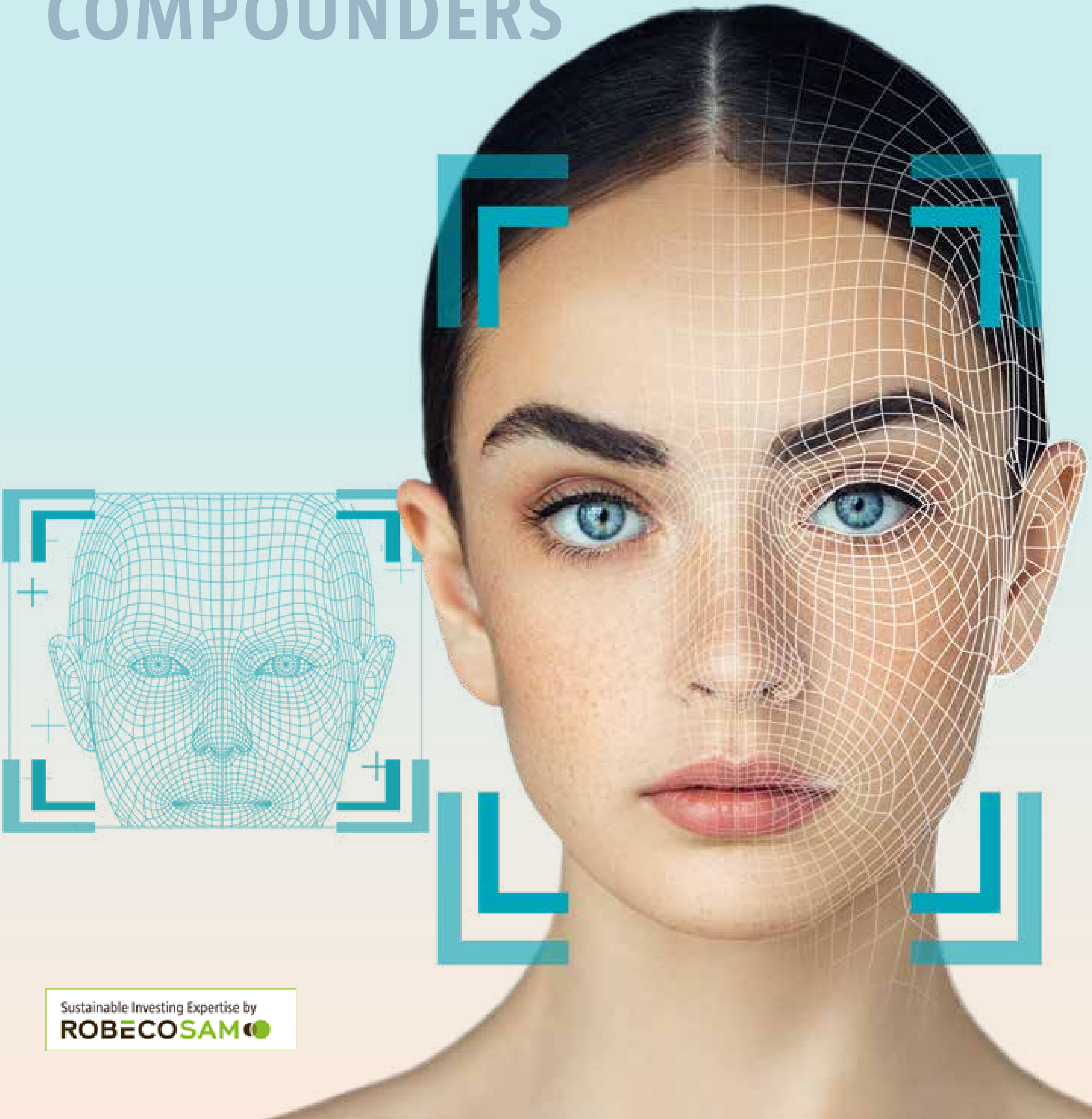
For professional investors

ROBECO
The Investment Engineers

GLOBAL CONSUMER TRENDS
UNCOVERING THE QUALITY COMPOUNDERS



Sustainable Investing Expertise by
ROBECOSAM

Contents

Introduction

The Robeco Global Consumer Trends strategy is aimed at benefiting from structural growth trends in consumer spending. But what trends do we focus on? And what type of companies do we look for within the selected trends? In a nutshell, we strive to find structural winners, better known as 'quality compounders' – quality growth stocks that are able to compound shareholder value on a consistent basis.

Of course, this is easier said than done. For one, the number of listed companies that has been able to compound wealth at above average rates of return is extremely low. A recent study[1] found that only 1.3% of firms accounted for all of the wealth creation in global stock markets over the past three decades.

Yet, when looking at the characteristics of this exclusive group of outperformers, we find a number of interesting similarities. The vast majority of these companies have valuable intangible assets, a long-term thinking management team focused on continuously improving their products and services and the ability to generate high and consistent returns. Other characteristics include a strong balance sheet and relatively low capital intensity.

These relatively rare high-quality companies are able to compound shareholder value at superior rates of return, while offering downside protection in tough markets. So, why isn't everybody buying these stocks? Well, they tend to be among the more expensive stocks in the market and this scares many investors off.

The Robeco Global Consumer Trends strategy strives to uncover the precise companies that feature such characteristics. We firmly believe that quality compounders offer the best way to generate superior long-term investment returns for our clients. To achieve this, we first focus on the trends that offer the highest growth potential and then identify the structural winners within these trends.

