

## Global Thematic Investing - Artificial Intelligence



### What is thematic investing?

Thematic investing refers to investing in some ideas or theme. These schemes try to identify specific macro-trends in the economy and invest in sectors which can benefit from these macro-trends. Examples of some popular investment themes in India are consumption, Multi National Companies, Public Sector Units etc.

### How are thematic funds different from market cap and sector funds?

- Market cap funds invest in specific market cap segment(s) i.e. large cap, midcap and small cap. The 100 largest companies by market capitalization are classified as large cap. 101st to 250th companies by market cap are classified as midcap, while 251st and smaller companies by market are classified as small cap. Market cap based funds may invest in one or more market cap segments (subject to SEBI categorisation circular dated October 06, 2017). Market cap funds can invest across industry sectors.
- Sector funds invest in a particular sector like Banking, FMCG, infrastructure, pharma etc. These funds can invest across market cap segments. Sector funds can be cyclical e.g. banking, infrastructure etc or defensive e.g. FMCG, pharma etc.
- Thematic funds are more broad-based (diversified) compared to sector funds. While a sector fund invests in a particular sector, a thematic fund may invest in multiple sectors tied to the theme. For example, a FMCG sector fund will only invest in consumer staples stocks, a consumption based thematic fund may invest in multiple sectors related to consumption e.g. consumer staples, consumer durables, automobiles, cement etc.

### How are thematic funds different from market cap and sector funds?

There is growing interest about thematic investing globally. The last decade has shown the tremendous potential of new age technology. As a result there is rising awareness among investors about themes or trends that can lead to significant disruption and transformation in the future. In developed markets, we are seeing shift towards investing based on macros with specific focus on factors, themes and sectors from the traditional way alpha creation through active stock selection. More thematic funds are being launched in different markets (both developed and emerging) every year. According to Morningstar global database, in the trailing three years to the end of 2021, assets under management (AUM) in thematic funds grew nearly three-fold to \$806 Billion from \$255 Billion worldwide. While a very large portion of thematic AUM is from Europe and the United States, it is also gaining popularity in emerging markets like China and India.

### Popular global themes

Energy transition	Resource management
Digital economy	Robotics and Automation
Life Sciences	Future Mobility
Artificial Intelligence	Cyber Security
Fintech	Next Gen Communications
Battery technology	Cloud computing
Food	Logistics and transportation

You can see that most the popular global themes are from the technology domain. Technology related thematic funds account for 66% of the global thematic AUM (source: Morningstar). A majority of thematic funds launched in the last 3 years were from the tech domain. The Indian equity market is still dominated by old economy stocks e.g. oil and gas, banking, metals, cement, engineering, pharma, IT outsourcing etc. You can get exposure to emerging themes by investing in the global thematic funds. **Artificial Intelligence** supporting multiple tech mega-trends e.g. e-commerce, gaming, healthcare innovation, cyber-security, industrial automation, social media, speech recognition, autonomous cars, navigation etc can be an exciting global theme for Indian investors.

## What is Artificial Intelligence?

Artificial intelligence is the simulation of human intelligence processes by machines, especially computer systems. The traditional concept of a computer is a machine which can store, retrieve and process information or data. We can use computers to do a large variety of tasks from word processing to highly complex calculations. The computer performed all these tasks by executing a set of instructions (also known in IT parlance as computer program) which was coded by the engineer. Artificial intelligence takes the computer to a new stage of evolution, whereby the computer is being made to develop the ability of learning. This is an extremely disruptive development because the ability to learn is what separates us humans from machines. With artificial intelligence, machines will be able to think and learn.

## Disruptive Power of Artificial Intelligence

- Technology has brought huge transformation in changing our society and economy from an agrarian to an industrial society and economy.
- The first industrial revolution was based on the steam engine, second on electrical power, third on electronics and computer science and fourth on digital technology. Artificial Intelligence (AI) is one of the main driving force of the fourth Industrial revolution.
- Many of us may not realize, but we are already benefiting from use of AI in social media, navigation, internet search etc.
- AI has vast number of used cases supporting global mega-trends like e-commerce, internet, gaming, social media to healthcare, automotive technology and industrial automation.
- AI is already creating new products or reshaping existing ones. Products like smart assistant navigation Chatbots used in customer servicing, self driving cars, unmanned drones (both for military and civil applications), malware detections etc, are all being driven by AI.
- AI is expected to benefit a large number of industry sectors from healthcare, auto, retail, BFSI, telecom, IT, retail, energy to manufacturing.

