



EDMOND
DE ROTHSCHILD

TOWARD A RETURN INTO THE LIMELIGHT OF THE HEALTH SECTOR

▶ Neglected by investors over the past few years, the health sector nevertheless offers good visibility in our view. Rise in healthcare spending, therapeutic and technological innovation: Adeline Salat-Baroux, manager of the Edmond de Rothschild Fund Healthcare fund, provides an overview of the underlying trends buoying this industry.

INTERVIEW



ADELINE SALAT-BAROUX

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EdR Fund Healthcare
Fund Manager, International
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EdR Fund Healthcare is a sub-fund of the Luxembourg-registered SICAV (investment fund in the form of a company with variable capital) authorised by the CSSF and approved for marketing in Austria, Belgium, Switzerland, Germany, Spain, France, the UK, Italy and Luxembourg.

*The fund managers may change during the product's life.

THE COVID-19 HEALTH CRISIS HAS PUT THE HEALTH SECTOR BACK INTO THE LIMELIGHT...

And indeed it is. Sector players will play a key role in helping us to exit this crisis, first by supplying tests and treatments and then, in a second stage, vaccines. The MSCI World Healthcare has thus been very resilient since the start of the year. However, beyond the “fad” effect, the health sector posts solid structural growth. It therefore represents a real long-term investment theme, in which Edmond de Rothschild has always been invested. Our healthcare fund, launched in 1985, is in fact one of the oldest of the house.

WHAT ARE THE STRUCTURAL TRENDS SUPPORTING THE SECTOR?

Firstly, we are seeing an increase in healthcare spending on a worldwide level, both in mature countries and in emerging countries, which record a double-digit rise. The sector is also driven by innovation. Moreover, with the current health crisis we are rediscovering the capacity for innovation of all types of healthcare groups, laboratories, biotech companies, or medical technology companies.

WHICH INNOVATIONS ARE ESPECIALLY PROMISING IN YOUR OPINION?

There are of course the therapeutic innovations, notably in the area of neurology, and notably immuno-oncology. The fund has been invested in this segment for several years now, where revenues are still posting strong momentum. At the same time we are witnessing numerous technological innovations in the areas of genomics, robotics and digital health. Our portfolio, which is invested in the entire healthcare ecosystem, is very diversified across all of the innovations that are transforming the sector. Our exposure to pharma laboratories is 25% and biotechs represent 30%. We have increased our exposure to medical equipment and technology stocks such as Abbott, Thermo Fisher and Illumina, which is specialised in genomic sequencing. In healthcare services, we introduced Ping An Healthcare, a leading Chinese company in telemedicine.

THIS TRANSFORMATION MOVEMENT THUS ARGUES IN FAVOUR OF THE SECTOR COMING BACK INTO THE LIMELIGHT ON THE STOCK MARKETS...

In recent years, the sector has been penalised by the political message coming from the US and fears of pressure on drug prices. At present, the valuations of the pharmaceutical laboratories and major biotech companies show discounts of 20% to 30% compared to the MSCI World¹. This does not appear to be justified in our view given the fundamental characteristics of the health sector. Beyond its defensive nature, it offers good visibility on long-term earnings, based on a steady and sustainable rise in demand and which is supported by innovation. We thus believe that current valuation levels look attractive.

PRINCIPAL INVESTMENT RISKS

The fund is rated 6 on a scale of 7, a high risk/return fund profile which reflects its ability to be up to 100% exposed to equity markets.

The risks described below are not exhaustive: it is the responsibility of investors to analyse each investment's risk and to come to their own opinion.

Discretionary management risk: The discretionary management style is based on expectations of the performance of different markets (equities, bonds). However, there is a risk that the Fund may not be invested in the best-performing values at all times.

Equity risk: The value of a stock may change depending on factors specific to the issuer but also on exogenous, political or economic factors that may lead to substantial variations in the net assets which may have a negative impact on the performance of the fund.

SUB-FUND INFORMATION*

ISIN Codes*

A Share: LU1160356009

I Share: LU1160357403

Front load charge: Maximum 3%

Minimum initial subscription

A Share: 1 share / I Share: 500,000 €

Maximum management charges

A Share: 1.70% maximum

I Share: 0.75% maximum

Variable management fees

15% of performance in excess of the benchmark

COULD THE SECTOR CONSOLIDATION ALSO BE A DRIVER OF PERFORMANCE?

Healthcare companies need to renew their product portfolios and optimise their R&D. M&A transactions are thus very common in the sector, and made easier thanks to the high amounts of cash flow generated. Each year we benefit from several transactions in our fund, with acquisition premiums of around 40%² on average.

1. Source: Bloomberg.

2. The data shown refers to past years and it is not a reliable indicator of future results.

Risk from investing in small and mid cap companies: Investment in small and medium enterprises may entail greater risk than that generally deriving from investments in larger and better established enterprises. Sub-Funds which invest in smaller companies may fluctuate in value more than other Sub-Funds because of the greater potential volatility of Share prices of smaller companies.

Exchange rate risk: Assets may be exposed to exchange rate risk when currency exposure of certain assets of the relevant Sub-Fund into another currency.

Concentration risk: Certain Sub-Funds may concentrate their investments in assets belonging to certain specific sectors of the economy, and they will consequently be subject to the risks associated with the concentration of investments in the sectors in question.

Redemption charges: None

Benchmark

MSCI All Country World Healthcare

Recommended investment horizon:

> 5 years

* Shares described herein are the main euro-denominated shares. The fund also has shares in USD, CHF, GBP. Please ask your sales contact for any further information.

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