

Episode Title: The lowdown on thematic investing

Episode Description: Thematic investing has emerged as a popular alternative to more traditional approaches. We break down the basics of this strategy, its appeal, the risks, and how to determine whether this method aligns with your financial goals.

Transcript:

Alex Lieberman ([00:04](#)):

What's up everyone? I'm Alex Lieberman, co-founder and executive chairman of Morning Brew. This is season three of Fresh Invest, your favorite investing podcast sponsored by Fidelity Investments and powered by Morning Brew. This season, we're getting you the answers that can help you build financial confidence during economic uncertainty. Last week, we wrapped up our discussion about passive income streams. We covered some methods of earning this type of income, broke down some new school approaches and went over what you can do with passive income once you have it.

([00:36](#)):

Today, we're switching gears to talk about thematic investing. It's an investing approach that's been around for a while, but has become increasingly popular for portfolios of all sizes. Thematic investing is unique because it focuses on investing in long term trends, values, and strategies. There are many types of thematic funds out there with categories like disruption, sustainability, and a bunch more. Today we're here with Lubna Lundy, Director of Investment Product at Fidelity to help us get a better understanding of this strategy. Together we'll cover what you should know about thematic investing, why it's becoming so prevalent, and how to determine if this type of investing aligns with your financial goals. Lubna, welcome to the show.

Lubna Lundy ([01:19](#)):

Thanks, Alex. Great to be here.

Alex Lieberman ([01:21](#)):

So could you start by introducing yourself and tell us a little bit about what you do at Fidelity?

Lubna Lundy ([01:26](#)):

Sure. I'm Lubna Lundy, and I am a director of investment product in our investment product group within Fidelity's asset management business unit. So I focus specifically on our thematic investing strategies. I'm working across various teams within our enterprise to understand market research to keep a pulse of what different themes are emerging, and trends that currently exist or even maybe moving out of favor. I'm also responsible for helping to drive product development to create thematic investing strategies in addition to product advocacy or awareness of our existing lineup of thematic investments.

Alex Lieberman ([02:03](#)):

Love it. So a bunch of our listeners may or may not know what thematic investing is. So can you start off by explaining what it is?

Lubna Lundy ([02:11](#)):

Yeah. Thematic investing is a relatively new approach to investing. It focuses on investing directly in potential long term trends rather than specific companies or sectors. And ultimately you're trying to capture potential opportunities that are created by the impact of economic, technological and social changes. And what's nice is that thematic investing strategies show up so much in our everyday world and may extend to our long term beliefs and values. So over the years we've seen a shift towards people looking to capitalize on trends that they think may impact the world, the future, as well as their bottom line. And this is similar to the adage of invest in what you know. So you think about the trends in companies you interact with every day. For example, maybe you have, or you're looking into electric vehicles, or you're one of the millions of people on video calls all day every day while you're working remotely. These are trends that are shaping the future that are really relatable to all types of investors from really experienced all the way to more novice, newer investors.

([03:21](#)):

If that seems like a lot, it is. So at Fidelity, we actually break thematic strategies out into different categories. For example, I just mentioned some of the themes that fall into the disruption category like cloud computing and electric vehicles. And these themes involve emerging industries and technology that are changing the status quo. So comprised of companies that we like to call game changers, and some examples of these game changers include companies that are changing the way we think about short term rentals, or ride sharing or even digital payments. We also have a category from mega trends, which are more long term secular trends that are affecting our world, like water sustainability. So think about companies helping to reduce water loss or companies converting water into clean drinking water. Not sure if you know, but there is no new water and the water we have today is finite. I definitely forgot that from science class, but we can't afford to forget this fact. So really an important mega trend in water sustainability.

([04:25](#)):

And then finally, although some mega trend themes have a sustainable focus, we still do have a separate category for sustainable or ESG investments that may not necessarily be secular in nature, but involve investing with a purpose. So think about companies within this theme that are committed to advancing gender and or racial diversity and equity, or companies enabling a healthier future. And so it's through thematic investing that investors can invest in these different themes and so many others that peak their interests and align with their values while also including these unique exposures in their portfolios.

Alex Lieberman ([05:01](#)):

Well, for starters, I also did not know that there is no new water, so thank you for bringing that fact back. On top of that, you gave such a good comprehensive overview of what thematic investing is, but it sounds like what the headline is here is that it's investing in or around a long term trend, and that long term trend could be anything from disruptive technologies to ESG. Can you give the audience a sense of what is the nuance or the difference between what you just described with thematic investing and how that differs from more traditional investment strategies that people may be familiar with?

