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Longevity Economy strategy

The vast majority of companies exposed to the longevity economy reported solid results for Q1 2021

- Investors focus on the reopening of the economy and rebound in spending
- Positive contribution from all our four themes, led by “treatment”
- We increased positions in companies impacted by the short term growth to value rotation

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What's happening?

Increasingly the focus of many investors has moved from COVID-19 to the reopening of the global economy and the potential knock-on effects of a rebound in spending and increased employment in major economies. As such we have seen investors increasing exposure to industries that typically perform well when economic growth is strong, for example global metals and mining firms have been amongst the strongest performers so far in 2021. In contrast, sectors perceived as more defensive, such as healthcare, or that performed strongly during the initial phase of the pandemic, such as technology, have lagged the broad market.

First quarter earnings have been reported for the vast majority of firms, particularly those in the US, in general those exposed to the longevity economy reported solid results, but there are some industries where there is more uncertainty for forward-looking demand. For example, many diagnostics firms were beneficiaries of increased testing volumes for COVID-19, but now that we are on the downslope of the demand curve, it is unclear where testing levels stabilise. In comparison, companies exposed to leisure activities, such as outboard motor manufacturer, Brunswick, continue to report robust demand and a strong pipeline of future business.

COVID-19 outbreaks remain prevalent in many regions, but it is positive to see Europe's vaccination program is making steady progress and in the US, the Center for Disease Control provided guidance that fully vaccinated people no longer need to social distance or wear masks when gathering indoors or outdoors. Overall, while the global picture remains mixed, there are clear signs that the vaccines are turning the tide on the pandemic.

Portfolio positioning and performance

The longevity economy strategy underperformed the broader equity market (MSCI All Country World) in May although all four of the strategy's themes contributed positive absolute performance.

Some of the strongest contributions to performance came from the treatment theme. The treatment theme seeks exposure to companies addressing diseases with higher prevalence in older patients. As populations age, different conditions become more prevalent and could exert significant pressure on global healthcare systems if unaddressed with better treatment options. AstraZeneca is an example of an innovative biopharma company with exposure to the treatment theme. Over the last year, we believe the underlying strength of AstraZeneca's business has been obscured by its involvement in developing the Oxford University COVID-19 vaccine. We see long-term potential for growth from AstraZeneca's portfolio of approved medicines, particularly in oncology, that is not being fully appreciated by the market at present.

One of the striking aspects of the pandemic has been the rapid adoption of wellness services, such as telemedicine. Companies such as Teladoc are big beneficiaries of increased demand, at this point it is unclear how much of the demand will be sticky, which is why there has been more volatility in the share prices of telemedicine companies recently. What does seem clear though is that healthcare systems need to adapt to increasing demand as populations age and telemedicine has shown itself to be a credible method of absorbing increased demand, even if that demand increase occurs rapidly, which bodes well for the long-term attractiveness of telemedicine to healthcare providers.

During May, we increased positions in companies which we believed had sold off unfairly due to short term rotations between sectors. Particularly focusing on stocks within healthcare, financials and fitness apparel.

Outlook

We are now 12 months on from the first wave of the pandemic hitting the world's largest economies. The dramatic success of global vaccine development programs means we reach this point with the prospect of economies reopening and social distancing requirements being eased. The uneven global distribution of vaccines means it is likely regional disruption of economic activity due to COVID-19 will continue for some time. But it is likely that investors will look at second quarter financial results as an important signal about the pace of recovery in demand, which could induce short term volatility if expectations are not met. However, for long-term investors this would likely present a buying opportunity.

Stepping back from macroeconomic considerations, we retain the view that high quality management teams, operating businesses with a sustainable competitive advantage and with the benefit of secular tailwinds are well-placed to navigate the current disruption. Despite the headwinds many businesses have faced over the last 12 months, the unshakeable conclusion on the outlook for the longevity economy is that the global population continues to age and this creates opportunities for companies that are positioned to benefit from long-term changes in consumption patterns that ageing populations will bring.

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