



The Silver Economy

Evolution, challenges and outlook of a sustainable growth theme



Over the last decade, the Silver Economy theme has evolved significantly. Demographic change has accelerated on a global level and there have been numerous innovations in the fields of health, technology and services for seniors. Consequently, since the launch of the R-Co Silver Plus fund the investment universe has undergone profound change and has been considerably enriched.

How the theme of the Silver Economy has evolved over the past 10 years

A geographical tipping point

The first observation to make is that Asia is occupying an increasingly significant place in the field of health. Whereas the United States was once the main growth engine in the sector — and remains the most lucrative outlet — a re-balancing is currently taking place in favour of Asia, and China in particular. In China, the authorities have acknowledged the effects of ageing (partly brought about, of course, by the One-Child Policy) and the need to build a real health system that is accessible to as many people as possible, and to the elderly in particular.

As a result, the protection authorities have reduced the time it takes to register new medicines (now 18 months, rather than 7 years as it was before) and set up a list of medicines for which reimbursements will be provided.

The ageing of the population is affecting more and more emerging countries...

Western companies have been quick to step in, a prime example being AstraZeneca, which, since 2018, has marketed a series of anti-cancer medications, or Amplifon, in the hearing aid sector, which has signed an agreement with a local Chinese firm. In diagnosis, Biomerieux has bought Hybiome in order to grow in this market, and Orpea (a specialist in the management of assisted living) has also established itself.

With the ageing phenomenon also becoming more present in developing countries in Asia and Africa, this re-balancing is only just beginning.



Technological innovation & the evolution of traditional sector activities

The consequence of an ageing population is that certain pathologies (such as cancers, Alzheimer's and Parkinson's disease, etc.) have been on the rise, but it has also led to the emergence of new consumer needs. As a result, the last 10 years have been marked by both innovation in the field of medicine and great progress in terms of goods and services aimed specifically at seniors, changing the nature of companies' activity portfolios considerably.

In pharmaceuticals, research has enabled a wave of innovations to take place. Whereas in 2011, for example, the FDA⁽¹⁾ only had to evaluate one new medicine, in 2018 a record number of 60 new products were authorised. New medicines have made it possible to improve existing treatments or to treat illnesses for which no therapeutic solutions had previously been available, such as for example hepatitis C, certain late-stage cancers, and even several rare diseases. Cancer specialists now have new weapons in their arsenal, such as Keytruda (for cancer of the head and neck) or Tecentriq (for lung cancer).

These discoveries are founded upon major advances that have taken place in the fields of genetics and immunity mechanisms. Thanks to gene editing techniques, it is possible to reprogram immune cells so that they destroy cancerous cells. By way of example, immunotherapy makes it possible to fight blood cancers or even rare diseases. The examples above illustrate how the medicine portfolios of the major pharmaceutical companies have become considerably more up-to-date and sophisticated.

Innovation is the name of the game in everyday life, too, and numerous businesses are adapting their activities so that they can offer goods and services intended for the elderly. The Belgian operator Kinopolis is offering film screenings for the elderly, and the major players in the cosmetics and food industries, such as L'Oréal or Nestlé and Danone, are designing anti-ageing products and even *ad hoc* foodstuffs. These strategic axes are starting to play a pivotal role, and new lines of products and services are emerging.

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.

The last 10 years have been marked by great upheavals in the field of medicine...

Movements of capital on the one hand, structural changes on the other

In this context, companies in the Silver Economy have significantly developed their business models to adapt to the specific needs of seniors, while attempting to limit the rising costs of development. Many of the major companies have opted to concentrate on the core essence of their craft, in order to optimise their allocation of resources. Some of them have created spin-offs⁽²⁾, like Novartis with Alcon, Philips with Philips Lighting, and indeed Fagron (tailor-made medicines) with Omega Pharma.

(1) The Food and Drug Administration is the American administration responsible for foodstuffs and medications, in particular, for authorising the release of medications onto the market in the United States.

