iFAST Research Update:
Global Healthcare: Still in the pink of health despite some challenges

Equity markets have been hit by the challenging macro backdrop of rising inflation and interest rates. While Covid-19 continues to wreak havoc, a milder Omicron variant means that the world is transitioning from a pandemic to an endemic. Find out what it all means for the healthcare sector.

- The healthcare sector is made up of many moving parts, and is bolstered by growth from long-term secular drivers such as an ageing and chronically ill population.

- Higher rates and inflationary pressure created a de-risking environment, and are amongst some of the factors contributing to a massive sell-off in the biotech segment.

- While drug pricing reforms have been talked about, we think that massive drug pricing reforms are unlikely given the divided nature of the congress. Even in the case of changes, it is likely to remain manageable.

- An improving Covid-19 situation, driven by higher global vaccination rates and a milder Omicron variant, has brought much optimism to the outlook for medical devices, as elective surgeries are expected to pick back up.

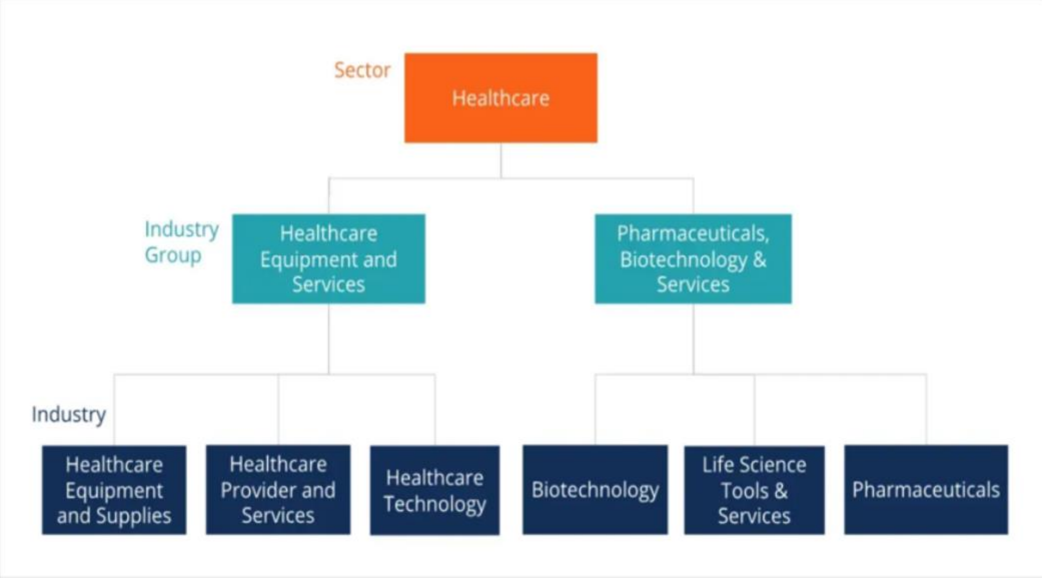
- Moreover, after nearly two years of the pandemic, hospitals are financially incentivised to bring back surgical procedures, because they generate much of a hospital's revenue.

- We maintain a 3.0 Stars "Attractive" rating for the healthcare sector. Based on our estimations, the industry has an upside potential of 19% by 2024. Investors may consider the iShares Global Healthcare ETF (NYSE:IXJ), or the Manulife Global Healthcare Fund - MYR Hedged to gain exposure to the global healthcare sector.

The healthcare sector is made up of many moving parts, and is bolstered by long-term secular growth drivers such as an ageing and chronically ill population. Investors would do well to be acquainted with the sector's wider opportunities.

According to the Global Industry Classification Standards (GICS), under the umbrella sector of healthcare, there are two main industry groups. These two industry groups can be further broken down into six industries, which consists of: Healthcare Equipment and Supplies, Healthcare Provider and Services, Healthcare Technology, Biotechnology, Life Science Tools & Services, and Pharmaceuticals (Figure 1).

