

## Leading from the front

*This is a transcript of a podcast Jamie Douglas, Fund Manager of Polar Capital Healthcare Blue Chip Fund, recorded on 26 April 2020. In it he discusses how COVID-19 has brought the healthcare sector into sharp focus, driving – and in some cases accelerating – demand for its products and services. At the same time, he suggests, valuations are extremely compelling and blue-chip companies are uniquely positioned to benefit.*

Good morning, my name is Jamie Douglas and I am a member of the healthcare team at Polar Capital. Thank you for taking the time to listen to this podcast and I hope you share our enthusiasm for the healthcare sector as an investment strategy.

Looking at chart 1, we believe the near and medium-term demand for healthcare services and products will remain robust and even accelerate in certain areas.

### Chart 1:

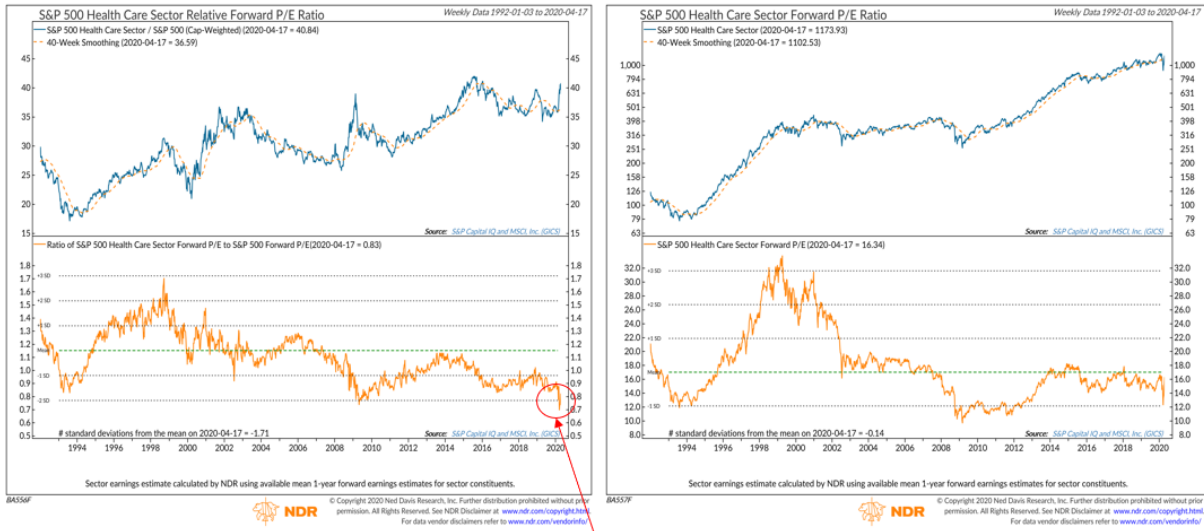
<b>Financial strength</b>	Manageable net debt, strong credit ratings and good cash conversion
<b>Attractive business model &amp; economics</b>	Defensible position, high barriers to entry and attractive returns
<b>Respected management team</b>	Experienced executives with strong track records and aligned incentives
<b>Resilient long-term growth</b>	Attractive and sustainable growth prospects, with innovative pipelines
<b>Product/service leadership</b>	Best-in-class, differentiated assets, with a strong commitment to R&D

**Source:** Polar Capital. All opinions and estimates constitute the best judgment of Polar Capital as of the date herof, but are subject to change without notice, and do not necessarily represent the views of Polar Capital.

We also find valuations to be compelling at the moment; the sector is showing leadership from a technical perspective and, importantly, we believe it is the blue-chip companies that are especially well positioned to flourish in these uncertain times.

As you can see on chart 2, relative to the S&P 500 US healthcare is attractively valued, approaching levels similar to the early 1990s and in 2008-09. Both those periods of stress were caused by the political situation in the US, both of which were resolved and, as you can see, the sector recovered. We believe that current valuations offer an upside opportunity relative to the broader market or, if you are a bit more conservative, perhaps one can view it as downside protection.

