
WISDOMTREE QUARTERLY THEMATIC REVIEW: ALL EYES ON SUSTAINABILITY

Elvira Kuramshina – Associate Director, Quantitative Research
01 Mar 2022

After a slow Q3, Q4 showed a new increase in flows in Thematic investments in Europe. Overall flows in European thematic products have amounted to \$26.2bn compared to \$11.8bn in Q3. This has rounded 2021 as another record year for Thematics with total flows of \$108.3bn in European domiciled ETFs and open-ended funds. For context, 2020 held the previous record with “only” \$66bn. 2019 and 2018 had seen less than \$20bn in flows each.

Performance-wise, a range of themes have continued to outperform a global equity benchmark and delivered value to investors. However, for most of the themes, 2021 proved to be challenging, especially in light of a massive year-end rotation into value stocks.

In this quarterly thematic review, we will look at the space and analyse the year's fourth quarter and the full 2021 through the lens of performance, flows, and new launches. For all of our calculations, we will use the [WisdomTree Thematic Classification](#) that we have previously introduced in a series of blogs in which we discussed [how to classify](#) and [select thematic funds](#).

Winners and losers

As we noted in our recent [paper](#) on Thematic investments, themes tend to rotate in flows and performance over time due to their individual narratives. 2021 and Q4 offer another evidence here.

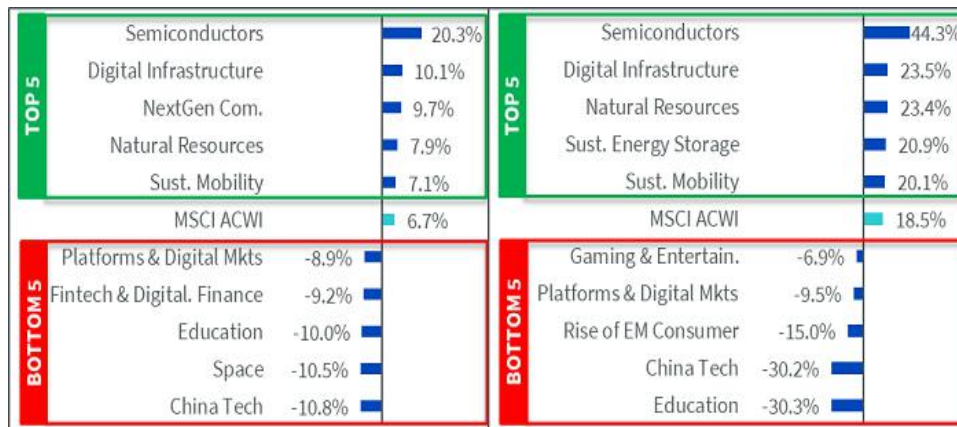
The MSCI All Country World (ACWI) gained 6.7% in the fourth quarter. Seven themes beat this figure. Continuing the trend from previous quarters, “Technological Shifts” themes topped the table and prevailed in the winning group. In contrast, the full 2021 performance figures had four themes from the “Environmental Pressures” cluster out of 6 beating the global benchmark. “Semiconductors” theme, boosted by the global chips shortage, continued to dominate with 20.3% over the quarter and 44.3% over the full year confidently snatching the top place.

“Digital infrastructure” theme supporting the proliferation of cloud technologies came second closely followed by “NextGen Communications”. Both themes highlight the increased focus from investors on the infrastructure that drives the digitalisation of our society.

At the bottom of the performance spectrum, China’s growth in Q4 and consequences of regulatory crackdown continued to weigh on some themes, including “China Tech” and

“Education”. In a similar vein, China’s headwinds potentially defined the losing themes for the full 2021.

Figure 1. Q4 (left) and 2021(right) performance of Top 5 and Bottom 5 themes vs MSCI ACWI.



Source: WisdomTree, Morningstar, Bloomberg. All data as of 31st December 2021 and based on WisdomTree's internal classification of thematic funds. Performance is based on monthly returns from Morningstar. Please refer to Footnote 1 for the details around the calculation of performance for a given theme.

Historical performance is not an indication of future performance, and any investments may go down in value.

Comparing the full 2021 performance figures to 2020, we can highlight such themes as “Sustainable Energy Production”, “Cloud Computing”, “HealthTech” which experienced a performance reversal in 2021 after claiming blockbuster returns in 2020. As 2021 proved to be a difficult year, most themes from the “Climate Change & Sustainability” sub-cluster held up better potentially due to the increasing interest from investors in “green” themes.

Flows setting a new record

Last year saw record flows in Thematics funds and ETFs with \$66bn in Europe. This year flows have smashed this record again with \$108bn.

