MIRABAUD
1819 2019

GLOBAL THEMES 2019

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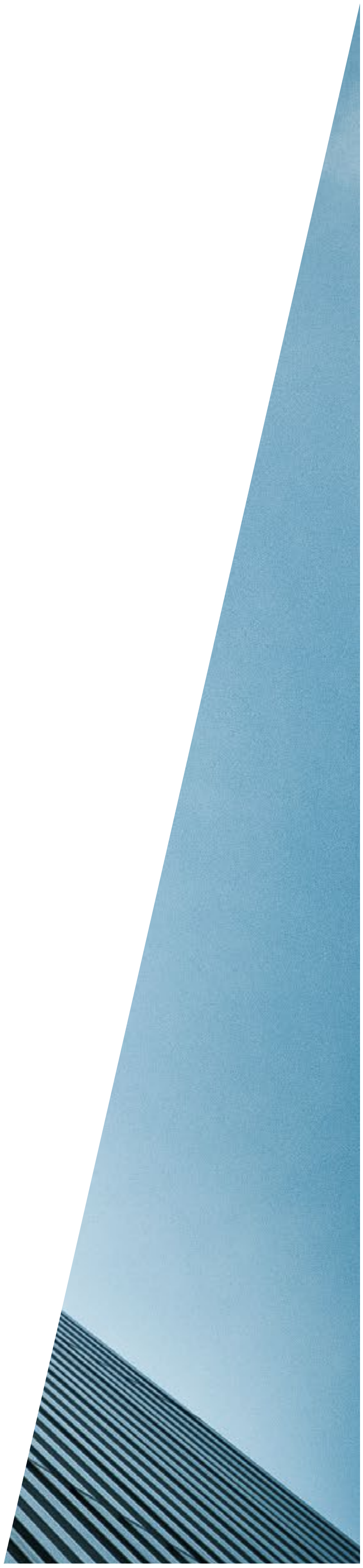

GLOBAL THEMES 2019

We have managed global equity portfolios along thematic lines for over five years at Mirabaud Asset Management. As a team, we have been investing thematically for over sixteen years. We are fundamental, bottom up stock pickers, but we require that the names in which we invest have exposure to a theme, to provide the secular growth tailwind. Themes are necessary but not sufficient – we seek to invest in high quality companies, with wide moats, strong balance sheets, and lots of free cash flow, which have exposure to these Themes. Furthermore, we have an ESG filtering system which has been in place since the inception of our global equity strategies.

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GLOBAL THEMATIC INVESTING AT MIRABAUD ASSET MANAGEMENT

Each year, the global equities team reviews the key themes that they believe will create strong forces of change across different industry sectors. In most cases, our original thesis does not change dramatically year-on-year. This is as it should be; these are multi-year themes. In each major theme, there may also be a number of sub-themes.

We believe that themes are more important than ever today as global economies remain in a low growth cycle. The IMF has just lowered its global growth forecast for 2019 from 3.5% to 3%. This is the slowest in 3 years. In this environment, companies need their own secular growth drivers.

In 2019, we have added a new theme – **Service Economy** – replacing Stabilising Oil. Services are now beginning to have an accelerated impact within the global economy. We have also removed 'The end of globalisation' and 'Reflation' themes.

How our themes have evolved since 2015

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

More cyclical in nature   New theme introduced

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SERVICE ECONOMY

Services trade represents around 40% of world trade and is growing fast. Whilst the service sector is growing in developed economies, it is Emerging Market economies that have experienced the strongest growth, where services now contribute around 50% of GDP. Deloitte analysis shows that 'Low and Middle-income countries' share of GDP from services has increased from 47.6% in 1997 to 56.9% in 2015. Our view is that we are at an inflection point when it comes to services growth in Emerging Markets, especially in China which historically was heavily focused on manufacturing. In 2017, services represented 49.7% of GDP in China.

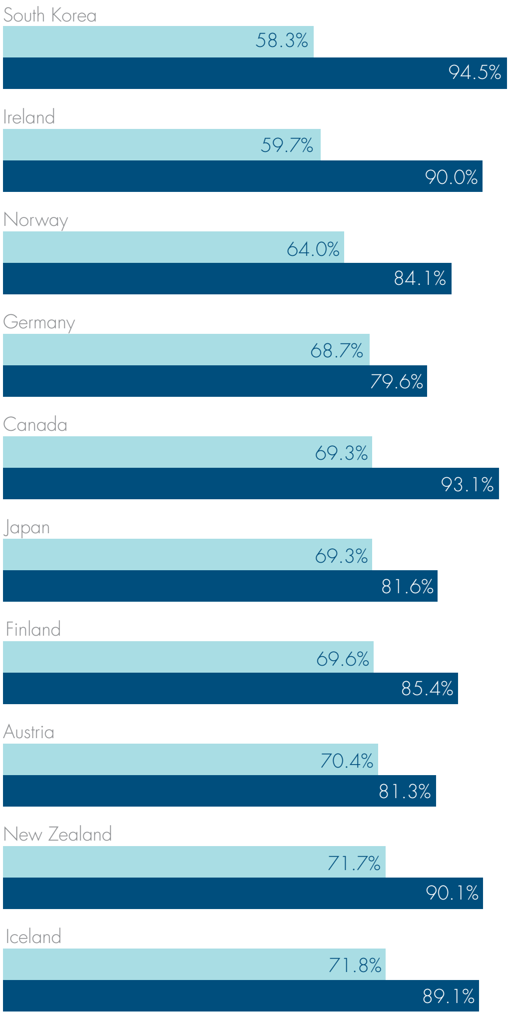
As Emerging Market economies continue to develop, the importance of services in the economy will continue to grow. However, some countries, such as India, for example, have relied first on the service economy to drive economic expansion. Many service-related companies in Emerging Markets cater for demand globally – India, the Philippines, and South Africa have experienced rapid growth in services, such as call centres, back-office functions and software development that are used by industrialised nations around the world.

In most major economies, services now represent more than 60% of GDP. As a result, according to Deloitte, 'the relationship between services growth and overall economic growth has become stronger in the past two decades as services' average contribution to GDP and value added has increased'. We expect this to become increasingly true in Emerging Markets, as we move beyond the 50% threshold.

Areas like transport and travel made up 54% of developed country service exports 40 years ago. However, with the rise in globalisation, and expansion in areas such as finance, insurance and technology, the composition of trade within the services sector has changed. Travel and Transport now account for 39% in total. Insurance and Financial has gone from 3% to 14%. We believe the same transition will happen in lower income economies, where Travel and Transport retains a 51% share. We expect Global services to grow faster than GDP, with Emerging Market services growing even faster, and Emerging Market Insurance and Financial growing faster still.

