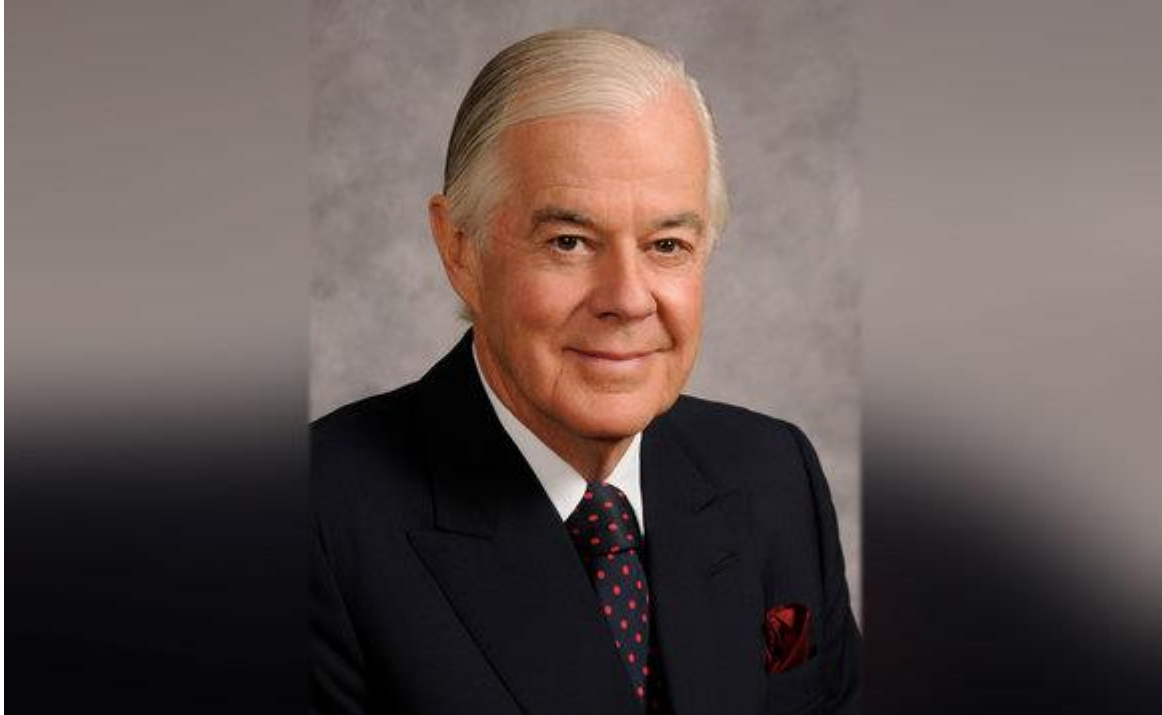


Is the US market good for your health?

US healthcare benefitting from secular tailwinds



- Dixon Boardman
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At a time when the investment environment seems so uncertain in the short term, savvy investors know that seeking out strong, secular growth opportunities is the key to long-term success.

The US healthcare sector generally, and the biotech and therapeutics sub-sectors in particular have been - and are expected to remain - the most dynamic and innovative segments of the US and global economies.

Specialist money managers have chalked up impressive returns by focusing on these areas.

Although generalists have tended to be underweight, a shift in portfolio allocations is warranted, which would add potential momentum to stock prices.

For investors interested in getting ahead of the curve, a focus on healthcare and biotechnology could be very timely.

Fundamentals

The US healthcare sector is benefitting from long-term secular tailwinds:

- Rapid Innovation and advanced scientific breakthroughs are creating new therapies, drugs and procedures with wider applications and greater efficacy. Medical devices and procedures, such as robotic operations, are also areas of innovation.
- Demographic changes (aging populations in developed economies; growing middle class in emerging economies) are driving greater demand and thus healthcare spending is increasing globally.
- Furthermore, the pace of innovation has been accelerating, facilitated by the FDA's proactive approach to streamlining the drug approval process over the past several years (*see table below*).

Sector weightings as percentage of S&P 500

Sector	1970	1980	1990	2000	2010	2018
Consumer Discretionary	16.50%	7.30%	10.10%	10.30%	6.90%	9.90%
Consumer Staples	10.30%	8.70%	16.40%	8.10%	11.10%	7.40%
Energy	15.70%	28.20%	13.10%	6.60%	11.30%	5.40%
Financials	0.80%	5.00%	7.20%	17.30%	15.20%	16.60%
Healthcare	4.80%	8.00%	10.30%	14.40%	13.00%	15.80%
Industrials	16.60%	15.00%	11.90%	10.60%	10.00%	9.40%
Information Technology	11.50%	8.70%	8.80%	21.10%	17.90%	19.90%
Materials	10.00%	9.70%	7.10%	2.30%	3.70%	2.60%
Telecommunications	5.90%	3.80%	2.00%	5.50%	7.40%	9.90%
Utilities	7.90%	5.60%	13.10%	3.80%	3.50%	3.10%

Source: Optima Asset Management

Market factors

Investment fundamentals and technical market factors make a strong case for exposure to the healthcare and biotech sector.

Healthcare has steadily grown to become one of the largest sectors weightings in the S&P 500.

The sector is very diverse, though. In particular, there are many important opportunities in small cap biotech stocks, many of which are trading at less than 2x cash.

As the number of biotech stocks continues to grow, the wide dispersion among them creates opportunities to add value - long and short.

Long and short

In my experience, a long/short investment strategy can be the most effective way to approach the healthcare sector.

Binary events around drug trials can create opportunities, long and short, for managers with special expertise in the field.

Furthermore, hedging can be especially valuable given the current uncertainties about trade policies, global economic growth, and potential political upheavals.

Also, the potential for mergers and acquisitions in the sector is strong, especially among small and mid-cap companies.

Expertise

Because healthcare and biotech are so complex, the sector is best accessed via managers with special expertise or via multi-manager funds, rather than through generalist investment houses.

Such managers may not be household names, even in the US, but they have the in-depth understanding that their teams of medical doctors, PhDs and engineers bring to the party.

Optima Asset Management, based on extensive analysis and due diligence, has identified the top echelon of these portfolio managers, who have generated returns greater than the broad S&P 500 over the past decade

This impressive performance is a reflection not only of the managers' skill, but also of the range of opportunities offered by this exciting and important sector.

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