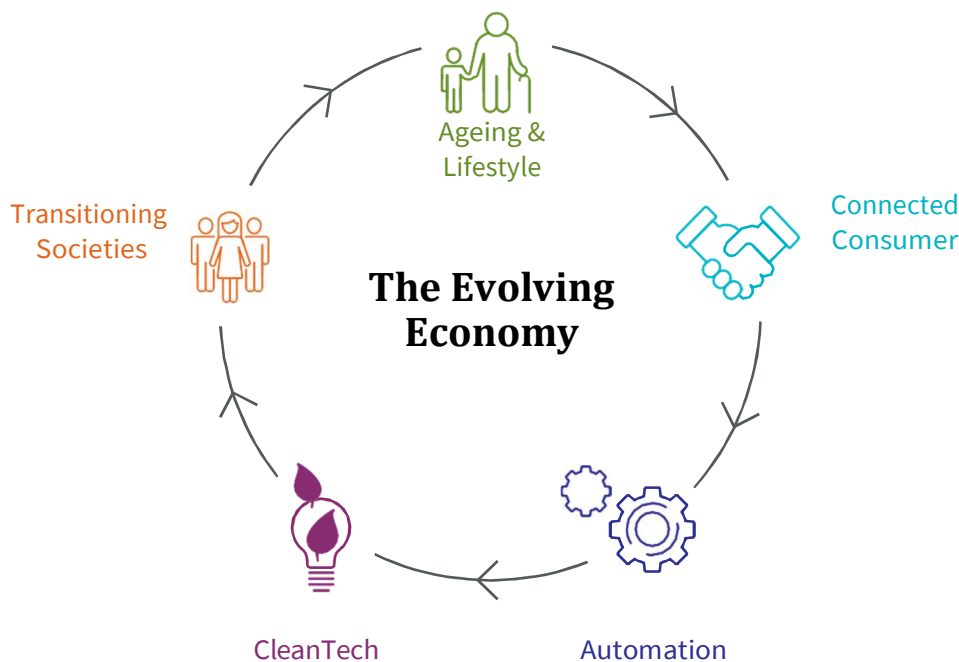


## Framlington Equities

# Thematic equities in focus

## An improving sense of confidence from management teams

Equities globally have enjoyed a solid third quarter, recovering nicely after a turbulent first half of 2020. Overall, corporate earnings have largely beaten expectations, management teams emphasized an improving sense of confidence and, in some cases, they also articulated a better visibility for the remainder part of the year. Macroeconomic data has been broadly positive, as developed market economies gradually re-opened and household finances have been typically protected by government fiscal stimulus. Whilst equity markets have been more muted in September – with concerns of COVID cases resurgence and uncertainty associated with the upcoming US elections – we remain convinced that the disruption caused by COVID 19 has accelerated existing secular trends, improving the outlook for a number of themes within the Evolving Economy, with the long term drivers of all five themes remaining intact:



It is worth recognising that our **Connected Consumer** theme performed strongly over the last three months – and into 2020 as a whole – as demand for digital interactions has increased during the current situation. The COVID-19 pandemic has seen the largest spike in e-commerce demand in a decade and the entire online consumer journey – from research to purchase – has already accelerated: social media advertising are becoming increasingly influential, new e-commerce customers are likely to stick with their spending habits, home delivery services are expected in timely manner whilst safe and secure payments are the bare least an online seller can offer. To support the increasing amount of connection and use of data, companies have somewhat been forced over the last past months to adapt their

framework, from cloud security to server capacity. Whilst COVID-19 has pulled forward online consumption, it is important to point out that its overall global penetration level remains widely low, below the 15% level<sup>1</sup>.

Meanwhile, our **Automation** theme is likely to take advantage of big data developments with current rollout and adoption of 5G Technology. Whilst the infrastructures/base stations are already settling in at a rapid pace, especially in Asia, we anticipate healthy adoption of new 5G handsets as they get launched. This is supportive of automation equipment used to manufacture these 5G handsets (consumer electronics is one of the largest buyers of industrial robots) as well as a range of semiconductors that are used in 5G devices. Looking forward, the broader adoption of 5G will allow for enhanced connectivity and communications that we believe will spur the development of increasingly smart and automated factories as well as connected vehicles.