SERVICES EXPORTS INCLUDE MORE DOMESTIC CONTENT THAN MANUFACTURING EXPORTS

Domestic value-added share of gross export



Source: *World Bank national accounts data, OECD national accounts data files, 2017, https://data.worldbank.org/indicator/.*

If we drill down into the Service Economy, one of the most attractive business model characteristics is the ability to benefit from recurring revenues from retainer-based or subscription pricing models, rather than a one-off payment. This gives the business excellent revenue visibility, and these business models tend to be more resilient through downturns.

We have exposure to this Service Economy through **Ecolab**, the global leader in water, hygiene and energy technologies and services. 90% of revenues are recurring. Even in the depths of the global financial crisis, revenues were only down marginally (-4% in 2009). Their business model is based around combining world-class service with innovative technologies and products. The service element comes from a sales force of 26,000 working across 3 million customer locations. These sales reps work closely with commercial laundries to help them improve efficiency. For example, the Ecolab Aquanomic platform gives these laundries 40% water savings and 50% energy savings. These big cost savings give Ecolab significant pricing power. A significant number of Ecolab's products focus on reducing water and energy costs, and the company is an ESG leader.

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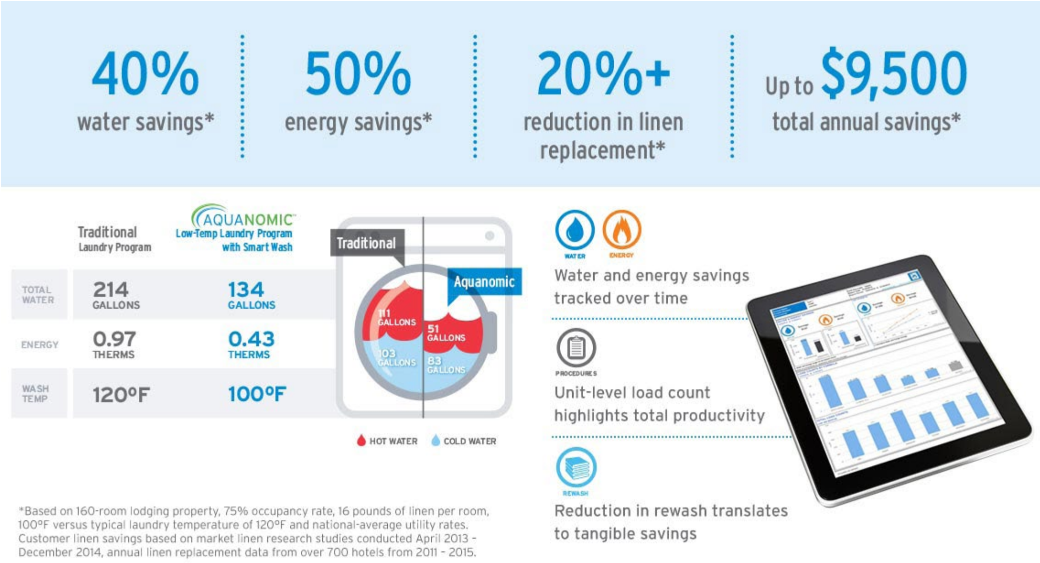

SERVICE ECONOMY GROWING STRONGER

We also have access to this theme through our investment in **Verisk**, which provides data analytic insights to customers in Insurance, Energy, and Financial Services to help them make better, faster, and more focused decisions that minimise risk and maximise value. Verisk sits in a very advantageous position: the company was created in 1971 to consolidate rating bureau data for P&C Insurance companies. All insurance companies in the US give them their underwriting data; Verisk integrates and aggregates this data across all insurers, and sells the analytics back to the insurer, providing an industry wide view on underwriting standards. This data set is unique and cannot be replicated. The company has since expanded by buying companies with similar unique data assets in Finance and in Energy. The company boasts 81% recurring revenues, with 3–5 year contract duration and 90% renewal rates. The company grew revenues in 2009.

81%

recurring revenues, with 3-5 year contract duration and 90% renewal rates

Sources:
www.ecolab.com
www.verisk.com

MILLENNIAL CONSUMER

Millennials have developed a unique set of expectations and needs. They have different requirements than previous generations and are digital natives – they have grown-up in a more digitalised environment and are more conversant than previous generations in using technology to engage with companies. Around 94% of millennials have a preference towards digital formats.* Furthermore, the global millennial population accounts for about 27% of the total population and is becoming one of the world's most important generational cohorts for consumer spending. In the US, millennials are the largest generation in the US labour force.** Around 58% of global millennials live in Asia, which surpasses the entire population of the United States.†

BEAUTY AND THE MILLENNIALS

The beauty category is currently growing faster than GDP, with Ulta cosmetics analysis showing US prestige beauty growth of 6% (Feb – Sept 2018). This has accelerated from the same period in the previous year (+5%), with skin care products (+13%) leading this acceleration. This growth is clearly higher than overall retail sales and higher than most other discretionary categories. We believe this outsized growth is sustainable: demographic trends are in favour of increasing beauty consumption. Beauty brands are shifting marketing spend towards digital and online influencers to attract millennials, who are poised to account for over 50% of purchases across skincare and beauty products.

Millennials' affinity with technology will lead to big beauty brands using 'influencer marketing' more strategically, especially given the influence of social media within this cohort. In recognition of the increasing spending power amongst millennials towards beauty-related products, companies in this sector of the market are quickly developing 'a millennial mind-set'. This will govern 80% of their commercial strategies, product development and brand investment.‡

We harness this theme through a holding in **Ulta Cosmetics**, a US based retailer that

Sources:

*www.lexingtonlaw/valassis

**http://www.pewresearch.org/fact-tank/2018/04/11/millennials-largest-generation-us-labor-force/

†https://www.atkearney.com/web/global-business-policy-council/article?/a/where-are-the-global-millennials-

‡Sources: Jefferies, Cosmetics & Personal Care – 2018 Beauty Market Outlook

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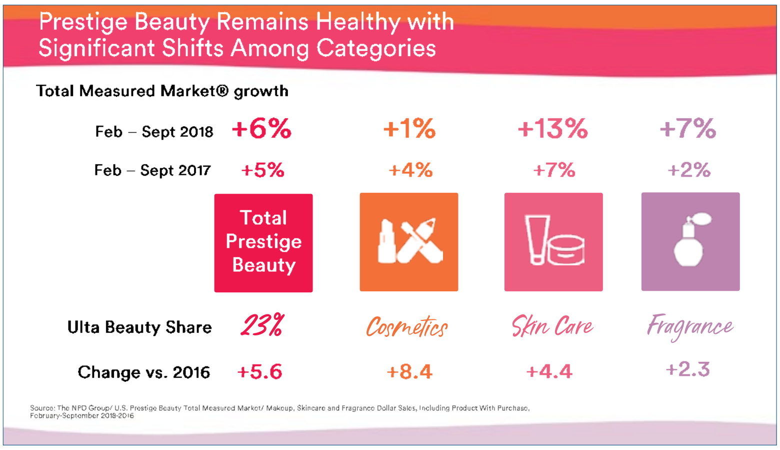

