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Investing in health and disease prevention is the best cure

Masja Zandbergen

COVID-19 might have put the spotlight on health, but our investment and active ownership teams have had a focus on health, healthcare and healthy food for some years already. We take the good aspects of it, such as the excellent investment opportunities that can be found in disease prevention, pharmaceuticals, fitness, and healthy and plant-based food, with the bad things. For this we are engaging with companies to create new health models that can drive down costs, produce food with less fat, sugar and salt, and fewer antibiotics in the meat supply chain.

The future of food is healthy and sustainable

In the last 50 years, global food production and dietary patterns have changed substantially. Increasing crop yields and improving production have helped improve life expectancy and reduce hunger. However, these benefits are being offset by massive environmental degradation due to unsustainable farming practices, along with health problems ranging from obesity to heart disease, as diets become higher calorie and heavily processed.

According to the World Health Organisation, overweight and obesity levels have tripled since 1975, with 39% of adults now overweight and 13% obese. At the same time, 9.2% of adults are underweight. The coexistence of people being overweight and underweight has created a double burden of malnutrition in our world. So, it is safe to say that malnutrition is an issue.

Due to these issues, we are seeing shifts in consumer preferences towards healthier and sustainably produced food. We find the most attractive investment opportunities in plant-based food and beverages, in meal kits, and in restaurant software. Pure-play food companies in these segments are becoming more relevant to consumers, they operate in a very large market, and have relatively low product penetration. This provides them with excellent growth opportunities. Cultured [that is, lab-grown] meat looks promising from an environmental perspective and its production costs are decreasing. Its commercial viability, however, is still unclear.

Challenges remain for food giants because they still derive most of their sales from relatively unhealthy food. They are improving though. We find smaller packaged food companies with a better health and sustainability profile better positioned for now.

How to invest in healthy living

We distinguish between four areas of interest: three are about prevention and one is focused on treatment:

1. Consumer awareness of healthy nutrition: this very much ties into the future of food and is about investing in ingredients, organic and natural food, but also the companies that provide solutions for food safety and analysis. There is much room for growth as the current market share for organic food in the US, for example, is only 5%. It is, however, growing steadily.
2. Public awareness of healthy lifestyles: obesity levels are already high, but unfortunately almost one-third of the world has put on weight during the pandemic (including yours truly unfortunately), and the average weight gain has been 6.1 kg.[1] So the strategy's stocks that are related to fitness and activity are doing well. They are mostly in athletic apparel, but also fitness equipment.
3. Hygiene and consumer health products: another area that is not new to our healthy living strategy, but has become very topical during the pandemic, are hygiene products. Think about oral, hair and skin products, and vitamins and nutritional supplements.
4. And last but not least, it is not only prevention that is an interesting area, but also the incidence of lifestyle diseases led by 'diabesity', heart disease, strokes and cancer. We invest in prevention and diagnosis, health care efficiency and chronic care.

The quote

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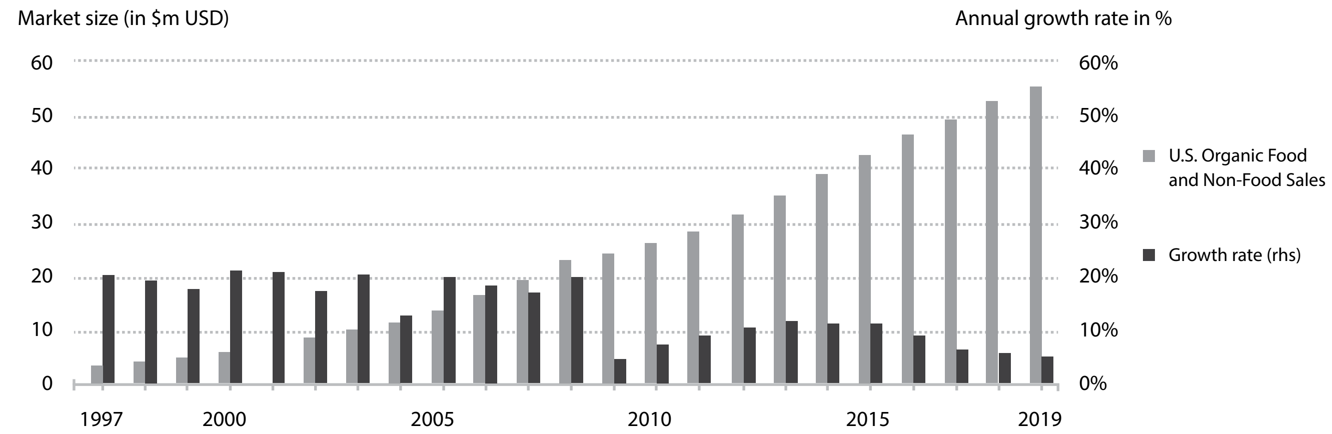
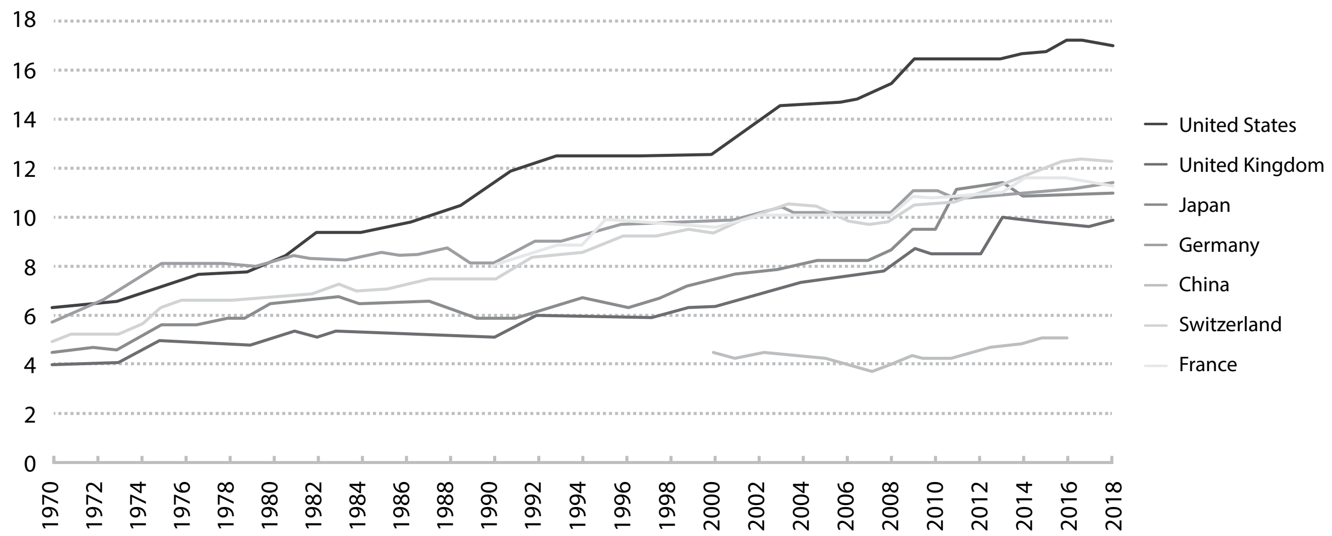
Figure 1. US organic food and non-food sales 1997-2019



