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The Silver Economy put to the test by COVID-19

Rothschild & Co
Asset Management

In 25 years' time, there will be twice as many people over the age of 65 in the world as there are now, and 30% of the world's population will be over 80 years old. The ageing of the population is therefore well and truly underway, and a corollary of it, the Silver Economy, has been seeing a trend of long-term growth. Nevertheless, the COVID-19 crisis has left its mark, severely testing certain business models while at the same time bringing new opportunities. Having been at the helm of the R-co Thematic Silver Plus fund for nearly 10 years now, the thematic management team at Rothschild & Co Asset Management Europe is drawing up an initial assessment.

What impact has the COVID-19 crisis had on the Silver Economy?

Faced with an event of such magnitude as the COVID-19 pandemic, we have been able to observe a clear dichotomy between the consumption of essential goods and services (medicines, online services, food distribution, etc.) and those whose consumption can easily be dispensed with (hotels/leisure facilities, audio-visual equipment, etc). In the healthcare industry in particular, the COVID-19 pandemic has led to a race to innovate and incorporate new processes. Never before have so many resources been mobilised in such a short period of time to fight a disease, whether that be in terms of diagnosis or in terms of research into treatments and vaccines. It is, however, still difficult to say which projects are actually going to succeed as the technologies are still new, particularly when it comes to developing vaccines. It also worth highlighting that some laboratories are joining forces to develop a treatment, as is the case with Roche and Gilead Sciences.

The COVID-19 pandemic has led to a race to innovate in the healthcare industry...

This health crisis has brought to light certain shortcomings within healthcare systems. What impact could this have on the investment theme?

The COVID-19 crisis has clearly highlighted the fragility of the elderly and exposed beyond any doubt the lack of investment in hospitals, particularly in intensive care units and in medical infrastructure more generally. We can reasonably expect that additional budgets will be made available to improve the situation and tackle the needs of the elderly.

To support research to counter COVID-19, the European Union has raised

€7.4

billion

In France, for example, the Minister of Solidarity and Health has just announced plans to create a fifth branch in Social Security in addition to the retirement branch, dedicated to dependency which will have resources of its own. A report from March 2019[1] estimates that it will cost 30 billion euros per year, and the COVID-19 crisis has certainly acted as a catalyst for this project which had been discussed for several years. For its part, Germany has announced an investment plan worth almost 10 billion euros dedicated to healthcare. It will be structured around five axes, including the financing of medical infrastructure and the relocating of the production of drugs and medical equipment.

Coming back to the crisis itself, the areas raising the most questions area potential resurgence of the virus, or even see it becoming seasonal, as well as the race to a reliable vaccine. If the substantial research costs and lockdowns were to become recurring phenomena, one can undoubtedly expect a negative global impact, including the theme in question. But experts agree that a vaccine is likely to be developed within 18-24 months, with questions around its funding quickly answered. In May, the European Union successfully raised EUR 7.4 billion from public and private funds to support the research.

The COVID-19 crisis has also sparked changes in our consumption habits. How have companies involved in the Silver Economy adapted?

Here again, the impact has differed depending on the activities carried out. Cruise operators have been strongly affected by the challenges of having to repatriate their passengers, hospital capacity abroad, and sudden border closures. On the other hand, all businesses connected to e-health (such as teleconsultation) and e-pharmacy (online sales of medicines and non-prescription products) have grown significantly and will continue to become more prominent. The diagnostics industry has also been in the spotlight during this crisis, and demand and needs will remain sustainable to handle a potential resurgence of the pandemic. Similarly, online entertainment providers will continue to ride the wave of increased demand. Finally, certain segments still relatively unknown to the stock market a few months ago, are now raising more interest (these include home delivery and telemedicine).

What is the Silver Economy?

The European Commission defines the Silver Economy as including all products and services that meet the specific needs of people over the age of 50, and which contribute to an improvement in the quality of their health and comfort. However, seniors are a heterogeneous group within which Crédoc[1] distinguishes between 'working people' between 50 and 70 years old, who have the time and financial means to consume, and people over the age of 70, who tend to have increased medical needs.

Due to the combined effect of a falling birth rate and increased life expectancy, the elderly represents the highest growth dynamic segment of the population. According to a study conducted by Oxford Economics[2], a consultancy firm specialising in economic forecasting and quantitative analysis, the Silver Economy can even be said to be the third-largest 'world economy'. As such, economic activities aimed at meeting the needs of seniors have been strongly benefiting from this structural trend.

