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Investing in the Aging of America

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

motif CAPITAL

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. Targeted exposure to the companies supporting aging Americans can help investors seek opportunities in the growing senior-care market.

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] With 10,000 Americans turning 65 every day, 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. Currently, 80% of older adults have at least one chronic disease, and 77% have at least two. The four most popular chronic diseases - heart disease, cancer, stroke, and diabetes - cause two-thirds of all deaths each year.[3]
- **Rising healthcare costs due in part to chronic diseases.** Seventy-five 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.

Aging Americans by the numbers:

1:5

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

Source: N4A.org[2]

80%

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

Source: National Council on Aging[3]

75%

Healthcare spending that goes towards treating chronic diseases.

Source: National Council on Aging[3]

5.8% per year

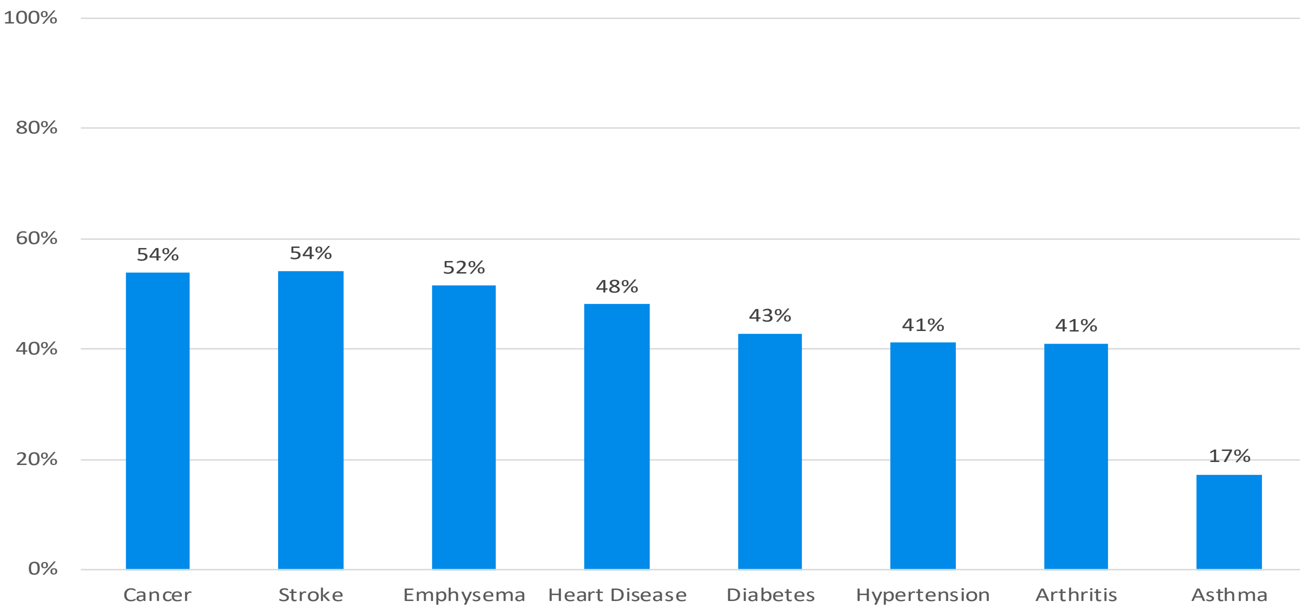
Projected growth in healthcare spending through 2024, 1.3% faster than GDP.

