

Healthcare: Political rhetoric creating an attractive entry point

As the Democratic Party chooses a candidate to take on Donald Trump in next year's US presidential election, many of the issues that will be central to the debates are already coming to the fore. The political rhetoric has increased, for example, around healthcare. While the precise details and mechanics are different, the current landscape draws interesting parallels with the early '90s and 2008-09 when concerns around healthcare policy put valuations under pressure (ie the companies looked less attractive to investors).

During those periods, the market was concerned about the implications of healthcare reforms proposed by Hillary Clinton (so-called 'Hillarycare', which ultimately failed) and President Obama (the Affordable Care Act, which succeeded and was signed into law). In both instances, healthcare company valuations recovered once the market had greater clarity on the outlook – we believe that healthcare valuations will recover once again, albeit with different drivers.

With the affordability of healthcare high on the agendas of both politicians and US citizens, it really should come as no surprise that it is taking centre stage as the race for the next presidency gathers momentum. The two areas that are garnering most attention are drug pricing and a move towards a single-payer, government-run healthcare system (often referred to as Medicare for All). Drug pricing has bipartisan support and could see progress in the near term, but it is the single-payer system that is creating the most controversy and yet is the least likely to progress.

Addressing the high cost of drugs in the US is something that has cross-aisle support, enhancing the possibility of near-term action. It is likely, however, that any changes will be evolutionary and come via the governing administration as opposed to revolutionary via legislation. For example, there is both political and industry support to remove the controversial rebate system in an attempt to reduce out-of-pocket costs for US seniors (in a part of the US healthcare system known as Medicare Part D). More controversial, perhaps, would be the introduction of an international pricing index for drugs administered in a physician's office (referred to as Part B), with the aim of lowering prices. The proposal is under review and would adversely affect a number of companies if introduced but has already been opposed by the Senate Finance Committee Chair, Chuck Grassley.

Potential policy changes aside, the need for the biopharmaceutical industry to develop innovative and differentiated therapeutics is higher now than it ever has been. Importantly, however, if companies can innovate and add value to the system then the commercial backdrop is supportive. Take Novartis' Zolgensma, for example, a potentially curative gene therapy for a devastating disease called spinal muscular atrophy (SMA). Just recently approved for infants below two years of age, the therapy is priced at \$2.1m per patient, or \$425,000 per year for five years. This is a price that not only reflects the drug's life-changing properties but also its cost effectiveness when compared to existing therapies.

A more interesting observation lies in the impact that rhetoric around a single-payer system is having on sentiment. The impact has really been quite marked on managed-care companies, yet the chances of a single-payer healthcare system in the US really is very, very remote indeed. Why? Disruption, complexity and cost.

Rather than opining on the cultural implications of a single-payer, government-run healthcare system in the US we should probably stick to the numbers. According to a recent report by the Congressional Budget Office, there were approximately 29 million uninsured US citizens in 2018 – under a single-payer system most of them, if not all, would need to be enrolled into the program. Further, approximately 160 million US citizens have insurance with the private sector through their employer. Disintermediation of the private insurance system would lead to a huge amount of uncertainty for a huge number of Americans.

Last, but definitely not least, is cost. Through a combination of public and private sources, the US spent \$3.5trn on healthcare in 2017 – just to repeat that figure, \$3.5trn... Given the implications for taxes, choice, flexibility and access to care, it would come as a huge surprise if the US were to adopt a single-payer, government-run healthcare system.

Like comedy, or a glorious cover drive, timing is everything in investing but if one has the luxury of a 3-5 year view then the current valuation pressure we are witnessing in the healthcare sector offers an interesting opportunity to engage in a defensive growth sector that is innovating, adapting to a rapidly changing environment and generating attractive returns. History is not always the best teacher, and certainly is no predictor of future returns, but in the case of healthcare we can learn an awful lot from past periods of stress and the opportunities they created.

James Douglas

1 July 2019

Important Information: This document is provided for the sole use of the intended recipient and it shall not and does not constitute an offer or solicitation of an offer to make an investment into any fund managed by Polar Capital. It may not be reproduced in any form without the express permission of Polar Capital and is not intended for private investors. This document is only made available to professional clients and eligible counterparties. The law restricts distribution of this document in certain jurisdictions; therefore, persons into whose possession this document comes should inform themselves about and observe any such restrictions. The information contained in this document is not a financial promotion. It is not designed to contain information material to an investor's decision to invest in Polar Capital Funds PLC – Biotechnology Fund, Polar Capital Funds PLC – Healthcare Blue Chip Fund, Polar Capital Funds PLC – Healthcare Opportunities Fund and Polar Capital Global Healthcare Growth and Income Trust plc, which is an Alternative Investment Fund under the Alternative Investment Fund Managers Directive 2011/61/EU ("AIFMD") managed by Polar Capital LLP the appointed Alternative Investment Manager. In relation to each member state of the EEA (each a "Member State") which has implemented the AIFMD, this document may only be distributed and shares may only be offered or placed in a Member State to the extent that (1) the Fund is permitted to be marketed to professional investors in the relevant Member State in accordance with AIFMD; or (2) this document may otherwise be lawfully distributed and the shares may otherwise be lawfully offered or placed in that Member State (including at the initiative of the investor). As at the date of this document, the Fund has not been approved, notified or registered in accordance with the AIFMD for marketing to professional investors in any member state of the EEA. However, such approval may be sought or such notification or registration may be made in the future. Therefore this document is only transmitted to an investor in an EEA Member State at such investor's own initiative. **SUCH INFORMATION, INCLUDING RELEVANT RISK FACTORS, IS CONTAINED IN THE FUND'S OFFER DOCUMENT WHICH MUST BE READ BY ANY PROSPECTIVE INVESTOR.**