**Chart 2:**



**Collapsing S&P earnings driving relative PE discount further**

**Source:** Ned Davis Research Inc. 3 January 1992 to 17 April 2020. Sector earnings estimate calculated by NDR using available mean 1-year forward earnings estimates for sector constituents. Copyright 2020 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html). Past performance is not indicative or a guarantee of future results.

On chart 3, the healthcare sector relative to the S&P is showing technical leadership, leadership that could persist for some time assuming industry fundamentals remain intact. It is unlikely to be a coincidence that we saw similar breakouts in the mid-1990s and in 2010 once the political landscape in the US became much clearer.

**Chart 3:**



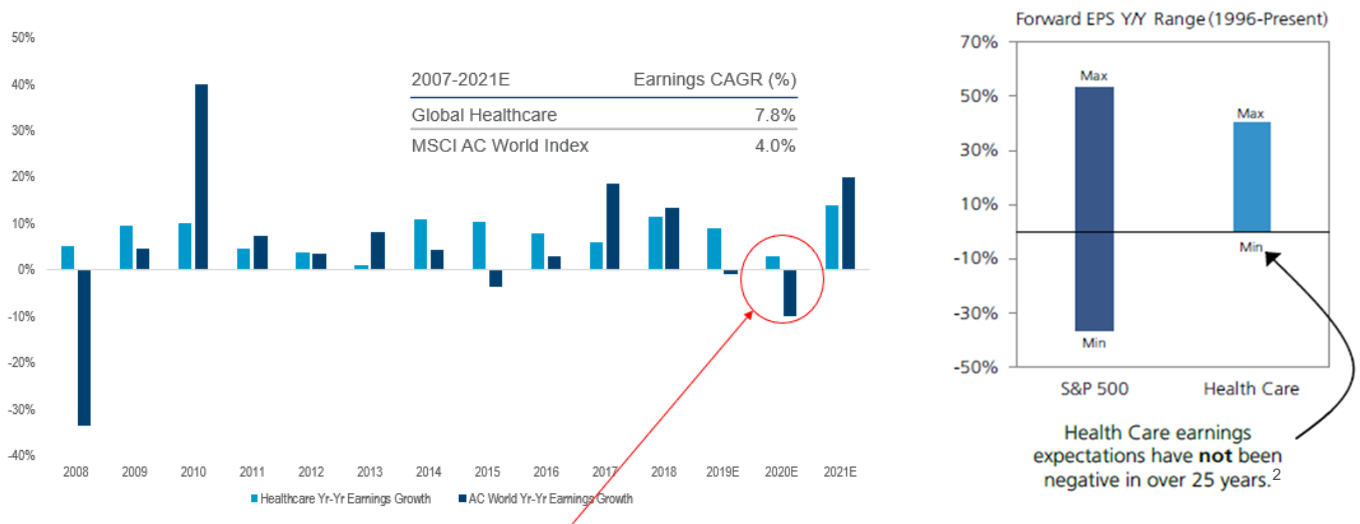
**Leadership could persist for several years following relative break-out**

**Source:** Strategas, 5 April 2020. Past performance is not indicative or a guarantee of future results. All opinions and estimates constitute the best judgment of Polar Capital as of the date herof, but are subject to change without notice, and do not necessarily represent the views of Polar Capital.

Chart 4 looks at year-on-year earnings growth for the healthcare sector and the broader market, about which I would make three observations. First, as at 17 April, the sector is forecast to deliver earnings growth versus the broader market decline in 2020. Second, the absence of negative earnings growth goes back 25 years for the healthcare sector, as illustrated by the smaller chart on the right-hand side.

