



**GLOBAL  
EQUITIES TEAM /**  
GLOBAL THEMES 2020






An aerial night view of a dense urban landscape, likely Hong Kong, featuring numerous high-rise buildings with illuminated windows and balconies. The scene is dominated by a cool blue color palette, with warm yellow and white lights from the buildings providing contrast. The text 'TABLE OF CONTENTS' is overlaid in the upper left quadrant in a bold, white, sans-serif font. A thin red diagonal line is positioned to the right of the text.

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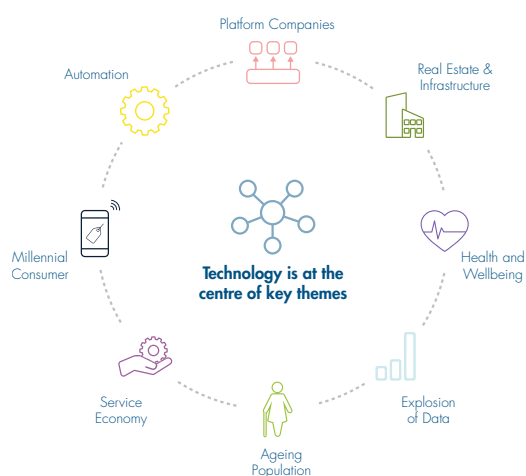
# GLOBAL THEMES 2020

## POWERFUL GLOBAL DRIVERS

We currently have exposure to eight themes. Our definition of a theme is on areas where we see strong structural growth opportunities, leading to bottlenecks, where demand is growing faster than supply – and where this growth exceeds global GDP.

We then invest in solution providers where the market often puts a fade rate on the growth rates of these companies, which is often too aggressive. We believe these companies exhibit strong sustainable growth drivers that benefit from the tailwind of themes, which are often underestimated by the market.

We remain in a low growth world and, as such, areas of structural growth deserve to trade at a premium.



As part of our approach for identifying themes, we look at the correlations between each theme. To ensure diversification, we want to ensure that our themes avoid correlation to one factor.

## MULTI-THEMATIC APPROACH

We invest across multiple themes to provide diversification at a portfolio level, and to ensure that we have exposure to multiple growth levers. We believe the most prominent risk comes from multiple themes having a high correlation to one factor, which is what we are seeking to avoid.

## LEADERSHIP IS STILL A KEY FACTOR

We believe leadership determines whether or not a company will capitalise on its thematic opportunity. We focus on two questions. First, does the company have technological leadership in its space? Second, is the company management able to deliver; are they able to capture the opportunity in front of them? Being exposed to a theme is necessary but not sufficient: we want to invest in great companies which also have exposures to themes.

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## OUR MULTIYEAR APPROACH

We've been managing global equity portfolios along thematic lines for over six years at Mirabaud Asset Management. Our themes are usually multiyear because we are investing in areas of long-term structural changes. We added Service Economy as a theme in 2019, but since then we have not made any further changes.

## ESG

We have been ESG investors since moving to Mirabaud in 2013. We started with exclusion (e.g. no defence companies) and with negative screening (no names with low ESG scores). We continue to evolve our approach, and are now working with our in-house ESG team to strengthen our ESG engagement with the companies that we invest in.



### How our themes have evolved since 2015

#	2015	2016	2017	2018	2019	2020
1	Ageing Population	Ageing Population	Ageing Population	Ageing Population	Ageing Population	Ageing Population
2	Media Content	Gas & Transitional Fuel	Gas & Transitional Fuel	Automation	Automation	Automation
3	Emerging Technology	Explosion of Data	Explosion of Data	Explosion of Data	Explosion of Data	Explosion of Data
4		Payment Tech and E-Commerce	Platform Companies	Platform Companies	Platform Companies	Platform Companies
5	Health & Wellbeing	Health & Wellbeing	Health & Wellbeing	Health & Wellbeing	Health & Wellbeing	Health & Wellbeing
6	Real Estate & Infrastructure	Real Estate & Infrastructure	Real Estate & Infrastructure	Real Estate & Infrastructure	Real Estate & Infrastructure	Real Estate & Infrastructure
7	Non Banking Financials	Non Banking Financials	Reflation	Reflation		
8		Consumer Brands	Consumer Brands	Millennial Consumer	Millennial Consumer	Millennial Consumer
9		Stabilising Oil	Stabilising Oil	Stabilising Oil	Service Economy	Service Economy
10		Cars of the Future	End of Globalisation	End of Globalisation		

■ More cyclical in nature ■ New theme introduced

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# THE SERVICE ECONOMY



# SERVICE ECONOMY – KEY TAKEAWAYS

## SERVICE ECONOMY

The relationship between services growth and overall economic growth has become stronger in the past two decades as services' average contribution to GDP has increased. Conversely, manufacturing's impact has been significantly reduced.

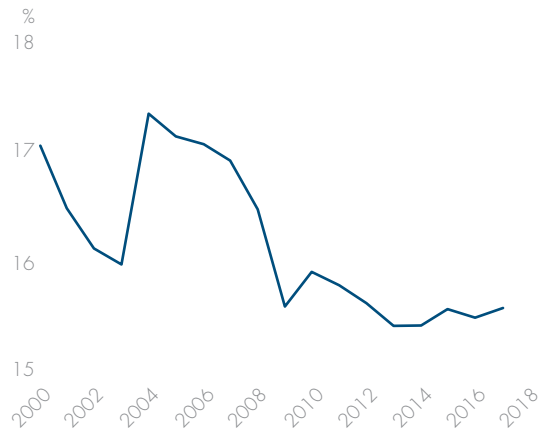
## HOW WE ACCESS THE SERVICE ECONOMY THEME

We have exposure to names like **Automatic Data Processing**, the global leader in outsourced payroll and HCM solutions. ADP is especially dominant in US payroll, where they process the payrolls of 1 in every 6 private sector employees.

**TechnoPro Holdings**, a Japanese human resources services company, has a 14.6% market share in high-value engineering staffing. It is one of Japan's largest technology-focused professional services and technology consulting companies, with over 19,200 engineers and researchers.

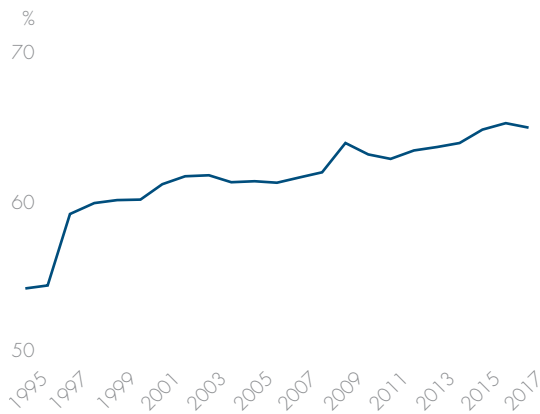
The Services sector continues to grow faster than Manufacturing:

### Global Manufacturing, value added (% of GDP)



Source: <https://data.worldbank.org/indicator/NV.IND.MANF.ZS?end=2018&start=2000&view=chart>

### Global Services, value added (% of GDP)



Source: <https://data.worldbank.org/indicator/NV.IND.MANF.ZS?end=2018&start=2000&view=chart>

As a result, the relationship between Services growth and overall economic growth has become stronger in the past two decades as services' average contribution to GDP has increased. Conversely, manufacturing's impact has been significantly reduced: 2015 was the first time in history when US manufacturing contracted but the economy as a whole did not go into recession:

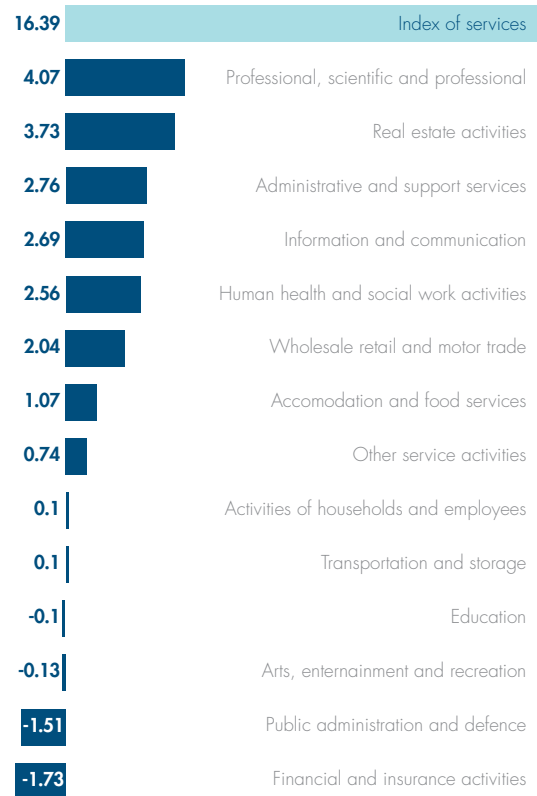
<sup>1</sup>Source: [www.wto.org](http://www.wto.org)

The US is relatively far along this transition, with 11% GDP from manufacturing, but this number continues to decline. As highlighted last year, some major Emerging markets are now at a tipping point, where services are now as big as manufacturing:<sup>1</sup>

- China's service industry now surpasses 50% of GDP – up from 41% in 2005.<sup>1</sup>
- In India, services now make up almost 50% of GDP, up from just 30 per cent in 1970.<sup>1</sup>

Drilling into this growth in services, we see the following trends:

### The Index of Services grew by 16.4% with six sections making substantial contributions



Source: Office of National Statistics – Index of Services  
<https://www.ons.gov.uk/economy/economicoutputandproductivity/output/articles/servicessectoruk/2008to2018>

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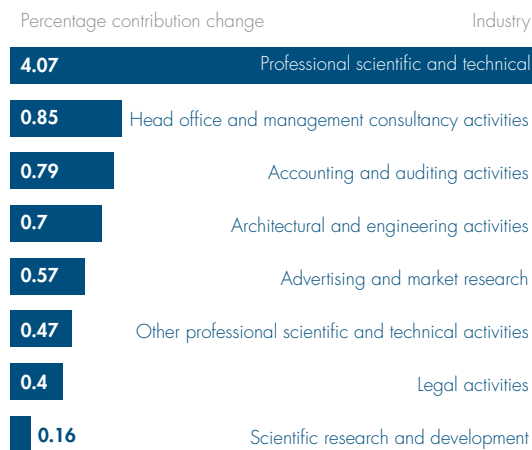




Services growth has been driven by six key areas. The biggest contributor is from "Professional Scientific and Technical", and within that, one of the biggest contributors is "Accounting and auditing activities":

### The scientific, technical and professional activities

Seasonally adjusted, Quarter 1 (Jan to Mar) 2008 to Quarter 4 (Oct to Dec) 2018



Source: Office of National Statistics – I

Within this space, we have exposure to names like **Automatic Data Processing**, the global leader in outsourced payroll and HCM solutions. ADP is especially dominant in US

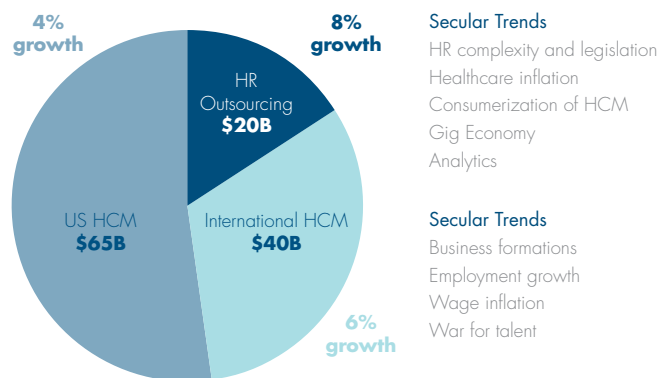
payroll, where they process the payrolls of 1 in every six private sector employees. The market is 30-40% penetrated in the US. Recurring revenues account for c. 90% total, giving the company excellent visibility. Revenues were up in 2008 and in 2009. Growth is driven by regulation and complexity: companies outsource to ADP so that they can focus on core revenue generating areas, and not on changes in employee tax codes.

Over time ADP is layering more and more services into their core offerings, making the product much stickier and increasing their retention rates. The company is growing mid-single digits topline this year, but EPS is faster at 13.6%. Margins are inflecting higher (from 20% in 2017 to 24% in 2021) from a number of initiatives, for example a Service Alignment Initiative (consolidating offices) and a voluntary early retirement initiative. ADP delivered an ROE of 45% last year.<sup>3</sup>

We also leverage the Service Economy theme through **TechnoPro Holdings**, a Japanese human resources services company, with a 14.6% market share in high-value engineering staffing. TechnoPro is one of Japan's largest

### Our Addressable Market is Large and Growing

\$125B Global HCM Market with Mid-single-digit growth<sup>2</sup>



<sup>2</sup>Source: Growth figures are FY17-21 CAGR. Outlook as of June, 2018 presentation. This is not an update or reissuance of such outlook. Census, D&B, IHS, Nelson Hall, Cerulli Associates, Internal Financial Reporting.

<sup>3</sup>Source: [https://s23.q4cdn.com/483669984/files/doc\\_presentations/2019/11/ADP-Investor-Presentation-Nov-2019.pdf](https://s23.q4cdn.com/483669984/files/doc_presentations/2019/11/ADP-Investor-Presentation-Nov-2019.pdf)

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technology-focused professional services and technology consulting companies, with over 19,200 engineers and researchers. Technology remains their core focus area, with 48.6% total engineers specialising in this field. TechnoPro supplies IT professionals to 2,100 companies in diverse fields such as IT, Chemistry, Biotechnology, Education and energy.

