

Thematic Equities

THE HEALTHCARE AND BIOTECH MANAGERS

A BIOTECHNOLOGY BONANZA



Top fund managers in the healthcare and biotech sectors are united in their optimism for the industry as innovation and demographics converge to create an enormous market. **Rob Griffin** reports

Citywire AAA-rated David Pinniger has seen a lot of changes during his 17 years in the healthcare sector, but the manager of the Polar Capital Biotechnology fund believes it's now a more exciting place to be than a decade ago.

'It's a really great time to be investing in biotechnology,' he says. 'It's massively competitive, hideously complicated and getting more so all the time, but there are such great things happening across the sector,' says Pinniger, who is ranked first in the biotech sector over three years, see table.

Not only are the industry fundamentals strengthening on the back of advances in scientific understanding, there's also been a proliferation of the powerful

TOP BIOTECH MANAGERS OVER THREE YEARS

Name	Rating	TR	SMR	Contributing Fund
David Pinniger	CITYWIRE / AAA	34.84	1.06	Polar Capital Biotechnology R USD
Michael Fischer	CITYWIRE / AA	58.67	1.06	MEDICAL BioHealth EUR Dis RIM Global Fund Bioscience B
Andrej Hrovat	CITYWIRE / +	21.87	0.59	RH&F Global Life Sciences Fund A USD Cap
Rudi Van den Eynde	CITYWIRE / +	11.60	0.37	Candriam Equities L Biotechnology C Cap
Ivo Staijen	CITYWIRE / A	11.49	0.21	HBM Global Biotechnology Fund A USD Cap

TOP BIOTECH MANAGERS OVER FIVE YEARS

Name	Rating	TR	SMR	Contributing Fund
Ivo Staijen	CITYWIRE / A	120.32	0.56	HBM Global Biotechnology Fund A USD Cap
Michael Fischer	CITYWIRE / AA	139.75	0.51	MEDICAL BioHealth EUR Dis RIM Global Fund Bioscience B
Harald Kober		93.36	0.18	ESPA STOCK BIOTEC EUR R01 A
Rajiv Kaul	CITYWIRE / +	88.84	0.13	Fidelity Advisor Biotechnology Fund;I
Rudi Van den Eynde	CITYWIRE / +	90.89	0.02	Candriam Equities L Biotechnology C Cap

Source: Citywire

SECTOR-SPECIFIC CITYWIRE MANAGER RATIO (SMR): This reflects how much 'added value' in terms of outperformance against the benchmark the fund manager delivers for each unit of risk assumed, where risk is defined as not mirroring the index's return. It ties together the fund manager's personal career history with the Information Ratio of the underlying funds

TOP HEALTHCARE MANAGERS OVER THREE YEARS

Name	Rating	TR	SMR	Contributing Fund
Stefan Blum		85.48	1.48	BB Adamant Global Medtech und Services AA Klasse Bellevue F (Lux) BB Adamant Medtech&Services B EUR Bellevue F (Lux) BB Adamant Digital Health B
Marcel Fritsch		85.48	1.48	BB Adamant Global Medtech und Services AA Klasse Bellevue F (Lux) BB Adamant Medtech&Services B EUR Bellevue F (Lux) BB Adamant Digital Health B
Vinay Thapar		39.65	1.17	AB SICAV I-International Health Care Pf I USD
Eddie Yoon		52.40	1.05	Fidelity Select Medical Technology and Devices Ptf Fidelity Select Health Care Portfolio Fidelity Advisor Health Care Fund;I
Sailesh Rajbhan		0.68	1.05	Reliance Pharma Fund-Growth

TOP HEALTHCARE MANAGERS OVER FIVE YEARS

Name	Rating	TR	SMR	Contributing Fund
Eddie Yoon		151.00	1.07	Fidelity Select Medical Technology and Devices Ptf Fidelity Select Health Care Portfolio Fidelity Advisor Health Care Fund;I
Stefan Blum		142.35	0.71	BB Adamant Global Medtech und Services AA Klasse Bellevue F (Lux) BB Adamant Medtech&Services B EUR Bellevue F (Lux) BB Adamant Digital Health B
Marcel Fritsch		142.35	0.71	BB Adamant Global Medtech und Services AA Klasse Bellevue F (Lux) BB Adamant Medtech&Services B EUR Bellevue F (Lux) BB Adamant Digital Health B
Vinay Thapar		99.73	0.65	AB SICAV I-International Health Care Pf I USD
Sailesh Rajbhan		111.43	0.63	Reliance Pharma Fund-Growth

tools and techniques used to design and develop new drugs.

‘You’re seeing this rejuvenation of the sector from the ground up,’ he says. ‘Over the past five years it’s become a much bigger, more vibrant sector, with so much more breadth and depth of companies that are well-capitalised and using new technologies.’

