

# How translate Megatrends into concentrated Thematic Equity Portfolios?

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Web Conference: Megatrends



## A PIONEER IN THEMATIC EQUITIES

**Pioneer** in thematic  
equities since **1995**

**USD 86 bn** AUM

more than **50**  
investment professionals

**15** strategies

### Heritage

- › A pioneer in thematic equities since 1995
- › While Pictet AM is independent, proximity to Pictet WM has allowed for the development of relevant client solutions
- › Thematic equities identifies investment ideas on the basis of growth drivers being underpinned by secular trends
- › Thematic equities combines the liquidity benefits of listed equity with the tangibility of venture capital

Source: Pictet Asset Management as at 31.10.2021

## THEMATIC EQUITIES INVESTMENTS BELIEFS

### LONG-TERM



- › Our themes are **long term by design**, because they identify economic activities underpinned by secular growth trends.
- › We invest in companies that have **predictable value drivers** and visibility on growth and margins.
- › We invest in companies where the market underappreciates the level or the **sustainability of cash flow returns** on capital and growth.

### FOCUS



- › We are **specialist investment managers** and experts in our respective themes. We harness the breadth and depth of knowledge in our thematic platform to strengthen our convictions.
- › We target focused businesses with **high exposure to the theme**, which maximises usage of thematic trends and our differentiated expertise.
- › Our thematic experts combine fundamental analysis and portfolio construction functions, allowing them to **invest with conviction**.

### INDEPENDENCE



- › Our **primary research**, coupled with the views of our Advisory Boards of industry experts, shapes our long-term investment themes.
- › We believe in value creation through **proprietary fundamental analysis** and a **rigorous bottom-up investment process**.
- › We construct **differentiated portfolios** that are independent from global indices and unconstrained by region, sector and market capitalisation.

### RESPONSIBILITY

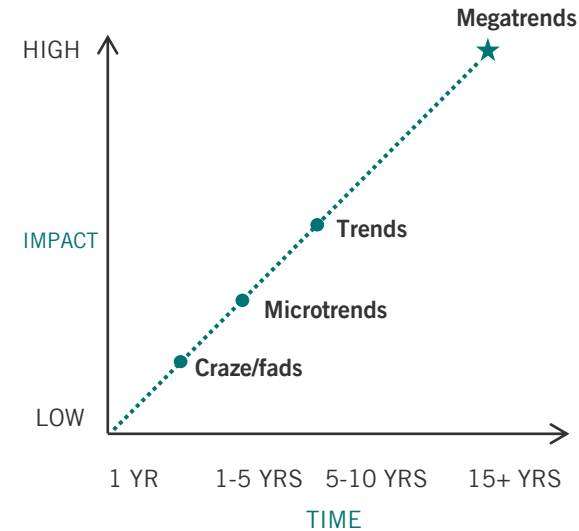


- › Our long-term ownership allows us to **engage with companies**, to encourage a responsible approach of doing business and to improve the risk-return profiles of our strategies.
- › We invest with the intention to generate a **measurable and beneficial impact**, social or environmental, alongside a financial return.
- › We create a relationship of **trust and understanding** with our clients, and our incentives are aligned with client expectations (financial and non-financial).

# SECULAR GROWTH: MEGATRENDS

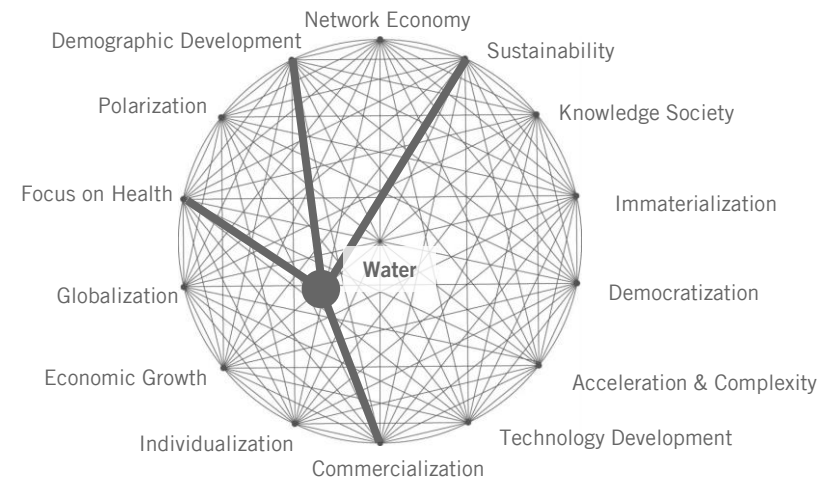
- **Megatrends** are large, social, economic, political, environmental or technological transformations
- They have high impact on the economy, society, cultures, personal lives and ultimately businesses
- They represent tectonic shifts, that occur over decades

