

WHY THERE IS STILL GOOD REASON TO BE POSITIVE ON HEALTHCARE INVESTMENTS

Benefiting from new healthcare trends

STRUCTURAL CHANGE

We continue to see evidence the healthcare industry has embarked on a period of major structural change. Governments and health insurers are improving the efficiency of healthcare systems, delivering better healthcare to more people for less money, thanks to three principle drivers: an ageing population, new technology and economic pressure.

The baby-boomer generation expects a far healthier, more active retirement than their parents because of advances in medicine that are now standard. Increased longevity also means a significant part of healthcare expenditure is now devoted to managing long-term chronic conditions such as heart disease, diabetes and dementia.

At the same time, recent medical advances have seen the emergence of new, expensive treatments for hitherto untreatable conditions. As a result, healthcare spending, on an absolute basis and as a percentage of GDP, continues to rise in most countries driven by increasing demand.

TECHNOLOGICAL DISRUPTION

Technology is the major catalyst for change. Advances in information technology, especially data analytics, are helping governments and health insurers predict healthcare needs and value a product or service. The way healthcare is managed, delivered and paid for is already changing and is a trend we expect to continue over the coming decade.

Technological innovations we are seeing across many industries – healthcare included – have driven a major change in consumer expectations. Companies such as Amazon, Netflix, Facebook and Uber have set new standards in the delivery of products and services. Customers want everything they do to be seamless and in real time – Facebook-like in experience, Amazon-like in reliability.

LARGE-CAP GROWTH

Innovation tends to come from smaller companies as the industry disrupters, but their valuations are looking stretched. There is also the uncertainty going

into 2019 – Brexit, trade wars, rising interest rates, geopolitical uncertainty – which makes a stronger case for investing in the defensive growth characteristics of large healthcare stocks.

Within a varied healthcare universe, it is important to actively manage sub-sector exposures as well as individual positions. This year has shown, again, that you can get a large dispersion of returns among companies in the same sub-sector.

The opportunity is to find companies and management that have differentiated assets and who are adapting to a rapidly changing healthcare landscape. Not all large companies will be able to drive such change, some will get left behind. We are already seeing some large companies adopt a proactive strategy in trying to be the agents of change, making investment decisions today that will help shape the future of healthcare tomorrow.

VALUATION

Moreover, there is a choice of large companies with good growth opportunities that are attractively valued on a relative and absolute basis. At the same time, with a relatively low risk profile, we believe large caps can deliver attractive rates of return in a low-growth world.

This is an evolving process and while the ultimate goal is to improve the efficiency of healthcare systems, the near-term direction of travel and how we get there are critical in identifying companies that are well-positioned and those that may fall behind. We expect the next 18 months to be more supportive of the larger players in healthcare.

Daniel Mahony, manager of the Polar Capital Global Healthcare Trust, will be speaking at the AJ Bell Retirement Conference on 11 December.

You can also visit the team at the Polar Capital stand at the event at the America Square Conference Centre.



All opinions and estimates in this report constitute the best judgement 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. Polar Capital is not rendering legal or accounting advice through this material; viewers should contact their legal and accounting professionals for such information. This document does not constitute a prospectus, offer, invitation or solicitation to buy or sell securities and is not intended to provide the sole basis for any evaluation of the securities or any other instruments, which may be discussed in it. This is not a financial promotion. Past performance is not indicative of future results. A list of all recommendations made within the immediately preceding 12 months is available upon request. This document is not a personal recommendation and you should consider whether you can rely upon any opinion or statement contained in this document without seeking further advice tailored for your own circumstances. The law restricts distribution of this document in certain jurisdictions; therefore, persons into whose possession this presentation comes should inform themselves about and to observe, all applicable laws and regulations of any relevant jurisdiction.

Polar Capital LLP is a limited liability partnership number OC314700. It is authorised and regulated by the UK Financial Conduct Authority and registered as an investment adviser with the US Securities & Exchange Commission. A list of members is open to inspection at the registered office, 16 Palace Street, London, SW1E 5JD