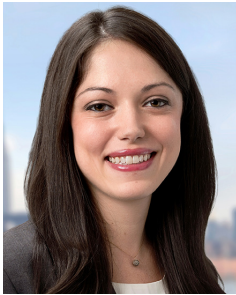


Thematic investing takes a long-term view

Quick takes Q&A | **A conversation with Laura Kane and Bruno Bertocci**



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With the world in a state of constant change, investors are beginning to embrace new investment approaches designed to take advantage of societal and technological changes over the long term. Thematic investing, which involves identifying trends and selecting the companies positioned to benefit from them, is one such strategy that is gaining traction.

We sat down with Laura Kane, Head of Investment Themes, CIO Americas, Wealth Management, and Bruno Bertocci, Senior Portfolio Manager at UBS Asset Management to learn more about thematic investing, the methodology used to select the themes and how clients can get exposure.

Q: Sustainable investing has been receiving a lot of interest in recent years, and the 16 long-term themes recently identified have a distinctly sustainable angle. How does thematic investing lend itself to a sustainable approach?

A: Laura Kane (LK): There are several reasons why we have focused on sustainability within our thematic research. First, we have seen an increased demand from clients seeking sustainable investing solutions, particularly from women and millennials. Both of these groups have shown a preference for sustainable and socially responsible investments. We think this is going to be a persistent trend, which is why we wanted to be forward thinking in our thematic research.

Along with investor demand, we see a real business opportunity in the area of sustainable investing. As more private capital flows toward investments for the public good, we see certain pockets of the economy benefitting more than others and expect companies exposed to these themes to experience robust revenue growth over the next several decades. Thematic investing is unique because it allows investors to focus their portfolio on a particular topic or interest, such as sustainable investing. This is why we think investment themes are a great way to incorporate sustainable investing into a portfolio.

Bruno Bertocci (BB): We are also seeing demand from institutional investors who recognize that a company's governance, use of assets and how it attracts an above-average workforce leads to potentially better business success and stronger returns. Adding sustainability factors to fundamental financial analysis helps us truly identify an attractive business that we believe can create value for clients' portfolios.

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Q: What trends are you and your team focusing on to determine where the opportunities lie?

A: (LK): We have built our 16 themes around the three broader “megatrends” of population growth, urbanization and aging, which we believe will have lasting impact on our world. These trends have some statistics to support them, for example:

- **Population growth:** By 2050, the earth's population is expected to reach 10 billion, up from 7.5 billion today.
- **Aging:** People are not only getting older, they are also living longer. In developed countries, by 2030 those age 60 and over will outnumber those 25 or younger.
- **Urbanization:** The number of people moving to cities is on the rise, especially in emerging markets as people migrate from rural areas in search of higher paying jobs. In 30 years, it is expected that 60% of the world's population will reside in cities.

These three megatrends are very well established, which is why we decided to build out themes around them. Our thematic research supports them, and we think we can forecast with some degree of accuracy. We believe that the demand for goods and services associated with these trends is going to steadily increase.

Q: How do you envision a future shaped by these trends and what are the challenges? What opportunities do you see today that will help us tackle these challenges of tomorrow?

A: (LK): We see a world wrestling with some significant social and economic challenges presented by these three trends, which are putting a strain on natural resources, such as food, energy and water. For example, a growing population will lead to more mouths to feed and increased need for clean water. An aging population will lead to increased need for medical services, especially around age-related diseases, such as cancer and heart disease. Finally, an increasingly urban population will result in a greater need for basic services, such as sanitation, waste management and education.

(BB): Today's problems are tomorrow's opportunities. We think these trends create real business opportunities and potential revenue growth for companies that are properly positioned to provide solutions for these issues.

Q: Given that these trends have been positioned as long-term themes, what is your recommended investment timeline?

A: (BB): We believe that a really good investment strategy plays out over the long term. We are patient investors and believe in holding a stock for as long as possible. Occasionally, a stock's valuation will rise to a level where we don't anticipate any further gains, and that's when we make adjustments to our portfolio.

We think thematic investing is an approach that can fit into most investors' portfolios with the right guidance from their financial advisors.

Q: How should investors think about incorporating thematic investing into their portfolios? Do you consider thematic investing a core or satellite strategy?

A: (BB): It depends on the investor. For investors who have a fair amount of other assets, it could be an important part of their global exposure. For others, it might be better suited as a satellite strategy, particularly because it generally focuses on small or mid-cap companies, which could be more volatile. But we think thematic investing is an approach that can fit into most investors' portfolios with the right guidance from their financial advisors.

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