

Investing in the world's megatrends



We believe that exciting investment opportunities can be found in the global megatrends driving change across the world. These long-term trends don't always fit into conventional financial market classifications; they can cut across traditional industry sectors and traverse geographic borders.

Our investment strategies seek out positions across a number of global themes, aiming to capture attractive financial returns over the long run. In this article we explore three of these themes.

1. Harnessing healthcare innovation

What's the theme?

The demographic profile of our society is changing. Populations are ageing, and living for much longer. In 1950, around 10% of the UK population was aged over 65; today, that figure is close to 20%. Accompanying these statistics is the unwelcome reality that older populations cost much more to look after.

Against this backdrop, healthcare spending is picking up, driving technological advances and new medical solutions, which in turn drives further healthcare spending. From a financial markets perspective, we have observed a link between the relative performance of companies operating in and around

the healthcare sector, and the amount of spending channelled towards this area. This also creates fertile ground for mergers and acquisitions among businesses, particularly in the biotechnology space, where many large pharmaceutical companies need to replenish their drug pipelines in order to deliver ongoing innovation.

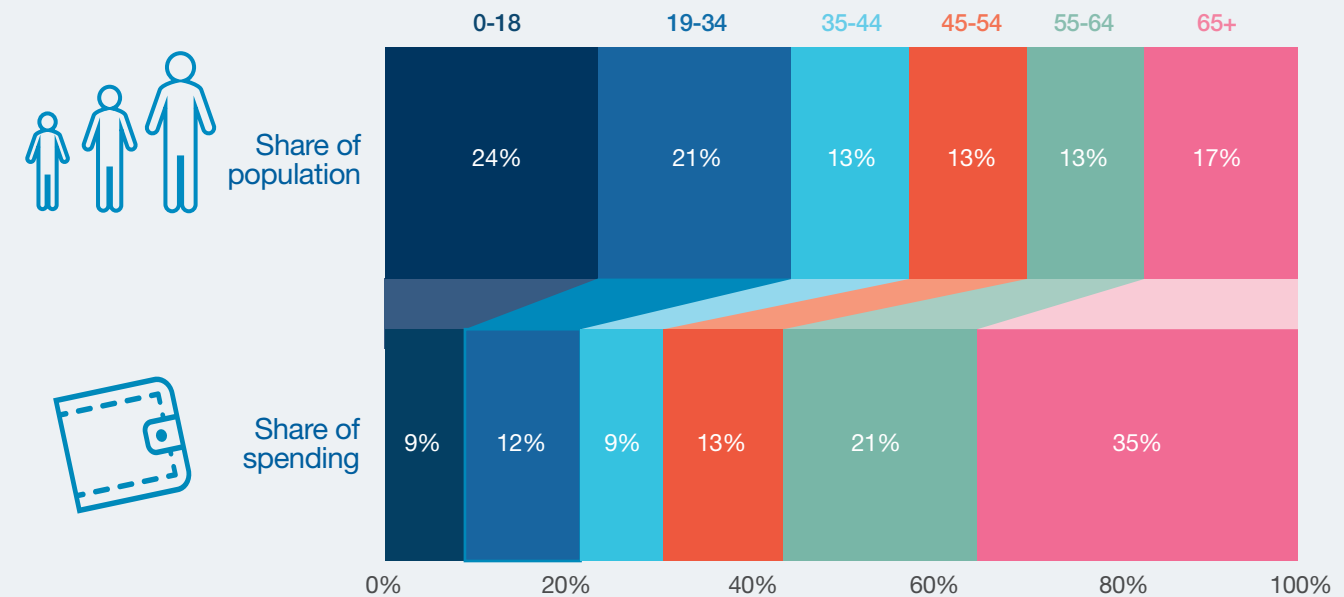
Taken altogether, this positive dynamic presents a virtuous cycle of significant long-term growth opportunities for investors. The healthcare sector also offers investors defensive qualities, as it has low sensitivity to wider economic events.

