

Demography is destiny – identifying the opportunities of an ageing population

**Edward Bonham Carter
Vice Chairman
Jupiter Fund Management Plc**

“ **We have two classes of forecasters: those who don't know – and those who don't know they don't know.**

John Kenneth Galbraith

“ **No amount of sophistication is going to allay the fact that all of your knowledge is about the past and all your decisions are about the future.**

Ian Wilson – former GE executive

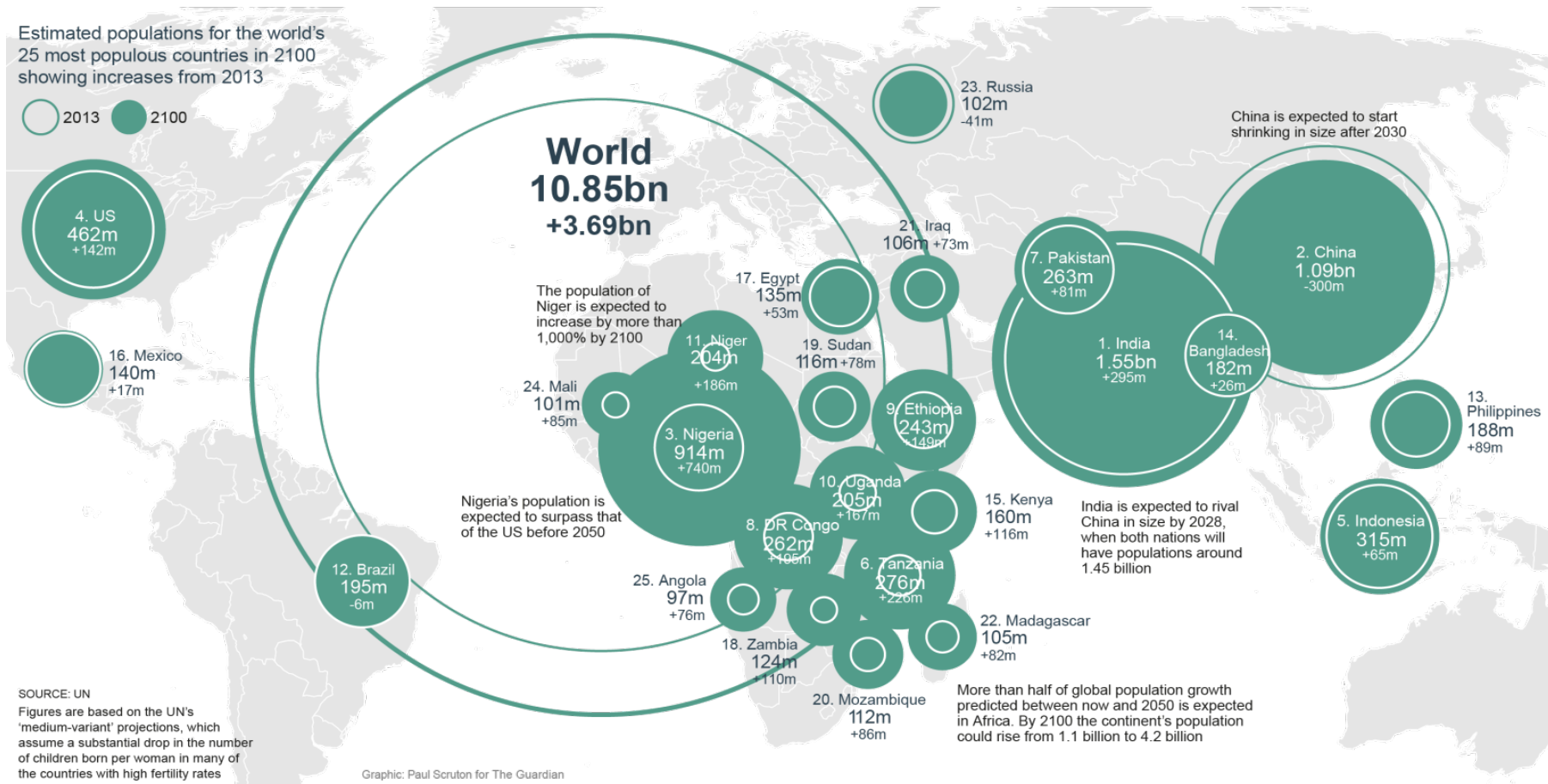
“ **Forecasts create the mirage that the future is knowable.**

Peter Bernstein

Agenda

- **Demographic outlook**
- What asset managers need to offer
 - Investment opportunities for asset managers
- Where we are today