## Forces with the ability to impact society, the economy and our lives



- **Themes** are pocket of economic activities underpinned by multiple megatrends
- Companies exposed to such pocket of economic activities have predictable value drivers and visibility on growth and margins

## Themes sit at the intersection of megatrends

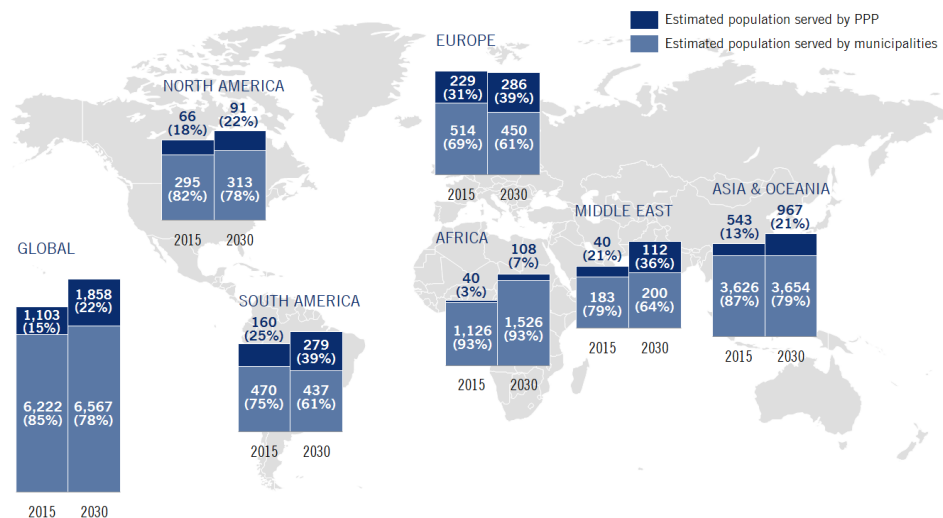


Source: Pictet Asset Management 2021, Copenhagen Institute for Futures Studies 2020

# SECULAR GROWTH : MEGATRENDS VS VALUE DRIVERS

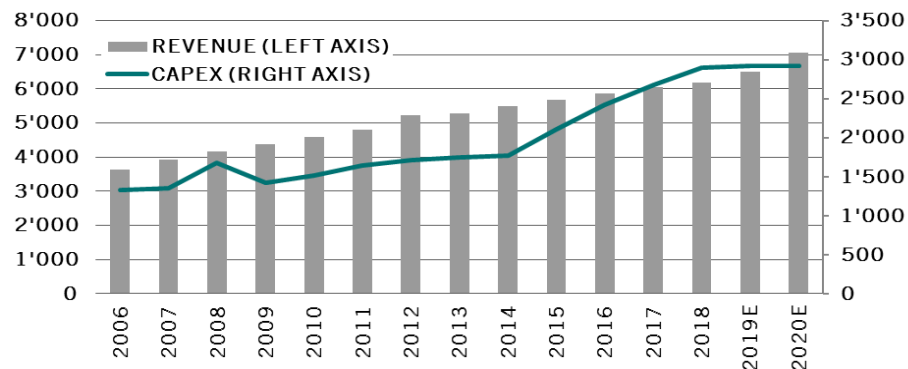
MEGATREND	Description
<b>SUSTAINABILITY</b>	Of the world's total water supply, only 3% is fresh water, of which only 7.5% is useable. Shifts in rainfall patterns, steady disappearance of glaciers coupled with continuous demand increase lead to serious challenges in terms of sustainability of supply.
<b>ECONOMIC GROWTH</b>	Water availability is a necessary condition for economic growth. From 2000 to 2050, consumption of water in agriculture and municipalities is expected to rise 3x, in the industry 2x.
<b>COMMERCIALISATION</b>	Governments and regulators increasingly recognize the importance of private sector involvement in the water services industry, in part due to stretched public balance sheets. Private companies account for only 15% of the global water services market but this figure is expected to rise to 22% over next decade.
<b>FOCUS ON HEALTH</b>	Increasingly polluted water sources and lack of sanitation infrastructure in many regions of the world is a major health challenge.
<b>DEMOGRAPHIC DEVELOPMENT</b>	As the world's population grows, so will urban areas. By 2030, 60% will be living in cities – over 5 billion people.

