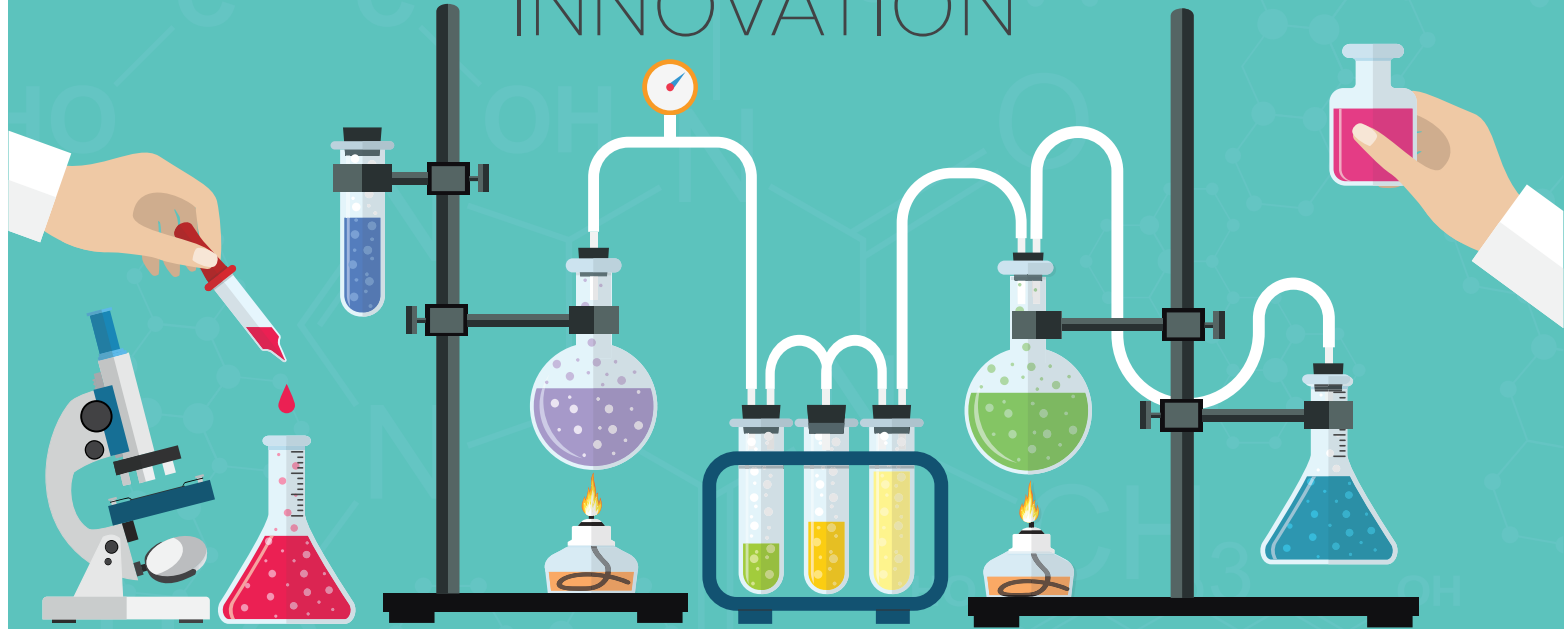


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STRONG VITAL SIGNS IN BIOTECH INNOVATION



Rob Griffin finds that there has never been a better time to invest
in healthcare and pharmaceuticals

Dr Ivo Staijen remembers very clearly the day when the booming biotech sector stopped being an investor's darling – all because of a post on social media.

'During the US election campaign two years ago, Hillary Clinton tweeted about price controls in the pharmaceutical industry. That really stopped the biotech boom which had been riding high until then,' the manager of the HBM Global Biotechnology Fund explained.

The impact was to last until Donald Trump won the keys to the White House in November.

'People saw his accession to the presidency and the Republican majority in Congress as pro-business and pro-pharma,' he said.

Although the repeal of Obamacare and Trump's promised tax reforms have both failed to materialize, Staijen insists that the dent to investor enthusiasm is just a temporary hitch. Healthcare, he said, is a long-term growth story.

However, there has been a change in emphasis, as price pressures mount on medications for the mass markets, particularly for 'me-too' drugs treating asthma, type 2 diabetes

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Dr Ivo Staijen
HBM Healthcare Investments

and high cholesterol.

'Investors are now focusing on smaller, life-threatening areas where modern drugs can make a difference but where pricing scrutiny is not as much of a concern,' he said, highlighting Vertex, Alexion, BioMarin and Shire Pharmaceuticals as companies involved in those areas.

'Sanofi bought US biotech company Genzyme a couple of years ago and they started this whole orphan drug focus,' Staijen added.

'For example, Cerezyme from Sanofi is approved for the treatment of Gaucher disease, a genetic metabolic disease.'

