

VONTOBEL

**Demographics
shifting: the
healthcare industry is
getting in shape**

**Solactive Healthcare Facilities
Performance Index**

June 2014

Performance creates trust

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2. Investment case

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Motivation

- Demographic change is affecting most industrialised countries worldwide
- According to UN figures, by 2050 one in three inhabitants of industrialised countries will be older than 60
- Ageing societies require more healthcare facilities and complementary services
- High market growth of private hospital operators and operators of specialised healthcare facilities in recent years
- Increasing privatisation of previously state-run facilities

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Ageing populations – above all in the industrialised nations

Ongoing shift in age structures in many industrialised nations in particular

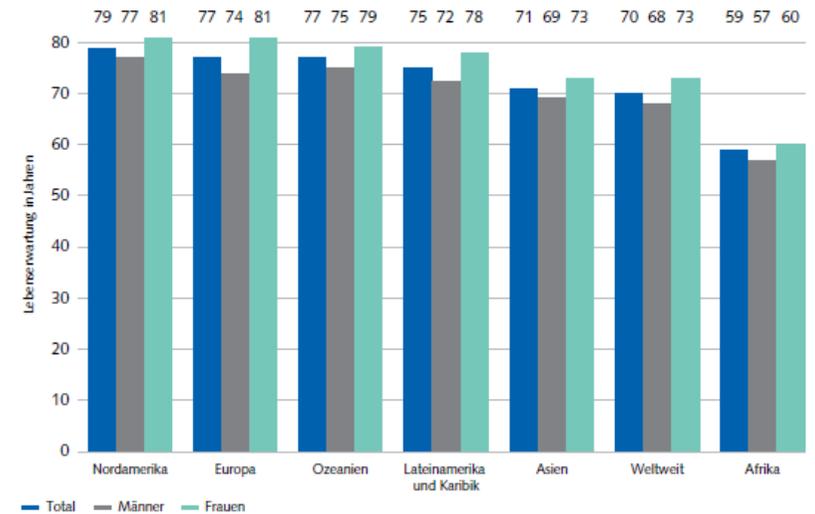
North America currently offers the best chances of having a long life, followed by Europe and Oceania.

This is attributable to medical progress and improved living conditions, but above all thanks to access to adequate healthcare provision



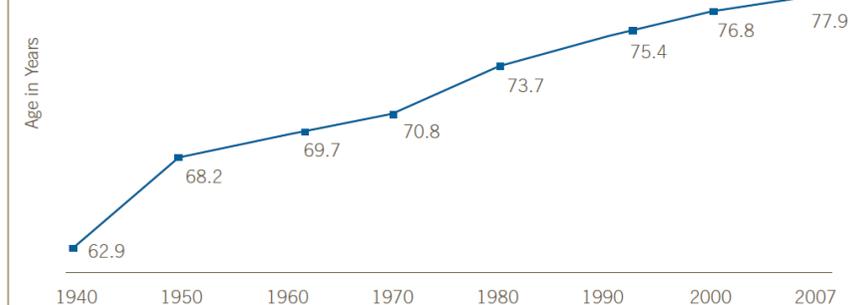
The result: as people live longer, typical age-related diseases become more common. Ultimately, the need for healthcare and the frequency of hospital stays increase.

Average life expectancy at birth in 2013



Quelle: Population Reference Bureau, World Population Data Sheet 2013

Medical advances contribute to greater longevity – US life expectancy at birth, 1940 - 2007

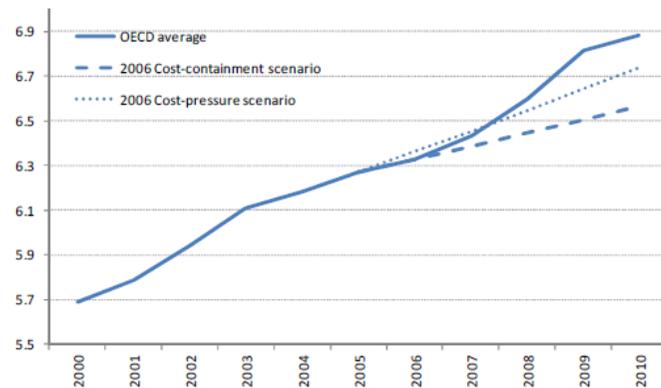


Source: National Center for Health Statistics. (2010). *Deaths: Final Data for 2007*. Hyattsville, MD. Access at http://www.cdc.gov/NCHS/data/nvsr/nvsr58/nvsr58_19.pdf.