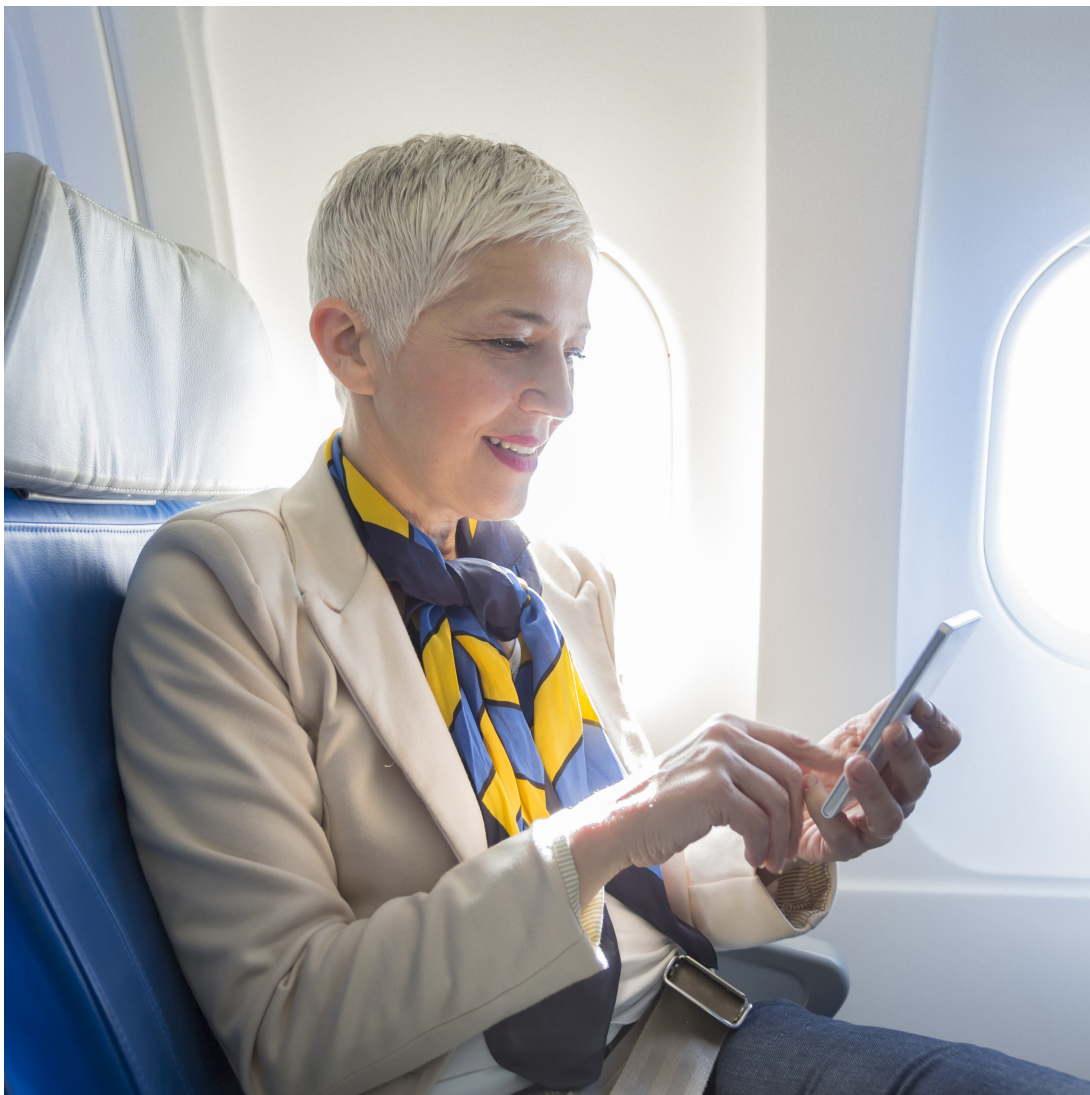
(2) A spin-off, or scission, involves the creation of a new entity from one branch of a company's activity.

Within this pattern of re-centring on a limited number of activities, we have also seen a phenomenon whereby companies stop doing associated activities, as was the case with animal health for Sanofi, or the provision of non-prescription medicines for Novartis.

Conversely, we have also witnessed some major consolidations. Many of the sectors that constitute the Silver Economy are very fragmented and M&A offers the possibility of accelerating innovation or integration (whether vertical or horizontal). Noteworthy examples here are, in the field of hearing aids, the purchase of the distributor Audika by the manufacturer William Demant, and, in the field of optics, the purchase of Luxottica and Grandvision by Essilor. Finally, in pharmaceuticals, targeted acquisitions aimed at completing or strengthening laboratories' therapeutics wings have become the norm, in stark contrast to the mega-mergers of the 2000's.

What will really matter going forward is not whether you are the dominant player, but whether you can be at the cutting edge in a limited number of therapeutic fields. An example here is Sanofi: the company was able to enter the rare diseases market in 2011 through the acquisition of the American biotechnology company Genzyme. More recently Sanofi bought the Belgian biotechnology company Ablynx in order to strengthen their presence in this field. These trends are clearly destined to continue.