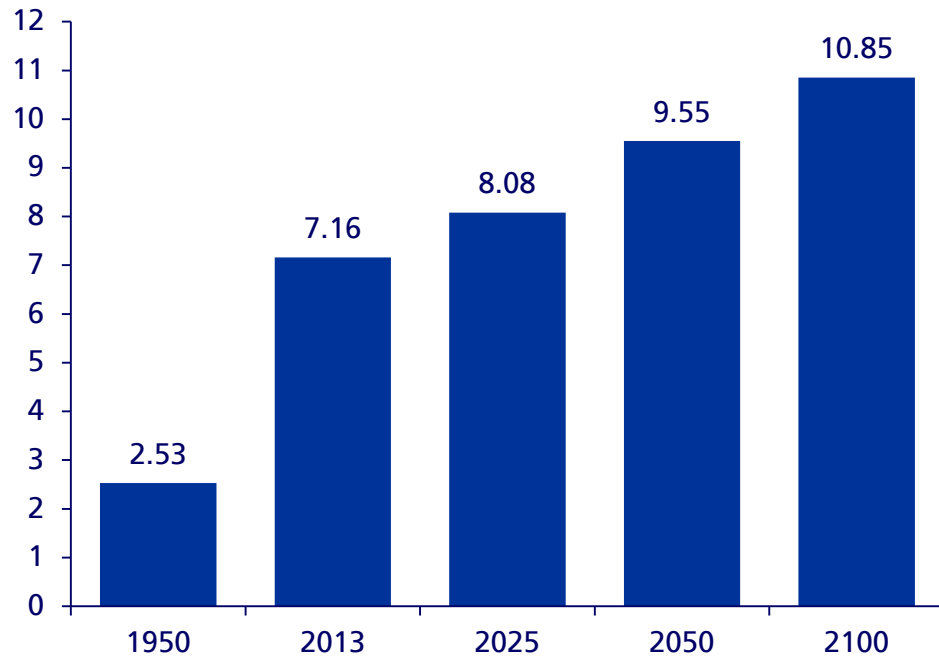
Major populations in 2100



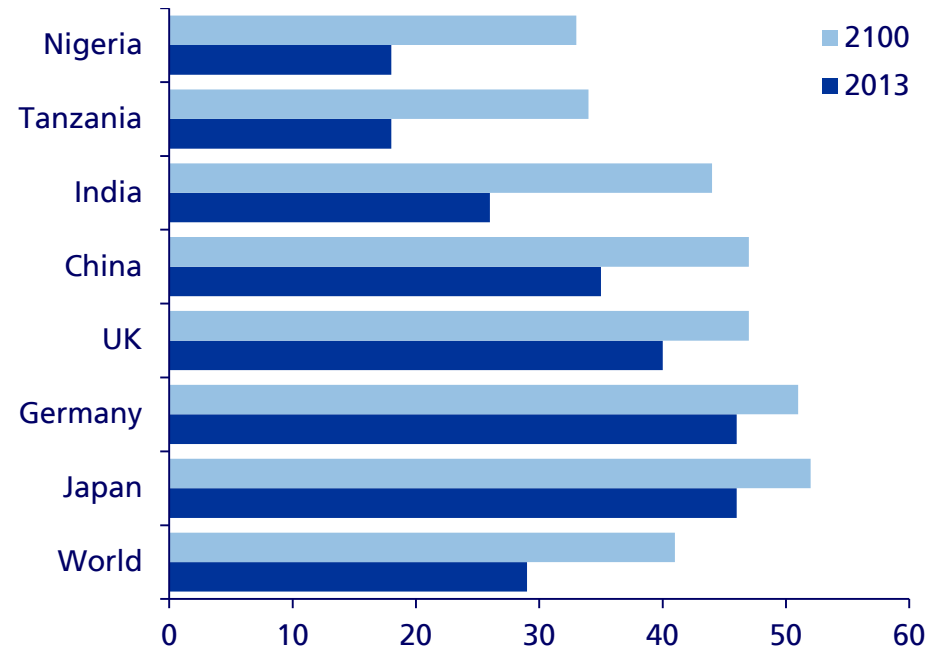
Source: The Guardian, 13.06.13.

Major populations in 2100

Global population in billions



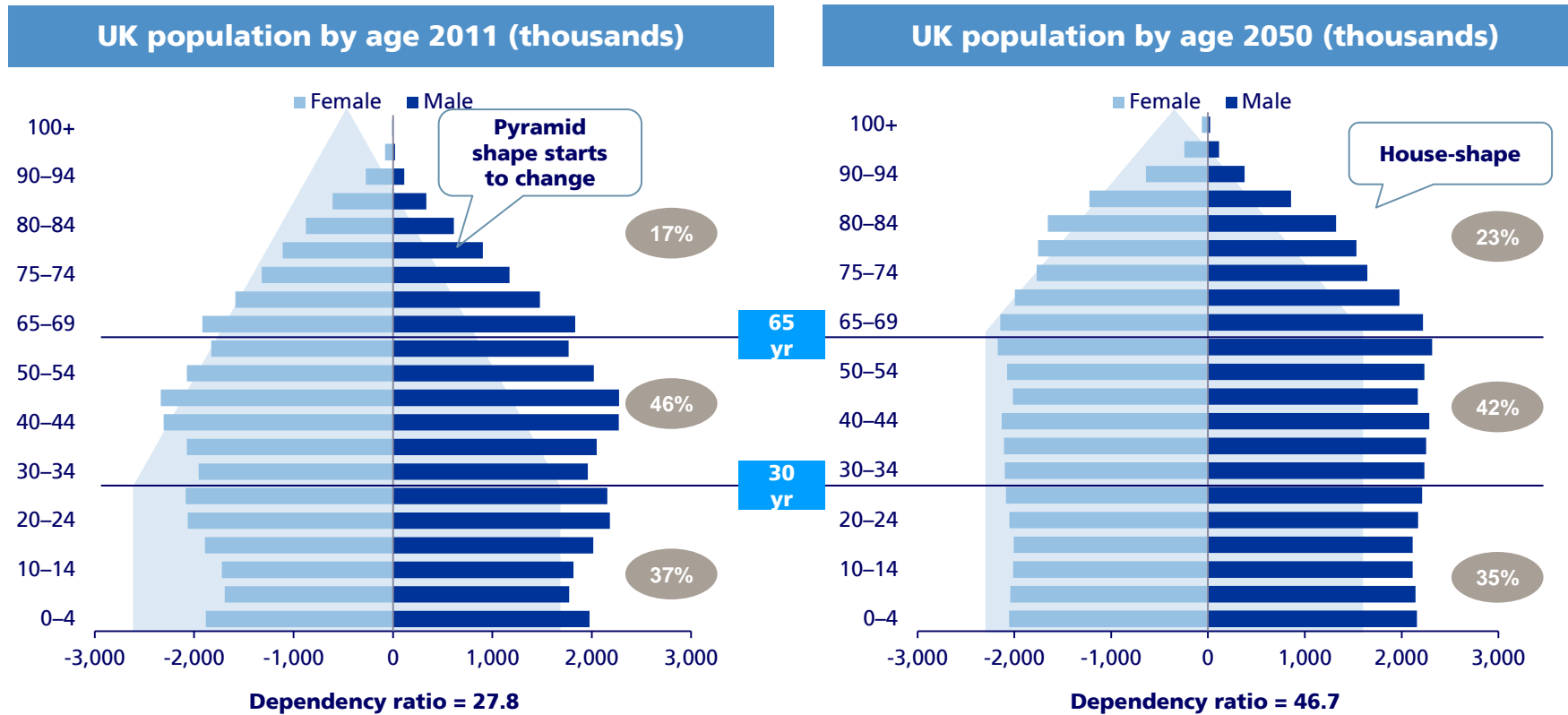
Average age of selected populations



Source: The Guardian, 13.06.13.

