Janus Henderson's Andrew Hendry on Why Healthcare offers such a Compelling Investment Opportunity

Why is global healthcare such a good investment for private clients? Andrew Hendry, Head of Distribution for Asia at Janus Henderson Investors, answered that question at the Hubbis Indonesia Wealth Management Forum on July 6. He told delegates why healthcare, in particular the US market, represents such an interesting and also timely investment proposition. The audience was understandably highly receptive, as the world emerges from the strictures of the global pandemic and as individuals across the globe re-examine their personal and familial priorities. Hendry explained concisely why the falls in stock valuations around the world and the weakness in the healthcare sector today offer such compelling reasons to invest. But he also advised delegates that to do so well, a highly selective and deeply analytical approach is required.

GET IN TOUCH

View this presentation On Demand

View Andrew Hendry's LinkedIn Profile

Find out more about Janus Henderson Investors

Andrew Hendry
Janus Henderson Investors

Armed with an excellent slide show, Hendry first acknowledged that the state of the world was much more fragile today than it had been for many years.

"Faced with the uncertainties we all see out there, my premise is that you have to think about how on earth you can make money for clients this year, and with that in mind, I want to focus in on biotechnology and healthcare in general as a wonderful opportunity, and talk about the timing of your investment there, and how you can access the opportunity," he said.

Wind in the sails

To summarise what was a detailed and excellent presentation, Hendry explained that the healthcare sector has been enjoying accelerating innovation, with dramatic improvements in scientific productivity. The demographics are remarkably encouraging with healthcare spending to increase significantly as the US undergoes a major demographic shift.

M&A and downside protection

The healthcare sector is likely to undergo some major consolidation, and as such offers major M&A potential, and which appears set for an uptick in activity. Healthcare also offers attractive defensive characteristics. Healthcare has typically held up better in down markets with lower volatility.

Janus Henderson has multi-decade expertise and commitment to the global life sciences sector, with an immensely experienced team of specialists with more than 100 years of combined healthcare investment experience and managing some USD13 billion of life sciences investments currently.

The timing looks good

In terms of timing, Hendry pointed to the fall in values in recent times, opening the door to investors, especially in light of the key factors he had highlighted. He pointed to the sectors' longest drawdown with a widely anticipated rebound yet to come.

Biotech's recent drawdown, he explained, was the largest from an absolute return perspective since 2006. Drawdowns on average in downturns for the biotech sector have been about 31%, but he said if investors then held on for another year, they would have been up 53%.

"So, for those of you who have not invested as yet, that means you have this upside opportunity," he said. "The exact timing is uncertain, but the fact is that most of the pain has already happened in the sector. And actually, right now, the valuations and the opportunity set are stronger than ever versus other sectors, because don't forget this is defensive sector compared to other areas."

Mining down into the detail

Hendry also offered delegates significantly more detail, supported by the slide presentation. He pointed to the US FDA's approval of drugs, noting for example that 120 drugs were approved in 2007-2011, whereas in the most recent five-year period the figure is more than double at 250. "We are seeing a secular trend," he explained. "The number of drugs being approved are increasing, plus the actual revenues in the industry are increasing as well. This is very positive."

"The exact timing is uncertain, but the fact is that most of the pain has already happened in the sector. And actually, right now, the valuations and the opportunity set are stronger than ever versus other sectors, because don't forget this is defensive sector compared to other areas."

At the macro level, the demand profile is such that when people hit 65 years old and over, the average healthcare expenditure per capita goes through the roof.

"We know this," Hendry said, "as we all have or have had old-aged

parents or other relatives, and data shows that post-65 there is an average 2.7 times increase in per capita healthcare expenditure. This is US data, but this is applicable anywhere in the world, as the world is ageing."

A rapidly growing and ageing market

He reported that actually, right now, some 10,000 Americans are turning 65 today, and tomorrow and the next day and every single day until 2030. There are about 40 million Americans over 65 today, and as the baby boomers age that will explode to 74 million. "Healthcare is not a discretionary item, if people do not get their medicines, they will end up in hospitals at even greater costs," he commented.

He also reported that numerous blockbuster drugs are coming off patent amongst the sixth largest pharmaceutical companies in the world.

"So, what do they do, faced with this?" he pondered. "Our experts report that they will buy new drugs, buy small firms, they buy midcap firms, they buy in the products. Can they afford it? Yes, just the top 18 largest pharma companies have USD1.7 trillion of war chest to go out buying."

He pointed also to valuations versus the S&P 500, noting the S&P 500 is trading at 20x earnings, while biotechnology now is just below 12x. "The valuation is incredibly attractive from a long-term perspective plus versus the S&P," he concluded.

Experience and selectivity are key

Hendry also pointed to the value of active management, noting that for every 100 drugs going to trial, some 90% fail to pass muster.

"Active fund management in this sector is not only valuable, but it's essential," he stated. "And that is why we have such an experienced and dedicated team of experts, led by Andrew Acker and with more than 100 years of direct and relevant experience. We even have three PhDs, and one of them has actually patented his own molecule."

Seeing the big picture

As to timing, he closed his commentary by explaining that the extended drawdown in the segment represents a great opportunity. "As I hope I have explained, we can conclude that in terms of timing, there are some incredible valuations on an absolute basis, there has been a very unusual, extended downturn within the sector itself (which is historically rather unique), so the timing is excellent," he concluded. ■

A Short Note on Janus Henderson and Andrew Hendry

Janus Henderson is a roughly USD430 billion AUM active global asset management company, with origins in the UK and the US. In Asia, Hendry reports, the firm is most well-known for its expertise in thematics, with what he describes as blockbuster, longstanding funds in the biotech and technology sector, and a longstanding track record of innovation.

Hendry joined the firm in February this year. He arrived from abrdn and before that was with Westoun Advisors, a firm he founded and that later linked up with M&G Investments. As Head of Distribution for Asia (ex-Japan & Australia) and based in Singapore, Indonesia is one of his core markets.

His primary focus is to maintain, grow and diversify the distribution business to ensure the firm continues to meet clients' evolving needs. He is developing strategic client partnerships across institutional and intermediary channels and working collaboratively with leaders from across the firm to identify and cultivate business development opportunities.

Hendry has accumulated 23 years of relevant global experience, and his appointment reinforced the message Janus Henderson is delivering in the region, namely that it is energetically building out its connectivity to the wealth management community, especially the gatekeepers, the EAMs, the family offices and the larger IFAs, hence his presence as a support and speaker at the Jakarta event.

"We deliver some fascinating active strategies and help DPM managers, EAMs and family offices to obtain quick and easy access to our active management through ETFs and funds," he says.

Disclaimer

For institutional, professional investors and financial intermediaries only and not for retail or public use.

Past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

The information in this article does not qualify as an investment recommendation.

For promotional purposes.

Anything non-factual in nature is an opinion of the author(s), and opinions are meant as an illustration of broader themes, are not an indication of trading intent, and are subject to change at any time due to changes in market or economic conditions. It is not intended to indicate or imply that any illustration/example mentioned is now or was ever held in any portfolio. No forecasts can be guaranteed and there is no guarantee that the information supplied is complete or timely, nor are there any warranties with regard to the results obtained from its us.