Increasing explosion in healthcare costs in OECD states

Figure 1. Evolution of public health and long-term care expenditures¹

A. Comparison of actual developments and OECD (2006) projections
(in % of trend GDP²)

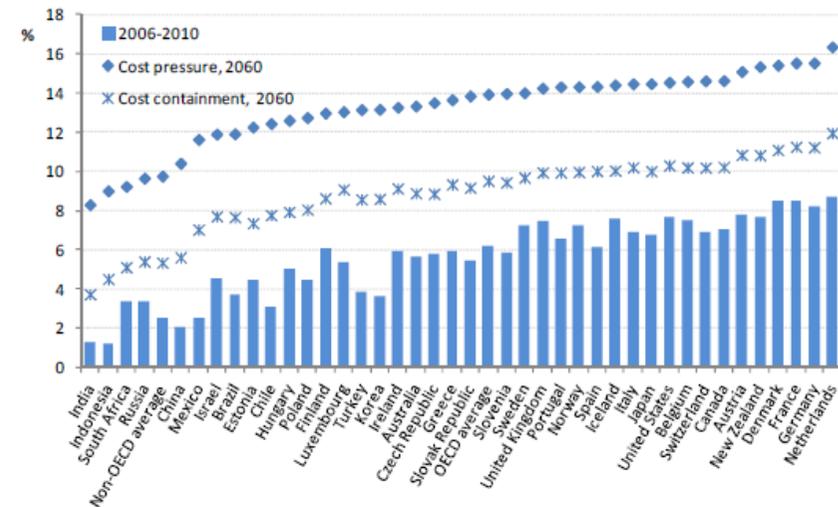


OECD trend

- Healthcare costs have been rising relative to GDP for years
- According to OECD estimates, health and care costs will continue to rise over the next 50 years
- The ratio of health expenditures to GDP will more than double by 2060, rising to 14% of GDP in the OECD

Figure 2. Total public health and long-term care spending ratio to GDP

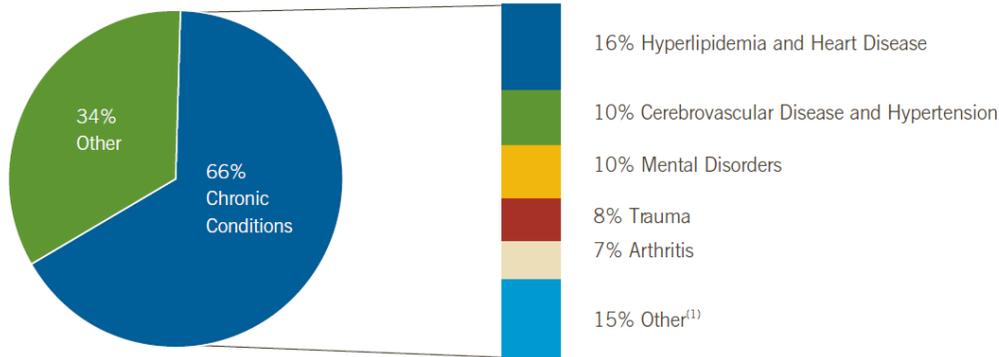
As a % of GDP



Driving forces

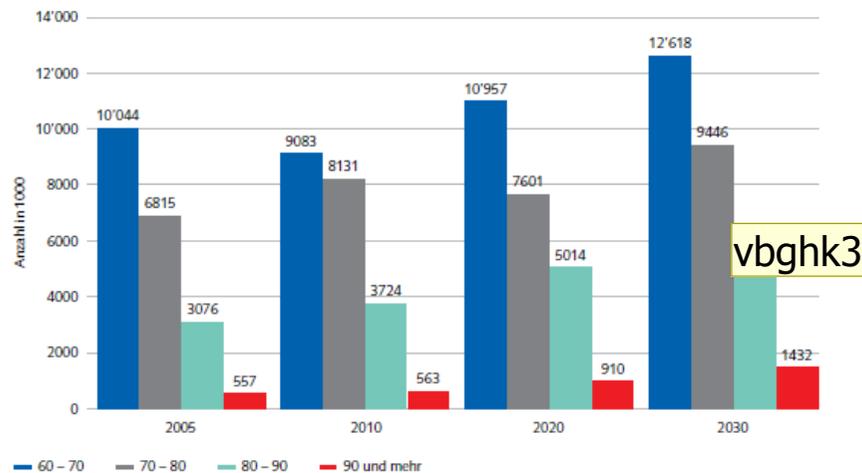
- Rapid ageing of western industrialised societies
- Increasing employment rates also among women (has an impact on healthcare requirements)
- Technological progress in medicine and rising incomes