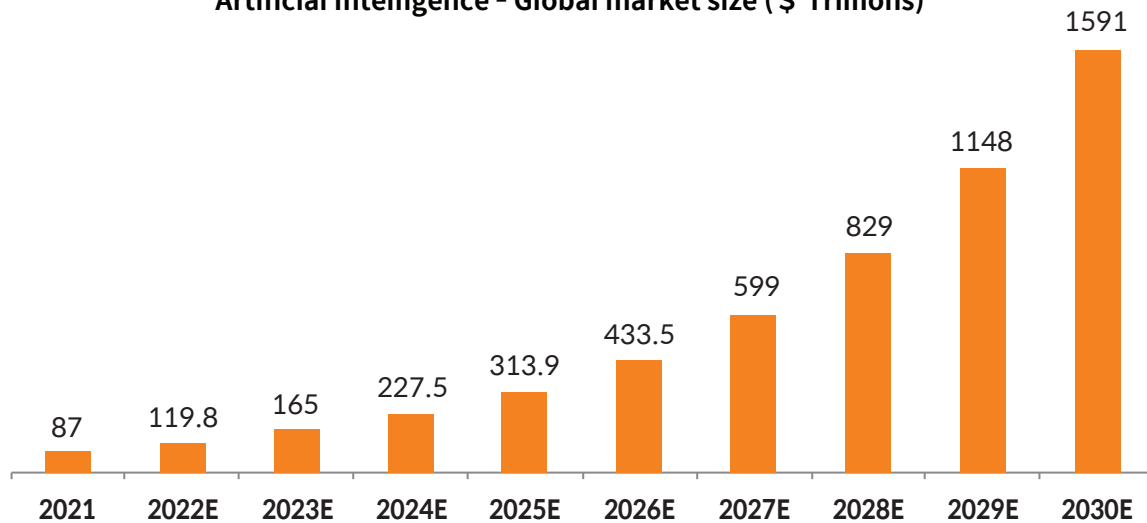
## Growth potential of Artificial Intelligence

- Global Corporate Investment in AI has almost doubled in last two years from \$49 billion in 2019 to \$94 billion in 2021 (source: Statista, 31<sup>st</sup> December 2021)
- AI and internet software is the highest valued theme in the Unicorn (venture capital and private equity) space. Valuation of AI and internet software firms stood at \$985 Billion as on June 2022 (source: CBS insights)
- United States and China are the leaders in AI and Machine Learning (ML). The top 10 companies holding the highest number of AI patents are either US or Chinese companies.
- AI could potentially contribute up to \$15.7 trillion to the global economy in 2030 with \$6.6 trillion due to increase in productivity and \$9.1 trillion due to consumption.

## AI Growth Forecast

Global market size of AI is expected to grow at a CAGR of 33% over next decade. Global market size of Artificial Intelligence is expected to cross \$1.5 Trillion.

## Artificial Intelligence - Global market size ( \$ Trillions)



Source: Statista, data as on June 2022.

### Why invest in Global AI theme?

Indian investors have traditionally favoured thematic and sector funds investing in domestic (Indian companies). However, there is a strong case for Indian investors to consider global thematic investments.

- One can diversify country risks e.g. geopolitical risks, risks arising out of government policies, regulations, weather / climate related risks etc by investing in global funds.
- There is low correlation of returns of different markets. Global investing can reduce volatility and provide stability to your portfolio.
- Global AI thematic funds can provide you exposure to the tremendous global growth potential of Artificial Intelligence. Emerging technologies in the past, ranging from search engine, e-commerce and social media to smartphones and gaming have created huge wealth for global investors during the past two decades.
- You can benefit for INR depreciation by investing in the global thematic funds.

Exchange rate of FBIL are used for conversion of index value from USD to INR. If INR appreciates against the currency in which investments are made then the value of foreign asset declines as a result of which the fund investing in such foreign asset will also bear the impact of it.

### What are risks associated with thematic investments? Who should invest?

Thematic funds have more unsystematic risks compared to diversified equity funds. Their performance can be impacted by short term factors. Investors should remember that global mega-trends are long term in nature. Investors should have long investment horizons and be prepared for short term volatility. Investors should have high to very high risk appetites and long investment horizons (minimum 5 years) for thematic funds.

### How should investor create portfolio using thematic products? What should be the allocation?

Investors should always invest according to their risk appetites and financial goals. Personal finance experts advise investors to have core and satellite model of portfolio allocation. The core portion of your equity portfolio i.e. 75 – 80% of your portfolio should comprise of diversified equity funds. You can have 20 – 25% allocation to thematic and sectoral funds. Between sectoral and thematic funds, we think thematic funds are more suitable for investors who do not have adequate knowledge of different sectors. Timing of entry and exit are important for sector funds depending on investment cycles. On the other hand, thematic funds may be more suitable for long term investors. Investors should consult with their financial advisor or mutual fund distributor if global thematic funds are suitable for their investment needs.

#### Statutory Details:

Trustee: Mirae Asset Trustee Company Private Limited; Investment Manager: Mirae Asset Investment Managers (India) Private Limited (AMC); Sponsor: Mirae Asset Global Investments Company Limited.

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