Investing in mega trends

For most people, the aim of investing is to accumulate wealth over a long time. The job of the investment industry is to build strategies that generate attractive returns over the long term. While studies show the value of long-term, buy-and-hold approaches to investing, these strategies clash with the short-term behaviour evident in today's equity markets.

That greater focus of equity investors on the short term is shown by the decline in the average holding period for stocks on global exchanges. In 1940, the average holding period of a stock on the New York Stock Exchange was around seven years. By the time of the tech bubble in 2000, it had fallen to about one year. Now the average holding period globally is less than three months[1].

A key issue that feeds this short termism is the habit of most sell-side analysts to focus on short-term earnings projections. Few analysts covering global stocks forecast greater than three years ahead.

The greater short-term focus means that equity investors are relatively good at pricing near-term earnings expectations. The corollary to this is that they are less adept at evaluating longer-term earnings. Thus, they neglect the longer-term value of companies exposed to mega trends or long-term structural shifts, whether they be economic or demographic. This opens up an opportunity for investment strategies that focus on the companies benefiting from massive long-term changes.

Three mega trends

Here are three mega trends on which investors can capitalise.

1. More people

It took thousands of years for the global population to reach one billion in 1811. About 200 years later, the global population passed the seven billion mark. By 2050, the global population is expected to be close to 10 billion[4].

The projected population will boost global demand and underpin robust economic growth. It will place more stress on resources such as food, water, arable land and energy. Of special note is that it will be concentrated in developing areas such as Africa and in urban areas. Many companies will come up with solutions to help ease the stress on resources, especially in the developing world.

2. More old people

The world is undergoing an ageing of its population that is unmatched. In the 1950s, 200 million people in the world were aged 60 and older. By 2000, 600 million people were at least 60 years old. In 2050, there are expected to be two billion people 60 years and older, a 5% compounded annual growth rate. The ageing of populations is most prevalent in developed countries. By 2050, for example, one in three people in developed countries is expected to be aged 60 and over compared with one in five today. The trend is happening, too, in developing countries[5].

The ageing of the world's population has massive investment implications for industries such as healthcare, aged services and finance (it helps people prepare for retirement). Within healthcare, for example, hearing-aid manufacturers will see higher demand for their products as will orthopaedic manufacturers that specialise in the equipment needed for hip and knee replacements. A rise in the aged population will place greater stress on governments. To economise, they will look to generic drug makers, low-cost pharmaceutical distributors and budget healthcare providers.

Novo Nordisk's mega trend

Danish healthcare company Novo Nordisk is one company profiting from a mega trend. It is exposed to strong and sustainable growth in the market for diabetes via its insulin products. Diabetes affects more than 387 million people worldwide. By 2030, this is expected to rise to 552 million, a 49% increase[2]. Novo Nordisk has a 47% share of the global insulin market. Having built a reputation for innovative treatments, the company is spending around 15% of its revenue on research and development[3]. Yet it's constantly undervalued on stock exchanges because short-term analysis assumes its earnings growth will fade towards more normal rates of growth.

3. More middle-class people

The world's middle class is expected to almost double to 3.6 billion people over the next 20 years and most of this jump will come in developing countries. That will provide a tremendous boost to consumption while altering spending habits. More money will go on non-necessities, health and infrastructure in developing economies.

The biggest change for the world will be the rise of a consumer class in the emerging world. This will affect even basic products. Developed markets, for example, which comprise 14% of the global population, spend about US$2,040 per capita on consumer staples such as food and clothing. By contrast, the emerging world, which is home to 86% of the world's population, spends only US$207 a year per capita on staples[6]. They will catch up as they become wealthier.

The potential boost to consumption from the growing middle class in emerging countries is vast when it comes to discretionary items such as fashion, electronics, health and leisure. Car ownership, for instance, is only 220 per thousand in China compared with 804 per thousand in the US[7]. That gap will shrink as the Chinese become wealthier. Rising incomes in emerging economies are enabling improvements in diets as consumers move more towards Western-style diets that contain more meat, dairy and sugar, to the benefit of companies that meet this rising demand. The shift to a Western diet, on the other hand, boosts the incidence of Western-style diseases such as obesity, diabetes, stroke and cancer.

> "There are many stock examples of companies exploiting mega trends that can help investors achieve their long-term financial goals."

One stock that plays into these three themes is L'Oréal of France, which sells cosmetics that cover all price ranges. The company benefits from more people using cosmetics. It gains from the ageing of the world's population because women – and men – as they age are willing to spend money on the company's products to try and stay young looking. L'Oréal benefits from the world's growing affluence because wealthier people have more money to spend on the company's expensive brands.

Fidelity Global Demographics Fund

The Fidelity Global Demographics Fund is so named because many mega trends are grounded in demographic trends. This concentrated portfolio is built on a long-term view of where the world is going, what it will look like in 10 to 15 years and then finding the companies that are best placed to benefit from these changes. As a result, this fund fits as a core strategy for long-term investors.

Key facts

- The fund aims to outperform the MSCI All Country World Index over the suggested minimum time frame of five to seven years.
- The fund is managed by Hilary Natoff and Aneta Wynimko who are from Fidelity's UK-based Global Equity Team.
- The managers adopt an unconstrained bottom-up stock picking approach, looking for companies whose earnings power is – or will be – sustained by mega trends.
- The managers seek to invest in a mix of "winners of today" and "winners of tomorrow" with an aim to deliver strong consistent, long-term performance.
- The managers have access to the research of more than 400 investment professionals[8] who can help them build a global view of companies.
- The portfolio holds about 50 stocks.

For more information on the fund, visit: **fidelity.com.au/funds/fidelity-global-demographics-fund/**

1 New York Stock Exchange.
2 Novo Nordisk. International Diabetes Federation.
3 Novo Nordisk Annual Report 2014.
4 UN Department of Economic and Social Affairs, Population Division (2103). World Population Prospects. The 2012 revision.
5 UN Department of Economic and Social Affairs, Population Division.
6 Euromonitor, Goldman Sachs 'Demographic dynamics: a case study for investors.' August 2010.
7 IHS Automotive, DataStream. The Ministry of Public Security in China. July 2015.
8 Investment professional number includes fixed income analysts and equity (including technical and shorting) analysts as at 31 December 2015.

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