



Tom Record and Tom Morris: Demographic trends present opportunities for patient investors

Adopting a long-term view of our world, its economy and financial markets can help investors immensely. There are several 'megatrends' influencing these, and investors can reap benefits by factoring them into their portfolios and investing in the opportunities they present. Several such trends have been identified by fund managers, including advancing technology, globalisation and urbanisation, among others. But perhaps the most significant of these trends is demographic change.

New data released this year highlight how demographics are changing even faster than anticipated. In China, the latest data show that its population may decline this year for the first time since the Great Famine of 1959-61 due to a slowdown in births, from 2.6 per woman in the late 1980s to well below 2 in 2021 (different sources give estimates ranging from 1.15 to 1.7). Closer to home, the Office of National Statistics now says that UK deaths will surpass births two decades earlier than previously expected, meaning that the natural population of the UK will start to fall by 2025 rather than its 2043 previous estimate. The figures also indicate that the UK's population is aging faster than foreseen. Demographic trends have largely been predictable until now, so for these forecasts to be so significantly wrong is quite remarkable and shows how the speed of change is catching many people off balance.

Opportunities in several sectors

The overall characteristics of changes in the world's demographics are extensively documented. Key issues include a rising overall population combined with lower birth rates and higher proportions of elderly people, especially in the more developed parts of the world.

There are several sectors and companies that are set to benefit from demographic changes. The most obvious beneficiaries are healthcare and financial services: the oldest people need more medical treatment and care, while they also need more advice on managing their wealth and insuring themselves.

There are several stocks we believe stand out as beneficiaries of the healthcare theme. Illumina, a holding in our Global Equity Fund, is a leader in the field of genomics and provides the tools needed for making breakthroughs in understanding how DNA is linked to various diseases. Its new Galleri liquid biopsy test promises to make a major impact on the detection and treatment of cancer, one of the biggest killers in the developed world.

Another modern-day demographic phenomenon is the rise of obesity in the developed world. It is one of the leading causes of death in the United States and Mexico. A side effect of obesity is the growing prevalence of diabetes. Novo Nordisk is a Danish global health company dedicated to defeating diabetes and other serious chronic diseases including obesity and blood diseases. The company's treatments already benefit millions of people and it is expanding rapidly as it continues to serve this growing market. People who live longer also tend to need more hip and knee replacements. The leading company in this market is Zimmer Biomet, which offers a range of products to maximise patients' mobility and improve their health.

Automation

The impact of demographic trends goes beyond just healthcare and financial services. There is a strong link with the trends towards automation, both of industrial and consumer activity.

It seems to us that the shortage of workers caused by falling birth rates in more developed countries can only be remedied through immigration or robots. Immigration can bring untold benefits to an economy. It has, for example, been a major contributor to the US becoming the world's economic powerhouse over the last 200 years. Despite this, immigration is consistently resisted politically around the world, even in the US.

It is perhaps unsurprising that robots have been developed so enthusiastically in Japan, a country noted for its aging populace and resistance to immigration. A Japanese company that is at the forefront of the robotics revolution is FANUC, which focuses on factory automation, producing high quality robots and co-robots that work alongside people. It initiated the development of numerical controls in 1955 and is now a major contributor to the development of manufacturing industries in Japan and globally, including China, promoting automation and greater efficiencies in its customers' factories. The technology is getting cheaper as labour becomes more expensive and the shift from 'dumb' to smart factories is likely to continue for the foreseeable future.

The impact on agriculture

Demographics are having a profound impact on agriculture, which must meet the ever-increasing demand for food (and especially for meat) from the world's growing population. The global movement from rural to urban areas means that agriculture has a global staffing problem. Farmers are growing older (the average is over 60 in developed countries) and farms are being merged. Larger farms with fewer workers are made possible by automation. Companies such as CNH Industrial are at the forefront of automated intelligent farming whereby, with the aid of AI and global positioning systems, farm fields can be seeded, fertilised, ploughed and harvested with minimal human intervention.

The companies that produce the hardware that goes into new technology should also be considered by investors. There are currently several worth highlighting, including the high profile Nvidia, while a lesser-known company playing a key role in an expanding market is Marvell, which provides the technological infrastructure used by data centres, essentially helping servers to use less power and communicate with each other securely, as well as enabling the roll out of 5G infrastructure. Both Nvidia and Marvell are 'fabless' semiconductor companies, meaning that they design chips but do not physically manufacture them themselves. The dominant fabrication company is Taiwan Semi-Conductor Manufacturing Company (TSMC), which makes many of the high-end computer chips used in applications from data centres and mobile phones to more complex AI applications.

Demographic changes can create problems for companies as well as opportunities, however. Fewer babies create headwinds for childcare companies operating in developed countries. Some nappy-producing companies have adapted by adding adult nappies to their ranges. In Japan, adult nappies out-sell those for children. Hasbro, the toy maker, has also refocused on making board games and collectibles for adults.

The patience to invest

Although birth rates are falling in many countries, the world's population continues to expand, thanks to people living longer and high fertility rates in certain parts of the world such as Africa. Demographic changes play out over decades and require politicians to take unusually long-term views. Unfortunately, most Western politicians only look to the next election, usually between two and five years ahead, meaning that the problems of the 2040s remain largely unaddressed.

For investors, there are many ways of getting exposure to the demographics theme and we see opportunities across a broad range of sectors, geographies and types of company, from growth to value and everything in between. For our fund management team, having the ability to look out to the long-term, and the patience to invest in the opportunities we see, is a powerful combination.

For more views on demographics, listen to Tom Record and Tom Morris in a recent episode of their Global Infusions podcast [here](#).

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