



Healthcare – taking a closer look

An Italian proverb tells us that “he who enjoys good health is rich, though he knows it not”. Henderson SRI fund manager Alice Evans explains why the healthcare sector is presenting exciting investment opportunities.



Healthcare is a basic human need, and this makes the healthcare sector a classic defensive investment during troubled economic times.

The long term growth outlook for the sector is also 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 from the already high 15% to 20% of Gross Domestic Product (GDP) in the USA by 2015, creating a market worth USD4 trillion in the US alone, according to Medicare estimates.

Yet while budgets are expanding, cost containment is becoming ever more essential. In a recent report Moody's, the credit rating agency, 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 (a social health insurance programme administered by the US government for the elderly and other special needs groups). The problem is compounded by the political sensitivity of healthcare that makes straightforward cost-cutting almost impossible.

The pharmaceutical industry has been struggling in recent years from pressure on drug prices exerted by governments and insurers in a bid to save costs. Part of the problem has been a shortage of genuinely innovative drugs coming to market with a more favourable risk/reward to patients over existing treatments.

Prevention better than care

The most effective way to limit overall cost is by better prevention and earlier detection. This is also more desirable from a social point of view. In this regard the diagnostics industry is evolving quickly and achieving growing importance. Technology can allow for 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.

“ The cost of treating hospital-acquired infections is an increasing burden to the healthcare system ”

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 healthcare system.

IT companies have an opportunity to deliver cost savings through identifying and eliminating wastage and inefficiencies in the healthcare system. US-based **Trizetto** sells IT administration systems to healthcare insurers and is able to utilise its database of patient prescription and claims history to more actively manage the health of the insured population. The software prompts diagnostic testing and better compliance with treatments, which can generate substantial cost savings to the insurer by promoting better health and earlier medical intervention when necessary.

“ New techniques lead to shorter recovery times for patients ”

Improving treatment

When it comes to healthcare, the most expensive outcome 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 firm **Intuitive Surgical** is a pioneer of robotic surgery, which is becoming widely used for prostatectomy and hysterectomy operations. The new techniques lead to shorter recovery time and fewer complications for patients, which means less time (and money) spent in 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 these innovative new techniques.

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

Strong investment prospects

Within the **Henderson Industries of the Future Fund**, the Health theme has the largest weighting. During 2007, the theme performed particularly well, contributing to positive outperformance (1.12%)*. We expect this trend to continue into 2008 and beyond. 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 most likely to be long-term winners.

*Source: Henderson Global Investors as at 31 December 2007