

INVESTMENT **INSIGHTS**

MONTHLY ISSUE #45

October 1st, 2018



NEXT YEAR YOUNGER

EDITORIAL VIEW

Page 2

- Human life span has doubled over the last 200 years but expectancy at 70 has barely increased
- Cure ageing, not (only) diseases! – Paradigm shift in the health industry now well underway
- Big data as the game-changer – No end in sight for Tech giants longevity...

GLOBAL STRATEGY

Page 3

- Resilient global economy – But beware of weakening momentum & regional divergences
- Global monetary tightening on track - Fed normalization to remain well ahead of the ECB
- Brace for further volatility in global financial markets – But fundamentals remain sound

ASSET ALLOCATION

Page 4

- Equities – Remain selectively constructive as the current period of transition still deserves a note of caution
- Fixed Income – Cautious stance unchanged as the risk-reward remains unattractive, especially in EU Credit
- Alternatives – Continue to favor uncorrelated strategies & Private Equity in the current environment

Editorial View

Next Year Younger

- Human life span has doubled over the last 200 years but expectancy at 70 has barely increased
- Cure ageing, not (only) diseases! – Paradigm shift in the health industry now well underway
- Big data as the game-changer – No end in sight for Tech giants longevity...

About two centuries ago, i.e. 150 years before the emergence of what we call today *modern medicine*, human life expectancy at birth reached 35 years. Indeed, what now appears to us as a common virus or infection often proved to be the *end of the road* for many of our ancestors. Quite amazingly, helped by scientific breakthroughs and exponential technology evolution, modern medicine has now almost doubled life expectancy to 72 years. Perhaps even more impressive are the UN projections suggesting that 50% of children born today in developed countries are likely to live past the infamous 100 years barrier. No doubt that the fight for longevity is more alive than ever but what if we have been doing it wrong until now?

Indeed, while life expectancy at birth has doubled over the last two centuries, it has “only” increased from 79 to 86 at the age of 70. The main reason is that scientific resources were almost exclusively dedicated to preventing, curing, and eradicating diseases. And rightly so you would think. However, mindsets are now evolving and an increasing number of people are starting to ask: *what if we stopped curing diseases but started curing ageing instead?*

While the latter would imply a fundamental shift in paradigm in our approach to healthcare, things are starting to move in that direction now. It’s all about countering the process of ageing at the cellular level, i.e. preventing the natural shortening of *telomeres* (protective caps at the extremity of chromosomes) which leads to increased reproductive mistakes over time. Sounds easy, no? But just a few decades ago, such a discovery was deemed impossible. That was until the emergence of Genomics, Big Data and AI, allowing not only for an in-depth study of the field but its exponential development too.

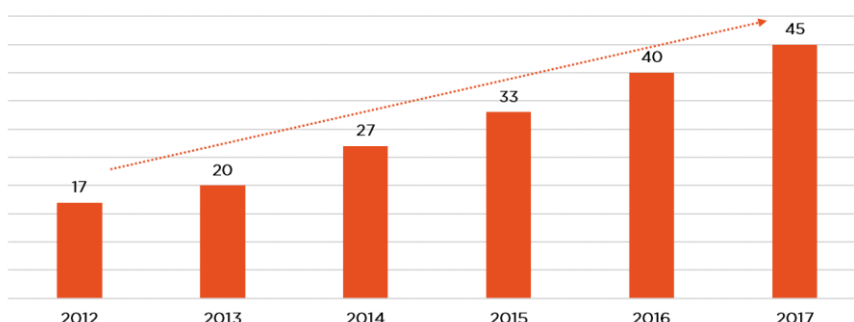
A perfect example of progress in this area attributable to technology is *Illumina*, one of the US genomics pioneers. Today, the company can provide a full genomic study of any individual for as much as USD 100 in around 4 minutes. Back in 2007, Apple’s iPhone was just born and the cost of this same research was about USD 2mn taking no less than 3 days to be completed... One could reasonably expect genomic studies to become a standard in today’s life, allowing us to better understand the functioning of our bodies and opening the door to new treatments of symptoms, including the toll of ageing. This progress is a token of the use of data in life sciences, and in particular *big scale data*. Hence the growing importance of connected items such as the *Apple Watch* or Samsung’s *Gear* in helping (data collection) to unlock this field’s potential.

As is often the case with a new solution, new problems emerge too. In particular, analyzing data in abundance requires intelligence exceeding human capabilities. This has obviously caught the eye of Tech giants such as Microsoft, which are now appointing their own CMOs (Chief Medical Officers) to treat big data in a newly “swamped” industry with the help of AI. But global medical technology companies are adapting too with Germany’s Siemens Healthineers having hired no less than 2’700 software developers to increase efficiency both in terms of time and costs.

As both we and technology continue to evolve, living to 120 years will no longer be a matter of fiction but likely to become a new norm. As such, quality of life at an advanced age may well exceed even our most optimistic expectations. This opens up great opportunities for companies active in the longevity market with big data management likely to be a game-changer for the industry, benefitting once again most Tech giants.

