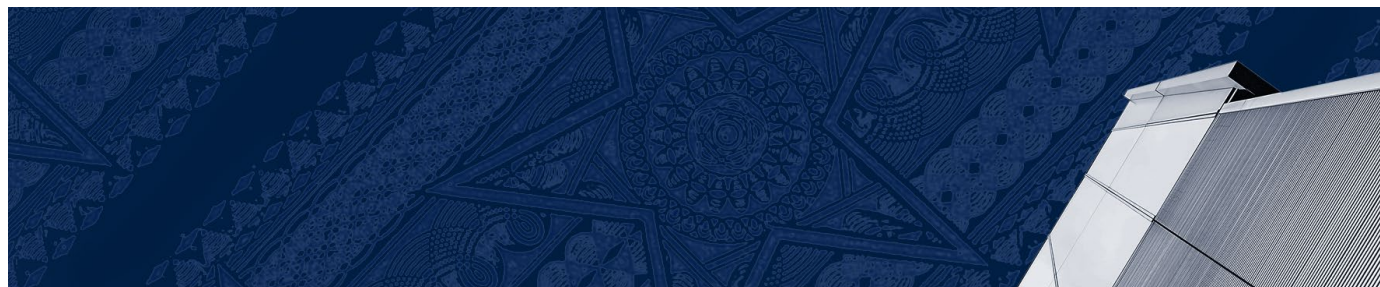




Perspective



Martin Maurel Senior Plus, investing in a sustainable theme: the “Silver Economy”

Focused on the needs of over-50s, the “Silver Economy” offers a sustainable investment theme thanks to increasing life expectancy and ageing population. Nathalie Bourdoncle, portfolio manager of Martin Maurel Senior Plus, details this particular investment theme.



Nathalie Bourdoncle
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What is the “Silver Economy”?

Nathalie Bourdoncle: The European Commission defines the Silver Economy as all products and services that meet the specific needs of over-50s by helping improve their health and well-being. However, seniors are a heterogeneous group. To better identify their consumption patterns, we use the segmentation defined by the *Crédoc*⁽¹⁾. We distinguish active seniors, aged between 50 and 70, with enough time and money to be consumers, from over 70s, with greater medical needs.

The Silver Economy is more than just a marketing concept. This theme even receives special attention from public policy makers.

In France, Michèle Delaunay, Minister for the Elderly and Dependent Care from 2012 to 2014, commissioned a *Crédoc* report which led to a dedicated initiative to persuade economic actors to consider the needs and habits of this population.

Most seniors are free from a number of financial constraints, such as paying for their children's education or their own home. They have considerably more financial capital than other segments of the age pyramid. This is particularly true for baby boomers who benefited from full employment in the post-war period. They consume more in sectors like leisure, home goods, tourism and food as well as in other sectors more closely correlated to the ageing population, such as healthcare.

(1) Centre de Recherche pour l'Étude et l'Observation des Conditions de Vie, a research body that supports organisations active in economic and social areas.

Why create Martin Maurel Senior Plus?

N.B.: Seniors represent a growing part of the world population. Besides, they are actively looking to improve their lifestyle, a point that economic players often overlook. This insight gave us the original idea for a thematic fund investing in eurozone equities that would track the expansion of growth companies targeting the needs of senior citizens.

Given my experience as a financial analyst, covering healthcare, retail (leisure, cosmetics, the food industry), as well as small and mid-caps, the investment universe and the fund's theme were a perfect match. The universe comprises some 150 stocks of capitalisation sizes, in sectors that include healthcare, of course, but also leisure, personal care and asset management.

This universe continuously evolves as result of new IPO or corporate spin-offs, like Siemens with Siemens Healthineers. As an example, we break down healthcare into eight sub-sectors, including general and specialist pharmaceutical companies, biotech firms, medical equipment providers, healthcare services, private hospitals and care homes, and others. But, as I mentioned,

the theme also encompasses leisure with tourism, retailers with cosmetics and food supplements, technology, including software publishers such as Pharmagest commissioned to develop a digital medical file system in France, and, finally, finance in the form of asset management as well as life and health insurance.

The inception of Martin Maurel Senior Plus arose from an unmet need from private banking clients and because our portfolio management teams were looking for an investment solution with a clear long-term theme. This fund aims to provide diversification through two key areas: health and its sub-segments, around 70% of the portfolio, and more opportunistic sectors like tourism and consumption.

“Seniors represent a growing part of the world population actively looking to improve its lifestyle...”





“The Silver Economy captures a number of sectors with a structurally higher growth rate than the rest of the economy...”

Why is the Silver Economy a long-term investment theme?

N.B.: It is necessarily a long-term theme. The population will not stop ageing overnight. Also, its growth is driven by the falling birth-rates we are witnessing in many countries, and longer life expectancy. These two factors inevitably lead to an ageing population. The second one also means seniors enjoy their retirement for a longer amount of time.