To strengthen its offering to clients, TechnoPro has built a robust human resources development capability. This runs independently developed training programmes to build and enhance skills in areas such as technology and construction. Once engineers join TechnoPro they undergo significant additional training to reduce the skills gap. Over 200 training programmes have been developed and 208,522 people have been trained ending fiscal year June 2019.<sup>4</sup>

The company's Construction Management Outsourcing division (13.3% total engineers) also deploys engineers for construction, civil engineering and plant works. Leading clients include Hitachi, Pioneer and Toyota. The Tokyo Olympics in 2020 is therefore an additional catalyst.

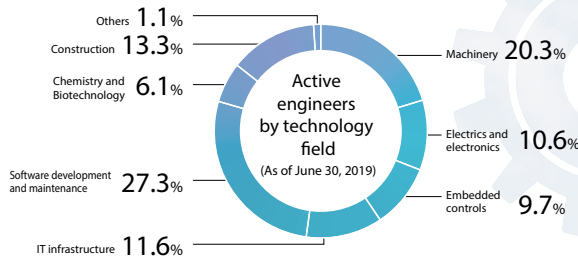
The engineering staffing market is expected to grow at a Compound Annual Growth Rate (CAGR) of 8.6% through to 2023.<sup>5</sup> Spending on research and development is at a record high, creating demand for highly skilled staffing.

TechnoPro Group recently announced a 16.7% increase in revenues (ending September 2019) compared to the same quarter last year, and overall profit ended 22% higher over the same time period.<sup>6</sup>

### Total number of engineers

# 19,293

The TechnoPro Group has more than 20,000 employees in Japan, 19,293 of whom are engineers. We are one of Japan's largest providers of technical human resources services.



Source: [https://www.technoproholdings.com/en/group/pdf/thd\\_profile\\_en.pdf](https://www.technoproholdings.com/en/group/pdf/thd_profile_en.pdf)

<sup>4</sup>Source: [https://www.technoproholdings.com/en/group/pdf/thd\\_profile\\_en.pdf](https://www.technoproholdings.com/en/group/pdf/thd_profile_en.pdf)

<sup>5</sup>Source: [https://www.technoproholdings.com/en/wp-content/uploads/2019/03/MS\\_Japan%20labor%20market%20trends%20and%20our%20initiatives\\_英\\_20190304.pdf](https://www.technoproholdings.com/en/wp-content/uploads/2019/03/MS_Japan%20labor%20market%20trends%20and%20our%20initiatives_英_20190304.pdf)

<sup>6</sup>Source: <https://www2.staffingindustry.com/row/Editorial/Daily-News/Japan-TechnoPro-Holdings-Q1-revenue-up-16.7-profits-increase-51738>

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# MILLENNIAL CONSUMERS



# MILLENNIAL CONSUMERS – KEY TAKEAWAYS

## MILLENNIAL CONSUMER

Millennials are now the largest group of potential purchasers in the world. Today, they account for around 32% of the global population. Millennials spend differently than previous generations, which we believe provides sustainable growth opportunities for companies seeking to capture this share of the market.<sup>1</sup>

## SUB-THEMES

Beauty – Annual global sales in beauty and personal care products will grow at a compounded annual rate of 7% between now and 2023. 40% of Millennials report increasing their purchases of natural skin and hair care products in the last year.<sup>2</sup>

Gaming – In the US, more Millennials subscribe to a gaming service than to a traditional pay TV service. 44% of millennials have played a game streamed over the internet in the last month.<sup>3</sup>

## HOW WE ARE ACCESSING THE MILLENNIAL CONSUMER

Beauty: We hold **Croda**, a global leader in ingredient innovation to the beauty industry.

Gaming: We hold **Electronic Arts**, one of three dominant publishers in the electronic gaming industry.

<sup>1</sup>Source: <https://www.statista.com/statistics/717757/average-monthly-spend-on-beauty-products-us-by-age-group/>

<sup>2</sup>Source: <https://www.thedealxperts.com/news/retail-news/millennials-major-force-in-beauty-market-spending/>  
<https://www.alixpartners.com/insights-impact/insights/millennials-preferences-beauty-personal-care-products/>

<sup>3</sup>Source: <https://www.globalwebindex.com/hu>





Millennials are now the largest group of potential purchasers in the world. Today, they account for around 32% of the global population. In the US, Millennials became the largest demographic group in 2015, overtaking the baby boomer generation, which has dominated for the last sixty years.<sup>4</sup>

Consulting firm Accenture believes that US Millennials will come into their own in 2020 with a predicted spend of \$1.4 trillion annually, representing 30% of retail sales.<sup>5</sup> In the US, the majority of spending by Millennials goes towards monthly income on rent or mortgages (33%) and living expenses (24%) – the former is leading to a renewed emphasis by financial services companies to cater for the Millennial cohort.<sup>6</sup> Furthermore, in the US, around 46% of Millennials spend on average over \$51 on personal care products a month and spend around \$112 on games every month – driving growth in areas such as beauty and online gaming.<sup>7</sup>

## BEAUTY

Annual global sales of beauty and personal care products are valued at over \$500 billion today and expected to reach \$800 billion by 2023, a CAGR of just over 7%. The natural and organic beauty industry is only a small fraction of that, at about \$11 billion, but it is expected to grow to approximately \$22 billion in annual sales by 2024, an implied CAGR of over 12%. Many beauty companies are incorporating stricter environmental standards,

greater transparency, and more natural products across their spectrum of brands.<sup>8</sup>

Millennials believe that the products they put on their skin can impact their health and they are seeking clean labels in beauty products. 40% of Millennials report increasing their purchases of natural skin and hair care products in the last year. Nearly half of Millennials buy skin care products free of synthetic chemicals and 59% report purchasing hair care products free of synthetic chemicals. Increasingly, Millennials want products that contain natural or organic ingredients in them, and these ingredients also need to be responsibly sourced.<sup>9</sup>

Against this backdrop, we leverage the beauty theme through a holding in Croda, a UK listed Materials company. Croda focuses on sustainably sourced beauty product ingredients. Croda is the company behind some of the high-performance ingredients in the most successful beauty brands in the world. Croda's heritage is built on bio-based raw materials, with 61% of the materials they use today originating from renewable sources.

In the last financial year, 46% of total profit came from personal care. Personal Care is Croda's largest business sector, and in this area it is a global leader in ingredient innovation. It now has 34 customer innovation centres globally, helping to drive product pipeline. Croda continues to focus on technological innovation to drive differentiation in personal care. IRD by Sederma, a division of Croda,

<sup>4</sup>Source: <https://www.statista.com/statistics/717757/average-monthly-spend-on-beauty-products-us-by-age-group/>

<sup>5</sup>Source: LendEDU October 2019

<sup>6</sup>Source: <https://www.lexingtonlaw.com/blog/credit-cards/millennial-spending-habits.html>

<sup>7</sup>Source: <https://www.nielsen.com/wp-content/uploads/sites/3/2019/04/millennials-on-millennials-shopping-insights-report.pdf>

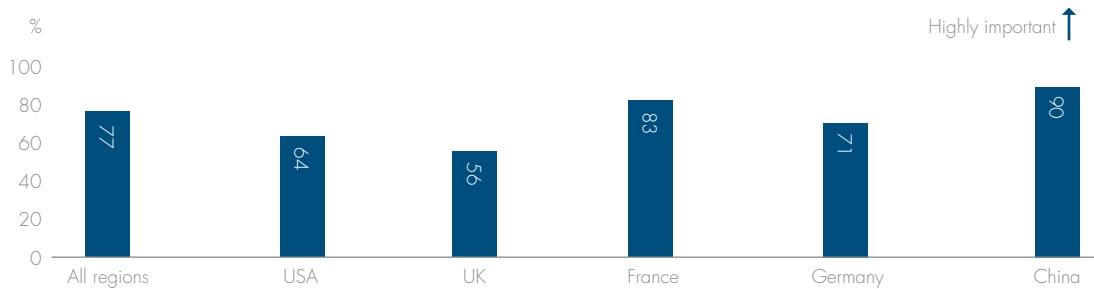
<sup>8</sup>Source: <https://www.thealexpartners.com/news/retail-news/millennials-major-force-in-beauty-market-spending/>  
<https://www.alixpartners.com/insights-impact/insights/millennials-preferences-beauty-personal-care-products/>

<sup>9</sup>Source: <https://www.thealexpartners.com/news/retail-news/millennials-major-force-in-beauty-market-spending/>  
<https://www.alixpartners.com/insights-impact/insights/millennials-preferences-beauty-personal-care-products/>



## Importance of purchasing beauty and personal care products that are healthy or clean

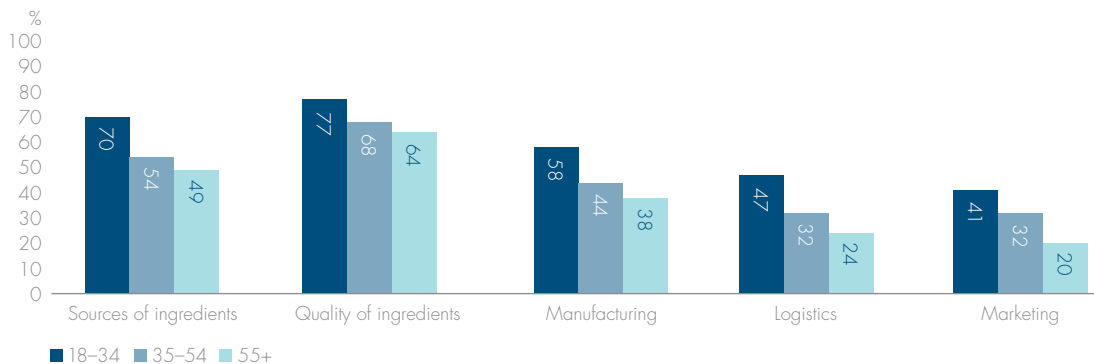
Respondents indicating that purchasing healthy or clean products was important to them



Source: AlixPartners Global Health and Wellness Study, 2018

## Health and beauty value chain stage consideration

Percentage of respondents indicating that the value chain stage is important to them



Source: AlixPartners Global Health and Wellness Study, 2018

is one of the leaders in the development of cosmetic actives created from plant cell cultures, providing the beauty industry with high performance and naturally derived active ingredients that avoid the over-exploitation of land and natural resources and the destruction of ecosystems.

Several new products were launched in 2018 including Crystalide, a new peptide that preserves skin transparency and improves skin surface quality, and PoreTect, an eco-designed active ingredient that brings firmness, tone and density to the skin. The trend towards more

sustainable and ethical sourcing of ingredients supports the growth in plant cell products and botanical ingredients. As a result of its focus on organic and clean label products, Croda is ranked in the top 1% amongst all companies assessed by the sustainability platform EcoVadis.<sup>10</sup>

## GAMING FOR GROWTH

Another large area of spending by Millennials is in digital gaming. According to Deloitte's 13th annual digital media trends survey, more millennials in the US currently subscribe to a game service than to a traditional pay TV service.

<sup>10</sup>Source: <https://www.croda.com/en-gb/investors/annual-report#>

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Overall, US Millennials spend \$112 on games every month. Out of this, 35% goes to physical game purchases and 27% to digital game downloads. Thanks to social features that let connected gamers chat and play with each other, a large proportion of Millennials play multiplayer games. As a result, just over 17% of this total spend is allocated towards gaming subscription services.<sup>11</sup>

The chart below illustrates the leadership position that Millennials take in spending on gaming content and services in comparison to other cohorts.

Once people are engaged with video games, they generally consume gaming for the rest of their lives. The average player age today is around 37, and this is trending higher. Millennials are set to be the first generation of lifelong gamers. In addition to this, new players keep coming into the market. Cloud game streaming is seen as a game changer

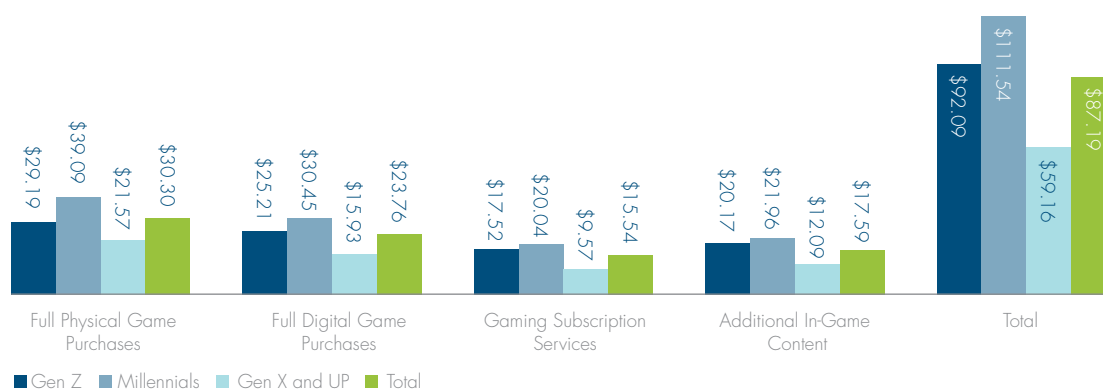
in bringing even more casual gamers into the market. Google Stadia (launched in 2019) is an early example of this service.<sup>12</sup>

According to a survey done by the Pew Research Centre, 60% of Americans aged 18 to 29 say they play video games often. The survey includes video games played on a computer, TV, game console or a portable device.<sup>13</sup>

44% of Millennials have played a game streamed over the internet in the last month, though this is influenced by the dominance of mobile games in Asia Pacific, particularly those integrated with multiplayer and social services like Tencent QQ and WeChat.<sup>14</sup>

Gaming also accounts for 8% of the total global share of internet traffic, driven by trends such as online gaming and ESPORTS – multiplayer gaming tournaments played by professional gamers and watched online by gamers.