Chart of the Month

Annual Tech Participation in Healthcare - Number of Healthcare deals



Source: Coinsights.com

Global Strategy

Ready Player One - Transition Mode Engaged

- Resilient global economy - But beware of weakening momentum & regional divergences
- Global monetary tightening on track - Fed normalization to remain well ahead of the ECB
- Brace for further volatility in global financial markets - But fundamentals remain sound

The back to school season was not only a busy period for students but also for investors with another rollercoaster month of September for global financial markets. Unsurprisingly, the main culprit for the latter proved to be geopolitics with worldwide headlines clouded again by trade war escalation concerns, Trump administration scandals, and renewed turmoil in Europe (*Brexit* and Italy's budget law proposal). Meanwhile, the global economy is doing fine supported by both resilient soft & hard data, though we caution that the momentum is now weakening and regional divergences still increasing. Admittedly, inflation is picking up with core levels nearing central banks targets, especially in the US, but we still see little risk of overshoot in the near term. As such, major Central Banks decisions offered no big surprises during the month with the FED hiking as expected and others staying on the sidelines.

Within this context, we have kept our constructive global macro scenario broadly unchanged, supported by still healthy market fundamentals. Admittedly, we have tweaked the probability of downside risks slightly upwards in order to reflect higher political uncertainties (i.e. US Mid-Term elections, Italy Budget Law approval, Trade War, Trump/Xi meeting), a more cautious view on both Emerging and European assets, and further global economic momentum de-coupling. However, we remain confident about the outcome for most of these events with concerns already largely priced in volatility.

Hence, while this period of transition still deserves a note of caution, we remain selectively constructive on equities. Indeed, EPS revisions trends have been only gradually easing (from very high levels) and both valuation metrics and

growth expectations for 2019 look reasonable to us. Regionally, Switzerland's defensive growth remains our preferred play in this volatile market environment followed by the US (resilient economic growth) but we remain cautious on Eurozone and Emerging Markets. Sector-wise, we continue to favor a more balanced approach, gradually adding to Defensives/Value recently.

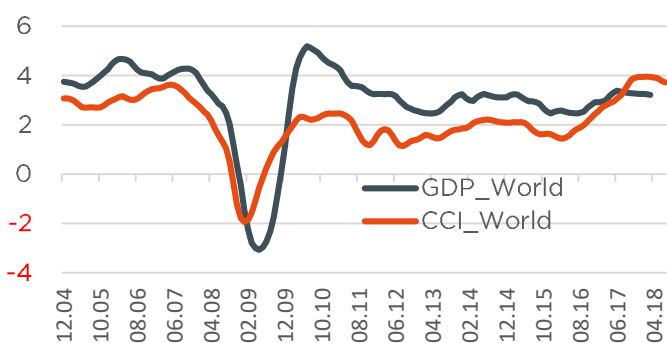
We remain on the sidelines in Fixed Income following our downgrade of Emerging Markets Debt with both a stronger US dollar and higher rates likely to keep EM economies under pressure. We also highlight increased liquidity risk in credit markets, a key concern for us. That said, we keep a US Treasury 10-year position as a hedge against geopolitical turmoil and still prefer US duration to Europe as we believe the latter offers higher downside risk.

In FX, we stay neutral/cautious on the euro in the short-term since our tactical downgrade (vs. US dollar) as of late. Even though valuation & fundamentals (current account, fiscal deficit, debt to GDP) should benefit the euro over the medium term, the currency may remain under pressure for now due to the region's less favorable economic momentum, a more dovish ECB, and revived political tensions. Meanwhile, the US dollar should continue to benefit from a more attractive rates differential, stronger economic growth and the FED's policy.

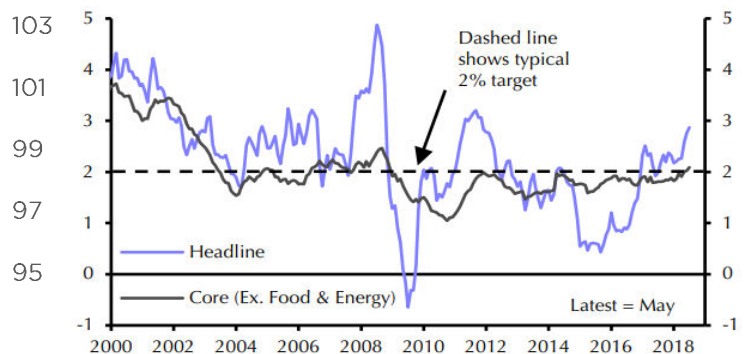
In Commodities, we still favor Energy (through Equity ETFs) given recent production disruption in EM countries, OPEC status quo and robust solid demand prospects globally.

Lastly, both uncorrelated strategies in hedge funds (market neutral, arbitrage) and private equity remain our preferred plays in Alternatives.

