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INVESTMENT MANAGEMENT

Global Equity Observer

Welcome to the Multi-Stage Life

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For the last 100 years or so, life in the developed world has fallen neatly into three distinct stages: We begin in full-time education, move into full-time employment and then, when we are able to, we retire. This linear life sequencing has brought with it an element of certainty and predictability by binding people into age cohorts: Those in the youngest generation were learning; those in their early 20s to 65 were working; and those 65 or older were basking in their golden years.

However, as explained by professors Lynda Gratton and Andrew Scott in their widely acclaimed work *The 100-Year Life*, longevity is dismantling this notion of a three-stage life and challenging many of the fundamental assumptions that determine how we structure our lives.

Making sense of the new world order

If current life expectancy trends continue, most children born in the developed world today can expect to live for more than 100 years.[1] This shift in longevity is not a new or recent phenomenon: Since the middle of the 19th century, technological advancements, improving health care systems and higher incomes have seen average life expectancy increase at the rate of roughly two to three years every decade.[2] For younger generations, this lengthening of life may yield substantial gains, but the gift of time is not solely a gift to youth: On average, we are all likely to live longer and in better health than our generational predecessors.

[1] Source: Reuters. "Half of babies born in rich world will live to 100", Kate Kelland, 2 October 2009. https://www.reuters.com/article/us-ageing-populations-idUSTRE5907DM20091002

[2] Lynda Gratton & Andrew J. Scott, The 100-Year Life: Living and Working in an Age of Longevity, Bloomsbury Publishing: London, 2010.

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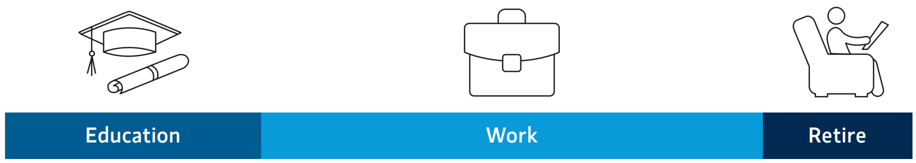
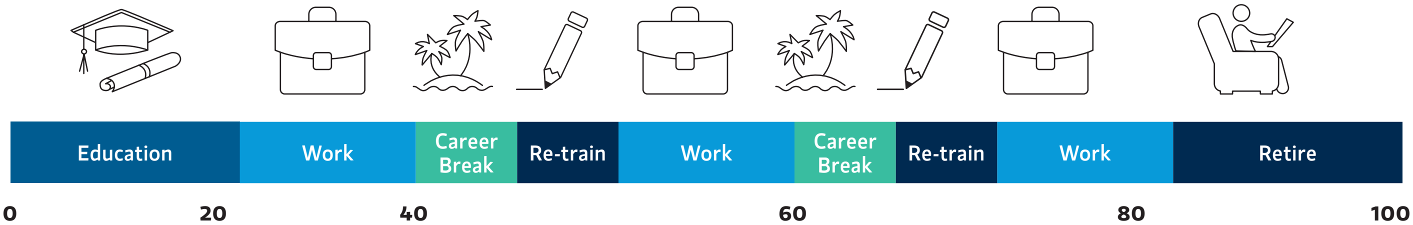
"Which companies and industries are well placed to capitalise on the material changes a multi-stage life might bring about?"

DISPLAY 1

From a 3-Stage Life



…to the new world order, a Multi-Stage Life with the possibility of multiple careers, breaks and transitions



Adapted from: Jenny Dearborn, May 2017; https://www.litmos.com/wp-content/uploads/2018/11/Learning-the-Future-of-Work.pdf

The problem is few pension pots are substantial enough to support an extended retirement. For younger generations in particular, living longer requires an acceptance of working longer—likely into one's 70s or 80s. In order for this employment period to be sustainable over a stretched period of time, existing structures will need to be replaced with something more flexible, personalised and responsive; a multi-stage life where individuals may experience a number of careers, breaks and transitions over the course of their existence *(Display 1)*. In this redesigned social construct, education won't end at 21 and retirement certainly won't begin at 65.

