
# A rewarding year for investors

- Excellent performance on the year
- Activity and Lifestyle Disease Solutions clusters drove performance
- Healthy Living secular trends continue to be in force

## Market review and development

Despite economic and political headwinds, 2019 developed into an outstanding year for equity investors. The MSCI World Index increased by more than 30% (in EUR) and closed at a new record level. All quarters were positive and slight corrections in May and August were short-lived. Information Technology, that rallied nearly 50%, was by far the best returning sector, while Energy underperformed.

Markets received strong support from central banks which adjusted monetary policy during the year to compensate for the slowdown in global manufacturing production. The Fed began the year with a surprised suspension of anticipated interest rate hikes, but then even decided on three rate cuts as the year progressed. Even more aggressive was the ECB's policy stance that lowered rates to historic lows and re-initiated its bond purchasing program.

The global economy grew modestly but lost some momentum, especially in Europe and China. Purchasing Manager Indices softened in the first half of the year, temporarily raising concerns of an approaching recession. Still, a turn-around in industrial activity in Q4 as well as continued robust consumer spending supported investor confidence.

**Annual Review 2019**
**For professional investors only**
31.12.2019

**Dieter Küffer**, CFA,
Senior Portfolio Manager
**David Kägi**, PhD
Portfolio Manager

An escalation of the trade dispute between China and the US remained a constant theme throughout the year. New tariffs were implemented in several tranches with even higher tariff rates threatening. In the end, both parties returned to the negotiating table agreeing to a so-called "phase-one" deal which includes higher Chinese imports of US agricultural and energy products.

Fueled by the Fed's shift to policy easing, most major equity markets rebounded strongly early in 2019 after setbacks in late 2018. The rally stalled temporarily mid-year on mounting worries over the global economy but then continued in the fourth quarter with rising hopes for a resolution of the trade war between China and the US. The trade dispute between the two largest economies had spillover effects in emerging market equities, which first rebounded in Q1 but then underperformed versus developed markets as the dispute sharpened and protracted into 2019.

Despite low exposure to the best performing global IT sector, the Healthy Living Investment Universe performed strongly in 2019. The performance of all clusters was positive and was led by Activity, followed by Lifestyle Diseases Solutions, Hygiene & Personal Care and Healthy Nutrition.

## Periodic performance comparison (in EUR terms, gross), December 2019

| | 1 YR | 3 YR pa | 5 YR pa | Inception pa* |
|---|---|---|---|---|
| RobecoSAM Sustainable Healthy Living Strategy | 29.35% | 12.07% | 9.63% | 9.09% |
| MSCI World | 30.02% | 10.25% | 10.38% | 7.11% |
| relative to MSCI World | -0.67% | 1.82% | -0.75% | 1.98% |

*30.03.2007

## Performance

2019 will be remembered as one of the best years in the twelve-year history of the Healthy Living Fund. With annual performance gains in the high twenties percentage, investors can look back at an exceptionally rewarding year. The performance accrued mainly in the first and fourth quarters paralleling broader developments in global markets. Somewhat surprisingly, many defensive consumer names in which the fund was invested, outperformed in a very bullish market environment.

All healthy living clusters registered positive double-digit performance. In the Activity cluster, the two truly global sporting brands, Adidas and Nike, lead performance. Both profited from the emerging trend of informal wear becoming a new dress standard, catch-up demand for athletic wear in China, and the benefits of direct-to-consumer marketing via the internet. The outerwear and sportswear company VF Corporation profited from strong brand momentum of its North Face and Vans brands.

The Lifestyle Disease Solutions cluster benefitted from the leading returns of the diagnostics company Diasorin. Diasorin has continued to execute on its strategy to broaden its offering into the hospital and higher-throughput testing market. The dental care company Dentsply Sirona also contributed significantly to the cluster's performance, as it was able to significantly improve its margins.

In the Healthy Nutrition cluster, the food ingredients supplier DSM was the best performer. Its strong portfolio in animal and human nutrition and its attractive pipeline of innovative products bolstering future growth were key factors for its rerating during the past year. Nestlé, on the other hand, profited from increasing confidence in the ability of its new CEO to reorient its business towards faster growing markets.

In Hygiene & Personal Care, Estee Lauder was the top contributor while Henkel and Unilever detracted from the fund's performance.

