

## COVID-19 Update

### Diversity and innovation driving healthcare opportunities

COVID-19 is having a seismic impact on the views of healthcare by governments as well as the public who have high expectations of the service they should get from their health provider, be it state-led or private, going forwards. As investors, the views of the US government and industry bodies are vital to understand given the stock opportunities there – the US makes up nearly 70% of the MSCI AC World Daily Total Return Net Health Care Index – particularly with a presidential election in November.

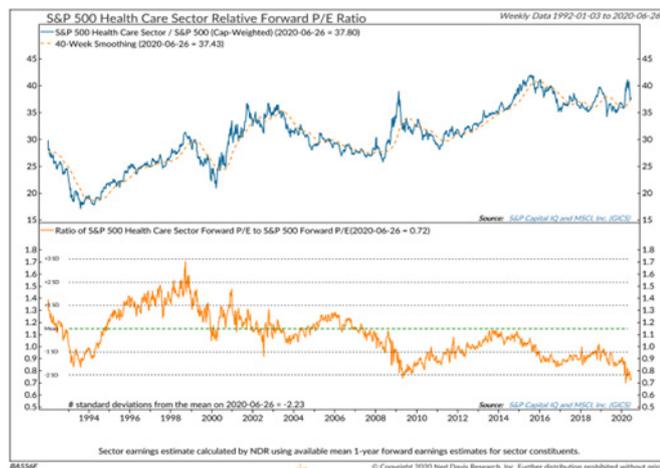
### US political environment more supportive

The political environment in the US has become more supportive for the healthcare sector, or at a bare minimum the greatest fears have dissipated. With the more progressive candidates (Elizabeth Warren and Bernie Sanders) no longer in the running, the more moderate Joe Biden is the clear favourite for the Democratic nomination, removing some of the more draconian threats to the healthcare industry. Focusing purely on healthcare, if Biden wins the presidency one of his primary priorities will be bolstering the Affordable Care Act (ACA), essentially reversing the actions taken by the Trump Administration. Prima facie this would be positive for the healthcare industry, increasing the number of insured US citizens in the system which has positive implications for volumes (ie up) and bad debts (ie down). A note of caution, however, as Biden has raised the spectre of Medicare-like public insurance plans which would have negative implications for the managed care industry. This risk is diminished if the Democrats have a slim majority or if a number of moderate Democrats are in the Senate seats, but it is something to be aware of. One additional risk worth highlighting is one of Biden's proposals being raising corporate tax – the managed care industry was one of the biggest beneficiaries of the Trump Administration's tax reform.

With regards to drug pricing there are near and medium-term scenarios worth discussing. In the near-term, Congress is unlikely to act on drug pricing legislation until after the November election. Why? The CARES (Coronavirus Aid, Relief and Economic Security) Act included funding through to 30 November 2020 for certain Medicare programs, extending the funding that was previously in place and set to expire on 22 May 2020. That May date was the original catalyst to start drug pricing negotiations but it has now been lost and Congress does not have a legislative vehicle with which to work. Further, the COVID-19 crisis has lifted some of the near-term political pressure on the pharmaceutical and biotechnology industries rendering an Executive Order less likely ahead of the elections. Looking further out, one of Biden's policies is to allow Medicare to negotiate directly on drug pricing but that would need a change in Law and a majority in the Senate.

### The outlook for healthcare is compelling

The outlook for healthcare is positive given we anticipate the demand for healthcare products and services to continue, and in some cases accelerate, post the COVID-19 crisis. In an uncertain world, the resilient growth profile of the healthcare sector appeals, with financially sound large-cap companies especially well positioned. At the same time, the political backdrop is supportive, valuations in the US are attractive (Source: Ned Davis) and we have only just begun to see a change in sector leadership relative to the S&P 500 (Source: Strategas).



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Source: Ned Davis Research Inc., 3 January 1992 to 8 May 2020. Sector earnings estimate calculated by NDR using available mean 1-year forward earnings estimates for sector constituents. Copyright 2020 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html). Past performance is not indicative or a guarantee of future results.



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**LEADERSHIP PHASE FOR HEALTHCARE LIKELY JUST BEGINNING**



Source: Strategas, 5 April 2020. Past performance is not indicative or a guarantee of future results. 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.

The precise pace and magnitude of a post-COVID-19 economic recovery is difficult to predict but there is a high degree of conviction that the demand for healthcare products and services is not permanently impaired. Indeed, outside therapeutics, vaccines and testing kits, other areas of healthcare could see more sustained periods of growth as the system looks to address shortfalls that have, unfortunately, been highlighted by the COVID-19 crisis. The use of telehealth and remote monitoring services, for example, could see broader adoption having undoubtedly proved their value. Manufacturers of ICU units, monitors, ventilators and hospital beds might also see sustained levels of growth as healthcare systems move to insure against future need.

Assessing the opportunity for alternative routes of delivery also needs to be explored given the role that outpatient facilities, ambulatory care centres and home care could play, not just in easing the post-COVID-19 backlog, but in offering more efficient and economically attractive platforms for care delivery. Given they address high unmet medical needs, it is hard to envisage a radically different appetite for pharmaceuticals and vaccines in the medium term. Further, demand for medical devices associated with hitherto postponed elective procedures will likely return, as will investment in the capital equipment and consumables manufactured by the life sciences industry.

The healthcare industry has real momentum right now, both operationally and technically, and the sectors where we are most constructive are life sciences and tools, biotechnology and managed healthcare. The life sciences and tools sector has buoyant end markets, especially in the field of bioprocessing, and also has exposure to COVID-19 testing. The biotech sector is attractive given it is well capitalised, benefitting from a supportive regulatory environment and is delivering differentiated solutions to high, unmet medical needs.

We are fortunate that healthcare is a very diverse sector, offering opportunities to invest in earlier stage companies looking to disrupt the status quo alongside companies with more blue-chip characteristics. Financial stability is essential, but we also look for product leadership, a commitment to innovation and experienced management teams with strong track records. Importantly, we believe healthcare can offer not just growth but sustainable growth and keep up the momentum it has built through the COVID-19 crisis. This, in our view, should have considerable appeal in the current environment.

James Douglas & Gareth Powell  
Co-Managers, Polar Capital Global Healthcare Team  
02 July 2020

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