Source:U.S. Organic Trade Association (OTA), adapted by Robeco.

Figure 2. Healthcare expenditure as a percentage of GDP, 1970-2018



Source: Robeco

Taking the good with the bad

Even though we see this trend towards prevention and healthy living as interesting, the amount of money that is spent on prevention is still only a fraction of the costs of cure. These costs are still rising everywhere and are now almost 17% of GDP in the US.[2]

We have previously explained the role of the meat supply chain in threatening global health, and the engagement we are doing with some of the companies in which we invest that are active in the meat supply chain. Here we would like to focus on two other engagement themes that we do in this area.

The first is our engagement on the risks of sugar in food[3]. This three-year engagement closed in 2019, but turned out to be very relevant, as research by the UK's National Health Service showed that one-third of the people who died from COVID-19 had either Type 1 or Type 2 diabetes, a condition that is often linked to obesity and sugar.

Aside from the health issues, the negative impact on the performance of a company using sugar in its processes can be significant. The costs associated with obesity include increased healthcare expenses, decreased productivity and premature deaths. Because of this, food and beverage companies face regulatory, reputational, legal and market risks.

Examples of this are governments in both high and lower-income countries that are introducing a sugar tax, or are restricting advertising of less-healthy products to children. Regulation is increasing over the use of health and nutrition claims, while food labelling requirements are being strengthened. Ultimately, companies that do not adjust to changing dietary preferences may lose market share, revenues and profits.

Disrupting the health industry with tele-tools

The second engagement theme concerns digitalisation and innovation, which we believe can reduce healthcare costs. However, a shift in mindset is needed. Will the healthcare industry be disrupted? Three developments suggest that change is on its way.

Firstly, while healthcare has traditionally been an industry slow to adopt new technology, it now appears to be embracing digital innovation at a growing rate. Increasingly, there is electronic harmonisation of patient data exchange between doctors, health service providers and pharma companies.

Secondly, more companies are open to data exchange between firms to maximise the potential of the insights this can bring. Thirdly, the introduction of telemedicine could reduce the cost and waiting time for patients to receive a consultation from a qualified medical expert.

In addition, pharmaceutical research is increasingly using new technologies such as AI to help reduce the time and costs related to drug development. Recent reforms also indicate a shift from activity-based to outcome-based models, and digitalisation can surely further enhance this trend. There are numerous opportunities, from promoting healthy behavior and drug personalisation, to remote monitoring, holistic analysis and improved decision making. Digitalisation cannot single-handedly solve health care challenges, but it can help in controlling costs, improving quality, and guiding the sector towards more patient-centric care.

Main aim of engagement

The main aim of our engagement is to gain perspective into the current state of the healthcare industry related to digitalisation, and to motivate companies to utilise opportunities as well as to be aware of, and mitigate, their related risks. Within our engagement we will consider the following objectives:

1. Digital strategy: does the company have a sound digital strategy that is integrated throughout the organisation?
2. Sector collaboration: is the company working together with stakeholders to optimise benefits and mitigate risks coming from digitalisation?
3. Innovation management: how does the company use digitalisation to both optimise its processes and in new product development?
4. Sales and marketing strategy: how does the company use digital technology to improve the quality of its sales and marketing processes?
5. Cybersecurity: is the company aware of cybersecurity risks and is it doing everything in its power to mitigate those risks?

As with all material ESG issues, we believe that engaging with health care companies will push the sector forward, and will also help us to select for investment portfolios those companies that have a healthy future. **FS**

Notes

1. https://www.ipsos.com/en/covid-diet-and-health#:~:text=A%20third%20of%20the%20population,on%20an%20additional%206.1kg
2. https://www.robeco.com/en/insights/2021/02/si-opener-the-meat-supply-chain-is-a-major-threat-to-global-health.html
3. https://www.robeco.com/en/insights/2020/07/sugars-role-in-coronavirus-fatalities.html