

TRANSCRIPT: EPISODE 31

7 November 2019 (pre-recorded 6 November 2019)

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[INTRODUCTION]

Sam Slator (SS): Finding a good investment idea at the moment is really hard – because, in the short-term, there's so much uncertainty. We've got an upcoming general election here in the UK, Brexit is still unresolved and further afield we've got trade wars, currency wars, the list goes on. So this week on the Investing on the go podcast, we decided that we'd have some look at some megatrends.

Megatrends are those powerful, transformative forces that could change the global economy, business and even society over the long term. They're those things that have irreversible consequences for the world around us. Think the discovery of electricity, the invention of cars and aeroplanes....the Internet. All those things that have transformed the way we live our lives.

We asked the FundCalibre research team to give us some examples of megatrends and funds that could tap into their potential.

[INTERVIEW]

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Staci West (SW): This week, President Trump served notice that the US will be quitting the Paris Climate Change agreement on the 6 November next year. This action comes against the popular tide of opinion that more needs to be done to tackle the problem before it is too late.

Another area of concern is resource scarcity. According to the United Nations (UN), the global population will surpass 9.7 billion by 2050, at which point they predict the world's agricultural systems will not be able to supply enough food for everyone. The UN takes this a step further by stating that demand for fresh water will exceed supply by 40% in some cities.

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Elite Rated Pictet Global Environmental Opportunities fund goes well beyond climate change and addresses a full range of global environmental challenges. Manager Luciano Diana told us about one of his US holdings tackling water efficiency:

Luciano Diana: “Ecolab is a company that provides solutions for industrial clients as well as hotels and restaurants to manage their water properly. They help the recycling of the water, the processing and more and more this will be crucial. When we think about hotels in Las Vegas in 20, 30, 40 years time they will all have to be self-sufficient from water perspective because there’s not going to be much water in Las Vegas. A company like Ecolab is going to give the technology to do that.”

SW: So for anyone wanting to support, rather than quit, climate change initiatives, this may be worth a look.

[2:27]

Ryan Lightfoot-Brown (RLB): Our second megatrend is Urbanisation. According to some research from PwC, more than half the world’s population lives in urban areas and 1.5 million people are added to the global urban population every week – most of which are in emerging market countries.

So two-thirds of the world's population could be living in urban areas by 2050. With this urban migration, space and accommodation will become more of an issue in major cities, placing huge demands on infrastructure, services, job creation, the climate and the environment.

India is a great example of where this is taking place. It has been slow to urbanise, but this is changing fast. So investors could consider Elite Rated Goldman Sachs Indian Equity fund, IIFL India Equity Opportunities or Stewart Investors Indian Subcontinent Sustainability.

[3:18]

James Yardley: Another megatrend is the shift in global economic power. Emerging markets now account for around 80% of global economic growth, and 85% of growth in global consumption – more than double their share than in the 1990s.

China is at the centre of this change, given it is set to replace the US as the largest global economy in the late 2020s – when as little as 15 years ago the economy was a tenth of the size of the US. As

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the US has become more concerned that China will overtake it as a superpower, so tensions have increased and trade wars have begun.

Niall Gallagher, manager of GAM Star Continental European Equity fund, gave us his view on trade wars recently:

Niall Gallagher: “I think the China/US stuff is much more important and I think it’s much broader than a global trade war. I think what it comes down to more than anything else is the US waking up to the fact that two decades of technology transfer, which the Chinese often insist on as part of dealing with US and European companies, is beginning to hand too much of an advantage to China.

So I think this is something that’s going to go on for quite sometime. But I think it’s a more profound adjustment and it’s more than just trade. It’s about how China settles into its position as potentially the largest economy in the world.”

RLB: And Martin Lau manager of Elite Rated First State Greater China Growth fund, doesn’t think the US/China trade wars are going away any time soon either:

Martin Lau: “Yes actually the trade war we believe is a huge subject and we also believe it’s going to be something which will last for many many years. It depends on Trump and Xi Jinping. Some times it can be better some times it can be worse, but our view is that this relates to two big economies with different kind of systems having a conflict.

The way that we look at it is first of all it’s creating negativity for the economy, so when you have the two largest economies of the world trying to fight against each other it’s bad for the global economy and we’ve seen that with global growth and we’ve seen that with bond yields worried that the economy’s going to weaken further.”

[5:25]

Darius McDermott: Next up is demographic and social change. Changes in global demographics will also bring major challenges and opportunities for business in the future. For example, last year, for the first time in history, people aged 65 or above outnumbered children under five years of age globally.

By 2050, one in four people living in Europe and North America could be aged over 65, while the number of people aged over 80 is projected to triple. Healthcare and automation are likely to

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become more important as populations age, as will the need for income, as life expectancy figures continue to rise and the longer is spent in retirement.

Polar Capital Global Healthcare trust is an obvious option to tap into this theme. Earlier this year we asked manager James Douglas what he saw as the biggest theme within healthcare:

James Douglas: “Healthcare is such a broad church that pinning down a single long term trend is pretty difficult but if pushed however I’d point to the marriage between healthcare and technology as being the single biggest long term trend. Healthcare companies are investing in and already using technologies to change the way that healthcare is being managed, delivered and paid for.”

[6:33]

SS: Which brings us nicely on to our fifth and final megatrend: technology.

New technology is essential for all these other megatrends to succeed – meaning it’s become a megatrend in its own right. We’ve all seen the success of Amazon where it’s been changing and disrupting multiple marketplaces.

So investors might like to consider Elite Rated Smith & Williamson Artificial Intelligence or AXA Framlington Global Technology as a potential route to tap into this trend. Manager Jeremy Gleeson talked to us about some technical innovations recently.

Jeremy Gleeson: “A really exciting thing about digital payments and the shift away from cash, and cheque - believe it or not there are parts of the world that still use cheques quite significantly - is the fact that people will increasingly become comfortable with a cashless society. One big driver of that which isn’t going away any time soon is demographics. So defiantly the younger generation, the millennials, as they’re commonly referred to, are very comfortable about not carrying any cash with them and paying on card or paying using their mobile phone when they need to make any sort of transaction. And I think that is a transition which is still relatively in its infancy and will have many, many years to run.

SS: If you’d like to find out more about these funds please visit FundCalibre.com and please remember to subscribe to Investing on the go podcast.