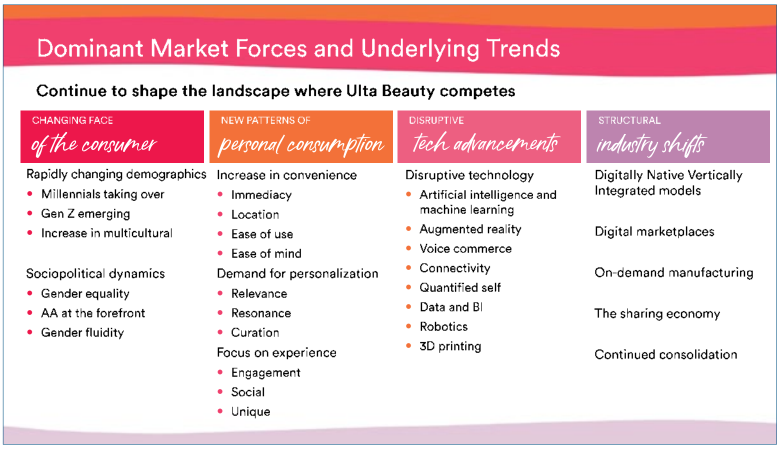

offers skincare, cosmetics and fragrance products. They have 23% market share in the US. The company is highly unusual in its ability to see trends across all brands and product categories: rarely do 'mass' and 'prestige' sit well together, but Ulta Cosmetics has found a way to make it work. The broad market insights that they gather in doing so is fed back to the brands, to enable them to put together better brand strategies, reinforcing the advantage of being on Ulta's platform.

According to Ulta Cosmetics millennial spending power is becoming bigger and bigger every day, almost overtaking that of baby boomers and generation Z combined.

The company is therefore benefiting from a millennial population that is moving into greater earning years, but that is still spending a lot of time on Instagram and other social medial platforms. Ulta harnesses this trend by using beauty bloggers on social media to encourage casual shoppers to become beauty enthusiasts. The more the millennial generation grows as a percentage of the total population, the more makeup usage will continue to accelerate, and as the generation ages, they will also increase their spending on skin care.

MILLENNIALS TAKE GREATER CARE WHAT THEY EAT

Millennials are also driving change within industries such as food and beverages, as they look for increasingly healthy options. According to **McCormick**, which we hold in the Global Focus strategy, 83% of millennials reported fewer restaurant visits and more cooking at home.* Furthermore the millennials' focus on product transparency has resulted in demand for clearer labelling and a greater focus on organic food.

McCormick highlights that they "are in an advantaged position as our products are the essential complement to flavour fresh real food. Additionally, we also know that younger generations are fuelling demand for flavour and driving growth. In the US, 50% of the population are either millennials or Gen Z consumers and both exhibit a strong desire for flavour experimentation along with a growing preference for cooking at home."

*www.mccormick.com

McCormick holds the leading share of global spice and herb purchases, with brands such as Schwartz in the UK. They have 19% of global market share, with the next closest competitor at 5%. Significantly, the company estimates that they have a 48% share of millennial Herb & Spices purchases: we therefore expect them to be share gainers over time.

MILLENNIALS' PREFERENCE FOR TRAVEL AND EXPERIENCES

As we have previously noted, 70% of working age millennials value experiences over things, and 86% say they don't want to miss out on life experiences. Millennials are more interested in travelling to other countries, and they travel more frequently than older age groups.

To capitalise on this sub-theme of millennial travel, we hold shares in **Flight Centre Travel Group** in the Global Equity High Income Fund. This is one of the world's largest travel agency firms with a network that expands over 90 countries. Millennials are having a disruptive influence on the travel industry and as a result the way in which the industry engages with this growing cohort is changing.

According to **Flight Centre**, millennials prefer flexibility and multi-channel support for instant updates about their travel plans and they have incorporated this into their communication approach. Furthermore, and contrary to popular perception, according to ABTA (October 2018), millennials are ditching review sites and returning to travel agents to book "better" holiday experiences, according to new research. Trust in review sites for information and inspiration has fallen by 14% in the last year for 25-34 year-olds, from 53% to 39%. ABTA's Holiday Habits report found one in five people in this age group said one of the advantages of booking with a travel professional is that they have a better holiday – more than any other age group.

Sources:
www.flightcentre.com
http://www.travelweekly.co.uk/articles/313417/video-millennials-ditch-review-sites-and-turn-to-travel-agents

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AUTOMATION

In early 2018, Microsoft, Google, Apple and other technology companies announced that we were no longer living in a mobile-first world. Instead, they said, we were now living in an artificial intelligence-first world. This is consistent with our 2018 themes document, in which we said that the pace of automation is accelerating, with Artificial Intelligence (AI) being the key factor behind this. We continue to believe this is the case. There is also an argument that Automation will accelerate for cyclical reasons in the short term. Full employment in the US is feeding wage inflation that will ultimately put pressure on (already peaky) margins.

According to McKinsey, the benefit a company might derive from using AI might range from 1 to 9% of revenues, depending on the industry. If a company can do more, faster, the benefits can be enormous and, unsurprisingly, demand for Machine Learning (ML) specialists is currently at a high. Companies in consumer industries are likely to benefit most says McKinsey, because they can use the information to predict trends and establish prices. AI also proves useful in supply chains and manufacturing.

We invest in Automation in the Global Focus strategy through **Google**. Last year we noted that Google's Waymo self-driving car initiative was being trialled on the outskirts of Phoenix Arizona. In October, the company said that its self-driving cars had clocked up a total of 10 million miles on public roads. This year,


KW5532
60%

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the company is starting to commercialise a car sharing service using Waymo. Initially there will be a human driver on board to take over in emergencies. At the end of last year the company began giving out more data in advance of this launch. The potential opportunity is significant. Each year 3.2 trillion miles are driven in the US. Taxis charge $4-5 per mile. Car ownership is estimated to cost $0.6 per mile. Estimates for Waymo's cost per mile for ride sharing are approximately $1.5 per mile. Even if Waymo captures only a small percentage of total miles driven, there is a significant revenue opportunity here. The next question is whether people want to ride in driverless cars. In the trial 20,000 people signed up, and 400 people used the service regularly. We suspect take up will be slow, but is likely to grow over time, barring any negative headlines.