Oncology is another growth area. 'Cancer is one of the most terrible diseases to have and there's a lot of support for the development of new oncology drugs because the unmet medical need is high and the pricing is not scrutinized as much,' he explained.

For example, immuno-oncology drugs – which stimulate the body's natural defences – have revolutionised cancer treatment over the past few years.

Another area of focus is the central nervous system. 'We have drugs for depression and schizophrenia but they

don't work very well, and there's no real treatments for Alzheimer's or Parkinson's,' Staijen said. 'There's been a renewed focus on this area in the past couple of years.'

The opportunities for investors are particularly attractive. 'The end game for biotech companies is to be taken over by big pharma or a larger biotech company, so there will be M&A opportunities,' he added.

Evan McCulloch, SVP portfolio manager at the Franklin Equity Group, is impressed by the rate of progress in the biotech sector and agrees that developments in areas such as immuno-oncology will bring dramatic advances over the next few years, providing significant investment opportunities.

'There's a major wave of innovation occurring across the sector, and we are encouraged by companies that have focused their efforts on new drug discovery platforms, novel compounds and areas of significant unmet medical need,' McCulloch said.

He believes that the developments are the product of advancements in basic research, a better understanding of human biology and greater use of data analytics.

McCulloch was also optimistic about helpful legislative changes in the

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United States and believes that Trump's tax break proposals, incentivizing US companies to repatriate cash and invest in their businesses, could lead to share repurchases and new mergers and

acquisitions.

'M&A can unlock value in several ways,' he said. 'It allows larger companies to bolster their pipeline with new products, and gives smaller companies access to the expertise and personnel of well established companies to increase their distribution efforts.'

It's not the only positive he can see. 'There are several other big-picture trends that we think are supporting healthcare and biotech, and one relates to demographics,' McCulloch said. 'The world's populations are ageing and the elderly consume significantly more healthcare products and services than the younger generations.'

This is backed up by recent performance figures, which reveal how well the healthcare sector has been doing – even outperforming strong areas such as industrials and financials.

Erin Xie, manager of the BGF World Healthscience Fund, has been impressed by the sector's growing dominance. 'Medical devices and supplies and healthcare providers and services are the leaders,' she explained. 'The former has been led by broad strength across industries, particularly the life sciences tools

industry, while the latter has benefited from managed care and healthcare technology,' she said.

In the healthcare providers subsector, exposure to Humana and UnitedHealth Group provided gains, with both firms reporting solid financial results.

Meanwhile, Xie's fund has also benefited from holdings in Amedisys – a firm which helps people recover from illness or surgery – and Quest Diagnostics, which provides clinical laboratory services.

Andy Acker of Janus Henderson Global Life Sciences attributes the increasing number of new product launches to an improved regulatory environment and a wave of innovation, driven by better understanding of human genetics and biology.

'Our key themes are innovative companies addressing unmet medical needs, and companies that can make the healthcare system more efficient,' he said.

'A good example of unmet needs is Biogen's Spinraza for spinal muscular atrophy, the leading genetic cause of infant death.'

Many patients are seeing life-altering improvements with Spinraza. 'Some are

even able to walk for the first time,' Acker said. 'In the second quarter after launch, Spinraza sold over \$200 million, more than three times consensus expectations.'

Acker cited Athenahealth as one company that is working to make the healthcare system more efficient – and has seen revenues grow at a double-digit pace for the past decade. It's a trend that he expects to continue.

'It has developed a cloud-based platform to improve connectivity in the healthcare system, including making electronic medical records readily available at the point of care and making the onerous paperwork involved with back office fee collections easier,' he said.

Christophe Eggmann, manager of GAM Multistock – Health Innovation, favours stocks with the potential to surprise on the upside, but which aren't on everybody's radar. 'I like companies that execute well on their commercial opportunities and offer attractive pipeline optionality.'

One example is Biogen, which develops and markets therapies for people living with serious neurological and autoimmune diseases. For example, the firm is a leading light in the fight against Multiple Sclerosis.

'I am warming up to the investment case, as the company is executing well on its new product launch, has defended its MS franchise efficaciously and has an emerging pipeline in neuroscience,' Eggmann said.

For Eggmann, the most important longer-term trend – and the most significant value driver – is innovation, particularly in the drive towards personalised medicine and value-based pricing.

'Innovation is driven by scientific discoveries,' he explained. 'We know more about diseases and targets than ever before and we have better tools to design targeted drugs.'

Looking to the future, Eggmann is optimistic, pointing out that healthcare has been the best-performing sector for the past three decades.

He attributes this trend to the sector's innovative power.

'Innovation continues to fill pipelines, deliver sustainable long-term growth and create value for investors,' he insisted.

'I think today is the prime time for innovation and a great opportunity to be investing in healthcare.'