Figure 1: The healthcare sector as defined by GICS



Source: Corporate Finance Institute, iFAST Compilations

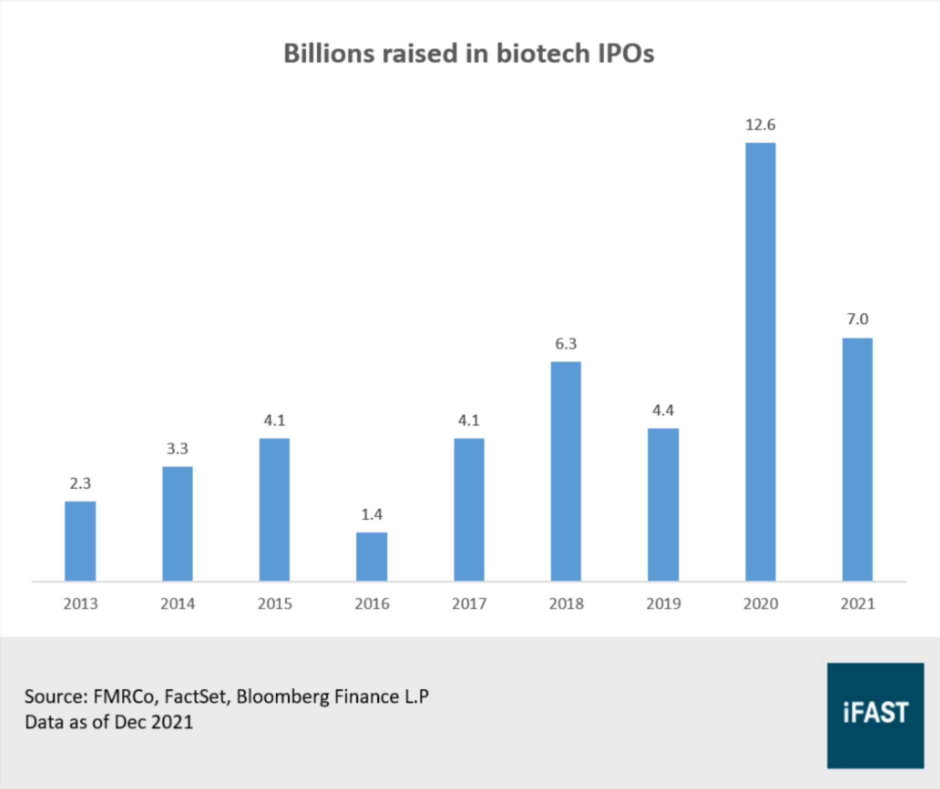
The macro backdrop of rising inflation and interest rates have proved challenging for the biotech sector. While drug pricing reforms have been a much talked about issue in the US, we expect its impact to be limited. On the other hand, as we look to a future where Covid-19 becomes an endemic, we believe that the medical device segment is primed for a recovery in the year ahead.

A punishing sell-off for biotech

Biotech companies are having one of their worst stock market runs in years. This is in contrast to 2020, where biotech stocks were soaring as investors and hedge funds flocked to the sector amidst the race to develop new vaccines and drugs for Covid-19.

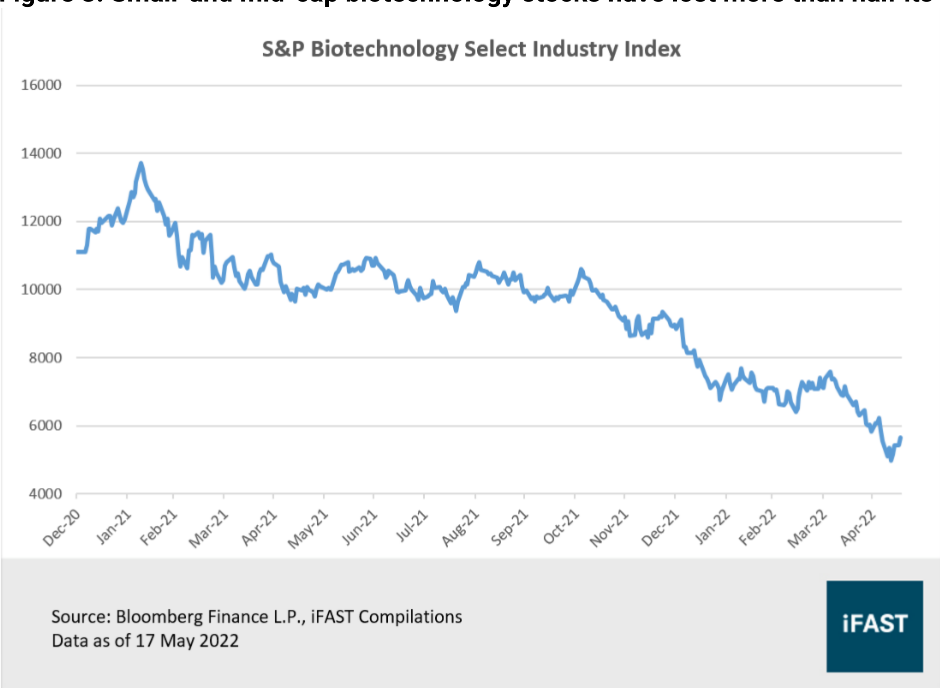
The strong demand for biotech stocks helped fuel a historic boom in initial public offerings (IPOs) and blank-check mergers known as SPACs. 2020 and 2021 were banner years for biotech fundraising, both in number of IPOs and in total dollars raised (Figure 2).