How do we integrate this into our strategies?

The complicated nature of the healthcare universe is well-suited to a specialist investment approach, and we invest in a number of funds whose managers have deep knowledge of the sector. Our chosen funds select investments based on a range of factors, from company size to 'best in class' healthcare and technology innovations. We also invest in broader financial market trackers centred on healthcare businesses pushing the boundaries in medical treatment and technology, allowing us to gain cost-effective exposure to some of the most exciting sub-sectors in the space.

Healthcare spending per person dramatically increases as people age

Share of total health spending by age group (years), 2019



Source: Peterson-KFF Health System Tracker

2. Backing a technological revolution

What's the theme?

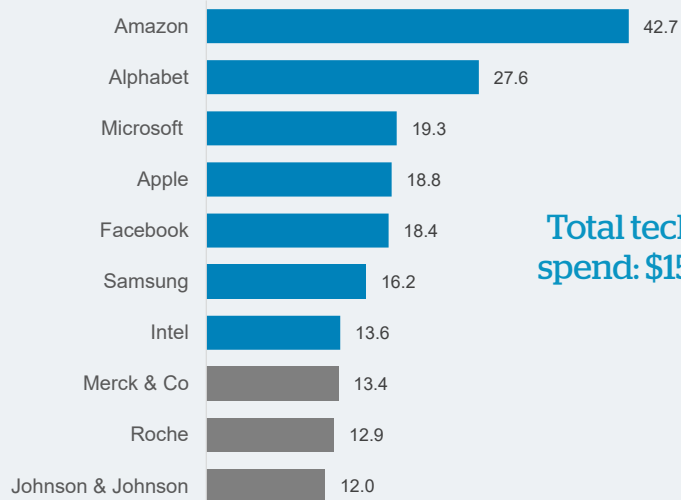
Innovation in the technology space represents a powerful global megatrend, and one which has only been accelerated by the COVID-19 pandemic. Key underlying drivers include the increased use of cloud technology by businesses, the adoption of digital payment systems by consumers, and the pursuit of autonomous vehicles.

All of this innovation is being driven by huge spending on research and development (R&D). In 2020, of the ten companies which spent the most on R&D, seven were technology-driven firms, with a total combined spend of over \$150bn. This level of spending on developing ground-breaking new technologies, products and services puts these firms at a significant competitive advantage. It helps to drive their overall profit growth well in excess of economic growth, an attractive proposition for investors.

Many large tech companies are also sitting on piles of cash. Tech giant Apple, for example, has around \$50bn in its coffers. The cash-rich nature of many tech firms should help them to maintain healthy R&D spending, even when companies in many other sectors may be forced to cut back, for example in an economic downturn.

The technology sector leads the way in self-investment

Top ten global spenders on R&D (US\$bn) in 2020



Source: Bloomberg

Total technology spend: \$157 billion

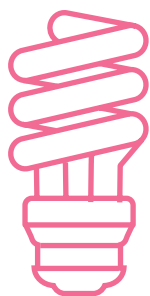
How do we integrate this into our strategies?

We implement our conviction in the technological revolution megatrend through a range of vehicles across our investment strategies. We invest in funds with broad exposure to the tech sector, which can be well-suited to the rapid pace of technological change and capturing new entrants to the leader board. Some of our investments take a more specialist approach, seeking to benefit from sub-trends like the long-term shift to digital in the global financial infrastructure. Tapping in to our conviction in emerging market investment opportunities, we also invest in a fund which aims to access the growing incomes, domestic consumption and demographics (so-called 'Gen Z') within developing economies.

3. Fuelling a sustainable future

What's the theme?

Environmental, social and governance issues are an increasing area of focus for world governments, companies and consumers. As part of this, the energy transition is set to be another key megatrend over the next decades, and one which aligns very clearly with the UN's Sustainable Development Goals around affordable and clean energy and climate action.



