

DIFFERENTIATING YOUR AI EXPOSURE FROM THE NASDAQ-100

Elvira Kuramshina — Associate Director, Quantitative Research

12 Jul 2023

The Nasdaq-100 has recorded its best H1 since the inception of the index in 1985, propelled by the year-to-date rally in the biggest tech stocks riding the artificial intelligence (AI) wave. For investors looking to benefit from the long-term growth offered by the AI megatrend, this period presents an opportunity to analyse how the AI-focused thematic strategies have fared in such a market and how they could perform going forward.

In [part 1](#) of this two-part blog series, we discussed the case for a targeted AI strategy vs achieving exposure to AI through the Nasdaq-100. The key factors in favour of an AI strategy included a more comprehensive exposure to the breadth of AI activities, a potential inclusion of the mega caps of tomorrow, and diversification benefits. In this blog, we look at the AI space in Europe and discuss the signposts for investors in selecting a sound AI-focused thematic strategy and the importance of such a selection.

The drivers of return dispersion in the AI peer group

One of the simplest and most compelling arguments that not all AI strategies are created equal can be made by looking at the dispersion of returns within the AI peer group. The dispersion of returns across strategies aiming to harness the same theme is something that we continuously observe across a range of 42 themes tracked in our WisdomTree Thematic Universe¹. This confirms that this phenomenon is not just specific to the AI theme.

Based on the 15 AI strategies with available year-to-date history in Europe, in Figure 1, we can see that the year-to-date return experience across the AI strategies has been quite different - ranging from around 13% to up to 43%. The average return across the strategies was around 29.75%, or 9.4% lower than the return of the Nasdaq-100. Given that returns of a range of AI stocks have been boosted by the growing enthusiasm around ChatGPT and generative AI, we would view relative outperformance vs the average return in the AI peer group as one of the factors potentially suggesting a promising AI strategy. However, an important question to answer here is if a given AI strategy has been driven by the performance of the same key stocks driving the performance of the Nasdaq-100, or if it has been propelled by other return drivers. If the latter is true, such a strategy can present a return enhancement play for investors holding the Nasdaq-100 as the broad tech benchmark.

Figure 1. Year-to-date returns in the AI peer group vs the Nasdaq-100



Source: WisdomTree, Bloomberg. As of 21 June 2023. Fund returns are based on the net asset value in USD of select share classes. **WTAI** is the WisdomTree Artificial Intelligence UCITS ETF. **Nasdaq-100** is the NASDAQ-100 Notional Net Total Return Index. **You cannot invest directly in an index.**

Historical performance is not an indication of future performance and any investments may go down in value.

While it is not always feasible to run performance attribution for each fund in the AI peer group, and assess how different its return drivers have been in contrast to the Nasdaq-100, we have observed that this dispersion boils down to strategy design, and how each fund is meant to capture the opportunities offered by the proliferation of AI.

For example, in our [WisdomTree Artificial Intelligence UCITS ETF \(WTAI\)](#), enhancers (that is, the companies that are a prominent force in AI but with a smaller portion of products and revenues associated with the theme) receive only 10% weight during each semi-annual period. This means that tech giants that dominate the top 10 in the Nasdaq-100, jointly can receive only up to 10% weight. At the same time, more pure-play opportunities in the space (known as 'engagers') receive 50% weight at the rebalance, ensuring a certain degree of theme purity.

The importance of a robust selection framework

At WisdomTree, we have previously singled out five building blocks that comprise the selection framework for thematic strategies first proposed in our [thematic white paper](#). In short, we invite investors to first focus on selecting strategies with a clear focus on the theme of interest, assess if the subject matter expertise is part of the strategy design and, if possible, evaluate the purity of the suggested exposure. All these signposts are more qualitative in nature, unlike the next step, which involves testing the shortlisted strategies for the level of differentiation they offer vs broad benchmarks, other themes, and each other.

Let's have a look at [WTAI](#) vs the best performing fund in the AI peer group year-to-date, that is, Fund A, and see if these two funds are differentiated vs the Nasdaq-100. One easy analysis that investors can do to assess the degree of differentiation is to look at the overlap weight vs a broad benchmark and the percentage of common and unique holdings vs the same benchmark. In Figure 2, the analysis suggests that [WTAI](#) has relatively low overlap with the Nasdaq-100 and holds only 29% weight in the holdings common with the broad tech gauge. In contrast, Fund A has a relatively high overlap of around 40% and has invested around 62% weight in the stocks represented in the Nasdaq-100.

Figure 2. A comparison of the [WisdomTree Artificial Intelligence UCITS ETF \(WTAI\)](#) and Fund A vs the Nasdaq-100

	WTAI	Fund A
Overlap with Nasdaq-100	10.84%	40.43%
Weight in the Nasdaq-100 holdings	29.12%	61.88%
Weight in unique holdings	70.88%	38.14%

Source: WisdomTree, Bloomberg. As of 30 June 2023. **Fund A** is the best-performing fund YTD in the AI peer group in Europe. **Overlap with Nasdaq-100** is the sum of overlapping weights of common securities. An overlapping weight is computed as the lower weight of a security that is held both in a given fund and the Nasdaq-100. **Unique holdings** represent holdings not held by the Nasdaq-100. **You cannot invest directly in an index.**

We can extend our comparison further and resort to performance attribution, as both strategies are offered in an exchange-traded fund (ETF) wrapper and have to report their holdings on a daily basis. Figure 3, presenting the top 10 holdings contributing to the year-to-date performance within WTAI and Fund A, exposes an interesting contrast between the two strategies. Within the top 10 contributors of Fund A, investors can find eight stocks in dark blue that have also been the top 10 year-to-date contributors in the Nasdaq-100. The average weight of the top 10 contributors in Fund A has been 45.6%, accounting for around 70% of the strategy's return. Due to its market cap-driven weighting, the majority of holdings in Fund A that have posted year-to-date returns above 50%, and even above 100%, have received weights below 0.20% each. This has limited Fund A's ability to benefit from the AI stocks not included in the Nasdaq-100.

