

Investment View: What price healthcare?

Healthcare is a basic human need, and this makes the healthcare sector a classic defensive investment during troubled economic times. Demographic trends and rising expectations of better healthcare are driving spending up, while innovation from the industry is continuing to improve the standard and availability of healthcare. The other side of the equation is the question of how can we possibly afford to fund this as a society? The issue of cost is becoming ever more pressing for governments, insurers and industry participants alike.

The long term growth potential of the healthcare sector is well established. Against a backdrop of an ageing population faced with increasing incidence of chronic diseases - notably cardiovascular, cancer, respiratory and diabetes – spending on health is expected to rise, in the US spending is estimated to increase from the already high 16% to 20% of GDP by 2017, creating a healthcare market worth over \$4 trillion¹ in the US alone. Yet while budgets are expanding, cost containment is becoming ever more essential. In a recent report the credit rating agency Moody's warned that US government debt risks losing its triple-A credit rating within a decade, unless the government takes radical action to curb soaring Medicare liabilities. The problem is compounded, appropriately, by the political sensitivity of healthcare that makes straightforward cost cutting almost impossible.

Within the Henderson Industries of the Future Fund, healthcare is our largest theme weighting. We believe that in today's cost-conscious healthcare market those companies whose products and services are demonstrably reducing costs – while helping to improve the outcomes for patients – are likely to be the long-term winners. There are a number of trends which are providing attractive opportunities such as:

Drug innovation

The pharmaceutical industry has been struggling in recent years as governments and insurers have put pressure on drug prices in a bid to save costs. Part of the problem has been a shortage of genuinely innovative drugs coming to market with a favourable risk/reward to patients over existing treatments. There is some promise from biotechnology, where new targeted 'biological' drugs are addressing unmet medical need, particularly in oncology. However, the sort of binary risk typically associated with biotech investing can be unpalatable; a derivative play on the growth of the industry as a whole can be one way to avoid this. For instance **Millipore** of the US supply highly specialised equipment and disposables to a range of customers for biological drug development and manufacturing.

Diagnostics and prevention

The most effective way to limit cost is by better prevention and earlier detection. In this regard the diagnostics industry is evolving quickly and achieving growing importance as new technology allows more rapid detection of disease, identification of patient susceptibilities as well as improved understanding of disease biology. Companies such as **Qiagen** in Germany are leaders in the cutting edge field of molecular diagnostics which is improving earlier detection of high cost diseases such as cervical cancer.

On the prevention side vaccination is likely to have an increased role in the future – very promising steps are being made in research and development, for instance the Austrian vaccines company **Intercell**, in collaboration with US Merck, is developing a vaccine for MRSA to be administered to high risk surgical patients ahead of admittance to

hospital. The cost of treating the growing incidence of hospital acquired infections is an increasing burden to the health system.

Healthcare IT

The private sector is inevitably feeling its share of the pressure from rising health costs and is constantly looking for ways to restrain this. Healthcare IT companies have an opportunity to deliver cost savings through identifying and eliminating wastage and inefficiencies in the system. **Trizetto** in the US sells administration IT systems to healthcare insurers and are able to utilise their database of patient prescription and claims history to more actively manage the health of the insured population. The software is able to prompt timely and appropriate diagnostic testing and better compliance with treatments which can generate substantial cost savings to the insurer by leading to earlier medical intervention and promoting better health overall.

Devices and minimally invasive surgery

The most expensive outcome in general is for a patient to be admitted to hospital. Where this cannot be avoided technological innovations including techniques of minimally invasive surgery are now helping to reduce the length of stay. The highly rated US company **Intuitive Surgical** is a pioneer of robotic surgery which is becoming widely used for prostatectomy and hysterectomy. The patient outcome is better with shorter recovery time and fewer complications, which also means less time spent, expensively, in hospital. The procedure is quicker than the standard surgery which allows surgeon time to be used more efficiently, with cost savings to the hospital. Similarly the UK company **Gyrus** is a leader in laparoscopic 'keyhole' surgical tools – the company is now subject to a bid from Olympus of Japan, illustrating the attraction of this space.

Specialist healthcare

Another trend in healthcare is the expansion of specialist services. For example **Pediatrix** is growing quickly as the largest owner and operator of newborn intensive care units in the US. Sadly as the average age of new mothers is increasing in the West so is the incidence of premature birth and complications. For hospitals to effectively outsource the care of these babies to specialists with the infrastructure and expertise is the most cost effective solution with the best results for the patient.

Within the Henderson Industries of the Future fund Health is the largest theme weighting. We believe that across the healthcare industry companies whose products and services are demonstrably reducing costs to payers while improving patient outcomes are likely to be winners in today's cost conscious healthcare market. This is where we are focusing our investment and where we are seeing attractive opportunities for the near and long term.

Alice Evans, SRI fund manager

10 April 2008

Henderson Industries of the Future Fund

The Henderson Industries of the Future Fund is a global multi-thematic fund which invests in companies that contribute to, benefit from and best adapt to the shift to an environmentally sustainable and socially responsible global economy. Typically these companies provide solutions to sustainability challenges and can create positive long-term investment opportunities. The Henderson Sustainable and Responsible Investment (SRI) team has identified 10 'Industries of the Future' themes:

- **Cleaner Energy** - Sources of energy that combat the effects of global warming, increase the use of renewable energy and help pave the way to a hydrogen economy.
- **Efficiency** - Products and processes that reduce energy consumption, make more efficient use of resources and increase business efficiency
- **Environmental Services** - Goods and services that improve the quality of the environment and reduce pollution and waste
- **Health** - Goods and services that help people live longer, healthier lives
- **Knowledge** - Supplying educational goods and services that enhance quality of life and improve opportunities for full-time students and those in employment
- **Quality of Life** - Goods and services that promote sustainable lifestyles among all age groups, including children and the elderly
- **Safety** - Minimising the risk of safety incidents at work, at home and in the community
- **Social Property & Finance** - Providing property for social benefit, access to housing, regeneration, and better and wider access to financial services.
- **Sustainable Transport** - Shifting to less polluting forms of transport, and supporting cleaner transport technologies.
- **Water Management** - Managing and conserving water, and minimising pollution

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ⁱ Press release: *Growth in National Health Expenditures Projected to Remain Steady Through 2017*, Centers for Medicare and Medicaid Services, 26 February 2008