

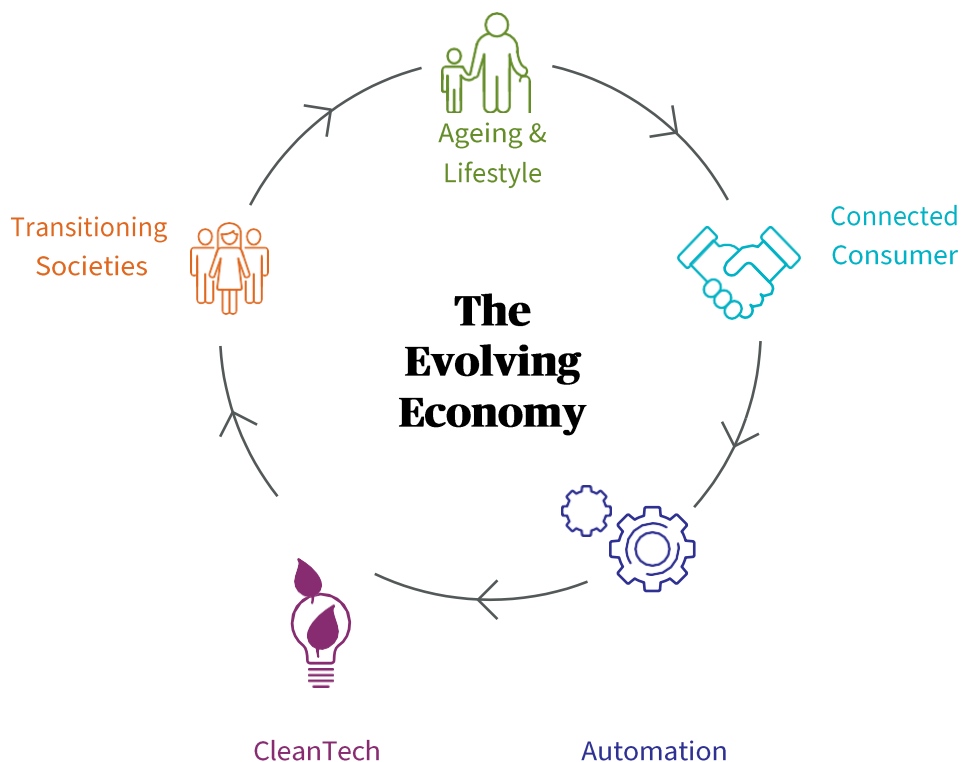
## Framlington Equities

# Thematic equities in focus

## Global growth themes modestly navigate challenging quarter for equities

Mark Hargraves, Head of Framlington Global Equities

After a strong first half of 2019, global equities were muted in the third quarter, with the MSCI All Country World Index delivering a neutral return of -0.03% in USD. While several factors continue to affect the market – including ongoing global economic slowdown, trade wars, earnings downgrades and rising geopolitical tensions – we believe the five global growth themes we see in today’s Evolving Economy have modestly navigated market uncertainty.



It is worth admitting that the **Connected Consumer** theme suffered the most. After multiple months of growth, we have witnessed selling pressure on several US small- and mid-cap software businesses, with investors taking profit. This has been evidenced by digital enabler specialists such as New Relic and Zendesk, being primarily targeted after delivering strong triple-digit returns over the last few years. We see no fundamental change in the

long-term growth potential of this theme – we believe that the digital transformation remains crucial for many businesses, with the inevitable trend of online shopping continuing to take market shares from offline. Recent examples include the well-known travel group Thomas Cook – active since 1841 – which collapsed in September.<sup>1</sup> Over the last decade, increasing competition from new 'online' players such as Expedia, Booking.com and sharing platforms like Airbnb has significantly disrupted the established order.

The **Clean Tech** theme also faced some turbulence, particularly 'sustainable transport' companies, where ongoing trade tensions have heavily weighed on the auto industry. Many companies involved in the 'electrical vehicles' supply chain experienced difficulties over the quarter. On a positive note, we continue to be optimistic about opportunities in 'responsible nutrition', where we see water technology specialists becoming highly regarded by more responsible investors. Climate change, population growth and shifting consumption patterns are stressing clean water resources. Growing social awareness around these challenges are supporting the need for innovative solutions around water waste, water re-use, efficient irrigation practice and water treatment and supply. We are also beginning to see an increasing number of new business segments emerging. For instance, 'meatless foods' will likely be area that creates new, investable opportunities in the coming years.

Within our **Ageing & Lifestyle** theme, the US presidential election in 2020 started to create greater short-term volatility across some health-related sub-themes (health insurance, ageing and pharmacy). We expect to experience further volatility in the coming months, with additional drug pricing proposals due to be unveiled. Nonetheless, the beauty of thematic investing offers a bridge towards a diversified approach where other sub-themes can balance some deficiencies. For instance, companies across the consumer and real estate sectors, whose products and services are positioned to benefit from ageing populations, performed relatively better over the quarter.

The **Automation** theme has behaved positively, with a significant rebound in semiconductor companies – such as industry bellwethers Texas Instruments and TSMC – which are anticipating further growth in 2020, as areas like 5G and autonomous vehicles drive sales and product refreshes. Elsewhere, we continue to see structural growth in emerging markets, where robotics are increasingly adopted as labour costs rise. The International Federation of Robotics recently released its annual projection, which reported that China is still buying more robots than any other countries – in 2018, it installed about 154,000 robot units<sup>2</sup>, more than the aggregate amount installed across Europe and the Americas!