Figure 2: Biotech went through an IPO boom in 2020 and 2021



Fast forward to today, scientific setbacks and a slowdown in big pharma buyouts have battered the biotech sector, particularly the small and mid-cap biotechs. The S&P Biotechnology Select Industry Index, which is an equal-weighted index fell 36.0% year-to-date. From its peak in February 2021, the biotech index has lost more than half of its value (Figure 3).

Figure 3: Small-and mid-cap biotechnology stocks have lost more than half its value since its peak



The rise in consumer price inflation and expectations for higher interest rate have made investors less keen on risky companies such as small and mid-cap biotechs that can go through years of cash burn before becoming profitable.

Not to mention, scientific setbacks in the biotech space have affected market sentiment. For instance, Aduhelm's (first FDA approved Alzheimer drug) poor uptake in the US due to a mix of controversial data and pricing dominated news flow. This was a disappointment, given that Aduhelm was a potential blockbuster drug for Biogen (NASDAQ: BIIB), but doctors took issue with the quality of the data on which the FDA's decision was based, and are also criticising how the agency reviewed the drug.

Aduhelm was approved by the FDA despite the fact that 10 of the 11 members of an advisory committee of independent experts the agency convened for guidance voted that there was not enough evidence to justify approval. Sales of Aduhelm have also been far from stellar, causing Biogen to cut the wholesale price of Aduhelm by 50% to USD 28,200 for a full-year treatment.

Going forward, a handful of other new Alzheimer's drugs could be on the horizon. Eisai Co., which is partnered with Biogen, and Eli Lilly and Company (NYSE:LLY) have already started submitting applications to the FDA for their potential treatments – Lecanemab and Donanemab respectively. While it is difficult to tell the effectiveness of these treatments at the moment, Biogen's struggles have certainly left the door open for treatments by other companies if they can demonstrate greater efficacy.

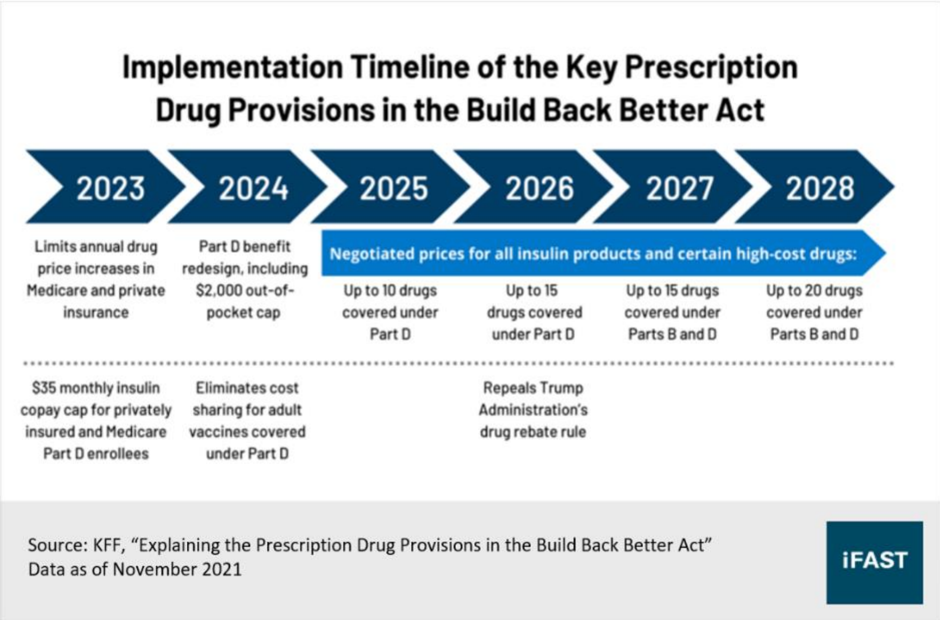
Not all of biotech's problems are going away, but against this macro backdrop, revenue-generating companies or those in the later stages of pipeline development could be well positioned. Moreover, despite the challenges faced by the biotech sector, clinical events over the next 18 months, including gene therapy programs in muscular dystrophy, small molecule therapies for Huntington's disease, and immuno-oncology programs in melanoma and lung cancer, could help restore confidence.