Increase in chronic age-related disease a significant factor in the explosion of healthcare costs



Source: Thorpe, K., et al. (2006). The Rise In Spending Among Medicare Beneficiaries: The Role Of Chronic Disease Prevalence And Changes In Treatment Intensity. *Health Affairs*, 25(5), 378-388.
 (1) Other includes cancer, diabetes, and pulmonary conditions.

The US as an example: Chronic & typical age-related diseases accounted for **66% of the explosion** in healthcare costs over the period from 1987 to 2002



Quelle: Statistische Ämter des Bundes und der Länder, Demografischer Wandel in Deutschland, Heft 2, Seite 6

Germany as an example: Risk forecast regarding the prevalence of disease and care cases through to 2030. The **"young old"** form the largest group in terms of numbers, hence **age-related diseases** are likely to be most common in this age group.

Slide 7

vbghk3

Zeitangabe der Quelle fehlt.

vbghk; 05.06.2014

The healthcare industry has started to gear itself up

Various companies have already made initial preparations:

Example in Germany/EU:

Following its transaction with Fresenius/Helios, German hospital operator **Rhön-Klinikum** has been progressing with the **restructuring of its group** from a heterogeneous group of clinics to an integrated healthcare conglomerate.

Example in France/EU:

In a **deal worth billions**, **Korian** - the French operator of old peoples' homes and parent of Germany's Curanum - is on the verge of taking over the Medica group and thus becoming the European market leader.

Examples in the US:

Universal Health Services is among the largest profit-oriented hospital operators in the US. In terms of 2012 revenues, it ranked **fourth** and remained hot on the heels of the three **market leaders HCA Holdings, Community Health Systems** and **Tenet**.

Its **competitor Community Health Systems** mastered the crisis by doubling its bed capacity between 2003 and 2007, e.g. with the major acquisition of Triad Hospitals Inc., and became the **largest publicly traded chain of hospitals** in the country.

Healthcare is becoming more affordable...

Example in the US: The US hospital industry has traditionally been a rather lucrative business, with many facilities enjoying monopoly positions.

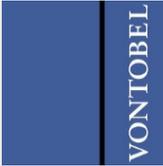
A few years ago, the industry saw itself confronted with **two primary causes of the explosion in costs:**

1. The massive increase in **age-related diseases**
2. **Healthcare costs exploded** since the number of uninsured people hit a record high, and the healthcare services billed to them were not paid.



