wealth Funds or policy makers on the topic.

CPR Asset Management

Company Profile

CPR Asset Management is an AMF-approved management company, a wholly-owned subsidiary of the Amundi Group, which is autonomous in its development and management.
CPR AM is exclusively dedicated to the management of third-party assets (institutional, corporate, insurance, private banking, fund managers and asset managers) in France and abroad and covers the main asset classes (equities, convertible, diversified, fixed income and credit).
At the end of September 2020, assets under management amounted to more than €51 billion.
Responsible investment is one of its founding pillars and ESG remains an essential commitment. With nearly €9.3 billion under management (June 2020), the company selects investments according to a specific methodology to take into account ESG risk factors and impact measures deployed on a range of dedicated solutions and open products for all asset classes.

Roundtable Sponsor

Jerry Thomas
Partner

Personal Profile

Jerry has over 20 years' investment experience. He joined Sarasin & Partners in 2016 from Allianz Global Investors where he spent 12 years as a UK, European and global equity fund manager. He co-managed the Brunner Investment Trust from 2010-2016. Prior to this he spent three years at Isis Asset Management (now BMO Global), five years at Schroders, and five years as a British Army Officer.

Sarasin & Partners

Company Profile

We are a London-based asset management group, managing £15.2 billion (as at 30.09.2020) on behalf of our clients – charities, institutions, intermediaries, pension funds and private clients, based both in the UK and around the world. Our company is known as a market leader in thematic investment, and as a specialist in long-term income and dividend management across multi-asset and equity mandates. We are able to offer our clients both active management and systematic approaches to investment. Our diverse, experienced investment team stretches from global analysts to economists and risk experts, all sharing knowledge and ideas on a daily basis. This team-based approach, combined with our responsible principles, ensures dynamic investments with high conviction at their core.

Roundtable Participants

Bella Landymore

Policy Director

Bella Landymore is the Policy Director at the Impact Investing Institute. Prior to joining the Institute, she was a Senior Policy Advisor on impact investing for the UK government's Inclusive Economy Unit at the Department for Digital, Culture, Media and Sport. Bella started her career in the charity sector before joining UBS Investment Bank, where she worked in New York and London for their equities trading businesses.

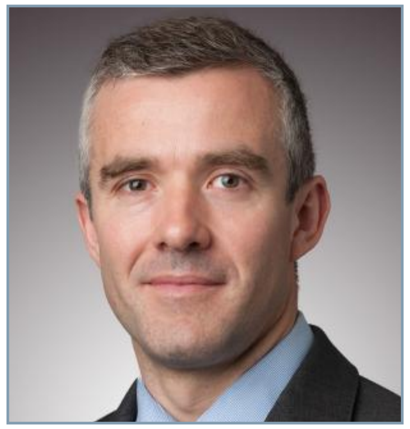
Reza Mahmud

Senior Investment Consultant

Reza sits in PwC's investment consulting business, advising institutional asset owners globally on investment strategy, governance and implementation. He is a member of PwC's investment committee comprising of their pensions, insurance, sovereign and private wealth teams. He is also on PwC's sustainable investment working groups to develop their firm-wide proposition, leveraging their 800 inhouse ESG experts.

Prior to PwC he was a multi-asset manager at Aviva Life and Pensions, and before that he served with Brunei's sovereign wealth fund as a portfolio manager and asset allocation analyst. Reza has a law degree from Exeter University and an Investment MSc from City University. He also studied behavioural finance and investments at Harvard University, University of Chicago Graduate School of Business, London Business School, and Psychology and Cognitive Science at John Hopkins University.

Roundtable Participants



Nick Wood

Head of Investment Fund Research

Nick Wood is Head of Fund Research at Quilter Cheviot, leading a team which has dual research responsibilities for both Quilter Cheviot and the Quilter Investors Multi-Asset team. Nick previously work at US asset manager Capital Group for 10 years, and investment consultancy Stamford Associates.

Nick graduated from Birmingham University with a degree in Economics and a Masters in Russian and Eastern European Studies. He is a Chartered Financial Analyst (CFA) charter holder and an Associate of the Charted Institute for Securities and Investment (CISI). Externally, Nick sits on the investment committees of King's College London and the Cystic Fibrosis Trust.

QUILTER CHEVIOT
INVESTMENT MANAGEMENT

Maria Nazarova-Doyle

Head of Pension Investments

Maria joined Scottish Widows at the start of 2020 to lead the customer investment proposition for the Pensions business. She is responsible for defining the investment offering across workplace savings, individual and longstanding customer segments. Maria is also responsible for incorporating ESG into Scottish Widows' investment design and is the spokesperson on investment matters.