In this brochure, we explain our investment process: the broad long-term megatrends the strategy focuses on, as well as the steps we take to uncover the quality compounders of these megatrends and build our portfolios. Finally, we also provide some insights into three specific trends investors should keep an eye on in 2020.

Jack Neele and Richard Speetjens

1. Bessembinder, H., Chen, T.F., Choi, G. and Wei, K.C.J., 2019, 'Do Global Stocks Outperform US Treasury Bills?', working paper.

Part 1:

A unique approach to trends investing

Our aim is to uncover, in a consistent fashion, which companies will benefit from the long-term growth trends in global consumer spending: the quality compounders. This requires a rigorous and structured investment process. Our approach starts with the identification of long-term trends shaping consumer spending. Then, we pinpoint the structural winners in these trends.

1. Three megatrends

Robeco's trends investing strategies target established long-term trends, bound to change consumer spending patterns over the coming decade. Broadly speaking, we highlight three structural megatrends: transforming technology, a changing sociodemographic and preserving the earth. Our approach combines multiple, low-correlated trends in one portfolio. This allows for substantial diversification benefits, making the portfolio less vulnerable in periods of market weakness. Furthermore, we are long term oriented and have a holding period of typically three to five years.

Transforming technology | **Sociodemographic changes** | **Preserving earth**

Transforming technology

Technological changes, such as artificial intelligence, are the most far-reaching in terms of investment opportunity creation. They unfold fast, reach maturity quickly and often have a 'winner-takes-all' nature. The technological megatrend has jumpstarted the continuous and accelerating cycle of innovations, and it has also prompted what we call the fourth industrial revolution.

Sociodemographic changes

Sociodemographic changes encompass the realities of an aging population, a new digital generation and the rising middle class in countries like China and India. Sociodemographic trends tend to be predictable and persistent, yet slow and therefore hard to detect. That is why investors often overlook their influence.

