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Welcome

In this edition of Investment Solutions magazine we take a look at investing in the ageing population.

BT Financial Group Investment Specialist, Riccardo Briganti, provides us with a market update on local and international markets.

Finally, we share insights on how investors can benefit from urban renewal.

Until next time – happy reading.

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Market update

Uncertainty over US monetary policy, US-China trade relations, the wavering strength of the EU economy were in focus during November. This further impacted market volatility and the direction of major equity market indices.

Equities markets suffered significant losses in October with the US S&P500 index falling 6.9% and Australia's S&P/ASX200 index ending the month 6.1% lower. There were initial signs of a bounce with the US market up more than 3% by mid-November but investors remain cautious and further falls were seen as November progressed. It should be remembered that similar falls were seen earlier this year when the S&P500 fell 3.9% in February followed by a further 2.7% decline in March. Increased volatility is likely to be a continuing feature of sharemarkets over the next 12 months.

Initial selling was mainly concentrated in information technology stocks as investors became concerned that Apple's sales may be faltering and that perceived data and content issues at Facebook could trigger a regulatory response. Retailers and energy companies also come under pressures as some firms reported worse than expected earnings, and the negative sentiment very quickly engulfed the entire market as broader concerns about corporate earnings growth took hold.

Economic data provided little insight into the reason for such steep falls, but investors appeared to be reacting to the increasingly uncertain outlook in light of higher US interest rates, the US mid-term elections and the continuing global trade dispute. In particular, higher US interest rates were the consistent factor in the market declines seen in October and earlier in the year and will likely continue to play a large part in share market volatility in the year ahead.

The trajectory of the US economy remains positive with the unemployment rate continuing to trend lower and consumer and business sentiment still healthy. In October, the US posted an unemployment rate of 3.7% – the lowest rate since the late 1960s. Consumer sentiment has eased back slightly recently but remains at elevated levels. Despite robust economic growth, sharemarket falls may prompt a self-fulfilling prophecy where consumer confidence falters, company earnings dip and sharemarkets fall further. The alternative scenario is that economic fundamentals reassert themselves, investor confidence returns and sharemarkets rebound.

In Australia, the Reserve Bank (RBA) released its quarterly monetary policy statement in November. This provided a slightly more positive outlook for the Australian economy with the RBA increasing its 2018 GDP forecast to 3.5% from 3.25% previously, but keeping the 2019 forecast unchanged at 3.25%. Stronger growth was also reflected in a lowering of the unemployment rate forecast to 5% by mid-2019 compared to the current rate of 5.1%. However, the unemployment rate is not expected to fall below 5% until 2020. Stronger than expected growth is yet to translate into significantly higher inflation. The most recent reading showed inflation at 1.9% – just below the Reserve Bank's target range. This reinforced expectations that monetary settings will remain on hold at 1.5% for the foreseeable future.

Investing in the ageing population

You've undoubtedly heard that Australians are living longer.

The most recent Intergenerational Report for instance, projected that the number of Australians aged 65 and over would more than double by 2055, compared with 2015.[1]

The Productivity Commission report, *An Ageing Australia: Preparing for the Future*, has also projected that with continued small increases in longevity, by 2100, it's estimated that there will be more people aged 100 or more years than babies born in that year.[2]

But the question still remains – is there opportunity for investors to profit from this trend?

Keeping an older generation fit and healthy requires significant investment in certain areas such as healthcare and technology. Having some exposure in your portfolio to stocks tapped into this sector and their healthcare counterparts, may therefore make sense.

Investing in the healthcare sector

This demographic is likely to have implications and opportunities for investment markets.

Australia's ageing population will potentially provide tailwinds for decades to come, boosting the demand for drugs, surgeries, medical devices, private hospitals, medical centres and aged-care facilities, as well as services such as nursing, pathology and radiology.[3]

The stark reality – as set out by Deloitte – is that Australia's ageing population brings health issues that drive up care demand and costs. Incidence of ailments such as coronary heart disease (CHD), cerebrovascular disease (stroke), dementia (including Alzheimer's disease) and lung cancer increase greatly with age.[4]

It is not just Australia though.

