

How Innovation Is Disrupting Traditional Investment Approaches

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Whereas the financial markets have always tended to focus on the short term, investors need to think beyond that horizon and look further ahead. Responsibility, sustainability and the long-term future are now key considerations, and it has become crucial to put future generations at the heart of investment processes and decisions. By identifying the major secular trends, we can uncover original and innovative investment opportunities.

Four of those long-term trends are climate change, demographic developments, changing consumption patterns and disruptive innovation. As well as being interconnected, these trends encompass numerous other themes, such as the efficient use of resources, the growing middle class in emerging-market countries, changes in transportation and innovation in healthcare. We believe that these trends will capture the key shifts affecting global businesses and society over the next ten years and therefore offer an exciting starting point for identifying long-term investment opportunities.

Along with changes in the climate, demographics and consumption patterns, therefore, disruptive innovation is one of the four secular trends affecting the global economy. Disruptive innovation is not only defined as new disruptive technologies, but also the disruptive business models that are facilitated by innovation, of either the technological or strategic kind.

European airline Easyjet, with its low-cost, point-to-point, no-frills strategy, is a classic example of the disruptive impact that strategic innovation can have on an industry. Nowadays, technologies such as artificial intelligence are allowing companies to disrupt entire industries. The businesses impacted by the AI theme are not limited to those building these systems, but also include the users of AI: not just tech companies but a diverse range of businesses across a number of sectors.

Although broad, the array of industries being affected by these disruptive innovations – and the investment funds that are aiming to take advantage of the trend – can be classified into several groups. The largest of those groups are Industry 4.0 (often related to robotics and AI), digitalization, cybersecurity and healthcare innovation. Of the four secular trends, disruptive innovation stands out because of its impact on the other three: it can help address climate change by facilitating developments in clean energy, demographic change by improving healthcare for ageing populations, and changing consumption patterns through the digital transformation of the retail sector.

Increased interest in disruptive innovation has led to a relatively large number of investment products being launched over the past few years. Those products vary in terms of their focus: some target specific disruptive technologies, for example investing only in pure-play robotics companies, whereas some have a much broader innovation focus.

In 2019, more than half of the world's population has internet access. More and more services are moving online, creating new opportunities for new disruptive businesses. The digitalization theme covers the fintech, e-commerce, cloud computing and big data sectors, to name but a few. These are sectors that have already displayed tremendous growth and that will continue to eat into more traditional industries. Digital payment companies have already grown faster than the broad market over the past two years and are still trading at reasonable valuations. Further growth is expected as catalysts such as mobile peer-to-peer payments continue to accelerate, while business-to-business payments are now ripe for digital disruption.

Innovation requires investors to take courageous decisions, such as re-shaping existing investment solutions and offering novel ones that address the innovation theme. Looking at how the asset management industry has evolved from passive to sector funds and now thematic funds, it appears that there is now space for comprehensive solutions: ones that meet demand for approaches spanning multiple themes and a diverse range of investments, designed to take full advantage of the long-term trends reshaping the world's economies. Such approaches are especially necessary at a time when the traditional industry classification framework is becoming less relevant, and when disruptive innovation is blurring the lines between countries, sectors and industries.

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