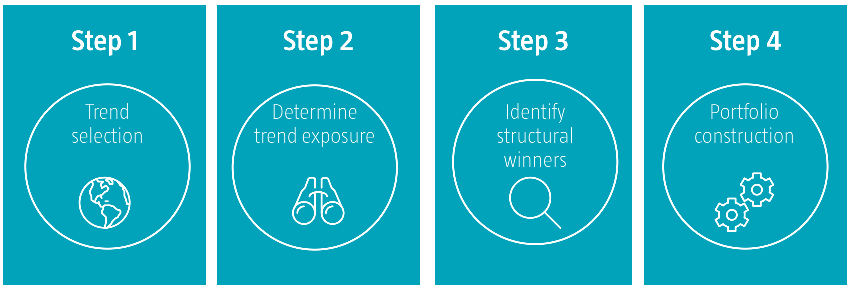
Preserving the earth

Preserving the earth includes increased environmental awareness, stricter regulation and a growing scarcity of natural resources. This trend is driving many changes in society – from sustainable food production to cleaner energy systems and the emergence of the electric vehicle industry. All of this leads to technological advances.

2. A four-step investment process

Concretely, the Robeco Global Consumer Trends' investment process consists of four formal steps: consumer trend selection drawing from the megatrends mentioned in the previous section, trend exposure selection, identification of winners and portfolio construction. Figure 1 summarizes these steps.

Figure 1: The Robeco Global Consumer Trends investment process

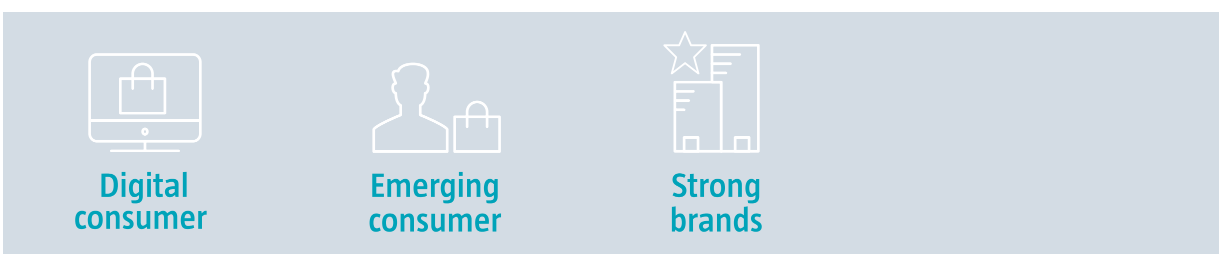


Source: Robeco

Trend selection

Selecting which trends to invest in is a crucial step as it will limit the investment universe to those companies able to benefit from these trends. The idea is that investors tend to underestimate the growth prospects of game-changing products as their adoption accelerates. Taking advantage of these behavioral biases can be a source of alpha, as they may lead to overlooked longer-term growth opportunities.

In line with the megatrends described in the previous section, Robeco Global Consumer Trends focuses on three main trends in global consumer spending:



Digital consumer

Digital technologies are gaining market share and are being adopted by consumers at an increasingly rapid pace. For instance, the payments industry is gradually moving away from cash payments towards electronic and digital payments. Also, many consumer industries are rapidly moving online like retail and food delivery.

Emerging consumer

In emerging economies, population growth, accelerated urbanization and increasing wealth are the drivers of a long-term growth trend in consumer spending. This encompasses both basic and discretionary items. The strong demand for Western high-end brands as wealth levels rise is a good example. Moreover, emerging consumers have a high savings rate and therefore significant spending power.

Strong brands

In a world of exploding product choice, consumers increasingly need to cut through the noise to make informed purchasing decisions. Brands can help. They facilitate information processing and reduce the risk of making the wrong decision. Strong brands have historically outperformed the broader equity market and are likely to continue to do so.

Trend exposure selection

As a second step, we identify companies that are best positioned to benefit from the selected trends. In order to ensure optimal trend exposure, our investment process favors high-quality companies, with pure play businesses highly exposed to the different trends. After this step, the investable universe consists of approximately 200 to 250 stocks.