The companies that make up the Silver Economy come from a wide range of sectors, including, in particular, healthcare and all its sub-sectors, leisure (cinemas, hotels, cruises), consumption (nutrition, home appliances, cosmetics, fitness), asset management, but also new technologies.

(1) The Centre de Recherche pour l'Étude et l'Observation des Conditions de Vie is a French study and research organisation that aims to serve those involved in economic and social life.
(2) GALLOWAY, Hamilton, MARTIN, Dan, REID, Michael. The Longevity Economy – How People Over 50 Are Driving Economic and Social Value in the US, 2016.

85% of seniors want to keep on living at home a trend, which could already be seen before COVID-19 emerged...

Care facilities for the elderly have often been mentioned during this crisis. What might the sector's reaction be?

The impact on retirement homes will prove to be largely negative, but it is interesting to see that some of the specific needs of seniors have been highlighted, along with an even more determined desire to develop home care services. Indeed, 85% of seniors want to keep on living at home. This trend, which could already be seen before COVID-19 emerged, has only been reinforced with the growing

(1) LIEBAULT, Dominique, CONCERTATION Grand âge et autonomie, Dicom, March 2019.

The e-health market is currently worth

€58 billion

development of solutions for dependent elderly people at home. An important debate is under way to develop appropriate solutions, whether in healthcare or home automation (updating houses by installing fall detectors) to enable seniors to live at home for longer.

Another aspect to consider is the high cost of a day of hospital care. Home care is favored as it is a more cost-efficient solution. Oxygen therapy and solutions to sleep-related problems can now be carried out at home. Companies such as Air Liquide, as well as smaller companies like Bastide Le Confort Médical Group, provide this type of service. Shared housing is another trend showing positive momentum among seniors and across generations, thanks to multiple services aimed at improving safety at home now available.

Are the issues raised by the COVID-19 crisis ultimately likely to foster the development of the Silver Economy?

The COVID-19 pandemic has obviously affected each sector in very different ways. However, this crisis has highlighted the incredible capacity of stakeholders within the healthcare sector to mobilise, and the increasingly crucial nature of digital tools. It has thus revealed the glaring shortcomings of our health systems, particularly related to elderly care. There is no doubt that public policies are going to work towards remedying these shortcomings with even greater conviction. Moreover, the needs that have been exacerbated by the COVID-19 crisis provide opportunities for economic players wishing to invest in order to meet them. Ultimately, this crisis has made it blatantly clear that one of the most powerful drivers behind the development of the Silver Economy, alongside demographics, is, and will undoubtedly remain, technology and innovation.

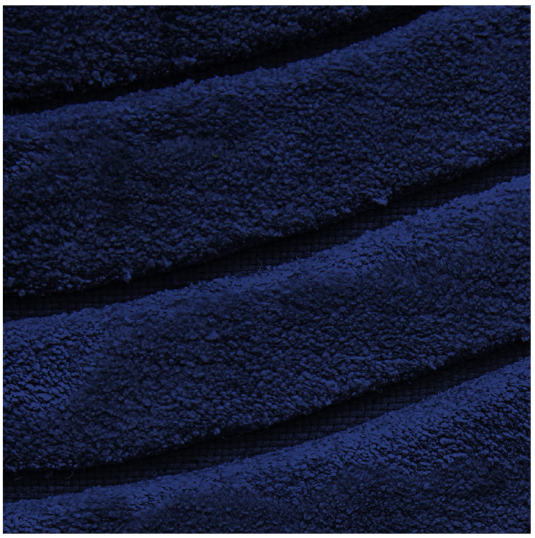
Senior citizens have shown themselves to be in need of technological innovation...

In the healthcare sector, for instance, whether in terms of operational efficiency, accessibility of care or cost reduction, digital technology is becoming ever more present in the medical world. By way of example, software developers dedicated to healthcare share a market worth an estimated USD 188 billion worldwide in 2019, a figure that could reach USD 391 billion in 2024. The COVID-19 crisis has also accelerated the use of teleconsultation in retirement homes. It is estimated that e-healthcare is already worth 58 billion euros globally, suggesting a strong growth potential here. Medtechs, using technologies such as robotics and artificial intelligence, will continue to provide new solutions. In the private sector, senior citizens have adopted

technological innovations that are enabling them to keep in touch with their loved ones (WhatsApp, Facebook, etc.), and demand for these innovations is high. Looking ahead, we can be sure that they will continue to display an extremely strong demand for this type of technology, which facilitates social contact, as well as for any solutions that help them enjoy greater comfort.