This document is only aimed at professional clients and eligible counterparties as defined by the European Directive n° 2004/39/EC dated 21 April 2004 (MIFID) as the same has been applied into French law by articles D. 533-11 and D.533-13 of the French Code monétaire et financier. This document is not destined for non professional clients who do not have the experience, knowledge or competence needed to take their own investment decisions and correctly evaluate the risks involved. Shares in the Fund should only be purchased by professional investors. Any other person who receives this presentation should not rely upon it. The law restricts distribution of this document in certain jurisdictions, therefore, persons into whose possession this document comes should inform themselves about and observe any such restrictions. It is the responsibility of any person or persons in possession of this document to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. This document does not provide all information material to an investor's decision to invest in the Fund. Before any subscription, it is recommended that you read carefully the most recent prospectus and review the latest financial reports published by the Fund. The Key Investor Information Document, full prospectus, articles and latest annual report are freely available upon request from BNP Paribas Securities Services, the centralising agent of the Fund in France: BNP Paribas Securities Services, 66, rue de la Victoire, 75009 Paris, France. Contact: Zaher Aridi, Tel: +33(0)1 42 98 50 57.

Please note that the prospectus of Polar Capital Funds plc and the supplement in relation to the Fund are only available in English.

The European Directive on collective investment schemes n° 2009/65/EC dated 13 July 2009 (UCITS) established a set of common rules in order to permit the cross border marketing of collective investment schemes complying with the directive. This common foundation did not prohibit different methods of implementation. This is why a European collective investment scheme may be marketed in France even though the activity of such scheme would not respect rules identical to those which are required for the approval of this type of product in France. The Fund received an authorisation for marketing in France from the Autorité des Marchés Financiers on 14 January 2014.

Statements/Opinions/Views: All opinions and estimates constitute the best judgment of Polar Capital as of the date hereof, but are subject to change without notice, and do not necessarily represent the views of Polar Capital. This material does not constitute legal or accounting advice; readers should contact their legal and accounting professionals for such information. All sources are Polar Capital unless otherwise stated.

Third-party Data: Some information contained herein has been obtained from third party sources and has not been independently verified by Polar Capital. Neither Polar Capital nor any other party involved in or related to compiling, computing or creating the data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any data contained herein.

Holdings: Portfolio data is "as at" the date indicated and should not be relied upon as a complete or current listing of the holdings (or top holdings) of the Companies or Fund. The holdings may represent only a small percentage of the aggregate portfolio holdings, are subject to change without notice, and may not represent current or future portfolio composition. Information on particular holdings may be withheld if it is in the Companies or Fund's best interest to do so. It should not be assumed that recommendations made in future will be profitable or will equal performance of the securities in this document. A list of all recommendations made within the immediately preceding 12 months is available upon request. This document is not a recommendation to purchase or sell any particular security. It is designed to provide updated information to professional investors to enable them to monitor the Companies or Fund. No other persons should rely upon it.

Benchmarks: The following benchmark indices are used: MSCI All Country World Index/Healthcare, NASDAQ Biotechnology Index and MSCI World Daily Total Return Net Healthcare Index. These benchmarks are generally considered to be representative of the Healthcare Equity universe. These benchmarks are broad-based indices which are used for comparative/illustrative purposes only and have been selected as they are well known and easily recognizable by investors. Please refer to www.msci.com and <https://indexes.nasdaqomx.com> for further information on these indices. Comparisons to benchmarks have limitations as benchmarks volatility and other material characteristics that may differ from the Companies or Fund. Security holdings, industry weightings and asset allocation made for the Companies or Fund may differ significantly from the benchmark. Accordingly, investment results and volatility of the Companies or Fund may differ from those of the benchmark. The indices noted in this document are unmanaged, unavailable for direct investment, and are not subject to management fees, transaction costs or other types of expenses that the Companies or Fund may incur. The performance of the indices reflects reinvestment of dividends and, where applicable, capital gain distributions. Therefore, investors should carefully consider these limitations and differences when evaluating the comparative benchmark data performance. Information regarding indices is included merely to show general trends in the periods indicated and is not intended to imply that the Fund was similar to the indices in composition or risk.