In the Global High Income strategy we continue to have exposure to Automation through **Accenture** and **Infosys**. These are both part of a group of companies that we consider to be 'agents of change'. They have the knowledge base required to consult and help implement automated solutions, and they are seeing accelerating revenues as a result.

On the revenue line, Accenture is advising companies on the transition to the "New" (Social, Mobile, Analytics & Cloud), whilst on the cost line, it is advising clients on zero based budgeting and robotic process automation (RPA). A recent client survey done by the company suggests that with RPA they were saving 70% time with 100% accuracy. Transparent Market Research is expecting the RPA market to grow 60% to 2020.

Accenture have the following view of RPA. "Indeed, we at Accenture often recommend RPA as an ideal starting point for a business that wants to begin an AI journey. That's because successfully using RPA means first acquiring a detailed understanding of the process to be automated. And that's also the first step in designing a broader and more sophisticated AI-powered automated solution".

3.2 trillion

miles are driven in the U.S. each year

Sources:
https://www.engadget.com/2018/12/05/waymo-one-launches/?guccounter=1
https://view.pagetiger.com/AI-Explained-A-Guide-for-Executives/2018

THE EXPLOSION OF DATA

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

We are currently creating 2.5 quintillion bytes of data per day, and this number is accelerating. To try and contextualise this amount of data, the following fact helps. 90% of all the data on the earth was created in the last 2 years. Another eye-opening data fact is that for one Guardian journalist, the amount of data that Facebook had on them amounted to a 600MB file. This is roughly equal to 400,000 word documents. Multiply that by 2 billion users – if your calculator can store numbers that big – and you can get a sense of the huge volumes of data held by just one platform.

There is only one way that this data moves around, and this means internet traffic is growing at a similar pace. Cisco estimates that Global IP traffic will increase threefold over the next 5 years. Overall, IP traffic will grow at a Compound Annual Growth Rate (CAGR) of 26% from 2017 to 2022. Last

Sources:
https://www.forbes.com/sites/bernardmarr/2018/05/21/how-much-data-do-we-create-every-day-the-mind-blowing-stats-everyone-should-read/#6456842060ba
https://www.theguardian.com/commentisfree/2018/mar/28/all-the-data-facebook-google-has-on-you-privacy

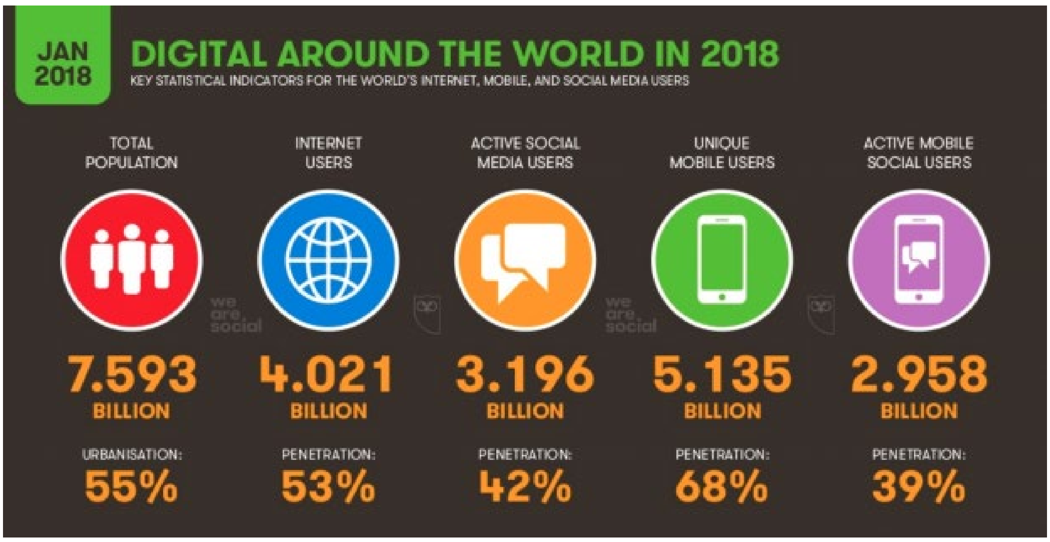
year the expected 5 year growth rate was 24%. The year before, it was 23%!

Monthly IP traffic will reach 50 GB per capita by 2022, up from 16 GB per capita in 2017.

This growth has been driven by the move towards the digital economy and changing preferences in the way individuals' access information. A few key trends illustrate this clearly:*

- By 2022, there will be 4.8 billion internet users – this represents 60% of the world's population
- There will also be more than 28.5 billion global network connections, up from 18 billion in 2017
- Globally, video is forecast to account for 82% of all IP traffic in 2021 – a 26% compounded annual growth rate
- Internet video-to-TV traffic will increase three-fold from 2017 to 2022
- And by 2022, gaming traffic will represent 5% of consumer internet traffic

We continue to have exposure to IP traffic growth through our holding in **Cogent Communications** (Global High Income strategy), which carries over 20% of the internet traffic globally over its network. The segment exposed to this is the Netcentric side of this business, which account for 40% of total revenues. The remaining 60% of the business supplies fibre internet connectivity into multi-tenant corporate buildings, and is able to provide 30 times the throughput at the same price as competitors. They are consistently taking market share as a result.