Maria joined Scottish Widows from Mercer, where she had a role of Market Engagement Leader in their DC & Individual Wealth business, which she took up following the acquisition of JLT Group by Marsh & McLennan in April 2019. For 6 years leading up to that, she had been Head of JLT's DC Investment Consulting team, where she was tasked with enhancing JLT's DC proposition through market leading research, development and advice for a wide variety of DC pension arrangements. Maria combined her thought leadership and proposition development role with her client facing role, advising a diverse portfolio of DC clients. Maria joined JLT in early 2013 from Capita Employee Benefits, where she was mainly focussed on DC advice, although prior to that her background had been predominantly in Private Equity.

She holds an MSc in Strategic Planning and Investment from Newcastle University Business School and is a CFA charterholder. She is a member of the PMI Policy Board, CFA UK Pensions Expert Panel, a regular speaker at DC industry events and a professional awards judge.

SCOTTISH WIDOWS

Alastair Dean

Director

Alastair is a Director within the Stonehage Fleming Investment Management team, he joined Stonehage Fleming in July 2015 and works within the Equity Fund Manager selection team where he is responsible for due diligence and research on global and regional equity mandates.

Prior to this he worked on the investment team for four years at Mazars Financial Planning and was responsible for fund manager selection across a broad range of asset classes and portfolio construction for private client portfolios. He graduated in 2007 with a degree in Business Maths and Statistics from the London School of Economics, and began his career at ABN AMRO. Alastair qualified as a CFA Charterholder in 2014.

STONEHAGE FLEMING

Moderator

Brendan Maton

Freelance Jounalist

A highly experienced financial journalist with an expansive network of contacts in the UK and across Europe. Brendan has written about pension schemes and national welfare systems from Finland to Greece for 18 years and understands the retirement savings industry in each European country.
Brendan has interviewed EU commissioners and national ministers; central bankers; pension scheme heads; insurance chief executives; chief investment officers; actuaries; union officials; professional and lay trustees.He worked at Financial Times Business for eight years, finally as editor-in-chief of all international pensions titles. Brendan has spent the last ten years as a freelancer for a number of publications, including Financial Times, Responsible Investor, Nordic region pensions news and IPE. He is also Chief webcast host for IPE. Brendan has acted as conference chair for Financial News, the UK National Association of Pension Funds, Dutch Investment Professionals Association (VBA), Corestone, Insight Investment, Marcus Evans, Robeco Asset Management, Sustainable Asset Management (SAM), Towers Watson.

Central Banks: leading the path towards Impact Investing

Frédéric Samama
Chief Responsible Investment Officer, CPR AM

Central Banks are right now accelerating a tectonic shift. This summer at Jackson Hole, Fed Chairman, Mr. Powell has set-up the new objectives of the FED: inclusive employment is now key. As stated, "Inflation that is persistently too low can pose serious risks to the economy"[1] and an inclusive employment[2] is one way to solve it; it leads the FED to "a focus on inequality"[3] with an attention paid on education as "people who don't have advanced skills now have less ability to profit from the technology that is everywhere in our economy"[4].

In parallel, 65 Central Banks and supervisors have joined the network for 'greening' the financial system[5] over the past three years. All participants are recognizing that climate change is threatening the financial stability in a massive way. Earlier this year, on this topic, the Bank of International Settlement released "The Green Swan"[6], a book, underscoring that, with climate change, we are all facing with a new type of risk characterised by three main features: first, climate change is certain. Second, climate change carries a variety of non-linear and interacting risks: physical, regulatory, and societal. And all the forces are interacting with each other. It is thus very challenging to make such a complex model. Third, climate change impacts human lives and could even to the possible extinction of part of humanity in the long term.

So, in the central banks' perspective, this is less about inflation, price stability, etc. and now about inequalities, education and climate change.

Just three years ago, these issues could have been perceived as belonging to the NGO terminology and only a very limited number of players in the financial sector were paying attention to it.

" The issue becomes to know if the corporates are behaving like predators within society and extract some public good for the benefit of shareholders "

The fact that Central Banks are putting these issues on their agenda sends a signal that all corporates are increasingly evolving into an environment in which these themes are becoming central.

How does this new environment translate for the investors?

The question has been for a while to assess if corpo- rates were managed in a sustainable way. Indicators like the attention paid to the employees, the pay gap ratio, etc. were a way to identify such companies. It still matters, and notably as the accounting rules were established in a period where only the financial capital was a scarce resource, thus they do not capture the other forms of capital of the firms.

Now, increasingly and in addition, the issue becomes to know if the corporates are behaving like predators within society and extract some public good for the benefit of shareholders.