## Growth in Water Public Private Partnership (PPP)



Source: Envisager, 2015

## US Water Utilities growing CAPEX and Revenues at 5 - 6% CAGR

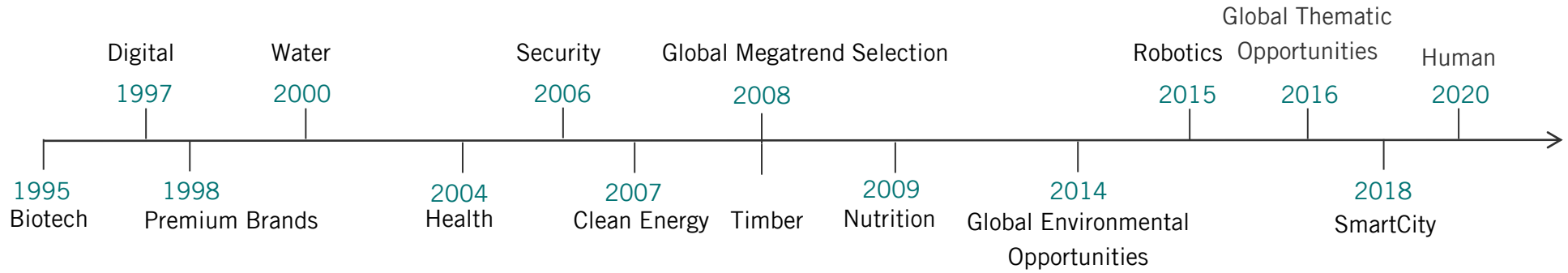


Source: Pictet, Bloomberg (AWK, WTR, AWR, ARTNA, MSEX, CWT, YORW, CTWS, SJW), as at 30.04.2019