Figure 3. Year-to-date performance attribution of the [WisdomTree Artificial Intelligence UCITS ETF \(WTAI\)](#) and

Fund A

WTAI YTD performance attribution - Top 10 holdings by CTR				Fund A YTD performance attribution - Top 10 holdings by CTR			
	Average weight	Total return	CTR		Average weight	Total return	CTR
C3.ai Inc - Class A	2.74%	225.56%	3.51%	NVIDIA Corp	6.82%	189.54%	8.40%
NVIDIA Corp	2.81%	189.54%	3.51%	Meta Platforms Inc - Class A	6.11%	138.47%	5.50%
Upstart Holdings Inc	2.26%	170.88%	3.50%	Advanced Micro Devices Inc	3.45%	75.87%	2.31%
Renesas Electronics Corp	2.42%	108.52%	2.07%	Amazon.com Inc	4.48%	55.19%	2.30%
BlackBerry Ltd	2.35%	70.50%	1.71%	Broadcom Inc	3.99%	57.11%	2.21%
Palo Alto Networks Inc	2.39%	83.11%	1.69%	Apple Inc	4.58%	49.72%	2.15%
Cerence Inc	2.47%	57.74%	1.34%	Salesforce Inc	4.09%	59.33%	1.95%
Atos SE	1.34%	43.87%	1.22%	Microsoft Corp	4.37%	42.67%	1.83%
ServiceNow Inc	2.57%	44.74%	1.17%	Adobe Inc	3.47%	45.30%	1.54%
SK Hynix Inc	2.15%	47.39%	1.14%	Alphabet Inc - Class A	4.29%	35.67%	1.50%
Top 10 holdings by CTR	23.5%		20.88%	Top 10 holdings by CTR	45.6%		29.70%
WTAI LN	100%		37.47%	Fund A	100%		42.62%

Source: WisdomTree, Bloomberg. Period from 30 December 2022 to 30 June 2023. Fund returns are based on the net asset value in USD of select share classes.

Fund A is the best-performing fund YTD in the AI peer group in Europe. **Blue-shaded cells** represent the top 10 holdings by contribution to year-to-date return within the Nasdaq-100. **Average weight** is the average weight of a holding in a given fund/index during the specified holding period. **Total return** is each stock's total return in USD. **CTR** is each stock's contribution to return in a given fund/index.

Historical performance is not an indication of future performance and any investments may go down in value.

In turn, in [WTAI](#), only Nvidia, also represented in the top 10 in the Nasdaq-100, has been within the top 10 year-to-date contributors. The average weight of the top 10 contributors has comprised only 23.5%, and the top 10 have jointly contributed only 56% to the strategy's year-to-date return. Notably, the best-performing stock in [WTAI](#) was C3.ai and not Nvidia. Fund A had its own stock, Wistron, that has also beaten Nvidia with 204.7% year-to-date return, but the fund had only 0.08% average weight in it. Furthermore, in contrast to Fund A, 4 out of the 5 best-performing stocks in [WTAI](#) had average weights between 2.3% and 2.8%. This highlights that the strategy design behind [WTAI](#) has allowed the fund to not only benefit from strong returns posted by a range of AI stocks year-to-date, but also to differentiate its key return contributors from the broad tech benchmark.

Sources

¹ Please see page 8 of the [WisdomTree European thematic monthly update](#) for an overview of the WisdomTree Thematic Universe and page 4 for the dispersions of returns across the themes.

Related blogs

- + [Why the Nasdaq-100 may not capture the full growth potential of AI...and where to look instead](#)
- + [Mitigate Nvidia risk with a value-chain exposure to AI](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in exchange-traded products ("ETPs") is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

WisdomTree Issuer ICAV

The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund. Investors should read the prospectus of WT Issuer ("WT Prospectus") before investing and should refer to the section of the WT Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the Shares.

WisdomTree Artificial Intelligence UCITS ETF

Nasdaq® and the Nasdaq CTA Artificial intelligence Index are registered trademarks of Nasdaq, Inc. (which with its affiliates is referred to as the "Corporations") and are licensed for use by WisdomTree Management Limited. The WisdomTree Artificial Intelligence UCITS ETF (the "Fund") has not been passed on by the Corporations as to its legality or suitability. Shares in the Fund are not issued, endorsed, sold, or promoted by the Corporations. THE CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE FUND.

Notice to Investors in Switzerland – Qualified Investors

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: <https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports>

Some of the sub-funds referred to in this document may not have not been registered with the Swiss Financial Market Supervisory Authority ("FINMA"). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

For Investors in France

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

For Investors in Monaco

This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.