Investing in the Aging of America

An overview of trends caused by the demands of a growing senior-care market

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Older Americans represent a larger portion of the U.S. population than ever before, and this trend is only expected to continue. With this demographic shift comes a growth in the healthcare segments that serve seniors’ medical and housing needs. The Aging of America theme identifies companies supporting aging Americans.

Demand drivers

It’s no secret that Americans are living longer. By 2050, there will be twice as many people in the U.S. older than 65 than there were in 2010, and the fastest-growing segment of older Americans are the oldest ones: those in their 90s and 100s.1 By the time the last Baby Boomer hits age 65 in 2030, one in five Americans will be elderly.2 With this growth, we expect to see:

- **A jump in the number of people with chronic diseases.** As people live longer, the more likely they are to be managing one or more chronic diseases, since 80 percent of people 65 and older live with chronic diseases.3

- **Rising healthcare costs due in part to chronic diseases.** Eighty-six percent of healthcare spending in the U.S. goes to managing and treating chronic illness.3 This spending is expected to continue to rise as more and more people live with a chronic disease longer and later in life.3

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**Aging Americans by the numbers:**

1:5

By 2030, 1 in 5 Americans will be an older adult—about 72 million people.

Source: CDC

80%

The percent of Americans age 65 and older with at least one chronic disease.

Source: Agency for Healthcare Research and Quality (AHRQ)

86%

Healthcare spending that goes towards treating chronic diseases.

Source: AHRQ

5.8% per year

Projected growth in healthcare spending through 2024, 1.1% faster than GDP.

Source: US Department of Health & Human Services
A closer look at chronic diseases

The most common chronic conditions affecting the senior population are cardiovascular disease, cancer, diabetes and arthritis. Among seniors, cardiovascular diseases made up 26.5 percent of deaths in 2010, as heart disease-related morbidity increases with age. Similarly, age is a high risk factor for cancer: People over age 65 account for 60 percent of new cancer diagnoses and 70 percent of all cancer-related deaths. Diabetes levels among seniors are also considerably higher than in the general population: 25.9 percent of seniors have diabetes compared to just 9 percent across all age groups.

<table>
<thead>
<tr>
<th></th>
<th>Heart disease</th>
<th>Hypertension</th>
<th>Stroke</th>
<th>Asthma</th>
<th>Chronic bronchitis or Emphysema</th>
<th>Cancer</th>
<th>Diabetes</th>
<th>Arthritis</th>
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<tbody>
<tr>
<td>Seniors as a percent of total afflicted population, by selected chronic health conditions in 2014</td>
<td>56%</td>
<td>40%</td>
<td>51%</td>
<td>17%</td>
<td>39%</td>
<td>51%</td>
<td>42%</td>
<td>41%</td>
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Note: These data refer to the civilian noninstitutionalized population over 18 years of age. Source: Centers for Disease Control and Prevention, National Center for Health Statistics, National Health Interview Survey, 2014

Implications

Healthcare spending
With people living longer and managing one or more chronic conditions for a longer period of time, healthcare spending is expected to continue to rise. It is already the fourth largest spending category for younger seniors and the second largest for those age 75 and older. Healthcare spending in the U.S. is expected to increase an average of 5.8 percent per year until 2024—more than 1.1 percent faster than GDP.

Senior housing
The senior housing market has already begun its transition from niche to major specialized market, and we expect this trend will continue as the need for outsourcing assisted living services grows. Because people are having fewer children, the number of caregivers available to look after aging parents is steadily declining. The Bureau of Labor Statistics estimates that the need for hired personal care aids will increase 26 percent by 2024 due to the aging population.
Medicare spending
The population of Medicare beneficiaries is expected to grow to a total of 80 million in 2030, up from just 54 million in 2015; with this, Medicare spending will rise from 3 percent to 5.1 percent of GDP by 2040. Older Medicare recipients account for a disproportionate share of Medicare spending, and as more and more seniors move into the 70-plus age bracket, we expect to see an increase in total and per capita Medicare spending.

Investing in companies serving aging Americans
The healthcare sector in general will likely benefit broadly from an older population, but not all players will experience structural changes. Some sub-sectors within healthcare—for example, drug companies that target communicable diseases, pediatric care companies and non-Medicare private health insurers—are unlikely to be affected by trends caused by the aging of America.

We expect to see the most growth in these sub-sectors and related industries:

- **Cancer Care**
  Developers of oncological therapies, detection and treatment devices.

- **Diabetes Care**
  Makers of diabetes care products and treatments.

- **Assisted Living**
  Owners and operators of nursing home facilities and providers of skilled nursing or home health services.

- **Cardiovascular Care**
  Makers of cardiac health technologies such as implantable pacemakers, vascular stents and other products for treating and monitoring the heart.

- **Dialysis**
  Creators of products and services for patients with chronic kidney disease and end-stage renal failure, including hemodialysis machines, hemofilters and dialysis fluid filters.

- **Medical Insurers**
  Companies that specialize in providing health insurance and managed care services for Medicare enrollees.

- **Orthopedic Care**
  Companies that develop and manufacture implants and related surgical instruments used to replace hips, knees and other joints.

- **Retirement Communities**
  Companies that provide housing and personal support services for elderly residents.

- **Chronic Obstructive Pulmonary Disease Care**
  Companies engaged in providing drugs and respiratory products for patients suffering from Chronic Bronchitis and Emphysema.
Motif Capital: Portfolio Construction

We built our Aging of America portfolios to provide systematic targeted exposure to firms across key industry segments that we believe stand to benefit from the demand for treatments and therapies due to a fast-growing senior population, increased government spending on healthcare programs and the rise in demand for assisted living facilities.

Typically to build these portfolios we:

- Identified U.S.-listed stocks and ADRs of companies involved in providing housing and healthcare products and services to American seniors,
- Segmented companies by their senior care-related product or service type,
- Determined each company’s percentage of total revenue derived from products and services that are provided for American seniors,
- Calculated the company’s adjusted market capitalization by multiplying the market capitalization by the percentage of revenue derived from senior care-related products and services,
- Finally, created the portfolio by weighting each company by its adjusted market capitalization relative to the total adjusted market capitalization of all companies and by satisfying investability constraints.

Conclusion

As Americans live longer, the demand for ongoing healthcare and housing support will likely continue to grow, but not all companies in the healthcare industry will benefit. Motif Capital has applied systematic, objective analysis in selecting the firms we believe stand to benefit from an aging population—those that provide managed care housing and treatments for seniors with chronic conditions.

Representative Companies:

**Novartis**
*Cancer Care*
Novartis provides branded and generic medicines, diagnostic tools and consumer health products.

**Celgene**
*Cancer Care*
Celgene develops and markets therapeutics to treat cancer and immune-inflammatory-related diseases.

**Bristol-Myers Squibb**
*Cardiovascular Care*
Bristol-Myers Squibb researches, develops and markets pharmaceutical products for the treatment chronic disorders.

**DaVita Healthcare Partners**
*Dialysis*
DaVita is a provider of dialysis services in the United States, treating patients with chronic kidney failure and end-stage renal disease.

**UnitedHealth Group**
*Medicare Insurers*
UnitedHealth Group provides health insurance, health benefits and related products and services.
References


Disclosures

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