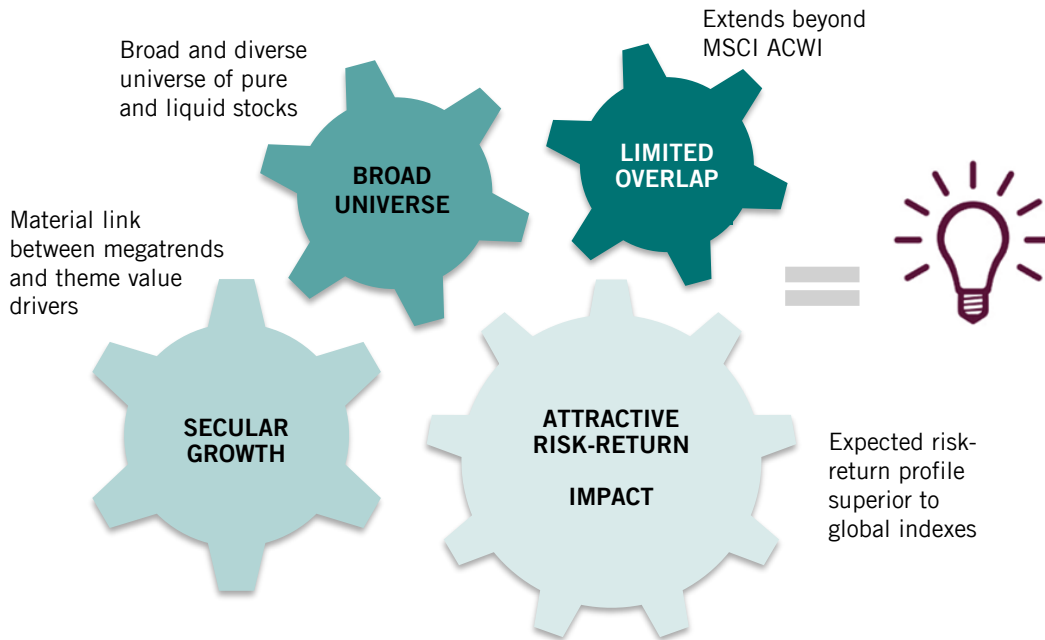


# IDENTIFYING AND MAINTAINING THEMES

## Timeline of Themes Launches at Pictet AM



## Identifying Themes



## Maintaining Themes



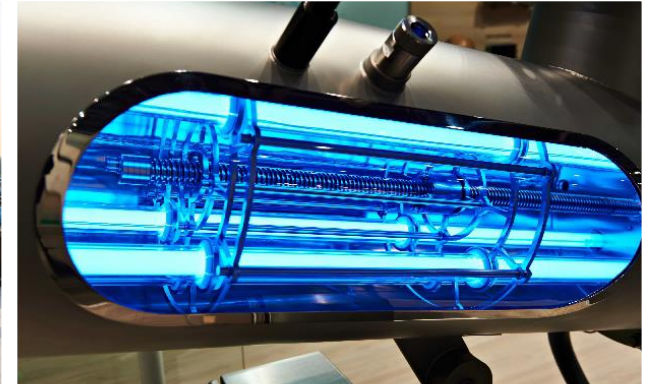
Source: Pictet Asset Management, 2021

## THEMATIC SUB-SEGMENT : WATER & SANITATION

### Solutions to address water scarcity and pollution challenges

- › Water quality monitoring
- › Water and Wastewater treatment systems: membranes, UV
- › Solutions for industrial water recycling and reuse
- › Water-savings solutions through precision irrigation, leak detection
- › Water distribution and wastewater collection

