

THEMATIC INVESTING AND THE ASIAN PRIVATE CLIENT: WHY, WHEN & HOW



SUMMARY

■ *The world is no longer moving in a clear direction, and vast amounts of the gargantuan pool of institutional and private global investible money still flood into Magnificent Seven stocks, which continue to outperform, often spectacularly. But economies, regions, markets and sectors are all undergoing a shift with the sands of time, and while valuations in some key markets and names defy all reality, in other formerly in-favour markets such as China, valuations have plummeted. For private clients, thematic investments offer some logic, some tangible hope that they can take a rational approach to key themes emerging around the globe, offering them a seemingly reasonable allocation of a portion of their portfolios to medium to longer-term exposures that their exponents believe will play out over a number of years ahead. As a result, there has indeed been a proliferation of thematic strategies launched across the globe in recent years, and Asia’s private clients have increasingly warmed to them, particularly since the one-way direction of equity (and bond) markets hit the buffers in late 2021. The most obvious themes in recent years have been topics such as sustainable energy, electric vehicles, medical/healthcare (especially after the pandemic struck), digital assets and, of course, technology and especially now, AI. But where exactly are we now, and how do clients in Asia best access thematics – through active or passive strategies? That was the core subject of the Hubbis Digital Dialogue event of March 28, at which a group of experts reported to delegates on the evolution of thematic investing and key avenues to access such exposures amidst the confusing global conditions.*

SPEAKERS



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*Key Observations & Insights***THESE ARE SOME OF THE QUESTIONS THE PANEL ADDRESSED:**

- » Where are we now? Trends in global financial markets and economies, and how thematic can help bolster private client portfolios.
- » Does thematic investing fit best into the advisory proposition and DPM mandates?
- » What are the expectations of wealthy private investors in relation to thematic investments and how should they fit these into their broader/diversified portfolios?
- » Having identified an attractive theme, do you go active or passive in the hunt for returns?
- » How do investors select the right strategies and avenues, and then, are thematic funds 'lock and leave'?
- » What is the Asian wealth management community doing to adapt their products, services and expertise to the evolution of thematic investing amongst their private clients?
- » What are the key thematic strategies that resonate with Asia's private clients today?
- » What are the commonly faced questions private clients ask around thematic investing?

SETTING THE SCENE

The Hubbis Digital Dialogue event of March 28 saw our panel of experts paint a comprehensive picture of the rationale for the rise of activity and the expansion of opportunities in thematic investments and thematic funds of all types, both active and passive. They also considered how the private banks, the IAMs/EAMs and the fund management architects are tailoring their offerings and advice, thereby delivering more products and better solutions to meet the continuing strong demand for thematic investing in the APAC region. And of course, they looked at which themes are most resonating with private clients and why.

Thematic investing strategies take into account long-term trends, ideas, beliefs, and values when choosing stocks, bonds, mutual funds, ETFs, and other investments. Some of the most popular types of thematic strategies focus on disruption, megatrends, individual economies and markets, automation/AI, and ESG or, more broadly, sustainability.

On its website, MSCI states: "Thematic investing is a top-down investment approach that relies on research to explore macroeconomic, geopolitical and technological trends. These trends encompass long-term, structural shifts arising from new business models, disruptive technologies and changing consumer tastes and behaviours - megatrends that have the potential to change whole industries and shape the way we will live, work, travel and treat disease in the future."

MSCI continued: "Thematic investing is intentionally future-focused around specific emerging trends that are expected to evolve over time. The investment process aims to identify companies that may be well-positioned to benefit from these trends and offers an alternative to analysing companies beyond cycles, regions, countries or sectors."

As such, active thematic mutual funds or passive ETFs (often somewhat 'actively managed') can clearly provide opportunities to invest in themes and offer the benefits of professional investment research, management, and oversight.

Accordingly, thematic investment strategies are considered of great value for curating key elements of robust portfolios, as they help take into account many of the world's more immediate and predicted financial, economic, and geopolitical uncertainties and opportunities. As a result, investors and advisors in Asia's wealth markets have been redefining and refining portfolio allocations as they attempt to adapt to the current and anticipated environments in the global economy and in the various investment markets around the world.