### Spending on game content



Source: [www.nielson.com](http://www.nielson.com)

<sup>11</sup>Source: <https://www.nielson.com/wp-content/uploads/sites/3/2019/06/millennials-on-millennials-gaming-media-consumption-report.pdf>

<sup>12</sup>Source: <https://www2.deloitte.com/us/en/insights/industry/technology/digital-media-trends-consumption-habits-survey/trends-in-gaming-esports.html>

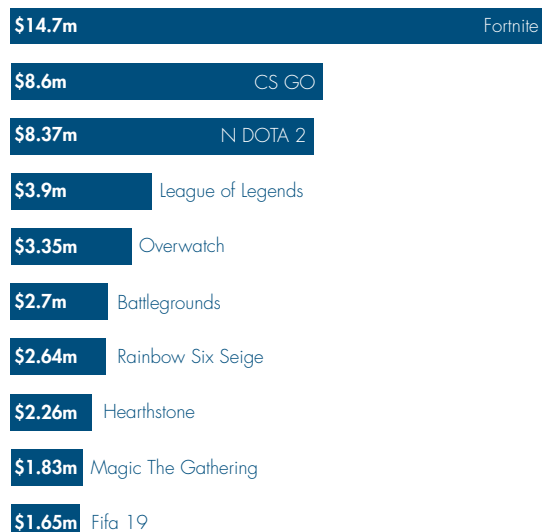
<sup>13</sup>Source: Accenture, [accenture.com](http://accenture.com)

<sup>14</sup>Source: [https://www.globalwebindex.com/hubfs/Downloads/Millennials\\_Report\\_2019.pdf?utm\\_campaign=Millennials%20report%202019&utm\\_source=hs\\_automation&utm\\_medium=email&utm\\_content=73381864&\\_hsenc=p2ANqtz--rM2WxdWUNyYdTxYfZvfk-4fb160NkeLaPSTZQ4fUO\\_QtqkZGwbjlbA0aCfUE-RSX\\_ICdcAJNz6lV3K6Sb0VNYDOX3hvh6c9s2crGKT-SHuFinKdg&\\_hsmi=73381864](https://www.globalwebindex.com/hubfs/Downloads/Millennials_Report_2019.pdf?utm_campaign=Millennials%20report%202019&utm_source=hs_automation&utm_medium=email&utm_content=73381864&_hsenc=p2ANqtz--rM2WxdWUNyYdTxYfZvfk-4fb160NkeLaPSTZQ4fUO_QtqkZGwbjlbA0aCfUE-RSX_ICdcAJNz6lV3K6Sb0VNYDOX3hvh6c9s2crGKT-SHuFinKdg&_hsmi=73381864)





## Top 10 ESPORTS by total prize so far 2019:



Sources: Esports Earnings

<https://www.headstuff.org/entertainment/gaming/millennial-gaming-how-to-market-to-a-modern-generation/>

## VIDEO GAMING REMAINS MAINSTREAM FOR MILLENNIALS

We access the Millennial Consumer theme through our investment in **Electronic Arts (EA)**, one of three dominant publishers in the electronic gaming industry (the other two being Activision Blizzard and Take Two Interactive Software). These three players account for all of the industry profits. EA is a global leader in gaming, and is recognised for its portfolio of critically acclaimed, high-quality brands such as FIFA, Madden (NFL) and The Sims. EA has more than 300 million registered players around the world.<sup>15</sup>

In fiscal 2019 (which ended in March 2019), EA generated 75% of its revenue from digital sales. One of the appealing characteristics of EA is its ability to monetize their player base in a variety of ways, especially through their sports

gaming titles. This helps sustain its long-term future and helps prolong game life. A good example of this is Madden, EA's NFL game franchise. Madden has been an annual release game since 1988! Once players enter into the NFL ecosystem, they can make a number of in-game purchases, from selecting team members and customising players through to having to pay for transfers. This drives increased engagement and monetisation.<sup>16</sup>

At the other end of the spectrum, the best Madden NFL competitors in the world face off for huge cash prizes, MCS belts and, ultimately, to contend for the title of Madden NFL 20 Champion at the final EA Major e-sports event of the season, the Madden Bowl. This trend towards digital gaming is having a significant impact on EA's profitability and is providing earnings stability through an increasing proportion of recurring revenues.<sup>17</sup>

## BANKING MATTERS

We capture the Millennial Consumer theme by investing in **First Republic Bank**, which continues to develop its strategy for Millennials in order to lock in the next generation of higher earners. For example, it's offering them attractive student loan refinancing at very favourable rates and then pairing them with millennial-aged relationship managers who will be able to help them buy that first home or finance a business expansion. During 2019, it attracted nearly 8,000 new high-quality younger households. These households represent 35% of the bank's total consumer borrowing base – up 19% from three years ago.<sup>18</sup> Student loan refinancing is an important feeder mechanism for the bank's wealth

<sup>15</sup>Source: <https://www.etcetric.org/deloitte-more-millennials-subscribe-to-games-than-pay-tv/>

<sup>16</sup>Source: [www.ea.com](http://www.ea.com)

<sup>17</sup>Source: <https://www.forbes.com/sites/greatspeculations/2019/10/18/what-are-electronic-arts-key-sources-of-revenue/#4dd493641bd9>

<sup>18</sup>Source: <https://www.fool.com/earnings/call-transcripts/2020/01/14/first-republic-bank-frc-q4-2019-earnings-call-tran.aspx>



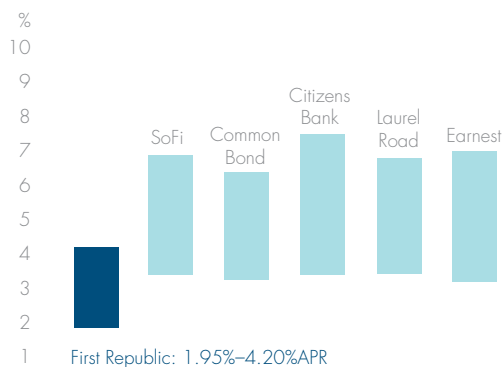
management business. The bank is also offering loans to young professionals to help them buy ownership stakes in the places they work.

Wealth management is also a growing segment for the bank. In this segment, assets under management grew 20% year-over-year, and as reported in its fiscal year 2019, ended at \$151 billion. Private wealth management fee revenues represent over 14% of the bank's overall revenues. This places the bank in a good position to capitalise on the growth of wealth in the US, which is forecast to expand by 5.4%, reaching \$118 trillion by 2023.<sup>19</sup>

This higher service level is key to FRB's success. In the Q4 2019 commentary, the CEO commented "First Republic's ability to deliver extraordinary client satisfaction for almost 35 years is reflected in our high Net Promoter Score, which is more than twice that of the banking industry. This in turn translates into stable clients, additional business from these satisfied clients, and a strong flow of referrals also from the satisfied client base. The result is a very successful compounding effect that continues to drive our growth organically and safely. This model has worked well irrespective of economic and market conditions for several years."<sup>20</sup>



#### Average re-mortgage rate



Source: [www.firstrepublic.com](http://www.firstrepublic.com)

In our 2019 Global Theme's report we highlighted Ultra Cosmetics, which we continue to hold

<sup>19</sup>Source: <https://www.fool.com/earnings/call-transcripts/2020/01/14/first-republic-bank-frc-q4-2019-earnings-call-tran.aspx>

<sup>20</sup>Source: <https://www.fool.com/earnings/call-transcripts/2020/01/14/first-republic-bank-frc-q4-2019-earnings-call-tran.aspx>

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# AUTOMATION





# AUTOMATION – KEY TAKEAWAYS

## AUTOMATION

Automation continues to bring substantial benefits to businesses and economies worldwide. 69% of Deloitte's 2018 Global CIO survey respondents identified process automation and transformation as the primary focus on their digital agendas.<sup>1</sup> According to the McKinsey Automation Survey, 57% of 1,300 institutions have already started on this journey, with another 18 percent planning to kick off something within the next year.<sup>2</sup>

## SUB-THEMES

*AI and Automation* – leveraging artificial intelligence (AI) and other technologies, has opened up new possibilities. Companies around the world are beginning to transform their business processes with technology and are leveraging automation to drive value.

*Productivity* – retailers, for example, are in the process of transformation from bricks and mortar to more hybrid, customer first and e-commerce focused companies – using technology to drive real-time relevance and personalisation.

## HOW WE ACCESS THE AUTOMATION THEME

**Zebra** works across a wide range of vertical markets, such as healthcare, manufacturing, retail and logistics, leveraging their knowledge of workflows to help companies digitise their operations.

**Infosys** is a global leader in next-generation services and consulting, with deep capabilities in automation and AI. They have operations across 45 countries to help companies navigate their digital transformation.

<sup>1</sup>Source: [https://www2.deloitte.com/content/dam/Deloitte/br/Documents/technology/DL\\_TechTrends2019.pdf](https://www2.deloitte.com/content/dam/Deloitte/br/Documents/technology/DL_TechTrends2019.pdf)

<sup>2</sup>Source: <https://www.mckinsey.com/~media/McKinsey/Business%20Functions/McKinsey%20Digital/Our%20Insights/Driving%20impact%20at%20scale%20from%20automation%20and%20AI/Driving-impact-at-scale-from-automation-and-AI.ashx>



Automation continues to bring substantial benefits to businesses and economies worldwide. Companies around the world are beginning to transform their business processes with technology and are leveraging automation to drive value. 69% of Deloitte's 2018 Global CIO survey respondents identified process automation and transformation as the primary focus on their digital agendas.<sup>3</sup>

According to the McKinsey Automation Survey, 57% of 1,300 institutions have already started on this journey, with another 18% planning to kick off something within the next year.<sup>4</sup>

Furthermore, 60% of all jobs have at least 30% technically automatable activities, so redefining jobs and taking an end-to-end process view are necessary to capture the value. Automation could raise productivity growth globally by 0.8 to 1.4% annually.<sup>5</sup>

One way we are capturing the Automation Theme is through **Zebra technologies**, the market leader in the \$10bn AIDC (Automatic Identification and Data Capture) market. Zebra has a 40% share of this market, at least twice the share of the nearest competitor. The AIDC market has three core components: Barcode and Card printing, which is a \$3bn market where Zebra is the leader with a 40% share; Mobile Compute (\$4bn, 50% share); and Data Capture & RFID (\$2bn, 30% share). The company therefore enables customers to

label goods using a barcode (which needs to be highly durable) or RFID tag, and then offers products such as scanners to enable these customers to track where any item of inventory is at any point in time, enabling them to more efficiently manage inventory and supply chains.<sup>6</sup>

Zebra works across a wide range of vertical markets, such as healthcare, manufacturing, retail and logistics, leveraging their knowledge of workflows to help companies digitise their operations. For example, in the retail arena, their mobile computer technology solutions can help retailers and e-tailers with customer service, inventory management and store audits.

In Healthcare, 70% of medical errors are attributable to communication breakdowns. Clear labelling and tracking, for example using barcodes on patient wristbands, or on medicines, and enabling medical staff to use a mobile device capable of scanning these, makes a massive difference in this arena, resulting in a -36% drop in preventable medical errors.<sup>7</sup>

Zebra has just secured their biggest ever contract, a deal with the US Postal Service to deploy 300,000 mobile computers and a suite of productivity tools over the next several years to help employee productivity.<sup>8</sup>

<sup>3</sup>Source: [https://www2.deloitte.com/content/dam/Deloitte/br/Documents/technology/DL\\_TechTrends2019.pdf](https://www2.deloitte.com/content/dam/Deloitte/br/Documents/technology/DL_TechTrends2019.pdf)

<sup>4</sup>Source: <https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/McKinsey%20Digital/Our%20Insights/Driving%20impact%20at%20scale%20from%20automation%20and%20AI/Driving-impact-at-scale-from-automation-and-AI.ashx>

<sup>5</sup>Source: <https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/McKinsey%20Digital/Our%20Insights/Driving%20impact%20at%20scale%20from%20automation%20and%20AI/Driving-impact-at-scale-from-automation-and-AI.ashx>

<sup>6</sup>Source: [https://www.zebra.com/content/dam/zebra\\_new\\_ia/en-us/solutions-verticals/vertical-solutions/healthcare/white-paper/2022-hospital-vision-study-united-kingdom-gb-en.pdf](https://www.zebra.com/content/dam/zebra_new_ia/en-us/solutions-verticals/vertical-solutions/healthcare/white-paper/2022-hospital-vision-study-united-kingdom-gb-en.pdf)

<sup>7</sup>Source: [https://www.zebra.com/content/dam/zebra\\_new\\_ia/en-us/solutions-verticals/vertical-solutions/healthcare/white-paper/2022-hospital-vision-study-united-kingdom-gb-en.pdf](https://www.zebra.com/content/dam/zebra_new_ia/en-us/solutions-verticals/vertical-solutions/healthcare/white-paper/2022-hospital-vision-study-united-kingdom-gb-en.pdf)

<sup>8</sup>Source: <https://investors.zebra.com/overview/default.aspx>





- Digital Studios and Innovation Hubs
- Talent Refactoring
- Ecosystem Partnerships
- IP-Led differentiation
- Open Source, DevOps and Agile
- Cyber Defense Centers

Source: <https://www.infosys.com/investors/news-events/annual-general-meeting/2018/documents/coo-updates.pdf>

We also have exposure to the “Automation” theme through **Infosys**, which is a global leader in next-generation services and consulting, with deep capabilities in automation and AI – leveraging their own AI platform, Infosys NIA. They have operations across 45 countries to help companies navigate their digital transformation.