Massive drug pricing reforms unlikely

US President Joe Biden and his fellow democrats promised voters sweeping drug price reform in their social spending bill. Attempts to rein in prescription drug prices have not amounted to much, and many hurdles remain to approving the "Build Back Better Act" especially with a limited Democratic majority in the Senate.

The drug pricing agreement allows the federal government's Medicare health insurance program to start negotiating the prices on 10 of the costliest drugs for diseases such as cancer and diabetes that have only one supplier in 2023, with the new prices taking effect in 2025. The number of drugs that will be subject to Medicare negotiations will increase annually until it reaches 20 in 2028 (Figure 4).

Figure 4: Build Back Better Act



Republicans oppose allowing the government to negotiate drug prices, echoing the pharmaceutical industry's main argument that federal pressure on prices would lead companies to curb investment in research and kill innovation.

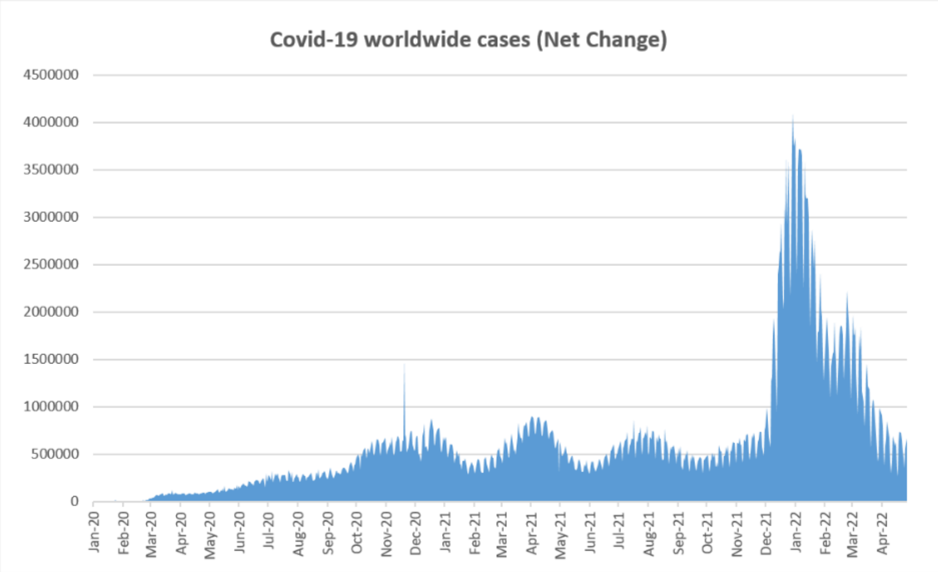
Given the disagreements within US Congress, there are many obstacles towards massive drug pricing reforms, and we expect changes to remain manageable by global pharmaceutical companies who maintain diversified product portfolios, thereby minimising pricing pressure for any single drug.

The return of elective procedures

Procedure volumes have been one of the most-watched topics for medical device companies which rely on surgeries to drive up revenues, such as Medtronic (NYSE:MDT), Stryker Corporation (NYSE:SYK) and Boston Scientific (NYSE:BSX).

While 2021 saw a slight uptick in elective procedures, many patients were still reluctant to put themselves at unnecessary risk. Now, in 2022, with the availability of Covid-19 vaccines and anti-viral drugs, patients are likely to be more confident enough to start scheduling these elective procedures. The Covid-19 situation is improving globally, adding to the signs of recovery (Figure 5). Cases, hospitalisations, and deaths are down dramatically from their peaks in January this year.