Globally, healthcare spending will grow at 4.1 per cent a year between 2017 and 2021.[5] This indicates that healthcare spend may grow faster than the global economy, as the world population expands and medical treatments increase.

Investment options: the ageing population trend

Global healthcare indexes

One way to gain exposure to the healthcare industry is via exchange-traded funds (ETFs).

Several ETF issuers have created vehicles that track global healthcare indices, giving investors access to the world's largest listed pharmaceutical companies, medical device makers and healthcare stocks.

Be aware, however, that when investing in global markets, you may wish to consider risks such as currency risk as the Australian Dollar appreciates/depreciates against the currency in which the investment is denominated.

1 Treasurer of the Commonwealth of Australia – 2015 Intergenerational Report Australia in 2055 p. 1 https://static.treasury.gov.au/uploads/sites/1/2017/06/2015_IGR.pdf

2 Productivity Commission report November 2013 – An Ageing Australia: Preparing for the Future p. 6 https://www.pc.gov.au/research/completed/ageing-australia/ageing-australia.pdf

3 Australian Institute of Health and Welfare 2014. Ageing and the health system: challenges, opportunities and adaptations p 1-7: https://www.aihw.gov.au/getmedia/19dbc591-b1ef-4485-80ce-029ff66d6930/6_9-health-ageing.pdf.aspx

4 Deloitte – 2015 Global health care outlook Common goals, competing priorities p. 1-4 https://www2.deloitte.com/gu/en/pages/life-sciences-and-healthcare/articles/2015-health-care-outlook.html

5 Deloitte – 2018 Global health care outlook: The evolution of smart health care p. 5 https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Life-Sciences-Health-Care/gx-lshc-hc-outlook-2018.pdf

Australian Securities Exchange (ASX)

Alternatively, you can choose from a wide variety of local stocks exposed to healthcare. The ASX hosts Australia's global healthcare stocks including those developing medical devices for sleeping and hearing as well as plasma based therapies. You can also get access to private hospital operators in Australia, some of the biggest in the world.

Possible opportunities in medical research and aged-care

Biotech – medical research

Australian medical research continues to shape the health and wellbeing of our nation, and has also proven to deliver return on investment for the Australian economy.[6] Investing in Australian biotechnology companies however, may present a level of risk and is generally a longer-term investment proposition. This is because the treatments must pass a number of stages of clinical trials in order to reach federal approval.

Aged-care

The aged-care industry is also one that should benefit from the ageing population and rising spending, and it is well-represented on the stock exchange. However, the stocks have suffered from recent negative publicity concerning care practices, culminating in the announcement in September 2018 of a Royal Commission into the sector.

Stocks tapped into super

Finally, with $2.7 trillion now held in the superannuation system,[7] the ageing population will increase outflows from this asset pool, as there will be a flow of money funding these years in retirement – although whether every retiree is able to fund a lifestyle to match their expectations cannot be guaranteed.

The point is that the nation will see a growing number of older Australians, healthy enough to enjoy their retirement. As a result, this may provide opportunities for a number of stocks tapped into the sector – less obviously than their healthcare counterparts.

Bottom line: for investors, having some exposure in your portfolio to the healthcare sector and its counterparts, may make sense given our increasing ageing population.

There are a many ways you can get involved in investing – whether it be in or outside your super.

[6] KPMG, Economic Impact of Medical Research in Australia, released 16 October 2018 p 3-4 https://aamri.org.au/wp-content/uploads/2018/10/Economic-Impact-of-Medical-Research-exec-summary.pdf

[7] Current as at end of June quarter 2018 – The Association of Superannuation Funds of Australia: https://www.superannuation.asn.au/resources/superannuation-statistics

How investors can benefit from urban renewal

As our population grows, the redevelopment of our cities is becoming more important than ever. This presents a great opportunity for investors.