Historically, there was a limited opportunity set of companies to own for automation. Robotics, in particular the Japanese names, were popular and represented by the robotics funds. However, now every company wants to benefit from automation, whether to achieve productivity savings or to pursue the full automation of machine-to-machine learnings without the need for humans. We therefore own the enablers like the IT service names.

We currently own Infosys as we like the recurring revenues nature of the business model and strong top line growth driven by the move to digital. The company is making the move up the value chain from a purely cost savings,

outsourcing ‘people shop’ to higher value services. Operating margins have stabilised in the mid 20s and free cash flow is very strong with a 4.5% free cash flow yield and 2% dividend yield. The digital transformation journey means<sup>9</sup>:

- Helping retailers in the transformation of bricks and mortar to more hybrid, customer first and e-commerce focused companies – using technology to drive real-time relevance and personalisation.
- Working with financial firms in bringing efficiencies to operations through smarter technology.
- Collaborating with logistics companies to analyse customer and supply chain data to predict when and where to place products and reflow goods.

Digital revenues accounted for 34% of the business and grew by over 30% annually (Q4 reporting, December, 2019).<sup>10</sup>

<sup>9</sup>Source: <https://www.infosys.com/navigate-your-next/research/digital-radar-report.html>

<sup>10</sup>Source: <https://www.infosys.com/investors/reports-filings/annual-report/annual/documents/infosys-ar-19.pdf>





Infosys is focused on building a sustainable business model. Examples of this include a reskilling programme to help their employees expand digital skills. The firm recently entered a strategic long-term partnership with Siemens Gamesa Renewable Energy (SGRE) to support its digital transformation journey, and entered into an agreement with the Australian Federal Government's Services Australia to transform the entitlement calculation engine for the nation's welfare system.

In our 2019 Global Theme's report we highlighted Accenture and Infosys, which we continue to hold



# THE EXPLOSION OF DATA



# THE EXPLOSION OF DATA – KEY TAKEAWAYS

## EXPLOSION OF DATA

The Explosion of Data remains an important theme for us and growth continues to be driven by the move towards a digital economy and changing preferences in the way individuals' access information.

## SUB-THEMES

*Online transactions* – Worldwide, 2.1bn consumers will use a mobile wallet to make a purchase in 2019; this is up nearly 30% from the 1.6bn consumers recorded at the end of 2017.<sup>1</sup> Alongside this, consumer spending through digital wallets across Europe and North America is expected to increase by 40% to nearly \$790bn in 2019.<sup>2</sup>

*Managing data* – Data centre companies are direct beneficiaries of the move to the cloud, as more and more companies outsource their storage and computer functions. By 2025, enterprise data centres will have five times more computational capacity per physical area (square feet) than today.<sup>3</sup>

## HOW WE ACCESS THE PLATFORM COMPANY THEME

*Online transactions* – We access this theme through **PayPal**, which provides digital wallet solutions and lies at the centre of mobile and e-commerce. It has exposure to 82% of the top 500 online retailers in the United States.<sup>4</sup>

*Managing data* – Our route to this theme is through **Digital Realty Trust**, a real estate investment trust that acquires, develops and manages data centres.

<sup>1</sup>Source: <https://www.juniperresearch.com/press/press-releases/digital-wallet-spend-europe-north-america-increase>

<sup>2</sup>Source: <https://paypay.me/paypal-accounts-for-82-of-the-top-500-online-retailers-in-the-united-states.html/>

<sup>3</sup>Source: <https://www.gartner.com/doc/reprints?id=1-6N7X0WL&ct=190508&st=sb>

<sup>4</sup>Source: <https://www.datanyze.com/market-share/payment-processing/paypal-market-share>





The Explosion of Data remains an important theme for us and growth continues to be driven by the move towards a digital economy and changing preferences in the way individuals' access information. Last October, research company Statista predicted that the annual revenue from 'the global big data market' would reach \$49bn in 2019 and forecast that global big data will grow to \$103bn by 2027.<sup>5</sup>

To give some context on the scale of this, Zetabytes were only invented in 2012. Gaming traffic is expected to grow nine-fold from 2017 to 2022. It will represent 4% of overall IP traffic in 2022. IP video traffic will also quadruple by 2022.<sup>6</sup>

Growth is also coming from companies moving to the cloud and next generation infrastructure. Companies are only 20% of the way into their cloud journeys – creating strong opportunities for service providers in this area of the market. By 2021, around 95% of IP traffic will be from a cloud data centre in contrast to 5% from a traditional data centre.<sup>7</sup>

## GROWING DATA

The volume of electronic data is growing exponentially, with businesses, service industries and digital providers, amongst others, collecting vast amounts of information.

As part of its annual research, cloud software firm DOMO highlighted the following:

"The world's internet population is growing significantly year-over-year. As of January 2019, the internet reaches 56.1% of the world's population and now represents 4.39 billion people—a 9% increase from January 2018."<sup>8</sup>

- Overall, Americans use 4,416,720 GB of internet data including 188,000,000 emails, 18,100,000 texts and 4,497,420 Google searches every single minute.<sup>9</sup>
- In the US, App downloads are on the rise with 390,030 a minute.<sup>10</sup>
- Netflix users in the US stream 694,444 hours of video every minute.<sup>11</sup>
- Video streaming now accounts for over 60% of total global IP traffic.<sup>12</sup>

<sup>5</sup>Source: <https://www.statista.com/topics/1464/big-data/>

<sup>6</sup>Source: <https://www.globenewswire.com/news-release/2018/11/27/1657381/0/en/Cisco-Predicts-More-IP-Traffic-in-the-Next-Five-Years-Than-in-the-History-of-the-Internet.html>

<sup>7</sup>Source: <https://www.statista.com/statistics/227268/global-data-center-ip-traffic-growth-by-data-center-type/>

<sup>8</sup>Source: <https://www.forbes.com/sites/nicolemartin1/2019/08/07/how-much-data-is-collected-every-minute-of-the-day/#7be82073d66f>

<sup>9</sup>Source: <https://www.forbes.com/sites/nicolemartin1/2019/08/07/how-much-data-is-collected-every-minute-of-the-day/#7be82073d66f>

<sup>10</sup>Source: <https://www.forbes.com/sites/nicolemartin1/2019/08/07/how-much-data-is-collected-every-minute-of-the-day/#7be82073d66f>

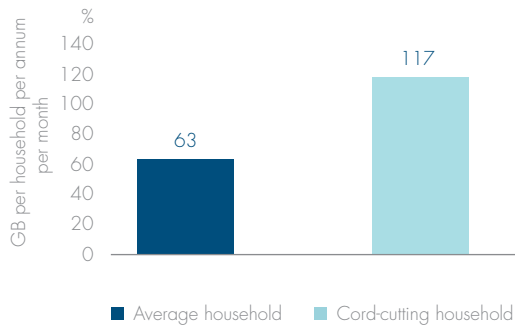
<sup>11</sup>Source: <https://www.forbes.com/sites/nicolemartin1/2019/08/07/how-much-data-is-collected-every-minute-of-the-day/#7be82073d66f>

<sup>12</sup>Source: [https://www.sandvine.com/hubfs/Sandvine\\_Redesign\\_2019/Downloads/Internet%20Phenomena/Internet%20Phenomena%20Presentation%2020190910.pdf](https://www.sandvine.com/hubfs/Sandvine_Redesign_2019/Downloads/Internet%20Phenomena/Internet%20Phenomena%20Presentation%2020190910.pdf) Companies need to be 'hyper-aware'



## Video is growing faster than overall IP traffic as more and more consumers cut the cord and watch TV using streaming sites:

Cord cutting generates double the internet traffic



Sources: *Jeffries, Cisco VNI Global IP Traffic Forecast*  
[https://www.sandvine.com/hubfs/Sandvine\\_Redesign\\_2019/Downloads/Internet%20Phenomena/Internet%20Phenomena%20Presentation%2020190910.pdf](https://www.sandvine.com/hubfs/Sandvine_Redesign_2019/Downloads/Internet%20Phenomena/Internet%20Phenomena%20Presentation%2020190910.pdf)

## ONLINE TRANSACTIONS

The way we pay for our goods and services is changing as a result of the developments in technology and changes in consumer habits. 2.1bn consumers worldwide will use a mobile wallet to make a purchase in 2019; this is up nearly 30% from the 1.6bn consumers recorded at the end of 2017. China is currently the largest adopter of mobile payments, but other countries are starting to catch up. Consumer spend via digital wallets across Europe and North America was expected to increase by 40% to nearly \$790bn in 2019. The largest growth is expected from instore payments<sup>13</sup>, with mobile contactless payments more than doubling across these regions.

One way in which we have exposure to the “Explosion of Data” theme is via our investment in **Paypal**. The company surpassed 300m

active accounts in 2019, and its merchant volume grew 25%.<sup>14</sup>

PayPal provides digital wallet solutions and lies at the centre of mobile and e-commerce. It has exposure to 82% of the top 500 online retailers in the United States, dramatically higher than other digital wallet peers, such as Amazon Pay, which is at 12%.<sup>15</sup>

Some of the traditional players in banking, such as Barclays Bank, Citibank and American Express, are also looking to enhance their banking and digital payments experience for their customers. They are turning to companies such as Paypal to achieve this. For example, in 2018, American Express partnered with Paypal to improve the digital experience of their customers, providing loyalty spending and peer-to-peer transfers. This initiative allows American Express card members to use membership reward points for purchases across the millions of PayPal’s online merchants.

Paypal also recently acquired a 70% stake in Guofubao Information Technology in China whose product is called GoPay. As a result, Paypal will be the first foreign payments company to be licensed to provide online payment services in China. China is the world’s largest e-commerce market with more than \$500m online shoppers and is expected to reach nearly \$2 trillion in online sales in 2019, representing more than 50% of global online retail, creating strong opportunity for PayPal.<sup>16</sup>

Paypal is a global leader, with a dominant position in an area that offers structural growth. They still have ample opportunity to grow the user base, and added 9.8 million net new

<sup>13</sup>Source: <https://www.juniperresearch.com/press/press-releases/digital-wallet-spend-europe-north-america-increase>

<sup>14</sup>Source: <https://paypal.com/investor-paypal-corp>

<sup>15</sup>Source: <https://www.datanyze.com/market-share/payment-processing/paypal-market-share>

<sup>16</sup>Source: <https://www.prnewswire.com/news-releases/paypal-reports-third-quarter-2019-results-300944249.html>



actives in the last quarter, bringing its total actives to 295 million, up 16% year over year. By way of a comparison, there were 926m Mastercard cards in circulation in Q3 2019.<sup>17</sup>

## MANAGING BIG DATA

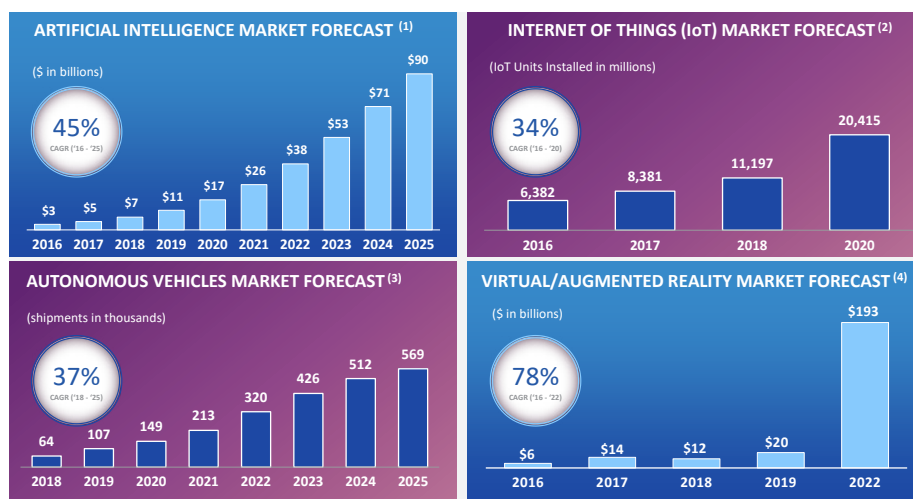
Data centre companies are direct beneficiaries of the move to the cloud, as more and more companies outsource their storage and compute functions. This move to the cloud remains early stage, with only 15-20% workloads currently hosted in the cloud. The explosion of data therefore drives significant expansion in data centres. As companies collate more data, they need more storage and computing power to analyse it.<sup>18</sup>

- By 2025, enterprise data centres will have five times more computational capacity per physical area (square feet) than today.<sup>19</sup>
- Global data center and cloud IP traffic are expected to grow at 25% and 27%, respectively, through 2021.<sup>20</sup>

- By 2025, the number of micro data centres will quadruple, due to technological advances such as 5G, new batteries, hyperconverged infrastructure and various software-defined systems.<sup>21</sup>

Significant growth in the second wave of the cloud – such as augmented reality and autonomous vehicles – will drive continued demand for data.