The appeals of Thematic Investing for Asia’s Private Clients

Asia’s private investors are increasingly drawn to thematic investments as they embrace longer-term ideas and greater portfolio diversification. These investments often align with the core and satellite approach now so often promoted by wealth advisors. This shift reflects a broader trend towards investments that resonate on a narrative level, transcending traditional market indices to embrace global thematic currents from technological advancements to healthcare innovations

A guest offered insights from their vantage point in Hong Kong, noting a discernible shift among local and Chinese clients towards international markets, with a pronounced preference for equities and fixed-income opportunities in developed markets.

“This strategic orientation underscores a quest for diversity and a keen interest in thematic investments that offer a compelling storyline, particularly in the realm of technology,” they explained. “The emphasis on sector-specific funds, especially those centred on technology, indicates a robust appetite for investments that promise innovation-driven growth and underscores the transformative impact of thematic trends on investor preferences.”

Geopolitics and politics

The panel also focused on the intricate interplay of politics, geopolitics, markets and investment strategies. Thematic investing, characterised by its focus on long-term, transformative trends, is profoundly influenced by

the geopolitical environment. Technology, semiconductors and AI are especially sensitive areas today, as well as healthcare innovation since the global pandemic, a complex tapestry where geopolitical tensions, particularly between major global powers, can significantly shape market sentiment, potential and investment flows.

The experts reported that despite all these factors, investors must remain agile and adapt their strategies to the macroeconomic climate and geopolitical shifts that often dictate market directions.

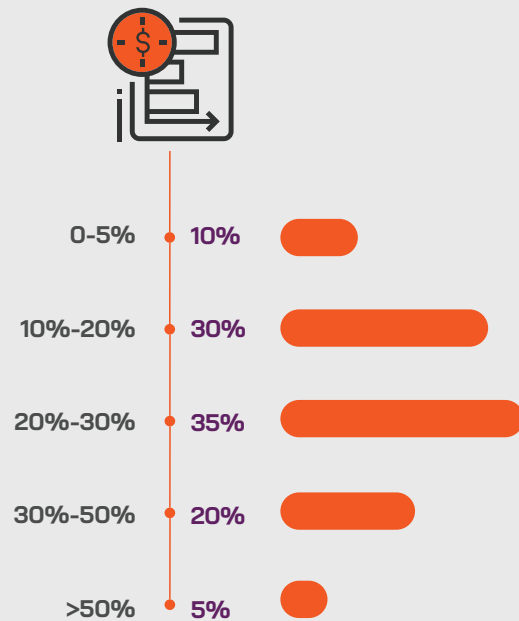
“In today’s ever-changing economic climate, staying nimble

and adjusting asset allocation in sync with the macroeconomic shifts is not just beneficial but essential,” a panellist articulated, advocating for a dynamic approach to asset management. “In the throes of global volatility and uncertain economic forecasts, the paramount importance of adaptability in investment strategy cannot be overstated. As we closely monitor the US 10-year treasury yield, it becomes increasingly clear that macroeconomic shifts are not just ripples but waves reshaping the investment landscape, reinforcing the necessity for investors to remain agile and responsive to global economic indicators.”

The Hubbis Post-Event Survey

Hubbis also conducted a post-event survey amongst delegates that produced the following findings:

WHAT PERCENTAGE OF HNW AND UHNW INVESTMENT PORTFOLIOS IN ASIA SHOULD BE DEDICATED TODAY TO THEMATIC INVESTING?