Elsewhere in our **CleanTech** theme, we noted the resilience of investment in the smart energy solution. Large corporates are becoming increasingly vocal about their commitment to sustainable growth underpinned by Net Zero targets, which will be achieved through a combination of energy efficiency, renewable energy and its supporting infrastructure. Governments are also highly supportive with European Union (EU) approving a green recovery plan of €750bn: Next Generation EU. It is clear that energy efficiency can and must occur across the most polluting industries with economic support solutions and implementation of technologies such as smart grid. The smart grid introduces a two-way dialogue where electricity and information can be exchanged between utility and its customers. It's a network of communications, controls, computers, automation and new technologies working together to allow businesses and consumers to take control of their energy use whilst making the grid more efficient, reliable, secured and greener. The smart grid also enables new technologies to be integrated such as wind and solar energy production, plug-in Electric Vehicle charging and the digitalisation of the home. The smart grid is already starting to replace ageing infrastructure in modern cities – such as Sydney, Barcelona, Copenhagen – and utilities can better communicate with us to help manage our electricity needs.

Consumer discretionary companies operating across our **Ageing & Lifestyle** theme have benefited from better-than-expected demand as COVID-19 brings into focus the importance of living a healthy and active lifestyle. With regular gym-goers having to stay at home during coronavirus lockdowns, they have turned to fitness apps to make purchases, learn tips and complete a range of home training programs, including virtual classes and personalised nutrition plans. Similarly, outdoor apparel specialists have been well-placed to benefit from increased consumer appetite for outdoor activities that are less impacted by social distancing requirements to combat COVID-19.

In **Transitioning Societies** theme, whilst macroeconomic activity data confirmed the emerging economies continued to recover into the third quarter, the momentum of industrial production appears to have moderated and consumer demand has yet to gain further momentum. However, we believe that the increasing domestic consumption from a burgeoning middle class and a related 'catch up' in terms of product penetration and industry consolidation will provide relatively attractive growth opportunities for long-term EM investors exposed to the right themes and companies. If we take China for example, it is clear we have seen a pickup in health awareness after the pandemic. People are increasingly considering the benefits of regular exercises and – in the same vein as our Ageing & Lifestyle theme – we've recently seen a surge in active lifestyle products such as sportswear or bicycles.

Despite the headwinds many businesses have faced in 2020, the outlook of the themes of the Evolving Economy remains intact. The global population continues to age, its emerging middle class continues to grow, and people will increasingly consume online whilst moving towards a more automated society. Importantly, businesses and consumers convey a sense of climate urgency, which is likely warranted as this decade may be our last chance to act...

**Framlington Equities, Thematic Investment Team**

**Read on to discover more recent insights from the Evolving Economy...**

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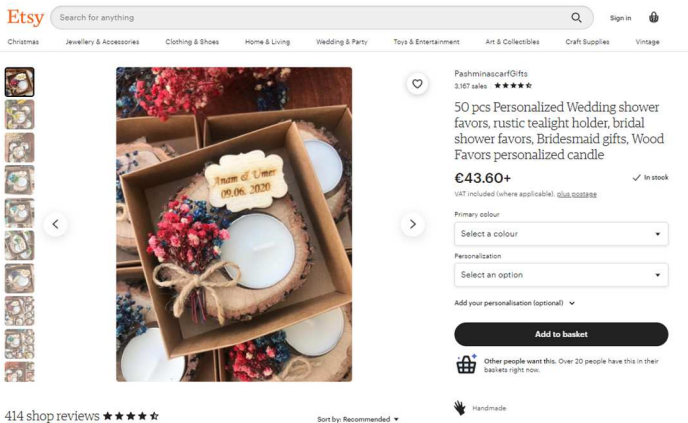
<sup>1</sup> Source: BofA Global Research, Higher Online Penetration Primer – October 2020

# Connected Consumer theme

The Gen Z – true ‘digital natives’ aged between 8 and 24 – start to enter the workforce and is poised to account for \$30tn or 23.6% of global income by 2030<sup>1</sup>

## Etsy, e-commerce platform of handcrafted and vintage goods

Etsy is an e-commerce platform focused on handmade or vintage items and craft supplies. The company has recently seen home nesting driving online consumption higher across its biggest categories such as homeware and crafts. Whilst e-commerce platforms are somewhat competitive with the best price offer ultimately attracting consumer, a key competitive advantage of Etsy is anchored with the differentiation and uniqueness of its products. According to a survey, 88% of buyers agreed that Etsy has item they can't find anywhere else<sup>2</sup>.