We have exposure to this “Explosion of Data” theme through **Digital Realty Trust (DLR)**, a real estate investment trust that acquires, develops and manages data centres focused on the retail side of the market. It provides facilities for a few large tenants, for example, Microsoft, to operate within. The firm has enjoyed uninterrupted growth over the last twelve years at a CAGR of 12.4% between 2006-2018. The company has a strong shareholder commitment, leading to fourteen consecutive years of dividend increases.<sup>22</sup>



Source: [https://s22.q4cdn.com/864880006/files/doc\\_presentations/2019/12/NAREIT-2019-Investor-Presentation.pdf](https://s22.q4cdn.com/864880006/files/doc_presentations/2019/12/NAREIT-2019-Investor-Presentation.pdf)

<sup>17</sup>Source: <https://www.statista.com/statistics/618137/number-of-mastercard-credit-cards-worldwide-by-region/>

<sup>18</sup>Source: <https://www.gartner.com/doc/reprints?id=1-6N7XOWL&c=190508&st=sb>

<sup>19</sup>Source: <https://www.gartner.com/doc/reprints?id=1-6N7XOWL&c=190508&st=sb>

<sup>20</sup>Source: <https://www.datacenterknowledge.com/colocation/worlds-two-biggest-data-center-providers-take-different-paths-software-defined>

<sup>21</sup>Source: <https://www.gartner.com/doc/reprints?id=1-6N7XOWL&c=190508&st=sb>

<sup>22</sup>Source: [https://s22.q4cdn.com/864880006/files/doc\\_presentations/2019/12/NAREIT-2019-Investor-Presentation.pdf](https://s22.q4cdn.com/864880006/files/doc_presentations/2019/12/NAREIT-2019-Investor-Presentation.pdf)

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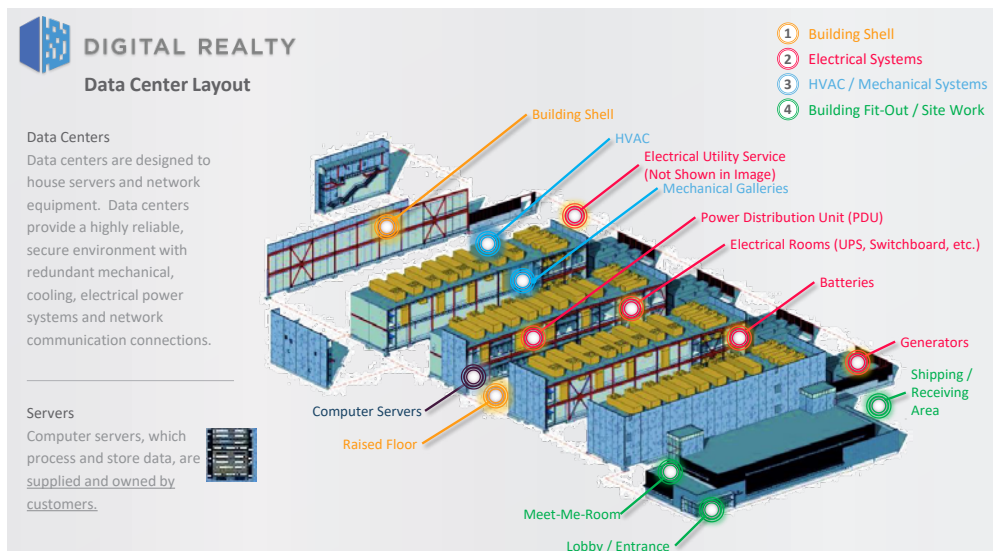
At the end of 2019 DLR signalled its intention to acquire Interxion, a European competitor that focuses on the carrier neutral market, where they provide network interconnections between many players. Digital Realty has more than 260 data centre facilities across 20 countries. When combined with Interxion's European business, which currently consists of 53 carrier and cloud-neutral facilities in 11 European countries, it makes Digital Realty the largest data centre brand.<sup>23</sup>

Digital Realty also brings a strong track record and commitment to energy efficiency in a number of ways:

- 100% renewable energy for US colocation and EMEA portfolios.<sup>24</sup>
- Award winning and sustainable data design: 62 green building certifications globally.<sup>25</sup>

- 324 MW of renewable wind and solar projects under contract in the US for its data centres.<sup>26</sup>
- Is a member of the Green Grid, a not for profit organisation that helps pioneer the conservation of energy efficiency and energy conserving data centre design.<sup>27</sup>

In our 2019 Global Theme's report we highlighted Cogent, Edenred and Adobe, which we continue to hold



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<sup>23</sup>Source: [https://s22.q4cdn.com/864880006/files/doc\\_presentations/2019/12/NAREIT-2019-Investor-Presentation.pdf](https://s22.q4cdn.com/864880006/files/doc_presentations/2019/12/NAREIT-2019-Investor-Presentation.pdf)

<sup>24</sup>Source: [https://s22.q4cdn.com/864880006/files/doc\\_presentations/2019/12/NAREIT-2019-Investor-Presentation.pdf](https://s22.q4cdn.com/864880006/files/doc_presentations/2019/12/NAREIT-2019-Investor-Presentation.pdf)

<sup>25</sup>Source: [https://s22.q4cdn.com/864880006/files/doc\\_presentations/2019/12/NAREIT-2019-Investor-Presentation.pdf](https://s22.q4cdn.com/864880006/files/doc_presentations/2019/12/NAREIT-2019-Investor-Presentation.pdf)

<sup>26</sup>Source: [https://s22.q4cdn.com/864880006/files/doc\\_presentations/2019/12/NAREIT-2019-Investor-Presentation.pdf](https://s22.q4cdn.com/864880006/files/doc_presentations/2019/12/NAREIT-2019-Investor-Presentation.pdf)

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# AGEING POPULATION



# AGEING POPULATION – KEY TAKEAWAYS

## AGEING POPULATION

According to the World Health Organisation, for the first time in history we are rapidly approaching the point where there will be more old people than young people. It's predicted that by 2050, one in six people will be over the age of 65, up from one in eleven in 2019.<sup>1</sup> Virtually every country in the world is now experiencing a rise in the number of older people. The population is ageing fastest in Eastern and South-Eastern Asia, Latin America and the Caribbean. This is closely followed by Europe and North America.<sup>2</sup>

## SUB-THEMES

*Health spending increases* – Global healthcare spending is likely to rise at 5% from 2019 to 2023, double the rate of GDP. By 2030, health expenditure is set to reach 10% of global GDP by 2030 (It is already 17.9% in the US).<sup>3</sup>

## HOW WE ACCESS THE AGEING POPULATION THEME

**Mani** is a Japanese medical device company. It makes a wide range of surgical instruments, including dental reamers (40% global market share), ophthalmic knives (20% share) and suture needles (15% share).<sup>4</sup>

**Sonic Healthcare** is one of the world's largest medical diagnostics companies, providing laboratory and diagnostic imaging services to medical practitioners, hospitals and community health services.

<sup>1</sup>Source: [https://www2.deloitte.com/content/dam/insights/us/articles/5089\\_the-future-of-aging/DI\\_The-future-of-aging.pdf](https://www2.deloitte.com/content/dam/insights/us/articles/5089_the-future-of-aging/DI_The-future-of-aging.pdf)

<sup>2</sup>Source: <https://www.un.org/en/development/desa/population/publications/pdf/ageing/WorldPopulationAgeing2019-Highlights.pdf>

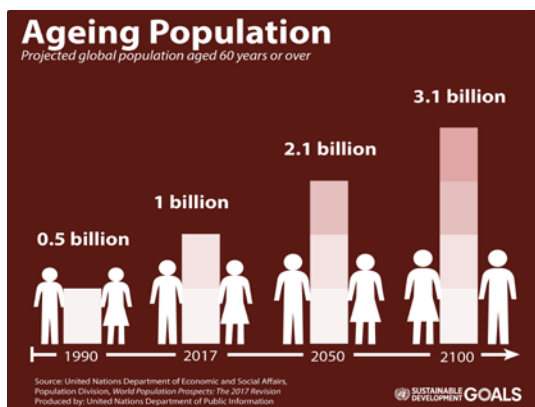
<sup>3</sup>Source: <https://www.oecd.org/health/health-spending-set-to-outpace-gdp-growth-to-2030.htm#outlook.html>

<sup>4</sup>Source: <http://www.mani.co.jp/en/>



“In 1900, the average life expectancy at birth in the United States was 47 years. Today, the average person in the United States can expect to live well into their 70’s, and women, into their early 80’s. As these gains only happened over the last 100 years, we have had little practice with what that means for society and how people age” – Deloitte, The Future of Ageing, 2019.<sup>5</sup>

According to the World Health Organisation, for the first time in history we are rapidly approaching the point where there will be more old people than young people. It’s predicted that by 2050, one in six people will be over the age of 65, up from one in eleven in 2019.<sup>6</sup>



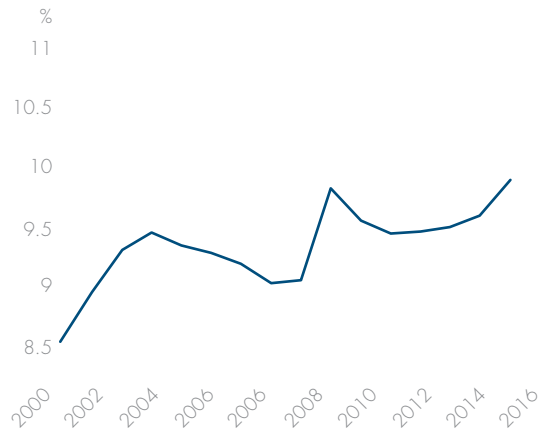
Source: <https://www.un.org/development/desa/publications/graphic/wpp2017-ageing-population>

In 2018 the number of people older than 64 years old surpassed the number of children under 5 years old – for the first time in history.<sup>7</sup>

Virtually every country in the world is now experiencing a rise in the number of older people. The population is ageing fastest in Eastern and South-Eastern Asia, Latin America and the Caribbean. This is closely followed

by Europe and North America. These large increases are principally due to two reasons: one, a continued decline in fertility rates; and two, an increased life expectancy.<sup>8</sup>

### Global health expenditure (% of GDP)



Source: Worldbank

## HEALTH SPENDING TICKS UP

The US spends more on health than any other country. However, life expectancy is shorter than many other countries that spend much less. One possible explanation is the large inequality in health spending with the top 5% accounting for around half of the spending and the top 1% accounting for 20%. It is also worth noting that administrative costs in the US are higher than other countries.<sup>9</sup>

Global healthcare spending is likely to rise at 5% from 2019 to 2023, double the rate of GDP.

By 2030, health expenditure is set to reach 10% of global GDP by 2030 (It is already 16.9% in the US).<sup>10</sup>

<sup>5</sup>Source: [https://www2.deloitte.com/content/dam/insights/us/articles/5089\\_the-future-of-aging/DL\\_The-future-of-aging.pdf](https://www2.deloitte.com/content/dam/insights/us/articles/5089_the-future-of-aging/DL_The-future-of-aging.pdf)

<sup>6</sup>Source: World Health Organisation, 2019

<sup>7</sup>Source: <https://ourworldindata.org/age-structure>

<sup>8</sup>Source: <https://www.un.org/en/development/desa/population/publications/pdf/ageing/WorldPopulationAgeing2019-Highlights.pdf>

<sup>9</sup>Source: <https://www2.deloitte.com/global/en/pages/life-sciences-and-healthcare/articles/global-health-care-sector-outlook.html>

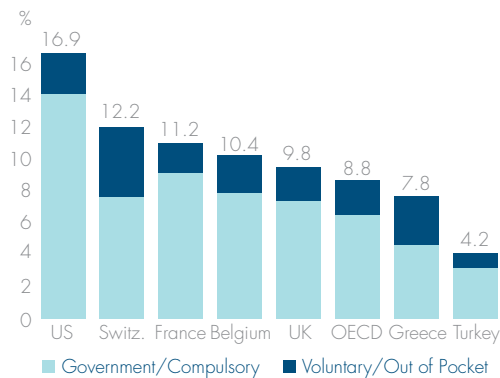
<sup>10</sup>Source: <https://www.oecd.org/health/health-spending-set-to-outpace-gdp-growth-to-2030.htm#outlook.html>





## How much do countries spend on health?

Health expenditure as a % share of GDP for selected OECD countries, 2018



Source: *Health at a Glance: OECD Indicators*

The biggest driver behind this surging healthcare spend remains the ageing population, but technological innovations and new care models can combine to offset some of the pressure.

Reflecting the “Ageing demographic” theme, we currently invest in **Mani**, a Japanese medical device company. It makes a wide range of surgical instruments, including dental reamers (40% global market share), ophthalmic knives (20% share) and suture needles (15% share). Reamers are used by dentists when performing root canal treatment. Dentists (& patients!) are willing to pay a premium for quality and reliability in this area.

The company started manufacturing surgical needles in 1956 – today it currently manufactures 10,000 different types of suture needle and 2,000 different root canal treatment tools to meet the different requirements of surgeons and medical procedures.