### Opportunities across municipal, industrial and agricultural markets



Source: Xylem, American Water, Trimble, Severn Trent Water

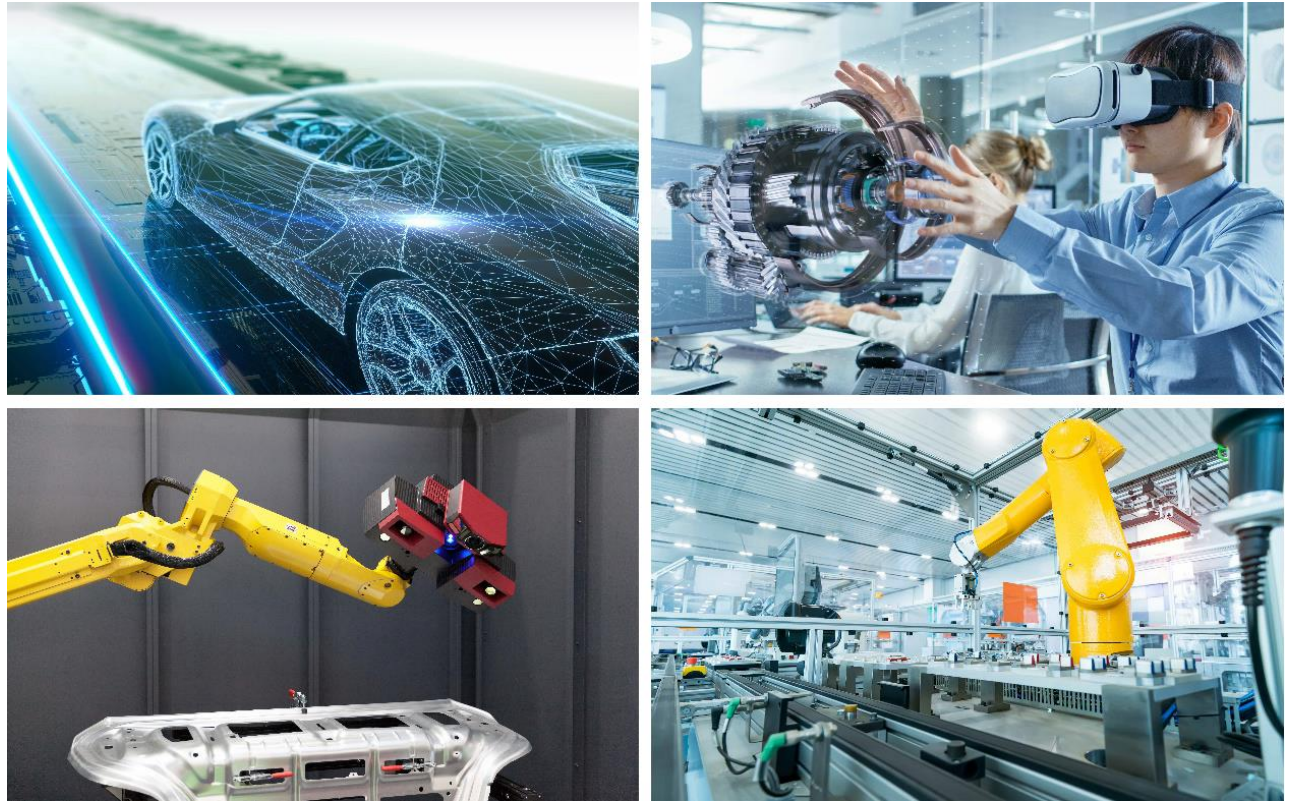


## THEMATIC SUB-SEGMENT : RESOURCE EFFICIENCY

### Solutions to enable manufacturing 4.0

- › The digital industrial transformation leads to shorter time-to-market, optimized raw material usage, extended asset life and reduced energy intensity
- › Opportunities in:
  - 3D simulation and testing (CAD, CFD, virtual twins)
  - Robotics, industrial automation, and advanced metrology
  - Semiconductors