If we look to the immediate future, experts say that the global market for IT solutions for home medical monitoring is set to grow from 10.7 billion euros in 2016 to 31.5 billion euros in 2021[2]. The global market for portable e-devices is expected to reach 144.3 billion euros in 2026, as compared with 38.5 billion euros today. This market will include high-tech clothing ('smart clothes'), smart glasses, smart watches and physical activity trackers[3]. All these devices will offer seniors greater comfort as they age. One can even envisage a situation whereby self-driving cars find a significant opening among seniors. It is estimated that this market will be worth 38 billion euros in 2025 and 70 billion euros in 2035[4]. These figures may come as a shock, but they do show that, over and above one-off crises in general and the one that we are currently experiencing the Silver Economy still has a bright future ahead of itself. ■

(2) McWILLIAMS, Andrew, Global Markets for Telemedicine Technologies, BBC Research, May 2016.
(3) DAWSON, Freddie, Smart Home Sector Could Be Worth Hundreds Of Billions In Next Five Years, Forbes, 30 September 2015.
(4) Technopolis, Oxford Economics, WORTHINGTON, Henry, SIMMONDS, Paul, FARLA, Kristine, VARNAI, Peter, The silver economy, European Commission, April 2018.



Within 30 years, people over 65 years are expected to account for

16%

of the world's population

In 2024, the market for healthcare software publishers could reach

€391

billion

R-co Thematic Silver Plus

R-co Thematic Silver Plus is a thematic fund invested in Eurozone equities, offering access to a clear and sustainable theme, the Silver Economy. This investment solution is aimed at benefiting from the growth in companies whose activities meet the needs of seniors through two major themes — healthcare and its sub-segments — and exposure to more opportunistic sectors, making up an investment universe of around 200 stocks, all market capitalisations combined.

The portfolio management team uses a qualitative bottom-up approach to develop an in-depth analysis of companies' growth prospects, complemented by a quantitative analysis based on valuation and profit momentum.
The stock selection is made among companies which offer products that improve seniors' living conditions. Their product portfolios and strategic orientations are thus analysed in priority.
The Silver Economy concept is implemented in accordance with a rigorous definition aimed at ensuring the consistency of investments with respect to the theme.

	2020	2019	2018	2017	2016	2015	5 ans	Volatilité 1 an
R-co Thematic Silver Plus C EUR	0.74%	24.76%	-9.16%	15.64%	0.70%	26.79%	43.76%	21.88%
Euro Stoxx ® NR	-15.69%	26.11%	-12.72%	12.55%	4.15%	10.33%	2.09%	29.33%

Source: Rothschild & Co Asset Management Europe, 29/05/2020.
The figures quoted relate to previous years, past performance is not a reliable indicator of future results.
Fund performances are calculated net of management fees, dividends reinvested.

Recommended investment period: 5 years
The level of risk of the UCITS is 6 (volatility of between 15% and 25%) and primarily reflects a discretionary management policy on equities and fixed income markets. The historical data used to calculate this synthetic indicator may not be a reliable indicator of the UCITS' future risk profile. The risk category associated with the UCITS is not guaranteed and may shift upwards or downwards over time. A rating of 1 does not mean that the investment is "risk-free". The capital invested in the UCITS is not guaranteed. Other important risk factors, not adequately taken into account by the indicator: liquidity risk, impact of techniques such as derivatives. The occurrence of one of these risks may result in a decrease in the UCI's net asset value. For more information about the risk profile and its main contributors,please refer to the prospectus.

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Rothschild & Co Asset Management Europe - 29 avenue de Messine - 75008 Paris Société de gestion agréée par l'AMF n° GP-17000014

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Contacts

France - United Kingdom

Paris
29, Avenue de Messine
75008 Paris
+33 1 40 74 40 74

Switzerland

Geneva
Equitas SA
Rue de la Corraterie 6
1204 Geneva
+41 22 818 59 00

Germany - Austria

Frankfurt
Börsenstraße 2 - 4
Frankfurt am Main 60313
+49 69 299 8840

Belgium - Netherlands - Luxembourg

Brussels
Avenue Louise 166
1050 Bruxelles
+32 2 627 77 30

Italy - Spain

Milan
Via Santa Radegonda 8
Milano 20121
+39 02 7244 31