

# *Generate* Unit Trust Scheme (Managed Funds)

## How thematic investing can outpace the market

DECEMBER 2024

[GenerateWealth.co.nz](https://www.GenerateWealth.co.nz)

A product disclosure statement for the Generate Unit Trust Scheme is available at [GenerateWealth.co.nz](https://www.GenerateWealth.co.nz) or by contacting us on 0800 855 322.  
The issuer is Generate Investment Management Limited.

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**IMPORTANT NOTE:** Some of the historical returns data shown in this document are not from the Generate Thematic Managed Fund. Given the Generate Thematic Managed Fund was only established in July 2023, and has a recommended 10 year minimum investment timeframe, we have included historical returns from funds previously managed by the same individual Portfolio Manager (Nathan Field), which adopted his investment style and approach.

This document is intended as general information only. It does not take into account your financial situation and goals and is not financial advice. For advice about your particular circumstances please see a Generate adviser. Generate has a Responsible Investment Policy.

Past performance is not necessarily an indicator of future performance. Returns are after fees and before taxes.

A copy of the Generate Unit Trust Scheme (Managed Funds) Product Disclosure Statement is available at [www.generatewealth.co.nz](http://www.generatewealth.co.nz)

# Portfolio Manager

## Nathan Field – Portfolio Manager, Generate Thematic Managed Fund

Nathan is the Portfolio Manager of the Generate Thematic Managed Fund. He is responsible for theme identification, portfolio construction, security selection and risk management within the Thematic Managed Fund portfolio.

With more than 25 years' experience in the investment industry, Nathan's career has taken him from New Zealand to Sydney and London. His extensive experience includes roles as a Senior Equity Analyst and Director at ABN Amro, and Asian Markets Adviser for Macquarie Bank. Nathan has a BA (Hons) in economics and a Post-Graduate Diploma in development studies from Massey University.



**Nathan Field**  
Portfolio Manager

## Nathan's Thematic investing track record

Before Nathan joined Generate, he was a Portfolio Manager and Head of Global Thematic investing at Kiwi Invest. For the ten years ended 31 Dec 2022 the portfolio managed by Nathan at Kiwi Invest returned 14.6% p.a. and beat the market index by 3.7%.

### Kiwi Invest Global Thematic Strategy (managed by Nathan) for ten years to 31 Dec 2022<sup>1</sup>.

	10 YEAR
Kiwi Invest Global Thematic Fund	14.6%
MSCI ACWI	10.9%
Gain over benchmark	3.7%

Source: MJW Investment Survey Dec 2022. All returns are in NZD and benchmark returns are unhedged.

Nathan joined Generate as Global Equities Portfolio Manager in early 2023. The Generate Thematic Retail Managed Fund opened on 3 Jul 2023 and has returned 30.5% to 30 Sep 2024. Note that these are exceptional returns over a relatively short period of time. The minimum recommended investment timeframe for the Generate Thematic Managed Fund is 10 years.

### Generate Thematic Wholesale Managed Fund (managed by Nathan) for 18 months to 30 Sep 2024.

	18 MONTHS
Thematic Wholesale	45.7%
MSCI World ex Aus	35.6%

Source: Bloomberg and Generate Investment Management Ltd. The benchmark shown is 50% MSCI World ex Australia Net Total Return 100% hedged to NZD and 50% MSCI World ex Australia Net Total Return in NZD.

Nathan is supported by the broader Generate Investment team, including our Global Equities Research Analysts, who cover different sectors of the market.

<sup>1</sup> Please note this is not a Generate Managed Fund. Nathan Field was the portfolio manager of this strategy whilst he was employed at Kiwi Invest.

**Disclaimer:** Please note that past performance is not necessarily an indicator of future performance.



# What is thematic investing?

The Generate Thematic Managed Fund reflects Nathan's core investment philosophy:

Earnings surprises drive share price performance, and the market often underestimates trends that lead to greater-than-expected earnings growth.

