DECALIA

INVESTMENT INSIGHTS

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TURNING SILVER INTO GOLD

Editorial View

Turning silver into gold

- The large cohort now reaching retirement is known as the Silver Generation
- These recent retirees are in good shape both physically and financially
- This growing consumer segment offers attractive investment opportunities

In 1975, Robert de Niro was a young taxi driver. Forty years later, in "The Intern", the 70-year old, silver-haired actor plays a retiree going back to work at an Internet start-up. Though the plot is farfetched, it reflects a certain reality: Robert de Niro and his fellow baby-boomers are simply not ready to let go!

Once upon a time, old age was associated with wisdom and memories, or alternatively boredom and disabilities. But de Niro, like other celebrities in their sixties – Bruce Springsteen (66), Meryl Streep (67) or Sting (64) – present a very different picture. So do many older people we know. The time has come to revise some preconceived ideas about the over-65 crowd; today, elderly rhymes with healthy and wealthy!

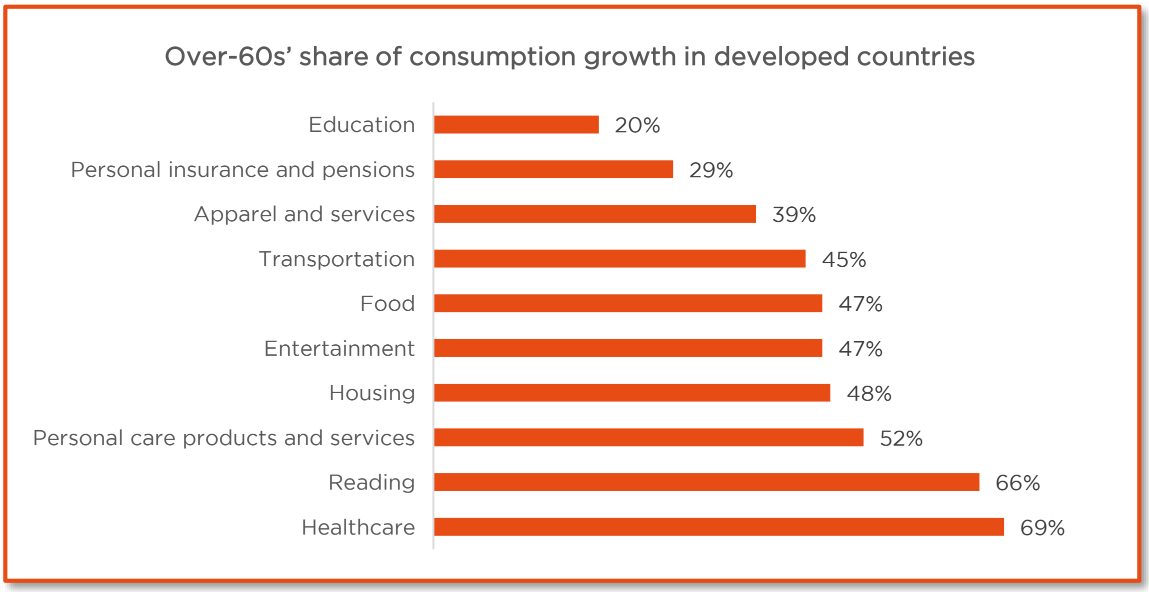
The majority of 65-year-olds in America and Europe can expect to live another 20 years. In most of the OECD, they enjoy a higher income than many 30-year-olds. With assets of USD 800,000 on average, as well as a low savings rate, older households represent a lucrative, and significantly large consumer segment. There are 900 million people over 65 in the world today, about 50 million of them in America and twice as many in Europe.

The UN expects this trend to accelerate with the aging of the boomer generation (born between 1945 and 1975 in the OECD) and of large cohorts of adults in emerging regions. With a growth rate of 2.5% per annum, the elderly will number two billions in 2050, or 20% of the global population.

We believe that the emergence of this "Silver Generation" is a major structural trend affecting asset prices, and that we should invest accordingly. As we explained last month, aging is the main driver of the secular decline in interest rates. Indeed, ahead of retirement, these aging cohorts have been chasing "safe yields". The late boomers still working are currently buying government and corporate bonds to secure their future financial needs.

