

Julius Bär

# NEXT GENERATION



MARKETING MATERIAL

Julius Baer Investment & Wealth Management Solutions – Bank Julius Baer & Co. Ltd., Zurich  
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# NEXT GENERATION: TRENDS SHAPING THE FUTURE

Next Generation is our vision of the future – a future that is shaped by megatrends. These trends affect every aspect of our lives. They cause structural changes in our society, influencing consumers and companies alike. We are identifying these megatrends, translating them into tangible investment themes today.

We have built up extensive experience in thematic investing during the past decade. We single out structural growth stories and see through the hype that comes with some of these themes, offering investment solutions with a clear focus on thematic purity.

We publish tangible and thought-leading thematic research. In our reports, we take a long-term view on how structural change is impacting our future, and we align this view with short-term developments happening around us.

We provide exclusive platforms to our clients and foster the interaction with external experts, allowing us to exchange views about our vision of the future and to experience what this future could look like.



# THE NEXT GENERATION INVESTMENT PHILOSOPHY

While we do not know what tomorrow's world will look like, we can be sure it will be different from today. The world around us is constantly changing, and as humans we often underestimate the power of change. We live in the world as we know it and we struggle to comprehend the complexity of the trends that are developing around us.

Some of these trends start small and do not seem meaningful at first sight. Eventually, they become so powerful that they are neither stoppable nor reversible once we recognise them. These so-called megatrends are often interconnected, making them even more powerful.

With our Next Generation investment philosophy, we want to understand the long-lasting and structural shifts caused by these megatrends and assess the implications they have on our economy and our society.



**Please contact your Julius Baer relationship manager in order to find out about our Next Generation investment solutions, and which of them would be most suitable for you.**





## A FOCUS ON STRUCTURAL GROWTH

The Next Generation investment philosophy is a thematic investing approach with a focus on long-term structural growth. Structural growth stretches beyond the business cycle, both in terms of its dynamics and its duration. We strive to seek out investment opportunities by identifying industries undergoing long-term transformations, thus allowing us to harness the power of the megatrends – as represented in our investment themes. By so doing, we aim to deliver superior investment returns.

## SEPARATING LEADERS FROM LAGGARDS

Within the identified industries, we pay particular attention to companies that have a significant competitive advantage and can deliver long-term growth. The key factors we analyse are a company's positioning within the industry, its corporate culture and its financial flexibility. As a result of our analysis, we separate the high-scoring leaders from the low-scoring laggards. The leaders should be core holdings in a thematic investment portfolio while the laggards should be avoided, as they are running the risk of underperforming on a longer-term horizon.

## THEMATIC INVESTING IS TACTICAL INVESTING

Despite the long-term nature of the Next Generation investment philosophy, it is exposed to short-term sentiment swings in financial markets. Slow-paced structural shifts are often overshadowed by the markets' restless temperament and short-term focus. Thematic investing is tactical investing. We mitigate the related risks through diversification across themes and within industries, as well as through stock selection – focusing on the leaders and avoiding the laggards.

# ARISING ASIA

One of the most dramatic developments of the past three decades has been Asia's economic emergence and its integration into global flows of trade, capital and talent. Looking ahead, Asia's economies could go from participating in these flows to determining them. More than half of the world's population lives in Asia and a billion people have escaped poverty over the past three decades.

## THE RISING MIDDLE CLASS

By 2030, Asia will likely account for more than half of the world's middle-class consumption. Within Asia, the structural story for Chinese consumers remains particularly robust as the Chinese culture in itself carries benefits for upward social mobility. In terms of consumption, the spending of the Chinese in the more affordable luxury categories increases disproportionately as incomes rise, underpinning a rapid and robust uptake of premium consumer goods. For many luxury brands, Chinese consumers already contribute around one third of total sales. In terms of travel, the corona crisis has caused a short-term dent but does not reverse the long-term trend, as the desire to explore the world remains unbroken.

