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# Quarterly Insights

Q4 2025

# The Demographic Dividend: Investing in Healthcare's Secular Growth Story

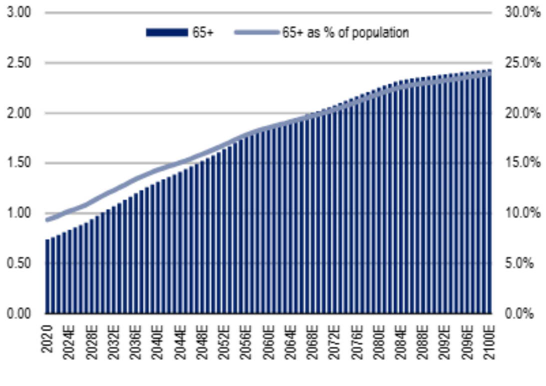
Global demographic shifts are creating unprecedented opportunities in healthcare and medical technology. A longer life expectancy incurs a major shift in the causes of mortality from infectious diseases and acute illness to chronic diseases and degenerative illnesses. An aging population, rising chronic disease prevalence, and increasing healthcare spending power in emerging markets represent a multi-decade trend that transcends economic cycles. For investors, this secular trend offers compelling investment opportunities across the healthcare value chain, from diagnostic equipment and surgical robotics to pharmaceuticals and biotechnology services.

**Quantifying the silver tsunami**

The global demographic transformation represents the most predictable macroeconomic trend of the next three decades. The UN projects that the 65+ population will increase from 771 million in 2022 to 1.6 billion by 2050, a 107% increase. More critically, the 80+ cohort will triple from 146 million to 426 million over the same period. This isn't merely about longevity, it's about the fundamental restructuring of healthcare demand.

The healthcare spending curve exhibits exponential characteristics by age cohort. Per capita healthcare expenditure increases for ages 65+. This creates a mathematical certainty: as population pyramids invert, aggregate healthcare spending accelerates regardless of per-capita income growth.

Global population aged 65+ rising from 10% to 16% in 2050E




**Source:** BofA Global Research, UN

**Sizing the disease burden**

Age-related conditions – diabetes, cardiovascular disease, cancer, and musculoskeletal disorders – are becoming endemic. According to the National Institute of Health (NIH), some 80% of older adults have one chronic condition, and 50% have two or more. Those diseases are responsible for 74% of deaths globally.

Diabetes prevalence is increasing rapidly, with 85% of cases occurring in those over age 45. Cardiovascular disease demonstrates similar age correlation, with risk increasing 4-fold from ages 40 to 60. Cancer incidence rates rise a dramatic 100-fold from ages 20-49 to ages 65+. Hip and knee replacements, cataract surgeries, and cardiac procedures are experiencing sustained double-digit growth rates.

Globally, 430 million people or over 5% of the world population suffer from some form of hearing loss and at least 2.2 billion people have a vision impairment or blindness, of which at least 1 billion handicaps that could have been prevented or has yet to be addressed, and roughly 37% of elderly citizens' vision remain uncorrected.

**Economic multiplier effects**

In developed economies, healthcare spending grows 20-60% faster than GDP. Combined with demographic pressures, this creates compound growth dynamics. The US healthcare market of $4.1 trillion in 2022 is growing to a projected $6.8 trillion in 2030, representing a compound annual growth rate of 6.6%. Globally, the healthcare market expands from $10.9 trillion in 2022 to an estimated $15.1 trillion in 2030, driven 60% by demographics and 40% by innovation. European healthcare spending, currently 9.9% of GDP, is projected to reach 13.2% by 2050 purely from demographic pressures.

China's healthcare expenditure per capita of $935 in 2022 remains 85% below OECD averages despite rapid aging. As per-capita income approaches $20,000 – the inflection point for healthcare spending acceleration – the demographic dividend multiplies. Similar patterns emerge across Asia-Pacific markets.

