

MONEY

We made 434pc on one stock – now we’re hunting for the next Ozempic’

Fund of the Week: manager of the UK’s top healthcare trust on how it beat FTSE by 220pc

By Danielle Levy

Healthcare investors have had a disastrous time of late.

Over the past five years, the average biotech and healthcare investment trust has fallen 13pc, losing money during a period in which the FTSE 100 and S&P 500 hit record highs.

However, in Polar Capital Global Healthcare trust, investors will find an extreme outlier – over the same period, the vehicle has offered a total return of 60pc.

Its manager, Gareth Powell, sits down with Telegraph Money to explain what has worked for the team and why it will continue to grow.

He discusses the difficulties the new American health secretary will bring for the sector, and explores why his team is looking beyond incumbents Novo Nordisk and Eli Lilly for the next generation of weight-loss drugs.

Polar Capital Global Healthcare, which is co-managed by James Douglas, currently trades at a 3pc discount to its assets.

How do you invest?

We try to find aspects of healthcare stocks that aren’t widely understood. Essentially, we look for inefficiencies in these stocks – we try to go into greater detail and we add value with financial analysis and a focus on valuation to find the best ideas.

What does president Donald Trump mean for American healthcare stocks?

Normally as an investor in healthcare, you are more scared about a Democrat president or big wins in Congress for Democrats because they favour greater government involvement, which means less of a free market.

You would have thought we would be jumping up and down with glee about the election result. However, Mr Trump announced his nomination for health secretary as Robert F Kennedy Jr, who doesn’t have any expertise in the space and has lots of conspiracy theory-driven views on healthcare. He has caused a huge degree of uncertainty for the sector.

Mr Trump is very focused on the government spending less money, so we expect to see an impact on government-



Trump’s health secretary will bring added difficulties for the biotech sector Credit: PonyWang/E+

covered healthcare, particularly Medicaid, the health insurance exchanges and healthcare providers. There are stocks in the service sector that could potentially get hurt and stocks exposed to vaccines will also be impacted by Mr Kennedy in the role.

Overall, I am optimistic on the healthcare sector, given how cheap and out of favour it is. The outcomes are never as bad as people fear at the time.

How do you think the weight-loss drug craze will play out?

There was initially a lot of enthusiasm. Prescription trends were very strong and the stocks moved in line with that. However, they have moderated over the last few months due to negative news flow and poor sentiment towards healthcare stocks. There is now a huge amount of negativity, so these stocks warrant a fresh look.

I think what’s critical in the short term is improving prescription trends – the market opportunity is still there. These drugs are very powerful, but there are lots of moving

parts in the short to medium term, like “reimbursement access” (whether the medication is covered or reimbursed by health insurers), and how long patients use these drugs while experiencing side effects.

Novo Nordisk and Eli Lilly are investing heavily, trying to develop other candidates, but we are not just focused on Novo and Lilly – there are others coming.

Development will focus on whether the drugs are administered orally or via injection, and whether the time between doses can be pushed out. Also, can you have different mechanisms with better side effects?

Is artificial intelligence (AI) going to shake up healthcare?

Investors are buying stocks like chipmaker Nvidia, which provides the hardware for AI. This is how these things start with a tech cycle. The second stage will be about making AI more user-friendly and available in different formats. I think healthcare will be a beneficiary during the third stage and will use AI to become more efficient.



Robert F Kennedy Jr, the US secretary of health and human services, is prominent vaccine sceptic
Credit: Nathan Howard/Reuters

For example, AI could be used in image analysis. When patients go for scans, AI-driven capability can read images rather than relying on doctors. There is a real opportunity there and I think this is just the start.

AI could also be used to enrol clinical trials faster by accessing patient records and quickly identifying patients over a wide geographic area. This would be a game changer.

People suggest new drugs will come from AI. I think it can help the process, but what I have seen in 25 years of investing in healthcare is that big innovations for diseases come through the identification of a new target. AI is based on historical data – if you are looking for a new target, you still need to be doing the biology.

What has been your best investment?

Argenx, an immunology company that focuses on treatments for severe autoimmune diseases, is up 434pc over the past five years. It successfully developed a product called Vyvgart for a rare neurological condition, servicing a big unmet need.

It also recently got an “indication” (the specific use of a drug based on its demonstrated effects) for another rare condition called chronic inflammatory demyelinating polyneuropathy, filling a further unmet need. It is already a blockbuster drug, generating more than a billion dollars annually in sales, so it has got significant potential.

What has been your worst investment?

A blood diagnostics company called Quotient. We had a period where it was making good money and then it just sadly fell apart.

It got heavily delayed by Covid, and as the company was developing new technology, there was a need for capital. There was a huge stock market bubble, followed by a collapse, then interest rates went up and so did the cost of capital.

Sadly, it ended up as a very poor investment. It delisted and essentially went to zero. We got out before that, but not at a great price. The shares were down 99.9pc when we sold in December 2022.