Three healthcare trusts to invest in

The biotech sector is in its biggest bear market in 30 years. But Max King explains why this sector could turn around soon and three healthcare trusts that may be worth investing in.

by: **Max King**   ⏲ **5 APR 2022**

The remarkable speed at which scientists were able to discover new vaccines and treatments during the pandemic and roll out mass usage seemed to show that there is no medical affliction which is beyond the scope of ingenuity and innovation. This seemed likely to usher in a new golden era for the healthcare sector, and for biotechnology in particular, that would boost the private companies at the forefront of the medical revolution.

Instead the biotech sector is in its biggest bear market in 30 years. In 12 months, the S&P Biotechnology index has lagged the S&P 500 by 64%, falling nearly 50% back to the level of mid 2015. The broader healthcare sector has fared better, thanks to the resilient share prices of big pharmaceutical firms and healthcare service providers. But smaller,

innovative companies focusing on research and development rather than shortterm cash flow have suffered.

Time for the tide to turn

In the year to 28 February, the net asset value of Worldwide Healthcare Trust (LSE: WWH) was down 9%, and that of its sister trust Biotech Growth Trust (LSE: BIOG) was down 35%, each 22% behind their benchmark indices. "Fundamentals did not matter," says Sven Borho, co-manager of WWH. "Everything was driven by macro trends such as growth into value". In addition to the poor performance of biotech (22% of WWH's portfolio, 82% of BIOG's), exposure to the massive under-performance of Chinese companies (8% in both), also hurt the trusts, he notes.

Still, "the healthcare sector now trades on a 20% discount to the S&P 500, the same as in the financial crisis", says Borho. "Every single time it has traded at such a discount has been the very best time to be invested, especially in innovation and growth." Meanwhile, the threat of drug pricing reform and regulatory change in the US has lifted. "We are very confident of recapturing much of the lost performance of WWH and BIOG... We have bounced back from setbacks before."

Controlling the costs

By far the best performer in the sector is the £1bn BB Healthcare trust (LSE: BBH), which is up by 84%, over the past five years. Manager Paul Major has focused on the rising cost of healthcare – which accounted for 10% of US GDP in 1980 but is now 18% – as a key theme. "The compound annual real growth rate of NHS expenditure is 2.25% but needs to be 3.5%.

Thanks to ageing populations, scientific progress and increasing wealth, healthcare is the secular growth story of our age but it needs to be paid for." BBH invests in firms that "provide innovative solutions for broken healthcare systems around the world". For example, healthcare waste in the US is estimated at $750bn per annum.

"The political discussion in the US is about prescription drugs but they only account for 10% of total spending. Hospital care accounts for 31% and physicians and clinics 20%." This is where efficiency can improve, says Major. "Hospitals are expensive and nobody wants to be there, so newer care models are needed. The first interaction of patients with healthcare needs to be online."

Other areas of focus are diagnostics, patient monitoring, disease prevention and changing behaviour. "People do not follow medical advice or behave rationally so they need to be nudged. For example, 15% of those with cancer in the US are not receiving treatment. Sensory technology can be used for monitoring the treatment of patients so that their arrival in hospital represents a last resort."