Mani is forecasting accelerating growth resulting from an increase in sales of ophthalmic knives, particularly to China, where low quality

competitors are coming out of the market. This segment grew 15% in Q4 2019.

The company is headquartered in Japan, but uses low cost production facilities in Vietnam, Myanmar and Laos. New production facilities have recently opened in Vietnam, which has helped drive margins from 24% (Q4 18) to 32% (Q4 19). The company’s short term margin target is 35%, but longer term they will increase to 40%.<sup>11</sup>

## AN AGEING DEMOGRAPHIC DRIVING MEDICAL DIAGNOSTICS

Elsewhere, in the “Ageing Demographic” theme, we are invested in **Sonic Healthcare**. The company is based in Sydney and is one of the world’s largest medical diagnostics companies, providing laboratory and diagnostic imaging services to medical practitioners, hospitals and community health services.

Sonic is the largest laboratory medicine company in Australia, Germany, the UK and Switzerland, and is the third largest laboratory medicine company in the US. The pathology market is growing at 4%, with ever more pathology tests being requested by GPs, in order to examine blood or other samples obtained by biopsy. These tests influence 70% of healthcare decisions. Sonic has 42% share of the Australian pathology market. Labs represent 84% of revenues.

In January 2020, Sonic Healthcare completed the purchase of Aurora Diagnostics in the US, giving it improved access to the largest laboratory medicine market in the world.

<sup>11</sup>Source: <http://www.mani.co.jp/en/>



Sonic is also the second largest diagnostic imaging provider in Australia, with 13% market share. The leader is i-Med with 19% share. The imaging market grows 6%, and covers ultrasound, tomography and diagnostic radiology. This segment represents 8% revenues.

The final 8% revenues consists of Australia's largest network of primary care medical centres.

Since 1993, Sonic Healthcare's annual revenues have risen from A\$25 million to over A\$5 billion. This has been achieved through a combination of decent organic growth (c.4%) and targeted strategic acquisitions. Sonic has also achieved dividend growth in 24 out of the last 26 years. The stock currently yields 3%.<sup>12</sup>

In our 2019 Global Theme's report we highlighted Edwards Lifesciences and AIA, which we continue to hold

<sup>12</sup>Source: <https://www.sonichealthcare.com/>





# PLATFORM COMPANIES





# PLATFORM COMPANIES – KEY TAKEAWAYS

## PLATFORM COMPANIES

Platform companies are a major theme because they challenge traditional business models by changing how customers consume products and services in a digital environment. In their infancy a decade or so ago, today, seven of the ten most valuable global companies are based on a platform model.<sup>1</sup> In fact, by 2022, over 60% of global GDP will be digitised, and as a result, an estimated 70% of new value created in the global economy over the next decade will be based on digitally enabled platforms.<sup>2</sup>

## SUB-THEMES

*Platforms in the cloud* – Cloud-based system infrastructure services, known as Infrastructure as a Service (IaaS) are forecast to reach \$50 billion in 2020 – up 42% by 2022. Up to 60% of organisations will use an external service provider’s cloud-managed service offering – double what it was in 2018.<sup>3</sup>

*Expanding social media ecosystems* – Social media platforms are used by one-in-three people in the world, and more than two-thirds of all internet users. Social media apps and sites are developing rapidly, with a focus on the end-user.

## HOW WE ACCESS THE PLATFORM COMPANY THEME

*Platforms in the cloud:* One of the world’s most established platform companies is **Microsoft**. Azure, Microsoft’s commercial cloud business, is now taking the lead as the primary growth engine of revenue for the company.

*Expanding social media ecosystems* – We invest in **Tencent**, which started out as a social platform through the development of WeChat, which now has more than 1 billion monthly users. It has leveraged this platform status to enter new areas, such as smartphone games.

<sup>1</sup>Source: <https://innovator.news/the-platform-economy-3c09439b56>

<sup>2</sup>Source: <https://www.weforum.org/platforms/shaping-the-future-of-digital-economy-and-new-value-creation>

<sup>3</sup>Source: <https://www.gartner.com/en/newsroom/press-releases/2019-11-13-gartner-forecasts-worldwide-public-cloud-revenue-to-grow-17-percent-in-2020>



Platform companies challenge traditional business models by changing how customers consume products and services in a digital environment. They include global household names, such as Google, Facebook, Uber, Airbnb, Amazon, Tencent and Alibaba. Platform companies have the capability to change entire industries and can scale vertically and horizontally by improving existing services or entering new service areas.

- Airbnb has over 7 million listings worldwide in 220 countries.<sup>4</sup> In the US, Airbnb are now opening branded apartment buildings and boutique hotels in cities such as Miami and Nashville, all of which can be rented out via the Airbnb APP. It also recently acquired the hotel-booking APP HotelTonight.
- 75 million Uber passengers are served by 3.9 million Uber drivers worldwide<sup>5</sup> and has expanded into transport logistics (Uber Freight).

The concept of a platform company was still in its infancy a decade ago. Today, however, seven of the ten most valuable global companies are based on a platform model.<sup>6</sup>

## SET UP FOR GROWTH

At its core, a platform company is a technology-enabled business that creates value by facilitating exchanges between networks of individuals. Through this ecosystem, they utilise next-generation technologies and big data to maintain their competitive edge. Finally, they harness data insights by monitoring the behaviour of their customers and deploy this

information to create new or complementary services. This means they can monetise their captive user base in multiple ways – as users become more tied-in, it creates a virtuous circle as more services are offered, creating profound opportunities for platform companies to grow.

Over 30% of global economic activity – around \$60 trillion – could be mediated by digital platforms by the end of 2023.<sup>7</sup> Furthermore, an estimated 70% of new value created in the global economy over the next decade will be based on digitally enabled platforms.<sup>8</sup>

## PLATFORMS IN THE CLOUD

One of the world's most established platform companies is Microsoft. In last year's themes outlook we highlighted Azure as one of the key growth drivers for the company.

Cloud adoption remains at an early stage: A recent study by McKinsey for IBM suggested that most enterprises are only 20% of the way into their cloud journeys.

Azure is the second largest public cloud platform in the world (after AWS). In Microsoft's most recent quarter (Fiscal Q2 2020), Azure revenue growth accelerated sequentially from +62% to +64% year on year. We continue to believe that Microsoft wins in SaaS and PaaS (platform as a service).<sup>9</sup>

Microsoft's product suite in software means they are more likely to win market share in areas such as PaaS and SaaS, as a result of existing relationships and product familiarity. Windows 10 is active on more than 900 million

<sup>4</sup>Source: <https://news.airbnb.com/fast-facts/>

<sup>5</sup>Source: <https://www.businessofapps.com/data/uber-statistics>

<sup>6</sup>Source: <https://innovator.news/the-platform-economy-3c09439b56>

<sup>7</sup>Source: <https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/McKinsey%20Digital/Our%20Insights/Digital%20McKinsey%20Insights%20Number%203/Digital-McKinsey-Insights-Issue-3-revised.ashx>

<sup>8</sup>Source: <https://www.weforum.org/platforms/shaping-the-future-of-digital-economy-and-new-value-creation>

<sup>9</sup>Source: <https://www.microsoft.com/en-us/Investor/earnings/FY-2020-Q2/press-release-webcast>



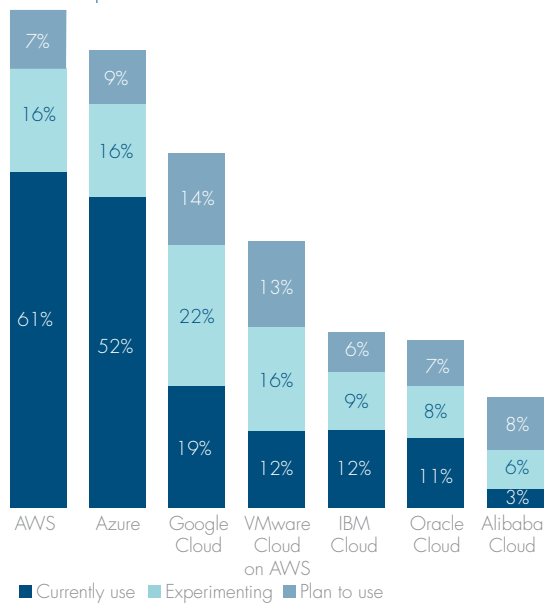
devices, and Office 365, Microsoft's cloud-based ecosystem that drives communication, collaboration and productivity tools has 180 million commercial users worldwide.

Cloud-based system infrastructure services, known as Infrastructure as a Service (IaaS) is forecast to reach \$74.1 billion in 2020 – up 42% by 2022. Cloud application infrastructure services (PaaS) will grow 46% (\$58 billion by 2020) and Software as a Service (SaaS) is forecast to grow by 30% to \$151.1bn over the same period – the latter as a result of the scalability of subscription-based software. When you combine these cloud segments, the total addressable market is around \$283 billion – up by 96% since 2018.<sup>10</sup>

In January 2020, Microsoft committed to being Carbon negative by 2030, and to have removed all of its historic carbon emissions by 2050.

### Microsoft's Azure is the second largest cloud platform globally, behind Amazon Web Services (AWS)

Public cloud adoption  
% of all respondents



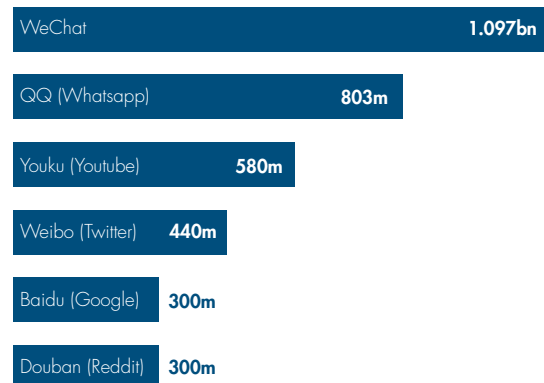
Sources: RightScale 2019 State of the Cloud Report from Flexera <https://www.zdnet.com/article/top-cloud-providers-2019-aws-microsoft-azure-google-cloud-ibm-makes-hybrid-move-salesforce-dominates-saas>

## SOCIAL MEDIA PLATFORMS EXPAND THEIR ECOSYSTEMS

In China, social media apps and sites are developing rapidly. With WeChat, owned by Tencent, China's dominant social media platform, everything is integrated within one service. Instead of having one app for banking and another for ride-hailing, these are built directly into WeChat. This means the app becomes a one-stop shop for its users, and creates further opportunities to monetise their customer-base. Companies can also choose to launch mini-programmes – or apps within WeChat – instead of a standalone app. The programme allows businesses to send promotional messages directly to the user via WeChat, as well as tap into the app's user base.

### Top Chinese social media apps per active monthly users

Numbers of users in millions



Source: <https://www.marketingexpertus.co.uk/blog/china-social-media-statistics-2018>

<sup>10</sup>Source: <https://www.gartner.com/en/newsroom/press-releases/2019-11-13-gartner-forecasts-worldwide-public-cloud-revenue-to-grow-17-percent-in-2020>



Another way we access the platform company theme is through our investment in **Tencent**, whose business was originally based on WeChat, which now has more than 1 billion monthly users.

Tencent subsequently leveraged the WeChat platform to enter new areas, such as smartphone games, where revenue increased by 22% (Q2 2019). The company is also expanding into areas such as cloud computing and digital payments. Cloud revenues grew 80% and Weixin Pay, Tencent's online payment ecosystem, increased merchant acceptance (monthly active merchants increased 80% year on year), contributing to growth in average transaction volume (exceeded 1 billion per day).<sup>11</sup>

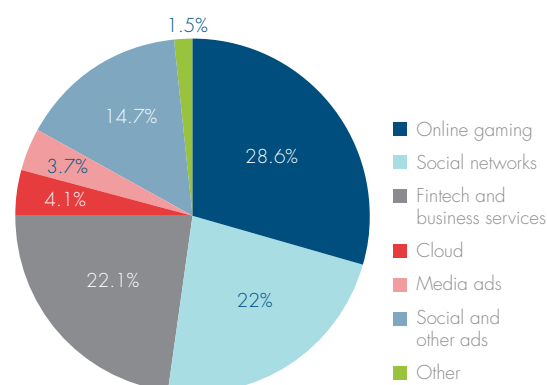
The platform's largest revenue producer is currently gaming, which drives a third of all revenue. Tencent is the number one platform globally by users and revenues for gaming, through titles such as League of Legends and smart-phone game PUBG Mobile, which had the second most downloads globally last year.<sup>12</sup> Tencent also co-developed the Call of Duty Mobile game with Activision Blizzard, which exceeded 100 million downloads within a month of launch, making it one of the biggest ever smart phone game launches.<sup>13</sup>

Tencent Video now has 89 million subscribers (and 900 million mobile monthly active users). This has grown 58% year on year (YoY), driven by premium content and cross-promotions. As a result of these new initiatives, subscription

revenue is up by 65% (YoY). The platform has also become an important destination for sports fans, driven by its access to a portfolio of 40 top global sports programmes, such as NBA, NFL and Formula 1.<sup>14</sup> During the 2018-2019 season of the NBA, 490 million Internet users in China watched one or more games on Tencent's platforms.<sup>15</sup>

The beauty about the Tencent model is new services add little additional capital expenditure for them and all cash flow goes to the bottom line.

