

Santander Prosperity

Report | 2Q23

(RED)EFINE HOW YOU INVEST

The investment you want for yourself, the future you want for all of us

Today's society faces challenges such as population ageing, expanding urbanization, and supplying food and drinking water for a growing world population. These challenges present investment opportunities for companies around the world that are building the society of the future.

Santander Prosperity is a global, multi-sector equity fund with a focus on long-term growth and profitability themes that contribute to improving our well-being as a society.



Focusing on profitable innovative companies that provide solutions to present and future challenges, attract capital and generate value, providing excellent opportunities for investors.

With a clear social objective. Because, in addition to generating wealth, these companies improve our society by obtaining at least 30%* of their revenues from activities related to the UN Sustainable Development Goals (SDGs).



Reflecting our commitment to help people prosper. By working with (RED), an organization whose objective is to combat the great pandemics of our time, Santander will donate part of the fund management fee to improving health worldwide.

Investment megatrends

Santander Prosperity invests in companies whose activities are grouped around three basic themes:

Health & Well-Being

An increasingly long-lived population, technological progress and the need to provide quality medicine at reasonable costs are some of the reasons behind the revolution in the healthcare sector and the rise of companies dedicated to ensuring health and well-being.

Food & Nutrition

Population growth and climate change are affecting both the demand for food and our capacity to produce it.

The food industry as a whole needs to be transformed to meet growing production needs sustainably.

Education & Financial inclusion

A growing middle class and accelerating technology during the pandemic have catalyzed an industry that is not only growing, but evolving. This is also one of the topics most directly related to the SDGs, as it has a greater social focus.

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Features of the portfolio

45,15MMUSD*

AUM

62

Number of Positions

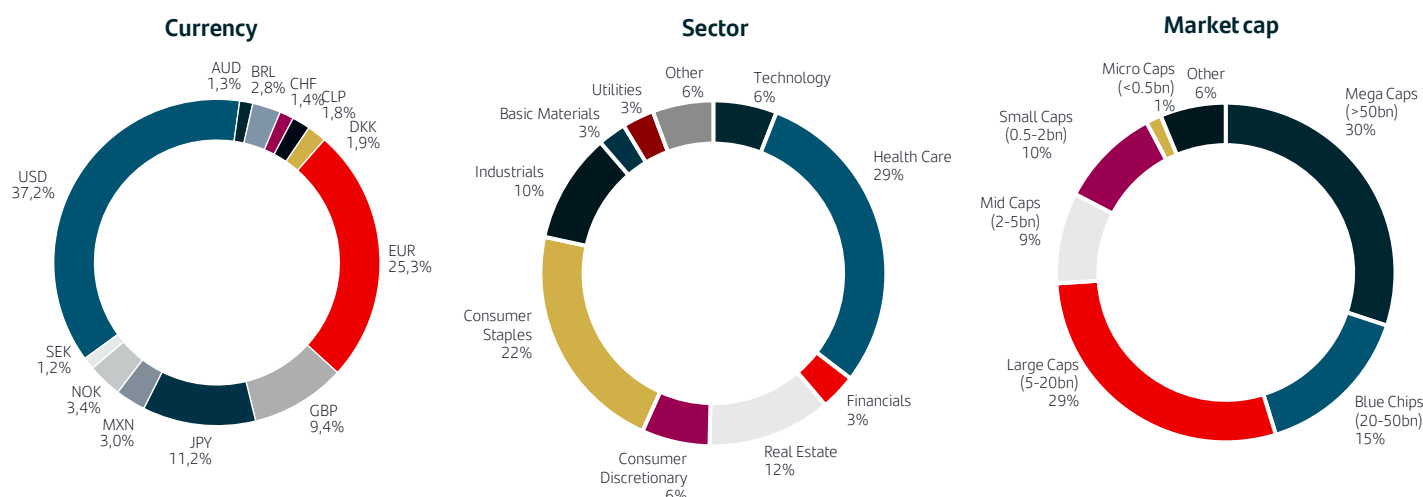
95,7%

Investment in equity

*Assets under management of the current strategy adding the vehicles of Luxembourg and Mexico.
Data as of June 30

