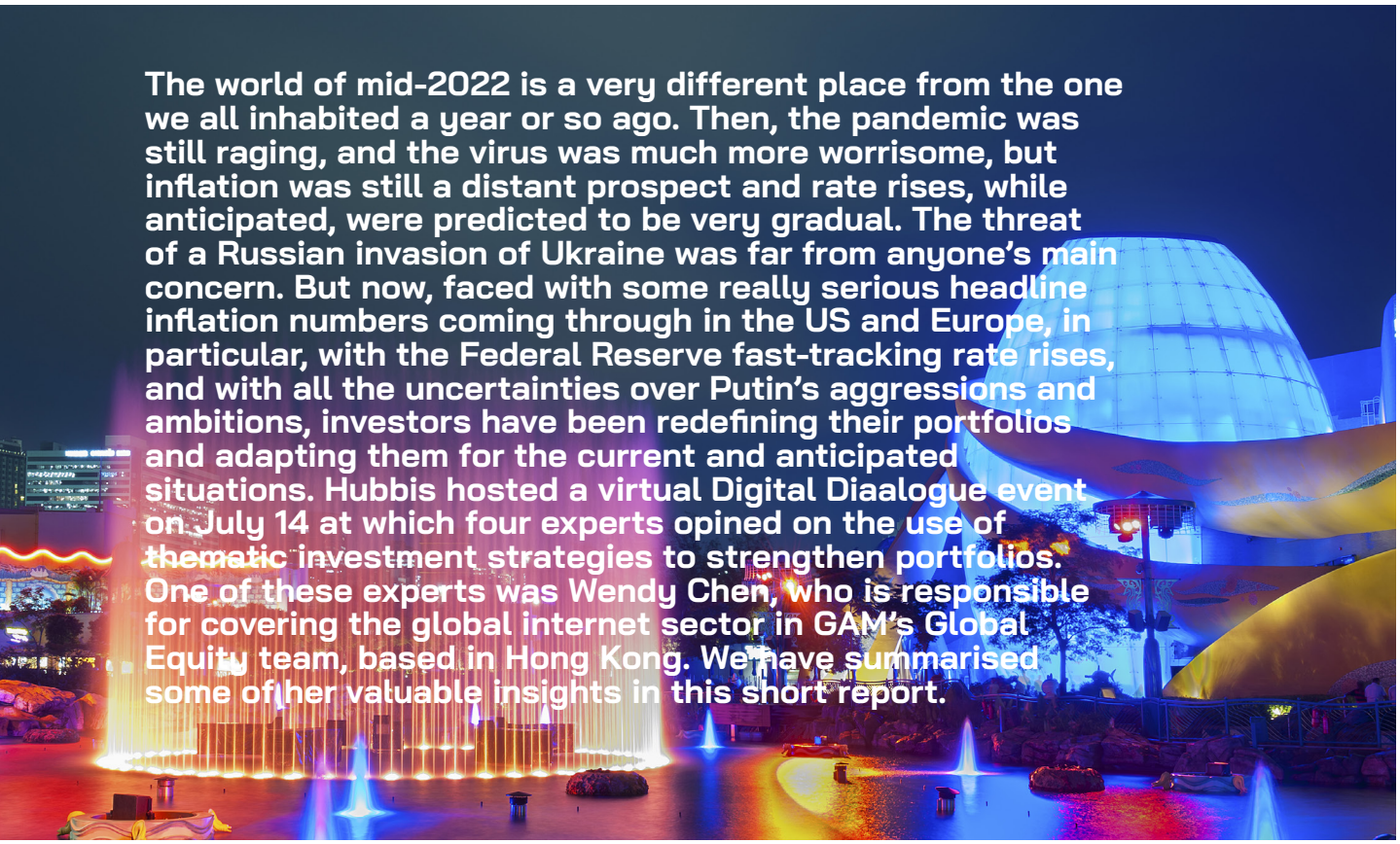
GAM Investments' Wendy Chen Highlights the Value of Spotting and Sticking with the Long-term Investment Themes



The world of mid-2022 is a very different place from the one we all inhabited a year or so ago. Then, the pandemic was still raging, and the virus was much more worrisome, but inflation was still a distant prospect and rate rises, while anticipated, were predicted to be very gradual. The threat of a Russian invasion of Ukraine was far from anyone's main concern. But now, faced with some really serious headline inflation numbers coming through in the US and Europe, in particular, with the Federal Reserve fast-tracking rate rises, and with all the uncertainties over Putin's aggressions and ambitions, investors have been redefining their portfolios and adapting them for the current and anticipated situations. Hubbis hosted a virtual Digital Diaalogue event on July 14 at which four experts opined on the use of thematic investment strategies to strengthen portfolios. One of these experts was Wendy Chen, who is responsible for covering the global internet sector in GAM's Global Equity team, based in Hong Kong. We have summarised some of her valuable insights in this short report.

