

# exploiting global megatrends

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**Wendy Appleton**, Head of Strategic Partnership Sales for Pictet Funds in the UK, explains how they seek to identify investment opportunities in timber, water and clean energy.

Global themes are subject to persistent, long-term changes influenced by factors such as demographics, lifestyle, regulation and environment. We call these changes 'Megatrends'.

We believe that the basis for successful theme investment lies in identifying these Megatrends which have potential for excellent long-term growth, irrespective of short-term or speculative fluctuation.

## timber

For centuries, wood has been the main material used by mankind for construction and energy. The past years have seen strong demand for timber products, confirming a steady, rising trend. A number of factors will continue to drive demand.

Forests will once again become key strategic and environmental resources.

As the standard of living in the emerging markets improves, demand for finished and semi-finished products, paper and personal hygiene goods, will increase. Furthermore, there is renewed interest in timber from consumers in developed countries, who are using it as building materials due to its superior properties in terms of energy efficiency, versatility and recyclability.

The relationship between worldwide population growth and demand for

timber products is almost linear. The expected growth in world population will continue to support demand for wood products on the one hand, whilst putting pressure on remaining forest areas on the other. It is this inverse effect that explains why forest resources will again become a key environmental resource in the future.

Today forests cover a third of our planet. Worldwide deforestation continues at an alarming rate, around 13 million\* hectares per year (approximately the size of Greece). One solution to meet the ever-growing demand is to source from planted forests. Improved and more intensive forest management practices may prevent a potential shortfall and although planted forests are expanding rapidly, they may be insufficient to



offset the growing consumption; even the fastest growing plantations take several years to reach maturity and require large capital investment.

Timber is an asset that will continue to grow whatever the conditions; its biological growth is both steady and continual irrespective of macroeconomic conditions. ●●

\*Source: Forest Resources Assessment 2005.

# clean energy

With expected growth of 53%\* in global energy demand between now and 2030, the world could one day be faced with an energy shortage.

Oil production may decline within just a few decades and to compensate for this growing scarcity and risk of price increases it has become necessary to develop technologies that improve energy efficiency and diversify the current range of energy supply.

Renewable energies are among the best alternatives being contemplated. There are, for example, greater reserves of natural gas than oil, and the former gives off approximately 40% less CO<sub>2</sub> than coal, the worst polluter of all. However, even coal in its clean form could one day be an interesting source

of energy if promising carbon capture technologies become economically viable.

Over the next few decades, every country will be forced to come to terms with major energy-related challenges: reducing CO<sub>2</sub> emissions, ensuring the right balance between supply and demand and guaranteeing independent energy supplies. While discussion of these issues is by no means new, there is now widespread realisation of the need to act fast.

Currently oil and coal are the worst offenders as far as CO<sub>2</sub> emissions are concerned, constituting 60%\*\* of our energy supply. Renewable energy sources (hydroelectric, wind, solar, geothermal, biofuels, etc.) emit no,



or very little, CO<sub>2</sub> and have the advantage of being locally available and inexhaustible. Many governments now want to regain control of their energy supplies and encouragement is being given to energy sources that reduce CO<sub>2</sub> emissions. ●

\*Source: International Energy Agency, World Energy Outlook 2006

\*\*Source: Fuel Shares in World Total Primary Energy Supply ('06) - IEA Statistics in Renewables Information 2008.

# water

In the industrialised world alone, the current level of investment in distribution and treatment of drinking water represents only 40%\* of what is actually needed based on the annual increases in international water consumption, ie twice the level of population increase.

In the USA, for example, investment of over \$500 billion will be needed over the next twenty years to modernise the outdated distribution network. In London, it is estimated that it will take two hundred years to completely renovate the sewerage network, most of which dates back to Victorian times.

Applying European Union Water and Waste Water Directives in Central and



Eastern Europe will require investment of €330 billion to renew ageing water systems. More generally, half the population does not have access to adequate water supplies nor sanitation facilities, which means that demand for treatment services will increase in parallel. As public services are no longer succeeding in maintaining service levels, only private sector finance and technology are able to bridge the gap between the existing systems and tomorrow's requirements.

The Pictet Funds (LUX) Water Fund was created on 20 January 2000, two years prior to the UN Summit on Sustainable Development in Johannesburg. The first known investment fund in the water sector, initially considered with a certain scepticism by investors, who considered it to be a niche product or overly specific, it is now the world's biggest fund of its type with over £1.8 billion of assets under management (at December 2008). ●

\*Source: Global Water Intelligence 2006/Pictet.

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