Portfolio positioning

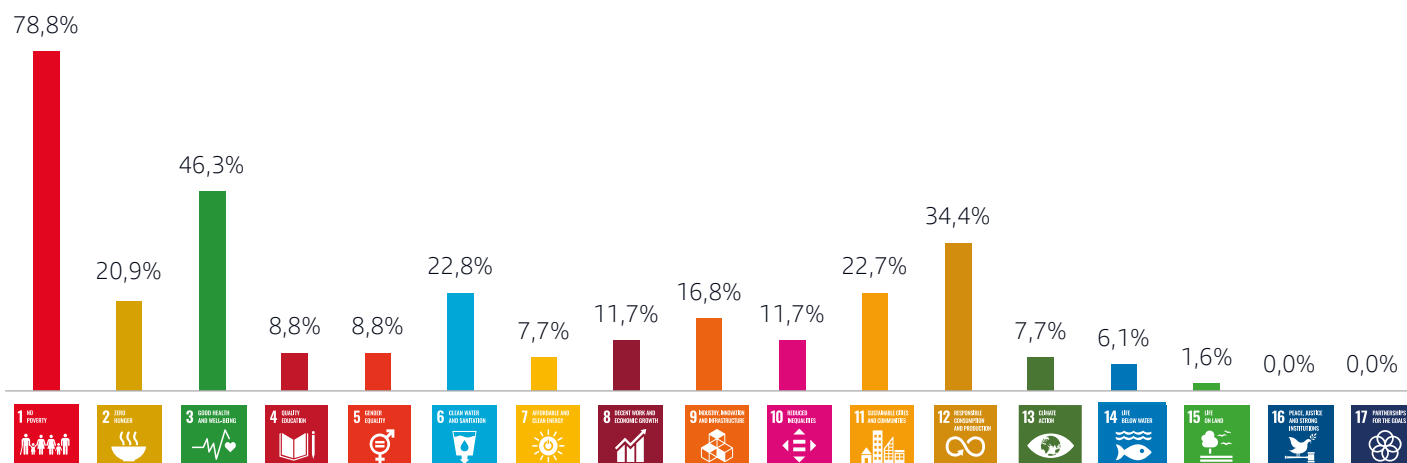
Sector Allocation, by Currency and company size



Exposure of the fund AUM across the 17 SDGs

Santander Prosperity invests in companies whose activities are grouped around three themes: Health & Wellness, Education & Financial Inclusion, and Food & Nutrition.

These three major societal challenges in which the fund invests are mainly focused on the following 6 SDGs: **Eradication of poverty**, **Good health and Wellbeing**, **Quality education**, **Gender equality**, **Decent work and economic growth**, and **Reduced inequalities**.



*The sum of the averages may exceed 100, as a company may contribute to more than one Sustainable development Goal (SDG).

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We have joined forces with (RED) to achieve a better future

The Global Fund's work in Latin America focuses on reducing inequalities and providing HIV prevention, care and treatment services.



Santander Prosperity was created in partnership between Santander Asset Management and (RED), the organization co-founded by Bono and Bobby Shriver, that fights to end global health crises like AIDS and the injustices that enable these pandemics to thrive. Santander Asset Management donates 15% of its management fee to The Global Fund which will support life-saving health programmes in Colombia and Guatemala.



Latin America is experiencing an increase in the number of new HIV/AIDS cases and Colombia ranks fourth in the region in terms of the prevalence of this disease. In Colombia and Guatemala, humanitarian crises and worsening unrest and poverty have caused health coverage gaps, and lack of access to preventative and health services. In 2022, Colombia ranks second highest in Latin America and Guatemala ranks second highest in Central America in terms of new HIV infections.

The Global Fund's work in Colombia focuses on reducing inequalities and providing HIV prevention, care and treatment services to historically underserved populations, including people living in poverty and migrant communities, sex workers, and the LGBTQ+ community.

The Global Fund and Santander also prioritize funding in Colombia and Guatemala that provides pregnant women with health services to prevent mother-to-child transmission of HIV. These services include including HIV testing, treatment, and peer support to pregnant women.



Some of the projects currently under way in Colombia are:

Centro Intégrate, in Cartagena

The center is one of the many facilities supported by Santander Prosperity, a first of its kind social investment fund created in collaboration between Santander Asset Management and (RED). The Center serves as a full-service facility that provides psychological and physical healthcare to some of the city's most vulnerable populations, including migrants and the LGBTQIA+ communities. In addition to in-house programs, the Center also relies on a team of community health workers to provide in-home visits and increase awareness about the Center's services in neighborhoods with little access to care. Some of the most critical programs supported include HIV prevention, testing and treatment; maternal, newborn, and child health services; and support for victims of gender-based violence.



Steven, one of the outreach workers supporting the LGBTQIA+ community receives his own routine HIV test at the Center.