In the fourth quarter of 2019, we increased the long term target weight of the Lifestyle Disease Solutions cluster to 40%. The reason for this change was that we are aiming to better align the fund's internal benchmark with the high number of companies qualifying for the Lifestyle Disease Solutions cluster. In addition, we added a number of companies with exposure to the Digital Health theme to the universe, which also justified increasing the weight of the Lifestyle Disease Solutions cluster.

| Cluster | Start weight | End weight | Total return |
|---|---|---|---|
| **Activity** | **8.5%** | **11.2%** | **41.2%** |
| Athletic Footwear & Apparel | 8.5% | 11.2% | 41.2% |
| Fitness Centers & Sporting Goods | 0.0% | 0.0% | 0.0% |
| **Lifestyle Disease Solutions** | **43.9%** | **45.9%** | **34.1%** |
| Chronic Care | 18.9% | 23.1% | 30.9% |
| Diagnosis & Prevention | 10.7% | 9.4% | 39.6% |
| Healthcare Efficiency | 14.3% | 13.4% | 34.7% |
| **Healthy Nutrition** | **36.7%** | **30.1%** | **28.7%** |
| Healthier Nutrition | 23.3% | 20.3% | 33.1% |
| Organic & Natural Food | 5.9% | 3.7% | 25.2% |
| Safety & Analysis | 7.5% | 6.2% | 26.2% |
| **Hygiene & Personal Care** | **7.0%** | **8.1%** | **14.4%** |
| Hygiene | 7.0% | 8.1% | 14.4% |
| **Cash** | **4.0%** | **4.7%** | |

## Market Outlook

Last year's positive macro environment of modest but firm global growth, low inflation and dovish central bank policies should generally persist into 2020. However, the accommodative monetary policy that has been serving as a cushion and catalyst for stock markets, will eventually lose its positive effect. As a result, we foresee only modest gains for equities in the coming year.

The global economy is expected to remain on track for 3% growth. The US might slow but this gap should be compensated by a recovery in Emerging Markets. Easing trade tensions should trigger a turn in industrial production and complement a solid service sector.

Monetary and fiscal policy should remain accommodative with a likely shift towards the latter. In the past twelve months, around twenty central banks have eased monetary policy. While the Fed still has room for additional actions, this is less the case for other countries. As a result, political pressure for using fiscal policy tools for stimulus will only increase. Despite the danger of ever rising debt levels, governments especially in Asia are set to increase spending to stimulate the economy. Finally, corporate earnings revisions might start to turn. Last year saw declines in earnings from the same periods in the previous year. Still, for 2020, consensus foresees a recovery in EPS growth.

Despite a positive but subdued global outlook, markets are trading at elevated multiples, making them more vulnerable to temporary setbacks. An unexpected slowdown in China below 6%, a new round in the trade dispute, or heightened geopolitical tensions in other regions characterize the biggest risks. Furthermore, an appreciation of inflation could be underestimated.

Equities still offer the best perspective relative to other asset classes. To invest in sustainable, high-quality companies that are reasonably priced reflects the preferred investment approach in this environment.

We expect the economic environment to remain healthy in 2020 supported by solid consumer demand and disposable income, which both are important for the consumer segments of the Healthy Living universe. Other parts of the universe, particularly the Lifestyle Disease Solutions cluster, are exposed to larger healthcare sector trends. Given the importance of the US healthcare market, political debates during the campaign for the US presidential elections taking place in November 2020 are likely to influence sector sentiment. While we expect this to create some volatility during the course of the year, we do not expect that any major decisions will be taken that affect the sector in a negative way. Thus, we remain fully confident that the secular growth drivers of the Sustainable Healthy Living strategy will, over time, outweigh short term cyclical weakness and volatility.

### Changing consumer choices in nutrition

Consumers are becoming increasingly aware that the foods they consume have a strong impact on their health and wellbeing. They are increasingly taking conscious decisions about the type, the quality, and the source of the food they are eating and are willing to spend more on healthier, organic and natural products. In addition, eating less meat has become a broad trend uniting the trends towards healthier options with concerns over the meat industry and agriculture's contribution to climate change. Furthermore, consuming healthier and alternative food products has become a means of distinction and personality expression, especially for Millennials—an increasingly dominant consumer segment.

### Increasing incidence of Lifestyle Diseases

Physical inactivity and the incidence of overweight and obesity are on the rise, particularly in emerging markets, and have led to an epidemic of chronic lifestyle diseases such as diabetes. The ensuing costs are generating substantial stress on public finances in many places across the globe. The fund targets companies that improve the treatment of such diseases and/or are offering solutions to improve the access to and affordability of treatment.

### Active lifestyle

Knowledge concerning the importance of physical activity for health and wellbeing is increasing. Thus, more people are engaging in some type of fitness activity. In fact, membership rates in fitness centers are reaching record levels of close to 30% in some countries. The fund is investing in companies that profit from these broad trends by catering to the growing demand for sporting goods and sportswear products.

**Contact**
**For more information go to:**
www.robecosam.com