### Chart 4:

**The lower earnings volatility is underpinned by long-term secular growth drivers<sup>1</sup>**



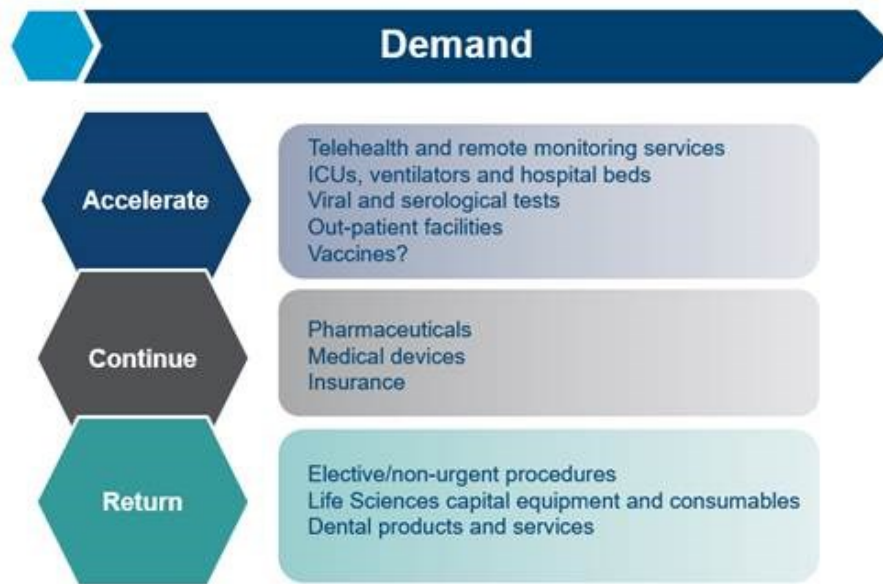
**2020 healthcare earnings pressure likely to be less than the broader market**

**Source:** 1. Citi Research 17 April 2020. 2. UBS Research, 16 October 2019. All opinions and estimates constitute the best judgment 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.

Finally, the third point is the healthcare sector is delivering more earnings growth compared to the market over the period shown and we believe that resilient earnings profile deserves a premium rating to the broader market, whereas we are sitting on a discount today.

Those are my thoughts on valuations and some of the technical aspects, so I now want to talk about the need and demand for healthcare products, which is on chart 5.

**Chart 5:**



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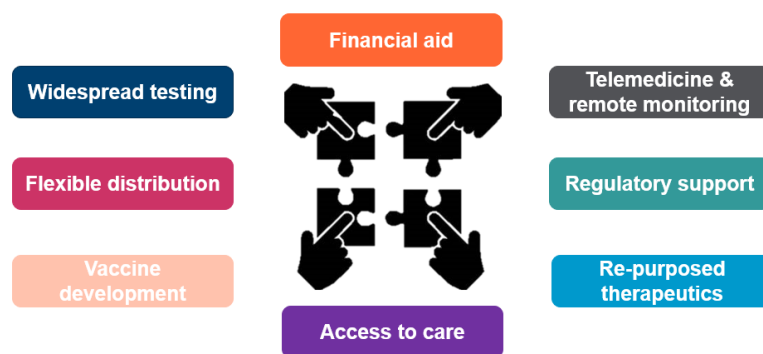
I mentioned previously that we believe the demand for healthcare products and services is robust and indeed may well accelerate. Post-COVID-19, there is a rationale for increased appetite for high frequent screening, for example, for telemedicine and the digitalisation of healthcare, plus we can see an acceleration in demand for medical equipment such as ICUs, monitors and ventilators.

We do not expect a shift in demand for pharmaceuticals and lifesaving medical devices, with the odd exception, though we do expect a recovery in the demand for elective procedures that have hitherto been postponed or cancelled to make room for COVID-19 patients. We would also expect to see a recovery in the demand for life sciences, capital equipment and consumables and, eventually, depending on the economic outlook, for more cyclical offerings such as dental products and services.

Looking at chart 6, it is worth touching on the leadership the industry has shown through the COVID-19 crisis, not just within the healthcare industry but across governments and regulatory bodies. Everyone appears to be working towards finding testing solutions, working on repurposed pharmaceuticals that can add value and then eventually, and hopefully, a vaccine. It really has been impressive to witness, and I think the healthcare sector deserves a huge amount of credit for it has done in the past 2-3 months.

