

# Thriving in the pandemic: healthcare

## Mike Fox – Head of Sustainable Investments

Mike Fox discusses his approach to the healthcare sector and why he believes active investment will be the key to longer-term performance beyond Covid-19.

Covid-19 is arguably the greatest challenge the world has faced since the Second World War, threatening our health and wellbeing and drastically impairing everyday life. It is no surprise that the healthcare sector outperformed strongly through the initial crisis and our sustainable funds benefitted from this. Yet this is no guarantee of future success: a thoughtful approach is needed and active investment will be a key tool.

Healthcare can be broadly divided between pharmaceuticals, medical devices and health insurers. We tend to steer away from the last category as we have found the link between their businesses and improved patient outcomes less easy to define, given the competing requirements of claims management and patient treatment. Besides, there are more than enough opportunities and plenty of innovation in the drugs and devices subsectors.

As sustainable investors, we support the transition to a cleaner, healthier, more inclusive and safer society. Healthcare will be central to this and 'next generation medicine' is one of the key themes in our portfolios. Innovation is at the core of many social and environmental improvements, and the pharmaceutical and medical device sectors are driven by research and development (R&D) and innovation.

Despite huge progress in recent years, current diagnosis methods and treatments are slow and often ineffective. There are significant disease

categories where there has been little progress in reducing mortality – apart from the human tragedy, the financial costs of late-stage treatments and care are huge. The ability to extract more accurate and timely health information from our bodies, including our individual genetic profile, offers the opportunity to significantly enhance healthcare standards and outcomes.

High mortality rates often result from slow diagnosis – it is much harder to treat cancer and other illnesses if diagnosed late, so accelerating diagnosis is crucial. The market didn't like the recent acquisition of Grail by Illumina (which we own), yet we are excited by the prospects for its liquid biopsy process to accelerate the identification of some types of cancer through blood samples. This could transform outcomes for otherwise late-stage diagnosis, such as for pancreatic cancer.

There are similarly powerful innovations in treatment, including altering our immune system to improve its ability to fight disease. In this area, we prefer pharmaceutical companies with broad R&D capabilities and a focus on key therapeutic categories such as cancer and diabetes. Just as we don't tend to invest in tech IPOs, neither do we seek esoteric opportunities in the biotech sector – big pharma stocks, such as AstraZeneca, diversify the risks across their product portfolios. Roche goes further, adding leadership in diagnostic testing.

As with all sectors, we try to identify the most exciting themes, then seek the lowest-risk way to invest in them. Just like technology, we don't try to invest in all healthcare stocks, focusing on those that meet our demanding sustainable and financial criteria.

Healthcare is a dynamic and innovative sector, but the subsector that has arguably changed the most in recent years is medical devices. The sector traditionally addressed areas such as replacement joints or wound management, but has transformed through innovative technology and engineering. Robotic surgery (Intuitive Surgical), aortic heart surgery that is conducted through the patient's veins (Edwards Lifesciences) and myriad other techniques are leading to less invasive surgery, lower recovery times and more consistent patient outcomes.

Technology is transforming every aspect of our lives and healthcare is no exception. Its impact is being felt across the board, but stands out in two areas in particular. It has transformed R&D processes and laboratory testing, led by companies such as Thermo Fisher Scientific and Agilent Technologies. Whether through remote patient monitoring (Philips) or the increased use of wearables, it is also transforming healthcare and health awareness through data. 'Health is the new wealth' and awareness of health data and information is another trend that has accelerated in the pandemic.

Covid-19 has catalysed changes that were already underway. Healthcare is no different and we will continue to stick to the investment ideas that we had in place before the pandemic. We believe that investors will be best served by long-term thinking and an active investment approach with strong risk management.

It certainly isn't about picking the winner in the race for a vaccine. While I'm pleased that

AstraZeneca is working with researchers at Oxford University to develop a vaccine, this hasn't changed my investment view of the company. Indeed, as a sustainable investor, I'm delighted that it has committed to selling this vaccine at cost, thereby making no profit on it. It's the right thing to do.

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