Structural winners' identification

In the third step, we screen the short-listed companies using both qualitative and quantitative analysis to identify the structural winners, or quality compounders. We assess stocks based on companies' business model and market position, management strengths, the impact of business and economic cycle and the impact of trends. For this, we draw from the expertise of the analysts and portfolio managers of the other Robeco Fundamental Equity teams.

We also integrate sustainability analysis by Robeco's affiliate RobecoSAM as well as Sustainalytics into our decision-making process.

Portfolio construction

Our portfolio construction is disciplined and transparent. The size of the holdings is based on conviction levels and ongoing risk monitoring. No benchmark is used. The resulting portfolio consists of approximately 50 to70 stocks.

3. Portfolio characteristics

The portfolio resulting from the investment process described in the previous section consists of approximately 50 to 70 stocks. These stocks feature the four main characteristics that, in our view, define the quality compounders we referred to in our introduction to this publication.

Figure 2: Quality compounders' key characteristics

High margins, high returns
Quality compounders are characterized by superior returns, derived from exploiting a competitive advantage. This advantage may stem from their powerful intangible assets (a strong brand), superior R&D and innovation skills or a scale advantage.

Focus & long-term thinking
Quality compounders tend to be focused on pure play businesses. The focus on a single product or service means that the company is constantly trying to improve this product or service depending on the ever-changing consumer needs and demands.

Intangible Assets
Quality compounders often feature valuable intangible assets, such as brand strength, patents, or proprietary technology like software. These assets tend to be harder to replicate and can serve as barriers to entry for competitors.

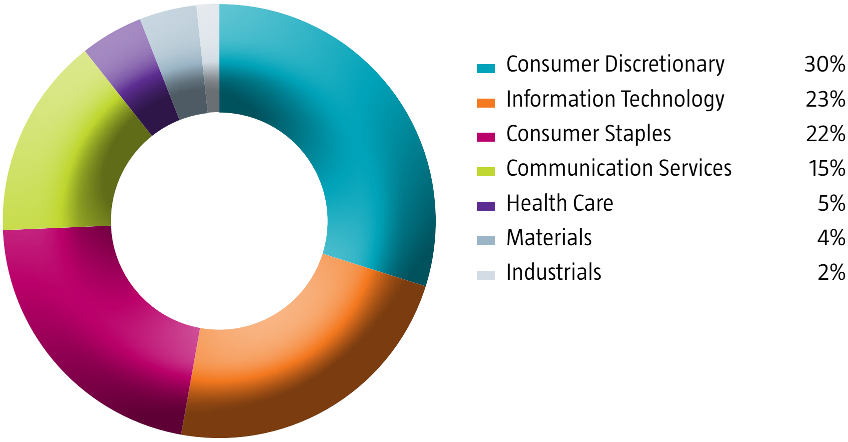
Defensive qualities
Quality compounders also offer defensive characteristics. The competitive advantage of many of the compounders especially shines through in periods of slower economic growth, when customers tend to stick with well-known and trusted products.

Source: Robeco

In terms of sectors, quality compounders tend to be active in highly consolidated markets. In some cases, these industries have an oligopolistic (e.g. payment infrastructure) or even monopolistic (e.g. internet search) structure. Finally, industries with high barriers to entry due to powerful incumbents, brand strength or heritage also tend to be favorable hunting grounds.

More concretely, we find many of the quality compounders in consumer sectors, like luxury goods, food and beverages, personal care products or consumer health. Many of these companies have a well-known brand that they can exploit globally. Over the last decade, however, we have also seen many compounders emerge in the information technology and service industries.

Figure 3: Sector split – Global Consumer Trends portfolio (as of December 2019)



Source Robeco.

Part 2:

Trends to watch in 2020

As explained in the first part of this publication, the Robeco Global Consumer Trends strategy identifies a number of consumer trends in line with our megatrends framework. In this section, we elaborate on three of the trends we are currently focusing on: online food ordering and delivery, humanization of pets and streaming wars.