**Chart 6:**

The entire healthcare ecosystem is looking to contribute



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On chart 7, I really want to focus on blue-chip companies. We believe blue-chip companies are especially well positioned in these uncertain health and economic times. We are fortunate that not only do we have a diverse universe in which to invest but we can find companies with blue-chip characteristics. Financial strength is one of them, but we also look for product leadership, a commitment to innovation and experienced management teams with strong track records.

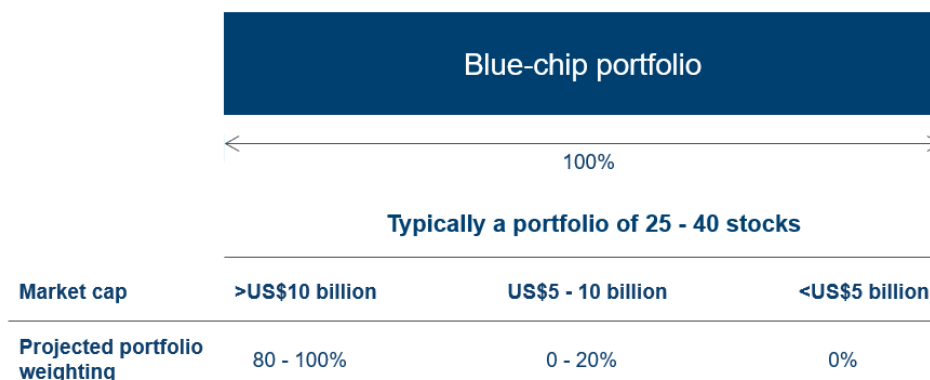
### Chart 7:

<b>Financial strength</b>	Manageable net debt, strong credit ratings and good cash conversion
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Importantly, resilient growth which we believe healthcare can offer also has appeal at present. Chart 8 shows a snapshot of what Polar Capital Healthcare Blue Chip Fund currently looks like, primarily invested in large-cap stocks with market capitalisations above \$10bn at the time of investment.

### Chart 8:



- **The Polar Capital Healthcare Blue Chip Fund is an open-ended UCITS V fund focused on large cap healthcare stocks**
  - The institutional sterling share class has delivered an annualised return since inception of 9.17% (12 September 2014 to 31 March 2020)
- **The goal is to identify the healthcare bellwethers that will succeed in a changing healthcare environment**
  - The potential investment universe is just over 220 companies across all four healthcare sub-sectors

**Source:** Northern Trust International Fund Administration Services (Ireland) Ltd. Monthly percentage growth GBP annualised, net of fees. The GBP I Acc Share Class Institutional was launched on 12 September 2014. **Past performance is not indicative or a guarantee of future results.** Performance is quoted net of fees.

It is a concentrated portfolio; it is global and it is multi-sector.

Chart 9 looks at the top 10 holdings as at 20 April and you can see it is pretty diverse, with assets from the pharmaceutical subsector, healthcare equipment, life sciences and tools, and also facilities.

**Chart 9:**

Stock	Top 10 positions	GICS
 Roche	Roche	Pharmaceuticals
 MERCK	Merck & Co	Pharmaceuticals
 Medtronic	Medtronic Plc	Healthcare Equipment
 abbvie	AbbVie	Biotechnology
 BD	Becton Dickinson	Healthcare Equipment
 BIO-RAD	Bio-Rad Laboratories	Life sciences tools & services
 VERTEX	Vertex	Biotechnology
 Baxter	Baxter International	Healthcare Equipment
 Bristol-Myers Squibb	Bristol Myers Squibb	Pharmaceuticals
 HCA Healthcare	HCA Healthcare	Healthcare Facilities

**Source:** Polar Capital as at 20 April 2020. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities in this document. A list of all recommendations made within the immediately preceding 12 months is available upon request.

In summary, we believe blue-chip healthcare is attractive, offering resilient growth at reasonable valuations. We are just starting to show technical leadership and we hope that can continue for some time. That just leaves me to thank you for your time and more importantly to ask you to look after yourselves in what are very unusual times.

Take care and please feel free to contact us if you have any further questions.

**Jamie Douglas - Polar Capital Healthcare Blue Chip Team**

**27 April 2020**



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