Equity markets are generally efficient at pricing static information, particularly in the large cap sector. However, they may struggle with accurately forecasting future earnings. Therefore, there are opportunities to generate alpha (return over and above benchmark return) by identifying companies in the early stages of an earnings upgrade cycle (Figure 1) or those facing temporary setbacks despite underlying growth (Figure 2). Focusing on structural themes and industry-level trends can help identify companies with potential for positive earnings surprises.

Figure 1

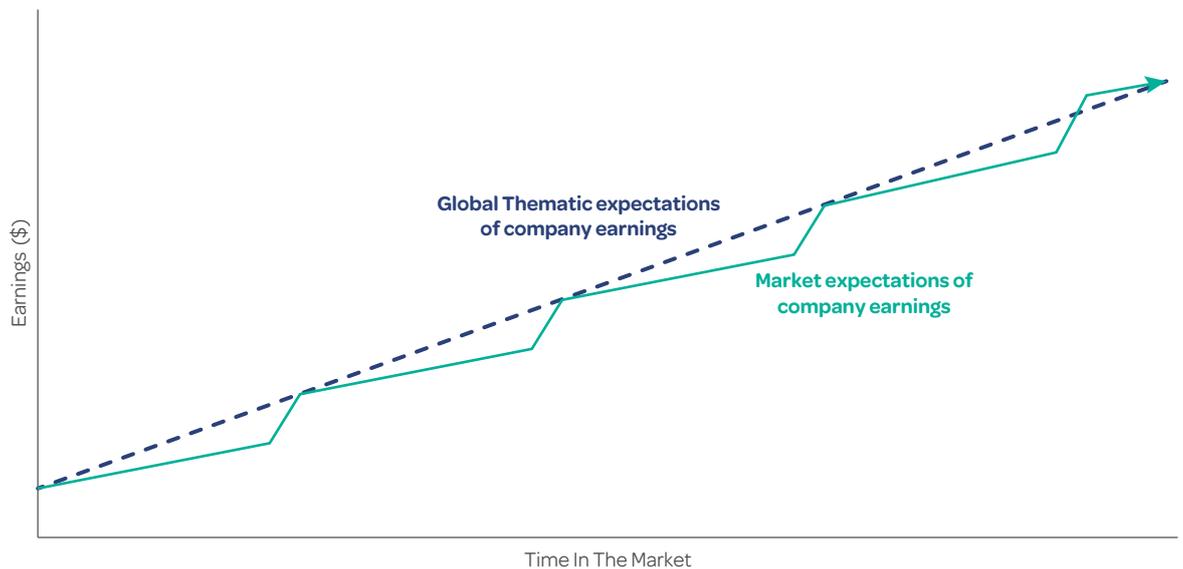
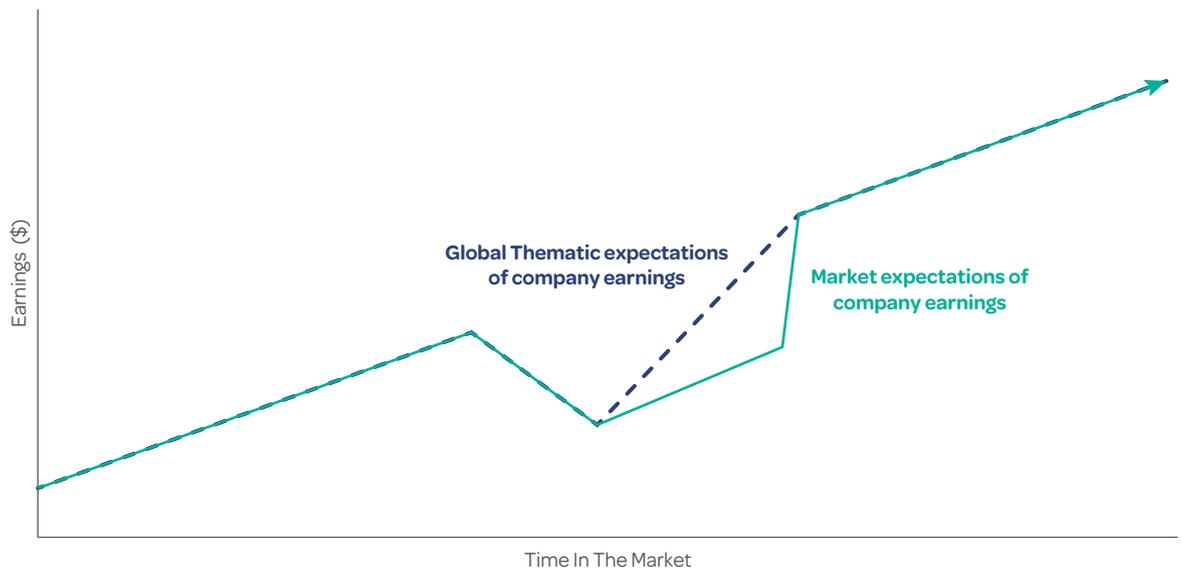


