



THE DRIVE YOU DEMAND

SECULAR TRENDS

Changes in demographics: a broad and long-term opportunity set

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UNION BANCAIRE PRIVÉE

Key points

- ◆ *Secular trends encompass thematic opportunities with the potential to have a material effect on the world and financial landscapes with long-term and lasting effects.*
- ◆ *Demographics, together with climate change, consumption patterns and disruptive innovation, are UBP's four secular trends.*
- ◆ *Despite being long-term, slow-moving and quite predictable, changes in demographics are expected to reshape the economic landscape.*
- ◆ *At UBP, we have identified four major underlying themes associated with the demographics trend:*
 - *growing population;*
 - *ageing population;*
 - *expanding middle class;*
 - *urbanisation.*
- ◆ *We believe that investing in the underlying themes with highly skilled, active managers is the best way gain exposure to this trend and capture growth opportunities.*

Why thematic investing?

Traditional approaches to investing are constantly challenged by leading companies which are by nature innovative and, for most of them, multisectoral. Disruptors can be found in any sector or industry, making the traditional industry classification framework less and less relevant. Disruption is blurring the lines between countries, sectors, and industries. Therefore, looking at the world through a thematic lens allows investment professionals to access the whole spectrum of opportunities.

Along with climate change, evolution in consumer spending patterns and disruptive innovation, demographics is one of four trends impacting the global economy and transforming old habits. At UBP, we believe these trends will capture the key shifts affecting global businesses and society over the coming decades, and therefore offer an exciting starting point to identify long-term investment opportunities. However, these four long-term trends are affecting not just the planet, but also the financial markets and those that participate in them. That said, they are often too large and move too quickly for investors to grasp. As traditional classifications become obsolete, many portfolio managers are breaking free from the shackles of traditional, sector-driven and passive investments, and instead adopting theme-based solutions. But how can a themed approach deliver superior investment returns by viewing the future in the light of the secular demographic trends?

Demographic challenges of the 21st century

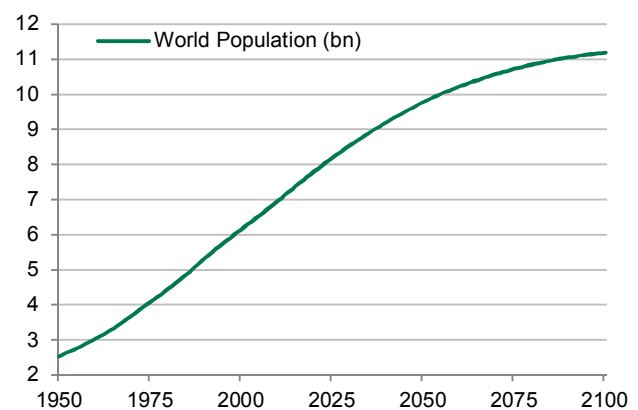
A trend has many consequences. It is therefore vital to select an angle of attack and back it up with suitably skilled people in order to identify the companies that will shape the future. It

is necessary to drill down into a trend to ascertain specific themes. As regards demographic change, there are investment strategies addressing themes related to population growth and its social and structural consequences, rising life expectancy, the economic impact of the expanding middle class, and urbanisation, as cities attract more people, especially in emerging-market countries. It is impossible to develop a single investment strategy based on a trend such as demographic change, but themed strategies have been successfully launched, breathing new life into active asset management.

Growing population

The population explosion has its roots in scientific progress and the way it has been applied through technology. Without that progress, the world's population would not have tripled in the twentieth century. Advances in the pharmaceutical industry have helped to reduce infant mortality and curb certain epidemics, and have simply helped people live longer and more healthily. Farmers have also been keen to adopt technological advances, which have increased crop yields. However, it is not enough to just produce more food: there is also the desire to produce it in a more responsible way, giving people more consistent access to nutrition and gradually improving the food they eat. All of these factors are leading to population growth, as well as offering investment opportunities to those that can identify them early enough.

