

# Ageing population: challenge for societies, opportunity for companies

By Mattia Scabeni, Fund Manager, Generali Investments and Jean-Marc Pont, Investment Specialist, Generali Investments

## The ageing of the population: under pressure

More and more of us are getting older... A fact of life but the stark reality is that this long term demographic shift is inevitable and is already putting a great strain on our societies and economic models.

Indeed, while the world population will grow in the future decades, to probably reach 10 bn by 2050, the population aged above 60 years will grow faster and will double by 2040<sup>1</sup>. The share of the overall population aged 60 and above will also rise from around 11% (0.7 bn) to circa 17% in 2040 (1.7 bn).

The drivers behind this increase are well documented:

- Increased life expectancy (or “longevity”) – as more and more people live longer
- Lower birth rates – especially in European developed economies, below the replacement rate.

The pressure on social and economic models is mounting and the capacity of economies to bear the related costs is seriously undermined.

State-run healthcare systems in developed countries, inherited from a post-World War 2 era, are running out of “steam”. They struggle to financially support and cater for a growing percentage of their population becoming older and subject to more frequent ailments.

In the retirement space, final salary schemes developed during the “boom years” are now creaking at the seams, with a gradual transfer of liabilities and risks to individuals (Defined Contribution schemes replacing Defined Benefit schemes in the UK for instance).

However, though the above macro level picture might look grim, we should not forget that individuals reaching their later years have a very different perspective on things: as they live longer, they want to be healthier for longer, entertain themselves, consume differently and, importantly, have the financial means to do so – especially in developed European economies.

The “Grey power” is a growing force to be reckoned with.

## A major demographic shift presenting new investment opportunities

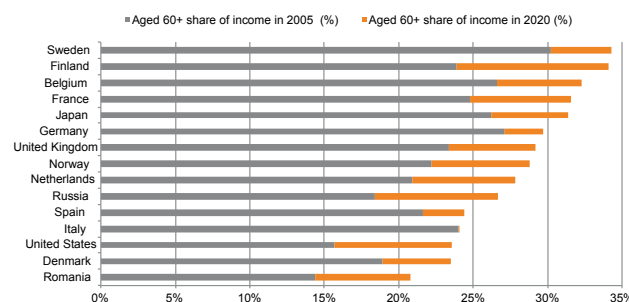
The ageing of the population opens up new opportunities for companies exposed to this theme, often described as the “silver economy”.

Indeed, companies actively and substantially exposed to the theme will grow faster than nominal

global GDP over the foreseeable future, though this growth could still be underestimated by the market consensus.

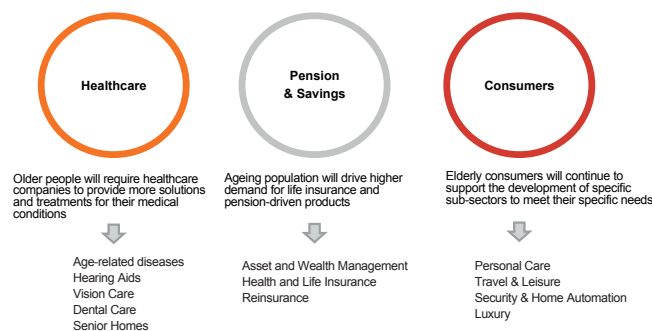
Germany and Italy (along with Japan) have the highest median age in the world and the trend is still accelerating. It is therefore natural for a European asset manager to consider this theme and the attached investment opportunities.

Fig 1: Share of total income earned by people aged 60+



Source: Euromonitor, US Census Bureau; A.T. Kearney analysis, 2013

Fig 2: Our three investment methods



Furthermore, European companies will benefit from this investment theme beyond Europe as, for some specific sectors (healthcare, consumer staples for instance), more than 60% of their revenues are generated outside Europe<sup>2</sup>.

For investors wanting to tap into the opportunities offered by a growing older segment of the population with specific needs (healthcare) and expectations (in terms of consumption and financial autonomy), the question is then how to access these investment opportunities.

Generali Investments, the investment management company of Generali Insurance Group, is more than aware of this theme considering our Group’s core activities: life insurance, pensions & retirement products, longevity risk... and proposes a new investment strategy to benefit from this theme, through a new UCITS fund: GIS SRI Ageing Population.