Trend 1 Online food ordering and delivery

Context

Online food ordering and delivery is a relatively young market that, after a period of heavy investment, is now quickly consolidating. One of the main drivers of this move has been the low profitability of many players, as penetration still tends to be relatively low and traditional phone ordering often remains the number one competitor. Figure 4 shows the main players in different online food delivery markets.

Figure 4: Main players in different online food delivery markets

Source: Frost & Sullivan, Robeco. This is not a buy, sell or hold recommendation for any particular security. The information is for illustrative purposes only. No representation is made that these examples are past or current recommendations, that they should be bought or sold, nor whether they were successful or not.

But in regions where concentration is high and penetration has been increasing, companies are now seeing their profits rising rapidly. This in turn should lead to further concentration and to the emergence of a small number of dominant players able to generate profits while their competitors probably keep struggling.

Investment opportunities

Winners will be those able to keep their delivery costs as low as possible, either because, in the country they operate, the cost of labor is low or because the density of their customer network is very high. In countries where the population is highly concentrated in big cities, such as South Korea for example, online food delivery companies will obviously be at an advantage.

The sector will keep growing and consolidating rapidly over the next couple of years. Online food delivery penetration on average is around 10% to 12%, whereas in more developed markets, like the UK and the Netherlands, this can be as high as 25%. Therefore, potential growth remains substantial in many markets.

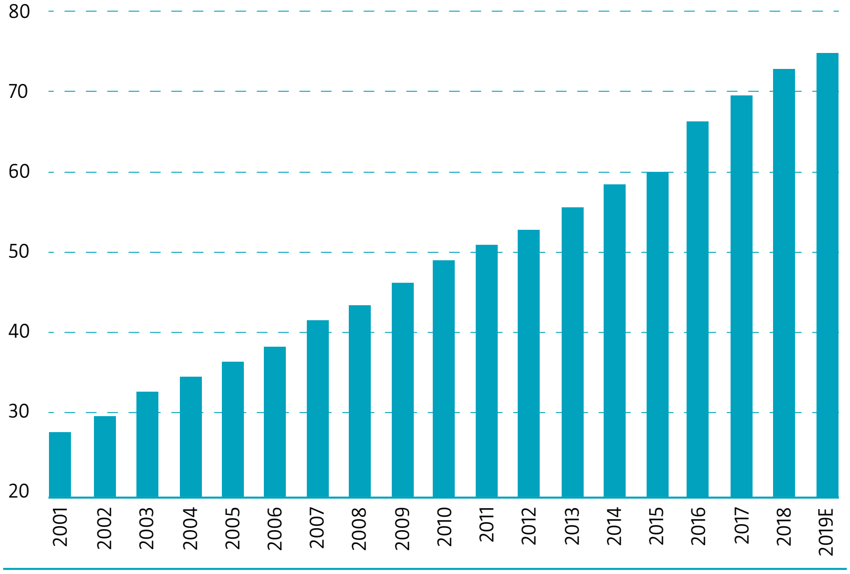
Last year saw major consolidation moves in large food delivery markets, such as Germany, the UK and South Korea. These mergers gave birth to dominant food delivery companies able to generate high and robust profit margins.

Trend 2 Humanization of pets

Context

The number of pet-owning households is rising globally while the amount of money people spend on their furry companions is also increasing. In the US, for instance, over 55% of the households own a pet, according to the American Veterinary Medical Association's latest survey. Moreover, pet industry sales have been steadily rising over the years, even during the crisis of 2008-2009, as Figure 5 shows.

Figure 5: Total US pet industry expenditures (in USD billions)



Source: American Pet Products Association, Robeco

To some extent, the constant increase in global consumer spending in the household and pet care categories can be attributed to a 'pet humanization' trend. Consumers increasingly see their pets as family members. Many consumers are therefore prepared to spend more on pet food and other pet-related products that may improve animals' wellbeing.