## HEALTHY CHINA

China's healthcare industry is a secular growth story driven by an ageing population, a rising middle class, increasing government spending and the growing incidence of chronic diseases. The United Nations

forecast that the number of Chinese people aged 65 years and older will more than double by 2050, from 12% of the population in 2020 to more than 25%. The Chinese government has set a healthcare spending target of RMB 16 trillion by 2030, up from the RMB 4 trillion in 2015 – a fourfold increase in just 15 years. Innovative domestic pharmaceutical firms, contract research organisations, market leaders in drug distribution, medical devices manufacturers and specialised private hospitals are expected to benefit the most.



## MOVING UP THE VALUE CHAIN

Over the past 30 years, China has transformed from a low-end manufacturer of shoes and clothes to a market leader in home appliances and telecommunication technology. It has developed world-class industries in digital commerce, artificial intelligence, digital payments and financial technology (FinTech). According to the Global Innovation Index, China ranked fourteenth in innovation performance in 2019. The country spent CNY 2.2 trillion or 2.2% of gross domestic product

(GDP) on research and development in 2019, up from CNY 100 billion or 0.95% of GDP when it joined the World Trade Organisation in 2001. Even though ongoing tensions with the US around economic and political leadership have accelerated the trend towards technological self-sufficiency in China, the government would have embarked on the endeavour anyway. China will have to rely more on its domestic companies and talents to drive innovation in the future.





A background image showing two children. On the left, a child with blonde hair is holding a black smartphone. On the right, another child with blonde hair is holding a white tablet. The image is slightly blurred, focusing on the text overlay.

# DIGITAL DISRUPTION

The world is becoming ever more interconnected. By 2030, the number of connected devices will have risen to 1 trillion, up from 50 million in 2020. As the cost of advanced technologies continues to fall, new applications will be launched, offering opportunities to combine these technologies in novel ways, and accelerating the pace and the scope of innovation. While consumers will continue to benefit from the rise in technology, only the strong innovators will win. The digital age of the twenty-first century has already changed our lives fundamentally, and it is set to continue doing so in the years to come.



## CLOUD COMPUTING AND ARTIFICIAL INTELLIGENCE

The cloud allows firms to rent technology infrastructure and, at ever lower prices, firms can exchange capital for operational expenditures. Leveraged within the cloud, machine-learning-based solutions are applied to Big Data, obtaining new insights and increasing the automation of tasks in the services sector.

## AUTOMATION AND ROBOTICS

Advances in robotics technology are altering companies' supply chains, driving digital manufacturing ahead. Robots are becoming smaller, smarter, more mobile and are even working alongside humans. Robotics is now also entering the services space.

## CYBERSECURITY

As our data becomes more valuable and our devices more interconnected, cybersecurity will move more and more into focus. This segment will be even more relevant in the future due to an increase in attacker sophistication and rising regulatory scrutiny.

## DIGITAL COMMERCE

Commerce is structurally shifting to the digital space as consumers are becoming ever more comfortable with online shopping. The main drivers are the growth of the millennial consumer, enhanced e-logistics, Big Data analytics, customer engagement and decreasing return rates.

## DIGITAL CONTENT

The consumption of music, video, and video games is becoming ever more location-agnostic as on-demand viewing becomes increasingly popular. Only firms that adopt to new formats and distribution channels will thrive; simply relying on an established business model is not enough.

## FINTECH

Ageing IT systems and the slow pace of innovation at slow-moving financials have created space for FinTech (financial technology) start-ups. Digital payments and decentralised finance technology are leading the financial industry towards a new cycle of innovation.





