

Supercharging a new wave of thematic ETFs

An Unlocked Report

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Will actives invigorate thematics?

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Members of Europe's ETF industry now struggle to have a conversation without mentioning the prophesied rise of active ETFs, but it bears considering whether combining this product class with a previous trendsetter – future themes – can revive enthusiasm for the latter.

The case for combining megatrends with active management is simple in theory, a strategy taking a less blunt 'capture the market' approach to targeting future industries, which will see winners and losers and speculative pricing along the way.

Such a strategy could come in the form of more orthodox active stock picking of leaders and cutting laggards, or a pared-back systematic approach of upping or cutting companies' relative weights based on metrics such as valuations and forward-looking earnings.

Overall, one thing seems certain. Future themes, like small-cap equities and more exotic credit exposures, remain unbroken but fertile ground within Europe's nascent active ETF story.



This fact has not been lost on new challengers vying for first-mover advantage, with some buying their way into the European market. Last year, Cathie Wood's ARK Invest acquired thematic specialist Rize ETF as a springboard to debut a trio of active thematics – including the flagship ARK Innovation UCITS ETF (ARKK) – in April. Two months later, mutual fund house Guinness Asset Management took over the passively managed iClima Global Decarbonisation Enablers UCITS ETF and converted it into an active strategy selecting companies that "contribute towards reduced carbon emissions". Such developments do not seem to be acts of filling blank space within Europe's product roster, but instead responding to calls from fund selectors for active theme ETFs.



Alex Funk, head of investments at PortfolioMetrix, previously told ETF Stream the two-dimensional screen and capture rules-based methodology is a pitfall of the existing thematic roster. "What they do not bring you is the analyst approach, the qualitative, the soft components, at least not the ones I have seen," he said. "If there are more active-type solutions that come out within ETFs, that could become interesting."



In a similar vein, Karin Wiederkehr, co-founder of IMP AG, noted active theme ETFs mark a convergence of two of her firm's favoured investment approaches. "We would most definitely like to see more active ETFs specifically targeting future megatrends," Wiederkehr said. "Our investment philosophy is fundamentally anchored in megatrend investing. Since the start of the year, we have been strategically transitioning towards active ETFs, recognising their enhanced value, especially during periods of market volatility like those experienced recently."