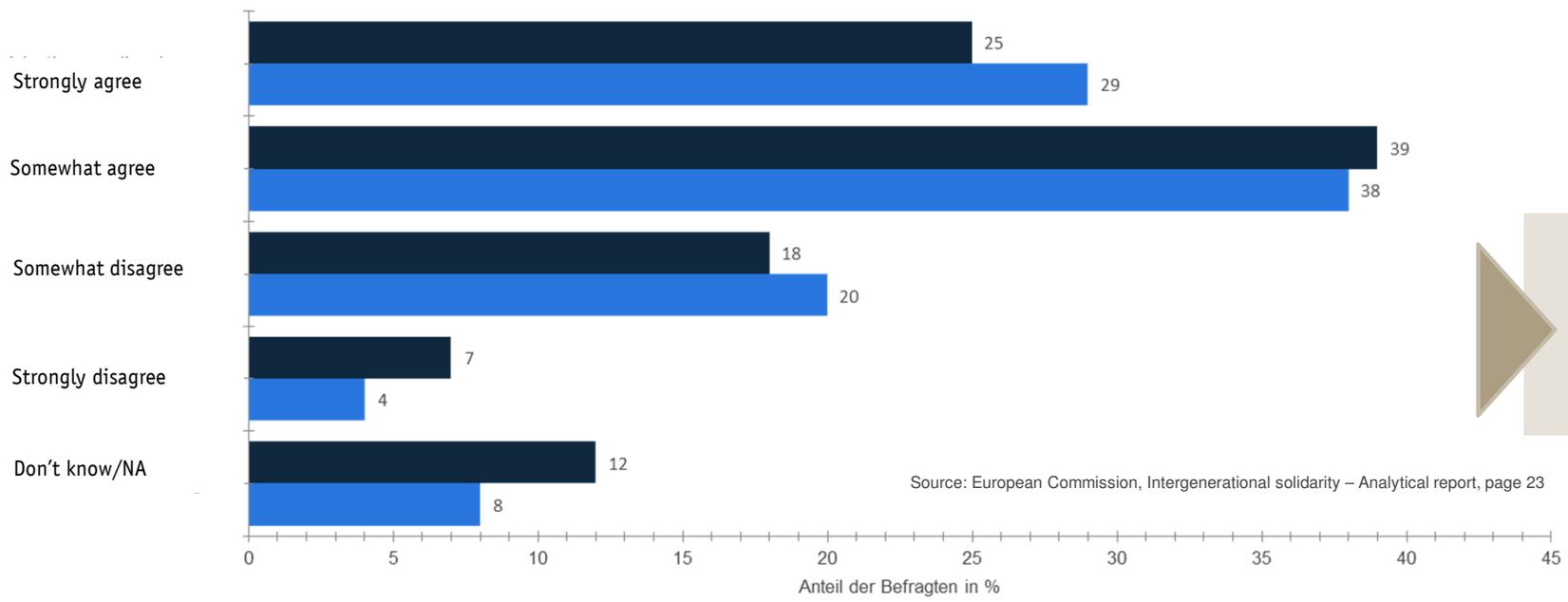
Thanks to the **ObamaCare reforms**, which govern the provision of medical services to the less well-off in particular, this negative trend will probably be brought to a halt.

A **study** showed that a clear majority of the Americans surveyed **expect positive effects from the reforms: 58%** believe **health insurance will become affordable**. **49%** believe **access to primary healthcare services** will improve.



... and consumption can be strategically focused

Will older people become a key driver of the economy? – survey results (Germany vs. EU)



Source: European Commission, Intergenerational solidarity – Analytical report, page 23

In the EU – and in Germany in particular – the majority appears convinced this is the case.

Summary:

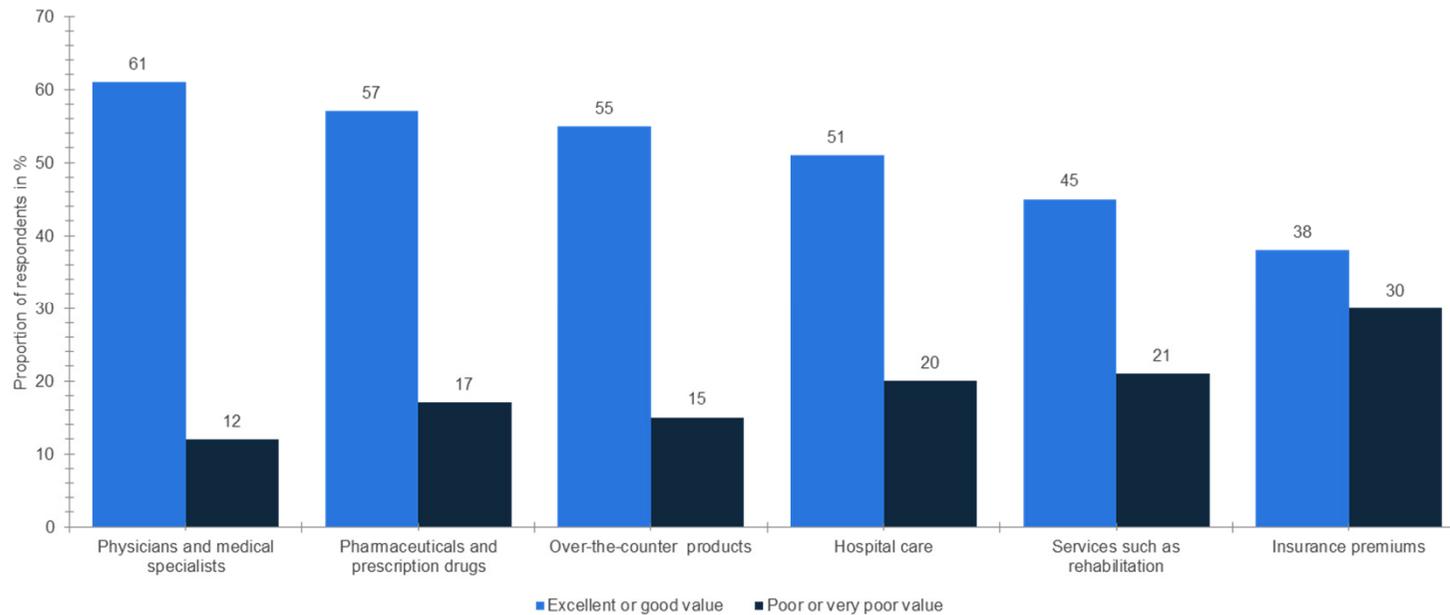
Intergenerational solidarity – Analytical report, page 23, April 2009

