

Global Healthcare Equities Q&A



Global healthcare equities have experienced volatility and lagged the broader market year-to-date¹, due to policy-driven uncertainty and company-specific events. However, recent rebounds and historically attractive valuations present selective opportunities for long-term investors. This Q&A provides an updated overview of sector performance, examines the impact of recent US healthcare

policy developments, and outlines key investment strategies and themes. It also highlights the growing role of artificial intelligence (AI) in healthcare innovation and shares practical tips to help investors navigate market volatility.

1. Compared to the broader market, how has the healthcare sector performed year-to-date? What are the reasons behind this?

The healthcare sector, as represented by the MSCI World Health Care Net Total Return USD Index, declined by 2.97% in July. However, we saw a rebound in performance in August (+5.14%), bringing the year-to-date (YTD) returns for the sector to +2.84%¹. This contrasts with strong gains in the broader markets driven primarily by the mega-cap tech-related stocks, as well as a recovery in European companies after a multi-year period of underperformance:

- Global equities (MSCI World Index): +12.67% YTD
- US equities (S&P 500 Index): +9.84% YTD
- European equities (STOXX Europe 600 Price Index EUR): +8.38% YTD

The healthcare sector's lagging performance relative to the broader market can be attributed to several factors. Firstly, the Trump administration's appointments in healthcare leadership roles have caused disruptions in healthcare policy. The Secretary of Health and Human Services (HHS) has been a vocal critic of vaccine and preventative health

policies, and the controversial appointments at the Food and Drug Administration (FDA) have introduced significant uncertainty into healthcare policy.

Additionally, the uncertainty surrounding tariffs, the Most-Favoured-Nation (MFN) status, and Section 232 rulings² has led to concerns about potential drug price controls by the US government. We believe these initiatives have a low probability of implementation with no material impact longer-term.

Lastly, there has been stock-specific weakness within the healthcare sector. Some well-established health insurance and pharmaceutical companies have faced negative company-specific events, leading to increased volatility in stocks that were once considered safe havens. This has caused downward pressure on company stock prices, leading to short-term volatility across the healthcare space.

Meanwhile, the broader market has continued to rise, driven by strong momentum in the technology and consumer sectors, further compounding the healthcare sector's underperformance.

¹ Bloomberg, data as of 31 August 2025. Price returns in index currencies. Global equities, represented by MSCI World Index, posted +1.23% and +2.49% return in July and August 2025 respectively. US equities, represented by S&P 500 Index, posted +2.17% and +1.91% return in July and August 2025 respectively. European equities, represented by Stoxx Europe 600 Price Index EUR, posted +0.88% and

+0.74% return in July and August 2025 respectively. Past Performance is not an indication of future performance.

² On 1 April 2025, the US Secretary of Commerce initiated an investigation under section 232 of the Trade Expansion Act to determine the effects on national security of imports of pharmaceuticals and pharmaceutical ingredients, and their derivative products. This includes both finished generic and non-generic drug products.

However, this period of relative underperformance has created a favourable environment for healthcare stocks, which are now trading at historically low valuations compared to broader market indices, both in terms of price/earnings and price/earnings-to-growth ratios. For example, the healthcare sector's representation in the S&P 500 Index dropped to a 15-year low, comprising roughly 9% of the total index in July.

Our fundamental research and discounted cashflow valuation suggest meaningful potential upside in the sector at the present time, notwithstanding this short-term market dislocation.

2. What is your view on the recent policy-driven uncertainty in healthcare? Will the potential impact of these policies on the healthcare industry be broad-based and long-lasting?

• US Reconciliation Bill

The healthcare sector has experienced notable volatility following the passage of the US Reconciliation Bill in July ("One Big Beautiful Bill"). While this law facilitates meaningful cuts (approximately US\$1.2 trillion over 10 years) in US government healthcare spending, these cuts are primarily directed at Medicaid and ACA (Affordable Care Act, also known as Obamacare) insurance programmes.

This legislation is expected to have a significant impact on uninsured individuals across the US. It's estimated that roughly 5-10 million people will lose insurance coverage by 2034. However, these estimates are subject to further review by the Congressional Budget Office (CBO)³. Given these uncertainties, we have maintained limited (if any) exposure to the Medicaid and ACA insurers, as well as minimal exposure to publicly traded hospital companies.