Source: *Sandvine, The Global Internet Phenomena Report, October 2018*

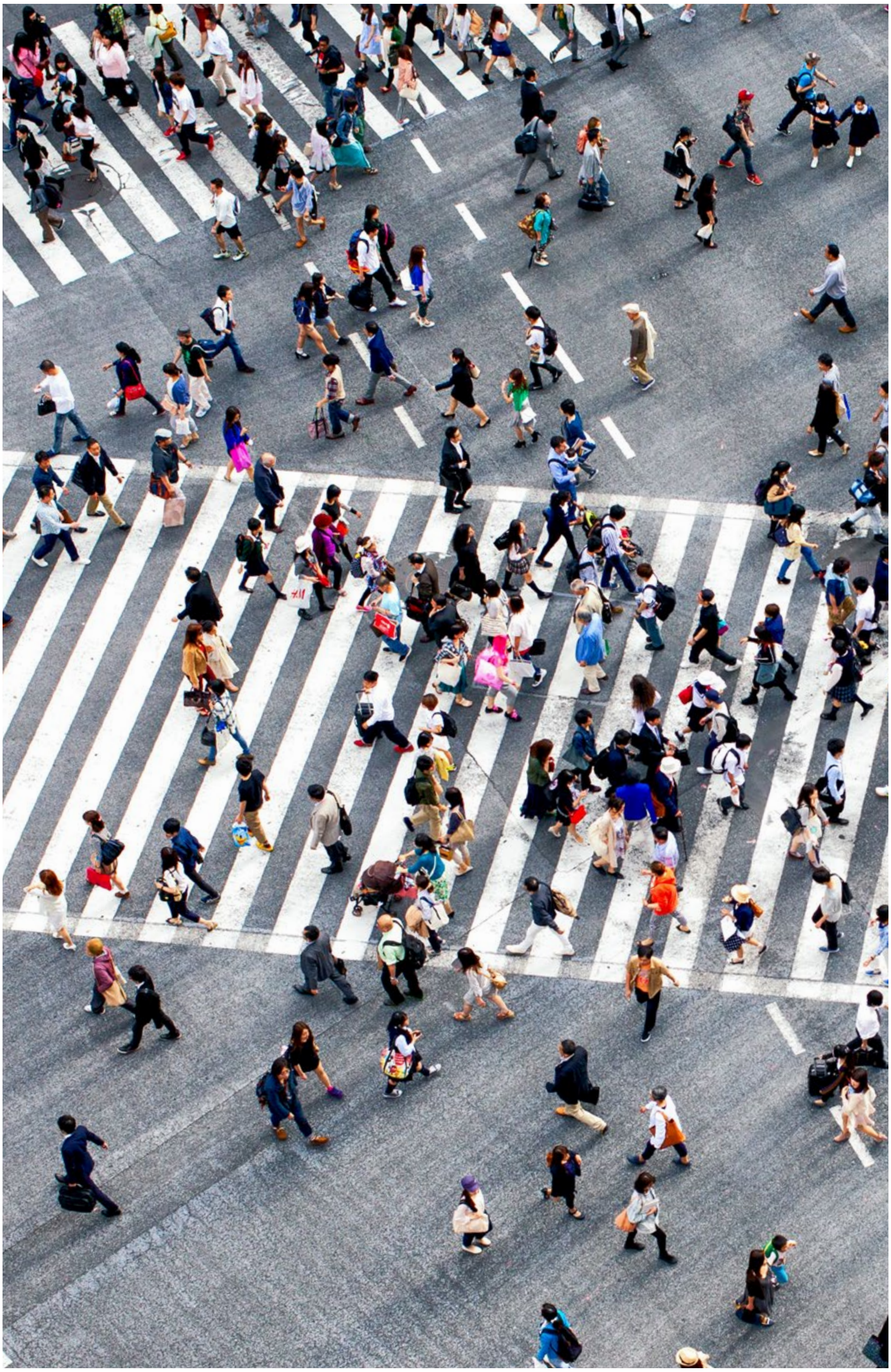
* *https://thenetwork.cisco.com/*

DIGITALISATION

We continue to believe that Digitalisation is an important growth driver in today's economy. We have exposure to this theme through companies such as **Edenred**. There is a clear link back to the broader explosion of data theme: digitalisation enables better data capture and analysis, which can in turn be used to optimise solutions. Edenred is the global leader in pre-paid corporate benefits. The company introduced the "Ticket Restaurant" concept in 1962. Initially the benefit took the form of a book of physical vouchers, part paid by the Government (to promote high employment) and part paid by the corporate (to attract potential employees). The company has been transitioning clients away from these physical vouchers to digital ones, accessed through an app on a smart phone. This strips out the costs associated with the physical printing, and also means Edenred can see exactly which customer spent which voucher in which restaurant, at what time. They can then take this analysis to prospective clients, to prove out the ROI associated with the vouchers. The extent of digitalisation varies by country: in France 40% of vouchers are now digital; in LATAM they are 100% digital.

SCARCE DATA

The scarce data sub-theme represents the idea that in a world that is increasingly driven by data, the winners are those companies that have significant amounts of data, and specifically those who have significant amounts of unique data. **Adobe Inc** is held in the Global Focus strategy, and gives us exposure to the scarce data theme. Adobe's Creative Cloud segment sits in the Digital Media segment, which in turn represents 70% of revenues. There is very limited competition in this segment, which is used to create and distribute unique content across all digital platforms. As data analytics techniques continue improve, the key differentiator for these companies will be the amount of data that they have. This will in turn lead to more valuable insights to be gained, which creates a virtuous circle, and companies dominant in a certain space will expand their moats over time.



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AGEING POPULATION

Since the 1950's, all regions have experienced an increase in life expectancy and this trend will continue with the advances in healthcare. The implications of ageing creates globally long-term themes consistent with demographic changes, such as health and wellbeing, transportation and search for income yielding products.

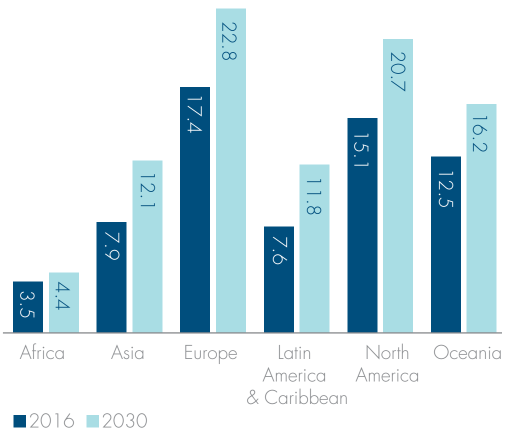
GLOBALLY, THE POPULATION AGED 60 OR OVER IS GROWING FASTER THAN ALL YOUNGER AGE GROUPS

According to the United Nations, the increasing share of older individuals in the population is one of the most significant social transformations of the twenty-first century. Between 2015 and 2030, the global population aged 65 and older is projected to grow by more than 60% compared to working age population growth of 14%. By 2020, for the first time in human history, people aged 65 and over will outnumber children under age five.

This demographic shift is happening everywhere, but at different rates. In China, the previous one-child policy accelerated the ageing demographic. Europe is the oldest region and will remain so for the next 15 years.

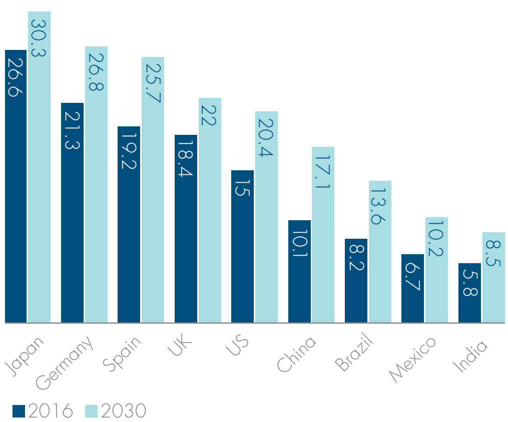
Population for over 65's growing

Over 65 Years Proportion of the Population by Region, %



By country, Japan is and will remain home to the World's most aged population

Over 65 Years Proportion of the Population by Country, %



Sources:

http://www.kkr.com/globalperspectives/publications/what_does_population_aging_mean_for_growth_and_investments Data as at June 23, 2017. Source: United Nations, Haver Analytics.