# ENERGY TRANSITION

The energy business experiences tectonic shifts as various structural trends rattle its foundation. Record-high prices during the past two decades fuelled innovation and spawned new technologies. The increasingly multipolar world order nourishes calls for self-sufficiency to control economic dependencies, and the emerging mindfulness on sustainability brings the environmental issues coming from the way we produce and use energy into focus. As society's moral compass changes, so do individual consumption patterns and government regulations. In sum, technology and society are rewriting the rules and principles by which the

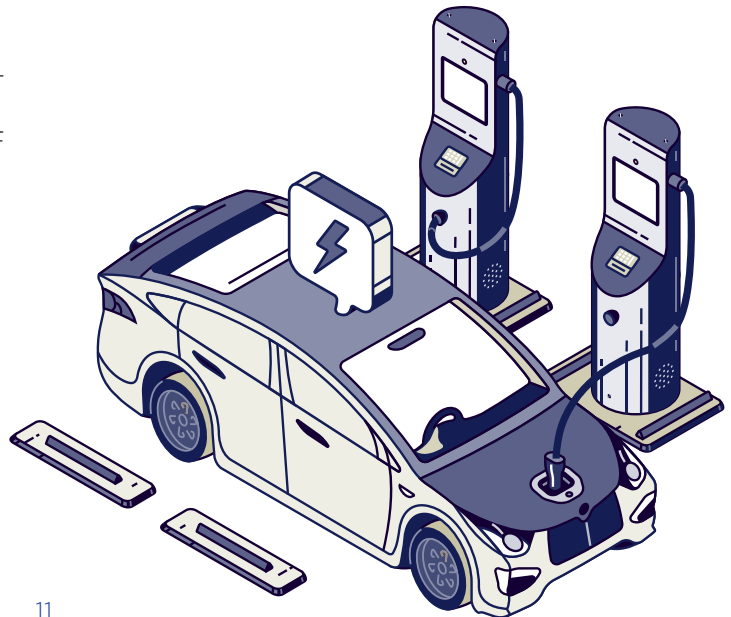
energy business operates. Long-standing business models are becoming outdated and new ones are emerging. The 'Energy Transition' theme is about showing the potential pathways and pitfalls towards a more democratised energy future, which favours technology over resources, rests on self-reliance rather than trade and empowers small actors.

## CLEAN ENERGY

Once a niche business thriving on public support, clean energy has become a dominant force on energy markets. Thanks to technological progress and manufacturing at scale, solar and wind have become the technologies of choice that are cost competitive with their fossil fuel counterparts. With the help of digitalisation, the reliance on big power stations is crumbling. Instead, a myriad of smart connected and integrated clean energy sources supply an ever-growing share of electricity reliably. With still a long way to go on the learning curve, the rise of clean energy likely heralds an era of ample and low-cost energy.

## MOBILITY

While shale and clean energy have turned the oil, gas and electricity markets upside down, the transport business appears to be just at the beginning of a period of profound change. In a first wave, electric cars seem to be on the verge of mass-market scale. In a second wave, autonomous driving could revolutionise mobility, turning cars into something anyone can use at any time. Such a future brings big promises and meaningful impacts: peak oil demand, less pollution, less traffic congestion, more productivity, more urban space, and better social cohesion – because self-driving electric cars would offer affordable and accessible mobility for those unable to drive.





# FUTURE CITIES

Our world is becoming ever more city-centric. According to the United Nations, more than half of the world's population lives in cities today. This share will increase in the foreseeable future, reaching 70% by the middle of the century. At the same time, the number of megacities with a population of more than 10 million residents will rise from 33 to 50. Cities have enormous potential, they are the growth engines of the global economy. To be economically successful, cities have to function properly. Their infrastructure needs to work, it needs to be reliable and in sufficiently good shape. Sizeable investments in infrastructure are required over the coming years to make our cities fit for the future. These investments target both traditional infrastructure, such as roads and railways, as well as digital infrastructure, paving the way for smarter, more sustainable and more liveable cities.