### Innovation through convergence of physical and digital worlds



Source: Fanuc, NXP, Synopsys, IPG

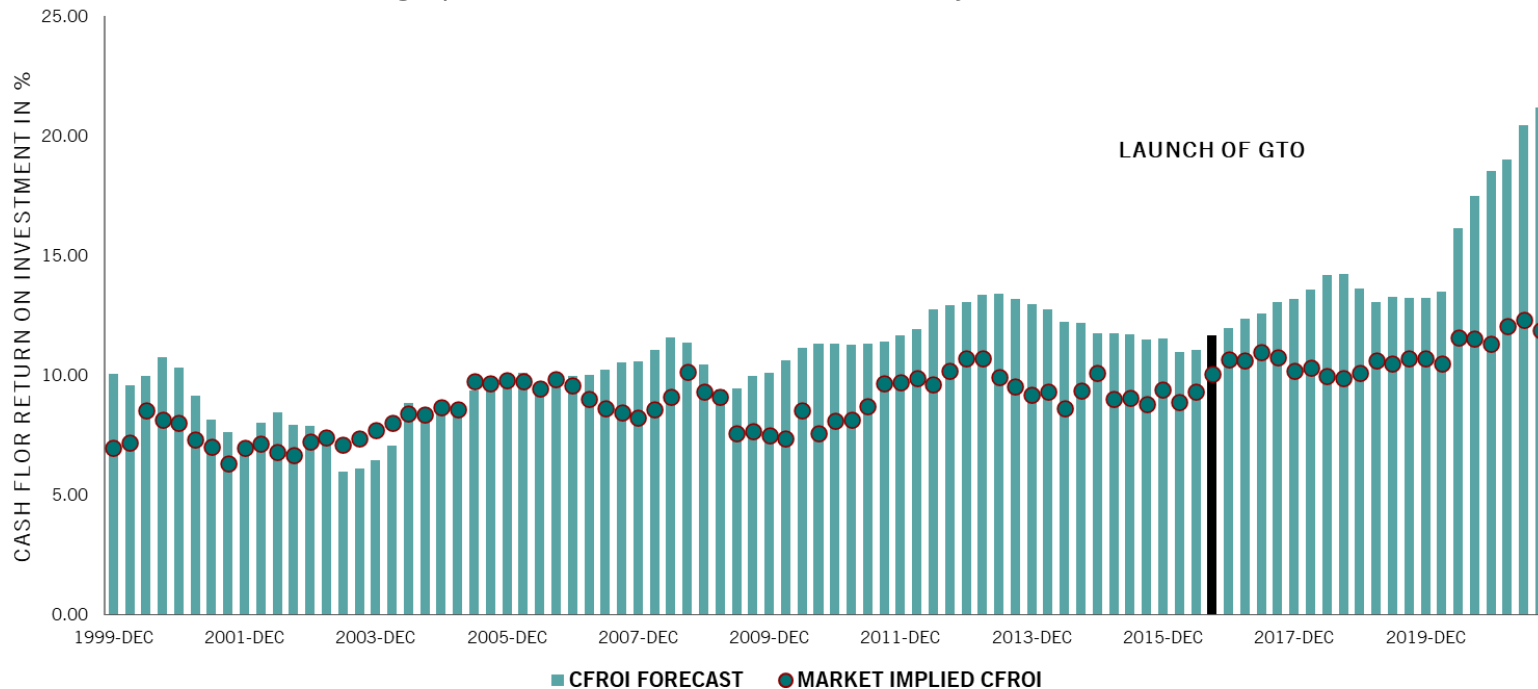




## We believe that:

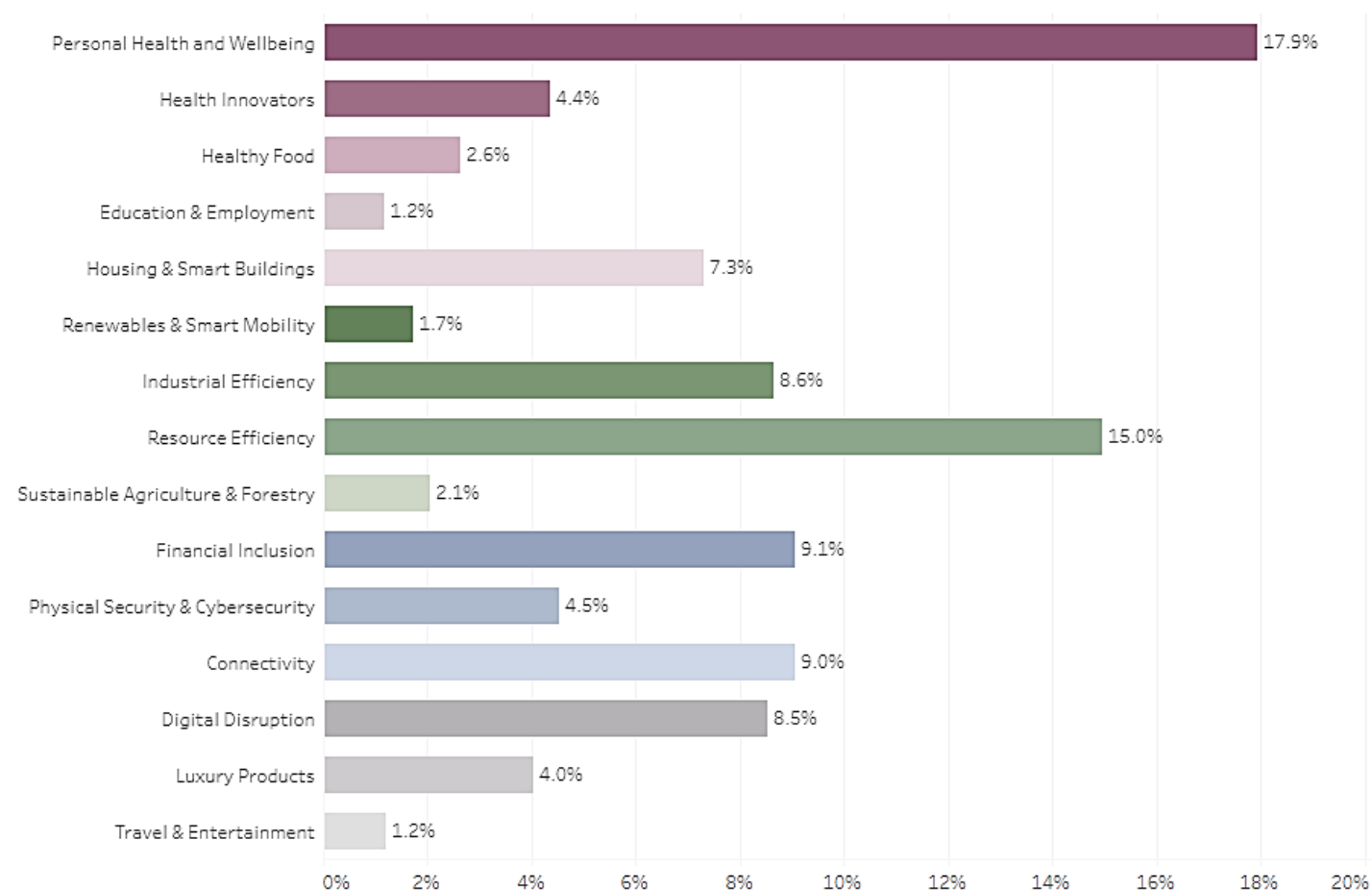
- The equity market consistently under prices the **persistence of secular growth**
- Stocks with secular growth carry a **risk premium** as the market believes this growth will fade to the mean over time
- This inefficiency can be exploited by selecting stocks with **value drivers linked to megatrends** where our research leads us believe that growth will not fade
- Our thematic framework based on **megatrends, focus** and an **unconstrained** approach is well positioned to identify stocks with secular value drivers that will not fade

