

Theme-based investing: Equal opportunity, education and security

Investment idea - Series - "Investing in the green and social transition" - Part 4



SOCIAL ASPECTS ARE JUST AS IMPORTANT AS ENVIRONMENTAL ISSUES WHEN IT COMES TO SUSTAINABILITY. EQUAL OPPORTUNITY, EDUCATION AND SECURITY IN THE BROADER SENSE PLAY AN IMPORTANT ROLE IN OVERALL ECONOMIC DEVELOPMENT. BUT THEY ALSO OPEN UP PROMISING OPPORTUNITIES WITHIN THE FRAMEWORK OF THEME-BASED INVESTING.

Note: This is the fourth study in the five-part series "Investing in the green and social transition" ([link](#)).

Equal opportunity, education and security are crucial to the proper functioning of society and the economy as a whole. The first two factors have been political and economic issues even before the advent of sustainability investing, yet much remains to be done in terms of equal pay for equal work (regardless of gender), discrimination against certain minorities, and access to basic and higher education for all.

Moreover, security is also an important aspect of sustainability since it relates to matters such as cybersecurity and food safety. Today's increasing number of hack attacks, in many instances on system-critical infrastructure, pose a threat to society and the sustainable development of the global economy.

In view of the necessary, publicly endorsed investments aimed at addressing these problems, the three aforementioned topics are of interest not only to investors with a passion for sustainability.

Economic drivers: equal opportunity and education

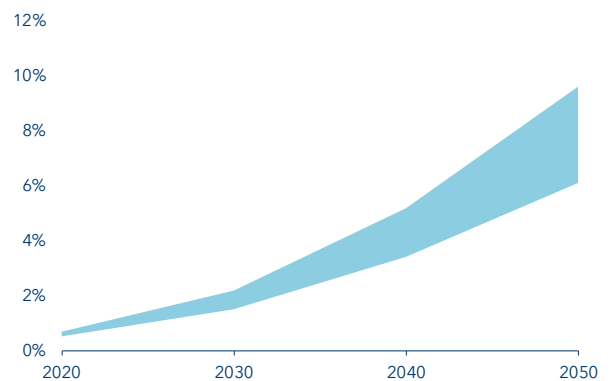
Equal opportunity for all and access to education are two aspects that go practically hand-in-glove. According to the United Nations Educational, Scientific and Cultural Organisation (UNESCO), two-thirds of all illiterate people are still women. Although equal opportunity encompasses more than just equal rights for women and men (minority and racial discrimination are also key factors), we have opted to focus on the former for the purpose of this study.

When it comes to gender equality, major regional differences can be observed. Generally speaking, women in developing nations are at a great disadvantage in terms of education and career choice. According to a 2018 report by the International Labour Organisation (ILO), around three out of four working women in Africa were employed in poorly paid, informal jobs outside the agricultural sector. In industrialised countries, the focus is more on the unequal pay and absence of women in highly remunerated and top-level positions. In 2019, the gender pay gap in OECD countries was still vast at an average of 12.5%, with South Korea showing the widest discrepancy (31%).

The European Institute for Gender Equality (EIGE) points out the many positive effects of equal opportunity. It maintains that a higher degree of equality in the workforce could add some 1.95 to 3.15 trillion euros to EU economic

growth by the year 2050 (see chart). This boost to gross domestic product would be attributable to the increased number of working women and their presence in higher-paid professions such as IT and engineering. In this scenario, up to 10.5 million new jobs would be created by 2050, presumably 70% of which would be filled by women. By logical extension, men should also come away winners from equal opportunity: especially in view of the unfavourable demographic trend in the coming years (e.g. the ageing population) and its effect on the economy, the goal needs to be one of adding as many people as possible to the workforce.

Per capita GDP growth in the EU as a result of equal opportunity



Sources: EIGE, VP Bank

The equal treatment of male and female employees also has a positive impact on companies. According to data provider MSCI, business productivity tends to increase in line with the number of women in management. And ultimately, these employers are more attractive to highly qualified applicants. Larger companies, from high-tech enterprises to banks, have recognised this fact (or are at least being compelled by law to do so, for instance in Switzerland). One example is the Swiss Bank UBS, which has the declared goal of filling 30% of its senior positions with women by 2025. Women today constitute a sizeable proportion of the overall workforce, yet they are still underrepresented in management at many companies. This is now in the process of being rectified.