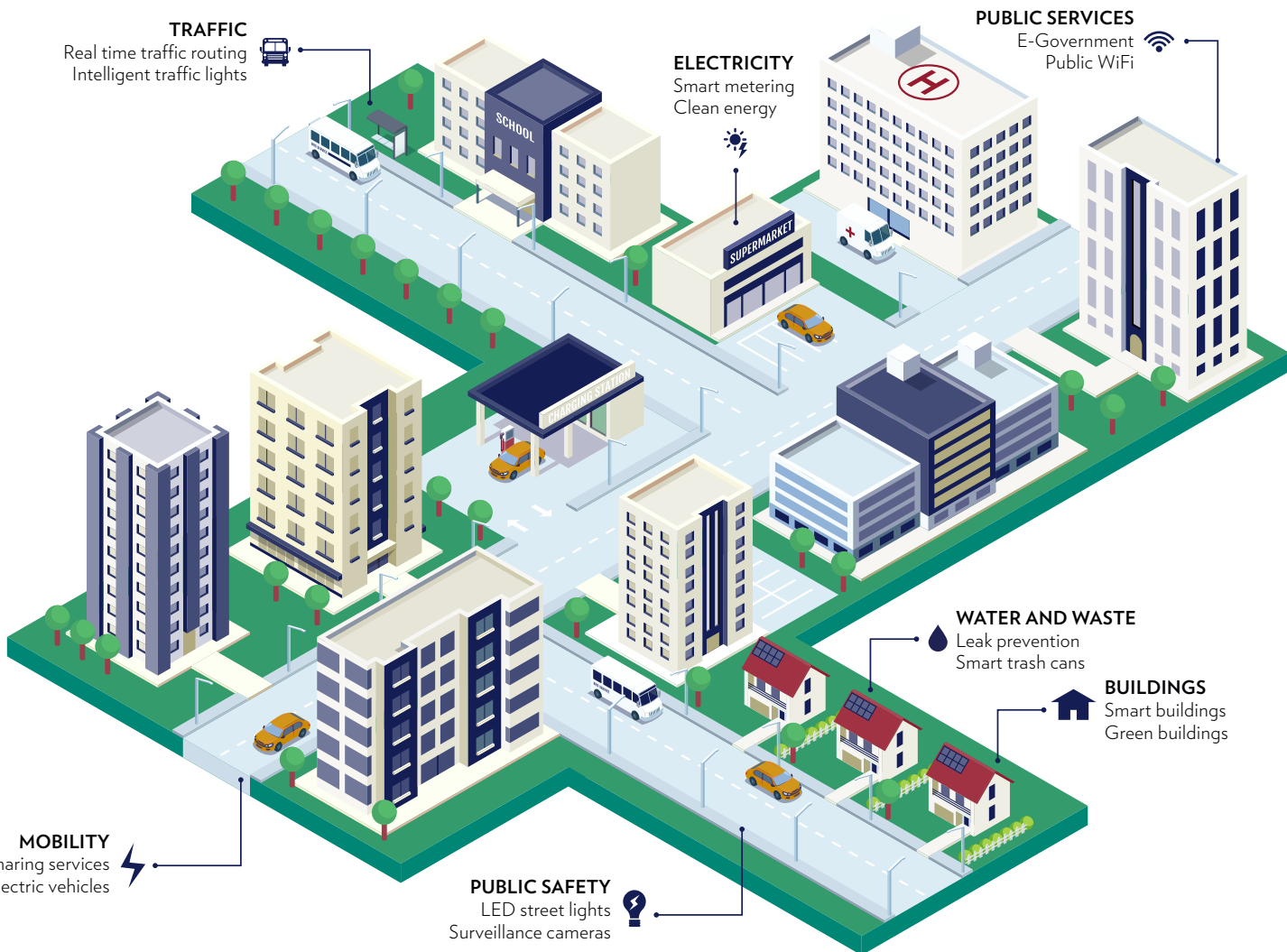
## SMART CITIES

The expansion of the digital infrastructure and the integration of technology has the potential to transform our cities. In a smart city, everything is connected: traffic lights, street lights, buildings, roads and the self-driving cars using them. Smart

cities are heavily reliant on data. This data is collected by a myriad of sensors and cameras that are spread all over the city, gathering information about traffic, temperature, air quality and humidity, both inside and outside. The goal of a smart city is to make our lives easier, to know what happens before it happens. Its basis will be built on new generations of telecommunication technology and applications such as artificial intelligence or cloud computing.