As an evidence of this mispricing, the portfolio at launch was backtested for cash flow returns versus market valuation implied cash flow returns. The graph shows how markets consistently underestimate secular winners' cash flow returns.



# CHARACTERISTICS BY THEME SUB-SEGMENTS

## Exposure to Themes Sub-segments



Global Thematic Opportunities construction is bottom up and unconstrained

- › Theme sub-segment exposure is the result of bottom up stock selection
- › Max 20% of portfolio from ideas generated by any given team

Source: Pictet Asset Management, as at 31.10.2021

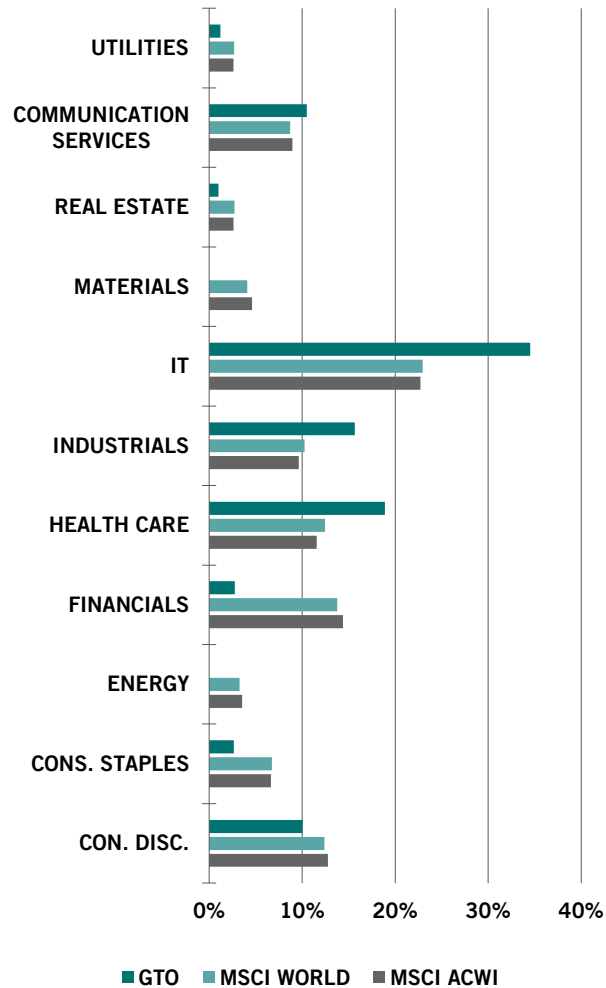
Effective allocations are subject to change and may have changed since the date.

These are internal guidelines, subject to changes at any time and without any time notice within the limits of the fund's prospectus.