A reciprocal, long-term strategy to benefit from the rise of this generation consists in buying equities, with a focus on products and services likely to be purchased by seniors. This approach is hardly trivial. Based on marketing studies of the Silver Generation, we would focus on 5 themes: 1) lifestyle, 2) health and wellness, 3) security, 4) mobility and 5) financial planning.

Chart of the Month



Global Strategy

ECONOMICS & ASSET ALLOCATION

Surprisingly quiet

- Economic developments are favorable, with "Goldilocks" scenario still in place
- Regional synchronization should lead global activity to peak in Q4
- Risks remain, especially in Europe, despite markets' apparent calm

Markets have been surprising calm these past weeks compared to previous months. We will not complain that, for once, financial trends are reconciled with macro figures. Right now, the US and Europe are posting decent activity figures with no visible negative impact from Brexit. This comforts us in our scenario that a synchronization of business cycles in the main regions will peak in the fourth quarter. The US is rebounding from a weak Q2, Europe's recovery is still in place, China is stable, and other EM such as Brazil are bottoming out of recession.

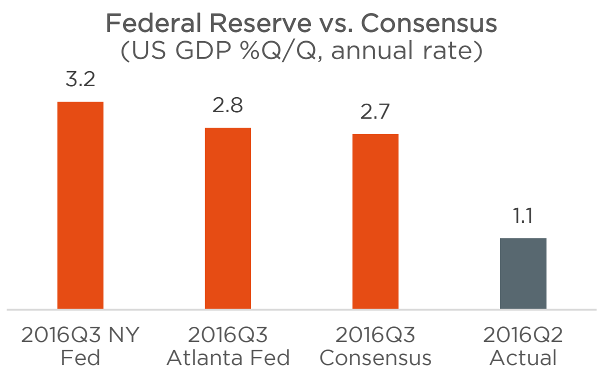
ISM figures tracking US industrial activity reported moderate expansion during the summer. With mixed manufacturing figures but robust housing reflecting steady consumer trends supported by solid job figures, US GDP is currently running at a 3% annualized pace. In Europe, business sentiment dropped in Germany and France following the UK vote, but so far no hard data on actual production or consumption has confirmed any negative impact from the Brexit. Europe and the Eurozone is on track to beat the 1.5% GDP growth consensus for this year. In emerging regions, there are early signs of bottoming, in Brazil for instance, where the currency is appreciating, inflation is slowing, and household confidence is rebounding. September figures will confirm – or not – the end of Brazil's recession and reveal whether the Olympics will have a temporary or permanent effect.

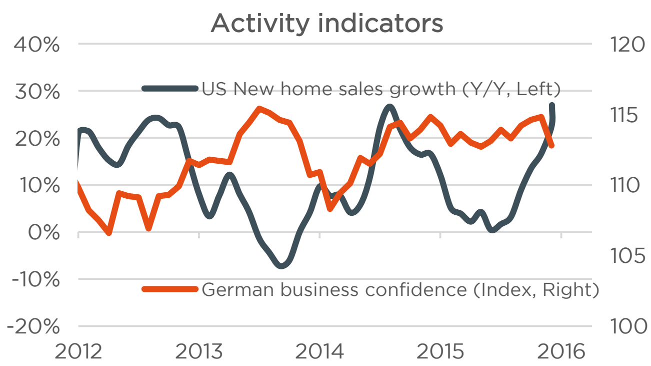
The current "Goldilocks" scenario, (i.e. moderate activity with low inflation) and a stabilization in commodity prices have now brought the "corporate profit recession" to an end. As a result, equity volatility has dipped to record low levels suggesting investor complacency risk as key threats highlighted in our previous issues remain on the horizon, namely:

- Political risks: outcome of high-stakes US election and Italian referendum
- Economic risks: China landing concerns & full implications of Brexit vote
- Financial risks: Italian Bank sector restructuring uncertainties
- Monetary risks: Federal Reserve likely to increase rates before year-end.