We find that the proportion of over-70s in the population is growing both in the Eurozone and in the rest of the world. It is interesting that these trends are a global social phenomenon, not restricted to developed countries but also apparent in emerging ones. Governments are aware of this issue, and they are enforcing public policies aiming to provide access to healthcare for their population, whether by subsidising costs or

by incentivising actors from the economic sphere to develop, as much as possible, entry level ranges for the most expensive medical devices.

For instance, many pharmas are now looking to emerging markets for their expansion, namely China where lists of reimbursed medicines are being developed and a rudimentary social security system is emerging for some illnesses, such as cancer. These countries are particularly important new growth areas for this theme. For instance, Sanofi is putting China at the core of its development plans.

The Silver Economy captures a number of sectors with a structurally higher growth rate than the rest of the economy. These sectors also tend to be less sensitive to exogenous economic factors, except perhaps the impact of dollar variations on pharmaceuticals companies' earnings. On the other hand, political decisions weigh heavily, for better or worse.

What is your portfolio construction process?

N.B.: Our investment process includes a bottom-up approach, based on both qualitative and quantitative analysis. Our inclination towards growth stocks perfectly suits the fund's investment theme. We like to track companies as they do business, get to know their history, etc.

Our qualitative approach is based on regular dialogue with management teams which allows us to better assess their quality and reliability. We also pay special attention to the competitive dynamic in the sector, companies' business models as well as refocusing on specific activities, so we can get a fair view of their economic prospects. Our quantitative analysis focuses on both valuation and earnings momentum we then compare to analysts' consensus and companies' own estimates.

“We have a fairly strict conception of the Silver Economy and make sure our investments are consistent with the thematic...”

Seniors want to age well. We are therefore especially interested in sectors and companies selling products that enhance their living standards. In a sense, we have a fairly strict conception of the Silver Economy and make sure our investments are consistent with this thematic. Accordingly, we undertake qualitative analysis of their product range as well as their strategy before deciding whether they are really addressing the seniors' needs.

How has the fund performed this year?

N.B.: Since the start of the year the fund has played its defensive role as markets were shaken by trade tensions between the US and China, political uncertainty in the Eurozone, slowing growth in China, etc. Its resilience stems from our exposure to niche pharma labs, such as oncology-specialist Ipsen, and AstraZeneca, one of our high-conviction bets we have gradually reinforced over the year.

This firm should experience renewed growth in 2019 thanks to the launch of a new and innovative range of treatments for cancer. The company has been exposed to major generic risks in the past but has been able to find paths towards growth via this new range of products, under the leadership of its iconic and experienced Chairman.



Elsewhere, our investment in Evotec, which sells R&D services to pharmaceutical companies, has been another strong performance driver so far this year. These stocks from the healthcare sector have posted growing quarterly profits and benefited from the uplift in their earnings forecasts.

In addition, our low exposure to financials, which have been hardly hit by Italian uncertainties, helped us ride out the turbulence of recent months without suffering consequences. As suits our theme, we are highly selective on this type of stocks and are mostly invested through asset managers like Banca Generali or DWS, Deutsche Bank's asset management arm.

“Given the current environment we have mostly favoured the defensive sectors of our universe...”

What is your current positioning?

N.B.: Given the current environment we have mostly favoured the defensive sectors of our universe. We preferred healthcare, specifically large and mid-caps. For instance we recently reinforced Amplifon, European leader in the hearing aid market, Grifols, specialising in plasma products for haemophiliacs, and Novartis, which has refocused on pharmacy and biosimilar medicines.

Despite this interest in healthcare, we are selective and cautious when it comes to biotech firms. We have in fact tended to reduce our exposure to these companies over the year. It should be noted that they can be listed simultaneously on their home markets and, increasingly, on the NASDAQ, the US tech stock market. One consequence of such double listings is the repercussion of NASDAQ downturns on these stocks' valuation in their home market, despite any negative newsflow regarding their fundamentals.

Biotechs often run at a loss and market valuations fluctuate widely in light of their clinical progress. These firms require significant cash levels to invest in Research. As minority shareholders looking to avoid ownership dilution on the market, we keep a close eye on their cash holdings and cash burn rates.

Performance	2018	2017	2016	2015	2014	2013	5 years	1 year volatility
Martin Maurel Senior Plus C EUR	-3.05%	15.64%	0.70%	28.79%	7.92%	23.10%	57.35%	15.31%
Euro Stoxx NR	-7.39%	12.55%	4.15%	10.33%	4.14%	23.74%	25.76%	13.79%

Source: Rothschild & Co Asset Management Europe, 30/11/2018



Recommended investment period: 5 years

This fund is rated in category 6 (volatility between 15% and 25%) reflecting primarily a discretionary investment policy on the eurozone equity markets. Historical data used to calculate the synthetic risk and reward indicator may not be a reliable indication of the future risk profile of the fund; the risk

category of this fund is not a guarantee and may go down as well as up. The lowest category does not mean risk free. The Fund is not guaranteed capital. More detailed information about risk profile may be found under the "Fees and Expenses" heading in the prospectus.

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