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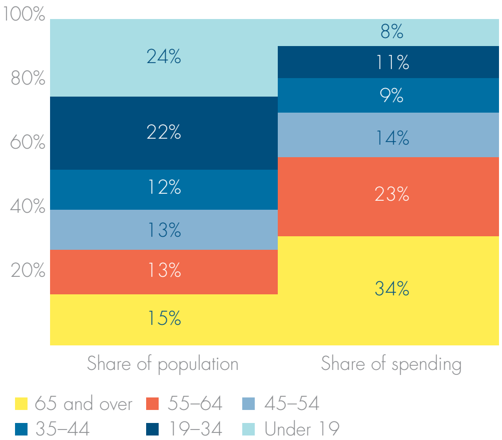
MEDICINE

Across the western world, the demographic strain on carers, hospitals and retirement homes is growing. As people live longer, the proportion they allocate to healthcare spend will increase. We believe this will drive new approaches to healthcare and personal healthcare management solutions, together with increasing demand for the latest medical advances in terms of new drugs and specialist equipment.

The link between ageing populations and the increasing strain on healthcare systems is clear:

Share of total health spending by age group, 2015; share of population, 2015



Source: *Kaiser Family Foundation analysis of Medical Expenditure Panel Survey, Agency for Heathcare Research and Quality, U.S. Department of Health and Human Services.*

To counter these forces, we are increasingly focused on investing in healthcare companies which are able to provide the best outcomes, at a lower cost. One of these companies is **Edwards Lifesciences**, which is the pioneer and global leader in TAVR (Transcatheter Aortic Valve Replacement). This minimally invasive technique is replacing open heart surgery. The company first got approval for the technique in high risk (elderly) patients who were unable to have open heart surgery as they were too frail. The current costs for open heart surgery are circa $50k, whereas TAVR costs $45k. To counter these forces, we are increasingly focused on investing in healthcare companies which are able to provide the best outcomes, at a lower cost. The company's addressable market is expanding, with TAVR increasingly being used on intermediate risk patients. The results of a low risk patient trial are expected later this year. Edwards has 50% share of the global TAVR market.

Sources:
United Nations, Haver Analytics.
https://www.scmp.com/business/companies/article/2167530/asset-managers-asia-could-see-revenue-double-2022-growth-china

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FINANCIAL PLANNING

Many members of the ageing population have accrued significant assets through house purchases, investments and other savings, often far in excess of previous generations. Counter to this, the improved longevity of individuals means higher expected total retirement expenses. Furthermore, as a result of increases in life expectancy and longer average retirements, younger individuals will need to save more to fund their retirement, especially given current pension underfunding concerns. As a result, this creates growth opportunities for financial services companies and wealth managers.

This sub-theme provides opportunities across a diverse range of financial services companies. For example, we invest in **AIA**, the largest pan-Asian life insurance group which provides insurance, financial services and retirement planning. The company has a presence across 18 markets in Asia Pacific and serves 32 million individual policies. AIA is benefiting from low insurance penetration and limited social welfare provision in the region, alongside and ageing population and growing need for retirement savings.

60% of AIA's new business comes from Hong Kong and China. China's life insurance market grew 27% in the first 8 months of 2017. We estimate that of the top 10 life insurance companies in Hong Kong, AIA is getting 17% market share of new premiums written.

60%

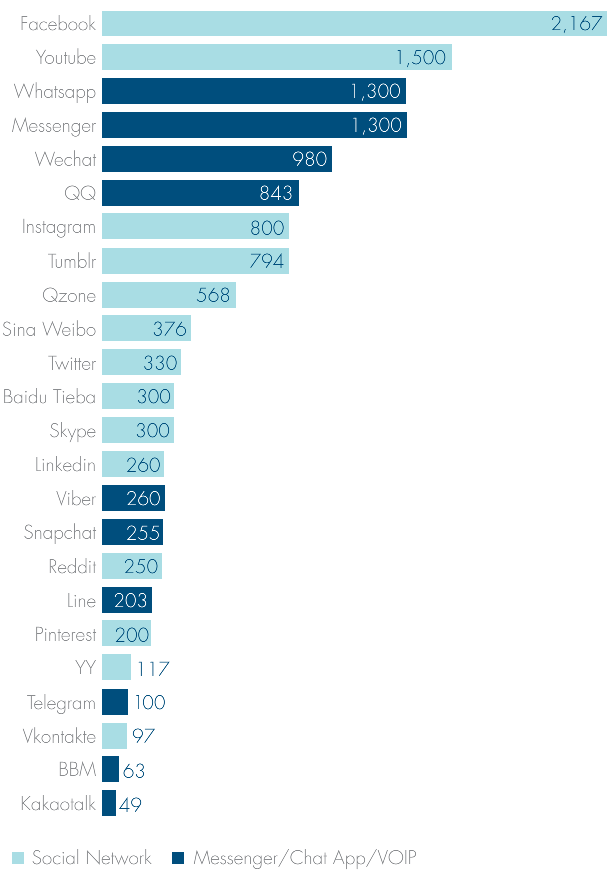
of AIA's new business comes from Hong Kong and China

PLATFORM COMPANIES

The significance of platform companies comes in their ability to defy the law of large numbers, and show more persistent growth than other giant organisations have historically managed. They achieve this by creating a large network of captive users for one initial service, and then continually layering more and more services on top, creating a dependence on that company. It is very difficult for a consumer to leave any of these ecosystems, once you are locked in. Some of the social media giants have these qualities as defining features. As the following chart shows, the number of people on their platforms is quite staggering. As a result, platform companies represent $2.6 trillion in market capitalisation worldwide.

Active users of key global social platforms, Jan 2018

based on the most recently published monthly active user accounts for each platform, in millions



Source: *Hootsuite, January 2018*

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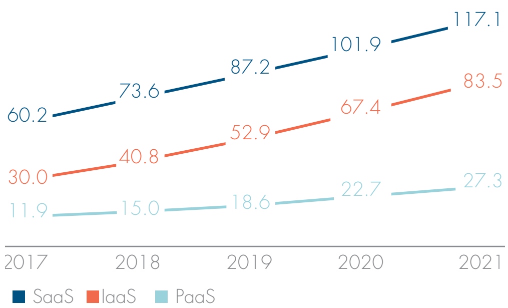
Many successful platform companies employ innovative systems that can help give them an advantage over their competitors, in order to maintain their dominant industry position, or open up opportunities in new business areas. Once these companies invest in their technology and have established their platform and captive user base, they have the unique capability to expand products or services at a significantly lower incremental cost. This ecosystem 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 company growth.

