



TAP INTO LONG-TERM TRENDS WITH THEMATIC INVESTING

By understanding today's social challenges, accompanying major trends which will shape economies over several decades, and giving investments purpose, thematic investing addresses structural issues that can create long-term value. The approach has proved its ability to offer opportunities at different stages of an economic cycle, attracting more and more clients.

The Edmond de Rothschild Group is a pioneer in this area as it launched a healthcare equity strategy as early as 1985. We now have a range of innovative, diversified thematic strategies driven by strong convictions and based on sustainable criteria. In recent years, we have added big data and human capital strategies.

ROUND TABLE DISCUSSION



JACQUES-AURÉLIEN MARCIREAU

Co-Head of Equities, Big Data specialist



ADELINE SALAT-BAROUX

Equity Fund Manager, health specialist



AYMERIC GASTALDI

Equity Fund Manager, human capital specialist

WHAT SETS YOUR THEMATIC INVESTING STRATEGIES APART FROM RIVALS?

Jacques-Aurélien Marcireau: Our big data strategy has a unique approach. Our transversal methodology taps into data's potential value creation across all economic sectors. This means the strategy can be up to 49% exposed to non-tech companies. For this stock family, we have developed proprietary tech screening to analyse a company's digital strategy and indicate areas where efforts should be made. There are around 15 factors which give us some idea

of the efforts a company has to undertake to roll out its digital transformation. One example is how much needs to be invested. Fundamental analysis is crucial.

We build portfolios around three stock types and with a highly selective approach to the quality of a company's business model and its valuation: (i) "Infrastructures" which concerns companies which collect and then provide data generated by big data players; (ii) "Analytics" which covers software companies which help analyse these data; and (iii) data users, i.e. non-tech companies which have already integrated the most appropriate digital strategy to achieve competitive edge. The strategy seeks to maintain a well-balanced sector, style and market cap profile.

Adeline Salat-Baroux: Our SRI-labelled healthcare strategy was launched in April 1985 and is by far the oldest strategy in this range. We invest across the entire sector's ecosystem in line with the Edmond de Rothschild Group's engagement policy. Healthcare is a vast universe with four major businesses: biopharmaceutical companies, biotechnologies, medical equipment and services. Our aim is to capitalise on the sector's structural growth and visibility by investing in all these areas, from large groups which underpin healthcare to smaller, highly innovative companies.

The portfolio is concentrated and has around forty positions. We maintain a balance between the various businesses and market caps. The US market easily provides the most depth and diversity so naturally it is our biggest exposure. We make direct investments in emerging markets but also through large European and US companies which have a strong presence in the zone.

Aymeric Gastaldi: The range was broadened in November 2020 with the launch of a human capital strategy, one of our long-standing convictions. The strategy was backed up with robust results from a proprietary survey and a number of academic research papers. The research found that companies investing in human capital generated better returns over the long term. We believe that paying attention to human resources is a strategic advantage as most of the jobs in 2030 have not yet been invented.

The strategy brings together academic research, stock-picking expertise and responsible investing. To reflect our strong convictions, the portfolio is highly concentrated with a little more than 40 positions in companies which promote good human capital practice and meet ESG criteria. Our resolutely transversal approach, in our view the most appropriate and thorough procedure, is based on two pillars. Half of the companies selected have outstanding HR policies while the other half is active in education, knowledge transmission and employee protection. As with the other strategies in the range, we scrutinise eligible stocks using our proprietary, extra-financial rating model to complement in-depth financial analysis.

Jacques-Aurélien Marcireau: Whether it's Big Data, healthcare, human capital or the energy transition, our thematic equity range stands out because of one important element: our transversal and diversified approach to each theme.

Our portfolios are not limited to growth stocks but diversify management styles, in line with the DNA of our management, which is focused on the long term and aims to generate performance within a controlled risk framework.

The year 2022 served as a real test for thematic equity management and confirmed the relevance of

POINT OF VIEW

Jacques-Aurélien Marcireau,
Co-Head of Equities

« Edmond de Rothschild Asset Management strives to tap into the long-term trends which are reshaping the world and creating value for investors. We have a transversal approach with a focus on how the investment theme impacts the entire economy.

Integrating ESG criteria is the norm in all our investment procedures as it helps identify opportunities and manage risks. Strict discipline is applied to business models and stock valuations.

Amid today's high market volatility, thematic investing is the way forward for the coming years. Rather than jumping on trends, our thematic investing range is designed to offer investors core portfolio funds. »

our management philosophy. Our thematic portfolios came through the year with better performance/risk ratios than their benchmarks and the average of their competitors.

HOW DOES INNOVATION SHAPE YOUR THEMATIC STRATEGIES?

Jacques-Aurélien Marcireau: Innovation is central to the big data theme as it covers numerous sectors and represents a source of value creation for investors. Thanks to technological developments, this enormous mass of information can be processed and its applications optimised. Companies harnessing this secular trend can create new products and services to give them a competitive edge over rivals.