## Etsy uniqueness product offer with handmade or vintage items and craft supplies

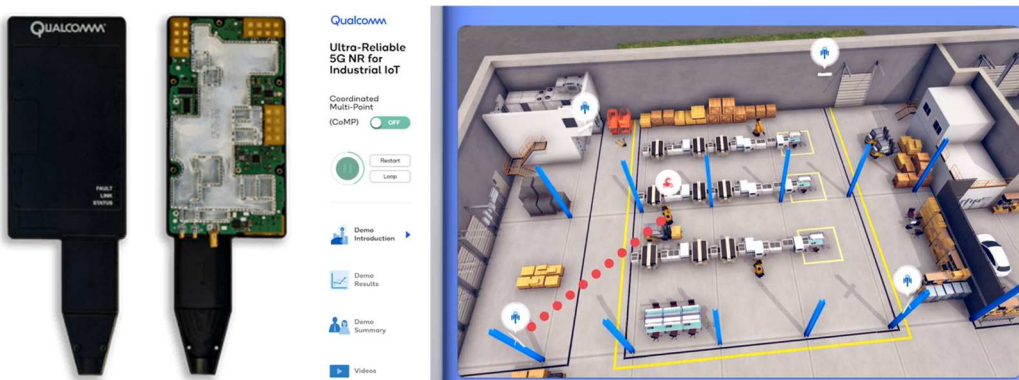
1: BofA Global Research, Higher Online Penetration Primer, Euromonitor – October 2020 / 2: 2019 survey  
Picture: Etsy website. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation

# Automation theme

5G will expand the mobile ecosystem to new industries, powering the economy by \$13.2 Trillion in global economic value by 2035<sup>1</sup>

## Qualcomm, Semiconductor specialist

Qualcomm is a leading global chipmaker supplying a wide range of end markets: communication (smartphone, 5G), computers, consumer (video game consoles), and industrial (Internet of Things, automotive, etc.). While the smartphone market growth has been historically a large driver of Qualcomm's revenues, the current rollout and adoption of 5G Technology coupled with the increased semiconductor content in smart factories, autonomous vehicles and other connected objects is likely to drive a significant part of the Qualcomm business going forward.



## Qualcomm 5G New Radio system technologies to deliver high-performance, private industrial networks that will power Industrial IoT

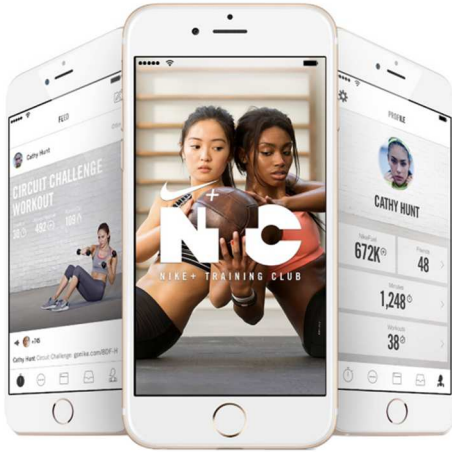
1: The 5G Economy, an independent study from IHS Markit, Penn Schoen Berland and Berkeley Research Group, commissioned by Qualcomm.  
Picture: Qualcomm Investor relation. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation

## Ageing & Lifestyle theme

People over 65 are the UK's most frequent gym goers, with gym usage peaking at age 72<sup>1</sup>

### Nike, athletic footwear and apparel

Nike is an athletic footwear and apparel specialist selling its products globally through Nike-owned retail stores and digital platforms to retail accounts. Whilst Nike's marketing skews to 18-40 age demographic, it embraces the fact that physical exercise is an essential whole-of-life activity and deeply linked to capability rather than chronological age. Nike offers a range of training programmes through its dedicated app – from free sessions to premium charged access – for training at home, including virtual classes and personalised nutrition plans. Since regular gym-goers have had to stay at home during lockdown, many have turned to virtual exercise classes and training in their living rooms.



Nike Training Club apps allowing virtual exercise classes and training

1 Source: Nuffield Health, 22 March 2016

Picture: Nike website. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation

## CleanTech theme

Digitalised and connected electrical grid comprising cleantech – could grow to US\$169bn by 2025E<sup>1</sup>

### Alfen, manufacturer and integrator of smart grid solutions

Alfen is a Dutch Smart Energy business which designs and produces smart grid, energy storage systems and EV charging equipment and delivers integrated solutions to its customers. The company is well exposed to the need for investment to strengthen and smarten the grid in support of the Energy Transition.



Smart grid: efficient distribution of energy (left picture) – Alfen charging points EV (right picture)

1: BoFAM – Transforming World: the 2020s – November 2019, Allied Market Research Picture: Alfen website. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation

# Transitioning Societies theme

In less than two decades the size of China's middle class has risen from less than 3 million people to more than 500 million<sup>1</sup>.

## Shenzhou International Group, knitwear manufacturer

Founded in 1988, Shenzhou International is a vertically integrated knitwear manufacturer – with a strong focus on sustainable manufacturing. The company's main product categories include casual wear, sportswear, lingerie, and other knitting products. Shenzhou is the largest supplier of apparel to Nike, Adidas, Puma, and Uniqlo and enjoy both international and domestic consumption growth, particularly with the rise of the Chinese middle class.



Vertically integrated knitwear (left) – Sustainable manufacturing (right)

1: LGIM - 2018 Long-term Thinking – Demographics

Picture: Shenzhou website. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation

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