Healthcare Opportunities Fund

POLAR CAPITAL

Q&A with Gareth Powell, Fund Manager

Gareth has managed the Polar Capital Healthcare Opportunities Fund since its inception in 2007.

The Fund takes a multi-cap approach, aiming to capture growth in the healthcare sector from across the world.

Fund Highlights

- **11% total return p.a. since launch in 2007***
- **Team of 5 sector specialists with 120+ years of combined industry experience**
- **High conviction, concentrated portfolio of c.40-45 positions**
- **Actively managed with no benchmark or tracking error constraints**
- **A broad, multi-cap remit driven by fundamental analysis and stock selection**

Gareth Powell
Fund Manager

Gareth joined Polar Capital in 2007 to set up the Healthcare team. Prior to Polar Capital, Gareth worked at Framlington, where he began his career in investment management in 1999. Soon afterwards, he joined the Healthcare Team in 2001 and helped launch the Framlington Biotech Fund, which he managed from 2004 until his departure.

FE fundinfo Crown Fund Rating

Q: Why should investors be looking at healthcare now?

A: Healthcare is cheap, in our opinion, trading at a 20% discount to the market on a relative basis. This type of valuation level has only been seen twice in 30 years and both times proved to be excellent buying opportunities, though of course, there is no guarantee that will be the case again. Technically, the sector is hitting new relative highs with significant momentum which is usually a sign of good things ahead. Fundamentals should get stronger over the next few years given pharma, biotech and diagnostics companies are all showing their value during the COVID-19 pandemic.

Q: Why does the Fund have a bias towards small and mid-cap stocks, and what do you look for in these companies?

A: Small and mid-cap companies in healthcare are typically the most innovative, offering faster growth. They are typically under-researched, thus offering the potential for higher returns. Key attributes include management teams who 'have done it before', new products and services that are disruptive, and accelerating growth opportunities that are underappreciated by most investors.

*Source: Northern Trust International Fund Administration Services (Ireland) Ltd, monthly percentage growth, US$ and has been calculated to account for the deduction of fees. As at 30/04/20. Performance is representative of the Institutional US$ share class which launched on 1 April 2009. Prior to this the performance figures are representative of the US$ share class which launched on 3 December 2007. Past performance is not indicative or a guarantee of future results.

Q: Have you always managed concentrated portfolios and if so, why?

A: My previous role was at Framlington (now Axa) where I ran the Framlington Biotechnology Fund of 50-60 stocks. Attribution analysis always suggested that the best returns came from 20 stocks with the highest relative weightings while academic research suggests diversification benefits are limited once a portfolio gets past 16-18 stocks.

The healthcare subsector returns for pharma, biotech and medical devices are mainly driven by stock-specific risk, so extensive due diligence on a small number of stocks should hopefully lead to strong performance. Having a large number of holdings obviously means smaller stock weightings which limits the impact of outsized moves from individual stocks for the overall Fund. Our target of 40-45 holdings is driven by a combination of aiming to drive excess returns while managing risk.

Q: What themes do you find attractive right now and which subsectors excite you the most?

A: Diagnostics: diagnostic testing costs 2% of healthcare budgets but delivers 70% of the value. These companies are showing their true worth in this crisis and should be perceived as more valuable in the future.

Small/mid-cap biotech: innovation is the most exciting we have seen in over 20 years investing in biotech. The long-term opportunity remains significant.

Healthcare technology: the use of technology in healthcare has been disappointing and slow. The COVID-19 pandemic has changed that with a rapid acceleration in areas like telehealth and monitoring. This will only increase.

Outsourcing: outsourcing is more cost effective for companies, particularly the likes of clinical research and contract manufacturing organisations – and allows focus. Trends here are very positive and we believe growth will continue for some time.

Shift in demand to more cost-effective settings: a future trend is the delivery of healthcare away from hospitals and into the outpatient setting/home health. Healthcare systems need to become more efficient to cater for this.

China biotech: true innovation is now coming through and thus offers a completely different investment opportunity than existed previously.

Q: Does the Fund have exposure to medtech and if not, why?

A: Exposure to medical devices is still significant but much lower than in mid-2019. Medical devices were the biggest subsector for quite some time in the Fund as a period of innovation drove outsized growth and performance from 2016-19. However, the stocks became expensive after four years of outperformance and positioning in the subsector became crowded, hence the reduction in 2019.

The outlook for medical device stocks looks challenging in the short term during the COVID-19 pandemic, although opportunity in the mid-to-long term looks attractive.

On balance, the opportunity for innovation within the sector remains enticing, and the demand for the products of these companies will accelerate as we move past this crisis.

Q: Do you play binary events like clinical trials?

A: Typically, we avoid binary events. We try to invest much earlier, before the binary event becomes relevant, and exit with gains hopefully generated before other investors become involved for the event. Also, market inefficiencies often allow investment opportunities immediately after binary events have played out such that outsized gains can still be generated even after the initial move in a stock following the binary event.

On the rare occasion we do stay invested through a binary event, we look to manage risk such that the downside in the worst case is a maximum of 50bp.

Q: What will a Democrat/Republican victory in the US presidential election this November mean for the sector and how do you factor the election into your positioning?

A: As candidates, Donald Trump/Joe Biden have lowered the risk of the election for the healthcare sector; Democrat Biden as a moderate is a definite positive. Also, the actions of pharma/biotech/diagnostic companies during this crisis have shown the true value these subsectors offer, versus the traditionally negative focus on pricing etc. The strength of these companies in the US and a on a global basis should be considered as a major positive by the Administration. The outcome of the elections in the House and Senate are of equal importance, with the likely results here still supportive of the outlook for healthcare.

Find out more

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Polar Capital Healthcare Opportunities Fund

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