More transitions, new sequencing possibilities and new life stages divorce age from stage, disrupt traditional consumption habits, weigh on lifestyle choices and create new opportunities. We think these changes are likely to be broad-based across generational cohorts. The question for us as investors is: Which companies and industries are well placed to withstand and capitalise on the material long-term behavioural and lifestyle changes that a multi-stage life might bring about?

Change is already underway…

The last couple of decades have borne witness to a paradigm shift across different industries, as a transforming customer profile has forced companies to be increasingly nimble, prioritise their digital and online presence, and satisfy consumer demands for transparency and sustainability—all while managing tightening cost pressures on their bottom line, particularly important in the current macroenvironment. While these changes have disrupted different industries in different ways, broadly, they can be separated out into the following:

- **The accelerated adoption of the internet and the digitalisation of data,** involving artificial intelligence (AI), automation, robotics, virtual and augmented reality (VR/AR), the Internet of Things (IoT) (e.g., cloud infrastructure, smart homes/cities, etc.) and other emerging technologies.
- **The increasing importance of transparency,** as consumers have come to acquire more substantial knowledge around the products and services they consume. Younger generations such as Generation Z, roughly defined as the demographic born from the mid-1990s to the early 2010s, have been dubbed "researchers 'to the point of interrogation'",[3] with one study citing that around 65% of Gen Zers investigate the origins of anything they buy.[4]
- **Shorter product cycles,** as individuals have access to on-demand information, backed by companies' ability to quickly reflect changing consumer preferences through enhanced supply chain management and IT infrastructure.
- **A change in distribution models (towards direct-to-consumer and online channels),** offering new touch points with customers and a seamless transition between virtual environments and traditional brick-and-mortar.

[3] Source: Vogue Business. "How Gen Z is changing beauty", Annachiara Biondi, 2 July 2021. https://www.voguebusiness.com/beauty/gen-z-changing-beauty

[4] Source: McKinsey & Company. "'True Gen': Generation Z and its implications for companies", Tracy Francis and Fernanda Hoefel, 12 November 2018. https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/true-gen-generation-z-and-its-implications-for-companies

- **Clearer positioning on purpose,** as customers seek brands that signal values aligned with their own, rather than solely considering price and/or quality.

Where are we headed?

For luxury brands imbued with decades if not centuries of history and tradition, a lengthened multi-stage life presents new dynamics. Spending by Gen Z and Gen Alpha (those born in or after 2010) is predicted to grow three times faster than spending by older generations, making up a third of the luxury market by 2030.[5] Brands need to think more seriously about creating multi-generational products, particularly as the rise in "shopper promiscuity" disrupts brand loyalty. The gift of time also offers greater opportunity for creative freedom and individual expression. This has two possible broad implications. The first is that it potentially furthers demand for customised *products*. While consumers are likely to want quality luxury pieces that are relevant in multiple phases of their life, they may also want to feel that their purchase somehow contributes to their identity.[6] This puts a premium on products that are intentionally crafted to reflect their tastes and preferences. High-end luxury brands are already working to meet this demand; for example, a European luxury fashion house we own introduced a popular personalisation service for its handbags. The second effect is increased demand for customised *experiences*. Rather than promoting the one-size-fits-all approach that has characterised traditional advertising/print media, think immersive, curated experiences that focus on engagement and connection via novel distribution channels. Some premium brands are starting to adopt advanced digital and AI tools. For instance, Italian luxury fashion house we own, which specialises in outer wear, offers a unique VR experience, where customers can view a three-dimensional image of the brand's glossy puffer jacket, with the option to select colours and embellishments. The business challenge is to find the balance between meeting demands for customisation and individual experiences while preserving luxury product recognition and heritage appeal.

In the world of work, as working until one's mid-70s or even 80s becomes the norm, the idea of a "job for life" will be firmly buried. As individuals are no longer required—or indeed able—to stay in the same job for 40 or so years, upskilling and retraining become essential for a successful multi-career. A higher career transition rate creates opportunities for companies offering employment services, as well as companies providing services to meet retraining needs, including software providers. Secondly, the ubiquity of technology, and the fact that entire nations experienced a virtual environment during the COVID-19 pandemic, have prompted a rethink of our legacy workplaces. Emerging from the pandemic era, many employers have continued to pursue hybrid working patterns. With employees embracing productivity outside the boundaries of office walls, companies who can continue to support a flexible working environment, e.g., cloud providers and software service providers should continue to benefit.