We have exposure to the platform company theme through holdings such as **Microsoft**, held in the Global High Income strategy. In recent years Microsoft has pivoted massively, especially since Satya Nadella took over as CEO in 2014. One of the key drivers in this pivot has been Azure, Microsoft's cloud services division. Microsoft is the number two player in this market behind AWS (Amazon Web Services). Gartner estimated the Infrastructure as a Service (IaaS) market to be worth $40bn by end 2018, growing to $84bn by the end of 2021. When you layer in SaaS (Software) and PaaS (Platform) markets, the total addressable market should be nearing $230bn.

Cloud market revenue in billions of dollars



Source: *https://www.skyhighnetworks.com/cloud-security-blog/microsoft-azure-closes-iaas-adoption-gap-with-amazon-aws/*

AWS has a clear scale advantage at the moment, with a revenue run rate of $6bn in Q2 2018. Microsoft Azure revenue estimates for 2018 suggest a run rate closer to $1.5bn. However, Microsoft is growing faster, and we believe they have two significant competitive advantages. First, they can leverage their position with existing customers in Enterprise Software to help them transition to the cloud – Amazon does not have this existing customer base. Second, 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 rellationships and product familiarity. AWS is already making 25% operating margins. We believe Azure, when the business gets to a comparable revenue run rate, will have better margins, due to a lower mix of IaaS (storage and compute). Realistically, however, there is currently more than enough market for the both of them to continue growing revenues at an accelerated rate.

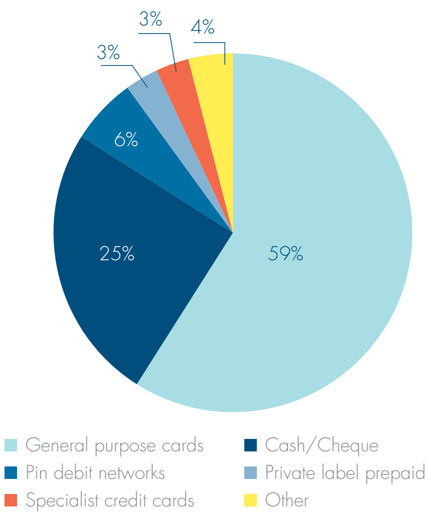
Source: *ATL*

Accenture, https://www.accenture.com/gb-en/insight-digital-platform-economy

Mastercard, held in the Global Focus strategy, is also a platform company. Mastercard's moat is its global platform which links the whole payments ecosystem from banks, to customers and merchants. Customers at both ends, front and back, are locked in with high switching costs ensuring Mastercard remains in a 'duopoly' position within its niche and rapidly growing market. The global payments industry is growing at an 11% compounded annual growth rate and will reach US $2 trillion by 2020. The global shift from cash to card remains ongoing, with penetration currently only 43%. Cash and cheque still account for 25% consumer purchases in the US.*

Cash still accounts for a high percentage of personal consumption expenditure, even in advanced economies like the US

US Purchase Personal Consumption Expenditure Breakdown – 2016



Source: *Bernstein*

Bernstein expect global card penetration to have reached 51% by 2022. This translates to a circa 6% annual revenue tailwind for Mastercard. If you then layer on top of this consumer spending, and some share gains, you arrive at a high single digit revenue run rate, which we believe is sustainable. This revenue all flows along the same underlying platform, meaning that the bulk of Mastercard's cost base is fixed, and incremental revenues remain very attractive.

*Source: *Mastercard*

HEALTH & WELLBEING

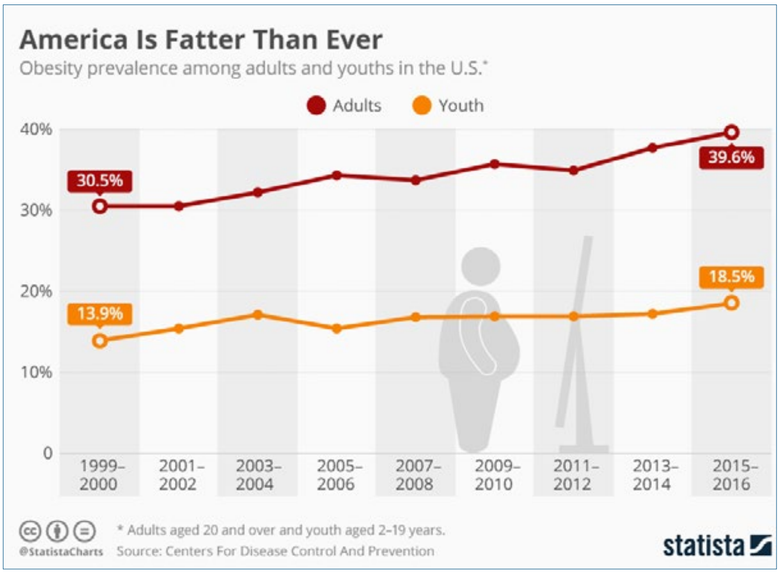
According to recent research from Nielsen, 1.9 billion people globally are now either overweight or obese.

The good news is that people are increasingly aware of this and beginning to take action. In the US, for example, 37% of the population were following a specific dietary regime and 39% were trying to eat more plant-based food. Meanwhile, in Europe 29% were searching for food products that fitted into a healthy lifestyle, and 65% were actively avoiding antibiotics and hormones used in animal products. Globally, observes Nielsen, 72% of consumers now say they would be receptive to buying nutrient-rich 'super foods'.

Findings from Nielsen's Global Health and Ingredient-Sentiment Survey include:

- 75% of global respondents say they're worried about the long-term impact of artificial ingredients.
- Artificial flavours (62%), preservatives (62%) and colours (61%) are the most avoided food ingredients among global consumers.
- Only 45% of respondents with special dietary requirements say that current offerings fully meet their needs.

Sources:
The Nielsen Global Health and Ingredient-Sentiment Survey, Q1 2016
https://www.nielsen.com/eu/en/insights/news/2016/ingredient-inspectors-consumers-embrace-dietary-diligence.html



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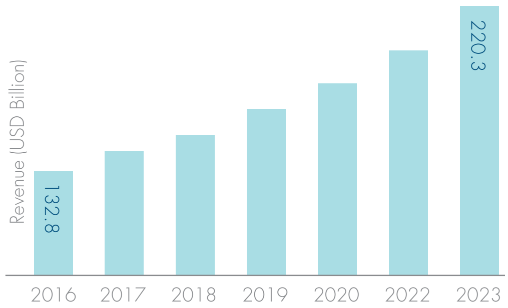
Across the two global equity strategies, we currently have exposure to the Health and Wellbeing theme in two different areas: vitamins and supplements, and healthy eating.