Older people have long since been seen as a lucrative target group.

As their economic importance increases, products and services are more keenly tailored to individual needs. This applies to the healthcare industry as well.

Demand for healthcare becoming increasingly active and deliberately focused

Survey results, US 2011: perceived quality of healthcare services when financed out of own pocket



In most cases, the perceived quality is rated as **excellent or good** if financed out of own pocket.

Source: Deloitte, The Public View of Health Care Reform, 2011

There is thus also an increasing **willingness** among people to pay for healthcare services themselves and thus **invest in their healthcare**.

Another factor not to be underestimated is the large numbers engaging in **"healthcare tourism" from regions of the world with less well developed facilities**: wealthy individuals from Asia or Africa often travel to the US or Europe to benefit from the good quality of healthcare provision.

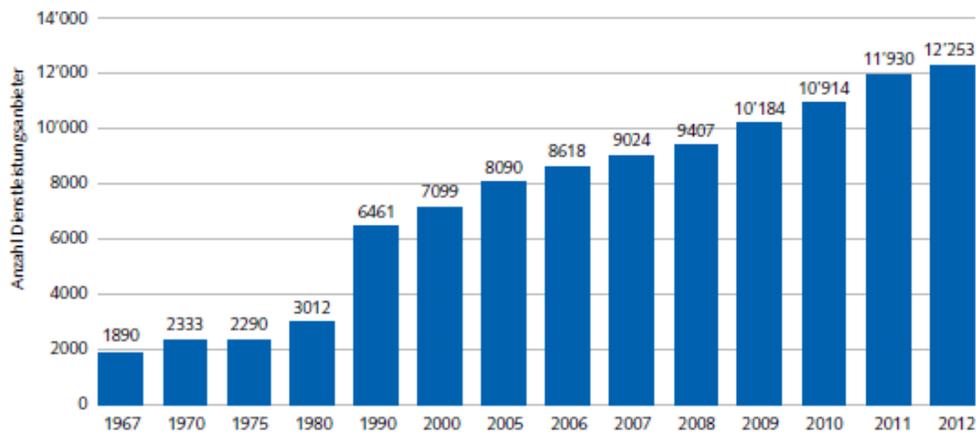
Demand for facilities with innovative care concepts

It's not just a matter of rising demand for services. There is also the question of **how facilities should be structured in the future.**

The **trend is towards new solutions for housing for the elderly.** A bright future is predicted here. Specifically, the focus is on alternative forms of housing such as

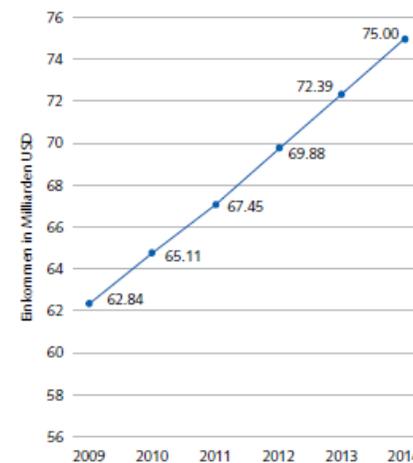
- sheltered residential communities and intergenerational homes
- housing with care services
- residential communities with people of the same age

Rising number of US service providers specialising in home care



Quelle: CMS, Annual Statistical Supplement to the Social Security Bulletin (2013)

Revenues of home care providers in the US



Quelle: IBIS World

The companies set to profit are those that **provide appropriate facilities** or **offer innovative and high-quality solution concepts** to corresponding facilities (e.g. special hospital and care facilities, old peoples' homes, mobile infrastructure providers).