Source: CDC[11]

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 2015, as heart disease-related morbidity increases with age.[4] Similarly, age is a high risk factor for cancer: People over age 65 account for nearly 80% of new cancer diagnoses and 70 percent of all cancer-related deaths.[5 12] Diabetes levels among seniors are also considerably higher than in the general population: 25.2 percent of seniors have diabetes compared to just 9.4 percent across all age groups.[6]

Seniors as a percent of total afflicted population, by selected chronic health conditions in 2016:



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, 2016

Implications

Healthcare spending

With people living longer and managing one or more chronic conditions for a longer period of time, healthcare spending will only continue to rise. It is already the fourth largest spending category for younger seniors and the second largest for those age 75 and older.[8] Healthcare spending in the U.S. will increase an average of 5.8 percent per year until 2024—more than 1.3 percent faster than GDP.[9]

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 41 percent from 2016 to 2026.[9]

Medicare spending

The population of Medicare beneficiaries will grow 48 percent to a total of 80 million in 2030, up from just 54 million last year, 90 percent of whom will be baby-boomers.[10] With this, Medicare spending is projected to rise from 3.6 percent to 4.6 percent of GDP.[10] 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 will expect to see an increase in total and per capita Medicare spending.

Risks to the Aging America Theme

- **Rising Health Care Costs and Policy Risk:** Healthcare costs have been rising and are looking like a long term structural issue for the U.S., which could limit further developments in capital intensive therapies for chronic diseases. Additionally, with growing political opposition to Medicaid and Medicare, the threat of budget cuts presents a risk to many seniors' ability to pay for expensive, long-term treatment and housing.
- **Competition Risk:** Whereas in most industries, a favorable macro trend can be the "tide that lifts all boats," companies in the drug and biotech space are less correlated with each other. For instance, one company's drug approval may negatively impact a company that has a rival drug on the market.
- **Regulatory Approval Risk:** It takes more than 10 years on average for a new drug to be approved. The value of the potential drug will be partially reflected in the company's stock price and a binary event will lead to the stock price significantly increasing or decreasing once new information about the drug is released.
- **Patent and Generic Risk:** Large R&D costs necessitate patent protections in the biotech space. After a certain period of patent protection, drugs that once had market exclusivity can be replicated with cheaper generic options, driving prices and profits down.
- **Rising Interest Rate Risk:** A rising interest rate enviornment poses a risk to REITs, with many senior living and retirement communities being structured as such. As interest rates rise, the growing yield could make bonds a more attractive investment compared to REITs.

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 the structural tailwinds. 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 impantable 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 suipport services for elderly residents.

Chronic Obstructive Pulmonary Disease Care
Companies engaged in providing drugs and respiratory products for patients with Emphysema.

Motif Capital: Portfolio Construction

Motif's thematic investment philosophy is underpinned by technology, helping us process and derive investment insights in an objective, systematic manner. The portfolio construction process starts with theme discovery and theme validation through rigorous fundamental and quantitative research. Motif then employs the same systematic, data-driven approach to create the theme universe and identify thematic exposure. Our starting point is to use publicly available data such as government reports, industry publications, and company filings. Additionally, we also utilize alternative data sets, which often come raw and unstructured. We leverage technology and a variety of computing techniques to extract valuable information from these data sources.

We built our Aging of America portfolio to provide systematic targeted exposure to firms across key industry segments that 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.

To build our portfolio 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.

Top Five Holdings:

Johnson & Johnson
Orthopedic Care
Johnson & Johnson's orthopedic business, DePuy Synthes, offers orthopedic products and services for joint reconstruction, trauma, spinal injuries, sports medicine, power tools, and biomaterials.

Amgen
Cancer Care
Amgen is one of the largest oncology researchers, developing biologic pathways to address cancer, leveraging a robust clinical trial pipeline, and providing research and educational tools for healthare professionals.

UnitedHealth Group
Medicare Insurers
United Health Group provides health insurance, health benefits and related products and services.

Novo-Nordisk
Diabetes Care
Novo-Nordisk is one of the oldest healthcare companies in the world, with 90 years of diabetes research and experience. They develop diabetes management products spanning medications, pen needles, and biopharmaceuticals.

Pfizer
Cardiovascular Care
Pfizer provides cardiovascular and metabolic disease treatment, clinical trials, and research.

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 identifying the firms we believe stand to benefit from an aging population—those that provide managed care housing and treatments for seniors with chronic conditions.

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Disclosures