MEGATRENDS INVESTING WITH ECPI
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ECPI Group, based in Luxembourg and Milan, has been building sustainable and innovative investment tools and solutions for 15 years.

ECPI Group is a leading independent provider of investment advisory solutions based on proprietary research, quantitative and disciplined investment processes.

ECPI Group offers advice on the adoption and the implementation of ESG (Environmental, Social and Governance) or values-driven policies, support in structuring of financial products, design of thematic indices, and portfolio screening for risk optimization purposes.

ECPI Research Department constantly monitors global economic and social trends in order to scout new potential investment themes: the Megatrends. Megatrends are persistent, secular changes in social and economic factors such as population dynamics, regulation and environment, that impact humanity today and will have strong effects on the economy over the coming decades.

ECPI makes these megatrends investable by selecting the companies able to exploit the business opportunities arising from these systemic changes and grouping them into thematic indices and index strategies. The strong nature of the megatrends allows them to have the potential for great long-term growth, irrespective of short-term or speculative fluctuation.

**CURRENT MEGATRENDS AND THEIR DRIVING FORCES**

- Population Dynamics
- Climate Change
- Scarcity of Resources
- Emerging Markets
- Growth & Longevity
- Urbanization
- Regulations
- Alternative Energies
- Food & Water
- Farmland
- Consumption
- Lifestyle & Technology
2. THE MEGATRENDS

2.1 EMERGING MARKETS

KEY FACTS

- In the world there are 6.2 bio of mobile subscriptions, 70% of which are from emerging markets.

- There are about 370 million TVs in China and 457 million internet users.

- China has initiated a railway project with a projected length of 42,000 km.

GDP GROWTH TRENDS (%)

Source: World Economic Outlook, IMF, April 2012

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1 Ericsson, “Mobility Report June”, 2012
2 China Internet Network Information Center
3 Marketwire
ECPI UNDERLYING INDICES

- ECPI Asian Infrastructure Equity (ECPAI FP Index)
- ECPI China Consumption Equity (ECPACCTP Index)

BUSINESS RATIONALE

Emerging Markets are considered the global growth engine due to consumption growth that will affect 2 billion people by 2030 and investments growth driven by infrastructure demand and the involvement in the international market. According to a recent Accenture report⁴, emerging economies now boast 70 companies in the Fortune Global 500 list of the world’s biggest companies, up from just 20 a decade ago. Within the last year alone, the number of emerging-market companies in the Fortune Global 500 grew by nine. They have been expanding and acquiring new businesses at an outstanding pace, conducting more than 1,100 mergers and acquisitions, altogether worth US$128 billion in 2006.

Thanks to increased population growth and urbanization trends, emerging markets are expected to grow from 30% to over 40% of the overall global market cap and generate over 50% of global economic growth—all within the next decade.\footnote{Accenture, “The Rise of the Emerging-Market Multinational”, 2008}

As an asset class, emerging markets infrastructure is expected to benefit from $6 trillion in government and private spending in the next three years thanks to the healthy fiscal position of emerging countries compared to the debt carried by developed nations.

Companies based in developed markets with a high percentage of revenues coming from emerging economies are the best seized to exploit future business opportunities in these countries.
TUPPERWARE – ECPI CHINA CONSUMPTION

Tupperware, the household name once known primarily for storing dinner leftovers and schoolchildren’s lunches, reported great gains outside of the U.S., where the company now does about 60% of its business. In Asia Pacific, for example, Tupperware saw sales go up by almost 50% in 2011 compared to the previous year. Tupperware’s business model is a very successful one, particularly when applied to new and developing markets. The combination of consumer participation through personal sales, brand loyalty, and the perception of quality in the product line will help steer Tupperware through thick and thin, making it attractive to both consumers and investors.

CHINA RESOURCES GAS GROUP – ECPI ASIAN INFRASTRUCTURE

China Resources Gas Group Limited is principally engaged in city gas distribution business including piped natural or petroleum gas distribution and operating CNG (compressed natural gas) filling stations in China. Its piped natural gas operations are strategically located in areas of China with rich reserves of natural gas and areas which are economically more developed and densely populated. The economic growth and urbanization in China has spiked the demand for energy in the country. In order to diversify energy resources and reduce reliance on polluting energy sources such as coal and crude oil, the China government has, in recent years, taken various measures.
2.2 POPULATION DYNAMICS

KEY FACTS

- WORLD POPULATION IS GROWING BY 220,000 PEOPLE A DAY

- IN ALMOST ALL COUNTRIES, LIFE EXPECTANCY AT BIRTH HAS AT LEAST DOUBLED SINCE THE EIGHTEENTH CENTURY

- IN THE MOST DEVELOPED REGIONS, THE POPULATION AGED 60 OR OVER IS EXPECTED TO NEARLY DOUBLE BETWEEN 2005 AND 2050, FROM 245 MILLION TO 406 MILLION

POPULATION BY BROAD AGE GROUP IN LESS DEVELOPED REGIONS


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POPULATION BY BROAD AGE GROUP IN MORE DEVELOPED REGIONS

UNDERLYING ECPI INDICES

- ECPI Global ESG Healthcare Equity (GALPHHCP Index)
- ECPI Global Longevity Winners Equity (GALPHLWP Index)
- ECPI Global ESG Technology Equity (GALPHGTP Index)

BUSINESS RATIONALE

The changes in world population both in terms of life expectancies as well of geographic distribution and wealth redistribution represent an important factor able to significantly influence the performance of equity markets at large and of individual stocks directly impacted by these trends.