Investor expectations – increased investor responsibility

Increased necessity to save as population ages and dependency ratios increase

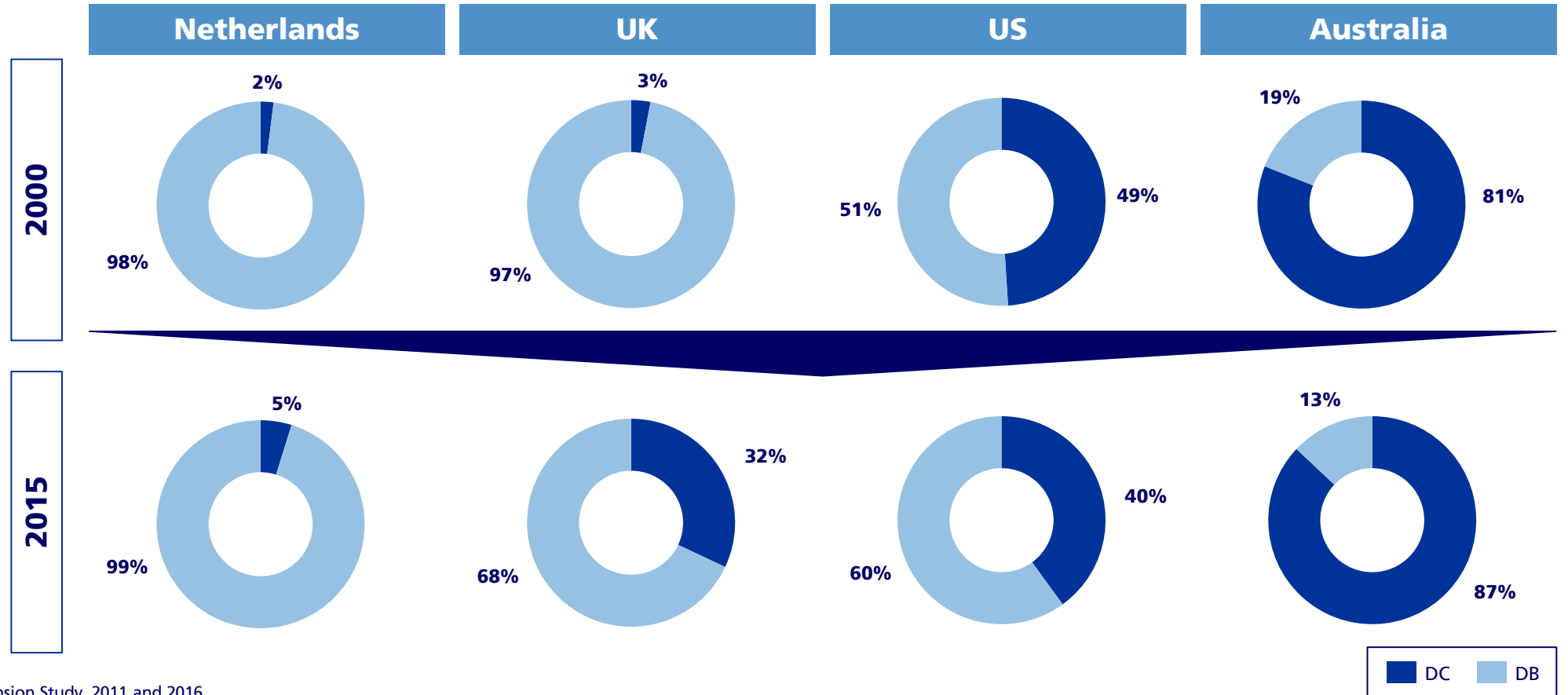


Source: United Nations – Population division, 2015

Investor expectations – increased investor responsibility

Responsibility for pension savings and effective management is shifting to the individual

The shift towards DC schemes is growing considerably in the UK, starting to approach US market levels...



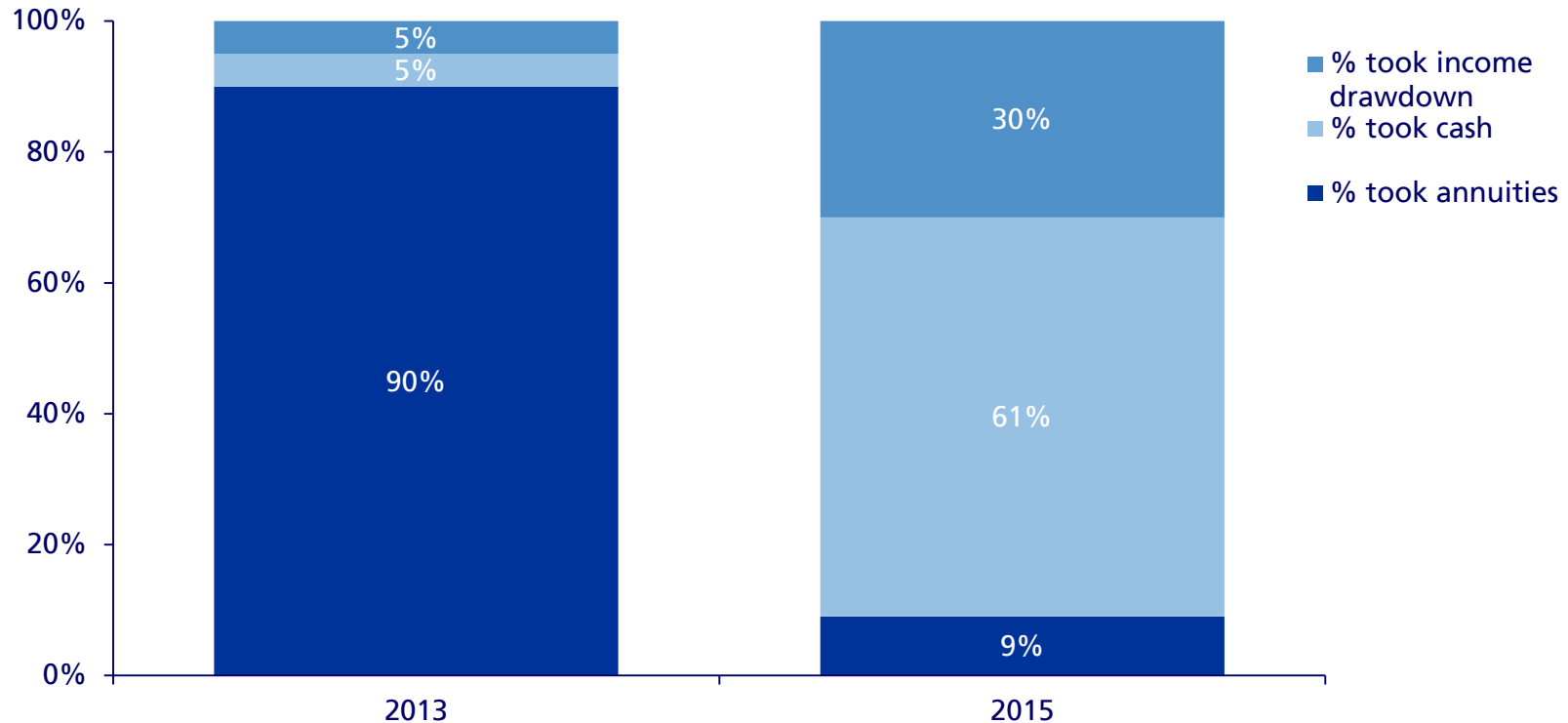
Source: Willis Towers Watson Global Pension Study, 2011 and 2016.

Investor expectations – increased investor responsibility



Responsibility for pension savings and effective management is shifting to the individual

...while the annuity market changes will give pensioners more freedom and more responsibility