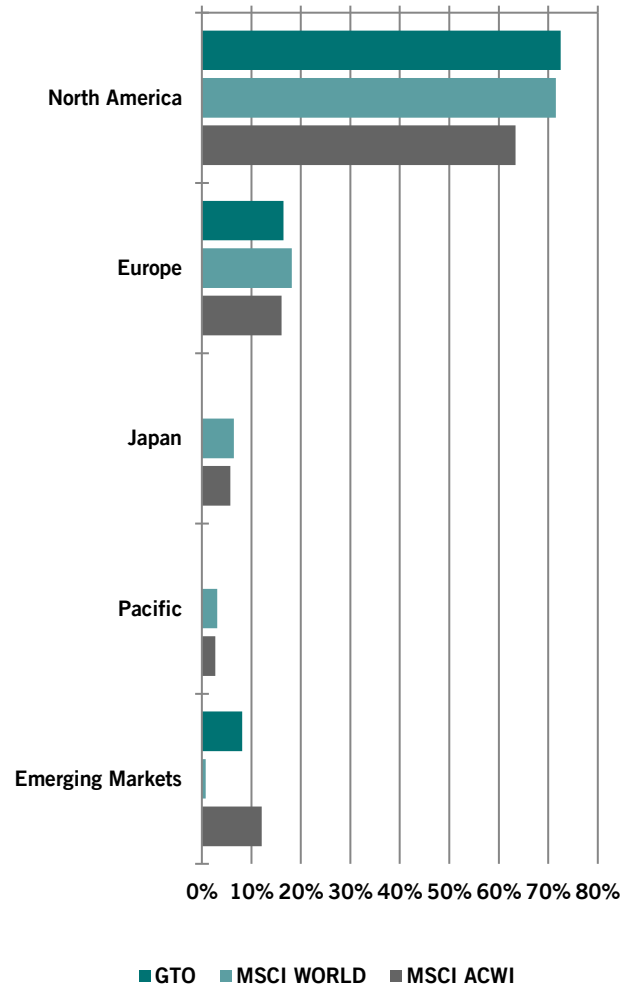


# CHARACTERISTICS VERSUS GLOBAL EQUITY INDEXES

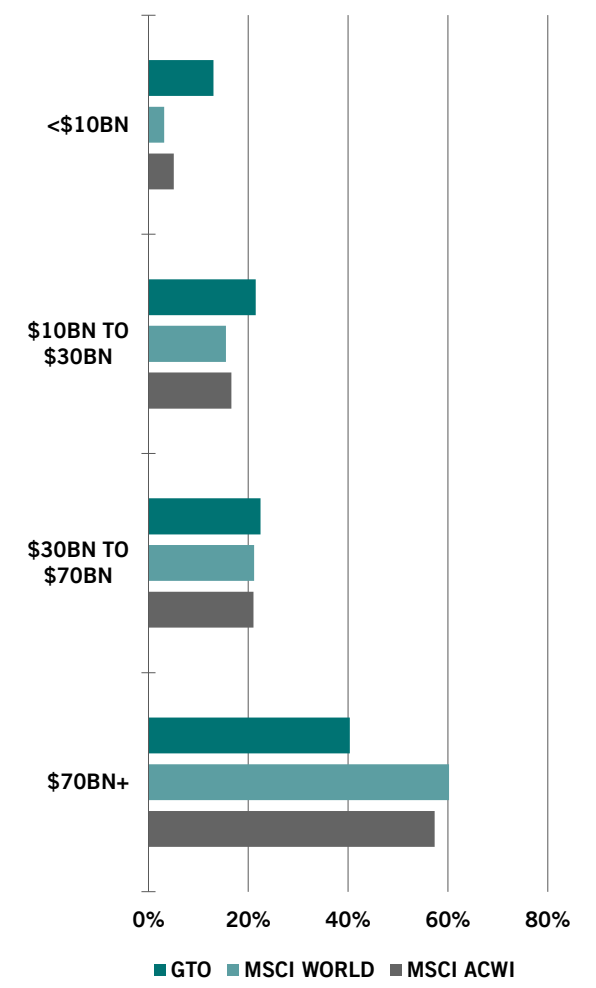
## GICS Sectors



## Regional Breakdown



## Market Capitalisations

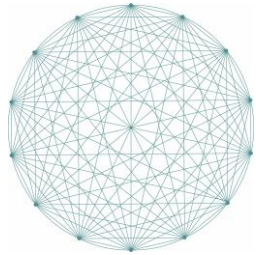


Source: Pictet Asset Management, as at 31.10.2021

Effective allocations are subject to change and may have changed since the date.

The strategy is not constrained by MSCI ACWI which is shown for comparison purposes only. The index does not influence portfolio construction and the strategy's investment universe extends beyond the components of the index. Alternative global equity indexes are equally appropriate.

# INVESTMENT APPROACH TO THEMATIC INVESTING



Secular growth exposure through megatrends



Advisory Boards



Focused investment approach



Dedicated investment teams



Bottom-up & active management



Attractive long-term risk adjusted returns



No MSCI replication



An alternative to global equities

## Global Thematic Opportunities

13 powerful investment themes in one portfolio

Set to invest in businesses growing faster than the global economy

Significant structural differences vs conventional global equity

Unconstrained opportunities across sectors, regions and market cap

Source: Pictet Asset Management, 2021

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