## SUSTAINABLE CITIES

How realistic is the idea of making a city sustainable? Cities have huge resource requirements. They drive the demand for energy and water as well as the production of waste and the emission of greenhouse gases. Making a city more sustainable means increasing its resource efficiency and reducing its environmental footprint. Cities striving to become more sustainable need to be centered around the circular economy, helping them to master their challenges. Making a city truly sustainable means taking measures which do not only serve the current generation of inhabitants but also future generations from an economic, environmental as well as social aspect.



# FEEDING THE WORLD

In order to feed the world post-2050, farm production will have to practically double. Given that urbanisation is increasingly encroaching on farmland and competing for water, sustainable production will require solutions to natural resource constraints and the adverse impacts of climate change, whilst ensuring availability and affordability.

Advances in agricultural technology, globalisation and rising living standards continue to increase the availability of food. As economies develop, the consumption of low-preparation, energy-rich processed foods are replacing the intake of basic staples. This trend is responsible for the considerable growth of ingredients such as vegetable oils, sugars and meat.

As the growing awareness of health and environmental factors is stabilising food consumption per capita in western countries, around 70% of future growth in food consumption will occur in developing countries. Amid rising resource intensity in these countries, many will ultimately face a decision on trading

food security for economic growth. Repeatedly, the limiting resource will be water.

In combination with seed technology and fertilisers, irrigation has been a key element in advancing agricultural productivity. Global water use has grown at double the rate of population growth over the last century and irrigation now accounts for 70% of total use. In many regions, the over-extraction of ground water and







increasing competition between agriculture, industry and society for water is escalating. The finite nature of our water and other resources is fuelling the drive for greater productivity and efficiency gains in agricultural production.

In addition to biotechnology breakthroughs, precision farming and improving farm practices, the concept of virtual water will also be important for finding sustainable solutions to feeding the

world. As incidences of water stress grow, importing rather than growing irrigation-intensive agricultural commodities will allow valuable water resources to be reallocated towards higher value-adding industrial, environmental or social uses. Consequently, we expect the recent trend of rising trade in bulk agricultural commodities to continue, with production expanding in countries rich in natural resources like Brazil and Argentina.

# SHIFTING LIFESTYLES

The world is on the verge of a historical demographic transition. For the first time in human history, the number of people aged 60 and over is going to exceed that of children under the age of 10 by 2030. This remarkable transformation is primarily caused by falling fertility and mortality rates all over the world, the tremendous progress achieved in medical science and technology, and the ushering in of industrial development, all of which have empowered individuals and their lifestyle. However, do we truly know the implications of this phenomenon for our society and economy? Our 'Shifting Lifestyles' theme seeks to identify the challenges and the opportunities associated with this momentous demographic shift.

## LONGEVITY

Extended longevity is one of the most powerful demographic trends shaping our future. Evidently, an ageing population tends to be faced with more health issues and thus requires more medical care. However, longevity involves more than just spending on medical needs. Major changes in spending patterns have emerged in other sectors as well, primarily in the developed world where the financial flexibility of the elderly has grown. Businesses positioned for the silver economy and which adapt to the needs of the elderly should see sustainable growth in the years to come.

## DIGITAL HEALTH

An ageing population and a higher incidence of chronic diseases are driving up medical costs around the world at an increasingly unsustainable rate, alarming various healthcare stakeholders such as payers, providers and producers. In order to keep costs down and provide high-quality care for patients, adopting digital technologies could transform the healthcare industry in the decades to come. Healthcare will no longer be limited to the confines of the doctor's office, but will also include locations like your home, workplace or holiday destination thanks to technology.