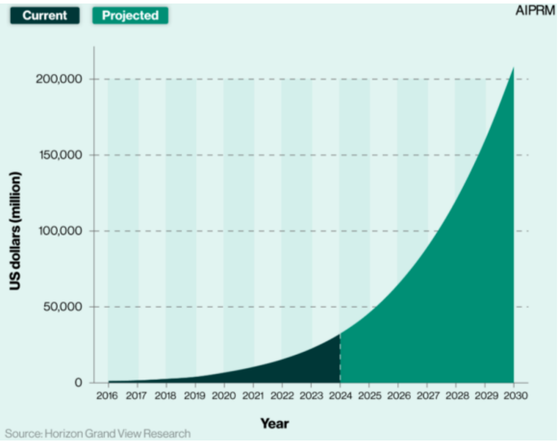
The convergence of aging populations with wealth accumulation creates a powerful economic engine:

- Healthcare spending typically doubles after age 65
- Emerging markets are experiencing simultaneous aging and income growth
- Government healthcare budgets are expanding to address demographic pressures
- Private healthcare spending is accelerating in developed markets

**Technology acceleration and AI integration**

The convergence of demographic pressures and artificial intelligence creates unprecedented opportunities for healthcare efficiency and precision. The global AI in healthcare market, valued at $15 billion in 2022, is projected to reach $148 billion by 2029 – a 45% compound annual growth rate driven by demographic necessity.

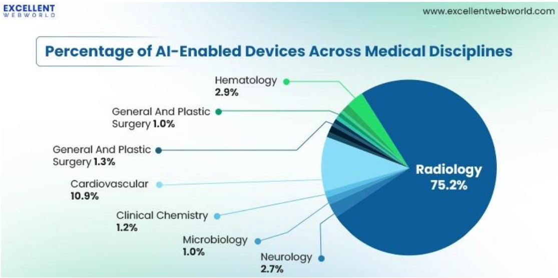
Global AI healthcare market is expected to grow by 524% from $32 billion to $208 billion between 2024-2030




AI algorithms now demonstrate superior diagnostic accuracy across multiple domains. Google's DeepMind achieves 94.5% accuracy in eye disease detection compared to 91.4% for human specialists. Cancer detection algorithms show 99.5% sensitivity rates, reducing false negatives by 85%, while AI algorithms identify lung nodules with 95% accuracy, enabling earlier cancer intervention.

Next-generation surgical platforms integrate AI for autonomous decision-making through computer vision systems that provide real-time identification and guidance. Predictive analytics enable pre-operative planning algorithms that optimize surgical approaches based on patient-specific anatomy. AI-enhanced haptic feedback systems provide surgeons with superhuman precision capabilities. AI platforms are also compressing traditional 10-15 year drug development timelines, and AI agents could help fill the 10 million global health worker shortage expected by 2030.

AI-enabled medical devices are rapidly gaining traction in certain disciplines




## Investment implications

Healthcare represents the ultimate non-cyclical growth sector, supported by powerful secular trends. AI integration amplifies this advantage. The sector offers:

**Defensive Growth Characteristics:** Healthcare spending continues even during recessions as medical needs don't disappear with economic stress. Companies in this space often demonstrate remarkable earnings stability through various market cycles.

**Pricing Power:** Unlike many industries facing deflationary pressures, healthcare companies often possess a degree of pricing power due to the life-critical nature of their products and services. This translates into sustainable margin expansion over time.

**Innovation Premium:** The sector attractively rewards innovation with patent protection and regulatory barriers, creating sustainable competitive advantages for market leaders.

This combination of defensiveness, sustainable competitive advantages and attractive growth prospects aligns well with our investment strategy, explaining our portfolio's overweight exposure to the sector.

## Beneficiaries of the Great Demographic Shift

### EssilorLuxottica: The Vision Ecosystem

EssilorLuxottica (EL) is evolving from an eyewear leader into a global sensory-health platform, positioned at the crossroads of aging demographics, digital lifestyles, and healthcare innovation. With ~25% global market share, EL controls the most comprehensive vision-care ecosystem worldwide.

The structural drivers are clear. Presbyopia affects all individuals over 45, myopia prevalence is set to reach 52% by 2050, and digital eye strain impacts 76% of adults. These trends underpin steady, long-term demand for advanced lens technologies.