Regulatory Status: Polar Capital LLP is a limited liability partnership number OC314700. It is authorised and regulated by the UK FCA and is registered as an investment adviser with the US Securities & Exchange Commission ("SEC"). A list of members is open to inspection at the registered office, 16 Palace Street, London, SW1E 5JD. FCA authorised and regulated investment managers are expected to write to investors in funds they manage with details of any side letters they have entered into. The FCA considers a side letter to be an arrangement known to the investment manager which can reasonably be expected to provide one investor with more materially favourable rights, than those afforded to other investors. These rights may, for example, include enhanced redemption rights, capacity commitments or the provision of portfolio transparency information which are not generally available. The Fund and the Investment Manager are not aware of, or party to, any such arrangement whereby an investor has any preferential redemption rights. However, in exceptional circumstances, such as where an investor seeds a new fund or expresses a wish to invest in the Fund over time, certain investors have been or may be provided with portfolio transparency information and/or capacity commitments which are not generally available. Investors who have any questions concerning side letters or related arrangements should contact the Polar Capital Desk at the Administrator on 0800 876 6889 (PCGH) or +353 1 434 5007 (UCITS). The Fund is prepared to instruct the custodian of the Fund, upon request, to make available to investors portfolio custody position balance reports monthly in arrears.

Information Subject to Change: The information contained herein is subject to change, without notice, at the discretion of Polar Capital and Polar Capital does not undertake to revise or update this information in any way.

Forecasts: References to future returns are not promises or estimates of actual returns Polar Capital may achieve. Forecasts contained herein are for illustrative purposes only and does not constitute advice or a recommendation. Forecasts are based upon subjective estimates and assumptions about circumstances and events that have not and may not take place.

Performance/Investment Process/Risk: Performance is shown net of fees and expenses and includes the reinvestment of dividends and capital gain distributions. Factors affecting the Companies or Fund's performance may include changes in market conditions (including currency risk) and interest rates and in response to other economic, political, or financial developments. The Companies' investment policy allows for it to enter into derivatives contracts. Leverage may be generated through the use of such financial instruments and investors must be aware that the use of derivatives may expose the Companies to greater risks, including, but not limited to, unanticipated market developments and risks of illiquidity, and is not suitable for all investors. Those in possession of this document must read the Companies' Investment Policy and Annual Report for further information on the use of derivatives. Past performance is not a guide to or indicative of future results. Future returns are not guaranteed and a loss of principal may occur. Investments are not insured by the FDIC (or any other state or federal agency), or guaranteed by any bank, and may lose value. No investment process or strategy is free of risk and there is no guarantee that the investment process or strategy described herein will be profitable.

Allocations: The strategy allocation percentages set forth in this document are estimates and actual percentages may vary from time-to-time. The types of investments presented herein will not always have the same comparable risks and returns. Please see the private placement memorandum or prospectus for a description of the investment allocations as well as the risks associated therewith. Please note that the Companies or Fund may elect to invest assets in different investment sectors from those depicted herein, which may entail additional and/or different risks. Performance of the Companies or Fund is dependent on the Investment Manager's ability to identify and access appropriate investments, and balance assets to maximize return to the Fund while minimizing its risk. The actual investments in the Companies or Fund may or may not be the same or in the same proportion as those shown herein.

Country Specific disclaimers: The Companies or Fund have not been and will not be registered under the U.S. Investment Company Act of 1940, as amended (the "Investment Company") and the holders of its shares will not be entitled to the benefits of the Investment Company Act. In addition, the offer and sale of the Securities have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"). No Securities may be offered or sold or otherwise transacted within the United States or to, or for the account or benefit of U.S. Persons (as defined in Regulation S of the Securities Act). In connection with the transaction referred to in this document the shares of the Fund will be offered and sold only outside the United States to, and for the account or benefit of non U.S. Persons in "offshore- transactions" within the meaning of, and in reliance on the exemption from registration provided by Regulation S under the Securities Act. No money, securities or other consideration is being solicited and, if sent in response to the information contained herein, will not be accepted. Any failure to comply with the above restrictions may constitute a violation of such securities laws.

Country Specific disclaimers: This document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Shares may not be circulated or distributed, nor may Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor Pursuant to Section 304 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") or (ii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. The Prospectus and Information Memorandum are available to download at www.polarcapital.co.uk alternatively; you can obtain the latest copy from the Polar Capital Investor Relations team. The Fund is a collective investment scheme but is not authorised under Section 104 of the Securities and Futures Ordinance of Hong Kong by the Securities and Futures Commission of Hong Kong. Accordingly the distribution of this document, and the placement of interests in Hong Kong, is restricted. This document may only be distributed, circulated or issued to persons who are professional investors under the Securities and Futures Ordinance and any rules made under that Ordinance or as otherwise permitted by the Securities and Futures Ordinance

Country Specific disclaimers: Polar Capital LLP (Investment Manager) is exempt from the requirement to hold an Australian financial services licence in respect of the financial services it provides to wholesale investors in Australia and is regulated by the Financial Conduct Authority of the UK under UK laws which differ from Australian laws.