

# The Evolving Economy

## A fresh approach to equity investing

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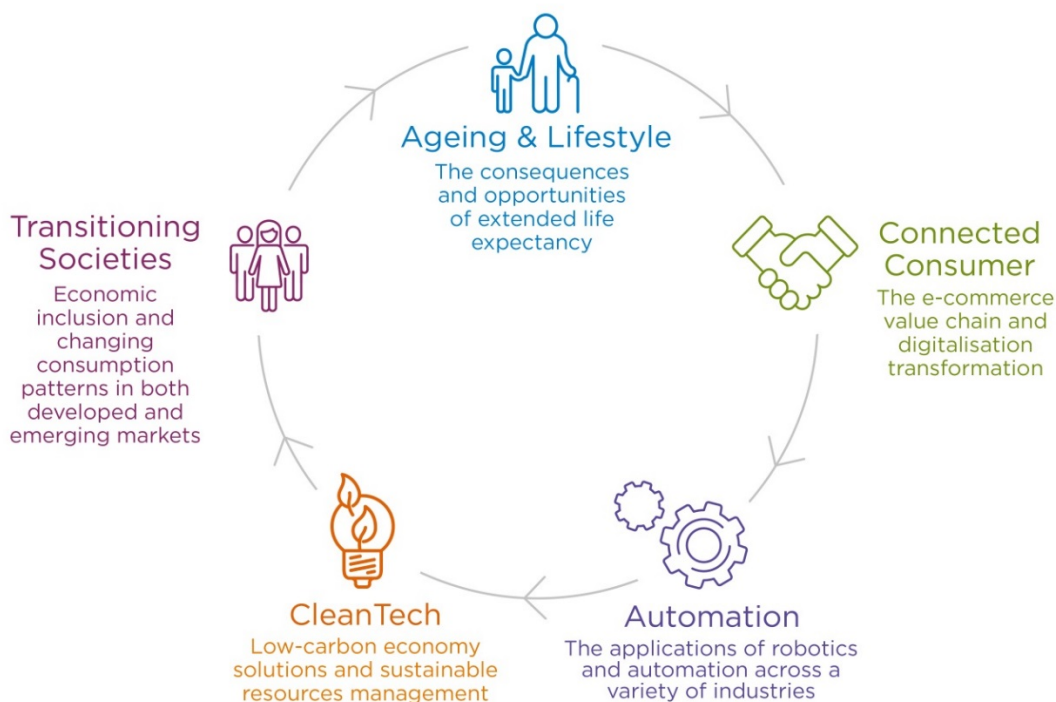
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The way that companies do business has changed dramatically over the last 20 years, but many investors' approach to equities has remained the same.

These days, companies are increasingly global and multi-sector in their approach, which means that investors could be missing out on potentially higher equity returns by continuing to base their equity allocation decisions purely on traditional geographic or sector approaches.

We've identified five multi-decade growth themes that we believe will have a radical impact on the way that equity investors access long-term growth, which we call the Evolving Economy: automation, the connected consumer, ageing and lifestyle, clean tech, and transitioning societies. While these structural themes are not new, we believe we're still in the relatively early stages of accessing their investment potential.

The Evolving Economy:



## Companies are changing...

The combination of irrevocable demographic shifts and the relentless pace of technological change is steadily forcing companies to change their business models to meet the constantly evolving needs of their clients and customers globally.

So for investors, selecting 'technology' companies gives very little insight into the true nature of those companies' long-term prospects and risks, given the ubiquity of technology across industries.

Take the example of a technology company that has evolved its product offering to include smartwatches that can measure your heart rate or sleep patterns, and link to devices to continually monitor your blood sugar levels – this defies easy categorisation into traditional technology or healthcare investment classifications.

Similarly, the automotive sector no longer simply manufactures cars. The automotive industry can instead refer to manufacturers developing **clean technologies** which will impact resource sustainability, **automation** tools that are paving the way towards driverless cars, and companies keeping pace with the demands of today's **connected consumers** by developing options for personalisation and connectivity with smartphones.

## ...and equity investment needs to keep up

To give investors better access to the potential opportunities of this corporate evolution, we have evolved our existing collaborative research structure by adding a specific coverage of the five Evolving Economy growth themes.

So rather than limiting our team's expertise to the traditional barriers of sector classifications, we have appointed a research lead for each of the five Evolving Economy themes to effectively collaborate on investment ideas.

For example our '**ageing and lifestyle**' research lead covers all manner of companies catering to the implications of aging demographics – from companies selling products to the affluent older population which accounts for an increasingly large proportion of consumer spending, to financial companies helping millennials build long-term savings plans, or to real estate companies specialising in retirement homes or hospital facilities.

Similarly our '**transitioning societies**' research lead looks at companies serving the changing consumption patterns of societies across frontier, emerging and developed markets – from healthcare companies providing access to medicines, to clean technology companies and infrastructure projects.

This multi-faceted approach intends to give investors fully diversified and quantifiable exposure to growth opportunities across the Evolving Economy. Using our proprietary thematic exposure database we can quantify companies' varying levels of exposure to each of our five themes, across a universe of c.11,000 companies, c.100 sub-themes and c.1,400 sub-industries<sup>1</sup>.

## Long-term active investment in the Evolving Economy

Once we've identified companies that have some exposure to each of these areas of structural growth, we look for businesses that we believe can benefit from these growth trajectories and that we believe are likely to generate attractive returns over the long term for our investors.

In this respect we stay true to our fundamental bottom-up stock analysis at Framlington Equities – we still care very much about the details like returns on invested capital and free cashflow generation to ensure sustainable long-term growth outcomes for our investors. What's changing most, in terms of evaluating companies that are exposed to these themes, is the need to be more multidisciplinary and collaborative in terms of sector knowledge.

## So what does the Evolving Economy mean for investors?

Ultimately, companies and the individuals they serve will continue to change over the coming decades. We believe that the Evolving Economy is about identifying the best of these long-term equity opportunities, regardless of how companies are defined geographically or from a sector perspective.

1. Source: AXA IM as at 29 December 2017.

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