Alternatively, through their activities, do the corporates contribute to some public good (both in the private markets or in the listed world)? In other words, are their business aligned with a fight against climate change, are they addressing a lack of education that is the root of inequalities, are they producing some food with a limited use of water as the planet does not have the resources enough to feed all the people properly at a time we make a lot of progress on the fight against extreme poverty, etc.

" A cooperative approach with society is therefore increasingly becoming the only option on the table - it translates into a societal alpha "

The SDGs and impact investing, that are combining returns and producing some positive externalities, are a way to align portfolios with all the dimensions of pension funds' beneficiaries: as an investor, as a citizen, as a human being. This is what we have enjoyed at CPR with a vast range of impact investing products launched over the years, and dealing with climate, education, sustainable food, etc.

Corporates are not to replace governments in their mission to regulate societies, but they have massively grown over the past 50 years. Shifted towards im- material assets and facing some limits related to the natural resources of the planet; they are now facing a need to secure some societal, human and natural capital while, at the same time, the financial capital has become a commodity. A cooperative approach with society is therefore increasingly becoming the only option on the table - it translates into a societal alpha.

In conclusion, Central Banks are sending a clear and loud signal to all investors. It is our collective responsibility to listen and accelerate our efforts to invent the finance for today; the one that translates this new normal into financial innovation, new partnerships to leverage on each other skills and new dimensions in our investment process. Mindsets have shifted. This is a call for action for all of us.

1 With interest rates generally running closer to their effective lower bound even in good times, the Fed has less scope to support the economy during an economic downturn by simply cutting the feder- al funds rate" in New Economic Challenges and the Fed's Monetary Policy Review, Aug 27, 2020
2 "our revised statement emphasizes that maximum employment is a broad-based and inclusive goal. This change reflects our appreciation for the benefits of a strong labor market, particularly for many in low- and moderate-income communities" ibid
3 Interview with NPR, Sept 4, 2020
4 ibid
5 https://www.ngfs.net/en
6 Available at https://www.bis.org/publ/othp31.htm

Theme or fad? How to invest for the long term

Are you an investor or a speculator? Put another way, there are different styles of investment; some seek steady accumulation over time from collecting dividends, rents or interest, while others focus on seeking quick returns from price variations. Thematic investing, which focuses on broad, long-term trends, best suits the investor, rather than the speculator, and matches the longer-term time horizon of most institutions and the majority of private investors in equities. Over the last decade, themes have appeared increasingly frequently in investment commentary – as soon as a trend materialises, it seems that someone wants to classify it as a theme and allocate stocks to it. Legalising cannabis, crypto currencies, space exploration or WFH are all novel trends but do they really fit with a long-term, thematic investment approach?

Themes need to be built in at the basic design phase of an equity strategy. Conventional design subdivides a portfolio by geography. But despite forensic expert analysis of macroeconomic variables in each country, there is little evidence that regional asset allocation adds much value. Indeed, most of the large listed companies today are multi-national and span several regions. Even if their customers are in one country, their supply chains and competitors may stretch around the world and across the internet. Trying to attribute national characteristics to predict companies' performance often exposes a frustrating mis-match. On the other hand, allocating to a range of global themes can provide a structure to better plan portfolio strategy.

" Allocating to a range of global themes can provide a structure to better plan portfolio strategy "

A longer-term investment horizon begs the question 'how will the world change by 2030?'. No crystal ball is needed to predict that technology will continue its rapid development, or that the response to climate change and biodiversity loss will gather greater momentum, or that rising life expectancy will expand an ageing population. Such inexorable secular trends would seem to offer greater certainty on which to base the portfolio strategy.

The purpose of a theme is to identify investments that have a higher probability of achieving growth and good investment returns over time. Under the large headline trends lie many exciting sub-themes. But beware, some strong growth trends don't make good investment themes. For example, for the last 15 years or so, we have seen rapid growth in the number of solar panel installations. Yet the Société Générale SOLEX Global Solar Energy Equities Index fell 80% in the ten years to the start of this year when the index was suspended. Manufacturing solar panels has been a cut-throat business and is now dominated by Chinese manufacturers with scale and state support advantages. Just spotting growth is no substitute for good detailed financial analysis.

A strong investment theme helps an analyst to consider the underlying business drivers that can make a company prosper over time. It helps differentiate the likely long-term winners from the losers. It helps establish conviction in the investment for the long term and overcome the psychological anchoring to shorter-term performance that prevents many investors from seeing the full potential in a long-term investment. A theme puts greater focus on specific corporate growth drivers rather than the macro or cyclical factors that affect a region.

Where do we see the strongest themes?

