



HOW COVID-19 AFFECTED OUR FAVOURLED INVESTMENT THEMES

Schroders identifies eight themes that could transform the world, but how are these being affected by the coronavirus?

At the core of thematic investing at Schroders is the belief that the most powerful and persistent investment themes are those where human ingenuity ignites innovation to address imbalances in the world. These imbalances may be between populations and resources, or between supply and demand in individual industries.

As we all know, necessity is the mother of invention. As coronavirus throws the whole world into turmoil, humanity's ingenuity and powers of innovation are being mobilised to fight the disease, care for our populations and adapt our work and home lives to a new set of economic, political and social realities.

Covid-19 is exacerbating existing tensions between populations and finite resources and dislocating supply and demand relationships in countless industries. Bearing this in mind, we examine the impact of this crisis on the eight investment themes that we think have the potential to transform the world we live in:

1. HEALTHCARE INNOVATION

"Crisis highlights importance of healthcare innovation"

This pandemic underscores the critical societal importance of healthcare innovation as countries seek to prevent and cure disease while wrestling with ongoing demographic and budgetary challenges. Central to our investment thinking in this area is the belief that science and technology will be crucial

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as companies harness data, computing power and medical knowledge to meet these goals.

We believe this will drive further breakthroughs in advanced therapies, medical technology, and healthcare services as well as in digital healthcare where technology in the form of 'telehealth' has shown its worth during this crisis as a means of making healthcare provision more responsive and efficient. As governments realise their vulnerability to pandemics, the drive to spend more on healthcare in the future can only intensify.

2. SMART MANUFACTURING

"Smart manufacturing essential as demand fluctuates"

Amid the acute demand and supply shock experienced by the global economy, manufacturers are also having to innovate. We expect to see companies developing local supply lines alongside their existing global networks while investment in data analytics will be

imperative as a means of understanding and managing volatile demand and disrupted procurement in the future.

Investment will also take place in other smart manufacturing themes, including advanced manufacturing such as 3D printing, automation in the shape of robotics, sensors and controls, and advanced materials like lightweight composites as companies harness exciting innovations in hardware, software and materials to deliver greater agility.

While manufacturers face undoubted short-term headwinds, the disruption caused by Covid-19 demonstrates the importance of manufacturing innovation to ensure responsiveness and productivity in both good times and bad.

3. CHANGING LIFESTYLE

"E-commerce and well-being are growing lifestyle trends"

While companies respond to the challenges of the virus, consumers are being predictably ingenious and resourceful in adapting to their new realities. Online shopping was already gaining popularity but even slow adaptors, recognising the merits of home delivery, are joining e-commerce platforms for groceries and will likely sign up to many other apps well after this crisis is over.

Similarly, the focus on well-being, already well established before the outbreak of this disease, will only intensify as consumers are prompted to take their underlying health more seriously by committing time and money to exercise.

Consumers' desire for experiences such as tourism and live events has clearly been halted by coronavirus, but we believe that these activities will quickly resume when normality returns. Similarly, expenditure on favoured luxury goods has collapsed in many countries but we are already hearing



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of “revenge consumption” in China as young consumers buy prestige products in areas where lockdowns are easing.

4. DISRUPTION

"Disruption leads to innovative responses"

While Covid-19 has brought widespread disruption to our world, we are reacting to this disruption with innovation. That relationship between innovation and disruption where each prompts the other is central to how we think about the investment theme of disruption and will hold good long after this crisis has passed.

Working practices, for example, have abruptly changed as we work

from home, often for the first time, and remote working will become a permanent feature for many of us. In this context, those companies facilitating home working, such as software enablers, will see their longer-term growth prospects boosted even after the current surge in demand has levelled off.

During current lockdowns, there has also been a massive rush to join interactive video platforms as people socialise online. This form of communication will become an established part of people's lives while the virus may accelerate other trends such as the ongoing transition from bank notes to electronic payments.

Across the board, a powerful convergence of ingenious technologies such as artificial intelligence, quantum computing and the internet of things will drive disruptive innovations in fintech, communications and numerous other industries during this crisis and long after it has passed.

5. GLOBAL CITIES

"Existing land use trends accelerating in global cities"

If disruption is a constant, so too, we believe, is the long-term global theme

of urbanisation, despite the undoubted pressures being placed on metropolitan authorities by the pandemic.

In the short term, the virus has accelerated several existing trends in urban land use. The surge in demand for data clearly underpins the importance of data centres to support cities' IT infrastructure. Meanwhile the health challenge the world is currently facing will be supportive for the future development of medical research campuses as innovative biotech companies react to new healthcare priorities.

Elsewhere, the longer-term increase in homeworking will strengthen the headwinds facing the office real estate sector. For brick-and-mortar retail businesses, the surge in online shopping is a reminder of the importance of adapting their operations to exploit the long-term opportunity in e-commerce.

6. CLIMATE CHANGE

"Remote working has positive climate change impact"

The pandemic has knocked climate change from the front pages. It is quite possible, though, that 2020 will mark the inflection point where the corporate sector realises that it can do more with less travel. In that respect, getting used to virtual meetings and conferences could be a positive side-effect of the crisis in terms of climate change.

Though weak oil prices are not good for medium term incentives to decarbonise, we expect governments' fiscal responses to be aligned with their priorities in the fight against climate change. The policy implications of this fight will affect nearly all industries, a fact which informs our investment process as we seek to invest in companies likely to benefit from efforts to mitigate or adapt to climate change.

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7. ENERGY TRANSITION

"Energy transition remains a long-term investment theme"

Against this backdrop, the long-term investment theme of energy transition remains firmly on track as the move from fossil fuel to clean energy continues.

While consumer-driven companies in residential solar may see a short-term fall in customer demand during this crisis, the energy transition value chain is vast. We estimate that US\$120 trillion of investment will be required by 2050 and we look to exploit opportunities across this value chain in clean energy generation, transmission and distribution, storage and energy efficiency.

As economically viable new technologies, consumer demand and political and regulatory change drive these investments, energy transition is a theme which we believe will remain powerful and persistent in the years ahead.

8. SUSTAINABLE GROWTH

"Fair treatment of all stakeholders is key to sustainable growth"

This persistence applies to sustainability in its broadest sense and coronavirus is a stark reminder of the importance of strong relationships

between companies and their stakeholders. These include their employees, suppliers, customers, regulators and shareholders, all of whom are being impacted by the disease. These relationships sit at the heart of the philosophy behind our investments in the sustainable growth theme and their smooth working will be critical if we are to navigate this crisis successfully.

As adversity today strengthens these relationships, we believe that society and the environment will benefit significantly tomorrow. This will be invaluable in ensuring that human ingenuity ignites innovation to address the many imbalances in our world, a process which sits at the very heart of thematic investing at Schroders.

**Note: The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. This information is not an offer, solicitation or recommendation to adopt any investment strategy. ❗*



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