Innovation fuels EL's growth. Stellest lenses open a

$28 billion pediatric myopia management market, with trials showing a 67% reduction in progression, creating a durable, recurring revenue stream tied to annual replacement. Meanwhile, Nuance Audio integrates discreet hearing aids into prescription eyewear, tapping into a $45 billion market opportunity linked to the 466 million people with disabling hearing loss.

EL’s vertically integrated model, spanning lenses, frame manufacturing, retail distribution, and digital health, delivers cost advantages and rich consumer insights. This combination supports precision marketing, product innovation, and enduring brand loyalty.

**Intuitive Surgical: Robotics Revolution in Surgery**

Intuitive Surgical has created an entirely new category of surgical intervention through its da Vinci robotic systems. With over 7,500 systems installed and a commanding 60% market share in robotic surgery, Intuitive Surgical exemplifies how demographic trends create sustainable competitive advantages.

The company's business model is attractive: high-margin capital equipment sales followed by recurring revenue from instruments and service contracts. Each procedure generates $2,000-3,000 in consumable revenue, creating a predictable revenue stream that grows with procedure volume and new machine placements.

Aging demographics drive growth through increased surgical volumes, particularly in procedures where robotic assistance provides clear patient benefits: less invasive, shorter hospital stays, reduced complications, and faster recovery times. As healthcare systems face capacity constraints, robotic surgery's efficiency advantages become increasingly valuable.

**Stryker: Orthopedic Innovation Leader**

Stryker dominates the orthopedic device market with leading positions in joint replacement, trauma care, and spine surgery. The company's success stems from continuous innovation, strong surgeon relationships, and operational excellence across manufacturing and distribution.

The opportunity for Stryker is particularly compelling given the direct correlation between age and orthopedic interventions. Hip and knee replacement procedures are projected to grow 85% and 189% respectively by 2030, driven primarily by aging baby boomers. Stryker's Mako robotic platform is differentiated in joint replacement, offering enhanced precision and improved outcomes.

Beyond demographic tailwinds, Stryker benefits from the premiumization of orthopedic care. Patients increasingly demand the latest technology and best outcomes, supporting the company's innovation-focused strategy. The company's diversification into neurotechnology and medical devices provides additional growth opportunities while reducing dependence on elective procedures.

**Lonza: Biomanufacturing Excellence**

Lonza represents a pure play on the biotechnology revolution transforming modern medicine. As one of the world's largest contract development and manufacturing organizations, Lonza provides critical manufacturing services for pharmaceutical and biotech companies.

The company's strategic positioning is valuable in an era of personalized medicine and complex biologics. Cell and gene therapies, which represent the future of treating previously incurable diseases, require specialized manufacturing capabilities that Lonza has spent decades developing.

Demographic trends favour Lonza through increased demand for innovative therapies targeting age-related diseases. As pharmaceutical companies develop more complex biologics and personalized treatments, the specialized manufacturing expertise becomes increasingly valuable. The company's long-term contracts and high switching costs create resilient revenues with attractive margins.

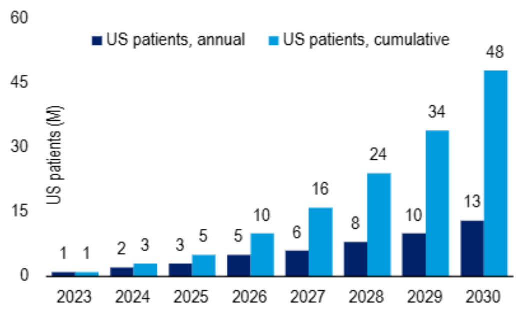
**Eli Lilly: Pharmaceutical Innovation Powerhouse**

Eli Lilly exemplifies how pharmaceutical companies can capitalize on demographic trends through innovation in high-growth therapeutic areas. The strategic focus on diabetes, immunology, oncology, and neurodegeneration directly addresses the disease burden of an aging population.

Eli Lilly 's dominance in GLP-1 for diabetes and weight management demonstrates the company's ability to develop transformative therapies addressing massive patient populations. The global diabetes epidemic, driven by aging and lifestyle factors, represents a multi-hundred billion dollar market opportunity. GLP-1 reducing obesity could save US healthcare $1.5tn over 30 years. Similarly, the company's Alzheimer's disease program addresses one of the most pressing unmet medical needs in an aging society.