Figure 2



# What benefits does it bring?

The 'Thematic' approach offers several distinct advantages compared to traditional investment strategies.

## Flexibility

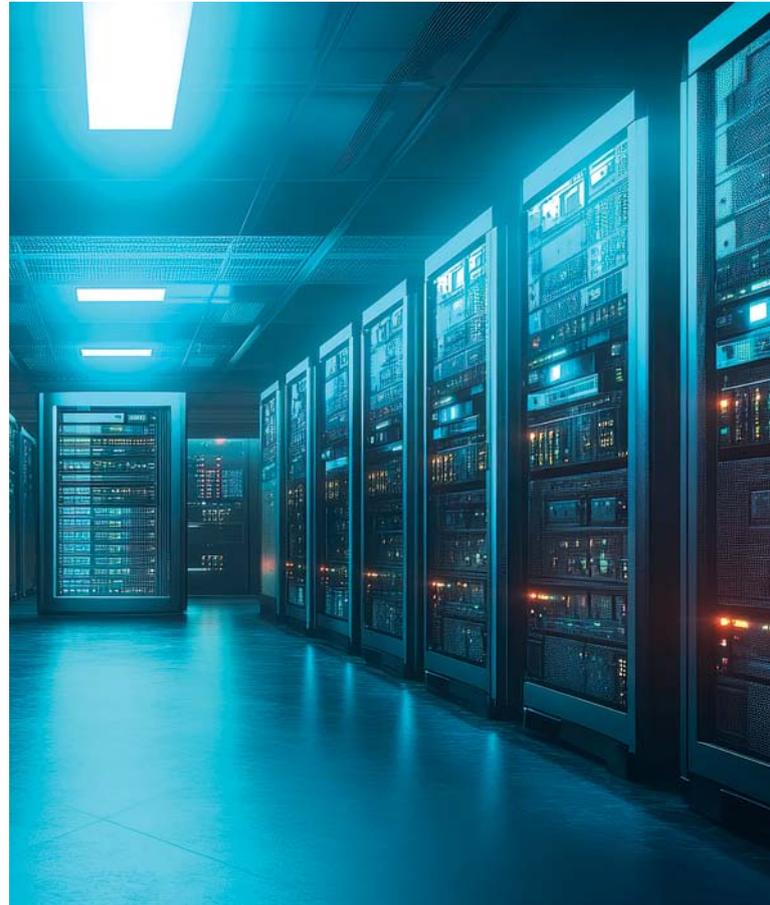
We can adjust the portfolio to reflect market changes. Focusing on large-cap, liquid stocks keeps trading costs low, allowing quick exits from investments that may not be performing as well as expected and swift entry into new opportunities. In a fast-changing world, where trends can spread and evolve rapidly, this flexibility is a key advantage.

## Consistency

Thematic investing is a versatile strategy suitable for various market conditions. By not adhering to a restrictive investment style, we enhance our capability to achieve above-market returns throughout the economic cycle. Adopting a 'theme-based' approach allows the portfolio to be adjusted to reflect changes in the trading outlook. For instance, we may prioritize secular growth and defensive stocks during periods of low economic growth, while favouring cyclical stocks when economic growth accelerates.

## Insight

Investing in a diverse array of themes and industries provides insight into the global economy, allowing for adjustments to the portfolio ahead of significant changes in the cycle. This awareness of the trading environment has positively contributed Nathan's investment performance in both bull and bear markets, as demonstrated in the track record on page 3.