Investment opportunities

One way to benefit from this trend is to invest in either pet food providers or companies that supply vaccines and medicine for pets. These food and pharmaceutical companies may not necessarily focus solely on pets, but in some cases, the pet segment can represent a very sizable share of their sales and profits. These also tend to be high-growth and high-margin businesses.

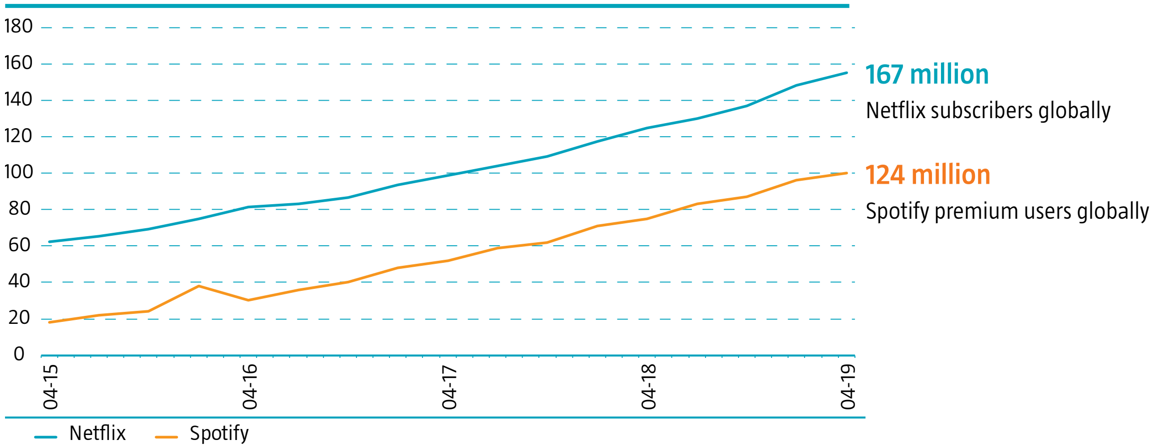
But there are also many other types of companies that could benefit from this trend. For instance, online pet food delivery companies may be one example. As pet food is large and bulky, the online distribution model is very suitable for pet food. The online pet food and pet supplies market currently has approximately 15% penetration in the US, but this could easily increase to more than 25% in the next few years.

Trend 3 Streaming wars

Context

Streaming wars is not a new topic, but the past few months have been marked by several initiatives that could reshuffle the deck. While Netflix has long been the dominant player, Apple and Disney are now also offering their own services. For these companies, the idea is to establish a direct link with the end consumer to help them decide on future investments in terms of content.

Figure 6: The rise of streaming services (millions of users)



Source: Statista, Netflix, Spotify

Investment opportunities

Of course, the increased level of competition may limit pricing power in the short term. But the market should be big enough for Disney and Netflix to co-exist. Moreover, a more diversified streaming offering will probably lead a growing number of customers to replace their usual TV subscription with a combination of online streaming subscriptions.

Also related to the streaming wars are all the changes happening in the music industry. After two decades of decline, growth has finally come back over the past couple of years, in particular thanks to the success of a handful of streaming platforms. These days, streaming represents about 45% to 50% of the total music industry in terms of revenues.

Owning streaming platforms or music labels is one way of benefiting from this comeback. But there are other ways. For instance, because the business model of artists has radically changed and streaming is now seen as a way to promote concerts, companies operating concert venues or selling concert tickets online may also represent attractive investment opportunities.

Conclusion

In an environment characterized by slower global growth, low yields and lower expected equity returns, investors should focus on quality compounders. High quality businesses with valuable intangible assets, low capital intensity, high margins and superior returns on capital have historically delivered above average returns while offering downside protection.

Companies that possess these characteristics are poised to achieve healthy revenue and earnings growth and therefore will continue to generate attractive long-term returns for investors. We believe our investments in food delivery, pet care and expenditures, as well as music and video streaming feature such characteristics.