Figure 5: Average worldwide daily Covid-19 cases have been falling



Source: Bloomberg Finance L.P., iFAST Compilations
Data as of May 2022

ublic health experts are feeling hopeful that more declines are ahead. The milder Omicron variant also supports the shift from being in a pandemic to an 'endemic', which is more consistent and predictable.

While the periodic resurgence of Covid-19 is expected to have an impact on hospital-based medical device sales, we expect this effect to shrink with time, as serious conditions appear less likely among vaccinated people. Moreover, patients can only delay care in certain diseases for a certain period of time before it affects mortality rates.

After nearly two years of the pandemic, hospitals are financially incentivised to bring back surgical procedures, because they generate much of a hospital's revenue. In the US, it was projected that hospitals nationwide lost an estimated USD 54 billion in net income in 2021 as a result of the pandemic. Health systems bring in about USD 700 more per admission than emergency room admissions and surgical stays account for roughly 48% of hospitalisation costs.

Taking all this into consideration, we anticipate a strong return of elective procedures moving ahead. Medical device companies reliant on elective procedures would thus be set for a recovery.

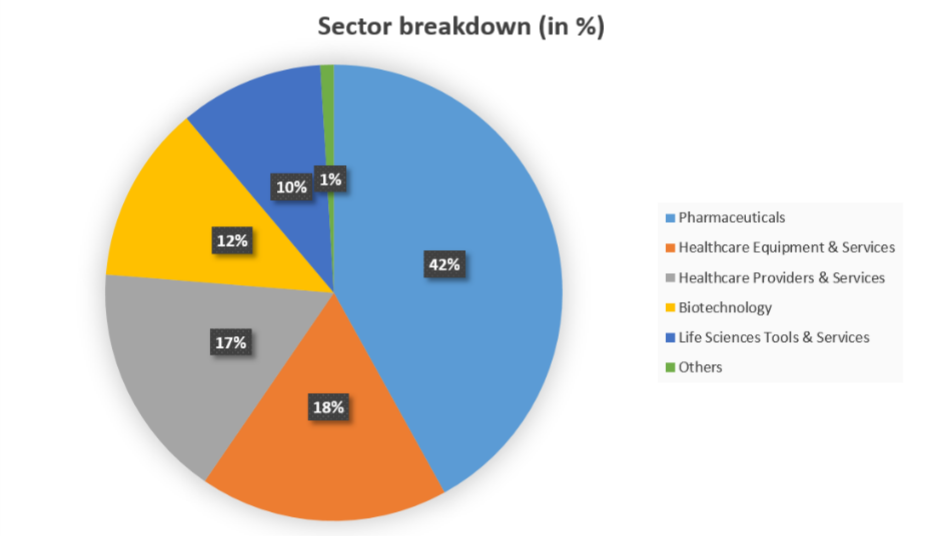
Maintaining our 3.0 Stars "Attractive" rating for the healthcare sector

Despite the challenges faced by the biotech segment, we continue to remain positive on the overall healthcare sector, as we anticipate the recovery of the medical devices segment. Additionally, we think that massive drug pricing reforms in the US is unlikely.

We maintain the global healthcare sector at a rating of 3.0 Stars "Attractive". Based on a fair PE of 18.0X applied to the sector, investors can look forward to an upside potential of about 19% by 2024.

To take part in the growth of the global healthcare sector, investors may consider the iShares Global Healthcare ETF (NYSE:IXJ), which provides exposure to a basket of pharmaceutical, biotechnology, and medical device companies across the world. On the other hand, they may also consider the Manulife Global Healthcare Fund - MYR Hedged if they prefer to gain exposure to the global healthcare sector through an active approach.

Figure 6: iShares Global Healthcare ETF sector breakdown



Source: Bloomberg Finance L.P., iFAST Compilations
Data as of 17 May 2022

When investing in a pecialized and fragmented sector like healthcare, we think that an active approach is beneficial to gain exposure to good quality companies. By undergoing an intensive internal bottom-up research, the Manulife Global Healthcare Fund is able to better understand prospects and uncover pricing inefficiencies.