*Close alliances have been created
between laboratories
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for innovation together...*





Outsourcing of processes has also emerged, with major companies entrusting responsibility for conducting both research into new medicines (hitherto mostly conducted internally and the manufacturing of them to “pure-players⁽³⁾”. An example is Lonza, a subcontractor for the production of medicines, and Sartorius Stedim, a supplier of equipment for manufacturing chains. Other services, such as marketing and advertising, can also be outsourced.

Moreover, close alliances have been created between laboratories and biotechnology companies in order to compete in the race for innovation together. The Dutch biotechnology company Galapagos, for instance, has entered into a partnership with the American laboratory Gilead, thanks to which it has been given direct access a portfolio of products under development.

As these examples show, we are witnessing the emergence of ecosystems that are in perpetual evolution, comprised of a plethora of very innovative companies, which are often small or medium in size (biotech, med-tech, and technological startups) and are drawn by the opening up of colossal markets intended to meet the needs of a population with money to spend. These small companies are often financed by Private Equity⁽⁴⁾ funds but once they have developed beyond a certain point, they are often floated on the stock exchange.

Finally, the economic fabric of the companies in the Silver Economy has evolved greatly and has become much younger (small and mid-caps in the public markets) while

also becoming more diverse. The Silver Economy is an endlessly exciting world that is extremely dynamic. These trends that initiated in the United States are now visible in Europe and are spreading throughout the rest of the world.

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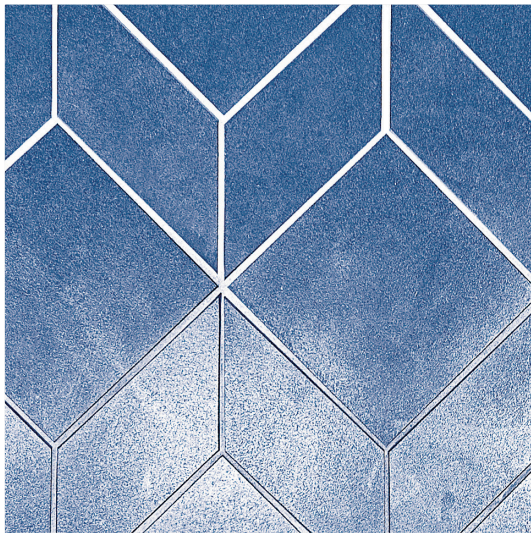
Prospects

Risks to be considered

The main risk as far as the Silver Economy is concerned is, without question, political risk, given the relative share taken up by the health sector in public finances. In this regard, the place to watch could be the United States, with the possibility of Joe Biden being elected president in November 2020 and reforms to the price of medicines being likely. This risk must, however, be weighed up against past experience. When Mr. Obama was elected, he set up his “Obama Care” program within two years, and ultimately it had little impact. From more of a structural perspective, in the United States or elsewhere, innovation remains relatively well-remunerated and, in that sense, the political risk constitutes an efficient stimulus for the businesses involved in the Silver Economy.

(3) A “pure-play” is a business that concentrates on a single niche industry.

(4) Private Equity or Capital Investment is a form of investment that involves investing in unlisted companies.

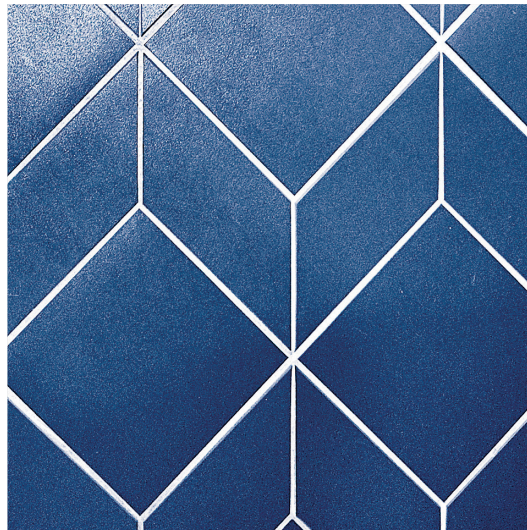


In 2024, the market
for healthcare software
publishers could reach more than

€390
billion

85%

of seniors want to keep on
living at home



Technological risk is also a reality. In the United States, for instance, in the hearing aids sector, devices have started being sold without a prescription. The threat must be considered in context given that the technologies used here are fairly basic. Finally, when faced with the risk of deflation (competition with generics, aggressive nature of the competition as seen in the field of diagnostics), innovation is and will remain the best response.

Potential for strong growth

The Silver Economy still has a promising future, with the trends of the last decade (innovation, consolidation, outsourcing) likely to accelerate. Inflation in the cost of treatments and care management for seniors means that there is an inherent need to keep on innovating.