Spotting the Right Emerging Investment Themes

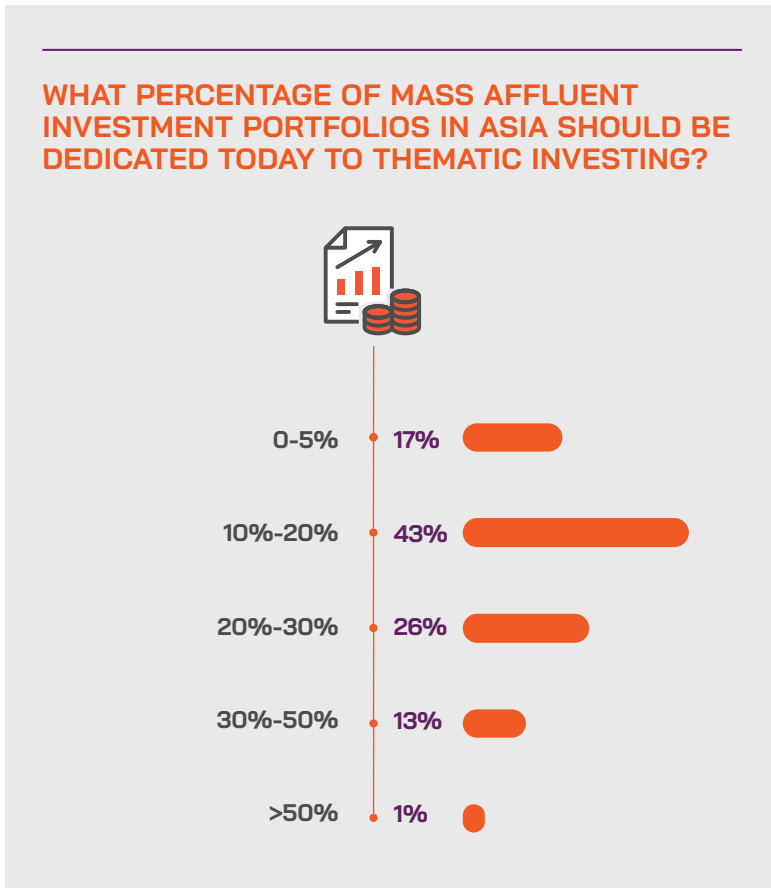
Amidst this backdrop, the experts underscored the imperative of discerning between fleeting trends and substantive, enduring themes that offer genuine potential for sustained growth. This distinction is critical in a landscape where short-term market reactions to global and external events can often obscure the underlying, long-term value of thematic investments.

“Diversification and risk mitigation in response to geopolitical tensions are both essential, as thematic investing generally exists within a globally interconnected market,” a panel speaker observed.

China – the jury is still out

As the investment landscape in China evolves amidst heightened geopolitical tensions and shifting global dynamics, our experts stressed the need for a careful approach to navigating this complex market. The sentiment among wealth managers and investment strategists highlights a cautious yet opportunistic stance toward Chinese equities and selected sectors, acknowledging both the challenges and growth potential inherent in the country and the wider region.

One speaker noted amidst dismay at their home markets, Chinese investors’ increasing their diversification towards developed market equities and fixed income, signalling a strategic rebalance away from domestic markets in favour of international exposures. This shift supports the broader trend of seeking thematic investments that resonate with



distinct narratives, particularly in the technology and healthcare sectors, over traditional broad-market indices.

China - down but not completely out

Expanding on China’s dismal performance, another expert underscored the emergence of themes like “Anywhere but China” (ABC) and “Emerging Markets Excluding China” (EMXC). These approaches, he said, reflect a strategic response to de-globalisation, some considerable degree of fear, and the reconfiguration of global supply chains, causing investors to realise that there are structural changes that are resulting in the rising potential for interest shifting from China to other Asian markets.

Reflecting further on China’s investment viability, a speaker explained that China is clearly not a buy these days. A guest pointed to the complexities arising from increasing geopolitical tensions, particularly the intricate dynamics between China and the US.

These tensions have spurred themes such as “Anywhere but China” (ABC) and “Emerging Markets Excluding China” (EMXC), marking a strategic realignment in global investment flows. “This reorientation in investment strategies underscores a broader trend towards exploring new frontiers, as capital seeks refuge in markets like India and Taiwan, moving away from China,” explained the speaker. “Capital flows where it feels a combination of safety and significant potential.”

However, another expert declared that some sectors in China still offer value and considerable potential. They highlighted sectors such as natural resources and healthcare as areas that offer robust growth prospects.