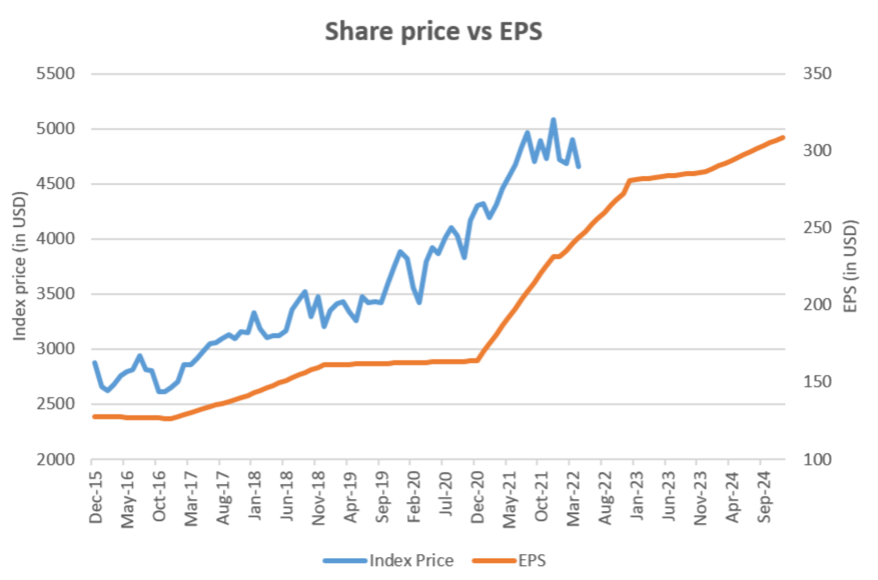
Table 1: Earnings for the global healthcare sector

SPG12CHN Index	2021	2022E	2023E	2024E
PE ratio (X)	21.9	16.6	16.3	15.1
Earnings growth	42.5%	21.4%	2.0%	7.8%
EPS (USD)	231.3	280.9	286.5	308.8
Upside Potential	-	8.5%	10.7%	19.4%

Source: Bloomberg Finance L.P., iFAST Estimates

Data as of 17 May 2022

Figure 7: In the long run, share prices are fundamentally driven by earnings



Source: Bloomberg Finance L.P., iFAST Compilations
Data as of 17 May 2022

Disclaimer

This article is not to be construed as an offer or solicitation for the subscription, purchase or sale of any fund. No investment decision should be taken without first viewing a fund's prospectus, product highlight sheet (PHS), and if necessary, consulting with financial or other professional advisers. Any advice herein is made on a general basis and does not take into account the specific investment objectives of the specific person or group of persons. Amongst others, investors should consider the fees and charges involved. The relevant prospectuses have been registered and lodged with the Securities Commission. Past performance and any forecast are not necessarily indicative of the future or likely performance of the fund. The value of units and the income from them may fall as well as rise. Where a unit split/distribution is declared, investors are advised that following the issue of additional units/distribution, the NAV per unit will be reduced from pre-unit split NAV/cum-distribution NAV to post-unit split NAV/ex-distribution NAV. Where a unit split is declared, investors should be highlighted of the fact that the value of their investment will remain unchanged after the distribution of the additional units. All applications for unit trusts must be made on the application form accompanying the prospectus. The prospectuses and PHS can be obtained from ifastcapital.com.my. Opinions expressed herein are subject to change without notice. Please read our disclaimer on the website.

Investment involves risks. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities, commodities, foreign exchanges, derivatives or other investments. The price of a security may move up or down, and may become valueless. Past performance is not necessarily indicative of future performance. Foreign investments carry additional risks not generally associated with investments in the domestic market, including but not limited to adverse changes in currency rate, foreign laws and regulations. This document does not and is not intended to identify any or all of the risks that may be involved in the securities or investments referred to herein. Investors should read and fully under-stand all the offering documents relating to such securities or investments and all the risk disclosure statements and risk warnings therein before making any investment decisions.

The securities, commodities, foreign exchanges, derivatives or investments referred to in this document may not be suita-ble for all investors. No consideration has been given to any particular investment objectives or experience, financial situa-tion or other needs of any recipient. Accordingly, no representation or recommendation is made and no liability is accept-ed with regard to the suitability or appropriateness of any of the securities and/or investments referred to herein for any particular person's circumstances. Investors should understand the nature and risks of the relevant product and make in-vestment decision(s) based on his/her own financial situation, investment objectives and experiences, willingness and abil-ity to bear risks and specific needs; and if necessary, should seek independent professional advice before making any in-vestment decision(s). This document is not intended to provide any professional advice and should not be relied upon in that regard.