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Composition and selection criteria

Composition

- The **Solactive Healthcare Facilities Performance Index** comprises operators of hospitals, specialised care institutions, and healthcare infrastructure companies.
- The index is adjusted **once a year**, on the second Friday in July.
- The index comprises **15 members**, which are equally weighted on the adjustment date.
- **Distributions** made by the index members are **reinvested**.

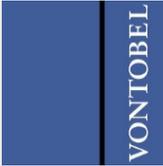
Selection criteria

- **Market capitalisation** of at least **EUR 1,000 million**.
- Average **daily trading volume** of at least **EUR 1 million**.
- Unlimited **trading**
- The share must be listed on a **recognised and regulated exchange** and belong to the **sectors** “hospitals, specialised care facilities and/or healthcare infrastructure companies”.

Index composition at initial fixing

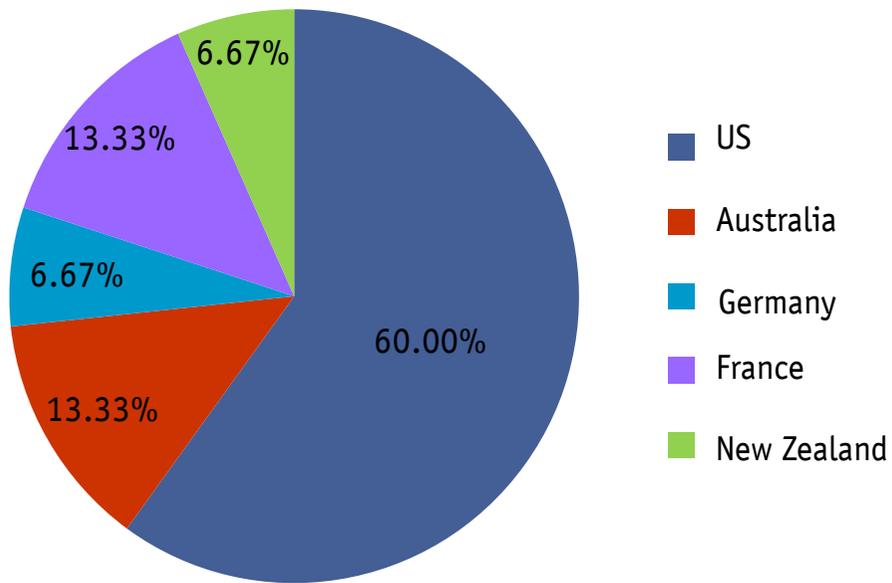
Company	Focus	Country
Acadia Healthcare Co. Inc.	Healthcare facilities	US
Brookdale Senior Living Inc.	Retirement homes	US
Community Health Systems Inc.	Hospital operator	US
HCA Holdings Inc.	Hospital operator	US
Healthisouth Corp.	Rehabilitation hospitals	US
Korian-Medica	Retirement homes / rehabilitation	France
Lifepoint Hospitals Inc.	Hospital operator	US
Molina Healthcare Inc.	Various, medical clinic	US
Orpea	Care homes, healthcare services, operating facilities	France
Primary Health Care Ltd.	Eye clinics, automated pathology	Australia
Ramsay Health Care Ltd.	Hospital operator	Australia
Rhön-Klinikum AG	Hospital operator	Germany
Ryman Healthcare Ltd.	Retirement homes	New Zealand
Tenet Healthcare Corp.	Hospital operator	US
Universal Health Services Inc.	Hospital operator	US