Core and Satellite

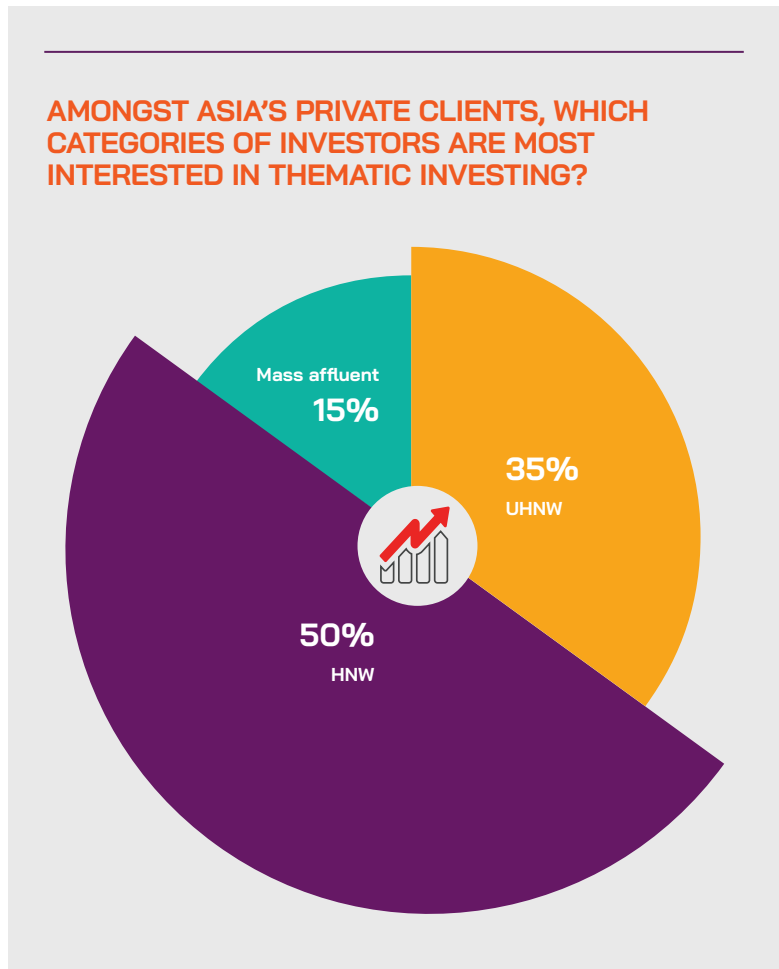
Looking more broadly at portfolio formation, the panellists reiterated the importance of a core-and-satellite approach to asset allocation for high-net-worth clients, emphasising dynamic, thematic plays within the satellite portion of portfolios.

This approach allows for agility in navigating market trends and thematic opportunities, leveraging the potential of individual stocks and sector-specific funds. This approach also opens the door for China, which is no longer core to robust portfolios, and might not be for some time to come. But selective exposures to key sectors and themes, potentially via curated ETFs, can reap significant potential rewards ahead.

Seek specialist advice

The panel also highlighted – as, of course, they would – what they consider the indispensable role of professional wealth advisory expertise in navigating this complex investment terrain.

A guest pointed to the unpredictable Irish weather as a metaphor for the need for seasoned guidance in distinguishing fleeting trends from sustainable, long-term investment opportunities. He said this distinction is crucial in a market environment where themes such as artificial intelligence (AI) and healthcare innovation present vast potential yet are fraught with



risks tied to market volatility and speculative hype.

Key themes

AI, as a thematic investment, naturally garnered significant attention, with an expert providing advice to temper enthusiasm with caution. He suggested that while AI is poised to dominate future trends, the journey of companies at the forefront of this revolution, such as Nvidia, may not directly mirror the thematic narrative due to fluctuations in valuation and market perception. This cautionary stance underscores the complexity of investing in rapidly evolving sectors where innovation is a constant, and market success is not guaranteed.

Similarly, healthcare innovation emerged as a pivotal theme, with panel members highlighting the sector's potential for delivering outsized returns. The discussion emphasises the critical importance of deep industry knowledge and discernment in navigating the healthcare sector, where the line between groundbreaking innovation and overvalued hype can be thin. Success in this thematic area hinges on identifying truly transformative opportunities rather than fleeting solutions.

"It's not just about investing in healthcare; it's about investing in the future of healthcare," a panellist added. "The right biotech and healthcare funds offer a deep, granular understanding

that comes from professionals with backgrounds in science and medicine. When you have teams who can dissect the complexities of biotech at a molecular level, you're not just betting on trends; you're investing with precision."