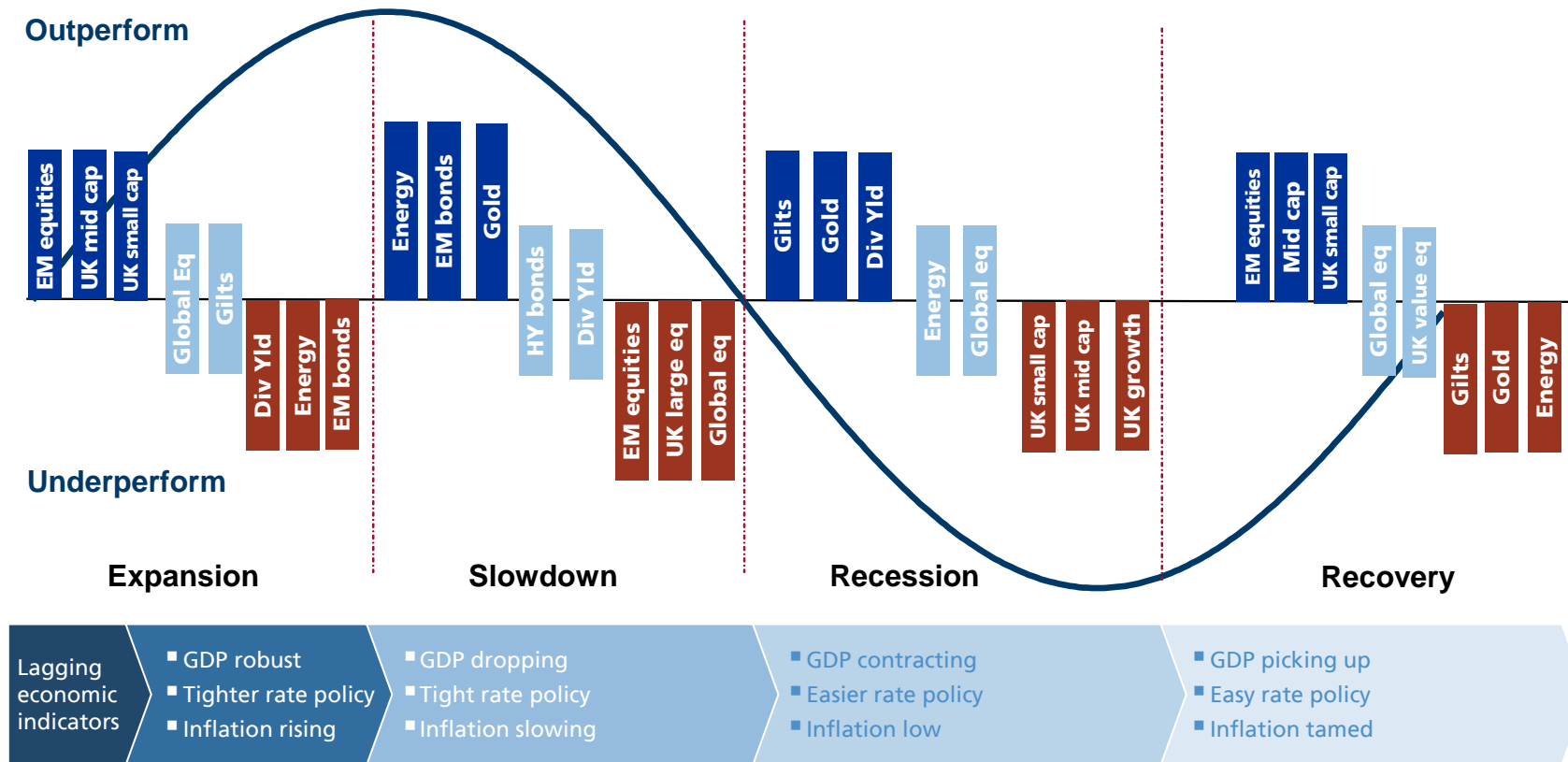
Source: <https://www.moneymarketing.co.uk/annuity-market-showing-green-shoots-recovery-analysts-say/>

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What asset managers need to offer

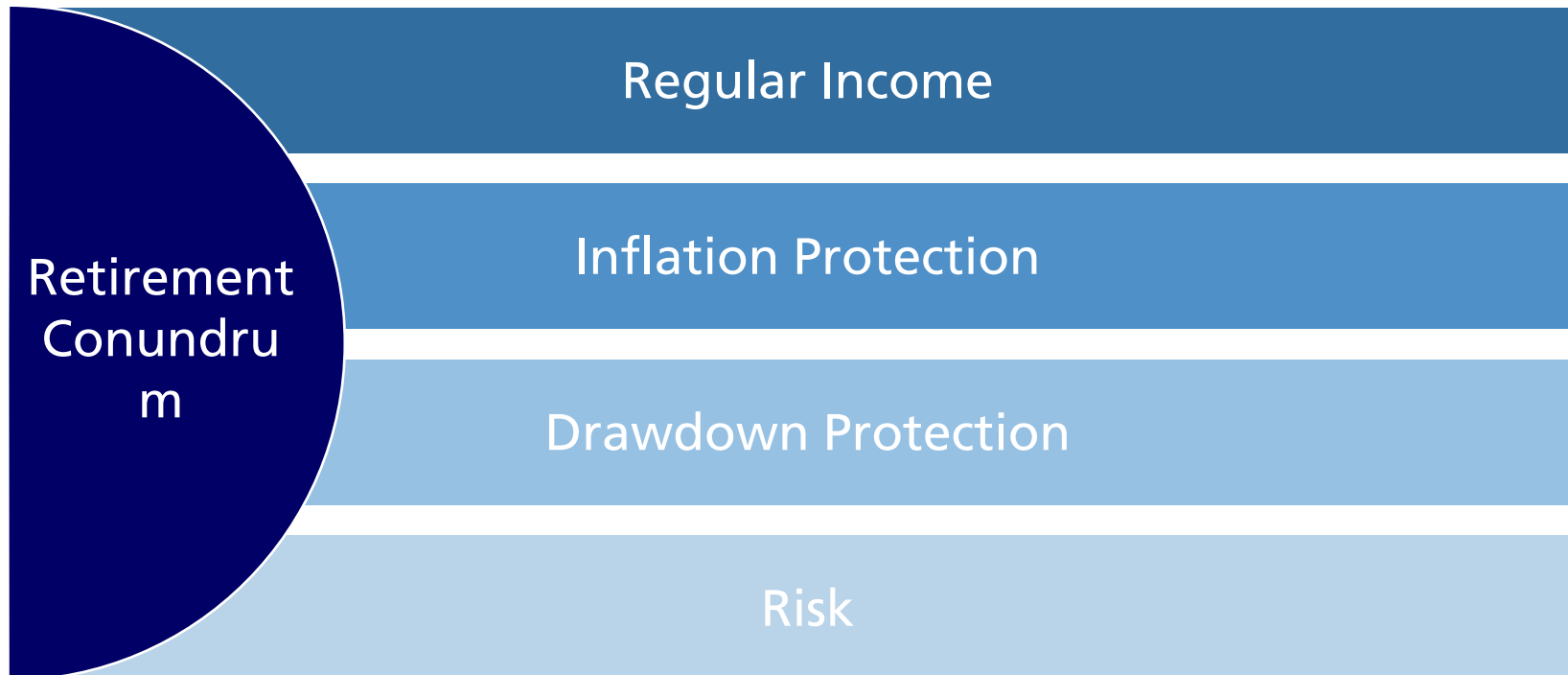
The inherent investment cyclicality: asset classes / styles perform differently through the cycle



The views expressed are those of the presenter at the time of preparation and may change in the future.