Thanks to the senior population, discretionary spending and leisure activities will boom. Demand among the elderly for specially-equipped facilities, where they can live in safety and comfort, will rise.

Seniors are also expected to actively engage with technological innovations, with companies and researchers targeting them as both consumers and users. Systematic changes will favor certain sectors/industries such as Healthcare while new consumption trends will request explicit targeting and customization.

PHILIPS ELECTRONICS – ECPI GLOBAL LONGEVITY WINNERS

In 2011, the Healthcare division was the largest, representing approximately 40% of total sales of the company. It could count on €8.9 billion in revenues in 2011, 37,000+ employees in 100 countries, 8% of revenues invested in research and development and more than 450 products and services. The Healthcare division produces equipment for both professional and home use in the following areas: Anesthesiology, Cardiology, Oncology, Orthopedics, Surgery, Women’s Health, and Stroke Care. Philips has also founded Senior Living Solutions, a special division that is responsible for providing telephone systems and emergency assistance and support for elderly living in residential communities or nursing homes in the United States. Among the products, for example, a portable defibrillator (Philips HeartStart Defibrillators), an emergency calls system (Philips CarePoint) and an integrated security system for nursing facilities (Philips CarePoint Resident Safety System).

NOVARTIS - ECPI GLOBAL ESG HEALTHCARE

Novartis, the fourth pharmaceutical company in the world by market capitalization, produces a wide range of products to combat the diseases typical of the elderly, such as hypertension and heart problems (division “Cardiovascular and Metabolism”). The best-selling drug in 2011 was the antihypertensive Diovan with 5.665 billion dollars in sales.
2.3 CLIMATE CHANGE

KEY FACTS


- ASEmerging Economies industrialize, that figure is set to rise rapidly in the coming decades, heralding potentially devastating consequences for global climate patterns.

- In the last century the sea level has increased by 1,8 millimeter per year.

EUROPEAN SUMMER TEMPERATURE

Source: Barriopedro et al. “The Hot Summer of 2010: Redrawing the Temperature Record Map of Europe”

9 IWR International Economic Platform for Renewable Energies
10 IWR International Economic Platform for Renewable Energies
11 ISAC
A LOW-CARBON FUTURE IN 2050 WILL USE LESS ENERGY THAN ‘BUSINESS AS USUAL’ IN 2030: WORLD PRIMARY ENERGY SUPPLY BY FUEL (BOE)

Source: IEA, “Energy Technology Perspective 2010”

ECPI UNDERLYING INDICES

- ECPI Global Carbon Equity (CARBONP Index)
- ECPI Global Climate Change Equity (GALPHACC Index)
- ECPI Global Eco Real Estate & Building Equity (GALPEREP Index)
- ECPI Global Renewable Energy Equity (GALPHRWE Index)

BUSINESS RATIONALE

While some companies face potential risks associated with climate change -- from heightened regulation or impairment of property to loss of revenues or reputation -- resilient firms in industries most vulnerable to negative effects are also best positioned to benefit from any regulatory changes that take place. Investors need to put the nexus of climate change policies and energy scarcity at the heart of their asset-allocation.

Here some examples of potential winners:

The most carbon-intensive sectors (Utilities, Energy, Automotive) can expect to be affected the most by new regulation. Companies operating in these sectors will need
to prepare for a drastically different environment. Threats to their business posed by climate change include:

- Risks to a company’s physical operations
- Subsequent risks associated with tough climate legislation
- Products losing cost competitiveness in the marketplace

Staying competitive amid these dangers means first accounting for a firm’s carbon emissions; reducing that level of carbon intensity thereafter should be no less of a priority.

Moreover the European green economy market increased also in 2011 both in terms of dimension (+23%) and profitability (+9%).
CASE STUDIES

VOLVO – ECPI GLOBAL CARBON

In 1972, during the United Nations Conference on the Human Environment in Stockholm, Sweden, Volvo launched its first environmental position on mobility and the environment. Today, environmental issues are an integral part of Volvo vision, business strategy and daily work.

Since 2004 Volvo reduced energy consumption by 46% per unit produced. The Volvo Group has also conducted research on seven renewable fuels assessed from seven aspects and from a well-to-wheel perspective. All seven renewable fuels have the potential to reduce carbon dioxide emissions from transports but among them the most promising seems to be the DME (dimethyl ether), an energy-efficient gas that can be produced also from biomass.