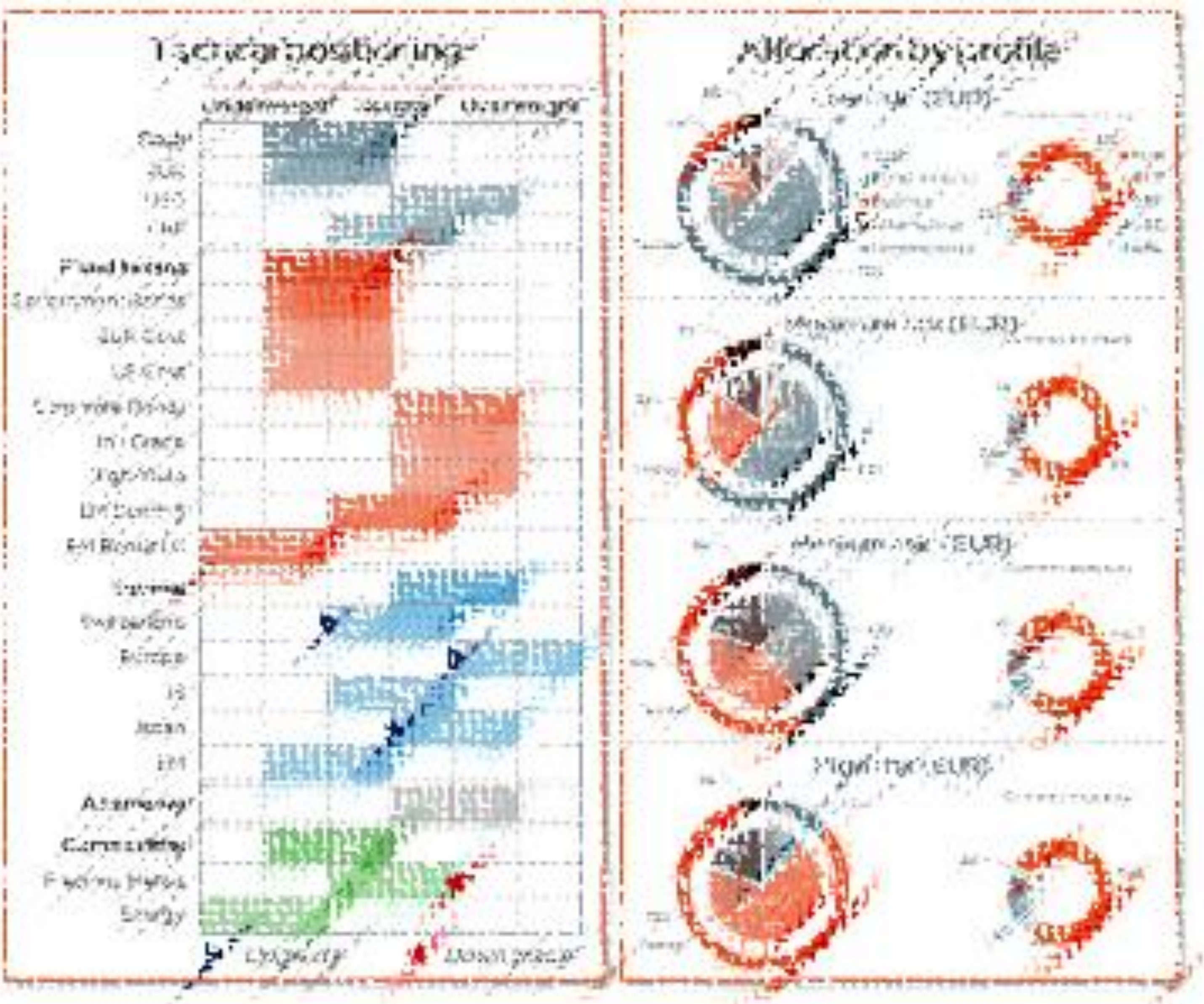
Within this context, we have made some pro-cyclical tactical adjustments to our portfolio while keeping our overall asset allocation close to neutral in terms of risks.

- We have closed our tactical overweight on Gold and trimmed the duration of our bond allocation.
- In Equities, although retaining a positive mid-term view, we took some profits on Emerging Markets after the recent outperformance. In terms of sector positioning, we have become more constructive on US Financials (neutral) and somewhat less positive on Healthcare.





Asset Allocation



- Closed our tactical overweight on gold
- Trimmed the duration of our bond allocation back to 3-5 years
- Took some profits on emerging market equities

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External sources include: Warner Bros. Pictures, Merrill Lynch, BLS Consumer Expenditure Survey, 2013 McKinsey Global Institute Cityscope, Decalia, Bloomberg, Federal Reserve of Saint-Louis, IFO Institute, Bundesbank, Eurostat.

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