Pulse of the Street

INCORPORATING THEMATIC EQUITY INTO PORTFOLIOS

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KEY TAKEAWAYS

As Head of Model Portfolio Solutions, my team and I have the privilege of analyzing a wide range of portfolios, consulting advisors on solutions that work for their book of business.

- Portfolio consulting can help you understand how to implement a thematic approach that is tailored to your book of business.
- Setting limits on the allocation to diversified thematic equity can help manage risk while maintaining long-term thematic exposure.
- Model portfolios provide convenient vehicles for managing diversified thematic solutions.

Introduction

With the accelerated speed of technological change heightening the importance of exposure to up-and-coming market themes, we have noticed an uptick in clients asking how to include thematic equity in their core portfolios. This has ranged from advisors looking for exposure to a specific theme across several types of portfolios, building out a mini thematic sleeve, all the way to implementing a well-diversified thematic portfolio.

We're at an inflection point where technologies are converging, with AI becoming integrated across a multitude of software and driving breakthroughs across drug discovery, self-driving vehicles, automation, and more. Innovation never stops, building on the foundation of prior breakthroughs and redefining the investment landscape of today. We see thematic investing as an integral part of portfolio construction.

Which Themes?

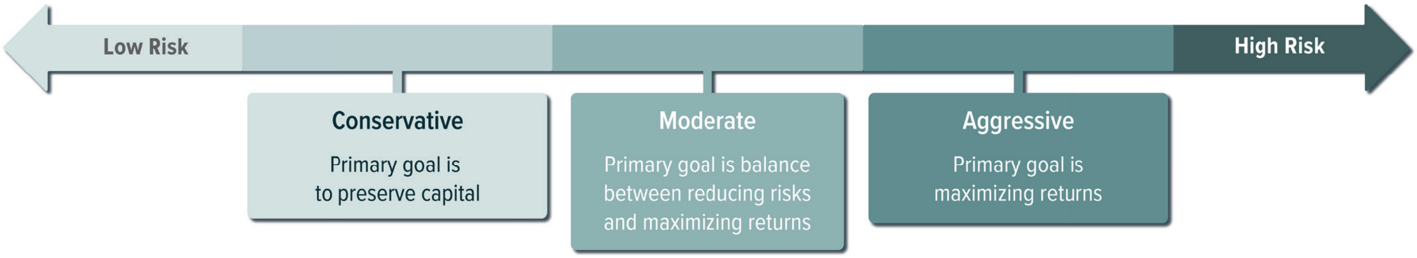
Some advisors come to us with a list of themes they'd like exposure to, while others don't know where to start. Beginning with the nature of the portfolio, the advisor's objectives, and our current views on the thematic landscape, my team provides analysis and suggestions on themes to include, the level of exposure, and how these themes work together. Even in cases where advisors come with specific themes, we may suggest additional themes or propose different ways to gain exposure to a theme to minimize volatility, drawdowns, or concentration risk. Increasing diversification within the thematic portfolio becomes more important as the intended level of thematic exposure rises.

How Much Thematic Exposure?

Sizing thematic exposure is just as important as the themes included. The level of thematic equity that is appropriate for a portfolio depends on time horizon and risk tolerance. When assessing the level for a specific portfolio, we consider the composition of the starting portfolio. Below are a handful of key factors that influence the level of thematic equity suggested in our analysis.

- Is the risk profile implied by the volatility of the portfolio meaningfully more conservative than the risk level implied by its asset allocation?
- What level of small- and mid-cap exposure does the advisor want to maintain in the existing portfolio?
- What is the level of overlap with holdings already in the advisor's portfolio? This is particularly important for advisors using a combination of individual stocks and ETFs.
- Is there a low level of diversification within the thematic portfolio? The appropriate level of thematic exposure increases as the implementation shifts from a single theme to a mini-thematic sleeve, all the way to a diversified thematic portfolio.

SCALING BENEFITS BASED ON INVESTOR RISK PROFILE



- Focus on diversification benefits of thematic equity
- Thematic equity a small portion of overall equity
- More mindful of the increased small and mid cap exposure

- Focus on the high growth potential of thematic equity
- Thematic equity a larger portion of overall equity
- Higher levels of small and mid cap exposure more appropriate

CLOSING CALL

Thematic equity is a small allocation that can differentiate your portfolios, relate investing to an end-client, and provide memorable and relatable conversations. At Global X, we refer to this as Conversational Alpha®. Our consulting expertise and thought leadership in thematic portfolios comes from our experience managing thematic model portfolios. These models provide a convenient solution for managing diversified thematic exposure.

Interested in learning more about thematic equity and how it could work within your portfolios? Please reach out to the Model Portfolio Solutions Team at ModelPortfolioSolutions@globalxetfs.com