Few companies profit directly from equal rights, but the providers of childcare facilities certainly do: since both parents work, childcare is a necessity. Alas, facilities of that nature are rarely if ever listed on a stock exchange. Therefore, share selection in this regard needs to build upon corporate governance considerations. Criteria such as equal pay or the proportion of women in senior management can be useful here, as well as an evaluation of programmes for promoting women's best interests within and outside the company.

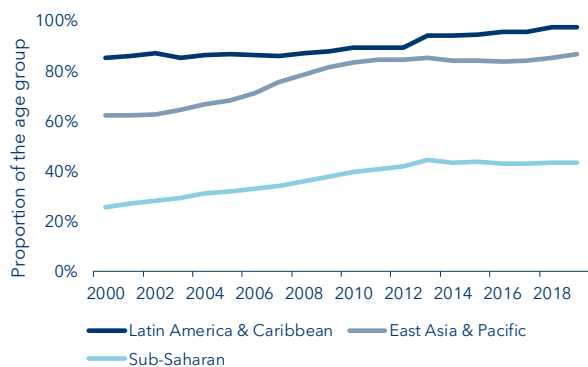
Equal opportunity also relates to the second aspect of social sustainability, namely education. Getting an education at all, and the quality of that education, are the decisive

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factors. They contribute to how a society develops and an economy grows. According to UNESCO, in 2017 around 64 million children in developing nations had no access to education. In the sub-Saharan region, close to two-thirds of the children have just completed primary school, and the trend is stagnating (see chart).

Enrolments in schools of higher education, by region



Sources: UNESCO, VP Bank

The ultimate level of education also presents a problem: scientific studies have shown that, with each additional year of education, personal income increases by 9% to 10% on a global average and thereby promotes overall economic growth. Ergo, the more people that have access to low-cost quality education, the greater the benefit to the world as a whole.

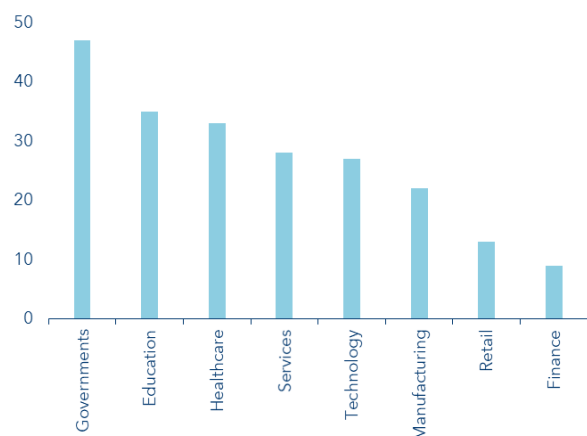
In the industrialised nations, the concern is more about the quality and accessibility of ongoing education. Technological progress requires that the workforce be more highly skilled; fewer jobs are offered for the poorly educated. However, new digital solutions such as e-learning apps and virtual classrooms are helping to improve the situation. An unforeseen side-effect of the coronavirus pandemic is that it acted as a catalyst for the education sector. Without companies like Blackboard that offer virtual learning environments, home-schooling would hardly have been possible. And given the proper infrastructure, such technologies can represent a golden opportunity for educationally disadvantaged rural regions across the globe. However, education is not merely limited to pre- and post-graduate textbook learning, but also extends to the job-specific advanced training of employees aimed at enhancing their skillset and productivity, or otherwise reorienting their career. In the USA, for example, many people have used the pandemic as an occasion to retrain and become IT specialists - this in keeping with Apple's mantra of "Everyone can program". Moreover, ed-tech companies such as Chegg were able to increase their turnover through online tutoring offers.

In summary, equal opportunity and education have been the cornerstones of economic growth in recent history and simultaneously opened up opportunities for companies to make their own contributions to this cause.

Security: imperative for growth

Sustainable growth is barely conceivable and hardly achievable without security. Yet security goes far beyond the armaments industry; in fact, the latter needs to be excluded from the universe of sustainable investments since many companies from the sector either deal in controversial weapons systems or are prone to questionable business practices (e.g. the circumvention of sanctions). Rather, the focus here is on cybersecurity, food supply safety and unimpaired access to potable water and food. Cybersecurity, as the catchall term for everything necessary to ensure the inviolability of digital interconnectivity, is a matter of serious concern to governments, companies and individuals alike. Whilst sovereign states are faced with the possibility of hack attacks by terrorist groups or rival nations, companies and individuals are targeted by competitors and criminals. For example, the 2021 ransomware attack on the Colonial Pipeline in the USA severely affected the Eastern Coast's energy supply for more than a week. A hacking group had blocked the company's IT systems and demanded money, with Colonial ultimately paying a reported USD 4.4 million to resolve the incident. Such cyberattacks cause trillions of dollars in damage every year. In 2021, the number of known ransomware cases increased by 25% worldwide compared to 2020.