World population (median prospects)

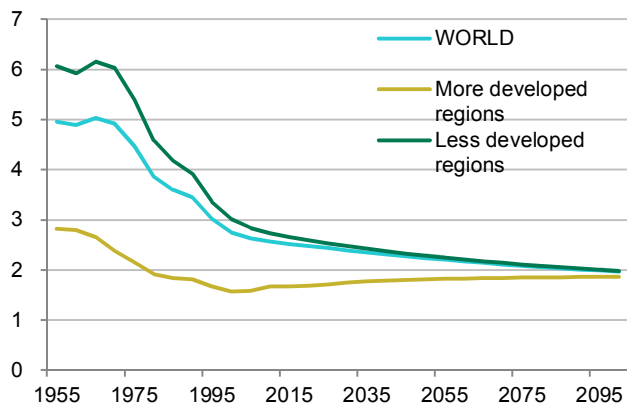


Source: United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, DVD Edition.

This increase in the world's population comes with difficulties. The resulting ethical and technological challenges must be met in order to overcome the limited supply of water and arable land, as well as to combat the pollution that is affecting all aspects of our ecosystem. These problems also affect large cities which, in order to survive, must become "smart", i.e. reinvent the way they are organised through new technology. To meet these challenges, we need ambitious, courageous governments, new legislation, and, above all, companies that can embody and shape the future through their ability to innovate and adapt quickly.

Nevertheless, we believe that the growing population theme can be a driver of the long-term performance of companies that are able to adapt and innovate.

Total fertility: live births per woman (median prospects)



Source: United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, DVD Edition.

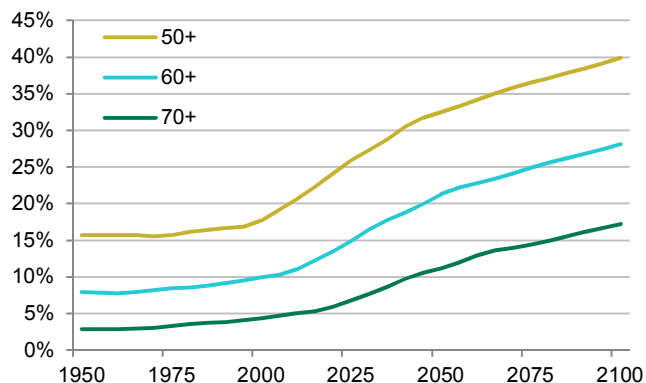
Last, it is worth mentioning that fertility rates in more and less developed regions are converging and declining overall, which brings us to our second theme.

From the investor's point of view, this is an important reason to consider demographic change and the themes associated with it. The world has more generations of people coexisting over longer periods of time. Although millennials and baby boomers do not share the same consumption patterns, their interests are inextricably intertwined. All the more reason to look at the full demographic spectrum in order to identify not only intergenerational transfers of wealth, but also the entrepreneurs taking part in this unprecedented shift.

Ageing population

Major discoveries in the twentieth century led to a dramatic increase in life expectancy around the world. While the ageing population is a well-known fact in more developed economies, the process is already well under way in most emerging countries, making it a truly global phenomenon affecting every region.

% of world population by age group (median prospects)



Source: United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, DVD Edition.

The ageing population theme will clearly be a tailwind to revenues for a number of healthcare companies. With the burden of healthcare costs remaining a challenge for society, we believe that companies that are able to embrace this issue and offer innovative solutions to help keep overall healthcare costs manageable are very likely to become the leaders of tomorrow.

Another area of focus is financials and, more precisely, pensions, life insurance and lifecycle financial planning, to name but a few. Greater life expectancy implies that better preparing for retirement has become a necessity and leading companies will undoubtedly be able to capitalise on this theme.

Last but not least, having benefited from decades of economic boom, older people in developed countries tend to have a high purchasing power for discretionary items, stay healthy enough to enjoy their golden years and are not very sensitive to the economic cycle. As a result, targeting older demographics has become crucial for many consumer discretionary companies.