The notion covers three areas: (i) volume, i.e. exponential growth in data generation, (ii) data variety, or the multiplication of different sorts of information (like internet, connected objects and companies, etc.) and formats and, (iii) velocity, or the acceleration in data generation and sharing.

Aymeric Gastaldi: Innovation also shapes the human capital theme. Covid-19 was a real crash test for human resources: employee protection (gel, masks, vaccinations, etc.), business continuity plans as

teleworking boomed, and efforts to maintain good social environment standards. To avoid obsolescence and reinforce performance, companies are also being encouraged to invest in human capital because of structural trends like ageing populations and the increasing use of new technologies. And difficulties in hiring are also pushing companies to innovate in efforts to improve working conditions and managerial approaches.

We focus a lot on EdTech, or educational technology, as it is a genuine pool of innovation. The market has little exposure to cyclical fluctuations and enjoys annual growth of 15%, largely due to increasing needs for personalised learning.

Adeline Salat-Baroux: Governments are prioritising access to good quality care so there are regular, structural increases in spending on healthcare. This constitutes the theme's first performance driver. Innovation is the second and is just as essential. Healthcare invests more in research and development than any other sector. Major therapeutic and technological progress is transforming healthcare systems.

Obviously, the Covid crisis was good for innovation in fields like vaccines, tests and diagnostics. There have also been numerous therapeutic breakthroughs in oncology, neurodegenerative illnesses like Alzheimer, and diabetes. Particularly promising treatments for obesity have also just been approved.

HOW DO YOU APPLY ESG CRITERIA?

Aymeric Gastaldi: Our human capital strategy, an SRI-labelled strategy since launch, focuses on the social (S) pillar. We conduct in-house analysis of each company's social policy, an area which is still barely covered by external rating agencies. Access to a mass of data is absolutely essential for precise analysis of a company's culture. This is why we have to gather information from many different sources: from the company itself, but also its stakeholders, by using employee surveys on the Glassdoor platform and external Great Place to Work ratings.

We have built a proprietary model to analyse and appraise a company's social policy. The model covers more than 20 key performance indicators from employee turnover and the number of hours offered for further training to gender equality and wage policy. Harnessing quantitative and qualitative data gives us a deep grasp of a company's culture and its workplace dynamics. We are also proud of our strong expertise in the social sphere, a key differentiator. It helps us nurture a permanent dialogue with companies to assess their social strategy. This dialogue is part of our engagement policy.

Adeline Salat-Baroux: Our healthcare strategy, which was awarded the SRI label in 2020, combines exclusion, impact and best-in-universe criteria. We look at companies with generous R&D budgets and

which develop treatments for previously untreated illnesses. We also focus on companies which favour improved access to medicine, especially in emerging countries. We also select service and technology companies which help improve access to care and healthcare cover.

We have also joined the Access to Medicine Foundation which brings together asset managers and institutional investors with a combined €18 trillion under management. One of the foundation's key goals is to encourage large pharmaceutical groups to help improve access to medicine in developing countries.

Jacques-Aurélien Marcireau: Our big data strategy, article 8 in SFDR classification, applies the exclusion policy of Edmond de Rothschild AM (France). The strategy's investment process also actively uses ESG criteria to invest in companies with solid ESG credentials which take a responsible approach to data use. Since launch, the strategy has also focused on good corporate governance, an essential pillar in stock selection as it ensures we pick companies where management and majority/minority shareholder interests are aligned.

WHAT IS THE OUTLOOK FOR 2023 AND WHICH SECTORS STAND OUT?

Adeline Salat-Baroux: We are confident in the strategy's long-term growth prospects because of the constant increase in healthcare spending and need to continue innovating. Over the short term, and in today's highly uncertain economic and geopolitical environment, the sector's defensive status gives it added appeal.

New treatments for obesity and Alzheimer developed by Novo Nordisk, Eli Lilly, Biogen and Roche offer considerable promise in what will be a very challenging time for public healthcare systems.

We invest in various therapeutic innovations in the field of vaccines, cellular therapies and ARN messenger, etc., and have large exposure to diagnostics, an area which will enable treatments to become more personalised. In digitalisation, big data and artificial intelligence are opening up possibilities and raising expectations.

Jacques-Aurélien Marcireau: In tech, we are very keen on companies designing supply chain and logistics software. We believe companies will increasingly need this software because of the environmental challenges for supply chains and the heightened complexity of managing them as companies diversify suppliers. We are also convinced cybersecurity has significant potential.

As for data users, we consider that big data will create considerable value for the non-life insurance sector. Healthcare is also a strong conviction pick. And medical imaging strikes us as a very promising segment.

Aymeric Gastaldi: We reckon that the jobs market in 2023 will remain particularly tight. As a result, companies that manage to hire and keep talented people will have a significant competitive advantage. Hermès, Michelin, Accenture and Medtronic are good examples. MedTech offers very interesting opportunities, particularly in non-urgent surgery like prosthetic devices.

Companies are not the only ones to understand human capital challenges and try to provide solutions. Governments are also raising spending on education. Brazil since Lula returned to power is just one example.

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