

An Introduction to Wellbeing in Emerging & Frontier Markets

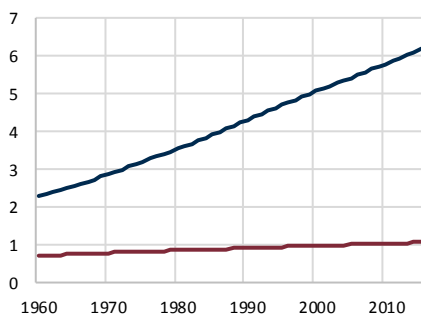


The economic impact of countries achieving a higher level of wellbeing can be profound. Citizens that live longer, better and healthier lives contribute significantly more to the economy than those who do not. Evidence from the OECD suggests that a 10% improvement in life expectancy at birth (a foundation of wellbeing) is associated with a rise in economic growth of 0.3-0.4% per year. The relationship of economics and health follows a simple cycle. Real income growth has historically made populations healthier; improving labour quality and increasing productivity. As more aggregate output is created for the same quantity of human capital, the economy will grow endogenously, which will result in additional real income growth.

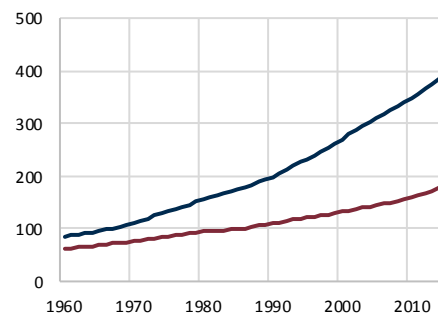
However, health systems across the world are facing difficult and complex issues. Rapidly ageing populations, a growing prevalence of chronic illnesses and lifestyle-related diseases, an overuse of vital health products (e.g. antibiotics) and stressed fiscal budgets are placing significant pressures on our health systems. People in emerging and frontier markets are demanding more from their governments as rising incomes and the rapid adoption of technology are resulting in a convergence of health expectations with high-income countries. Additional problems such as poor health infrastructure and burgeoning populations make the task even mightier.

We refer to wellbeing as a state where individual health needs are met; resulting in people living longer, better and healthier lives.

Population (billions)



Population older than 65 years (millions)



— Emerging & frontier markets — Developed markets

Source: World Bank

Despite these challenges, improving the wellbeing of citizens in emerging and frontier markets is an essential ingredient for long-term economic success and requires the coordination of governments and businesses alike to accomplish. Fortunately, wellbeing has become top of the policy agenda for many governments as both a social and economic issue, and for businesses that are realising the growth opportunity. For example:

- The number of people in emerging and frontier markets that receive universal health coverage (receiving necessary health services without suffering financial hardship) should nearly double by 2022 to over 60%.

Source: Internal

We expect India (1.25 billion people) and Indonesia (250 million) to achieve universal health coverage by 2019 and 2022, respectively.

Source: Internal

- China introduced a National Fitness Strategy in their last Five-Year Plan; addressing the problem at source rather than incurring the growing consequence of chronic illnesses and lifestyle-related diseases.
- Private hospitals in Malaysia and Thailand have become popular destinations for medical tourism as they offer comparable, and in some cases better, health services than in high-income countries for a lower cost; improving the local health systems as a result.

The global medical tourism market is expected to grow at a CAGR of 17.9%, reaching an estimated value of USD 32.5 billion by 2019.

Source: Transparency Market Research

It is clear to us that wellbeing will have a significant influence on governments, businesses and consumers around the world for the foreseeable future. As such, we will be exploring the topic of wellbeing through a series of articles over the quarter highlighting the many challenges and opportunities across the world. These include:

- **The Good, the Bad and the Ugly:** How emerging and frontier markets can learn from the achievements and mistakes of the past
- **From Soap to Supplements:** The state of wellbeing in emerging and frontier markets
- **Obese, Levitating & Immortal:** The future of wellbeing and its impact on the global economy
- **Wellinvest:** How to invest in the wellbeing phenomenon.

Before we begin, we should define *wellbeing*? We refer to wellbeing as a state where individual health needs are met; resulting in people living longer, better and healthier lives. It is important to note that wellbeing is neither a static nor universal state; but dynamic and relative to the health needs of the individual. Let us use soap as an example.

The average health impact of using soap in India is significantly higher than it is in Western Europe. Millions of lives are affected each year in India due to infectious illnesses, such as cholera and acute respiratory infections, that could be prevented by the use of soap. If made available and used, soap can have a material impact on the wellbeing of those people. On the other hand, Western Europe has safe drinking water, less environmental contamination and of course access to affordable soap so any additional usage would have little effect on health and little effect on wellbeing. Thus, soap will increase an Indian's wellbeing and have little or no impact on the wellbeing of a Western European. We can draw on other examples:

"Handwashing with soap can reduce the incidence of acute respiratory infections by around 23%."

Source: UNICEF

- **Insulin:** An estimated 10.6% of China suffers from diabetes with close to 1.3 million diabetes-related deaths in 2015 (0.10% of the population). On the other hand, Nigeria has one of the lowest prevalence rates with 1.9% and 40,815 diabetes-related deaths in 2015 (0.02% of the population). The immediate market demand for insulin in China greatly outweighs the market in Nigeria.

