POLAR CAPITAL

Gareth Powell, Head of Healthcare and Fund Manager

Polar Capital Global Healthcare Trust

Why has healthcare had such a tough time recently?

The healthcare sector has lagged broader markets for nearly three years. The sector peaked on a relative basis at the end of 2022 after having a very strong year. The difference this time, which has made the pullback probably the most significant in the past 30 to 40 years, is that the focus on a relative basis has been what has happened with concerns over the new US administration. That has been particularly painful over the last nine to 12 months.

Now, where we find ourselves, is because that period of underperformance has been so striking it is attracting new investors to healthcare. I can see it in the market and I can see it in terms of potential interest in our funds, and I am hopeful that the sector is bottoming out on a relative basis and that healthcare can do much better.

What signs are you seeing of a turnaround?

We are seeing some signs of a turnaround in terms of starting to get a little better performance from the large and mega-cap stocks. In the past few weeks there have been a number of catalysts to do with finally clearing overhangs that have been in place over the past several months, again to do with US policy concerns. That has triggered some strong moves.

We have seen better performance from small and mid-cap healthcare, which is encouraging. If we do get clarity on these overhangs that have been in place on the sector, that potentially releases some locked-up performance with valuations now so low. If valuations can lift, if clarity comes on these concerns that investors have had, then it should be very positive.

What are the key drivers from here for the sector?

There are three key drivers for healthcare thematically right now. Firstly, volume growth driven by demographics and also the lagging effects of the pandemic. We are seeing greater-than-expected volume growth versus pre-Covid and also emerging market volume growth is strong.

The second driver is new product cycles. We are seeing that on a broad base and it is so important because 80% of the investment universe is product companies and they thrive with new products coming out.

Lastly, healthcare is incredibly fragmented and it needs to consolidate. It is a long-term structural story but we are seeing a cyclical uptick start right now that may have legs. So, three key fundamental drivers.

Where are you seeing the most exciting opportunities?

The subsectors we think are best positioned, considering the fundamental drivers that we are bullish on are: (1) the utilisation story. We have exposure to healthcare equipment (or MedTech), healthcare providers, healthcare services and distributors. They are some of the subsectors that should really thrive with improving volume growth, so those are the areas we are bullish on. (2) In terms of new product cycles, we are seeing it across biotech, pharma and healthcare equipment/MedTech. Also, one really interesting area is generics. Over the next several years we are going to see pharma facing the biggest patent expiry cliffs that is offering a lot of opportunity for the generics companies. (3) Lastly, M&A is valid across the whole spectrum of healthcare, but particularly you see it in small/mid-cap biotech, pharma and MedTech, where we also have lots of exposure.

How is the Polar Capital Global Healthcare Trust positioned as a result?

The Trust is currently positioned with broad-based exposure to healthcare. We have the multi-cap approach. We see real value across lots of different subsectors, which is why we are so diversely exposed right now to exploit that, with particularly high exposure to biotech, for the new product cycles and potential M&A.

The Trust also has high exposure to healthcare equipment/MedTech – utilisation and new products are the stories there. It has exposure to different things like healthcare providers, managed care, life science tools and pharma. Again, it is a broad-based approach – our job is to find the best stocks within the healthcare universe because we are optimistic across the board on the subsectors.

Gareth Powell

Head of Healthcare, Polar Capital

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The Company is an Alternative Investment Fund under the EU's Alternative Investment Fund Managers Directive 2011/61/EU as it forms part of UK law by virtue of the European Union (Withdrawal) Act 2018.

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