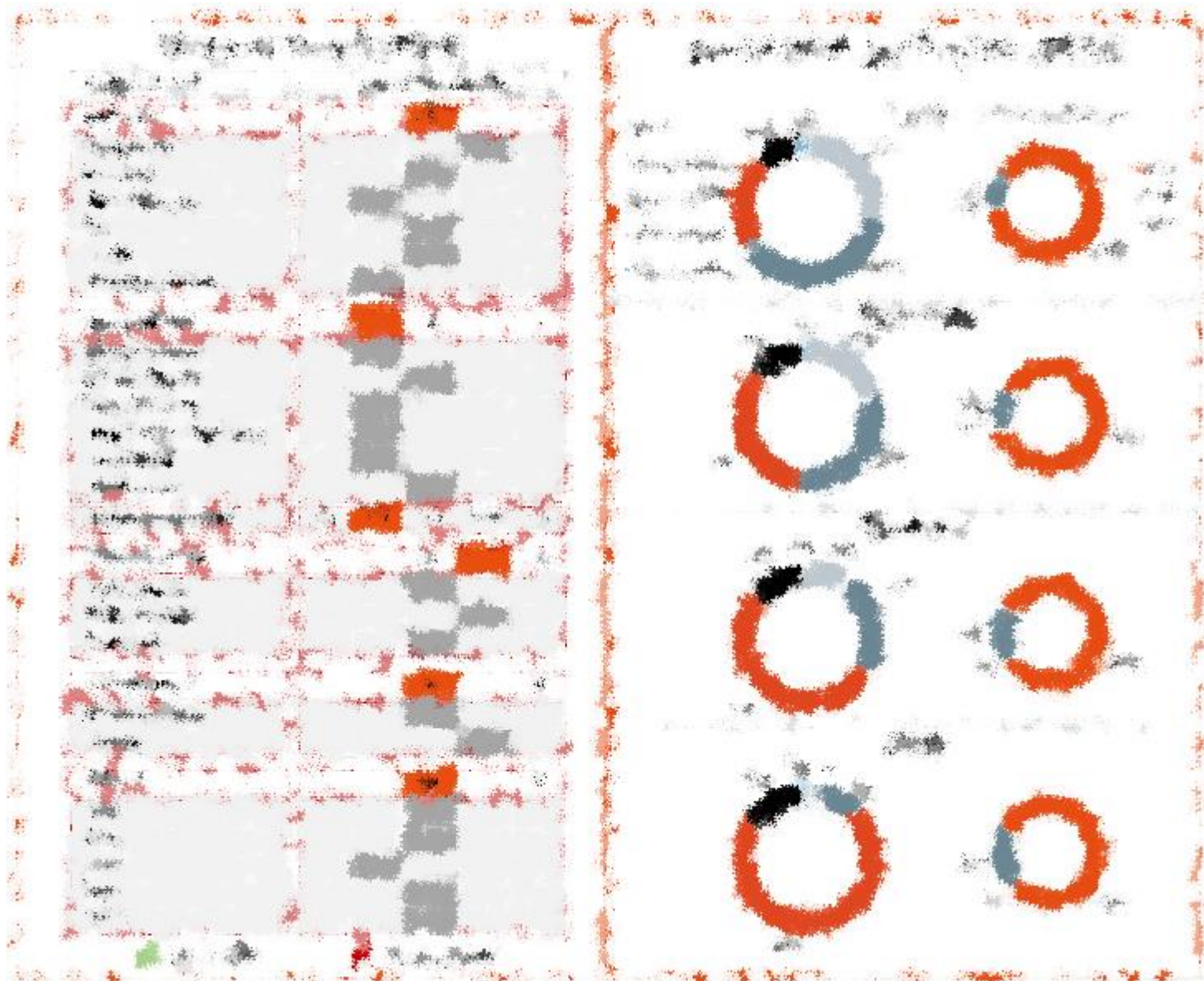
Global Composite Confidence Indices



OECD CPI Inflation



Asset Allocation



- Equities – Remain selectively constructive as the current period of transition still deserves a note of caution
- Fixed Income – Cautious stance unchanged as the risk-reward remains unattractive, especially in EU Credit
- Alternatives – Continue to favor uncorrelated strategies & Private Equity in the current environment

Contacts

DECALIA Asset Management SA

31, rue du Rhône
Case postale 3182
CH - 1204 Genève

Tél. +41 22 989 89 89
Fax +41 22 310 44 27
info@decaliagroup.com

Copyright © 2018 by Decalia Asset Management SA. All rights reserved. This report may not be displayed, reproduced, distributed, transmitted, or used to create derivative works in any form, in whole or in part, by any means, without written permission from Decalia Asset Management SA.

This material is intended for informational purposes only and should not be construed as an offer or solicitation for the purchase or sale of any financial instrument, or as a contractual document. The information provided herein is not intended to constitute legal, tax, or accounting advice and may not be suitable for all investors. The market valuations, terms, and calculations contained herein are estimates only and are subject to change without notice. The information provided is believed to be reliable; however Decalia Asset Management SA does not guarantee its completeness or accuracy. Past performance is not an indication of future results.

External sources include: Bloomberg, Thomson Reuters DataStream, OECD, Capital Economics, UN, NHI, Microsoft, Illumina, CBInsights.com

Finished drafting on September 30, 2018