What asset managers need to offer

The retirement conundrum

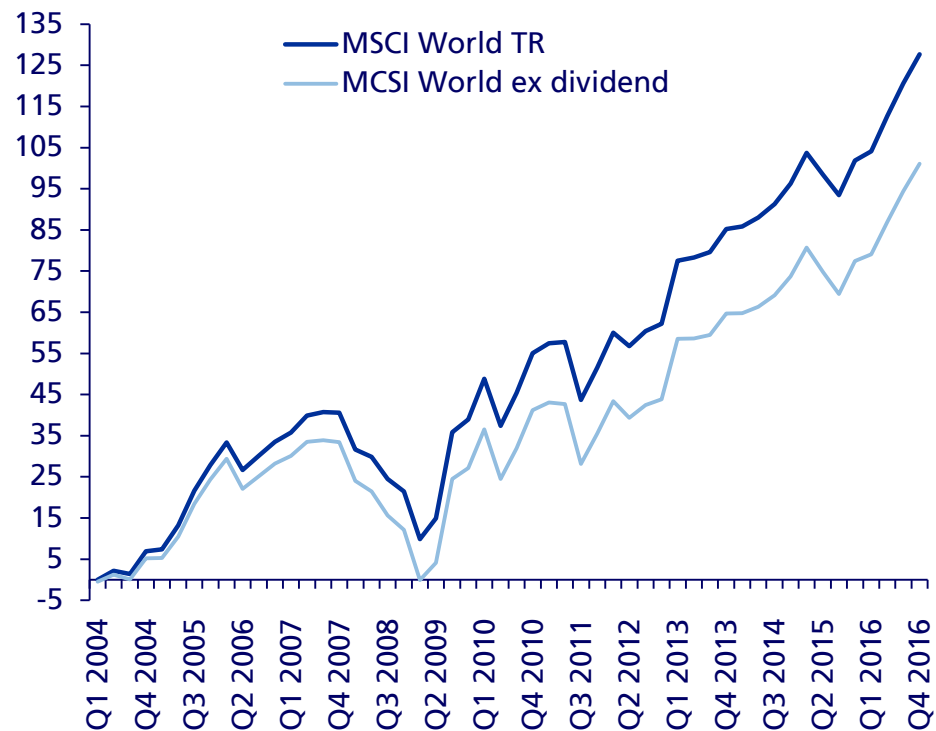


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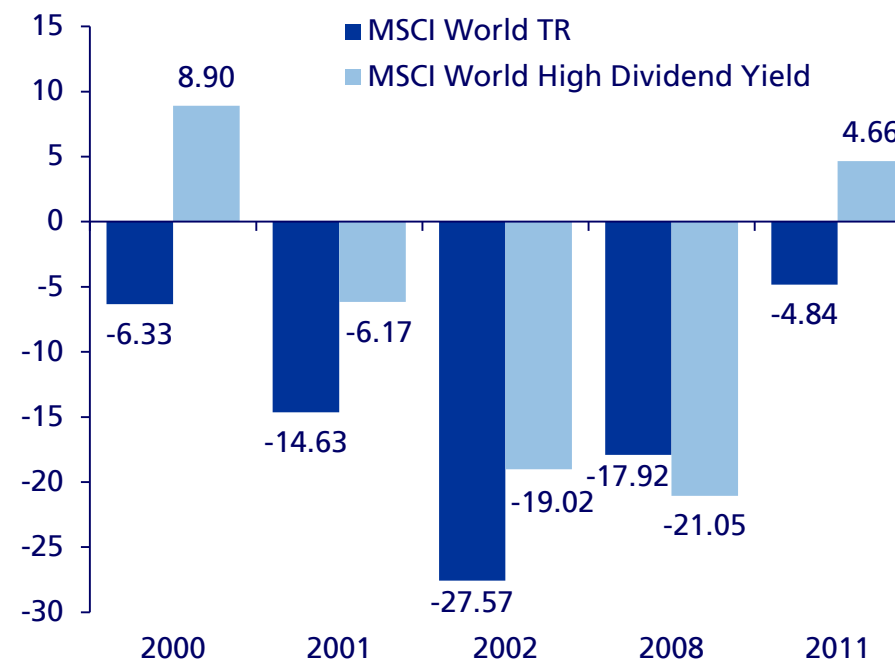
What asset managers need to offer

The simple rules investors may want to consider

MSCI World returns*



MSCI World calendar year returns in falling markets**



*Source: FE, bid to bid, net income reinvested, in GBP, 31.12.16.

**Source: FE, bid to bid, net income reinvested, in GBP, 31.12.11.

What asset managers need to offer

Focus on products that address key macro trends



Key product success factors

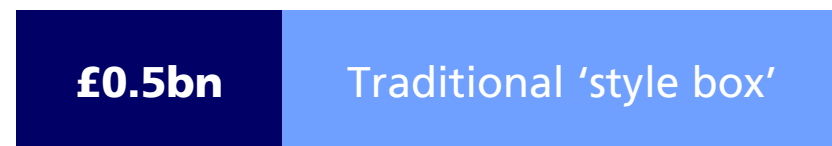
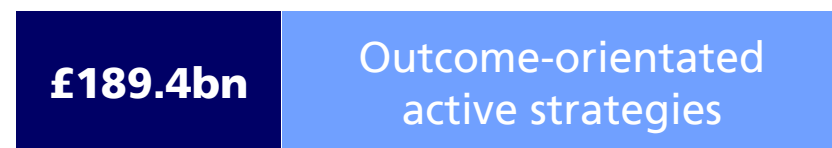
- Manage the new fixed income environment
 - High yielding fixed income solutions: high yield and emerging market debt
 - Strong flexible / global / fixed income solutions
- Produce an all weather multi-asset portfolio with more solution oriented capabilities
 - Absolute return strategies
 - Income / inflation / rate focused
- Strong active / alpha equity capabilities
 - Income/ growth: global dividend and global emerging markets
 - Global / distinctive active equity product suite

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What asset managers need to offer

Focus on solving investors' problems

International Market



UK Market



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Outcome-oriented active strategies includes investment strategies such as multi asset, absolute return, equity income. Traditional 'style box' includes active equity funds with $\leq 1.5\%$ p.a. tracking error.

