



# INVESTMENT IN HUMAN CAPITAL, A NEW MEGATREND

- ▶ As long-term investors, a core goal for us is to identify the trends that shape the world of tomorrow. Structural trends such as the ageing of the population and the accelerated spread of technological progress make investment in human capital essential, meaning that it has taken on the status of a megatrend. From a social point of view, it provides a response to the major challenges our societies are facing: combating inequality, mastering the technology frontier and adapting the workplace. These long-term challenges can be met by developing and protecting human capital in a lasting manner.

EXPERT

OPINION



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## EDUCATION, WHERE EVERYTHING STARTS

Education is key when addressing the topics of human capital and sustainable growth. Like Socrates said to Adeimantus, “*the direction in which education starts a man, will determine his future life*”, which illustrates its strategic role since Antiquity!

Education works as powerful macroeconomic and microeconomic leverage. Emerging countries consider education to be an absolute priority, which will enable them to catch up the standard of living of developed countries. For the latter, education has become a key lever for combating poverty and inequality. According to the OECD, “*the quality of education can be a strong predictor of a country’s economic prosperity*”. This is why, at a constant number of students, education spending has recorded a lasting increase of 4% per year<sup>1</sup>.

Certain niches of education are growing even more rapidly. Notably “**EdTech**” (new technologies in teaching tools), which is expected to grow by more than 12% p.a. in the coming years<sup>2</sup>. This sector is seeing the emergence of innovative companies, offering new tools to both teachers and students, contributing to the improvement of the quality and distribution of educational content. This is notably the case for companies such as **TAL Education**, **Chegg** or **Sanoma**.

Studies carried out by the **OECD** help to measure the value created by education. For example, the cost of a diploma in the tertiary sector is \$53k on average and generates a net return of \$320k, i.e., an internal rate of return (IRR) of 14%. Another calculation indicates that for the State, the net present value of a diploma is \$135k<sup>1</sup>. These figures are remarkable as they illustrate the economic logic behind investment in education at the macroeconomic level. On the microeconomic side, they demonstrate the relevance of training offers and highlight the solidity of the business model of companies in the sector as well as their pricing power, meaning the ability of a company to impose its prices on a consumer.

## THE NATURE OF JOBS IS EVOLVING

The transmission of know-how is naturally connected to the notions of education and training. This approach is nevertheless a new trend in itself. As demonstrated by our Chief Economist, Mathilde Lemoine, two structural forces are acting in combination: the ageing of the population and the acceleration of the spread of technological progress. These two base trends are accelerating the obsolescence of human capital. Investment in education and training are the answers to this challenge. This is the logic behind the Chinese government's recent announcement that it will have to "reskill" 30% of the country's labour force by 2030 in order to achieve its macroeconomic growth targets. On the same basis, a study by **Dell Technologies** and the **Institute for The Future** concluded that 85% of jobs that will exist in 2030 do not yet exist today. This figure may be subject to debate, but it reflects an undeniable truth: in light of the current technological transformations, the nature of jobs is evolving and generating a growing demand for training and educational services.

## THE PROTECTION OF EMPLOYEES FAVOURING PRODUCTIVITY

The protection of employees (and their well-being) is also part of a long-term trajectory. This is the protection of human capital. The logic is moral as well as financial.

Awareness of the moral aspect is recent. It is nevertheless set to take on importance, notably in emerging regions. We can nevertheless consider that the initial catalyst was economic.

Two researchers at the University of California have estimated that the cost of accidents at work adds up to \$200 billion each year... and this accounts for the United States alone. According to **OSHA** (the European Agency for Safety and Health at Work), this figure exceeds €400 billion for Europe. The Agency calculates that for each euro invested in measures to protect employees, the return on investment is €2.2.

By investing in the protection and well-being of its employees, the company will thus follow a relevant and proven financial argument. In addition, it will also generate very strong externalities. The first is the loyalty of its employees, which results in better productivity and lower turnover.

These reasons explain the conclusions of **KBV Research**, which forecasts growth in the budgets earmarked for employee protection of over 10% per year in the years to come. This is a rate three times higher than that expected for macroeconomic growth.

Several listed companies, such as **Rentokil**, **Epiroc** or **Ecolab** stand out in particular with regard to this aspect.

**Investment in human capital therefore provides an economic and social response to the major challenges of the years to come. Needs in terms of education, training and protection are connected to long-term trends driven by structural forces. For companies, like for States, enhancing human capital has both a moral and economic basis.**

1. OECD report "Education at a Glance 2018".

2. Barclays Equity Research (report of 21 January 2021, "Education Technology: Another A+ year ahead").

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