Increased life expectancy does not automatically translate to an increase in quality of life: Is living to 100 appealing if 50 of those years are spent in ill health? The onus is increasingly on individuals to monitor and maintain their **health and well-being** (both physical and mental), requiring an investment in one's fitness in later life just as much as in one's 20s and 30s. With structural tailwinds of a rise in consumers' interest in their health and well-being and greater willingness to invest in it, the global wellness market is estimated to be approximately $1.5 trillion at present, with 5-10% growth per annum.[7] This brings compelling opportunities for companies that make products supporting a healthier lifestyle, such as sporting goods and apparel or wearable monitoring devices such as smart watches. By tapping into the demand for personal on-demand health data, software services and other health care technology data providers become indispensable in the pursuit of health. A greater focus on preventing health issues may also lead to an increase in patient-driven screening. Meanwhile, companies involved in diagnostics and individualised treatment plans could see further demand for their products and services. Look out for our forthcoming Global Equity Observer, which explores health care diagnostics in further detail.

Our Quality approach

Why do we care about all of this? Our team's approach to investing is focused on identifying high quality companies that can compound their earnings over the long term. What is crucial is that they have an ability to remain relevant through their powerful intangible assets, including brands, networks and licences, and so sustain their high barriers

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[5] Source: Bain & Company. "Renaissance in Uncertainty: Luxury Builds on Its Rebound", Claudia D'Arpizio, Federica Levato, Filippo Prete, and Joëlle de Montgolfier, 17 January 2023.

[6] Source: Forbes. "Inflation: One More Driver of Shopper Promiscuity", Rebecca Brooks, 5 October 2022. https://www.forbes.com/sites/forbesagencycouncil/2022/10/05/inflation-one-more-driver-of-shopper-promiscuity/?sh=5beaef577cb4

[7] Source: McKinsey & Company. "Feeling good: The future of the $1.5 trillion wellness market", Shaun Callaghan, Martin Lösch, Anna Pione, and Warren Teichner, 8 April 2021. https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/feeling-good-the-future-of-the-1-5-trillion-wellness-market

to entry. This means we pay attention to a company's fundamentals without worrying too much about fads or temporary macro noise. We believe that what matters is whether the companies we invest in are well placed to withstand, and even capitalise on, material long-term themes and opportunities.

While the implications of a multi-stage life may take time to have a material impact on certain companies' and industries' earnings, developing brand equity that connects with consumers should be a positive—whether it is through developing innovative solutions to tackle the challenges of longer living or providing more adaptive products and services in a fast-changing world. To quote some Warren Buffett-inspired wisdom, "Someone's sitting in the shade today because someone planted a tree a long time ago."

Our team

We are a long-tenured and well-resourced team of 14 investors. Just as we aim to build resilience in our portfolios, we believe it is vital to build a resilient team that is deliberately structured across different generational cohorts. In recent years we have not only invested in our junior analyst pipeline, but also made experienced lateral hires. With such diverse "multi-stage" talents, our intention is to be well prepared to navigate forthcoming trends and opportunities and further fortify our quality approach and long-term resilience.

Risk Considerations

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market value of securities owned by the portfolio will decline. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this strategy. Please be aware that this strategy may be subject to certain additional risks. Changes in the worldwide economy, consumer spending, competition, demographics and consumer preferences, government regulation and economic conditions may adversely affect global franchise companies and may negatively impact the strategy to a greater extent than if the strategy's assets were invested in a wider variety of companies. In general, **equity securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, and market risks. **Stocks of small- and mid-capitalisation companies** carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. The risks of investing in **emerging market countries** are greater than risks associated with investments in foreign developed markets. **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). Non-diversified portfolios often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. **ESG strategies** that incorporate impact investing and/or Environmental, Social and Governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance.

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