Global number of ransomware attacks, by sector (as of November 2021)



Sources: BlackFog, VP Bank

As this example clearly demonstrates, physical infrastructure is just as vulnerable to hacking as is personal data. Attacks of this kind have led to financial resources being deployed for preventative measures rather than invested in other areas and innovations. Well-established as well as new providers of cybersecurity solutions such as Palo Alto Networks can be expected to benefit from this trend over the long term and are likely to record double-digit annual growth.

The second dimension of sustainable security, namely food safety, includes the processing, packaging and testing of produce, e.g. for germs. The Food and Agriculture

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Organisation (FAO) published a report in 2019, revealing that 420,000 people die each year as a result of illnesses caused by harmful ingredients and germs - things like biological pathogens (e.g. parasites or BSE) as well as food contaminated by chemical substances, including heavy metals. In addition to foodstuff analysis, other precautionary measures can provide a further wall of protection in future food cultivation and processing. For instance, automation and digitalisation offer the potential for increased food purity. Already today, vertical farms produce salads and other vegetables efficiently and with little human intervention. Moreover, the food industry is the cause of an enormous amount of packaging waste from the materials used to protect produce. A good 60% of all plastic waste in Europe comes from this obviously non-biodegradable type of packaging. However, new materials are being developed to protect the environment: Coca-Cola and other beverage producers are working on substitutes that are more sustainable, such as "bottles" made of paper. But ultimately, this is also a matter of reducing food waste in general. 1.3 billion tonnes of perfectly good food are thrown away each year, a little less than half of which even before it reaches retailers' shelves.

And last but by no means least, the third dimension of this topic centres on what the UN defines as "water and food security", i.e. reliable food supply and clean drinking water. This is of great concern to developing countries, but it also applies to the decrepit public utility infrastructure in certain industrialised nations.

UN studies have shown that almost one out of three people in the world still does not have access to clean drinking water, and every tenth person suffers from hunger. This is not only a humanitarian but also an economic problem, in that hunger leads to incomplete school education and shorter life expectancy, which in turn hinder economic development. In South Sudan, for example, one of the countries with the poorest food supply, the average life expectancy is less than 60 years. Investments are being made in effort to improve the situation worldwide, also with the support of the United Nations.

Danaher, a manufacturer of water purification systems, or hygiene company Ecolab can contribute to clean drinking water supply through their products and services. More secure and water-efficient food production solutions, such as vertical farms, would also provide opportunities for less-advantaged regions. After all, the FAO estimates that global food production will have to increase by 70% by 2050 compared to 2005.

Be it in regard to cybersecurity, food safety, or unimpaired access to potable water and a reliable food supply, unless

serious attention is paid to these aspects, global economic development in the 21 century could potentially fall short of expectations. To prevent such a negative scenario from materialising, sizeable investments are needed - investments that almost by definition will be of benefit to a select number of companies.

Summary

Equal treatment and education are not just two crucial conditions for sustainable economic development, they also afford opportunities for companies, whether through productivity enhancement or added revenues from the sale of related products and services. And although security in the broader sense represents a cost factor, it is indeed indispensable in today's world and consequently opens the door to long-term growth for companies that offer viable solutions. We suggest the following two funds as a means for investors to benefit from these evolving trends.

Pictet Security

With regard to the general theme of security, we recommend the Pictet Security Fund as a core investment. It is a targeted way to invest in companies that offer products and services relating to cyber security, surveillance systems, access controls, audits and inspections. Investors also benefit from a reliable and experienced investment manager with a successful 25-year track record. More information on the fund is available [here](#).

ETF UBS Global Gender Equality

As to the theme of equal opportunity and education, we recommend the ETF UBS Global Gender Equality as a portfolio addition. This ETF is a means to invest in companies that are at the forefront of gender equality, diversity and sustainability. More information can be found [here](#).

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