Hospital La María, in Medellín

It was founded 100 years ago with a focus on treating people living with leprosy and tuberculosis. In the last century, the hospital's services have expanded dramatically to provide comprehensive care across 35 specialties for Colombians and migrants, including a robust program for people living with HIV, which is supported by Santander Prosperity. For example, Margarita, pictured below, migrated from Venezuela seeking a better life. When she arrived in Colombia, she was pregnant and because she had access to free maternal health services, she was tested for HIV and diagnosed positive. Her doctors and nurses swiftly provided her with psychological support and linked her to personalized care so that she adhered to ARV medication for the duration of her pregnancy, which allowed her to deliver an HIV-free baby boy.



Margarita waits at the pharmacy for her supply of life-saving ARV medication, alongside her son who is a healthy, thriving 4-year-old.

INVESTMENT MEGATRENDS

Health & Well-being

We analyse one of the three investment megatrends in which Santander Prosperity invests.

Ensuring healthy lifestyles and promoting well-being for everyone, of any age, is important for building a prosperous society. These objectives pose a challenge for today's society, which is facing multiple challenges and structural changes, which also represent an excellent opportunity for growth.



Biopharmaceutical innovation is responsible for

35%

of the increase in life expectancy between 1990 and 2015

The birth rate will fall to

2,2

hijos live births per woman by 2050

Of the world population

65%

will be living in cities by 2050

It will be necessary invest up to

78

USD trillion in infrastructure over the next 10 years

The main challenges include:



Population ageing

Because of increased life expectancy and declining birth rates. The United Nations estimates that the number of people worldwide aged 65 and over will double between 2019 and 2050. This entails an increase in old-age dependency rates and a smaller working population, questions the viability of pensions, and will result in higher healthcare costs and increased pressure on government budgets. These structural changes can be mitigated partly by continuously improving medical care, increasing research and development, and minimizing health risks through healthier lifestyles. All these processes will be crucial in slowing the ageing process and extending the "health span".



Medical improvements

Improvements in medicine have led to lower mortality rates and longer life expectancy. **Mortality rates have declined because of, among other factors, medical progress, the development of vaccines and antibiotics, control of infectious diseases and other public health measures, which have increased life expectancy.** Many diseases that were once considered incurable are now treatable, thanks in large part to biopharmaceutical innovation, which has reduced the economic burden on the healthcare system and restored patients' living standards. Biopharmaceutical innovation is responsible for 35% of the increase in life expectancy between 1990 and 2015, according to a study by Health Affairs.



Falling birth rate

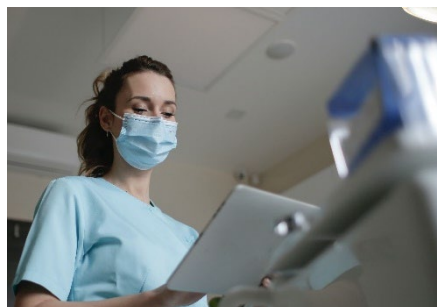
The birth rate has declined to below the replacement rate because of increased education, contraception for women, delayed marriage, changes in social norms, the economic cost, and increased female participation in the labour market. The United Nations estimates that, globally, the birth rate will fall to 2.2 live births per woman in 2050 and to 1.9 in 2100, from an average of 2.5 in 2019.

Another major target for 2030 is to end preventable deaths of newborn children and children under 5 years of age, the aim being to reduce neonatal mortality to at most 12 per 1,000 live births, and mortality in children under 5 to 25 per 1,000 live births.



Healthy lifestyles

The implementation of healthy habits contributes to better living standards and greater well-being in society. For example, the use of vegetable oils can help prevent cardiovascular disorders and poor eye health and improve nutritional intake.



Improved healthcare quality and accessibility

Improving healthcare services through the provision of health centres, as well as implementing hospital and diagnostic solutions that contribute to improving patient care and the quality of healthcare products and services.



Polarisation in Asia

Countries are facing the problem of ageing/low fertility and a declining working age population (China, Japan, South Korea, Taiwan) while others have a growing labour supply/lower dependency ratio (India, Philippines, Vietnam and Indonesia).



Africa's population growth

This will lead to an expanding labour force, increased regional/global migration, new consumption patterns, development of cities and increased global trade with the region. According to the International Labour Organization, 90% of the increase in the working-age population over the next 20 years will come from Asia and Africa.



Manufacture of clean label products

In order to improve the nutritional value of food and produce clean label products (i. e. that contain no artificial ingredients), the ingredients should be healthier. For example, with Para a lower salt and sugar content. Hygiene products also improve cleanliness, supporting health and well-being.