Beyond AI, and the ESG Paradigm

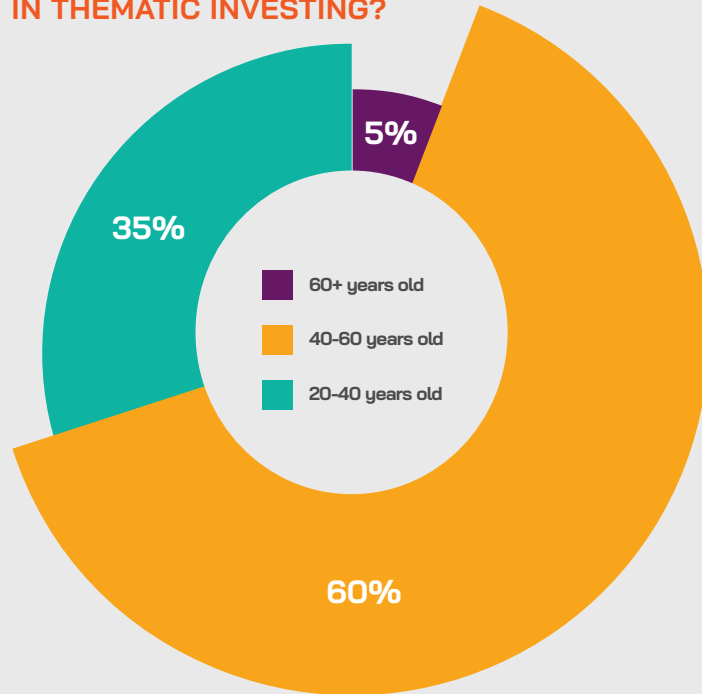
While acknowledging AI's prominence in technology investments, a panel member broadened the discussion to encompass other significant technological advancements, such as blockchain and decentralised finance.

"These areas represent the next frontier of innovation, set to redefine our technological landscape over the coming years," the expert predicted, emphasising the structural changes within the technology sector. Meanwhile, the buzz around Environmental, Social, and Governance (ESG) investing has seen a decline, he said, but he positioned it as a lingering structural theme, particularly in the Asia Pacific's equity markets, awaiting its moment to shine once again.

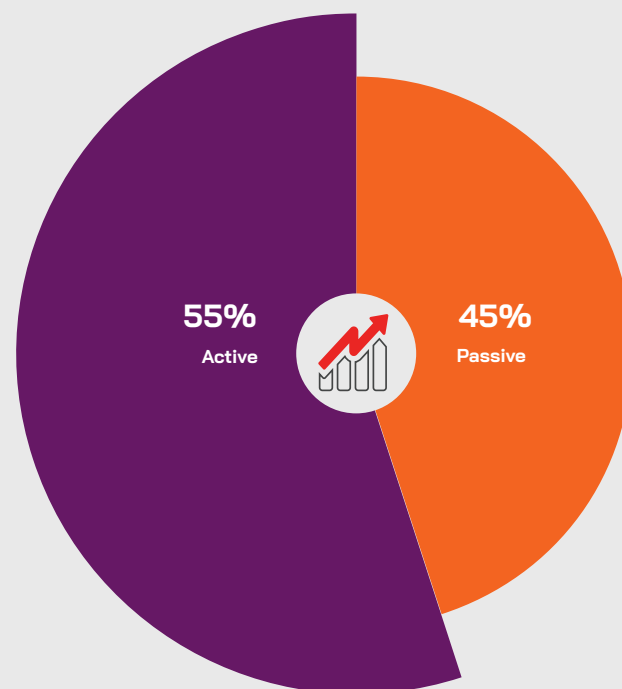
Thematic Investing and the Expanding Universe of ETFs

Central to thematic investing is the rise of ETFs as vehicles for accessing a diverse array of thematic products. A specialist said he champions ETFs for their capacity to offer investors transparency, flexibility, and a broad selection of thematic opportunities. The surging interest in virtual assets, underscored by the recent approval of the spot Bitcoin ETF in the US, he said, exemplifies the dynamic nature of thematic investing and the growing recognition of its role in portfolio diversification.

AMONG ASIA'S PRIVATE CLIENTS, WHICH AGE GROUPS OF INVESTORS ARE MOST INTERESTED IN THEMATIC INVESTING?



IN THE CURRENT MARKET ENVIRONMENT, WHAT PERCENTAGE OF THEMATIC EXPOSURE SHOULD BE THROUGH ACTIVE OR PASSIVE INVESTMENTS?



