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POLAR CAPITAL

THE CHANGES IN HOW HEALTHCARE IS MANAGED, DELIVERED AND PAID FOR

The fast-changing landscape

The structural changes we are seeing in the healthcare industry will benefit an ageing population that both needs and demands better healthcare provision. However, while these demands are driving up costs, the challenge for society is to provide better healthcare to more people for less money.

Given this backdrop, there are two clear investment trends emerging: the first is innovation in the form of new drugs and medical devices; the second is a transformation in how healthcare is being managed and delivered. Traditionally, it has been the smaller companies with more nimble, dynamic business structures that have been credited with innovation. We feel the tide is turning and it is now the larger companies that are transforming healthcare. Over the next decade, it is they who will more heavily influence the way healthcare is managed, delivered and paid for.

The first of these trends is already happening thanks to a move from a fee-for-service model where a hospital or doctor is paid for everything they do, that rewards utilisation, to value-based reimbursement which rewards medical outcomes. This move, plus aligned incentives, will reward those healthcare systems focussed on outcomes, which should ultimately lead to an improvement in the quality of care provided.

We live in a world where consumer expectation of any service has been forever changed by the likes of Amazon and Netflix. People expect everything on demand at the push of a button and access to care is no exception. Instead of having to typically wait at least a week to see a doctor, today's technology allows the consumer to instantly book an appointment online for the following day, or have a video call with a GP allowing a same-day consultation.

The final piece is 'democratised health' where the individual takes more responsibility for their own health. A good example of this is the Apple Watch. The latest version includes an electrocardiogram (ECG) that, while it does not give any diagnosis, will indicate whether or not you need further tests with your GP. This is a new market that is set to develop hugely in the future, with different types of wearable and different types of clinical measurement possible beyond an ECG.

What we need to do as a result is consider the types of company we want to invest given how they are adapting to the changes going on around them and exploiting the new market opportunities. We need to look at not just innovation within the small companies but also innovation and transformation driven by the larger companies.

Our expertise is in healthcare though we are fully cognisant of external market factors such as interest rates and inflation as well as political factors such as Brexit – we spend a lot of time thinking about politics, particularly in the US. The companies we invest in have solid balance sheets, sustainable and growing cash flow, manageable debt levels and, ultimately, what that means for investors is compounding returns. We think those large companies that are transforming healthcare look to be well positioned for growth next year. That is where our portfolio is focused.

Daniel Mahony and James Douglas, Fund Managers
Polar Capital Global Healthcare Trust
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Daniel Mahony, manager of the Polar Capital Global Healthcare Trust, explained what he sees as the future landscape for healthcare at the AJ Bell Retirement Conference last December.

To watch him explain these in more detail, please click the image.