Quality, sustainable, secure and affordable housing

65% of the world's population will be living in cities by 2050, up from 55% today. This means that 2.4 billion people will move to cities. According to a UN report entitled "The Weight of Cities Resource Requirements of Future Urbanization", future urbanisation will require up to USD 78 trillion of investment over the next 10 years.



Solutions for people with special needs

Offer solutions such as housing that meets their needs appropriately or help them in their academic development.



Efficient, sustainable and affordable transportation services

Efficient transportation services are needed. Particularly in public transport.



Reduction of man-made disasters and modern hazards

The impact of disasters caused by humans or derived from modern society needs to be minimised

Focus on the companies in portfolio

GRIFOLS

Grifols is a Spanish company that is a world leader in the production of plasma-derived medicines, which account for around 80% of its revenues. From plasma, which contains proteins and other components of high therapeutic value, Grifols develops drugs to treat patients with chronic and rare diseases.

Its main therapeutic areas include: immunology, hepatology, intensive care, pulmonology, haematology, neurology and infectious diseases.



The outlook for Grifols is favourable for the following reasons

The plasma derivatives market is growing at a rate of 6%-7% per year, although there is talk of long-term growth of 8%-10%; and the barriers to entry are very high given the level of CAPEX-intensive infrastructure required to collect and process plasma, which is why this sector is an oligopoly.

Plasma collection has picked up since early 2022 and the trend is expected to continue due to the current macroeconomic environment. This will result in more donors seeking additional revenue from paid plasma donations and lower donor fees, which will improve margins due to the company's high operating leverage.

A sequential improvement in cost per litre, supported by the execution of the operational improvement plan (reduction of donor compensation, optimization of the plasma centre network, process optimization and implementation of efficient processes and digitalization).

The company has solid financial performance

Although the main problem is its high leverage resulting from acquisitions made to increase capacity, the company aims to lower debt ratios significantly by 2024. This objective will be achieved by boosting EBITDA and by divesting non-strategic divisions.



Novo Nordisk is a Danish biopharmaceutical company focused on diabetes, obesity, and coagulation and growth disorders.

The GLP-1 diabetes franchise (60% of NPV) will continue to be the main growth driver. The global GLP-1 market is expected to grow by 20% in 2023, but prescriptions are accelerating in the U.S. and Europe, with GLP-1 revenues estimated to reach USD 40 billion by 2026 and approach USD 50 billion by 2030. However, the insulin franchise (13% of NPV) has logged virtually flat sales in recent years.

Novo Nordisk recently launched Wegovy, a weekly injectable for treating obesity, which represents a major growth opportunity. It is estimated that there are 37.3 million diabetics in the United States, of whom about 80% are overweight; approximately 30% are obese, and about 16% are severely obese.

In addition, both treatments are undergoing an important paradigm shift as these patients' elevated cardiovascular risk is included in the diagnosis. If trial results are confirmed, this type of drug could qualify for reimbursement in the United States, which would enhance its future growth potential



The main objectives for 2025 are:

Achieve one-third of the world market

Attain more than USD 25 billion in revenues in obesity

Maintain solid growth in operating profit

Drive operational efficiencies in the value chain to allow for investments in future growth assets

Generate free cash flow to provide an attractive return to shareholders.



Unicharm Corporation is a Japanese manufacturer of female hygiene products and diapers for babies and adults. It is the market leader in Japan and has a strong presence in Southeast Asia, as well as a very solid growth rate worldwide, supported by recurring increases achieved in the past. As a manufacturer of personal hygiene products, Unicharm competes with companies such as Procter & Gamble (PG) and Kimberly-Clark (KMB). It is also developing a pet care products business in Japan and North America.



Unicharm revised its management strategy in 2020 in response to population ageing across Asia and refocused baby care resources on high-margin female care and healthcare, in a move that appears to set the stage for revenue and margin growth in the coming years.

The biggest risk at present is price competition: with commodity prices falling, there is a risk that the major global healthcare companies (PG and KMB) will change their pricing strategies, which would force Unicharm to do the same. However, it appears that they still need to pass on higher raw material costs in prices.

Although the pet care division is still small, it beat sales projections in the latest earnings report. It has also reported steady, solid growth in recent years.

The company has ambitious financial targets for the coming years. In 2023, it projects growth of +7% in revenues, an EBIT margin of +15.5% and ROE of +15%. It projects a +6.8% CAGR in revenues through 2030, when the EBIT margin will have risen to 17% and ROE to 17%.

It has formidable value-creation capacity, reflected in:

It's experience with population ageing in Japan

Its ability to accurately capture demographic trends and consumer needs in each of its regions

Its rapid product development capabilities and production efficiency.

Important information

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