Indeed, the price of medicines has increased due to the exponential cost of development. It was medicines against hepatitis C (84,000 dollars for Sovaldi) that started everything off, followed by anti-cancer medicines (more than 100,000 dollars for Opdivo or Keytruda) and finally by cellular and gene therapies (475,000 euros for Kymriah, 2.12 million Euros for Zolgensma)⁽⁵⁾. The emergence of biosimilar products⁽⁶⁾ has constituted a first solution to this issue. These products, which cost 30% less than the original product, are prompting pharmaceuticals companies to introduce even more innovations.

Artificial Intelligence and large-scale data analysis have also appeared. For example, in 2018, Roche purchased the American company Flatiron, which specialises in oncological databases, for 1.2 billion Euros with the aim of accelerating

(5) DUCRUET, Catherine, Cancer : l'immunothérapie redistribue les cartes entre les laboratoires, Les Echos, 11 April 2019.

(6) These are generic versions of biological products, in particular for the treatment of cancer.

By 2021, software solutions for home medical monitoring should represent a market of

€31.5
billion



the development of products in this field, and Dassault Systèmes clearly identifies digital simulation in the fields of health as a major focus of its strategy.

In the field of prosthetics, for example, 3D printing is becoming more and more prevalent, particularly in the development phases. Robotics is going to play an increasingly large role too, both in surgery and in contributing to keeping the elderly at home.

Digitalisation, a process that is under way in every part of the economy, is also affecting the Silver Economy. Health software constitutes a market of around 188 billion dollars worldwide today, and that figure could rise to almost 391 billion dollars in 4 years' time⁽⁷⁾. E-health and e-medicine (remote consultations, patients' medical records, the sale of medicines on the Internet) occupy an increasingly large place in the guidelines adopted by the health authorities. In regard to this, the COVID crisis has played a revealing and accelerating role.

In response to the desire to “live better” expressed by the elderly (85% want to keep on living at home⁽⁸⁾), we are seeing the emergence of new professions with more and more connected objects, as well as home automation apps that provide comfort and independence. At retirement homes, an increasing number of monitoring and sensor systems are being installed, in order to prevent falls

and reduce the need for staff, who are getting more and more difficult to recruit. At the last CES⁽⁹⁾ in Las Vegas, technology designed for seniors occupied an unrivalled space, offering numerous connected objects. Some examples worth noting are shoes that can detect falls and alert relatives, an indoor bicycle designed for those in assisted living, an airbag belt that prevents fractures, smart lamps, or even an intergenerational exchange system for photos and videos, ideal given how fond seniors are of communication solutions. This market for connected objects should reach 144.3 billion Euros in 2026, as against 38.5 billion today⁽¹⁰⁾. The self-driving car could also meet with significant interest among this segment of the population. It is predicted that its market share will be worth 38 billion Euros in 2025 and 70 billion Euros in 2035⁽¹¹⁾.

Moreover, software solutions for home medical monitoring, which were worth a total of 10.7 billion Euros in 2016, could be worth 31.5 billion Euros in 2021⁽¹²⁾. Finally, in the financial sector, banks and insurers are innovating so that they can provide seniors with solutions for financing their retirement and / or passing on their estate.

These figures illustrate the potential for structural and visible growth, much greater than that of GDP and very often amounting to two-figure growth, offered by the Silver Economy for the next few years. ■

(7) Marketsandmarkets, April 2019

(8) FESP, Saint-Gobain, Malakoff-Médéric/Humanis, IRSAP, Sociovision, Ifop, SENIORS “Marché et habitat inclusif, quelles offres de services ?”, 7 February 2019.

(9) The Consumer Electronics Show, or CES, is the most important trade show dedicated to technological innovation in consumer electronics. It takes place every year in January in the city of Las Vegas.

(10) DAWSON, Freddie, Smart Home Sector Could Be Worth Hundreds Of Billions In Next Five Years, Forbes, 30 September 2015

(11) Technopolis, Oxford Economics, WORTHINGTON, Henry; SIMMONDS, Paul; FARLA, Kristine; VARNAL, Peter; The Silver Economy, European Commission, April 2018.

(12) McWILLIAMS, Andrew, Global Markets for Telemedicine Technologies, BBC Research, May 2016.

■ 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 years	1 year volatility
R-co Thematic Silver Plus C EUR	0.61%	24.76%	-9.16%	15.64%	0.70%	26.79%	45.99%	21.63%
Euro Stoxx ® NR	-11.54%	26.11%	-12.72%	12.55%	4.15%	10.33%	11.50%	27.27%

Source: Rothschild & Co Asset Management Europe, 30/06/2020.

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

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