

## HEALTH: A STRATEGY IN GOOD SHAPE

**RUDI VAN DEN EYNDE**, Head of Thematic Global Equity explains to investors why investing in the health sector is a useful strategy.



### Why offer a health strategy?

You will have noticed that the health sector is becoming increasingly dominant in our society. Our view is that, nowadays, it makes very good sense to include health-care in a portfolio.

Ageing populations and economic development are two powerful factors driving the take-up of healthcare:

- for instance, by 2040, over 45% of the Japanese, Spanish and Italian populations will be over 60. Even in an emerging country like China, the estimated figure is 28%<sup>(1)</sup>;
- again, data from the World Health Organisation (WHO)<sup>(2)</sup> shows that health costs as a proportion of GDP are rising across the entire world. In the United States, for example, they rose from 5% of the GDP in 1960 to 18% in 2018<sup>(3)</sup>.

Offering a general strategy seems an obvious step, following naturally from our other areas of special expertise (oncology and biotechnology).

### Why include a strategy like this in my portfolio?

The key factor determining the performance of companies in this sector is whether or not they can successfully develop a drug or treatment after many years of laboratory work. Improved scientific instruments and a better understanding of the underlying causes of illnesses have led to significant innovations and to more effective drugs and treatments. There are many recent examples: progress in medical imaging now allows cancers to be detected at an earlier stage; new non-invasive and robot-assisted surgical techniques significantly improve post-operative prognoses;

and more. So as investors, we can benefit from an immense universe, diversified in terms of number of securities, company size and dealing volumes.

In addition, unlike most other sectors, health is not sensitive to macroeconomic contingencies or economic cycles.

Including health in a portfolio can be a way of improving the overall performance.

### How do you select the companies in which you invest?

Even before considering the basic financial aspect, we look particularly at the clinical aspect. The success of a medicine or a medical device is not dependent on taste or fashion. The business has to develop treatments that make or will make a difference to patients. Innovation is a key factor in our analysis.

(1) Sources: National Institute of Health (NIH), World Health Organization (WHO)

(2) <https://www.who.int/bulletin/volumes/en/109to122.pdf>

(3) On 17/12/2019 according to the Centers for Medicare & Medicaid Services

# 60 SECONDS WITH THE FUND MANAGER

We review the clinical/medical data carefully, and compare it with that from existing methods of treatment, to see if it offers an improvement.

The team that does so comprises scientists, in particular biotechnology PhDs, able to assess the clinical quality of new treatment options, and thus identify tomorrow's winners before they are evident in the company's market price.

We then analyze each company in the universe in depth, using five basic and financial criteria: management quality, growth potential, competitive position, high profitability and low indebtedness.

To avoid investing in companies overvalued by the market, we make our own estimate of the value of each security, which we compare with the stock market price.

Our selection is based on our considered opinions, both clinical and financial; we use our own analysis.

This rigorous process is already well tested: we have been selecting securities in the fields of pharmacology and medicine for over 20 years. At the end of January 2021, the management team were in charge of assets in health funds worth over 5 billion dollars.

## Does the solid performance of the health sector over recent years indicate that it is now overvalued?

Of course, the coronavirus crisis has highlighted the importance of this area, and it has again become a focus of investor attention.

Nevertheless, well before Covid-19 we had identified this sector as important in the future: it was already trending strongly, powered by innovation and social and demographic changes, in particular the ageing of the world population. We consider that, if it continues, the increase in public spending on healthcare will be a fundamental trend and one likely to continue over the long term.

As we said before, the healthcare sector should prove relatively resilient, retain its defensive nature, and remain largely independent of the world economy and of growth cycles. It has its own drivers of performance and volatility.

With this in mind, and given the growth potential of many companies working in pharmaceuticals, biotechnologies and medical technologies, the sector valuations do not seem unreasonable.

## How is Candriam's approach different?

Candriam has been investing in the healthcare sector for over 20 years.

We owe this success to our combined clinical and financial analysis, and most importantly, to the women and men who make up the management team. They have over 10 years of shared experience and complementary types of expertise in analyzing health sectors.

In addition, when selecting our securities, we rely on the review of fundamentals by four biotechnology experts whose work guides our thinking, also on the work of the equity emerging market teams, the

technology equity teams and the themed equity teams, and also on our partners: a network of internationally recognized external experts.

These consultants can supply us with investment ideas, inform us about a new technology or about a protocol under development, and, importantly, bring us into contact with other experts who can challenge our views.

Constantly resetting the perspective in this way means we reach more objective and better-supported conclusions.

## Why do you think I should invest in this strategy?

By investing in Candriam's strategy, you are supporting innovative businesses that supply practical solutions to day-to-day healthcare problems: the strategy is both a tangible and useful investment.

We are also convinced that any truly effective and innovative treatment will receive a high level of reimbursement. Innovation is never-ending; the health sector is making constant and accelerating progress.

Health remains an area with golden opportunities for those who know how to choose the right securities.

FIND OUT MORE ABOUT  
OUR FUNDS AND  
THEIR RISK PROFILES:



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