

Megatrends & Thematic Investing

Investing in the Future, Today

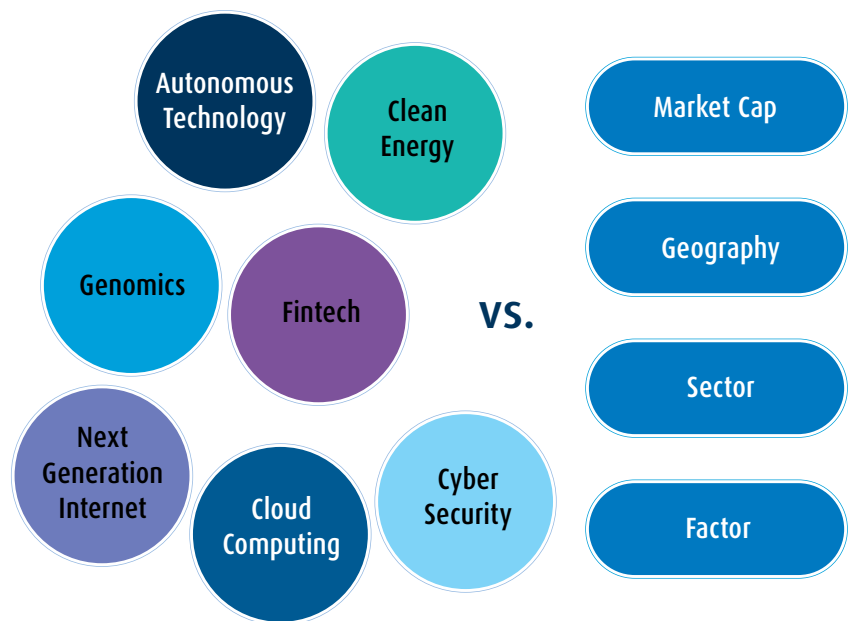
What is Thematic Investing?

Megatrends are powerful global movements that are predicted to drive future stock performance for the companies that are best positioned to take advantage of each emerging theme.

Thematic Investing is a new way of looking at the market, in a much different way than we have done in the past. Thematic investing approaches the market by identifying “Megatrends”: future drivers of market growth driven by the adaptation of new economy technologies which will impact our behaviours, our needs, and how we interact with the world. These are trends so large in scale that they are predicted to impact businesses, companies and industries across the globe in the future (for example electricity and computers are two Megatrends which we’ve seen play out this century).

Megatrends are an innovative and progressive way of looking at the investment universe. Investors generally look at the market in several ways: by region, market cap, sector, and more recently to alpha drivers such as factors or ESG. These traditional “silos” use inputs such as historical data, fundamental stats and financial records, but ignore forward-looking growth factors such as cross-sector innovation themes and the convergence of research and technologies across industries. Therefore, thematic investing is not bound by traditional characteristics. **The thematic investment approach is top down and forward-looking, and its investment process doesn’t necessarily follow traditional indicators or characteristics.** The data considered to capture these Megatrends is a combination of both financial and non-financial data.

Emerging Themes & Megatrends vs. Traditional Market Segments



Thematic Investing Process:

1. Top-down
2. Forward-looking
3. Transcends conventional classifications: Is not bound by traditional sector classifications, region or market cap
4. Research Driven: structural themes, evolution and investment opportunities

What are Examples of Megatrends & How Do I Add Them to My Portfolio?

Megatrends emerge from demographic shifts, technological advances and adaption, and evolving consumer habits and behaviours. Megatrends are the drivers of disruptive innovations that are anticipated to transform the way we live and interact with the world.

Investment professionals are becoming increasingly aware of the power of adding Megatrends to portfolios because of the exponential growth profiles of companies associated with these innovative themes. Therefore, researchers, investment professionals, active managers and index providers are

looking to identify, define and capture megatrend and the companies attached to these investment themes. Although there are many, BMO ETFs has identified several emergent Megatrends which have captured investment interest:



Genomics



Next Generation Internet



Autonomous Technology



Fintech



Clean Energy

Companies with exposure to these Megatrends are the leaders, enablers and beneficiaries of these disruptive innovations, and this innovation is key to growth.