Lubna Lundy ([05:41](#)):

Yeah, so thematic strategies that again, are often used to help investors personalize their portfolios. They do tend to cut across multiple sectors, market caps or geographies, so think global, domestic. These strategies differ from more traditional approaches where you may just focus on a particular region. So maybe you just want to invest in US stocks, or only small caps, or growthier stocks or even a particular economic sector like consumer discretionary. Instead, thematic investing allows investors to

express a view that's again, multi-cap, multi-sector, global, domestic. And in terms of how investors are getting exposure to thematic strategies, it's through either single stocks or other asset classes like bonds or real assets, as well as ETFs and or mutual funds. And the last thing I would highlight is thematic investments can be a bit more volatile, especially for more nascent themes.

Alex Lieberman ([06:40](#)):

And so why is thematic investing gaining in popularity? What is it about what's happening in the world or in terms of investing trends that have led to this becoming a more popular way of investing?

Lubna Lundy ([06:53](#)):

Yeah, I think it's really been a convergence of things like I mentioned earlier, being able to personalize your portfolio, and tie your investment portfolio to what you're interested in, and really creating a strong connection, especially with next generation investors. A lot of newer disruptive technology falls into this type of investing, think the Metaverse or digital healthcare, which have all been accelerated by global events. And then the concept of investing in ideas and businesses of the future is appealing to some. And so with this increasing popularity, interest in thematic investments has grown. There's been significant growth in thematic assets, especially in thematic ETFs. Thematic ETF assets were below 30 billion in 2019 and grew to close to 130 billion by the end of 2021. We also saw a spike in the number of thematic funds created by fund houses, including Fidelity over the past couple of years. In 2021, there was a record of over 230 thematic funds that launched in just the first half of 2021. Launches have slowed a bit this first half of 2022 though with around about 65 new thematic funds launching.

Alex Lieberman ([08:10](#)):

Obviously this notion of investing in long term trends is incredibly exciting for retail investors, but how should they be thinking about the risks associated with this type of investing?

Lubna Lundy ([08:22](#)):

Absolutely. While thematic investments may generate returns, investors should be aware of some of the volatility that can come with thematic investing. We've recently witnessed the sharp reversal of their outperformance in 2020 to under performance in 2021 and 2022. And we've highlighted before volatility may go hand in hand with thematic investments, and that's why you see some investors tend to allocate thematic investments as satellite investments or smaller allocations to compliment their portfolios versus core investments. Another risk is durability or long lasting nature of the various themes. Not every theme is necessarily a long term theme. Some themes may just be relevant for the short term. Also, in different instances, we do see investors trying to chase different themes and time the market to determine when to get in and out of a thematic strategy instead of holding on to the strategy for the long term, which that can present a challenge as well.

Alex Lieberman ([09:22](#)):

So those are a few of the risks. Let's talk about opportunity or a few things that are exciting within thematic investing. What are specific themes that you're seeing gaining traction when it comes to this type of investing?

Lubna Lundy ([09:34](#)):

We've seen a lot of interest over the past couple of years in disruptive tech and growth focused thematic investments like cloud computing, especially during the pandemic while everyone's on Zoom.

Also interest in electric vehicles, helping to improve sustainability, artificial intelligence, helping to drive the prevalence of eCommerce. These themes are usually attractive to investors, especially in times of economic growth. For this particular market environment with high inflation and rising interest rates, we are seeing themes like clean energy, infrastructure as well as food and agriculture related themes that focus on productivity and even food scarcity. They're starting to emerge as themes of interest to investors, especially as more investors look for structural trends and themes that may do well in more than just growth environments, especially given the recent rotation from growth focused investments to more value focused investments. And overall, I would underscore the fact that it's a bit of a combination between those investor considerations around performance of these themes during different market environments that's helping these themes gain traction in addition to, again, the potential long term benefits of these themes when we assess their various growth drivers.

[\(10:52\)](#):

And so what are the various growth drivers of these themes? Specific to clean energy, we're seeing not only just more individuals wanting to be part of improving our environment and the world we live in, but now this desire being enforced more and more through new government policies and regulation being proposed like the more recent Inflation Reduction Act. If you were a person like me initially wondering what does this new Inflation Reduction Act have to do with clean energy, well it could potentially double the US deployment of wind and solar energy in the future through clean energy tax credits. In alignment with clean energy, we're also seeing through government policies, again, legislation like the new Infrastructure Investment and Jobs Act, this significant increase in new spending, somewhere to the tune of like 550 billion if you're wondering. So new spending to support long overdue infrastructure improvement. So improving our roads, bridges, airlines, for example, and even working to create cities that are more digital or smart cities as they're calling them.

[\(11:56\)](#):

And then finally, everyone is feeling the effects of inflation at the supermarket. There are other factors like food scarcity, food preferences that are driving the agricultural productivity revolution as well as agricultural technology or AgTech. Those themes, we're going to need to produce 70% more food as the world's population grows from 7.7 billion to around a projected 10 billion in the next couple of decades. And then while food demand or demand for food continues to grow, we're also seeing challenges due to the amount of arable land available to grow crops on, supply chain challenges, and then also more requirements for sustainable practices to help reduce emissions and harmful effects of large scale farming and food production.

