

Future Present: Megatrends Make Sense For Investors

In Focus:

The ETF Securities Future Present Range

- Megatrends are powerful forces that have the potential to cause long term structural changes in the economy and society.
- The Future Present range has been designed to give investors access to the emerging megatrends that are starting to define the world we live in.
- The range's products positive performance is testament to investor trends. CURE up 22.0% year to date, ROBO 22.5%, TECH 20.7% and ACDC 7.1% (as at 12 April 2019)



Megatrends Make Sense For Investors

One of the most challenging aspects of investing has always been identifying 'the next big thing'. In a rapidly changing world, where megatrends are drastically reshaping the way we live and do business, that process has become even more complex.

Megatrends are best described as powerful forces – either socioeconomic, environmental or technological – that have the potential to cause long term structural changes in the economy and society as a whole.

Technological advancement, demographic shifts, urbanisation and climate change are just some of the key megatrends combining to redefine the investment landscape.

While the various megatrends are disrupting our lives in different ways, they are intertwined by the common thread of digitisation and the associated explosion in the power of data.

Some are already dramatically changing the way particular industries operate. For example, the push for renewable energy is transforming car manufacturing with the rise of electrification, while artificial intelligence has seen robots replace thousands of jobs on the assembly line.

Certainly, with the pace of change across business and society growing exponentially, investors cannot afford to ignore the influence of megatrends.

Accessing investment in these megatrends, however, can be difficult for investors with limited knowledge or expertise in the technologies involved. Many of the best investment opportunities to tap into megatrends also involve going offshore.

A good option for investors looking for exposure to megatrends is to invest in one of the specialised exchange traded funds (ETFs) that have emerged in recent years.

ETFs have the advantage of offering investors a cost-effective way to access the growth potential of various megatrends, while also providing an avenue for global diversity.

Most ETFs tend to focus on a particular theme associated with one or more of the megatrends. US and European issuers have led the way, with ETFs offering exposure to a diverse range of megatrends including technological progress and automation, digitalisation, ageing population, Asia's expanding middle class, healthcare innovation, urbanisation, cybersecurity, water supply and even diversity and gender equality.

In Australia, ETF Securities offers the *Future Present* range, which focuses on four funds providing access to disruption in sectors that will have a more dominant role in the future. These include robotics and artificial intelligence (ROBO), battery technology (ACDC), biotechnology (CURE) and broad global technology (TECH).

Robotics and AI

Once the subject of fantasy and science fiction thrillers, robotics are increasingly part of our everyday lives and look set to dominate the future. Already being widely used in manufacturing and online retail distribution, robots are expected to rapidly penetrate other industries as automation continues apace and companies seek to unlock productivity gains and improve profitability.

The potential for growth is reflected in the fact that the world's largest economy, China, has approximately 1 robot per 100 manufacturing workers, well down on the 7 per 100 employee in Singapore and South Korea. The growth in robotics will be driven by the efficiency gains on offer as robots perform monotonous tasks with high levels of precision and lower costs than their human counterparts. A report issued last year by the jobs website, Adzuna, found that 1 in 3 Australian jobs are at risk of automation by 2030.

The potential for Robotics and AI, however, extends far beyond manufacturing efficiencies. A recent article by Raffaello D'Andrea, co-founder of Amazon Robotics and strategic adviser to ROBO Global, noted the limitless applications. "Using AI-fuelled robotics to farm the land more efficiently, we will be able to provide food and shelter for ourselves and our families with ease. 5G networks will support everything from self-driving vehicles to digital medicine to 'smart cities'" he said.

ETF Securities' global robotics and automation ETF (ROBO) tracks the performance of the ROBO Global Robotics and Automation index. It invests in a mix of stocks whose business is related to robotics, automation and AI.

Battery Technology

Climate change is causing a major push towards renewable energy, which is in turn, driving investment in alternative energy storage. Ultimately the companies behind this technology hope to develop batteries efficient enough to fly planes and feed power stations. For now, however, the most tangible example of battery application is the rapidly expanding world of electric vehicles (EV).

Although initially slow to take off, EV sales are dramatically ramping up in some parts of the world. Norway has had by far the biggest take up of electric cars, with 49% of all sales, followed by Iceland and Sweden. Notably, however, the five countries in which EVs are the most popular account for only 0.5% of the world's population. Chinese drivers are rapidly coming aboard, with over a million new vehicles hitting the road in 2018. Crucially, China also leads the market for charging stations.

Australian sales have been slow to take off but will gather momentum, particularly if the ALP wins power at the next Federal Election. The ALP has set a 50% target for electric vehicles as a percentage of new passenger vehicles sales by 2030.

ETF Securities was the first Australia issuer to bring out an ETF focused on energy storage and production (ACDC). The fund provides investors with access to companies involved in battery technology and the mining of lithium, which is used to make a range of batteries, including those found in your mobile phone. ACDC tracks the Solactive Battery Value-Chain Index.

Investors can also gain exposure to the renewable energy megatrend by investing in Palladium, a key metal used by car manufacturers to control emissions from gasoline engines, which are replacing diesel under crackdowns on vehicle pollution in overseas markets. Palladium prices have recently hit record highs, reflecting strong demand from car manufacturers. ETFS offers investors an avenue to invest through ETFS Physical Palladium (ETPMPD).

Biotechnology

Biotechnology is one of the original megatrends. Scientific advances in the development of potential new treatments for diseases such as cancer, as well as excitement around the application of DNA sequencing, have underpinned interest in biotechnology companies for many years. However, the prospect of an ageing population, coupled with the increasing incidence of chronic illnesses such as diabetes and dementia, have reinforced the significance of biotechnology companies going forward. As well as searching for therapies to help treat chronic illnesses, biotechnology may also hold the key to solving food security, which poses significant challenges with the world population tipped to exceed 9 billion by 2050.

One of the difficulties posed by investment in biotechnology is its highly speculative nature and the lengthy lead times involved with new discoveries. For example, it can take 10-15 years from the conceptual stage for a drug to reach the marketplace, usually with little to no income in the intervening period. Another difficulty is that, with the exception of a few listed Australian stocks, the bulk of biotech companies are located overseas. For this reason, biotechnology is a megatrend that is particularly well suited to an ETF. The ETFS S&P Biotech ETF (CURE) issued by ETF Securities late last year replicates the S&P Biotechnology Select Industry Index, which offers exposure to approximately 120 small-to-large cap international biotech companies. These include the likes of Seattle Genetics which is focused on producing specialised cancer therapies and Amgen, whose Enbrel treatment for arthritis had 2017 sales of US\$5.4 billion.

The recent performance of ETF Securities' Future Present range demonstrate that investors are warming to the megatrend thematic with CURE UP 22.0% year to date, ROBO 22.5%, TECH 20.7% and ACDC 7.1% (as at 12 April 2019). For retail investors, ETFs continue to offer a low cost way into some of the themes that look set to dominate the investment horizon for some time to come.

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