As a megatrend increases in global adoption (think electricity or computers as past Megatrends), companies with exposure to them will see exponential growth as the theme plays out over time.

Where do Megatrends Fit in Portfolio Construction?

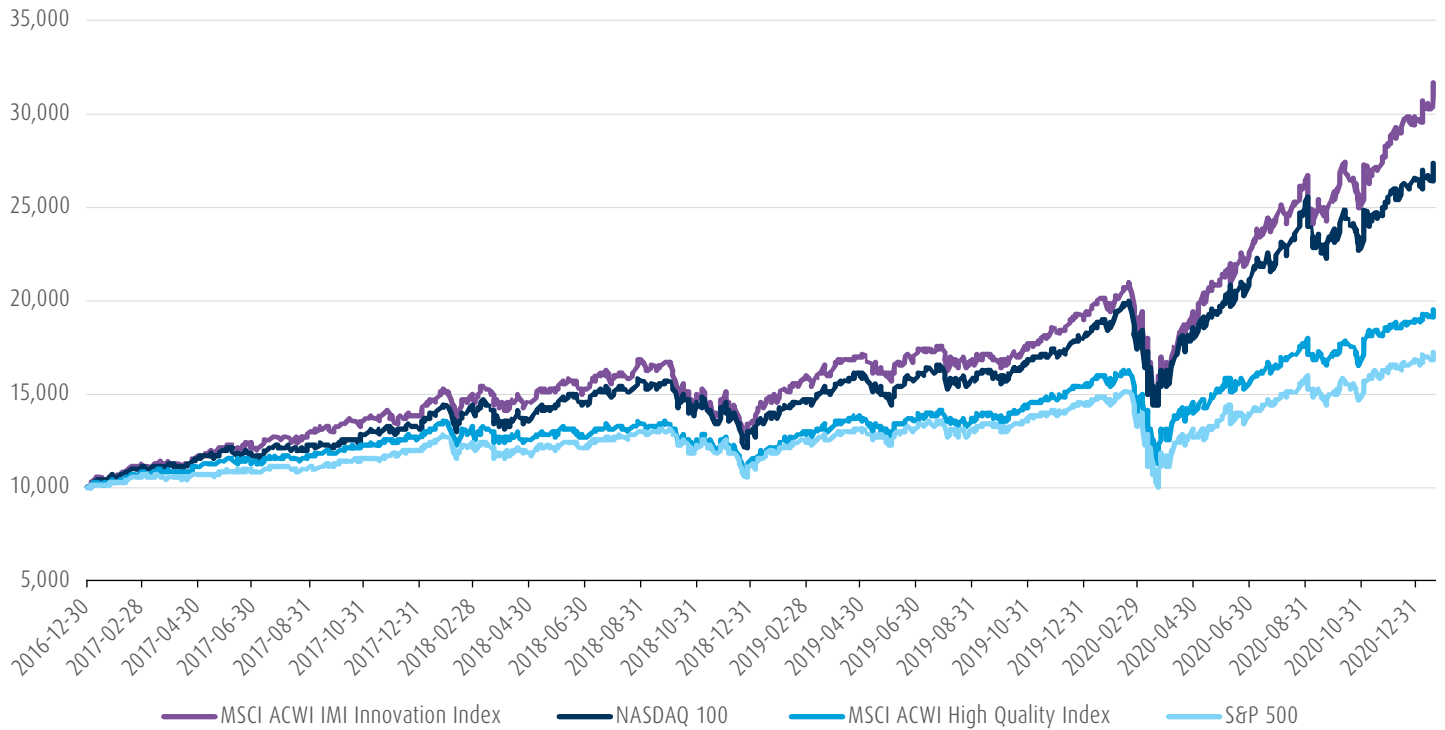
Thematic investing is about taking a long-term view on a megatrend which is believed to drive the future; therefore, this is growth investing. These Megatrends are still in the early stages of their cycle, and so many of the companies with exposure to these Megatrends are nascent as well. We have identified 4 uses for Megatrends in portfolio construction:

- 1. Core Allocations:** As a core holding, these exposures will evolve overtime so will continue to capture growth as the megatrend plays out. Because thematic investing is top down and forward looking, it is capturing emerging trends that will continue to evolve and remain relevant as growth themes for the long term. BMO's Innovation ETFs provide an all-cap, global and diversified exposure to these emergent themes, furthering the case to make them well suited as core portfolio holdings.
- 2. Tactical Allocations:** For investors who have high conviction views on a specific Megatrend at certain points in time may want to emphasize a specific megatrend as a tactical position. For example, adding genomics to play on vaccine development or adding clean energy to play on the anticipated Biden Administration's policy emphasis in this space.
- 3. Sector:** Thematic Investing is not constrained by GICs sector classifications, however each megatrend is biased to certain sectors. Investors can add exposure to a megatrend as a substitute for a sector tilt in a portfolio. Further global adaption in addition to lowering costs to access each trend will all remain long-term tail winds for these themes.
- 4. Growth Sleeve:** For investors who are less focused on being growth oriented but still require a growth sleeve within their portfolio to fund investment goals. Emerging trends are well positioned to capture disruptive equity growth.



Growth Profiles of Emerging Themes:

Megatrends have been the drivers of market growth over the past several years, beating out other traditional growth areas of the market:



Source: Bloomberg, January 2021. Growth of \$10,000 over 4 years. You cannot invest directly in an index. All returns in USD. Past performance does not indicate future results.

	Exposure	Investment Approach	4 Year Annualized Growth*	Growth type	Limitations & Considerations
Exposure to disruptive innovation companies ↑ High ↓ Low	MSCI ACWI IMI Innovation Index	Thematics	31.20%	Growth ++	All cap, global, 100% exposed to Megatrends
	NASDAQ 100	Market Cap, ex financials	28.90%	Growth +	Traditional growth sector oriented (Health Care & Tech) but does not distinctly capture Megatrends; bias to large caps; only US companies included
	MSCI ACWI High Quality Index	Factor	18.90%	Growth	Blue chip, strong balance sheet companies biased to the Information Technology and Health Care sectors
	S&P 500	Market Cap	16.00%	Growth	U.S. companies only, quality bias on earnings which limits emerging companies (ie: Tesla)

Source: Bloomberg, January 20, 2021. Returns in USD.

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Capture a Megatrend



Index providers have helped define each megatrend and make it scalable. ETFs have allowed for these megatrends to be investible and accessible, in addition to other benefits such as easy to access, liquid and cost efficient.

BMO ETF	Ticker	Megatrend	Sub Themes	Risk Rating*	Mgmt Fee	Further Reading
BMO MSCI Innovation Index ETF	ZINN	Innovations	Genomics, Fintech, Next Generation Internet, Autonomous Technology	Medium	0.40%	BMO Innovation ETFs Report
BMO MSCI Fintech Innovation Index ETF	ZFIN	Fintech	Digital and mobile payments, blockchain technologies, peer to peer transactions	Medium	0.40%	MSCI Fintech Insight report
BMO MSCI Genomic Innovation Index ETF	ZGEN	Genomics	DNA sequencing, synthesis, bio computing, bioinformatics, molecular diagnostics, agricultural biotechnology	Medium	0.40%	MSCI Genomics Insight report
BMO MSCI Next Gen Internet Innovation Index ETF	ZINT	Next Generation Internet	Cloud computing, internet of things, mobile and digital payments, e-commerce, social media	Medium	0.40%	MSCI Next Generation Internet Insight report
BMO MSCI Tech & Industrial Innovation Index ETF	ZAUT	Autonomous Technology	Industrial automation & manufacturing, autonomous vehicles, artificial intelligence, machine learning, robotics	Medium	0.40%	MSCI Autonomous Technology and Industrial Innovation Insight report
BMO Clean Energy Index ETF	ZCLN	Clean Energy	Renewable resources, clean energy product, clean energy technologies	High	0.35%	BMO Clean Energy ETF Report



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