By 2030, more Americans could have tried GLP-1 than the entire Canadian population today

US patients on Anti-Obesity Medications (AOMs)




Source: BofA Global Research

The company's robust pipeline, with over 20 potential new medicines in late-stage development, positions it to benefit from continued demographic tailwinds. Lilly's focus on breakthrough therapies commands provides sustainable competitive advantages through patent protection and clinical differentiation.

### Boston Scientific: Minimally Invasive Cardiology

Boston Scientific has established itself as a global leader in interventional cardiology, particularly in structural heart, electrophysiology, and coronary therapies. Its growth has been fueled by a steady cadence of innovation, close collaboration with physicians, and a proven ability to scale complex technologies across global markets.

The company is positioned at the center of some of the most attractive long-term healthcare trends. Cardiovascular disease remains the world's leading cause of mortality, and the prevalence is set to rise with aging populations and lifestyle-driven risk factors. Boston Scientific's pipeline in left atrial appendage closure, transcatheter valve interventions, and advanced electrophysiology directly targets these high-burden diseases with minimally invasive solutions that improve survival and quality of life.

Beyond demographic tailwinds, Boston Scientific benefits from the shift toward less invasive procedures, which reduce hospital stays and overall healthcare costs. Its diversified portfolio, spanning cardiovascular, endoscopy, urology, and neuromodulation, provides resilience while cardiology drives the company's growth engine. With a track record of margin expansion, disciplined capital allocation, and reinvestment into R&D, Boston Scientific is positioned to generate sustained revenue growth above 10%.

## Future growth prospects and investment considerations

### Structural Growth Drivers Amplified by AI

Each of these companies benefits from structural rather than cyclical growth drivers. The demographic transition creating their opportunity set is largely predictable and spans multiple decades. Unlike technology disruption that can quickly obsolete existing business models, demographic change creates sustained, visible growth trajectories. The convergence of secular trends linked to demographic change with artificial intelligence creates multiplicative rather than additive growth opportunities, with AI integration accelerating profitability trajectories and expanding addressable markets beyond traditional healthcare boundaries.

The global nature of demographic change provides geographic diversification benefits. While developed markets are further along the aging curve, emerging markets are experiencing rapid demographic transitions combined with healthcare infrastructure development. This creates a multi-stage growth opportunity as companies expand internationally.

### Addressing Recent Valuation Concerns

Despite compelling long-term fundamentals, many healthcare stocks have experienced significant price weakness due to policy concerns around drug pricing and potential tariff impacts. This disconnect between fundamental strength and market sentiment creates attractive entry points for long-term investors.

Political rhetoric around pharmaceutical pricing often creates market volatility that exceeds actual policy impact. Historical analysis shows that drug pricing policies typically target specific segments rather than broad-based price controls. Companies with innovative therapies addressing significant unmet needs often maintain pricing power despite regulatory pressure.

Current valuations reflect excessive pessimism about policy risks while undervaluing the sustainability of demographic-driven growth. Companies trading at reasonable multiples to their long-term growth rates present compelling risk-adjusted return opportunities. The combination of defensive characteristics, secular growth drivers, and temporary valuation discounts creates an attractive investment environment for patient investors. Healthcare's historical tendency to outperform during market volatility adds additional portfolio construction benefits.

## Conclusion: AI-amplified demographic dividend

The confluence of demographic transformation and artificial intelligence represents one of the most compelling secular investment opportunity in modern markets. Healthcare companies positioned at this intersection offer unprecedented combinations of defensive characteristics, predictable growth, and technology-enabled margin expansion.

Current market sentiment provides attractive entry points into high-quality businesses with sustainable competitive advantages. Demographic trends provide 20-30 year growth visibility, while AI integration creates opportunities for market share expansion and margin improvement that exceed historical healthcare sector norms. The temporary dislocation between fundamental business strength and policy concerns creates opportunity for investors willing to look beyond short-term volatility toward long-term demographic reality. The demographic dividend in healthcare is just beginning, which is reflect in our overweight portfolio allocation to the healthcare sector.

# Disclaimer