Increased urbanization, demographics, digitalization, rising living standards and the necessity to adapt to climate change all present investors with opportunities to benefit from new areas of growth, the experts of Natixis' affiliate Thematics Asset Management explain in an interview.

*Frederic Dupraz, where do you draw the line between thematic investing and ESG investing?*

The quick answer to that is that at Thematics Asset Management we don’t necessarily believe that a line needs to be drawn between the worlds of thematic investing and ESG investing. Adopting a sustainable and responsible approach fully subscribes to our thinking.

Increased urbanization, demographics, digitalization, rising living standards and the necessity to adapt to climate change all present investors with opportunities to benefit from new areas of growth. When considering a long term investment horizon it is essential to also consider environmental, social and governance factors that are likely to impact a company’s risk profile, the obvious reason being the longer the time horizon the more likely it is for those risks to materialize over time.

«We have identified specific themes that are growing faster than the broader global economy»

We also believe that ESG integration leads to better-informed investment decisions, helps mitigate portfolio risk and supports long term value creation for asset owners.

*Could you outline some ESG considerations that are currently shaping your thematic investment approach, especially with safety?*

Matthieu Rolin: We have identified specific themes that are growing faster than the broader global economy and that remain consistent over time rather than based on seasonal or cyclical trends. Those themes include water, artificial intelligence and robotics, the subscription economy and safety. Safety, by definition, embodies the need for a safer and better world. The need to protect people on earth is deeply rooted in creating environmental security, social balance and governance that leads to virtuous activity and sustainable wellbeing.
Climate and urbanization change holds many safety implications. With human lives at stake, demand is finally increasing for the technologies and services that can help people to find secure locations when their lives are threatened and to keep basic services operational «when the lights go out».

**What is the impact of the current crisis on the safety strategy?**

Dupraz: Within the current context safety considerations have become all the more obvious, impacting the way we think, interact and live our daily lives. The crisis has reinforced the necessity for greater health controls which will no doubt benefit our «Eat» segment over the long term.

Confinement will also impact our way of working and will accelerate remote working and a rethinking of IT infrastructure more generally. It could also favor e-commerce and m-commerce operators, i.e. our «Shop» segment.

Events such as the Coronacrisis and other forms of natural catastrophes act as a wake-up call for governments and businesses that need to ensure rapid and efficient communications with populations during times of crisis. Firms that provide communication solutions during these types of events such as Everbridge will also likely benefit.

**How can investors benefit from thematic investing?**

We use a thematic lens to look at the world in our quest to generate sustainable risk-adjusted excess returns over the long-term. Safety may seem a broad concept, but a number of specific themes lead to focused investment opportunities that provide resilient long-term growth opportunities.

«We have identified six market segments that embody the investment opportunity»
Increasing urbanization with a global urban population that is expected to grow 44 percent by 2050, can create vulnerabilities that need to be addressed within the context of large concentrated populations. Other themes – apart from climate change – are digitalization with the rapid development of new technologies open huge areas of vulnerability. Likewise increasing regulations in all areas of the economy such as food, the environment, the automotive segment, workers and road safety and so on present investment opportunities.

How do you define the investment opportunity around safety?

Rolin: Safety-related investments also present a richly diversified and resilient opportunity set representing a $600 billion market growing at 11 percent annually. Safety also relates to both the digital world and the real world, which ensures that the investment universe’s reach extends to different parts of the economy.

At Thematics Asset Management we have identified six market segments that embody the investment opportunity: connect (safety chips, cybersecurity, data centers...), shop (digital payments, payment processors), eat (clean processing, testing), move (automotive safety), live (access control, pest control) and work (personal safety, industrial safety) that allow us to benefit from the entire safety and security value chain.

«Emphasizing leadership as a key consideration provides a vision on future leaders»

We look to source opportunities not only through companies that demonstrate an established position within each segment but also businesses that demonstrate significant leadership positions in one or more parts of it. Emphasizing leadership as a key consideration provides a vision on future leaders and enables us to further enrich our investment universe. In aggregate this represents a proprietary investable universe of 250 to 300 companies that are providers or developers of Safety products, services, solutions and technologies.

What is your specific approach to portfolio construction?

Dupraz: Our fundamental and bottom-up stock selection process is benchmark agnostic, as we think a forward-looking portfolio is best suited to identifying profitable, well-capitalized companies in the global Safety value chain that benefit directly from long-term secular trends.
Our portfolio also cuts across traditional classifications, be they geographical, sectoral or market capitalization considerations. As a result, our portfolio has a low overlap and a high active share in relation to global equity indexes, therefore adding diversification to existing global equity exposure.

«Safety is a top priority for individuals, CEOs, heads of financial institutions and government leaders»

Our portfolio construction approach is guided by a disciplined and repeatable process: firstly we qualify our thematic investment universe and quantify associated secular growth opportunities, then the focus turns to idea generation and security selection and last but not least we dedicate our time to position sizing and company engagement. Position sizing is mainly driven by risk-reward and encompasses considerations such as business quality, valuation assessment and ESG and trading risk factors.

How does the individual investor relate to safety as a theme?

Rolin: We find that not only understanding what you invest in but also gaining a sense of purpose through your investment is pivotal. When you invest in Safety, for example, you invest with companies that participate in the contribution towards our collective wellbeing.

Safety is a top priority for individuals, CEOs, heads of financial institutions and government leaders. And it will continue to be driven through urbanization, increasing regulatory oversight, innovation and globalization because risks today don’t respect borders and can appear anywhere in the world in real-time.

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