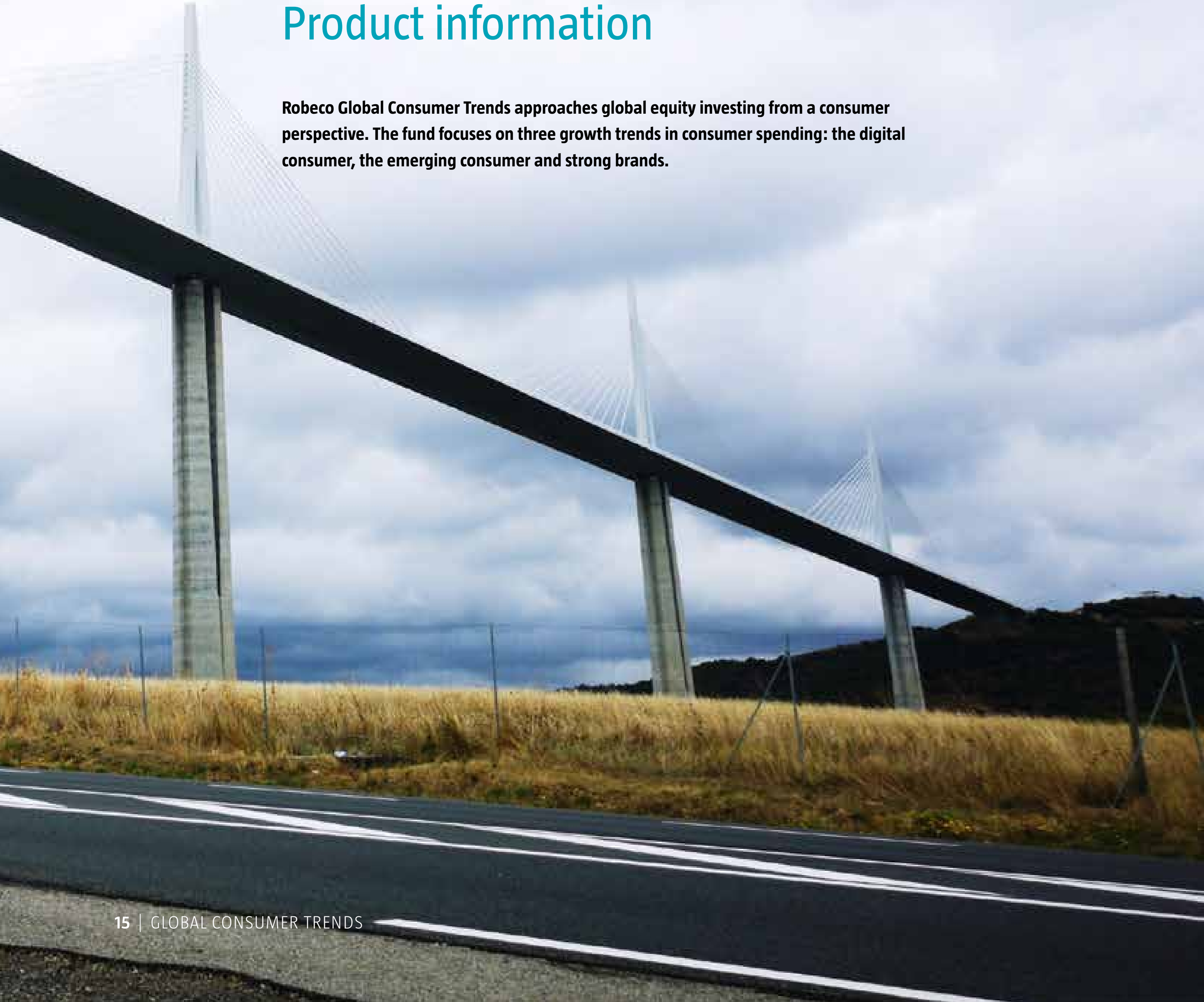
Therefore, we expect them to deliver healthy revenue and earnings growth and to generate attractive long term returns for investors. In addition, we believe the above-market valuations for these businesses are justified, given the quality of their business models, the high levels of earnings growth and the sustainability of their franchises.