It was this upbeat assessment that triggered the fund’s launch five years ago. Even though investors had made a lot of money from the sector by the tail end of 2013, the Polar Capital team was convinced the theme had decades to run.

Particularly exciting for Pinniger is when a biotech company

successfully launches a drug and experiences a profound change in its value proposition. It means quite small companies are suddenly transformed into viable investment propositions.

‘Companies become cash-flow positive, begin to return cash to shareholders, start investing in R&D, and then the whole thing snowballs,’ he says. ‘These companies can create a huge amount of value over a short space of time and that’s what’s driving the industry.’

Pinniger believes in diversification – but within reason. The fund has between 40 and 60 names, although it’s currently at the lower end of this range. ‘It’s

also important to manage the risk of individual investments, such as making sure they’re the right size,’ he says.

Prized positions include Vertex Pharmaceuticals in the US. ‘This company has done a phenomenal job over the last decade developing and commercialising drugs to treat cystic fibrosis,’ he says. ‘It has a dominant position in this space.’

Then there is Evotec, the German drug discovery company that works in conjunction with large pharmaceutical companies and academics. ‘We like it as a smaller company which is self-sustaining but also slightly off the radar,’ he says.

The good news is that the pipeline of attractive stocks is strong. Every drug successfully developed and approved results in greater cash flows and growth for the industry. In addition, the capital markets environment is also conducive to early-stage companies.

‘As long as companies continue to innovate, design, discover and develop exciting new drugs – and as long as the need remains – the industry has a really bright future,’ he says. ‘It’s going to be choppy along the way but biotech can be a source of great returns.’

BUILDING IN DIVERSITY

Global healthcare stocks rose during the second quarter of 2018 in what was a relatively volatile period for equity markets, with various geopolitical issues and a strengthening US dollar

continuing to dominate the headlines.

However, it didn't adversely affect the Delaware Healthcare fund, managed by Liu-Er Chen, which is a globally-oriented strategy that focuses on companies with franchise sustainability and attractive valuations.

The portfolio's overweight in uniQure NV, a market leader in gene therapy, has been the largest recent contributor to performance.

The fund's most recent update noted the risks of short-term legislative and judicial action could overshadow the sector's long-term positive fundamentals but said there were still significant opportunities in the global healthcare asset class.

'The baby-boom generation in the US is ageing, implying expanding demand for healthcare products and services for decades to come,' it read. 'At the same time, middle classes in countries with emerging economies are growing rapidly, creating big appetites for Western-style medicine.'

A-rated Ivo Staijen, manager of the HBM Global Biotechnology fund, is also feeling optimistic about the sector's prospects, pointing out the number of constituents in the Nasdaq Biotechnology index has increased sharply in recent years.

'Most investors have exposure to the large pharmaceutical giants but from a value creation perspective they should

be invested in earlier-stage companies too. Biotechnology is the backbone of innovation these days,' says Staijen, who is ranked fifth and first in the biotech sector over three and five years respectively.

However, it can also be a tricky area to navigate. For example, he says large caps in this area have endured some turbulence in recent years due to discussions in the US about drug prices, healthcare reforms, and slowing revenue growth.

At the same time, small and mid-cap companies performed strongly. 'They are often focusing on smaller life-threatening diseases, where there is a high unmet medical need and where modern drugs can make a difference,' he says.

Large caps have since recovered after good second-quarter numbers, pipeline success, and a general market rotation into larger, defensive plays. However, this hasn't changed the investment philosophy of Staijen's fund.

'The key to success in biotech investing is having a diversified portfolio with a combination of innovative, alpha-generating small and mid-caps, alongside a substantial percentage invested in larger defensive caps to control the downside,' he says.

The fund is invested in 40 firms out of an investment universe approaching 700 globally and only 30-40 will end up being selected for the portfolio. 'It's very important to know these firms

and their management teams, as well as understanding upcoming catalysts, such as clinical trial results and regulatory milestones,' he says.

While confident the long-term outlook for the biotechnology sector is bright, he warns there are risks such as macro shocks to equity investments, upcoming US Congress mid-term elections, and political rhetoric on drug pricing.

'We continue to opt for a slightly more conservative stance into the second half of the year, while continuing to try to identify the most promising, and potentially most profitable, investments within the sector,' he says.

CATALYSTS FOR GROWTH

Virtually no other sector offers long-term investors better growth prospects than biotechnology, which is currently in a new innovation cycle, says Mario Linimeier, a managing director at Medical Strategy, whose funds include Medical BioHealth.

'A key driver of growth in the healthcare market is demographic change,' he says. 'At the same time as the population is ageing, the incidence of chronic disease is on the rise. By 2030, chronic diseases will account for 66% of the global disease burden.'

He suggests both developments will lead to sharply increasing demand for healthcare services, while groundbreaking innovations, such as major advances in basic molecular biology research, should generate further growth.