Over half of the current population lives in urban areas[1] and by 2045, the world's population living in cities will increase by 1.5 times, to 6 billion. That's roughly two-thirds of all people on the planet living in cities![2]

But while urban growth is an important driver for the economy, managing it is a very different story.

City leaders will now have to move quickly to renew urban areas, providing basic services, infrastructure, and affordable housing for their expanding populations – something that savvy investors can capitalise on.

Why is urban renewal important?

Urban renewal recreates neighbourhoods and communities left behind due to demographic and economic change, by bringing back character and a sense of place.

All of these factors can help to improve the liveability of a city, the vibrancy of communities and economic growth.

What are the implications for investors?

Both public and private organisations are likely to invest significantly into property and infrastructure, offering real opportunity for investors to capitalise on infrastructure and property funds.

Companies who are actively building or managing these cities of the future, especially those listed on the stock exchange, may also offer good investment opportunities.

What are the investment options?

Infrastructure funds

Infrastructure funds invest in utilities, transportation, schools and other projects which are core to our communities. They also invest in significant projects that support community growth over many years.

Furthermore, since infrastructure is a basic need of every community, it is generally unaffected by the economic cycle. However, investment returns can be influenced by the risks of the project itself, such as operational risks, and government regulatory risks.

Investing in property funds

There are many listed or unlisted property funds to invest in, which can give you a share of residential and commercial property to diversify your portfolio.

It's important to be aware that there are some risks associated with investing in bricks and mortar. Property prices can be volatile and the asset class itself is highly illiquid (you can't pull your investment out quickly).

Publically listed companies

In addition to investing in infrastructure and property funds, you may also want to consider investing in the publicly listed companies.

These investments serve an important purpose as urban populations continue to grow.

1 http://www.worldbank.org/en/topic/urbandevelopment

2 http://www.worldometers.info/world-population/ – data current as at 9 October 2018

3 https://www.lendlease.com/-/media/llcom/investor-relations/annual-reports-and-securityholder-reviews/2018/2018-annual-report-lendlease.pdf, P.26.

Property, infrastructure and construction company, Lendlease (ASX code: LLC)[3] for instance, is a global leader in major urban renewal projects with $55.9 billion of developments in the pipeline. Development and construction company Mirvac Group (ASX code: MGR)[4], as well as industrial property owner and developer Goodman Group (ASX code: GMG)[5], also have a strong presence in urban renewal projects.

Urban renewal projects in development

There are a number of significant urban renewal projects currently in development in Australia. While you can't invest direct in these directly, you can invest in the funds that do, as mentioned above.

Melbourne: $30 billion Fisherman's Bend project

Melbourne has bedded down the Docklands/Victoria Harbour project, and now has the $30 billion Fisherman's Bend project[6] underway – the largest urban renewal project in the country. Fisherman's Bend covers around 480 hectares of former industrial land south-west of Melbourne's CBD, which is being transformed into a vibrant inner-city precinct, with hotels, businesses, housing and a new engineering campus of Melbourne University.

Sydney: $6 billion-plus Barangaroo precinct

Sydney has the $6 billion-plus Barangaroo precinct[7], which is as an office, residential retail, cultural and dining hub nestled between Sydney Harbour and the western fringe of the CBD. The precinct features a six-hectare recreated original Sydney Harbour headland built as an entirely Australian native garden.

Brisbane: $2.9 billion redevelopment

Brisbane has undergone several decades of urban renewal since the 1988 World Expo, which now sees the South Bank leisure precinct playing host to playgrounds, picnic lawns, event venues, urban beaches, paddling pools and cafes.

Bottom line: for investors, rising population growth and the need to recreate cities that can support it, will present real opportunities to take advantage of.

There are a many ways you can get involved in both direct and indirect infrastructure and property investments – whether it be in or outside your super.

[4] http://groupir.mirvac.com/icms_docs/291482_MGR_FY18_Annual_Report.pdf, P.2.

[5] https://www.goodman.com

[6] https://www.fishermansbend.vic.gov.au

[7] https://www.barangaroo.com/see-and-do/barangaroo/about

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