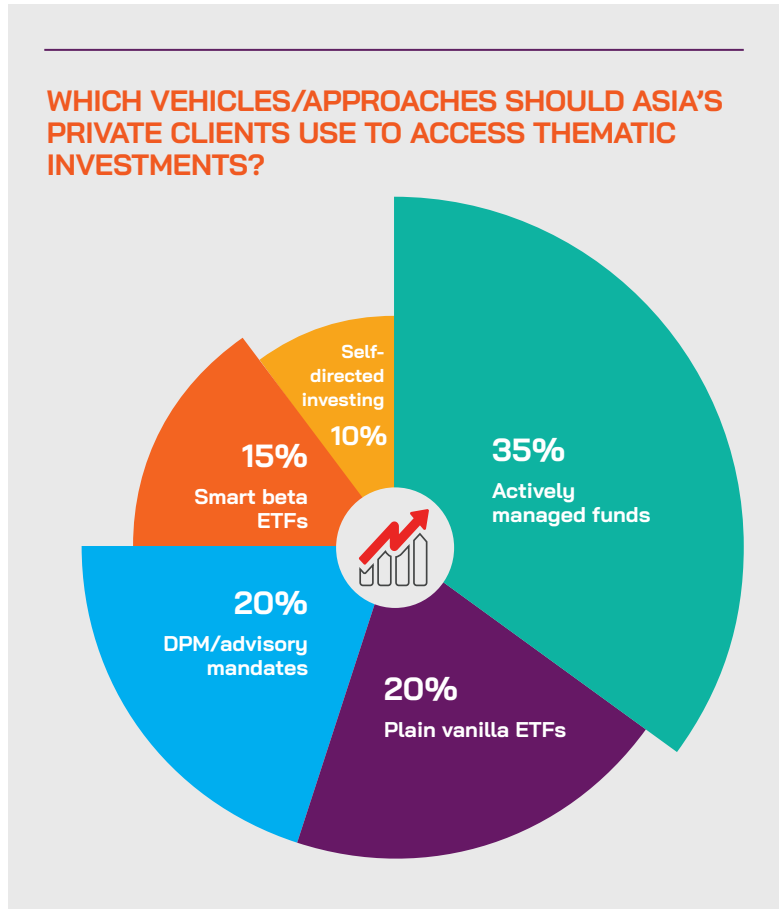
An expert explained that amidst global uncertainties that are more pronounced now than for many years, thematic investing has become a lighthouse for navigators of the often-tumultuous investment seas. He explored some ways of using ETFs to capitalise on thematic investment opportunities, analysing how macroeconomic factors, alongside emerging geopolitical tensions, play a crucial role in sculpting the contours of investment strategies today.

Other panel members agreed that there are considerable advantages for thematic via ETFs, praising their diversity, transparency, and cost-effectiveness. "ETFs stand at the forefront of thematic investing, offering a prism through which investors can discern their investments' exact nature and alignment with broader investment strategies," stated one panel member. "The transparency and accessibility provided by ETFs, tracking indexes and regularly disclosing holdings, are particularly encouraging and advantageous for investors aiming to align their portfolios with specific themes or sectors."

Virtual Assets: Entering the Mainstream

The panel members also touched on the world of virtual assets, where the recent US approval of a spot Bitcoin ETF had created a surge in demand for the cryptocurrency and the ETF. This landmark regulatory decision was celebrated as a significant stride towards integrating virtual assets into the financial mainstream.

"This is a breakthrough marking a paradigm shift, signalling strong conviction among wealth managers



and investors in the utility of virtual assets for portfolio diversification," an expert observed. "Envisioning a future where virtual assets are widely adopted by institutions, the role of thematic investing in embracing innovative trends cannot be underestimated. We believe ETFs are really rather indispensable in accessing this and an array of other cutting-edge investment themes."

He added: "The future of investment is undeniably intertwined with technological advancements. Beyond the buzz of AI, blockchain and decentralised finance stand as beacons of innovation, promising to revolutionise not just the financial sector but society at large. It's this horizon of endless possibility that thematic investing

aims to harness, with thematic investments, often expressed via ETFs, incredibly valuable for capturing the transformative potential of technology."

Navigating Fixed Income and Thematic Investing

A guest focused his comments on the resurgence of fixed income within robust, strategic portfolios. "The era where 'fixed' was silent in 'fixed income' has ended. We're entering a period where bonds are making a compelling comeback for investors," he explained, marking a pivotal shift in investment strategies. "This resurgence is not just about returning to basics; it's about recognizing the evolving opportunities within fixed income

as an essential component of a well-diversified portfolio. In short, fixed income is back, offering a foundational stability that had been underestimated for far too long, urging investors to reassess the role of bonds in their investment strategies.

Strategic Portfolio Integration

Discussing the integration of thematic investments within broader portfolios, a speaker highlighted the critical distinction between enduring themes and fleeting trends.