Part 3:

Appendix

Robeco Global Consumer Trends – Product information

Robeco Global Consumer Trends approaches global equity investing from a consumer perspective. The fund focuses on three growth trends in consumer spending: the digital consumer, the emerging consumer and strong brands.



Attractive returns with a market average risk profile

EUR 3.2 bn in total assets under management

Experienced and stable investment team with a clear philosophy

January 2020

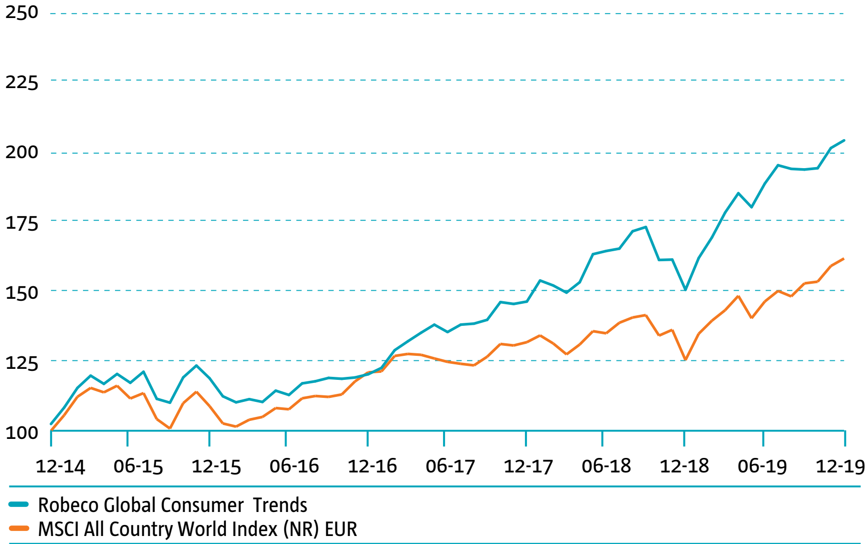
STRATEGY

- **Conviction** Investing in pure play exposure to the growth trends.
- **Quality** Investing in proven business models with strong growth potential.
- **Structural winners** A preference for dominant companies with a sustainable competitive advantage.
- **Benchmark agnostic** Investing according to conviction level instead of versus a benchmark.

Fund facts Robeco Global Consumer Trends

Name of fund	Robeco Global Consumer Trends
Fund managers	Jack Neele and Richard Speetjens
Index	MSCI All Country World Index (NR) (EUR)
First quotation date	3 June 1998
ISIN code	LU0187079347
Ongoing charges	1.70%
Management fee	1.50%
Service fee	0.12%
Tradable	Daily
Morningstar Analyst Rating	Silver

Performance Robeco Global Consumer Trends



Source: Robeco. All figures in EUR D gross of fees, based on gross asset value. Periods shorter than one year are not annualized. The value of your investment may fluctuate. Results obtained in the past are no guarantee of future performance. In reality costs such as management fees, transaction and other costs are also charged. These have a negative effect on the returns shown.

Performance Robeco Global Consumer Trends to 31-12-2019

	Three months	One year	Three years*	Five years*	Since inception*
Robeco Global Consumer Trends	5.65%	37.73%	20.52%	15.81%	11.54%
MSCI All Country World Index (Net Return)	5.82%	28.93%	10.13%	10.05%	5.28%

* Annualized

Source: Robeco. All figures in EUR D gross of fees, based on gross asset value. Periods shorter than one year are not annualized. The value of your investment may fluctuate. Results obtained in the past are no guarantee of future performance. In reality costs such as management fees, transaction and other costs are also charged. These have a negative effect on the returns shown.

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