**Tencent's revenue by segment is as follows:**



Source: <https://www.ft.com/content/4d4c9930-0600-11ea-9afa-d9e2401fa7ca>

In our 2019 Global Theme's report we highlighted Microsoft and Mastercard, which we continue to hold

<sup>11</sup>Source: <https://www.stockline.net/tencent-investor-relations-investor-presentation/>

<sup>12</sup>Source: <https://www.bloomberg.com/news/articles/2020-01-14/tencent-s-112-billion-rally-has-surprised-even-bullish-analysts>

<sup>13</sup>Source: <https://cdc-tencent-com-1258344706.image.myqcloud.com/uploads/2019/11/13/8b98062831f2f28d9cb4616222a4d3c3.pdf>

<sup>14</sup>Source: <https://www.stockline.net/tencent-investor-relations-investor-presentation/>

<sup>15</sup>Source: <http://cdc-tencent-com-1258344706.image.myqcloud.com/storage/uploads/2019/11/09/7536055957ef88a09712fc5c5c24abab.pdf>

**FOR PROFESSIONAL INVESTORS ONLY**





# HEALTH & WELLBEING



# HEALTH & WELLBEING – KEY TAKEAWAYS

## HEALTH & WELLBEING

We believe that the wellness mindset is starting to permeate the global consumer consciousness affecting people's daily decision-making. This shift is driving growth in the global wellness market, which has transformed into a \$4.2 trillion industry, where spending on personal care and beauty accounts for a quarter of the total spend.<sup>1</sup>

## SUB-THEMES

The global dietary supplements market size is projected to reach \$194.6bn by 2025, representing a growth rate of 7.8%. Alongside this, the nutrition industry is developing alternatives to antibiotics in farming, using feed additives and supplements to reduce antibiotic resistance following decades of over-use in agriculture.<sup>2</sup>

Preventative spending – Prevention rather than painful and expensive cure is a feature in how spending has increased in medical and dental plans. For example, in Brazil, dental plan members have expanded strongly by 7.3 million from June 2012 to 25.8 million in November 2019.<sup>3</sup>

## HOW WE ACCESS THE HEALTH & WELLBEING THEME

Supplements – We invest with **DSM**, a Dutch company that maintains joint leadership in Vitamin-E production, with a 33% market share globally. Furthermore, 60% of DSM's nutrition solutions are based on animals and in this market, DSM has a 17% market share.<sup>4</sup>

Preventative spending – **OdontoPrev** is the largest private dental insurance provider in Brazil. It has more than 7 million beneficiaries, with an accredited network of 29,000 dentists covering 2,600 cities.

<sup>1</sup>Source: <https://medium.com/manager-mint/the-health-wellness-industry-is-now-worth-4-2-trillion-866bf4703b3c>

<sup>2</sup>Source: Source: <https://ourworldindata.org/antibiotic-resistance-from-livestock>

<sup>3</sup>Source: OdontoPrev, 3Q19 corporate presentation

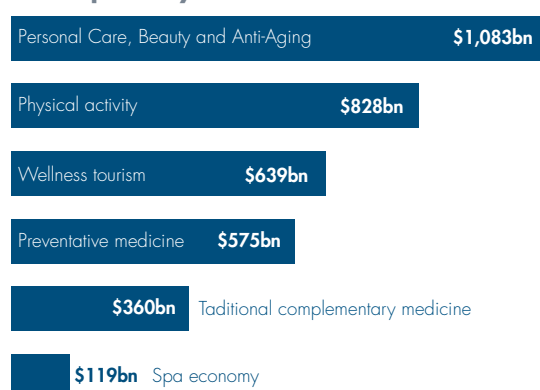
<sup>4</sup>Source: <https://ourworldindata.org/antibiotic-resistance-from-livestock>



Wellness is evolving from rarely to daily, from episodic to essential, from a luxury to a dominant lifestyle value according to the Global Wellness Institute. The wellness mindset is increasingly impacting people's daily decision-making.

This shift is driving growth in the global wellness market, which has transformed into a \$4.2 trillion industry, where spending on personal care and beauty accounts for a quarter of the total spend.<sup>5</sup>

### Total spend by area<sup>6</sup>



Source: <https://medium.com/manager-mint/the-health-wellness-industry-is-now-worth-4-2-trillion-866bf4703b3c>

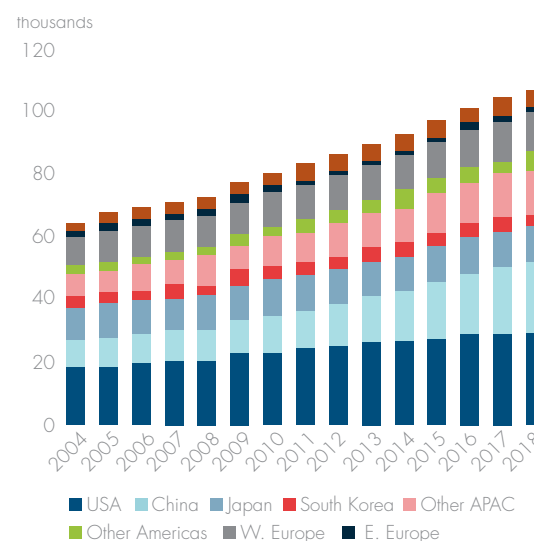
## SUPPLEMENTS AND PLANTS

The global dietary supplements market size is projected to reach \$194.6bn by 2025, a growth rate of 7.8%. Dietary supplements focus on one or more of the following nutritional categories: vitamins, minerals, protein & amino acids, herbs or other botanical ingredients. Vitamins emerged as the largest market segment in 2018, at \$37.64bn. The vitamins segment is expected to grow at a CAGR of 5.6%.<sup>7</sup>

The US remains the principal consumer of dietary supplements, but China and other regions in Asia are also increasing their vitamin

consumption. In the US, the consumption of dietary supplements has grown rapidly since 2014, with vitamins remaining the largest constituent. 75% of US adults take dietary supplements, up from 65% in 2009. Vitamin and supplement sales have risen in each of the past four years, and grew 4% to \$8.5 billion in the year through August 2009.<sup>8</sup>

### Global vitamin market (\$m) is growing at 3-4%



Source: Euromonitor International (Consumer Health 2019)

We have exposure to this Health and Wellbeing theme through our investment in **DSM**, the Dutch ingredients company. DSM has moved away from their previous emphasis on commodity chemicals into nutrition, which now accounts for over 70% of their revenue. Nutrition is a structural growth area, and has been growing 5% every year for the previous five years. Around 40% of DSM's nutrition-based solutions are focused on human consumption. The company specialises in vitamins that are complex to manufacture, such as vitamins A and E, and less on the commoditised areas such as vitamin C. Vitamin E is produced using

<sup>5</sup>Source: <https://medium.com/manager-mint/the-health-wellness-industry-is-now-worth-4-2-trillion-866bf4703b3c>

<sup>6</sup>Source: <https://www.globalwellnessummit.com/press/press-releases/gws-releases-eight-wellness-trends-for-2019>

<sup>7</sup>Source: <https://www.grandviewresearch.com/press-release/global-dietary-supplements-market>

<sup>8</sup>Source: <https://www.forbes.com/sites/andriacheng/2019/10/11/the-growing-personalized-nutrition-market-has-a-big-new-contender-nestl/#41fbca2e2e2f>





a 19 stage industrial process which is highly capital intensive and difficult to replicate in a cost efficient manner. Hence, the company is able to maintain its joint leadership in vitamin-E production, with a 33% market share. It also leads the market in vitamin-A production with a 25% market share.<sup>9</sup>

## THE ANTIBIOTIC DILEMMA AND THE ALTERNATIVES

The majority of antibiotics used globally are administered to farm animals, and evidence is showing the impact it's having on the antimicrobial resistance crisis. Around 70% of the antibiotics used globally are administered to farm animals, such as cattle, swine and poultry. Only 30% are consumed by humans.<sup>10</sup>

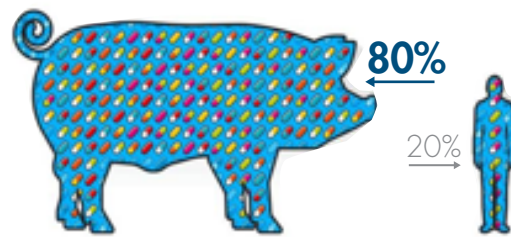
Decades of over-use of antibiotics in agriculture have given rise to drug-resistant infections that threaten to make critical medicines obsolete. However, it's also expected that as global meat consumption rises, and low-to-middle income nations shift towards more intensive livestock methods, total antibiotic use in livestock will increase from 131,000 tonnes in 2013 to just over 200,000 tonnes in 2030. Sweden banned feed antibiotics as early as 1986. The EU had a total ban on feed antibiotics by 2006. The US banned the use of non-prescribed antibiotics as well as antibiotic-based growth promoters in January 2017.<sup>11</sup>

The nutrition industry has been developing alternatives to antibiotics in farming using feed additives. 60% of DSM's nutrition solutions are based on animals and, in this market, DSM has a 17% market share. Using acidifiers and other 'eubiotics' with proven antimicrobial properties,

DSM optimises gastrointestinal functionality and the health of livestock animals. Crucially, this enables the removal of antibiotics for growth promotion, which leads to more sustainable farming.<sup>12</sup>

Separately, DSM is also working on a compound that reduces methane emissions in cows by up to 30%. Methane emissions by cows account for 4% of all greenhouse gas emissions. The compound is currently being trialled, and is awaiting regulatory approval from the EU.<sup>13</sup> Furthermore, part of the executive team's compensation, both long and short-term, are tied to sustainability goals.

Animals in factory farming are prone to illness. This is the reason why 80% of all antibiotics prescribed in the States are consumed by farm animals and only 20% by humans



Sources: [blitzresults.com/en/meat](https://blitzresults.com/en/meat)  
<https://ourworldindata.org/antibiotic-resistance-from-livestock>

## PREVENTION RATHER THAN PAINFUL CURE

The number of dentists per capita in Brazil is higher than that in many developing and developed countries, giving rise to an adverse selection problem.

Only 13% of Brazilians are covered by a private dental plan – in contrast to the US, for example, where 77% of the population has private dental plans. The market is growing

<sup>9</sup>Source: <https://www.dsm.com/anh/en/feedtalks/eubiotics-definition-and-different-concepts.html>

<sup>10</sup>Source: <https://ourworldindata.org/antibiotic-resistance-from-livestock>

<sup>11</sup>Source: <https://ourworldindata.org/antibiotic-resistance-from-livestock>

<sup>12</sup>Source: <https://www.dsm.com/anh/en/feedtalks/eubiotics-definition-and-different-concepts.html>

<sup>13</sup>Source: <https://www.dsm.com/anh/en/feedtalks/eubiotics-definition-and-different-concepts.html>

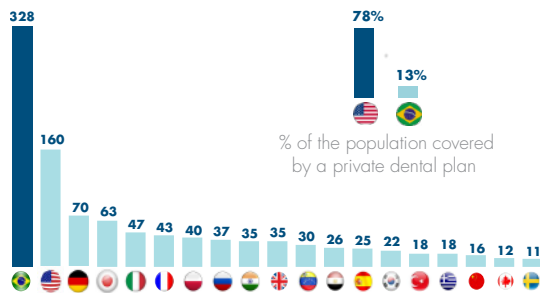




strongly with dental plan members expanding by 7.3 million from June 2012 to 25.8 million in November 2019. However, there is still plenty of room for growth given that dental benefits are still incipient in Brazil.<sup>14</sup>

### Brazil leads the global ranking of dentists

Number of dentists per country (thousand)



Source: FDI World Dental Federation – The Oral Health Atlas 2009, Federal Council of Dentistry – Brazil (September 2019) and Eurostat 2015-2016

We invest in **OdontoPrev**, which is the largest private dental insurance provider in Brazil. It has more than 7 million beneficiaries, with an accredited network of 29,000 dentists covering 2,600 cities in Brazil. The company has a membership market share of 29% and a revenue market share of 47%. Dental is 100% of revenue.<sup>15</sup>

The company has been a market leader in this segment since the 1990's, developing its franchise as a result of little support from the public sector in Brazil for preventative care.

As a result, the public sector has traditionally not invested in the dentist segment, creating strong opportunities for players like OdontoPrev.

The private insurance market for dentistry is more predictable than other healthcare provisions as unlike other healthcare costs,

they do not rise significantly with age. The company focuses on providing a high level of services and preventative care to its customers, whilst carefully nurturing relationships with its membership of dentists.