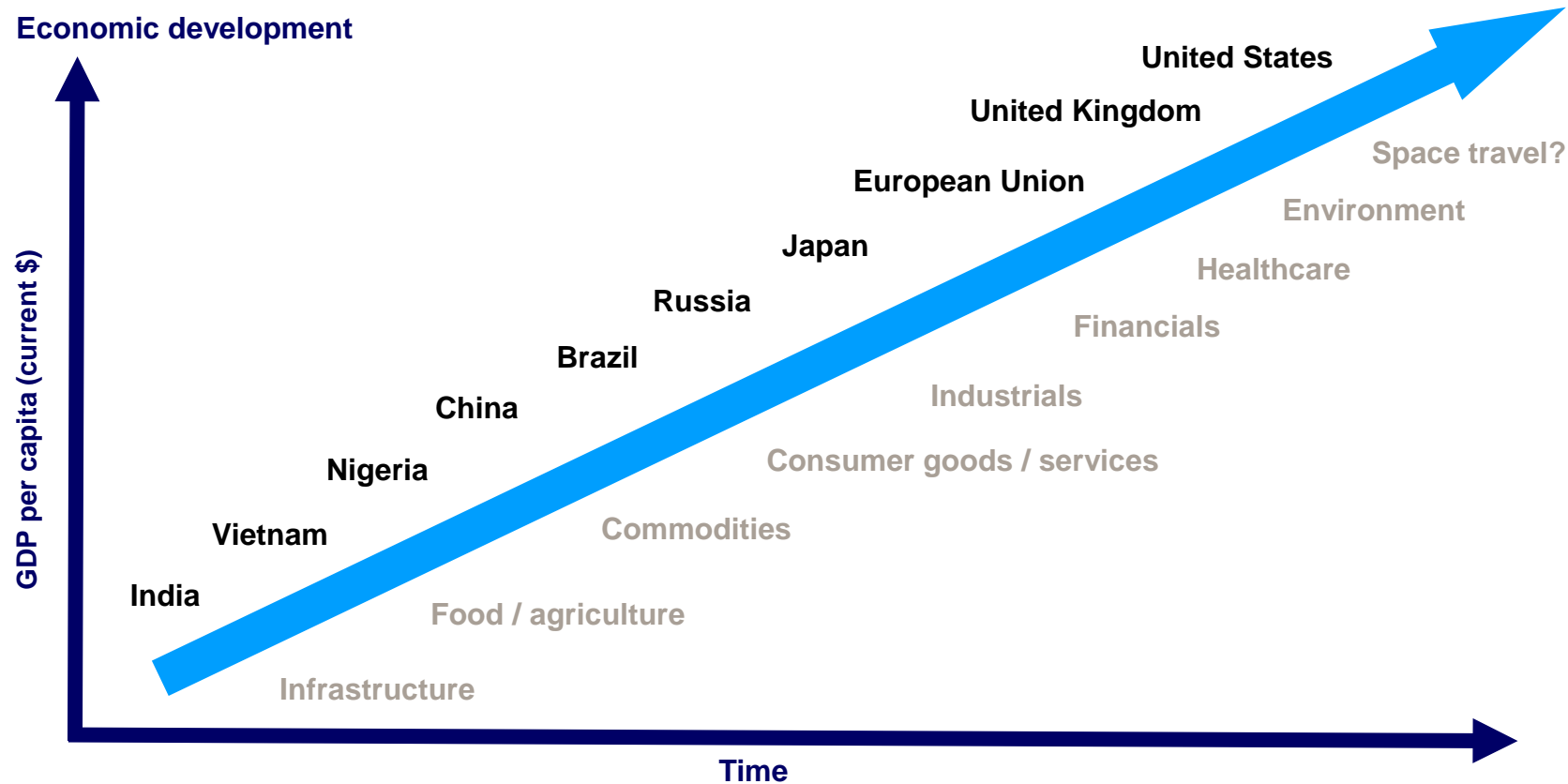
Source: SIM Fund, net new flows, 3 years to 30.11.16.

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What asset managers need to offer

Economic development changes sector focus



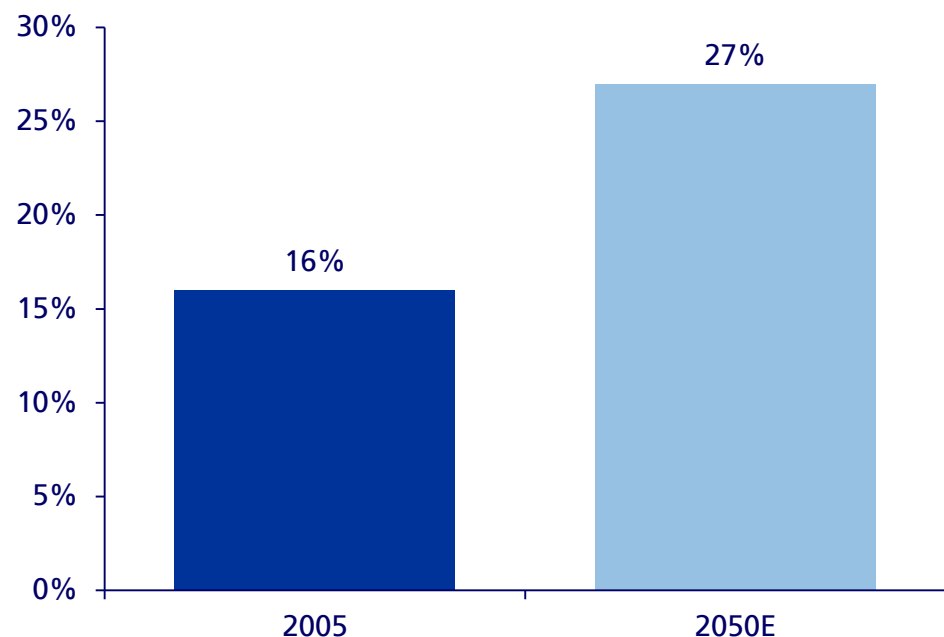
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Source: SIM Fund, net new flows, 3 years to 31.12.15.