GET IN TOUCH

View this presentation On Demand

View Wendy Chen's LinkedIn Profile

Find out more about GAM Investments

Wendy Chen
GAM Investments

Wendy told delegates

that she believes that the environment we face today has resulted in great difficulties in valuation modelling for investments and for analysts.

The need for rigorous analysis

"We are retreating to more of a top-down approach to assess trends," she said. "As to what has changed in the world that makes thematic investing more relevant today, I would point to all of the financial and geopolitical concerns we face in the world, all of which can easily make alpha decay sharply, especially often amongst many high-quality names that we believe have been disproportionately punished."

She said that is why, in her view, times like these require top-down approaches to uncover structural investment opportunities and stay ahead of curve. "For example," she explained, "Being a China specialist, I believe in current market, thematic investing to capture the right trends, right timings and right sectors is increasingly important."

Perspectives on time and patience

Wendy also agreed with another comment from a fellow panellist who said that investment expectations and timelines must be aligned between the clients, the advisors, and the managers. She cautioned that investors need to gain access to interesting opportunities with the right degrees of patience, so that they can participate over time in the more structural and dynamic growth potential ahead. "Yes, it is very important for investors to actually understand when they're investing and what should be expected," she stated.

ESG and thematics align

Wendy also highlighted what she considers the key difference between thematic investing and ESG investing. "I personally see ESG as an important - even central - element in thematic investing, as social and environmental shifting tend often boost demand for transformative technology. For instance, while green energy adoption has been on government agendas for long, the rallying energy price since the Russian Ukraine crisis is pushing technology innovation and adoption on renewables across the world. So, ESG and thematics work well together."

"As to what has changed in the world that makes thematic investing more relevant today, I would point to all of the financial and geopolitical concerns we face in the world, all of which can easily make alpha decay sharply, especially often amongst many high-quality names that we believe have been disproportionately punished."

She added, for example, that if they are trying to invest in disruptive technologies that already become heated debates, e.g. metaverse, they must realise that sometimes the whole process can be much longer than expected. Selecting the right companies (not speculators) and the right timing matter even more as the markets can make some wrong turns in terms of share prices during that waiting phase.

"Accordingly, remember not to chase or whatever buzzwords are out there, and to be analytical," she advised.

As to some of the more interesting thematic investment opportunities today, she advised investors to distinguish between real viable themes and more speculation, as investors' spotlight on flavour of the month type themes often leads to 'story-telling' from companies that are eager for a boost, but where the narratives are not so sustainable.

Key areas of interest

She said that GAM currently considers a number of areas of interest. These include technologies in the form of disruptive innovation, such as AI, IoT, Web3, Metaverse,

Cybersecurity, and others, but only if they have proven foreseeable cashflows rather than simply a nice narrative.

Social themes such as retail and travel evolution in a post-Covid world are also interesting, as there are profound changes taking place. Energy themes also in terms of accelerating clean energy adoption amid 'greenflation', which requires innovative solutions, such as smart grid and energy storage, new EV battery technology and so forth, she added.

Patience required

She also explained that what had actually resulted from the past three years of lockdowns was the emergence of many new social trends and new business approaches that are probably still somewhat under the radar, although already receiving more attention from the secondary megatrend players.

"For example," she said, "for the younger generations, they are shifting to multiple earning sources, they do not really have to rely on the old single salary job, they see they can create income through either creating content, or innovative selling, or other ways. In short, I see significant social structural changes taking place, especially for the next generations."

The active approach

And as to how investors can capture these ideas and themes in their portfolios, Wendy conceded that the use of ETFs may be a valid approach for the more rudimentary types of portfolio formation, especially for those investors that have little time or inclination to study each specific target company.

"However," she concluded, "for many of the longer-term and well-established themes, like renewables, I believe the bottom-up, more active approach may be preferable to ETFs, as the latter may often include only the top or biggest stocks and may miss some of the start-up trends or market gainers that may actually be able to grow in a much faster pace. In short, I am a firm believer in the value of active management and rigorous analysis of both the trends and the target companies in which to invest." ■