# What are the risks?

Thematic investing is not for everyone. It involves an actively managed portfolio with a very high allocation to growth assets, predominantly made up of large cap international equities. There is a very minor allocation to income assets. Volatility is likely to be high. Given thematic investing focuses on specific sectors or trends, it may not be as well diversified as broader global equity funds increasing concentration risk<sup>1</sup>. If a particular theme underperforms, it can negatively impact the portfolio.

The minimum investment timeframe for the Generate Thematic Managed Fund is 10 years. It is a long-term investment option, better suited to those with a relatively high risk tolerance.

<sup>1</sup> For more information on the risks of investing refer to section 4 of the Generate Unit Trust Product Disclosure Statement available at [www.generatewealth.co.nz](http://www.generatewealth.co.nz)

# The thematic investment process

There are various methodologies that can be adopted for thematic investing, which may include both quantitative and macro-driven approaches. There is no single approach or definition. We have set out below our approach and strategy, and indicated where this may differ from other thematic funds.

A common thematic strategy is to invest in themes that are long-term and widely known, such as 'aging demographics', 'technological disruption' and 'sustainability'. However, often these themes are too vague to be meaningful to our investment selection process, given we are looking to identify companies that we consider are likely to beat earnings expectations over the next twelve months.

Timing is crucial for performance, so our themes target specific trends relevant to the current trading environment. Below are some of our themes. Note that investments may span various geographies and industries within a single theme.

So instead of a general theme like 'green energy', we might focus on a specific trend within the theme such as Electrification. Instead of 'technological disruption', we narrow the field to enterprise software companies with subscription-based revenue models that are best placed to monetise AI features. By concentrating on themes that we consider will provide earnings growth over the next twelve months and beyond, we aim to position ourselves to achieve consistent market outperformance.

## Travel and Leisure Spending

Nike	United States
Royal Caribbean	United States
Visa	United States
Hermes	France
Delta Airlines	United States

## Maturing Cloud Platforms

Meta	United States
Pinterest	United States
Spotify	Sweden
Netflix	United States
Uber	United States

## Electrification

Amphenol	United States
Broadcom	United States
Wesco	United States
WillScott Mobile	United States
Schneider Electric	United States

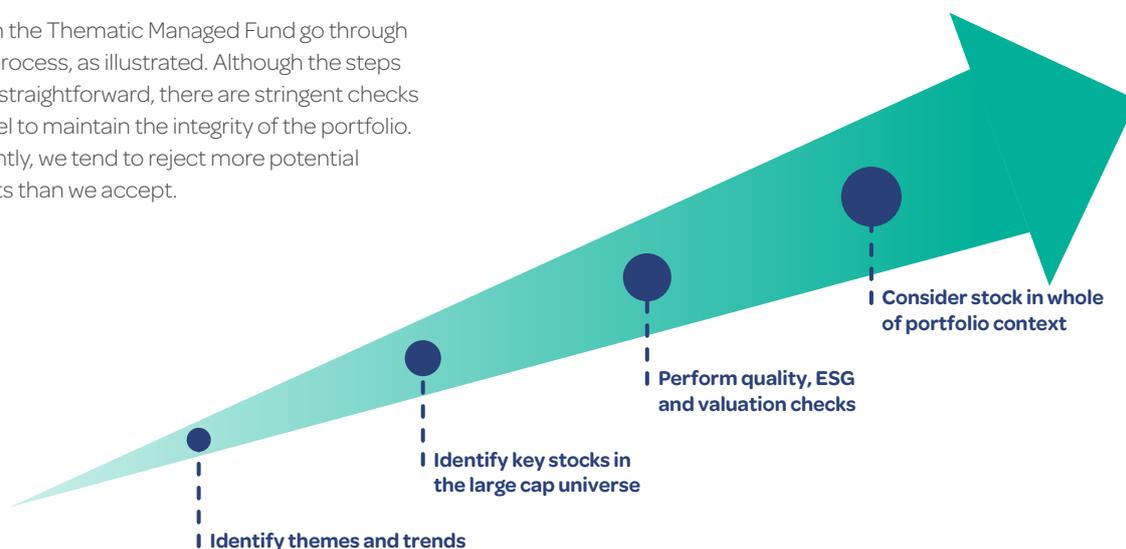
## Subscription-based Software

Microsoft	United States
Workday	United States
Salesforce	United States
ServiceNow	United States
GoDaddy	United States



# From identification to investment

All stocks in the Thematic Managed Fund go through the same process, as illustrated. Although the steps may seem straightforward, there are stringent checks at each level to maintain the integrity of the portfolio. Consequently, we tend to reject more potential investments than we accept.