[\(12:43\)](#):

So we're seeing all types of new creative solutions to address some of these issues from crickets emerging as a meat option and protein alternative to the use of robots and other technological innovation, driving agricultural productivity and innovation for us to meet new preferences and sustain the needs of the global population. I don't know if I'm ready to see crickets on a restaurant menu as an additional protein option along with chicken or beef, but maybe more open to it in a powder form where I may not realize it was even a substitute ingredient.

Alex Lieberman [\(13:17\)](#):

Yeah, I think I'm on the same page as you when it comes to my openness to eating crickets at the moment, definitely could change. That was such a thorough breakdown, and I think it gives listeners a sense of just how deep this rabbit hole around thematic investing is. We could probably do an entire season of the podcast just around this topic, but now you've talked about the what, what thematic investing is, what themes are most exciting right now? You've talked about why now, why is now a time

that thematic investing is growing in popularity? There's one other question I'm sure listeners are wondering, which is why me? This may be a valuable investment strategy, but that doesn't mean it's a valuable investment strategy for everyone. So for investors that are wondering, should I be someone that is allocating parts of my portfolio to thematic investing, does it align with my overall investing plan and long term goals? How should they be thinking through that?

Lubna Lundy ([14:10](#)):

Yeah, with any other investment strategy, it's important to determine what your investment objective is? What is your time horizon? So what are your goals and what is your time to meet those goals? Thematic investments can be a great starting point as you think about what your interests are in this ever changing world. Is it a cleaner, more sustainable world? Is it food scarcity that's keeping you up at night? Or even worse, making you hangry? Or is it agricultural technology or AgTech, the future of transportation, digital health, et cetera? Once you're able to identify one or two different trends or mega trends that interest you, do some research on the industry and the various companies that make up the ecosystem or value chain for that theme. So if you're interested in digital assets and cryptocurrencies for example, it would behoove you to understand the companies that make up that ecosystem from Bitcoin miners, to trading companies to exchanges, and then companies that are offering blockchain technology.

([15:09](#)):

Then try to understand more about the various investing sectors and industries and the market factors that impact those sectors. Are the companies primarily within technology or high growth sectors? Or our companies in your particular theme of interest, global or domestic? And how may that impact the theme? With all of that in mind, we do like to emphasize that there should be long term conviction in the particular theme of interest, and so you should be careful not to try to time the market or move in and out of themes based off of the latest headlines. We talked a little bit about that when you asked me about risks. Given the volatile nature of some themes, again, risk tolerance is important, and again, folks often use thematic investments to compliment broad market core exposure versus trying to replace them. So in other words, folks tend to stay away from having one or two thematic strategies or companies representing 50% of their investment portfolio, but instead maybe more like 10, 15%, for example.

Alex Lieberman ([16:12](#)):

Love it, Lubna, I have one last question for you and for returning Fresh Invest listeners, we'll take a final question from the audience and that's what we're about to do. So one final question for you, which is, as an investor, how can I identify my ESG or environmental, social and governance investing options?

Lubna Lundy ([16:31](#)):

We've mentioned sustainability a couple of times. It absolutely makes sense that there's a question on identifying ESG options. There's a lot of great research references and tools that can help investors identify ESG investing options. There are third party research firms that work to assign either sustainability ratings to various stocks and other investments, or ESG scores and or social responsibility, or controversy flags. On fidelity.com, our screener tool in particular is a good reference to filter for sustainable attributes and exclusions for strategies. So for example, if you wanted to look for strategies and companies that focus on gender and diversity or renewable energy, there are filter options for those screens. Or if you wanted to look for strategies that exclude certain sectors, companies or practices like engaging in animal testing or association with controversial weapon production, there's filter on the

screening tool for that too. Also, the Fidelity Learning Center is a good resource to access various tools and research to learn more about sustainable investing.

Alex Lieberman ([17:43](#)):

Lubna, this has been amazing. Thanks so much for the deep dive into thematic investing and I hope we can have you on in the future.

Lubna Lundy ([17:50](#)):

Thank you. I'd love to come back.

Alex Lieberman ([17:55](#)):

Thanks so much for tuning into Fresh Invest today. I hope you have a better understanding of what thematic investing is and how to decide whether this approach is right for you. With so many different investing strategies out there, it's interesting to see thematic investing, gaining popularity. The focus on long term solutions and aligning your investments with your personal beliefs feels like a pretty notable shift in the traditional investor mindset. Join us next week to hear more about how to incorporate thematic investing into your portfolio. We'll dive deeper into different thematic categories, the investing strategies that you can implement, and how to leverage these investments in your overall financial planning, including retirement. When we surveyed this audience before the season kicked off, having enough money for retirement ranked highest among your investing concerns so we'll definitely have some helpful insights to address this topic next week. I'll see you then.

Alexandra Bass ([18:50](#)):

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