Manager focus: financials/fintech

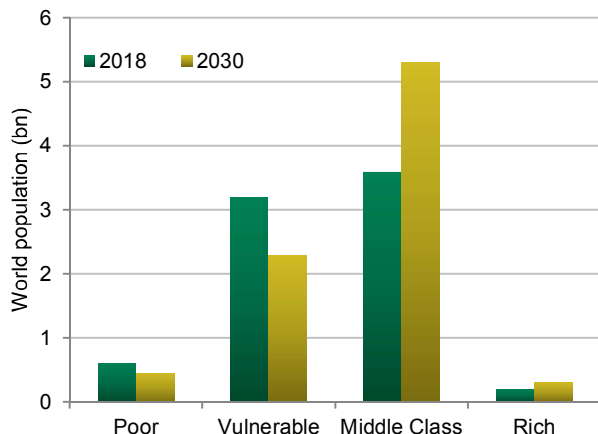
Rather than focusing on a specific sector, we favour portfolio managers who consider the entire opportunity set and adjust exposure between traditional (cyclical) and more innovative segments relative to market conditions and valuations. This approach requires a broad skill set and very few managers are able to add value across the entire financial industry. The strategy we have selected is managed by three seasoned investment professionals with complementary backgrounds (financials and fintech) and has a unique blend of top-down and bottom-up expertise. In order to insure diversity, the portfolio is managed through three buckets: emerging finance, digital finance and ageing finance.



Emerging middle class

According to the Brookings Institution, for the first time since agriculture-based civilisation began, the majority of humankind is no longer poor or vulnerable to falling into poverty. The middle-class is currently growing at a very fast pace in emerging countries and even faster in Asia, opening up numerous opportunities mainly associated with consumer spending.

Middle-class dominance in 2030



Source: Brookings Institution, projections by World Data Lab, 2018.

Urbanisation

The movement of people towards cities has accelerated in recent years and is expected to remain quite a strong trend, particularly in less-developed regions. Another notable development is the rise of megacities. While only New York and Tokyo had more than 10 million inhabitants in 1960, the number of megacities is expected to reach 43 in 2030, most of them in developing regions, according to the United Nations.

The rise of urbanisation and megacities poses numerous new challenges and opportunities related, among other things, to infrastructure development and renewal, resource efficiency, environmental protection, and waste and water management.

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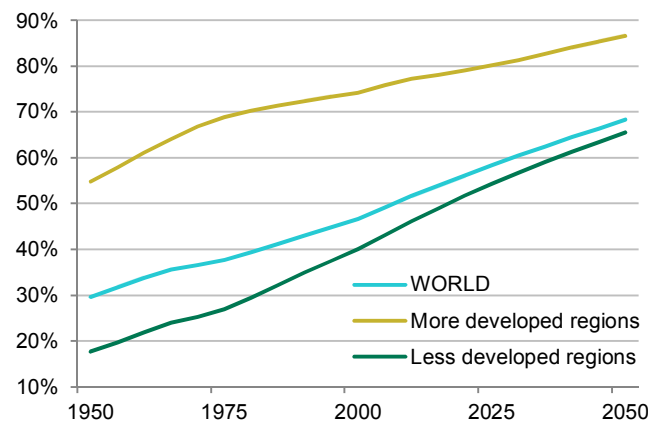


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% of population living in urban areas (median prospects)



Source: United Nations Population Fund (UNFPA), United Nations, Department of Economic and Social Affairs, Population Division (2018). World Urbanization Prospects: The 2018 Revision, Online Edition.

How to take advantage of these opportunities

We believe that investing in themes with highly skilled active managers is the best way gain exposure to trends and capture growth opportunities, as most of those themes require highly specialised knowledge. Therefore, alpha generation can be achieved through theme selection, manager selection and a blending of managers.

No single organisation has the resources and expertise to outperform consistently in every market and across all trends and thematics. Furthermore, we believe that active managers need a large enough universe to be able to generate outperformance relative to passive strategies. One of UBP's key skills is its third-party fund selection – it has worked with an open architecture for over twenty years.

In addition to theme and manager selection, blending is also crucial to generating consistent alpha. One of the key considerations when investing in multiple funds is to avoid stacking up similar risks and instead selecting funds that are complementary. As illustrated above, the themes we have selected within the demographics trend have a wealth of performance and risk drivers, combined with varying degrees of cyclicity.

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