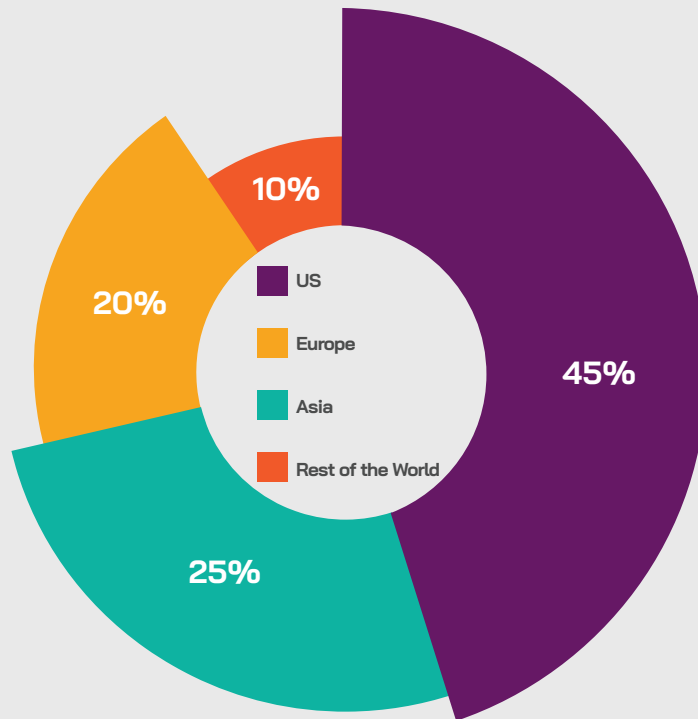
“Not all that glitters in the market is gold for long-term portfolios, he said. “Discerning between enduring themes and passing fads is crucial, and it is vital for these themes to fit within an investor’s strategic asset allocation, allowing for adaptability and the incorporation of transformative themes. It’s about weaving these themes into the fabric of your portfolio, not just adding them as decorative frills.”

Fixed Income and Investment Horizons: A Long-term View

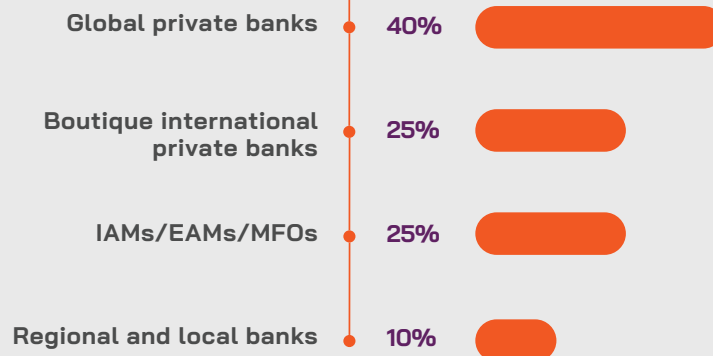
A long-term perspective on investment returns was stressed as essential for thematic investing. “Investors often trap themselves within the confines of a calendar year, but real growth transcends these arbitrary timelines,” a panellist observed. He added that emphasising multi-year horizons encourages investors to align with broader economic and technological shifts, positioning their portfolios for sustained growth.

“Looking beyond the annual report to the story that unfolds over the

WHAT IS YOUR SUGGESTED PERCENTAGE ALLOCATION TO THE DIFFERENT GEOGRAPHICAL REGIONS FOR SOURCING THEMATIC INVESTMENTS?



WHICH WEALTH MANAGEMENT ORGANISATIONS ARE CURRENTLY BEST AT PROMOTING AND DELIVERING THEMATIC INVESTMENT IDEAS AND STRATEGIES?



years - that's where the true value of thematic investing lies."

Fixed Income, Securitised Debt & Credit Market Dynamics

Further exploring fixed income and credit markets, an expert highlighted strategies for optimising allocations. "The narrative around cash and its role in portfolios is changing. It's about strategic positioning within the fixed income spectrum now," they stated. "With potential rate cuts on the horizon, the discussion included how investors could extend duration wisely, leveraging products like AAA-rated CLOs and agency mortgages to surpass traditional cash returns. In short, navigating the fixed income landscape requires a compass that points towards strategic yield optimisation, not just safe harbours."

He said US agency mortgages stand out as a lighthouse, guiding investors towards the shores of opportunity and security. These are not just any port in a storm but a sophisticated strategy leveraging the government's backing to offer a spread over US treasuries with very little refinancing risk.