## Identifying themes

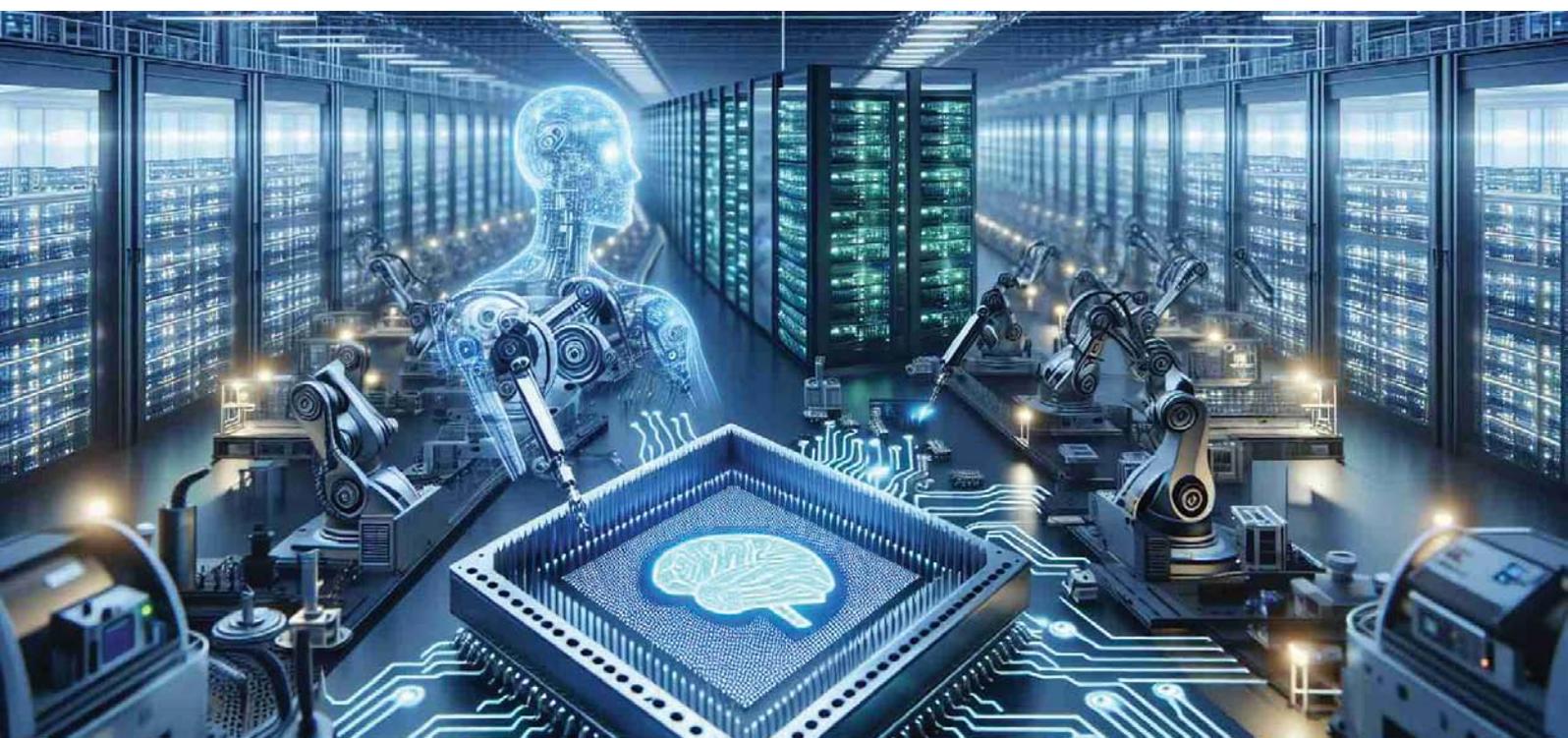
Although similar information is accessible to everyone simultaneously, particularly in the large-cap universe where we operate, we believe that our team's ability to extrapolate and interpret this information provides us with a competitive advantage. Our team continuously monitors trends and patterns that we believe the market may overlook. These insights may emerge during quarterly earnings seasons, through product reviews on technology blogs, or by observing consumer behaviour in shopping malls or supermarkets. We do not restrict the sources of these themes, as long as there is a clear path to monetisation and compliance with our responsible investing criteria.