## Generali Investments’ new thematic approach

Generali Investments developed a new and innovative investment strategy, with a focus on the European stocks exposed to the theme of the ageing population, through 3 key investment pillars, see Figure 2.

The investment team performs, via a top-down approach, a thematic screening to identify the level of companies’ exposure to the 3 investment pillars and a quantitative screening to select top-quartile companies within the themes, based on various financial metrics focusing for instance on:

- Solid top and bottom line growth
- Cash generation
- Strong and improving return on capital
- Shareholder value

In addition to the thematic approach, the selected stocks are fully SRI (Sustainable Responsible Investment) compliant, as the investment team only applies the above thematic screening to a universe already screened by our team of SRI analysts, based on ESG (Environmental, Social and Governance) criteria and risks, such as:

- Reputation
- Regulatory pressure
- Carbon footprint
- Competitive advantage

We indeed believe that our SRI approach, applied to companies which are exposed to this particular theme, brings an additional value when assessing their business models, strategies and senior management’s decisions.

The GIS SRI Ageing Population fund’s investment strategy is about investing in sound companies, with sustainable business models and strategies over time, which benefit and will continue to benefit from this secular trend, delivering returns above expectations along the way.

## FOOTNOTES

- (1) Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2012 Revision*
- (2) Deutsche Bank, June 2015

## COMPANY PROFILE

Generali Investments (GI) is the main asset management arm of Generali Group, one of the largest and most respected insurance companies in the world with over 180 years of providing a solid, stable and highly professional service. With AUM of €374 billion GI is one of the leading European asset managers recognised for delivering consistent results through proven risk-based investment solutions. Active internationally with a strong European presence, GI operates out of 3 main hubs: Germany, Italy & France, with a team of 412 customer-focused experts with deep knowledge of local markets and asset classes. (Data as at 30.06.2015, source GI)

## GIS Ageing Population Fund presents a risk of loss of capital.

GIS Ageing Population Fund is a subfund of Generali Investments SICAV (an investment company qualifying as a “société d’investissement à capital variable” with multiple subfunds under the laws of the Grand Duchy of Luxembourg) managed by Generali Investments Europe SGR S.p.A. The information contained in this document is only for general information on products and services provided by Generali Investments Europe SGR S.p.A. It shall under no circumstance constitute an offer, recommendation or solicitation to subscribe units/shares of undertakings for collective investment in transferable securities or application for an offer of investment services. It is not linked to or it is not intended to be the foundation of any contract or commitment. It shall not be considered as an explicit or implicit recommendation of investment strategy or as investment advice. Before subscribing an offer of investment services, each potential client shall be given every document provided by the regulations in force from time to time, documents to be carefully read by the client before making any investment choice. **It shall under no circumstance constitute an offer or solicitation in any jurisdiction in which an offer or solicitation is not authorized in accordance with applicable laws.** Generali Investments Europe SGR S.p.A., periodically updating the contents of this document, relieves itself from any responsibility concerning mistakes or omissions and shall not be considered responsible in case of possible damages or losses related to the improper use of the information herein provided. Past performance is not a guarantee of future performance and the fund presents a risk of loss of capital. No assurance is released with regard to the approximate correspondence of the future performances with the ones above mentioned. It is recommended to look over the regulation, available on our website [www.generali-invest.com](http://www.generali-invest.com) or on Generali Investments Luxembourg S.A. website ([www.generali-investments-luxembourg.com](http://www.generali-investments-luxembourg.com)). The client shall carefully read the KIID, which must be delivered before subscribing the investment, and the prospectus which are available on our website ([www.generali-invest.com](http://www.generali-invest.com)) on Generali Investments Luxembourg S.A. (Management Company of Generali Investments SICAV) website ([www.generali-investments-luxembourg.com](http://www.generali-investments-luxembourg.com)) and by distributors. Generali Investments is a commercial brand of Generali Investments Europe S.p.A Società di gestione del risparmio. The company is an Italian asset management company with its registered office at 34132, Trieste, 4, via Machiavelli, Italy, registered at the Albo delle Società di Gestione del Risparmio in the UCITS Section, under no. 18 and in the AIF section, under no. 22 and subject to the direction and coordination of Generali Investments Holding S.p.A.