The global Wellness Supplements (including Vitamins) market was worth $207.6bn in 2018, and is expected to grow at a CAGR of 6.5% to $284bn by 2023. Within this, there has been a shift towards gummies, especially in the US. Gummies are now 2.4% market share in the US, with sales having risen 25% since 2015. **Church & Dwight**, in which we invest, is one of the companies benefitting from these dual trends. They bought Avid Health Inc in 2012, thus getting access to Vitafusion and L'il Critters brands. L'il Critters is the number one kids gummy vitamin brand in the US. The company has further exposure to various Health and Wellbeing trends through brands such as Arm & Hammer, Trojan, and Waterpik.

In terms of healthy eating, in the Global High Income strategy we are currently invested in **Danone**, a leading global food company focused on nutrition. The company was already a leader in fresh dairy, infant nutrition, bottled water and medical nutrition, before pivoting further towards health and wellbeing through its acquisition of Whitewave in 2016. Whitewave is the leader in plant based products such as Almond milk, through brands such as Alpro. Alpro enjoys a huge 43% market share in the plant based category. Nielsen estimate that plant based alternatives to dairy milk are growing 9%.

Global dietary supplement market, 2016–2022 (USD Billion)



Source: *Zion Research Analysis 2017*

Sources:

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REAL ESTATE AND INFRASTRUCTURE

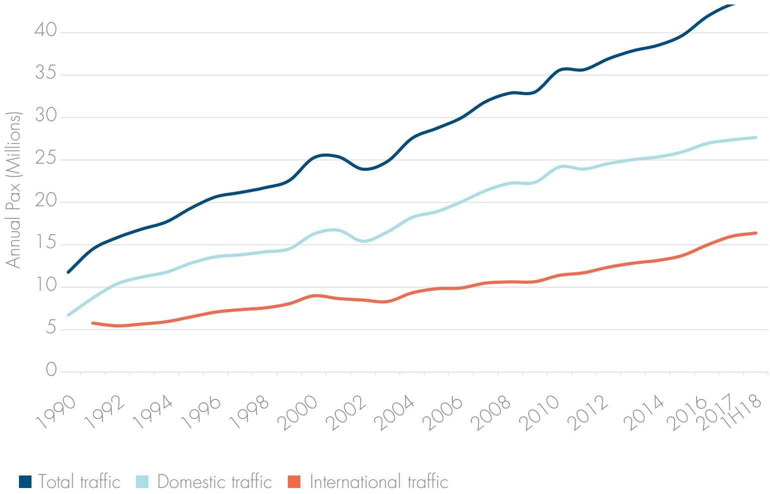
The World Bank's latest 2017 study shows that by 2040 the global population will have grown by almost 2 billion people, a 25% increase. Rural to urban migration will continue, with the urban population growing by 46%. Cities are also growing at a staggering rate, changing our world beyond recognition. For the first time in history, over half the population (55%) lives in urban areas. By 2050, that number will rise to 68%. This rapid urban growth has given rise to sprawling megacities, many of which are in Asia and Africa.* This represents a huge demand driver for infrastructure.

Other factors driving infrastructure investment are automation, increased data consumption, growth in renewable energies, and growth in logistics that are required to accommodate the growth of e-commerce. There are other more traditional factors that have an influence over the growth in infrastructure. Transportation is another area of infrastructure demand – as more people travel, airport owners need to respond to airline demands, which requires the need to increase capacity through modernising and building more airports.

We therefore hold **Sydney Airport** in our global portfolios. In 2017, the airport handled 43.3m passengers, up from 10m in 1990.

Long term traffic growth

Resilient passenger growth across all economic cycles and events



Rolling 12 month data used

The World Bank, 2018 from blogs.worldbank.org

Sources: *Sydney Airport*

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Sydney airport captures 40% market share of international travellers to Australia, and 27% all commercial flights. Total passenger numbers have been growing approximately 3% per annum as seen in the following chart. The company has a 50 year lease on this asset, with an option to renew for another 50 years at that point. The airport is unusual in that non aeronautical activities, for example parking, are not covered by the regulator, meaning the company generates much better returns on them. The company also controls the duty-free shopping real estate in the airport. BAML estimated that this is the most productive "shopping mall" in Australia, with circa $45k sales per square metre.

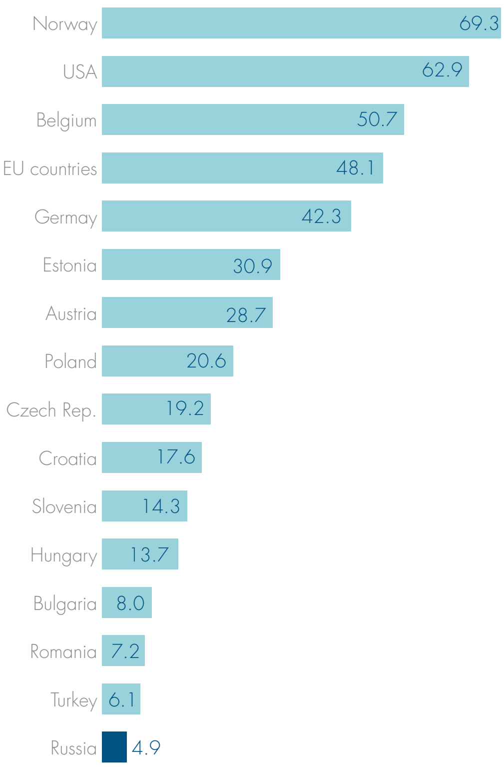
REAL ESTATE GROWTH

Housing continues to move up the priority list for governments and is now seen as a genuine part of the infrastructure mandate. Growing inequality globally has worsened the supply demand dynamics, as for many the ability to afford one's own home has diminished.

We capture the real estate theme in a number of ways. We own **Housing Development Finance** (Global Focus strategy), which pioneered housing finance in India. They are the leading provider of housing finance in India, fulfilling over 6.3 million loans to date.[†] They have 40% share of the Indian residential mortgage market. Penetration is low relative to western economies, as per the chart below, but it is increasing rapidly, between 80–100bps per annum. This increased penetration translates to a 15% market growth rate for HDFC, assuming no market share shifts.

Penetration level of mortgages in India is extremely low at 10% of GDP compared to other developing and developed markets

In developing markets, mortgage penetration remains low – Mortgage Portfolio/GDP 2015 %



Source: *www.acra-ratings.com/research/233. Bank of Russia, EMF Hypostat, ACRA calculations*

Sources:
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