• Drug Price Cuts and Import Tariffs

On 5 August, US President Donald Trump said he intends to cut drug prices as promised, and

that planned tariffs on pharmaceuticals imported into the US could potentially reach up to 250%. Fortunately, this position has softened considerably in recent weeks, as the base tariff for Europe and many other countries has been set at 15%. We believe that drug manufacturers and the supply chain can easily absorb tariffs of this level with no undue impact on the profitability of these companies.

In early May, the administration indicated it would seek to establish MFN pricing to set drug costs for Medicare and Medicaid in the US. This MFN drug price is the lowest of any OECD country. The administration claimed this would reduce US drug prices by between 30% and 80%. The administration continues to highlight this issue with the letter sent to pharmaceutical companies on 5 August. We will continue to monitor these developments, however, as previously mentioned, we believe these initiatives have a low probability of implementation with no material impact longer-term. In fact, in 2018, the Trump administration's effort to apply MFN pricing to Medicare Part B drugs was overturned in court.

It is important to note, there are differences in "list prices" for drugs in the US versus "net prices". In most cases, the prices actually paid for drugs in the US are 30%-50% below their list price. Currently, details are scarce on how this would be implemented, if at all. The administration could consider removing certain intermediaries in the US that deliver drugs to patients, which could be manageable. There could also be attempts to persuade other countries to raise their drug prices. While this is clearly an overhang for the biopharmaceutical sector, we continue to believe that investing in true innovators within biopharmaceuticals will help deliver long-term capital appreciation for investors in our strategy. Additionally, should an unlikely MFN scenario arise, we believe other areas within healthcare could become more attractive investments. For example, drug wholesalers would stand to gain the most as economic returns would accrue from

³ Health policy organisation KFF and CBO estimates, <https://www.kff.org/from-drew-altman/explaining-the-muddle-on-aca-tax-credits/>

elevated demand in the event of meaningful price reductions for more advanced therapeutics.

Overall, tariff policy and potential MFN pilot programmes have not appreciably impacted our long-term financial estimates in our discounted cashflow models, thus creating interesting opportunities for capital allocation in the biopharmaceutical sector.

3. What investment strategy are you adopting currently?

In our nearly seven decades of combined experience focused on the healthcare industry and healthcare investing, we believe adhering to our long-standing philosophy and process is critical adding value for investors. Overall, we continue to emphasise a bottom-up fundamental research process informed by our assessment of emerging scientific and medical trends, coupled with a thorough intrinsic valuation analysis. This approach should ensure that our allocation of capital focuses on companies that tackle important unmet medical needs, pursue underappreciated market opportunities, and/or demonstrate an ability to bend the healthcare cost curve.

Biopharmaceutical companies remain a strong focus due to their innovative capabilities and the critical need for treatments in high-demand areas such as hematologic cancers, cardiovascular disease, and diabetes. With changes to Medicare's drug benefit making advanced treatments more accessible, we expect increased demand for these therapies. Companies investing in groundbreaking research and strategic partnerships, especially those engaging with emerging markets like China, are well-positioned for growth.

Select areas within medical technology (MedTech), such as renal denervation for treatment-resistant hypertension, present significant growth opportunities. Innovations in electrophysiology, robotic surgery, and large joint replacements are also driving growth, supported by an ageing population and global demand. While life science tools have faced challenges, those with strong innovations and strategic investments may outperform.

Within the healthcare providers and services industry, we see significant value in select supply chain companies, specifically pharmaceutical

wholesalers. We expect these companies to see improving margins from favourable modifications to patient co-pay obligations, driving elevated prescription volumes.

We are well positioned to minimise potential downside implications from US government healthcare spending cuts. As mentioned, we have maintained limited, if any, exposure to the Medicaid and ACA insurers, as well as limited exposure to publicly traded hospital companies.

Finally, we have been and remain materially under-indexed to global vaccine market participants. This underweighting is derived from our bottom-up, fundamental research process, as our proprietary financial models reflect the relatively unattractive economic returns of the vaccines business (i.e. low intrinsic margins, difficult demand forecasting, high capital expenditures, etc.).

4. What are the longer-term investment themes across the healthcare industry?

• Biopharmaceuticals

Constituting roughly two-thirds of our investable healthcare universe, we remain focused on biopharmaceutical companies with best-in-class product portfolios serving patients in disease states with inelastic demand.

Our previous work related to structural changes in a post-pandemic world supports the continued urgency to effectively manage other pre-existing disease states (cancer, metabolic syndrome, central nervous system, and immunologic disorders), which our research suggests predispose these comorbid patients to higher morbidity and mortality post-Covid.