Across all wrappers, themes from the cluster "Environmental Pressures" have seen an obvious increase in interest, as climate change and energy transition narratives have firmly captured investors’ focus within thematics this year. ETFs in that cluster have raised \$8bn in 2021, and open-ended funds have raised \$50.9bn compared to \$25bn in both wrappers for the whole year 2020. Meanwhile, "Technological Shifts" attracted \$5.9bn in ETFs and \$18.5bn in open-ended funds.

Figure 2. Q4 (top charts) and 2021 (bottom charts) Top 5 Flows in Europe - ETFs (dark blue) vs Open-ended (OE) funds (teal)



Source: WisdomTree, Morningstar, Bloomberg. All data as of 31 December 2021. Data based on WisdomTree's internal classification of thematic funds.

Historical performance is not an indication of future performance, and any investments may go down in value.

At the theme level, "Sustainable Energy Production" remained the clear winner in 2021 with \$13.7bn inflows, despite disappointing performance of -1.45% for the full year. "HealthTech" was another underperforming theme, but it came second with \$6.1 billion inflows in 2021. In contrast, "Semiconductors" and "Digital Infrastructure" have gathered only \$855mn and \$180mn, respectively, despite being the best-performing themes both in Q4 and in 2021. It's notable that in Europe, semiconductor funds are, in general, represented only in ETFs.

The roster of the top and bottom themes by flows across ETFs and open-ended funds in Q4 and 2021 suggests both the unanimity in investor interest for the "Environmental Pressures" themes and the dissonance for "Technological shifts" themes. For example, "Cybersecurity", "China Tech", "AI & Big Data" seem to have garnered much higher interest within ETFs in 2021 based on total thematic flows within each wrapper. In contrast, "HealthTech" was the second-best theme by flows within open-ended funds with \$5.8bn. Within ETFs, this theme attracted a modest \$370mn in 2021 and saw \$133mn of

outflows in Q4.

Another point of notable divergence between ETFs and open-ended funds lies in flows into the “Diversified Thematics” cluster or multi-theme strategies within a certain cluster or sub-cluster. Thus, within “Diversified Thematics”, where ETFs are not even represented, open-ended funds attracted \$14.6bn in 2021. Similarly, diversified strategies offered by open-ended funds within the “Climate Change & Sustainability” sub-cluster gathered \$21.9bn in 2021 and \$13.8bn in Q4 alone.

Thematic launches in full steam

Strong flows data continued to create tailwinds for launches in the thematic space. In 2021, we have seen 43 new thematic ETFs and 137 new active funds. Q4 data points to further acceleration in the trend with 19 launches in ETFs and 40 in open-ended funds. For the whole of 2020, only 22 ETFs and 84 active funds were launched.

The majority of launches in 2021 continued to focus on the “Environmental Pressures” cluster and “Technological Shifts” cluster. Within ETFs the launches within “Technological Shifts” prevailed with 24 funds. In contrast, open-ended funds directed most of the launch efforts to “Environmental Pressures” with 50 new strategies. In addition, “Diversified Thematics” continued to gain further momentum within the active space with 30 new launches.

While these figures suggest a high activity level from the European ETF providers, they pale compared to the 269 ETF launches in Asia and 98 launches in US ETFs.

We will continue to closely watch the space in Q1 2022 and summarise our findings in the next WisdomTree Quarterly Thematic Review. Stay tuned.

Footnotes

¹ **Performance of a theme.** For any given theme, we consider each month all the ETFs and open-ended funds classified in that specific theme that have published a monthly return for that month in Morningstar. We then calculate the average of all those monthly returns to compute the average monthly return for that theme. So, the monthly return for January 2020 for the theme may include 19 funds, while the February 2020 return may comprise 21 funds (if two funds classified in that theme have been launched in the meantime). By collating monthly returns for the theme, we get the theme's average historical performance. Therefore, the theme's average historical performance incorporates every ETF, and open-ended fund focused on this theme. The theme's average historical performance is not biased towards surviving funds or successful funds. Every fund alive in a given month is included irrespective of its future survival or success. Investments that try to focus on multiple themes and, therefore, classified either at Cluster or Sub-Cluster Level are not included.

Related blogs

- + [How to organise the thematic universe? Introducing the WisdomTree thematic classification](#)
- + [How to select thematic funds? Five criteria to separate the wheat from the chaff](#)

Related products

- + [WisdomTree Cloud Computing UCITS ETF - USD Acc \(WCLD/KLWD\)](#)
- + [WisdomTree Cybersecurity UCITS ETF - USD Acc \(WCBR/CYSE\)](#)
- + [WisdomTree Artificial Intelligence UCITS ETF - USD Acc \(WTAI/INTL\)](#)
- + [WisdomTree Battery Solutions UCITS ETF - USD Acc \(VOLT/CHRG\)](#)
- + [WisdomTree BioRevolution UCITS ETF - USD Acc \(WDNA\)](#)
- + [WisdomTree New Economy Real Estate UCITS ETF - USD Acc \(WTRE\)](#)

View the online version of this article [here](#).

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.