## Selecting stocks

Once we identify a suitable theme, we select those companies we consider are best positioned to benefit from it. Our team conducts thorough bottom-up research, analyzing each security's financial strength, competitive position, and theme exposure.

Many portfolio stocks align with multiple themes. For instance, Amazon benefits from online retail growth, increased cloud infrastructure demand, and video streaming expansion. Similarly, Broadcom stands to gain from electrical grid expansion and AI-driven data center growth.

Our carefully selected portfolio also considers responsible investing criteria. For more details, refer to Generate's Responsible Investing Policy.



## Managing risk

The Generate Thematic Fund portfolio usually includes 8-12 themes and 50-60 stocks. We manage sector and geographic exposure relative to the benchmark but prioritize diversified themes that minimize economic and event risks. This results in a large-cap, high-quality portfolio designed for financial stability and adaptability to changing market conditions.

Whilst past performance is not necessarily an indicator of future performance, Nathan has established a strong track record of outperforming the benchmark in both up markets and down markets.

### A snapshot of the Generate Thematic Fund portfolio as at 30 Sep 2024.

	STOCK	SECTOR	DOMICILE	WEIGHT %
1	APPLE INC	Communications	USA	5.7
2	NVIDIA CORP	Technology	USA	5.1
3	MICROSOFT CORP	Technology	USA	4.7
4	META PLATFORMS INC-CLASS A	Communications	USA	4.4
5	VERTIV HOLDINGS CO-A	Industrials	USA	2.9
6	AMAZON.COM INC	Consumer Discretionary	USA	2.9
7	HOME DEPOT INC	Consumer Discretionary	USA	2.8
8	BROADCOM INC	Technology	USA	2.4
9	ROYAL CARIBBEAN CRUISES LTD	Consumer Discretionary	USA	2.4
10	PROLOGIS INC	Real Estate	USA	2.3
11	LVMH MOET HENNESSY LOUIS VUITTON	Consumer Discretionary	France	2.2
12	SPOTIFY TECHNOLOGY SA	Communications	Sweden	2.0
13	BOSTON SCIENTIFIC CORP	Health Care	USA	1.9
14	THERMO FISHER SCIENTIFIC INC	Health Care	USA	1.9
15	INTERCONTINENTAL EXCHANGE INC	Financials	USA	1.9
16	SCHNEIDER ELECTRIC SE	Industrials	France	1.8
17	ASML HOLDING NV	Technology	Netherlands	1.8
18	SALESFORCE INC	Technology	USA	1.8
19	TESLA INC	Consumer Discretionary	USA	1.7
20	NETFLIX INC	Communications	USA	1.7



NVIDIA

Meta

Microsoft

amazon

VERTIV

ROYAL CARIBBEAN

BROADCOM



Spotify

ASML

LVMH

Boston Scientific



Schneider Electric

PROLOGIS

ThermoFisher SCIENTIFIC



VISA

NETFLIX

# Conclusion

Focusing on global themes can help identify stocks that may exceed future earnings expectations, which can influence share price performance. Generate's Global Thematic Portfolio Manager has used this approach over the past decade (at his previous employer and now at Generate), comfortably outperforming the MSCI in terms of risk-adjusted returns.

For more information about the Generate Thematic Managed Fund, please visit [www.generatewealth.co.nz](http://www.generatewealth.co.nz), call 0800 855 322 to speak to a Generate Wealth adviser, or ask your current adviser.



***Generate***<sup>™</sup>  
Together.