Source: Bloomberg, data as of June 2014

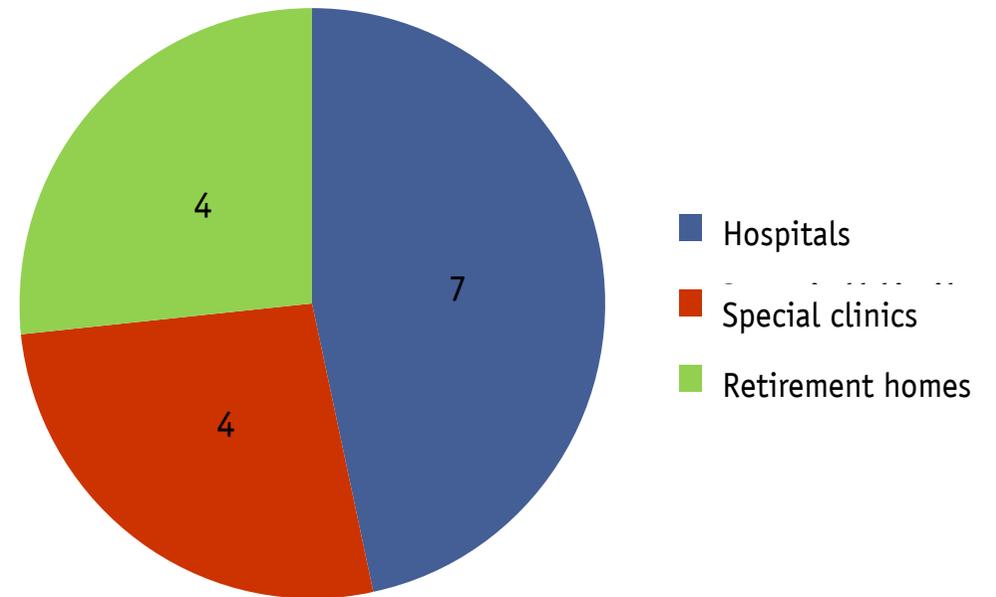


Country weightings and sector allocation at initial fixing

Weighting by country



Industry groups



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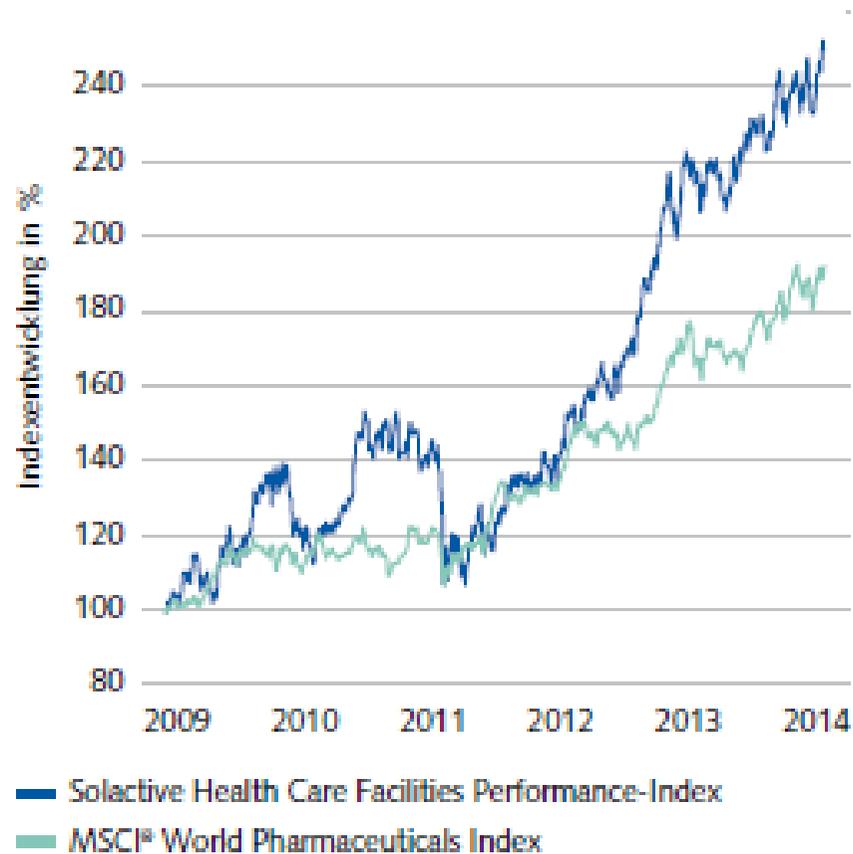
3. Solactive Healthcare Facilities Performance Index

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Historical performance comparison

Backtesting of the Solactive Healthcare Facilities Performance Index on the basis of historical data in EUR



Source: Solactive, as at 05.06.2014. This is a simulation of the historical performance of the Solactive Healthcare Facilities Performance Index. Past performance and simulations are not a reliable indicator of future performance.