Source: International Diabetes Federation

- **Air pollution face masks:** Air pollution is estimated to have killed 6.5 million deaths worldwide in 2012. Using face masks can significantly reduce this health risk in polluted cities, such as Zhengzhou; one of the worst air polluted cities in China. However, it would have a smaller impact to users in Malaysia, one of the lowest air polluted Asian countries.

Source: World Health Organization and World Air Quality Index

"The estimated actual burden of cholera [in India] is in the vicinity of 3 to 5 million cases and 100,000 to 130,000 deaths per year."

Source: World Health Organization

As you can see, health products and services do not guarantee an improvement in wellbeing by their presence alone. They must meet a specific local demand which will improve the health of the user. Our research indicates that a country's population generally evolves from one health expectation to another. In its basic form, individuals prioritise in the following order: staying alive; living longer; achieving a better quality of life; and living a healthier life for longer. As health demands are met to achieve these results, wellbeing improves and expectations rise soon after.

We have selected a number of core indicators that highlight this development; in order of priority:

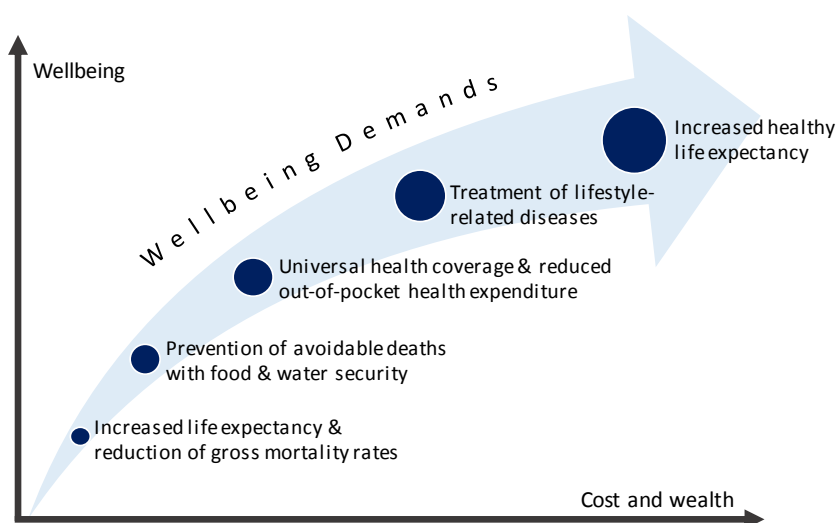
1. Increased life expectancy and reduction of gross mortality rates
2. Prevention of avoidable deaths with food & water security
3. Universal health coverage or reduced out-of-pocket health expenditure
4. Treatment of lifestyle-related diseases
5. Increased healthy life expectancy

We can illustrate wellbeing's development with the below curve:

Healthy life expectancy is the number of years of life expected to be lived in full health.

Source: World Health Organization

The Wellbeing Development Curve



Source: Internal

By analysing wellbeing in this way, we are able to monitor wellbeing on both a cross-sectional and time-series basis; as you will see later in the series. It is important to note that we do not believe the indicators above represent wellbeing entirely. However, data representing the other dimensions of wellbeing were not satisfactory as either their relevance, accessibility or credibility came into question.

As health expectations drive demand, it is possible to use *The Wellbeing Development Curve* to track and forecast what products and services are needed in each market. To illustrate how demands can differ from one place to another, let us compare Japan and Pakistan:

<i>2015 figures unless otherwise stated</i>	<i>Japan</i>	<i>Pakistan</i>
Life expectancy at birth (years)	83.7	66.4
Under-five mortality rate	0.3%	8.1%
Out-of-pocket health expenditure as % of total health expenditure (2014)	13.9%	56.3%
Probability of dying from lifestyle-related disease* between age of 30-70 (2012)	9.3%	20.5%
Healthy life expectancy at birth (years)	74.9	57.8

*Cancer, cardiovascular disease, chronic respiratory disease & diabetes

Source: World Bank and World Health Organization

The health expectations of people in Japan and Pakistan are widely different. On the one hand, Pakistan has one of the shortest life expectancies of a major country with extremely high mortality rates relative to the rest of the world. Due to this adverse health environment, Pakistanis demand health products and services that address these basic health issues: more hospitals, better maternal care, affordable access to food and water, tuberculosis vaccines and mosquito nets to prevent malaria.

Whilst on the other hand, Japan enjoys the longest life expectancy of anywhere in the world due to universal health coverage, which it has had since 1961, and high GDP per capita. Instead, the Japanese have demand for health products and services that treat lifestyle-related diseases with the hope of increasing healthy life expectancy, such as clopidogrel for heart disease or donepezil for Alzheimer's.

This example illustrates the disparity in health expectations of people around the world. Although this is likely the most extreme example, we have found distinguishable differences in countries which would be considered far more comparable.

As you can see from this short introduction, wellbeing is an important issue that extends beyond health and can have a profound economic impact. Over the next quarter we will be exploring the topic through a number of articles to provide investors with an understanding of the trends occurring; outlining both the challenges countries face and opportunities being seized upon by the private sector. We hope by the end of the series you will acknowledge wellbeing's significance to emerging and frontier markets, and incorporate it into your investment decision-making.

Next in the wellbeing series:

The Good, the Bad and the Ugly

How emerging and frontier markets can learn from the achievements and mistakes of the past

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