POLAR CAPITAL

Gareth Powell, Head of Healthcare and Fund Manager

Polar Capital Healthcare Opportunities Fund

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 Healthcare Opportunities Fund positioned as a result?

The Fund is very focused on the new product cycle story, so we have a big overweight in biotech and a small underweight in pharma. If you put those together, we have about a 10%+ overweight exposed to the product cycle stories within those. For utilisation, we have approximately 25% exposure in the Fund to that theme. Finally, the small and mid-cap weighting is north of 50%. That is the part of the portfolio that potentially has high exposure to the M&A theme.

Gareth Powell

Head of Healthcare, Polar Capital

06 November 2025

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Risks

- **Capital is at risk and there is no guarantee the Fund will achieve its objective. Investors should make sure their attitude towards risk is aligned with the risk profile of the Fund before investing.**
- **Past performance is not a reliable guide to future performance. The value of investments may go down as well as up and you might get back less than you originally invested as there is no guarantee in place.**
- The value of a fund's assets may be affected by uncertainties such as international political developments, market sentiment, economic conditions, changes in government policies, restrictions on foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of countries in which investment may be made. Please see the Fund's Prospectus for details of all risks.
- The Fund invests in the shares of companies and share prices can rise or fall due to several factors affecting global stock markets.
- The Fund uses derivatives which carry the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as failure amongst market participants.
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- The Fund invests in a relatively concentrated number of companies and industries based in one sector. This focused strategy can produce high gains but can also lead to significant losses. The Fund may be less diversified than other investment funds.

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