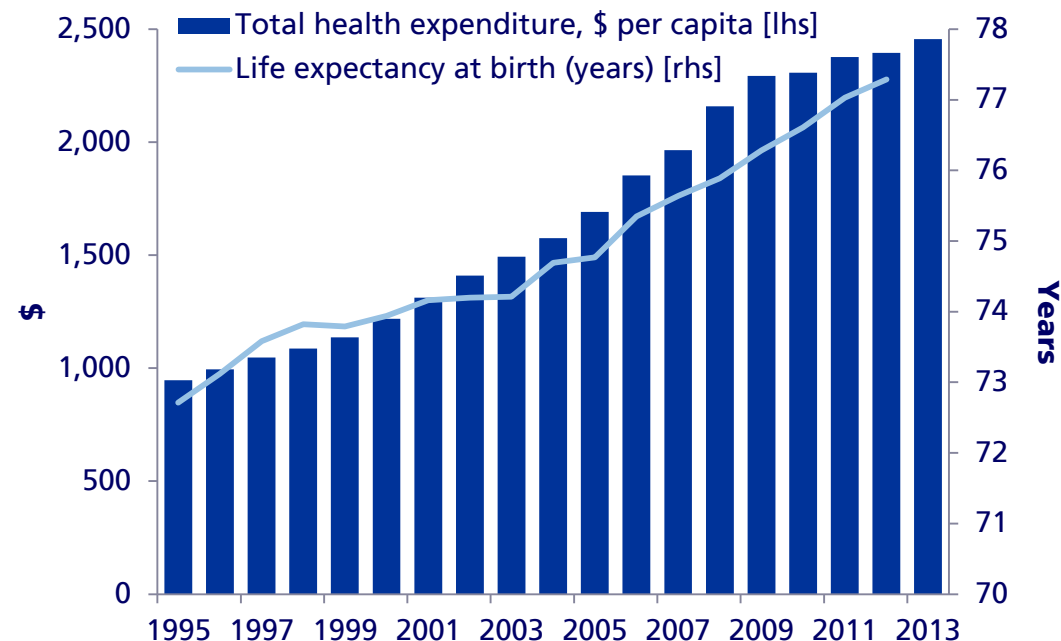
What asset managers need to offer

The healthcare market in Europe will likely benefit from 'two-pronged' ageing

European population over 65*



European life expectancy vs. health expenditure**



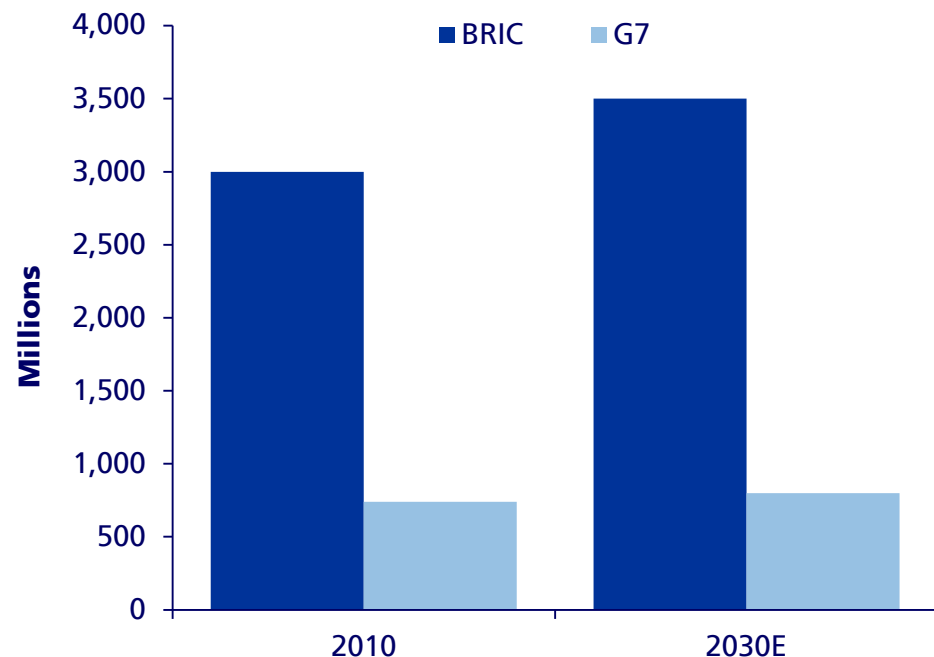
*Source: UN Population Report 2010, Allianz Global Investors Capital market analysis. Chart published in Allianz, Global Investors, October 2011.

**Source: World Health Organization, European health for all database, www.euro.who.int/en/home.

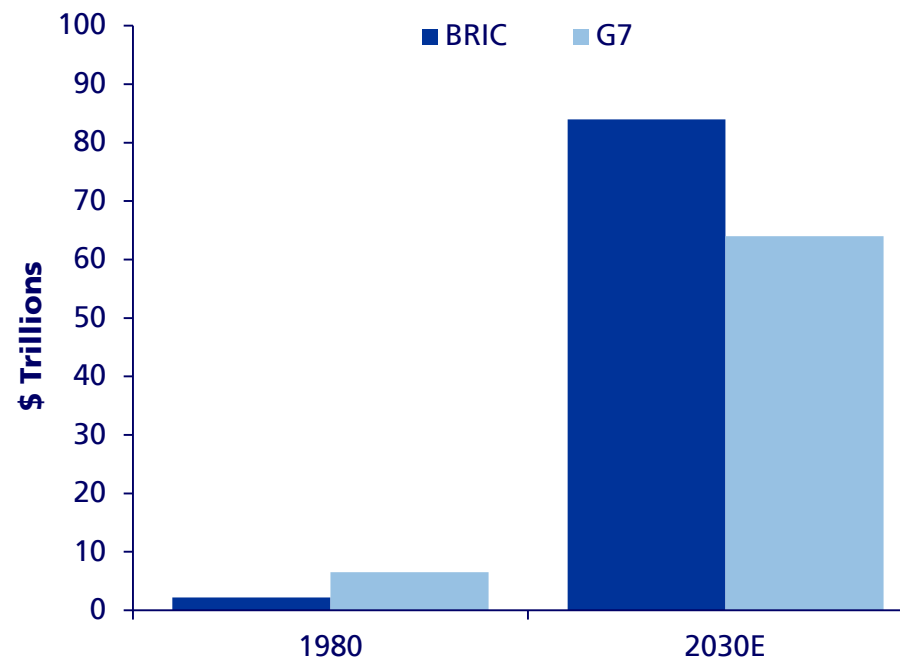
What asset managers need to offer

Increasing population and prosperity of Emerging Markets...

Total population*



Real GDP (\$) **



*Source: Statistical offices in the respective BRIC countries, 2011; Allianz Global Investors Capital Market Analysis. Chart published in Allianz, Global Investors, October 2011.

**Source: Economist Intelligence Unit, 2011; Allianz Global Investors Capital Market Analysis. Chart published in Allianz, Global Investors, October 2011.