Meanwhile, our **Transitioning Societies** theme continues to benefit from the increasing demand of basic needs (education, homes, health, credit, etc.) among emerging and frontier markets, with China and India leading this transition. With respect to India – where we anticipate a significant population shift from poverty into the 'middle class' in the years ahead – the government announced large corporate tax cuts in September, which should encourage more investment from both domestic and foreign firms over the coming years. According to the World Economic Forum<sup>3</sup>, India – with an annual GDP growth rate of 7.5% – is poised to become the third-largest consumer market (USD value) over the next decade, just behind the US and China.

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## Connected Consumer theme

### WHAT LONG-TERM TREND ARE WE SEEING?

The digital world is somewhat ruthless when you consider that circa

# 2/3

of consumers would avoid trying a brand known for delivering a poor digital experience. Associating with the best third-party specialists is key to driving online sales and competing with other businesses.

Source: The App Attention Index 2019: The Era of the Digital Reflex, AppDynamics, 15 October 2019

### COMPANY FOCUS:

#### **Twilio, US digital communications specialist**

- Twilio is a cloud-based platform that enables developers to build, scale and operate real-time communication solutions with software applications. Twilio's products are not end-solutions, but rather building blocks for developers to create custom communications solutions for unique business needs. Its product set spans voice, messaging, video and authentication capabilities.
- Its largest client is Uber, allowing Uber drivers and customers to communicate via text and call before and after the ride, facilitating a

smooth experience between them.

- 1: Simon Goodley, Kalyeena Makartoff & Caroline Bannock, 'Thomas Cook collapses, stranding 150,000 UK holidaymakers', The Guardian, 23 September 2019
- 2: IFR Robotics press release, 18 September 2019
- 3: World Economic Forum, January 2019

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## Clean Tech theme

### WHAT LONG-TERM TREND ARE WE SEEING?

Global population is increasing, while water supply is not. While the agriculture industry is using

# 70%

of global fresh water resources, some people are facing severe water scarcities, with around 4 billion people living without a reliable water supply during at least one month of the year.

### COMPANY FOCUS

#### Xylem, US provider of water technology

- Xylem is a global leader in water technology, addressing solutions to the entire water life cycle. Xylem technologies improve the efficiency of water usage across residential and commercial, industrial and irrigation applications.
- Xylem is also involved in water measurement and control, and is seeing long-term growth in smart metering and infrastructure analytics

Source: National Geographic – Thirsty Good, 21 March 2019  
Mekonnen and Hoekstra (2016), Four billion people facing severe water scarcity. Science Advanced, Vol. 2, No. 2:  
<https://www.ncbi.nlm.nih.gov/pubmed/26933676>

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Read more about the four themes driving the growth of clean technologies [here](#).

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## Ageing & Lifestyle theme

### WHAT LONG-TERM TREND ARE WE SEEING?

Over the next decade, the 'over 80s' age group in the US are likely to grow

# 17x

 faster than the 'under 60s' population.

United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, custom data acquired via website.

### COMPANY FOCUS

#### Ventas, US REIT

- Ventas is a leading US healthcare REIT and invests in senior living residences, long-term care facilities, physician and life science research buildings.
- The company is mainly exposed to the US (circa 1,200 assets across 47 US states) and its growing healthcare and senior housing real estate markets (c.\$1 trillion market in the US). Ventas owns both independent living facilities for mobile seniors and assisted living facilities for seniors requiring high-touch care.

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Read more about the impact of longevity on the insurance business [here](#).

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## Automation theme

### WHAT LONG-TERM TREND ARE WE SEEING?

Industrial automation equipment is increasingly sophisticated in manufacturing: the more automation that goes into factories, the greater the potential productivity gains. There is a growing use of automation equipment in newer markets such as food processing. The number of robot units installed in the food processing industry grew by

**32%** in 2018, compared to the previous year.

Source: IFR International Federation of Robotics 2018

### COMPANY FOCUS

#### Marel, Icelandic automated equipment provider

- Marel is one of the world's largest manufacturers of food processing machinery, providing solutions for poultry, fish and meat processing industries.
- Marel allows businesses to deliver the right product, to the right customer, at the right time, packed, palletised, labelled and compliant with food safety and traceability standards.

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Read more about how robots are driving growth in non-automotive industries [here](#).

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## Transitioning Societies theme

### WHAT LONG-TERM TREND ARE WE SEEING?

According to the World Bank, there are just

**3.4** hospital beds per 1,000 citizens on average in emerging markets (EM) versus

**9.5** in developed markets.

With an increasing population and wages in EM, there should be a huge move in demand for healthcare facilities.

### COMPANY FOCUS:

#### Grupo Fleury, Brazilian medical and health organisation

- Grupo Fleury is one of Brazil's leading franchises in the healthcare industry, operating 25 hospitals and 216 patient service centers covering eight states corresponding of c.70% of the Brazilian population.
- The company has been operating for 90 years with a well-established brand, and also provides high-complexity tests for laboratories throughout the country.

Source: Emerging market healthcare, UBS Chief Investment Office, 28 March 2017, The World Bank (original source)

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## LEARN MORE:

Read more about what transitioning societies mean for investors [here](#).

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