JOHNSON CONTROLS – ECPI GLOBAL ECO REAL ESTATE & BUILDING

Johnson Controls Inc. is engaged in the building efficiency business. It is a global supplier of heating, ventilation, and air-conditioning (HVAC) mechanical equipment and services. The company has also been involved in more than 500 renewable energy projects including solar, wind and geothermal technologies. Its solutions have reduced carbon dioxide emissions by 13.6 million metric tons and generated savings of $7.5 billion since 2000. The Company produces batteries which store and release solar energy. Solar energy consumption, and the use of its related components, is expected to keep increasing in the near future, as a result of global warming concerns.
2.4 SCARCITY OF RESOURCES

KEY FACTS

- THE CURRENT WORLD POPULATION OF 6.8 BILLION PEOPLE IS EXPECTED TO EXCEED 9 BILLION BY 2050 – IN OTHER WORDS, 150,000 ADDITIONAL MOUTHS TO FEED EVERY DAY\textsuperscript{12}

- 147% INCREASE IN REAL COMMODITY PRICES SINCE THE TURN OF THE CENTURY\textsuperscript{13}

- WATER COVERS 75 PER CENT OF THE EARTH’S SURFACE BUT ONLY 25 PER CENT IS FRESHWATER\textsuperscript{14}

\textit{REPLENISHING RESERVES OF MATERIALS IS INCREASINGLY DIFFICULT AND EXPENSIVE}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{chart.png}
\caption{Number of ore discoveries and exploration expenditure}
\end{figure}


\textsuperscript{12} United Nation, “World Population Prospects – Revision 2010”
\textsuperscript{14} United Nations Development Programme (UNDP)
**BASE-CASE CROPLAND DEMAND BY 2030, MILLION HECTARES**

![Base-case cropland demand by 2030, million hectares](chart.png)


**UNDERLYING INDICES**

- ECPI Global Agriculture Equity (GALPHAGP Index)
- ECPI Global Blue Gold Equity (GALPHBGP Index)
- ECPI Global Commodity Equity (GALPHCMP Index)
- ECPI Global Livestock Equity (GSXLRI Index)

**BUSINESS RATIONALE**

Resource scarcity presents opportunities and risks for business. Companies in most sectors were able to benefit from declining resource prices over the past century. This allowed management to focus attention primarily on capital and labor productivity. But resource-related trends will shape the competitive dynamics of a range of sectors, from water supply companies to food and oil producers.

Many companies need to pay greater attention to resource-related issues in their business strategies and take into serious consideration how resources might shape their profits, produce new growth and innovation opportunities, generate competitive asymmetries and change the regulatory context.

For example investment opportunities in the water sector will likely arise in three areas:

- The construction of new water supply and treatment infrastructure in emerging economies.
Infrastructure upgrading in OECD countries, in spite of constraints on public sector expenditure, to improve and extend their water infrastructure, particularly in areas of drought and/or flood risk.

Roll out of proven technology: faced with an expanding range of contaminants in the water supply regulators have mandated the adoption of new technologies, such as membrane filtration, ultra violet light disinfection or using activated carbon.

For companies in industries like the fertilizer, crop protection, seed development and agricultural equipment sectors this trend represents a wealth of opportunities. Estimates suggest that, even if the commodity price surge slows in the medium term, the price of agriculture commodities will be 40-60% higher prior than 2007.
CASE STUDIES

GEBERIT – ECPI GLOBAL BLUE GOLD

Geberit AG is a Swiss company engaged in the supply of solutions for sanitary technology applications. Its range of products comprises six categories in the two product areas of Sanitary Systems (Installation and Flushing Systems, Waste Fittings and Traps) and Piping Systems (Building Drainage Systems, Supply Systems).

In the past, each urinal flush used to consume three or more litres. In 2003, Geberit launched a clean flush which allows consuming only one litre of water. Moreover, the company has designed an innovative electronic control that registers the number of users and, in case of high user frequency, does not flush after each use in order to save a further 30% of water.

SANDERSON FARMS – ECPI GLOBAL LIVESTOCK

Sanderson Farms has grown from a small general feed and seed business in 1947 to one of the nation’s leading food corporations in 2012, with sales of more than $1.97 billion. The company is currently the third largest poultry producer in the U.S., with plans to process over 2.386 billion pounds of meat in 2013. The company is engaged in the production, processing, marketing and distribution of fresh and frozen chicken and other prepared food items.
3. ECPI GLOBAL MEGATREND EQUITY INDEX

3.1 SMART INVESTING IN MEGATRENDS

ECPI has also developed a strategy index that gives exposure to all these Megatrends. ECPI GLOBAL MEGATREND EQUITY INDEX semiannually selects the best-performing indices in order to seize the best opportunities on the market.

The Strategy Index consists of a liquid and transparent index based on a family of proprietary indices published on a daily basis since 2007.

ECPI GLOBAL MEGATREND EQUITY INDEX can be used to build passive investment products such as index-tracking fund and ETF as well as active investment products such as mutual funds and managed accounts that use the index as a benchmark/investment universe.

MEGATRENDS AND ECPI UNDERLYING INDICES

Source: ECPI
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