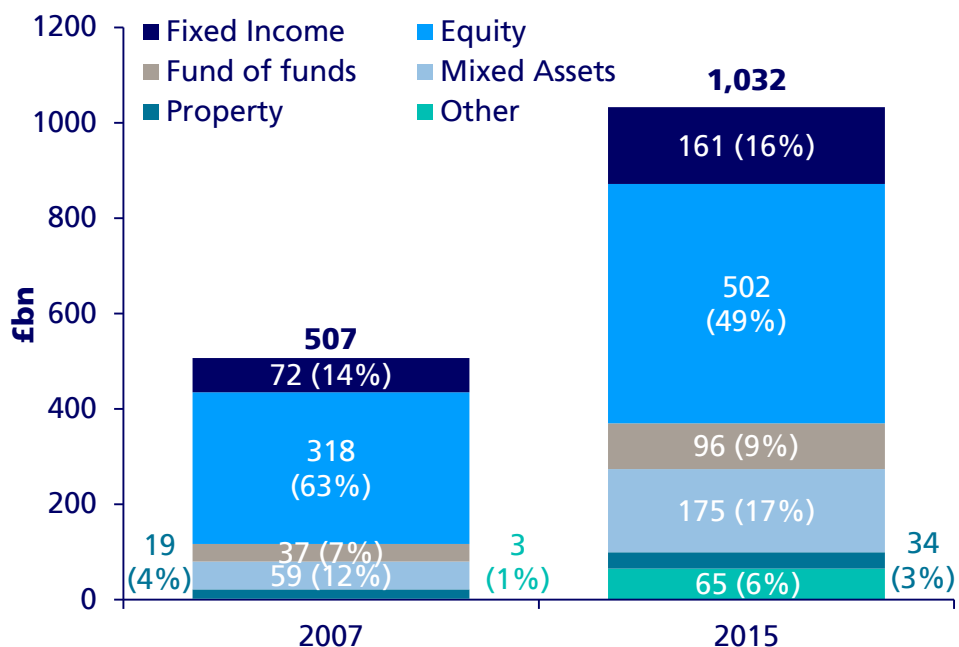
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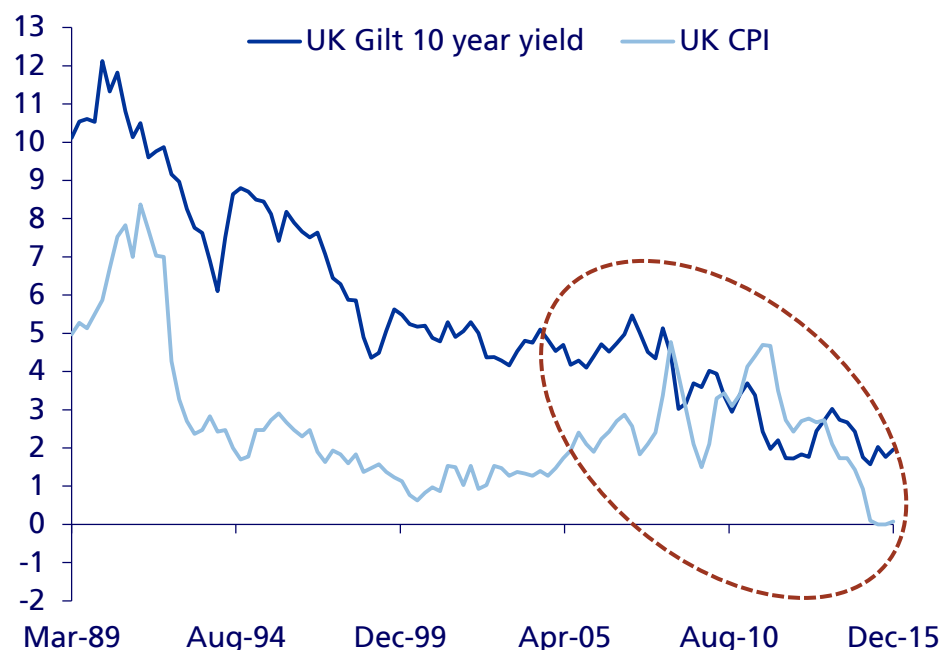
Investor expectations

Is lack of risk the biggest risk?

UK-domiciled funds AUM by investment type*



UK Gilt 10 year yield and UK CPI evolution**



*Source: Jupiter / Strategic Insight, 2016.

**Source: SIMFUND, Bloomberg, December 2015.

US 10-year treasury yields since 1790

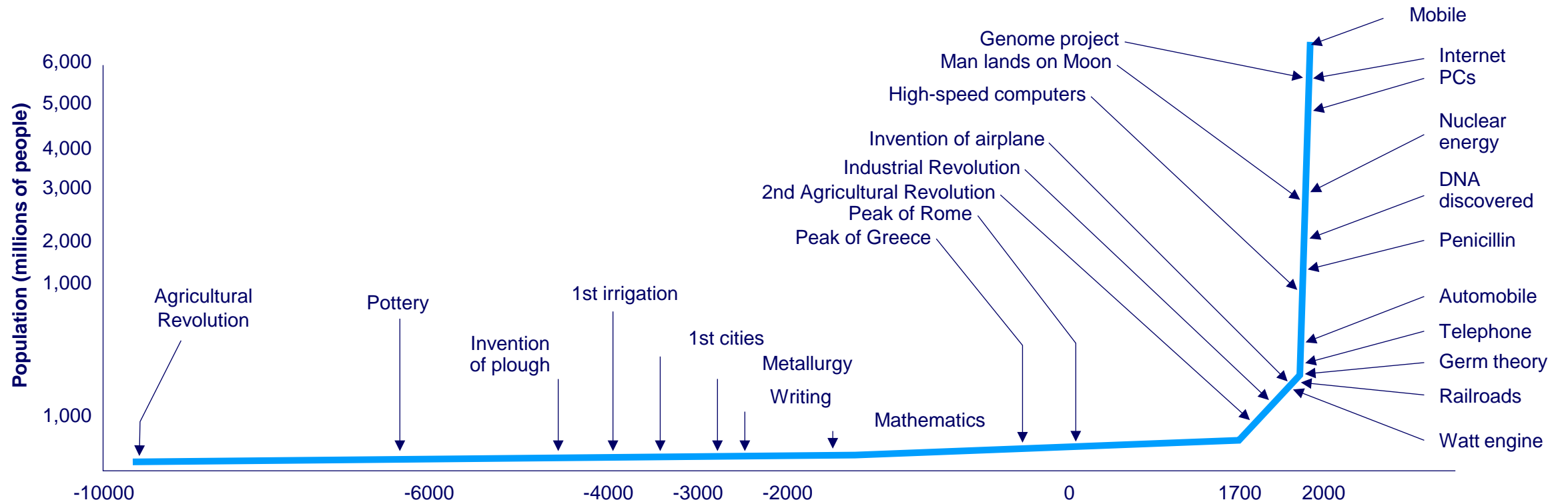


- The US 10-year Treasury yield fell to a 220-year low of 1.36% in July 2016*.
 - US bonds have had the following distinct secular bull and bear markets:
 - 1790–1902: erratic yield fluctuations and then a sustained decline in yields to below 3%
 - 1902–1920: the First Bear Bond Market, yields rise from 3% to 5–6%
 - 1920–1946: the Great Bull Bond Market, yields decline from 5-6% to below 2%
 - 1946–1981: the Second Bear Bond Market, yields soar from 2% to above 15% during 1981
 - 1981–2012: the Greatest Bull Bond Market, as yields tumble from 15% to 1.4% in 2012
- In the past 3 years the direction of Treasury yields has been buffeted by global deflation fears and US recovery hopes

Source: BofA Merrill Lynch Global Investment Strategy, Global Financial data. Published in 'Charting the lowest interest rates in 5,000 years, worst commodity returns in 80 years' on 14.06.16.

*Source: Bloomberg, 12.09.16.

Growth of world population and the history of technology since 9000 BC



Source: BofA Merrill Lynch US Equity & Quant Strategy, Robert Fogel, University of Chicago. Published in 'Global Investment Strategy. The Longest Pictures' research by BofA Merrill Lynch, 22.02.15.

Investor expectations – is lack of risk the biggest risk?

Is the 2007 equity picture now relevant for fixed income?



Quotes from asset managers*

“

Taking no risk is not the answer; it is actually the biggest risk.

“

Every day your life expectancy increases by 5.5 hrs. How are you going to invest for increasing life expectancy where people need growth without some amount of equity?

“

The huge problem for the government is that the whole system is loaded up on bonds and underweight in equities. It's partly regulatory, partly accounting and partly fashion. But I would say that , from a macro-prudential, systemic risk point of view is overweight the wrong asset class.

*Quotes source: Asset Management in the UK 2012-2013, published in The IMA Annual survey on August 2013.

“ **Forecasts usually tell us more of the forecaster than of the future.**

Warren Buffet

“ **I never think of the future – it comes soon enough.**

Albert Einstein

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