Accordingly, this has led us to maintain our optimism towards companies focusing on treating hematologic cancers, cardiovascular disease, asthma, Alzheimer's disease, and diabetes/obesity.

Important new treatments for lung cancer and metabolic disease (just to name two) constituted groundbreaking licensing deals between China-domiciled originators as well and their established multinational biopharmaceutical partners in 2024. We have highlighted this impressive Chinese research competency for several years now and expect this research competency to proliferate

further in the years ahead. We continue to monitor and invest accordingly, seeking equity positions in China-domiciled originators and their multinational partners.

One of the underappreciated drivers for the healthcare industry relates to changes in how drugs are paid for within the Medicare population. Due to changes stemming from the Inflation Reduction Act, Medicare recipients (those over 65 years) can now access all their medicines for US\$167/month. As awareness of this change in drug coverage expands, we believe this will drive increased prescription drug utilisation as well as greater adherence. We are beginning to see some impact of these changes in key markets like cancer, heart failure, and diabetes.

• **MedTech and Life Science tools**

The fundamentals within select areas of the global healthcare equipment/supplies and life science tools/services industries remain reasonably attractive.

Select companies continue to reap the benefits of the excess revenues generated from pandemic-era Covid-19 testing and vaccine production, with more measured incremental cash flows in the now-endemic state of Covid-19. Many of these companies are now generating above-market returns as the incremental research, capital expenditure, and pipeline investments they had implemented have reached fruition in recent quarters and years, addressing important persistent unmet medical needs.

Hypertension remains the most persistent and prevalent risk factor in all of cardiovascular medicine, with some 26% of adults in the world suffering from high blood pressure (roughly 1.2 billion people), of which approximately one in six (200 million) are considered “treatment resistant” (i.e. remain refractory or intolerant of at least three drug treatments from the six classes of drugs used to manage the disease). We have appropriately positioned to capitalise on these emerging treatment modalities.

5. AI is increasingly integrated into everyday life. Are there any AI technologies being adopted in the healthcare industry that enhance the

long-term investment outlook and profitability prospects?

Yes, AI adoption in healthcare is accelerating and is expected to significantly enhance long-term investment potential. Several technologies and applications are already demonstrating measurable impact:

AI is not a new phenomenon in drug development. Leading biopharmaceutical companies have actively deployed artificial intelligence and big data in a number of functional areas over the last 10 years. These would include drug candidate screening, clinical trial execution, and commercial profiling activities, amongst others. In the future, we expect that AI will also provide efficiencies in regulatory filing activities and patient identification in a post-marketing setting.

AI is also an emerging tool in clinical and radiographic diagnostics. Improved genomic/proteomic screening is currently emerging as a valuable modality in important diseases like colorectal cancer, lung cancer, and various orphan diseases. In addition, augmented radiography software is facilitating earlier diagnoses in neurologic and oncologic conditions, thereby reducing morbidity and mortality in the aforementioned conditions.

We believe our strategy is well positioned to capitalise on many of these established and emerging AI applications and expect our holdings in this regard to provide incremental revenue, margin, and profit streams over a full market cycle.

6. During times of volatility, what can investors do to navigate it?

Every industry and asset class has its own market cycle, and the duration of that cycle will vary.

We believe that the defensive characteristics of the overall healthcare industry, coupled with strong organic growth in select companies, should provide strong performance for investors over a full market cycle. Current valuations relative to the broader market make for an attractive entry point today, and periods like this tend to lead to the outperformance of healthcare stocks over a longer period of time.

While we do not profess to have an informed opinion on the past two years of meaningful technology stock outperformance, recent pullbacks in this sector

underscore to us the considerable uncertainty of potential “winners and losers” in the broader AI marketplace. Recent sector flows notwithstanding, we do profess, however, a persistent conviction that demographic trends in healthcare, coupled with remarkable therapeutic innovations in the biopharmaceutical, MedTech, and tools sub-segments of this sector, will continue to be rewarded with capital appreciation over a full market cycle.

If investors wish to reduce volatility and benefit from long-term growth when markets move up and down, the automatically executed strategy of dollar-cost averaging may be a feasible choice.

It is the practice of regularly investing a fixed dollar amount in a specific investment – regardless of fluctuations in the market price. As a result, an individual buys more units when prices are low and fewer units when prices are high. This technique reduces the effects of short-term market fluctuations on investments by averaging out the costs of units over time.

If investors believe a strategy could help them achieve their financial goals, they could actively identify assets with long-term growth potential and consider starting a monthly investment.

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