OdontoPrev has recurring revenues resulting from their monthly membership fees, which provides predictable cash flow generation. They also benefit from low capital expenditure requirements. In the firm's last quarterly results, revenue grew 20%. The company has grown revenues at a CAGR of 19.5% since its initial public offering in 2006. It is net cash positive and has zero debt.<sup>16</sup>

OdontoPrev has a strong focus on sustainability. Amalgam is a material consisting of heavy toxic metals used by dentists to fill cavities. Aware of the importance of recycling this material, OdontoPrev maintains a partnership with University of São Paulo (USP) and with the accredited network of dentists for the development of new technology to recycle amalgam. Since the beginning of the project, in 2005, around 3,100 accredited dentists have joined the initiative. On the social side, the firm has made dental plans available to over 6,500 children through partnerships with social organisations.<sup>17</sup>

In our 2019 Global Theme's report we highlighted Church & Dwight, which we continue to hold

<sup>14</sup>Source: OdontoPrev, 3Q19 corporate presentation

<sup>15</sup>Source: OdontoPrev, 3Q19 corporate presentation

<sup>16</sup>Source: OdontoPrev, 2Q19 corporate presentation

<sup>17</sup>Source: [http://www.mzweb.com.br/Odontoprev/web/default\\_en.asp?idioma=1&conta=44](http://www.mzweb.com.br/Odontoprev/web/default_en.asp?idioma=1&conta=44)





**REAL ESTATE &  
INFRASTRUCTURE**





# REAL ESTATE & INFRASTRUCTURE – KEY TAKEAWAYS

## REAL ESTATE & INFRASTRUCTURE

In its most recent report, the World Bank predicted that the world's population will approach 10 billion by 2050. At the same time, in tandem with the population explosion, more people than ever before are moving into urban areas. Indeed, as of 2017, 4.1 billion people were living in urban areas and by 2050 it's predicted that two thirds of the world's population will live in so-called Mega cities.<sup>1</sup>

## SUB-THEMES

*Infrastructure* – Worldwide, capital project and infrastructure spending will grow by 4.8% annually in real terms between 2019 and 2023, to more than \$14.8 trillion.<sup>2</sup> Longer term, growing cities will require substantial amounts of investment in infrastructure if they are to continue expanding at their present rate – \$78 trillion in global infrastructure spending has been forecast in the next ten years alone to accommodate this growth.<sup>3</sup>

*Transport* – Another segment of infrastructure is air transportation. Over the last twenty years, passenger traffic and freight traffic has delivered a compounded annual growth rate of 4.3% and 3.65% respectively.<sup>4</sup>

## HOW WE ACCESS REAL ESTATE & INFRASTRUCTURE THEME

*Infrastructure* – **United Rentals** is the largest equipment rental company globally, dominating the US market with a 13% market share.<sup>5</sup>

*Transport* – **Sydney Airport** has captured a 40% market share of international travellers going in and out of Australia and currently caters to 40 million passengers a year.<sup>6</sup>

<sup>2</sup>Source: <https://www.globaldata.com/infrastructure-investment-to-grow-by-4-8-across-all-regions-to-2023/>

<sup>3</sup>Source: <https://www.pwc.co.uk/issues/megatrends/rapid-urbanisation>

<sup>4</sup>Source: <https://www.airbus.com/aircraft/market/global-market-forecast.html>

<sup>5</sup>Source: [https://www.unitedrentals.com/sites/default/files/investor-presentations/Fourth%20Quarter-Full%20Year%202019%20Investor%20Presentation\\_01.29.20FI\\_0.pdf](https://www.unitedrentals.com/sites/default/files/investor-presentations/Fourth%20Quarter-Full%20Year%202019%20Investor%20Presentation_01.29.20FI_0.pdf)

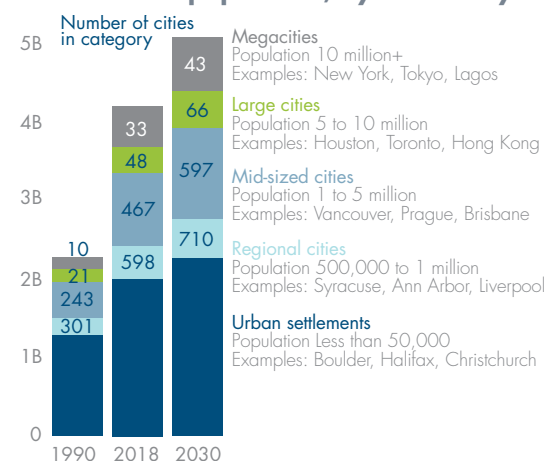
<sup>6</sup>Source: [https://assets.ctfassets.net/v228i5y5k0x4/5glHKkNamLpS9LTPpawUEr/e9dec816c43d88926c32b31181cef390/HY19\\_Results\\_Pres.pdf](https://assets.ctfassets.net/v228i5y5k0x4/5glHKkNamLpS9LTPpawUEr/e9dec816c43d88926c32b31181cef390/HY19_Results_Pres.pdf)





In its most recent report, the World Bank predicted that the world's population will approach 10 billion by 2050. At the same time, more people than ever before are moving into urban areas.<sup>7</sup> Indeed, as of 2017, 4.1 billion people were living in urban areas and by 2050 it's predicted that two thirds of the world's population will live in so-called Mega cities. 90% of this urban population growth will take place in African and Asian countries with rapid urbanisation placing huge demands on real estate and infrastructure.<sup>8</sup>

### Global urban population, by size of city



Sources: UN World Urbanization Prospects 2018  
<https://www.visualcapitalist.com/map-global-rise-of-urbanization/>

Housing remains on the priority list for many governments. Over the past five years, inflation-adjusted house price gains have outpaced income growth in 18 out of 25 global cities, further diminishing the ability for many to afford their own home.<sup>9</sup>

## UPWARDS AND ONWARDS FOR INFRASTRUCTURE

Worldwide, capital project and infrastructure spending will grow by 4.8% annually in real

terms between 2019 and 2023, to more than \$14.8 trillion. The power sector has 5,500 projects in the pipeline, followed by the road sector (4,000 projects) and railways (approaching 2,000). In terms of value, rail projects dominate at US\$5.4 trillion, followed by power at US\$4.7 trillion and roads at US\$2.6 trillion.

The Asia-Pacific market, driven by China, will represent 60% of global infrastructure spending by 2025 – growing on average 7% a year in South East Asia and 5.8% a year in North East Asia.

In the US, President Trump has also announced a US\$2 trillion infrastructure plan, whilst in Sub-Saharan Africa and the Middle East, infrastructure growth is expected to average 7.3% and 6.6% respectively as a result of upgrades to roads, railways and power.<sup>10</sup>

Longer term, growing cities will require substantial amounts of investment in infrastructure if they are to continue expanding at their present rate – \$78 trillion in global infrastructure spending has been forecast in the next ten years alone to accommodate this growth.<sup>11</sup>

One way we are capturing the infrastructure theme is through **United Rentals**, which is based in Stamford, Connecticut. It is the largest equipment rental company globally, dominating the US market with a 13% market share. It has a highly diversified product range (items include air compressors, scissor lifts and towable light towers) and an end-to-end market mix, which continues to benefit from the growth in US construction. The firm is benefitting from the secular shift to rentals (from buy) within the construction market.

<sup>7</sup>Source: <https://datacatalog.worldbank.org/dataset/population-estimates-and-projections>

<sup>8</sup>Source: <https://www.pwc.co.uk/issues/megatrends/rapid-urbanisation.html>

<sup>9</sup>Source: <https://datacatalog.worldbank.org/dataset/population-estimates-and-projections>

<sup>10</sup>Source: <https://www.globaldata.com/infrastructure-investment-to-grow-by-4-8-across-all-regions-to-2023>

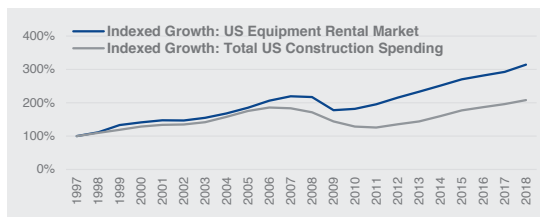
<sup>11</sup>Source: <https://www.pwc.co.uk/issues/megatrends/rapid-urbanisation>

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Over the last ten years, the firm has achieved strong revenue growth at an annual compounded rate of 14.8%. This in part has been supported by growth in the size of the US Construction & Industrial Equipment Rental Market, expanding at CAGR rate of 6.9% since 2009. Overall, growth of the rental market has outgrown overall growth in US construction spending by over 50% in the last 20 years.

**The US equipment market has outgrown its underlying market by over 50% in the last 20 years**



Source: [https://www.unitedrentals.com/sites/default/files/investor-presentations/Fourth%20Quarter-Full%20Year%202019%20Investor%20Presentation\\_01.29.20FI\\_0.pdf](https://www.unitedrentals.com/sites/default/files/investor-presentations/Fourth%20Quarter-Full%20Year%202019%20Investor%20Presentation_01.29.20FI_0.pdf)

In its most recent results, posted in the third quarter of 2019, it reported that total revenue had increased 17.6% to \$2.5 billion and rental revenue increased 15.4% to \$2.1 billion. Recent acquisitions include BlueLine Rental, a top ten rental company in the US and Canada, and BakerCorp, a fluid solutions business.<sup>12</sup>

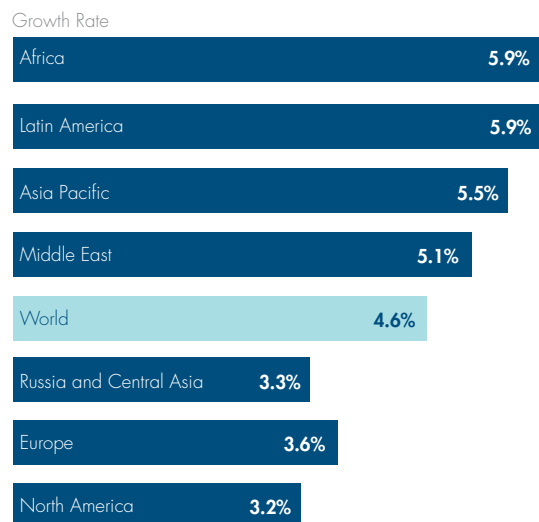
**TRANSPORT DRIVES GROWTH**

Another segment of infrastructure is air transportation. Over the last twenty years, passenger traffic and freight traffic has delivered a CAGR of 4.3% and 3.65% respectively.<sup>13</sup>

According to Airbus, the world’s passenger and freighter aircraft fleet is set to more than double from today’s nearly 23,000 to almost 48,000 by 2038 with traffic growing at 4.3% annually. The drivers of growth are urbanisation and rising wealth. In the latter, for example, the Emerging Market Middle-Class has grown from 900 million in 2000 to 2.7 billion in 2018.<sup>14</sup>

Elsewhere, there are a series of major transportation projects taking place across Asia. Recent examples include Beijing Daxing, the world’s largest airport, which opened last September, and Indonesia’s first high speed rail route from Jakarta to Bandung.

**Growth rate for passenger air traffic from 2019 to 2038 by region**



Source: Statista, 2020  
<https://www.statista.com/statistics/269919/growth-rates-for-passenger-and-cargo-air-traffic/>

<sup>12</sup>Source: [https://www.unitedrentals.com/sites/default/files/investor-presentations/Fourth%20Quarter-Full%20Year%202019%20Investor%20Presentation\\_01.29.20FI\\_0.pdf](https://www.unitedrentals.com/sites/default/files/investor-presentations/Fourth%20Quarter-Full%20Year%202019%20Investor%20Presentation_01.29.20FI_0.pdf)

<sup>13</sup>Source: <https://www.airbus.com/aircraft/market/global-market-forecast.html>

<sup>14</sup>Source: <https://www.airbus.com/aircraft/market/global-market-forecast.html>



We continue to invest in **Sydney Airport**. It has a 40% market share of international travellers going in and out of Australia and currently caters to 40 million passengers a year.<sup>15</sup> In each of the last eight years, the company has delivered dividend growth. It generates revenues across four areas – aeronautical (49%), retail (25%), property (16%) and parking/ground transport (10%).<sup>16</sup>

The airport is expecting to see material passenger growth over the next twenty years and expects to be serving 66 million passengers by 2039 – with the fastest growth in international passenger numbers, especially from the US and China. To cater for this, the airport is creating more bays for international departure and arrivals, alongside an upgrade to its baggage handling system.<sup>17</sup>

Sydney Airport is also Australia's most significant air freight hub, facilitating the movement of 45% of Australia's imports and exports by volume and value. This volume is expected to increase by 58% by 2039.<sup>18</sup>

The company aims to become carbon neutral by 2025 and is an industry leader in terms of sustainability.<sup>19</sup>

In our 2019 Global Theme's report we highlighted Sydney Airport and HFDC, which we continue to hold

<sup>15</sup>Source: <https://www.sydneyairport.com.au/investor/investors-centre/reports/investor-day>

<sup>16</sup>Source: [https://assets.ctfassets.net/v228i5y5k0x4/5glHKkNamLpS9LTPpawUEr/e9dec816c43d88926c32b31181cef390/HY19\\_Results\\_Pres.pdf](https://assets.ctfassets.net/v228i5y5k0x4/5glHKkNamLpS9LTPpawUEr/e9dec816c43d88926c32b31181cef390/HY19_Results_Pres.pdf)

<sup>17</sup>Source: <https://www.sydneyairport.com.au/investor/investors-centre/reports/investor-day>

<sup>18</sup>Source: <https://www.sydneyairport.com.au/investor/investors-centre/reports/investor-day>

<sup>19</sup>Source: [https://assets.ctfassets.net/v228i5y5k0x4/5glHKkNamLpS9LTPpawUEr/e9dec816c43d88926c32b31181cef390/HY19\\_Results\\_Pres.pdf](https://assets.ctfassets.net/v228i5y5k0x4/5glHKkNamLpS9LTPpawUEr/e9dec816c43d88926c32b31181cef390/HY19_Results_Pres.pdf)





## ABOUT THE REPORT'S AUTHORS

Anu and Paul have worked together for over ten years on global equity portfolios, taking a thematic approach to investing.



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