He reported that in the unique post-COVID landscape, where the majority of American homeowners are locked into low rates, the chance for mass refinancing — and thus, the dilution of duration — is slim, making agency mortgages an even more compelling choice.

He observed that this is a special moment in time, a confluence of circumstances that has transformed agency mortgages into an oasis of potential in the desert of low-yield investments, adding that it is crucial to understand the magnitude and liquidity of agency mortgages in

Expert Opinion

ANDY LAU, Executive Director and Portfolio Manager, Quantitative Investment, CSOP Asset Management:

"As major central banks enter a rate-cutting cycle, era of peak rates is behind us. Yet, with factors like de-globalization and geopolitical tensions reshaping the global economy, investors should not expect interest rate to return to pre-covid ultra-low levels."

"Key to successful navigation of the markets is the ability to stay nimble with asset allocation. Rather than adopting a deep value investing approach, thematic investing via an index approach offers a strategic option to adapt to the evolving market landscapes. This approach is not just a trend but a rational response to the changing dynamics of the global economy."

"Thematic ETFs offer avenues for investors to capitalise on trends or structural growth in specific industries, regions or fields, leveraging the benefits of cost efficiency, diversifications, liquidity and transparency inherent to ETF."

"From the earlier approach of "Wait-and-See" to the current mentality of "FOMO" - we now see a surge in interest among private wealth clients exploring virtual assets as a thematic investing opportunity, especially since the launch of the spot bitcoin ETF in the US."



the US – they are worth USD12 trillion today and second only in size and liquidity to Treasuries. He pointed to a AAA CLO ETF that exemplifies an innovative approach to leveraging this market, providing an active management strategy that's rare in this space.

The value of securitised debt

This same expert explained that securitised assets offer considerable safety as well as appealing returns. He declared they are not the ominous entities

they're often made out to be. Instead, they embody a beacon of stability and profitability in the tumultuous seas of the financial markets. For example, with a spread of approximately 140 basis points over cash, AAA-rated CLOs, in particular, offer an attractive harbour for investors seeking refuge from the stormy conditions of uncertain markets.

"They are the unsung heroes in the narrative of investment strategies, providing a steady yield in an environment where such treasures have become increasingly rare,"

a guest reported. "This is why we've seen tremendous traction with our active ETF format, as it perfectly aligns with investors' quests for optimising returns while navigating through the murky waters of cash allocations, underscoring the pivotal role of securitised assets in contemporary investment portfolios."

The Final Word

Crystallising many of these perspectives, Asian private investors are not just passively interested in thematic investments but are actively seeking to leverage global trends. By adopting a strategic mix of core and satellite assets, these investors navigate the thematic landscape with an eye towards long-term growth, relying on professional guidance and strategic asset allocation to capitalise on the opportunities that thematic investments present. This evolving narrative reflects a sophisticated and dynamic approach to investing, where thematic insights, coupled with professional expertise, pave the way for informed, strategic investment decisions in Asia's vibrant markets. ■

Expert Opinion

ALEXIS LAVERGNE, Fixed Income Investment Specialist, Janus Henderson Investors:

"At Janus Henderson, we remind clients that 'you can date cash, but never marry it'. As such, we believe investors might do well to start increasing their [fixed income] duration while focusing on high-quality assets, on the back of potential rate cuts in the relatively near future."

"For over a decade, 'Fixed Income' had been more associated with the 'Fixed' part of the moniker. Moving forward, we anticipate the asset class is poised to live up to its last name: 'Income' in a more decisive way."

"Our CEO, Ali Dibadj, highlighted three major investment themes at our Asia Investment Summit in Singapore: 'Geopolitical Realignment,' due to shifting global power dynamics; 'Demographic Drivers,' influenced by changes in population trends and consumer preferences, with AI-driven technology and healthcare presenting notable opportunities; and lastly, with the 'Return of the Cost of Capital,' with fixed income becoming appealing for the first time in a decade."

"In fixed income, we see investors seeking to blend short-term yields with long-term duration. On one end of the barbell are cash and money market products. If it is indeed necessary to hold these assets, we suggest considering AAA CLOs to enhance this allocation. On the other end, Agency MBS could be an effective way to extend investment duration. Adopting a multi-sector approach may also dynamically manage this balance for investors."