Yes, technology stocks have performed well, but for good reason: Digitalisation fundamentally alters the competitive landscape. Covid-19 has accelerated digital adoption and 'dematerialisation' and the benefits will accrue not just to the FAANGs, but to a fast-growing ecosystem of mid-sized companies that provide the essential tools to gain competitive advantage. Artificial intelligence is bringing natural language processing and machine learning so that machines can comprehend, see and learn. Automation will transform the relationship between people and technology, boosting our creativity, speed, precision and productivity. Medicine will also start to deliver amazing advances from the ability to process enormous quantities of data and fix single faulty genes.
Asking how the world will change by 2030 leads us to conclude that it will be technology and human ingenuity that seek to fix many of the large challenges we face, from climate change to biodiversity loss. These will need a social and cultural shift too, the early signs of which are underway in the new espousal of conservation: less, not ever more, consumption is the solution to many environmental challenges. Greater awareness of ESG is itself creating new themes.

" Ageing drives many different consumption patterns and service needs, and offers a plethora of commercial growth prospects "

Whilst economic growth in the developed world is badly affected by the pandemic, standards of living for billions of poorer people will continue to improve. Many will shift to a middle-class lifestyle over the 2020s. This is driving powerful underlying shifts in consumption, like diet change. And, as longevity improves everywhere, populations will see increasing proportions of elderly people – the population of over 65 year olds will double by 2050. Ageing drives many different consumption patterns and service needs, and offers a plethora of commercial growth prospects.

Themes work both ways – they also help identify investments to avoid. The share prices of many 'blue-chips', like Citigroup, Marks & Spencer or General Electric, are all lower today than 25 years ago. Studying the long-term disruptive forces affecting businesses can help steer away from industries struggling to generate sustainable growth. For the speculator they may offer short-term value but the outlook for many established business models will remain challenging – from oil companies to banks, high street retailers to car manufacturers, there are many casualties of change.

Looking past the pandemic, the trend of global economic growth in the decade ahead looks to be much slower. Demographic trends are playing a key role; since the end of the WW2, the world population has more than tripled in one lifetime. Quite simply, every year more people earning salaries and spending made activity in the economy expand. For investors, it was a strong tide that lifted all boats. But whilst lower-income regions including Africa, India and some other Asian countries will continue to add new workers, the developed world no longer has a growing workforce. Only the over-65 population is expanding.
A new normal of slower growth changes the investment choice from more or less growth to growth versus decline. Investors need an investment process that helps them differentiate. Constructing a portfolio based on broad, inexorable themes makes increasing sense for any investor planning for the decade ahead.

Henry Boucher
Deputy CIO

Meet the Team!

Sean Thompson

Managing Director

Natasha Silva

Managing Director, Client Relations

Amy Richardson

Senior Director, Business Development

Natasha Fletcher

Senior Associate, Client Relations and Business Development

Yasmin McKeon

Associate, Marketing and Events Co-ordinator

CAMRADATA

CAMRADATA
5th Floor, 11 Strand,
Charing Cross, WC2N 5HR

+44 (0)20 3327 5600
camradata.com

Join us on LinkedIn

Important Notice

This document is produced by CAMRADATA Analytical Services Ltd ('CAMRADATA'), a company registered in England & Wales with registration number 06651543. CAMRADATA is neither authorised nor regulated by the Financial Conduct Authority in the United Kingdom nor the Securities and Exchange Commission in the United States of America.

This document is not intended to constitute an invitation or an inducement to engage in any investment activity. It is not intended to constitute investment advice and should not be relied upon as such. It is not intended and none of CAMRADATA, its holding companies or any of its or their associates ('CAMRADATA Group') shall have any liability whatsoever for (a) investment advice; (b) a recommendation to enter into any transaction or strategy; (c) advice that a transaction or strategy is suitable or appropriate; (d) the primary basis for any investment decision; (e) a representation, warranty, guarantee with respect to the legal, accounting, tax or other implications of any transaction or strategy; or (f) to cause the CAMRADATA Group to be an advisor or fiduciary of any recipient of this report or other third party.

The content and graphical illustrations contained in this document are provided for information purposes and should not be relied upon to form any investment decisions or to predict future performance. CAMRADATA recommends that recipients seek appropriate professional advice before making any investment decision.

Although the information expressed is provided in good faith, the CAMRADATA Group does not represent, warrant or guarantee that such information is accurate, complete or appropriate for your purposes and none of them shall be responsible for or have any liability to you for losses or damages (whether consequential, incidental or otherwise) arising in any way for errors or omissions in, or the use of or reliance upon the information contained in this document. To the greatest extent permitted by law, we exclude all conditions and warranties that might otherwise be implied by law with respect to the document, whether by operation of law, statute or otherwise, including as to their accuracy, completeness or fitness for purpose.