Overview of technical data

Return p.a.	Solactive Healthcare Facilities	MSCI World Pharmaceuticals
2009*	14.72%	12.46%
2010	27.49%	4.59%
2011	-14.38%	11.98%
2012	35.23%	8.69%
2013	33.66%	23.44%
2014*	8.92%	7.53%
Volatility p.a.	Solactive Healthcare Facilities	MSCI World Pharmaceuticals
2009*	12.81%	6.02%
2010	21.44%	10.81%
2011	25.03%	13.18%
2012	17.53%	8.48%
2013	14.55%	10.37%
2014*	8.58%	7.83%

*Input data: 31.07.2009 – 31.12.2009; 01.01.2014 – 15.05.2014. Source: Bloomberg; as at 05.06.2014. This is a simulation of the historical performance of the Solactive Healthcare Facilities Performance Index. Past performance and simulations are not a reliable indicator of future performance.

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Summary

- The Solactive Healthcare Facilities Performance Index represents a **rules-based and thus transparent benchmark** for operators of hospitals and specialised healthcare institutions
- The index certificate makes it possible to place emphasis on the themes of **“demographic change”** and **“ageing of the western industrialised societies”**
- The index offers **access to a segment of the healthcare** sector that is **markedly under-represented in the traditional healthcare indices weighted by market capitalisation**
- The Solactive Healthcare Facilities Performance Index is calculated with an **annual adjustment** and contains **15 members** on each adjustment date
- **No term restriction**
- Management fee: **1.0% p.a.**

Risk factors

- **Economic crises** and **changes** could have a detrimental impact on the shares underlying the participation certificate
- **Political risks relating to changes in healthcare policy** could **have a negative impact on performance**
- **New competitors** could engage the established firms in the index in a fight for market share
- **Issuer risk**
- **Currency risk**
- **No capital protection**

Product details – Solactive Healthcare Facilities Performance Index

**In subscription until
4 July 2014**

For investors who want to **profit** from the potential of **healthcare facilities** worldwide, the Vontobel index certificate is a simple and transparent means of **participating in the Solactive Healthcare Facilities Performance Index**.

Key product data*	VONCERT Open End in CHF/EUR/USD on the «Solactive Healthcare Facilities Performance Index»		
Issuer	Vontobel Financial Products Ltd., DIFC Dubai		
Guarantor	Vontobel Holding AG, Zurich (S&P A-, Moody's A2)		
SSPA product typ	Tracker certificate (1300)		
Listing	Applied for on SIX Swiss Exchange		
Underlying	«Solactive Healthcare Facilities Performance Index»		
Reference price of certificate	CHF 100.00	EUR 100.00	USD 100.00
Valor number / simbolo	2417 2736 / VZHCC	2417 2737 / VZHCE	2417 2738 / VZHCU
Issue price	CHF 101.50 (CHF 1.50 front-load fee included)	EUR 101.50 (EUR 1.50 front-load fee included)	USD 101.50 (USD 1.50 front-load fee included)
Management fee	1.0 % p. a.	1.0 % p. a.	1.0 % p. a.
initial fixing / payment date	07.07.2014 / 14.07.2014	07.07.2014 / 14.07.2014	07.07.2014 / 14.07.2014
Maturity	Open End	Open End	Open End
Subscription deadline	4 p.m. CET on 4 July 2014	4 p.m. CET on 4 July 2014	4 p.m. CET on 4 July 2014

*All information is indicative and may be subject to change.

NB Please see page 19 for information on product risks

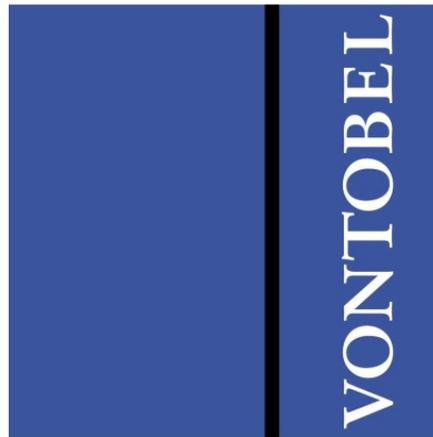
For further information, please visit www.derinet.ch

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June 2014

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