
BATTERY SOLUTIONS: SHOWCASING THE POWER OF EXPERTISE IN THEMATIC STRATEGIES

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Thematic strategies tap into global ‘megatrends’ or, more broadly, ‘themes’ that are changing the world we live in. Whilst it can be exciting to step outside of traditional frameworks like sectors, countries or factors and into thematics, it can also make for a more difficult analysis and evaluation process. At WisdomTree, we have developed five building blocks that create an analytical toolkit upon which investors can begin to learn more about any thematic strategy under consideration:

1. Clarity of theme
2. Expertise
3. Purity of exposure
4. Differentiation
5. Transparency, investability and discipline

We believe that the success of a given thematic strategy depends on its ability to harness the necessary expertise to identify the companies that, while offering exposure to a theme, stand to benefit the most from the further proliferation of the theme and are poised to grow with it. ‘Expertise’ is, therefore, arguably one of the most important building blocks and WisdomTree has applied this ‘expert-driven’ approach to our thematic range. This expertise is fundamental to both the initial stock selection and subsequent stock weightings. For the former, we focus on proprietary research, classification or ranking, leveraging human judgment and theme-specific knowledge (in contrast to quantitative and fundamental selection) to identify companies with exposure to a theme. We view the latter as an extension of the initial stock selection, meaning the expert was able to take conclusions from the selection process to inform weightings later in the process.

Example: WisdomTree Battery Solutions Index

An ‘expert-driven’ approach may appear to be more concrete when one looks at a real-life example. While WisdomTree has a platform of 7 different thematic funds, each with their own specific expert and methodology, here we make a case study of the WisdomTree Battery Solutions Index. For our Battery Solutions strategy, WisdomTree partnered with Wood MacKenzie on the development of an equity strategy to access the battery technology value chain. Previously, investors had to select specific raw materials, like nickel, through which they would gain exposure to future battery demand. Now, there is an option where investors can see a diversified array of companies existing across the value chain that supports innovations in battery technology. The strategy also allocates to companies pursuing the next widespread technology, even though we may not know much about its commercial potential for years to come. Engaging with expert partners allows us to develop strategies informed by those closest to the theme.

- Expert partner: Wood Mackenzie, covering roughly 300 companies globally across the entire value chain of battery and energy storage. This universe includes companies listed locally in China.
- Detailed classification: Wood Mackenzie groups each stock first into one of four distinct categories—raw materials, manufacturing, emerging technology and enablers. Then, they further classify each company into one of 37 distinct sub sectors.
- Rating of sub-sectors and companies: Wood Mackenzie forms a view on each of the 37 sub sectors, looking at the size of the sub sector (10% importance), the exposure of the sector to energy storage (50% importance) and forward-looking growth of the sub sector (40% importance). Then, each company is measured in terms of its revenue exposure to the specific sub sector. For example, a broad-based mining company would be assessed based on the specific metals that relate to energy storage rather than simply being a mining company.

Both the selection and weighting of companies within the WisdomTree Battery Solutions Index are contingent on Wood Mackenzie's classifications and measurements of these details, with each company thereby being analysed in its own bespoke way. This is done every six months.

The approach must continually evolve

The transformative nature of megatrends or 'themes' that makes them so exciting means that strategies must evolve at a similar rate. Themes are not static, so strategies driven by experts naturally bake-in an attention to changing landscapes of given megatrends. In our example of the WisdomTree Battery Solutions Index, it is clear that Wood Mackenzie would update its views every six months and would therefore see those figures reflected in further iterations of the Index constituents.

Each WisdomTree thematic strategy has its own way of ensuring the appropriate level of expertise and a methodology that seeks to channel that expertise into the best possible execution, in our view, of the specified theme.

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