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Longevity Economy strategy

The strategy behaved positively as concerns around Omicron fade

- Global equity markets rose in December
- Positive contribution from all our four themes, led by “senior care”
- We increased our exposure to financials and medtech companies following recent market volatility

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What's happening?

Uncertainty created by the emergence of the Omicron COVID-19 variant continued in December causing significant equity market volatility, particularly at the beginning of the month. Volatility eased during the month as evidence began to emerge that the Omicron variant of COVID-19 may, in general, cause less severe illness than previous variants. As volatility fell, the MSCI AC World Index regained much of the ground lost when the Omicron variant emerged. Trading volumes fell as the month progressed as investors reduced activity ahead of the festive season.

The combination of increased COVID-19 uncertainty and higher expectations for interest rate increases created a challenging environment for stocks exposed to the longevity economy at the end of November. As evidence emerged that Omicron may be more mild than previous variants, many of those companies exposed to the longevity economy rose more strongly than the MSCI AC World Index.

Portfolio positioning and performance

All four themes of the longevity economy (wellness, silver spending, senior care and treatment) rose in December. The longevity economy strategy outperformed the broader equity market (MSCI All Country World) during the month.

Outperformance was driven by exposure to US health insurers as part of our senior care theme such as United Health Group. Between now and the end of the decade, countries such as the USA, are expected experience historically high rates of growth in the size of the over 65 population. Healthcare spending rises with age; on average the over 65s spend double per annum on healthcare than the under 65s. Having effective health and social safety nets is therefore very important for this age cohort. Health insurers provide important services in minimising financial risks to seniors from higher medical costs and can assist in improving efficiency of healthcare spend to achieve the most beneficial outcomes for patients.

In contrast, many of our digital health holdings such as Exact Sciences Corporation within the wellness theme contributed less positively to performance. Many digital health stocks trade at high valuations and some of these stocks did not bounce back as strongly as volatility subsided, this could be due to higher expectations for interest rates increasing the cost of capital for companies, which reduces expected valuations for equities.

We took the recent market volatility as an opportunity to increase our exposure to financials and medtech stocks that we believe had sold off excessively.

Outlook

While there are still numerous unanswered questions about the Omicron variant of COVID-19, the evidence appears to support the notion that infections are generally less severe than with earlier variants and existing vaccines provide at least some protection against the worst symptoms. If the evidence continues to support this, then the virus may become more manageable and allow further normalisation of economies once the current wave of infections has passed.

The consensus is that COVID-19 is highly likely to become endemic and, if so, healthcare systems will need to learn to adapt to the virus's continued presence while allowing economies to normalise. Therefore, taking a long-term perspective, we see the current volatility as an opportunity to increase exposure to stocks we believe have the best long-term prospects.

Many stocks exposed to the longevity economy have underperformed the broader market over the last couple of years, this is perhaps unsurprising given the COVID-19 pandemic reduced life expectancies in a number of countries, although this is likely to be a temporary trend. With the rate of growth in persons over 65 years' old accelerating in Western economies over the next few years we believe companies exposed to the theme of longevity can experience long-term secular growth. However, it also exposes the strategy to some sectors that rely on healthcare systems to capably manage spikes in COVID-19 while economic activity largely continues unrestricted. As such, volatility in the strategy's performance could continue if investor's doubt this balance can be achieved.

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