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Longevity Economy strategy

The FDA¹ approves Aduhelm, the first drug that could tackle the underlying cause of Alzheimer

- Fitness apparel sales continue to impress as COVID-19 restrictions ease
- Positive contribution from all our four themes, led by “wellness” and “treatment”
- Focus remains on long-term changes brought about by ageing populations

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What's happening?

Global ageing populations bring a host of opportunities, we are expected to live longer on average, how do we want to spend that extra time? But ageing populations, like all things, also bring challenges, one of which is an increasing prevalence of age-related diseases, such as Dementia. Drug development in Alzheimer's disease has been particularly challenging and there had been no new drugs approved in the US for the last 20 years. But in June, the FDA approved Aduhelm, the first drug for Alzheimer's that many believe tackles the underlying cause of the disease. While approval was not without controversy it shines a spotlight on a big unmet medical need and offers patients hope for the future.

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. In some cases, the rebound in demand has taken investors by surprise, for example Nike released a set of financial results with record demand coming from the US as the World's largest economy continues to normalise. It is interesting to observe that consumers are turning to fitness apparel at record levels as pandemic restrictions continue to ease. A new research paper published in June showed that people who stayed physically active throughout their lives had significantly lower medical expenses later in life², underlining that the consumer seeking to live longer and healthier must remain active throughout their life.

Portfolio positioning and performance

The longevity economy strategy performed in line with the broader equity market (MSCI All Country World) in June with strong performance from the wellness and treatment themes.

¹ US Food and Drugs Administration.

² Coughlan et al. BMJ Open Sport & Exercise Med. 2021, 7.

The wellness theme of ageing acknowledges that we must live healthier throughout our lives if we want to reach our later years in good health. Therefore, the longevity economy is about our whole life not just the end of our lives and lifelong fitness is a key aspect of this. Much like we save for our retirement throughout our working lives, keeping fit is a small regular investment in our future health. Stocks such as Nike and Lululemon are well-placed to benefit from the need for life-long physical activity.

One of the striking aspects of the pandemic has been the rapid adoption of wellness services, such as telemedicine. Companies such as Teladoc were 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.

Living longer lives in a rapidly changing world means lifelong learning will be crucial to keep our skills up to date. The challenge of investing in the education sector is it is largely non-profit and many for-profit companies suffer from poor returns, in part due to the challenges of competing with strong brands of the non-profit institutions. We believe there are some good opportunities in this sector and we are refocusing our exposure on those stocks with stronger returns metrics.

Outlook

Global markets rallied to an all-time high in June, driven by positive economic growth in multiple regions and news that in the US, President Biden's infrastructure plan had achieved bipartisan support. However, at times economic data has been contradictory, for example the US Federal Reserve recently moved forward its expected timing for interest rate increases and inflation appears to be rising in multiple regions, which could present further problems for policymakers. Overall, we remain cautiously optimistic because COVID restrictions continue to ease which should drive a normalisation of demand and data from the UK's recent surge in COVID cases shows lower hospitalisation rates that suggest the vaccines are working as expected.

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 faced during the pandemic, 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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