Energy accounts for around **60%** of total global greenhouse gas emissions

Energy accounts for around 60% of total global greenhouse gas emissions (making it the main contributor to climate change), so it is little surprise to see that gains in renewable energy are central to achieving the UN's climate goals. In recent years, rapid growth in hydropower, wind, and solar energy has taken place, and access to electricity in some of the world's poorest countries has been picking up pace. But there is still much work to be done.

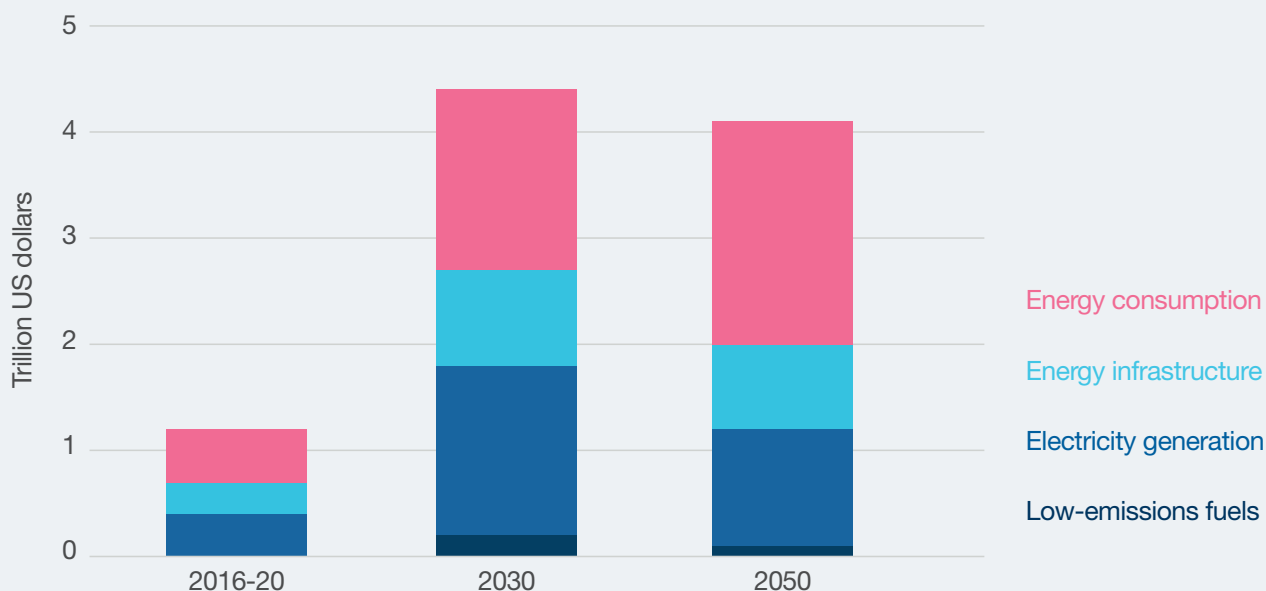
We talk more about the UN's latest climate-focused event (COP-26) in our next article. It's clear that large amounts of private capital will be required to support public policy and climate goals for a long way into the future, and this will create huge investment opportunities.

How do we integrate this into our strategies?

Our strategies have positions in a variety of clean-energy-focused funds. This includes exposure to companies involved in the generation, storage, efficiency and consumption of sustainable energy sources (such as solar, wind, hydro, geothermal, biofuels and biomass). We expect the dramatic social and regulatory shift towards a sustainable energy system over the coming years will be hugely beneficial for the companies associated with this space.

Clean energy investment is set to surge in the coming decades

Predictions for clean energy investment in the net zero pathway



Source: International Energy Agency

“It's clear that large amounts of private capital will be required to support public policy and climate goals for a long way into the future, and this will create huge investment opportunities.”

Nikki Howes, Investment Manager

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