## GENOMICS

Considering that there are around 6,000 known untreatable diseases in the world today, medical breakthroughs in the field of genomics could help solve the mysteries of some of these health conditions at the molecular level and raise hopes of finding personalised cures for patients. We believe that future growth areas will lie in gene therapies and contract research organisations involved in genetic testing and research. Potential risks include the enactment of new regulations arising out of ethical and privacy considerations.







# INEQUALITY

Inequalities are often a result of the competitive nature of human beings to strive for innovation and competitive advantage. At their core, these imbalances need not necessarily be unjust, but can be important drivers for economic growth and development. However, the institutionalisation of imbalances is unfair. The roots of inequality are a crucial constraint for economic progress. Aside from international imbalances, they also result in social imbalances in terms of opportunities for population groups such as unequal access to healthcare, education or jobs. Wealth inequality, often associated with gender and racial inequality, is both a source and an amplifier of imbalances and is likely one of the biggest challenges for society in the current decade. Nevertheless, challenges also represent opportunities, which we also seek to highlight in investigating the vast topic of inequality.

## GLOBAL EDUCATION

Access to education is not equally distributed. Certain income classes or ethnical groups simply do not have equal opportunities in education. Growing wealth in emerging markets nurtures the education industry as a whole, but challenges remain as to how to help those left behind. Technology can play a pivotal role as various organisations are establishing online access to education platforms for the developing world. This not only benefits human development, but also unlocks human capital.

## ECONOMIC EMPOWERMENT

Reducing entry barriers on a gender or ethnic level can be rewarding in releasing the full economic potential. For example, much of the rise of economic welfare in the twentieth century is attributable to the inclusion of women in the workforce. However, discrimination is still a limiting factor in many countries today. Investing in the economic empowerment of minorities is one of the most important global economic drivers in the current phase of demographics-driven secular stagnation.

## WEALTH INEQUALITY

Unequal distribution of wealth lies at the core of inequality. Its roots are not only often engrained in socio-cultural norms but institutionalised, thus making it hard to tackle. Persuading countries to change their frameworks to reduce corruption or to implement adequate levels of redistribution are political minefields. However, investments in more subtle areas can make a big difference. Microcredits or access to banking services through technology may be the starting point to helping many people escape the poverty trap.



A large, white outline of the number 3, centered in the upper half of the image.

# REASONS TO INVEST IN **NEXT GENERATION**

We have identified three major aspects as to why the Next Generation investment philosophy is beneficial to a portfolio.





### A THEMATIC GROWTH PROMISE

Thematic investing is all about structural growth. In contrast to the prevailing short-termism in financial markets, thematic investing has a long-term horizon. It is about harnessing the power of the megatrends that are shaping the world around us. A thorough and forward-looking understanding of the unfolding megatrends allows us to capture structural growth, which stretches beyond the business cycle both in terms of dynamic and duration, and aims to deliver superior investment returns. Next Generation is our thematic investment philosophy.

### A PROVEN STRATEGY

Underpinned by increasing investor interest, thematic investing has witnessed a big boost in recent years. With our Next Generation investment philosophy, we have been a pioneer of thematic investing and have a decade of experience to look back on. The secret of our success and proven strategy is our knowledge of the investment themes, paired with in-depth industry and financial analysis. We follow an active and disciplined approach, which allows us to see through the hype and to select the potential winners of structural change.

### A PURE OFFERING

The Next Generation investment philosophy has a clear focus on thematic pureness. It ensures that we only choose those companies whose business model can be clearly linked to our investment themes. In order to be considered, the companies need to exhibit a high exposure to structural growth. The Next Generation investment philosophy can be accessed via a broad offering, ranging from a selection of single securities to flagship funds.

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