POLAR CAPITAL

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.