

Investing in Healthcare

Healthcare Investing: Resilience and growth



The healthcare sector presents a diverse array of investment opportunities across various industries. This sector encompasses medical technology and supplies, pharmaceutical manufacturers and healthcare providers. With a consistent base demand due to the essential nature of healthcare goods and services, coupled with groundbreaking innovations and advanced technologies, the sector offers a wide range of investment prospects. These opportunities can vary from growth-oriented to more conservative options, depending on the specific industry and company within the sector.

Why invest in healthcare?

The healthcare sector is built on consistent demand. As healthcare is essential in society, the demand for healthcare products and services remains steady regardless of economic conditions. The sector benefits from continuous innovation, with investments advancing medical technologies and treatments, leading to significant growth potential. This demand is further reinforced by an ageing global population and a rising middle class that increasingly prioritises healthcare.

The diverse nature of this sector means investors can find opportunities that align with their risk tolerance, from more defensive diversified pharmaceutical companies to more growth-oriented medical device companies, or higher growth, albeit higher scientific risk, biotechnology companies.

Healthcare investing – resilience and growth

The healthcare sector is broad and includes companies involved in the delivery of health services and the production of health-related products. The sector covers many areas, each playing a vital role in the overall functioning of the healthcare and contributing to the prevention, diagnosis, treatment and management of health conditions.

Not all companies and industries in this sector meet the requirements to be included in Magellan's quality investment universe. Extensive research is undertaken to identify the unique attributes of a company that we believe enable it to generate sustainable attractive returns over the longer term. Some of the industries in the Magellan universe include:

Healthcare providers

Companies in this industry are involved in providing patient care services or the distribution of medical products. Hospitals, nursing homes, health insurers, rehabilitation facilities and even veterinary clinics are a part of this industry.

There is a consistent demand for healthcare services, as the need for healthcare providers is essential to our daily lives. Additionally, emerging trends like value-based care are shaping the future of care, creating attractive investment opportunities. A value-based care model is where health providers are paid based on patient health outcomes and rewarded for helping patients improve their health and live healthier lives. This contrasts with traditional fee-for-service healthcare, where providers are paid based on the amount of healthcare services they deliver.

Scale and management quality are key attributes when identifying quality health service providers.



UnitedHealth Group is the largest health insurer in the US providing health insurance and managed care services and is at the forefront of building infrastructure necessary for operating highly complex value-based care models.

Pharmaceutical

The pharmaceutical industry has a constant demand for new and improved treatments, driven by the ongoing need to address a wide range of health conditions and diseases. These companies can vary significantly, from established giants with a strong legacy and robust drug pipeline to smaller startups engaged in groundbreaking research. These companies are often at the forefront of medical innovation, developing new therapies and drugs that can significantly improve patient outcomes and quality of life. The ever-evolving nature of the industry sees continuous opportunities for growth and innovation, making it an appealing sector for investment and development.

When assessing companies in the pharmaceutical industry, it is crucial to have a comprehensive understanding of several key factors. We look for leadership in key disease categories and drug portfolio diversity. In addition, we assess the track record of research and development (R&D) productivity and the scale of R&D. These indicate the potential for future breakthroughs and the sustainability of a company's product pipeline. The regulatory environment also plays a significant role, as it can affect the approval process for new drugs and treatments. By thoroughly evaluating these attributes, investors can identify which companies are likely to create long-term value and contribute to the advancement of healthcare. Considering factors such as market demand and patent expirations can provide deeper insights into a company's potential for long-term success.

Medical technology and supplies

Medical devices and supplies are essential for treating, diagnosing and preventing numerous diseases and conditions. Over the past decade, this industry has seen a wave of innovations, a trend expected to continue as medical devices increasingly incorporate artificial intelligence and machine learning to improve patient outcomes. In 2023, the US market witnessed more regulatory approvals for novel medical technologies than any previous year. The global medical device industry is projected to grow from approximately US\$500 billion in 2022 to US\$800 billion by 2030.¹ Examples that make up the medical devices and supplies industry include:



1. **Robotic surgical equipment:** Leading-edge robots revolutionising patient outcomes.
2. **Surgical instruments:** Tools including scalpels, forceps and retractors that are essential for surgical procedures.
3. **Medical devices:** Implantable medical devices such as joint replacements or pacemakers.
4. **Medical tools:** Including assessment tools such as stethoscopes or blood pressure monitors.
5. **Healthcare consumables:** Items such as syringes, gloves and bandages, indispensable for routine medical tasks.
6. **Long-term medical equipment and diagnostic imaging machines:** Items for sustained use, such as hospital beds, wheelchairs, mobility aids, X-ray, MRI or ultrasound machines.
7. **Lab analysis equipment and consumables:** Devices and consumables used to examine blood, urine and other specimens and tools and instruments used in drug development.

Quality companies within this industry will continually innovate and produce new and improved medical devices and supplies for better patient care and outcomes. In many of the above, best-in-class technology is critical for adoption and long-term growth.

¹ KPMG Medical Devices Report, Jan 2018, [kpmg.com/us/en/articles/2023/medical-devices-2030.html](https://www.kpmg.com/us/en/articles/2023/medical-devices-2030.html)

What are the risks?

Investing in healthcare comes with risk like any other sector. Thorough research and engagement with companies and leading R&D and regulatory experts can help investors to better understand these risks.

Technology and competition: With rapid evolution in technology, there is risk of healthcare technology becoming redundant and not experiencing longevity due to new players, therapies, drugs and equipment being brought to the market each day. Continued impactful and innovative research and development pipelines are critical to withstanding this threat.

Regulatory and payer risk: The sector is highly regulated so changes to regulations and policies, and government reimbursement models can affect growth and profitability.

Product safety: Product safety is key given the critical nature of many of the products and services. Litigation and product recall risk is prevalent.

How do healthcare companies fit into a portfolio?

Including healthcare stocks in a portfolio may provide both steady defensible returns and growth opportunities. Quality healthcare companies are uniquely positioned to benefit from the essential demand in healthcare, but also the structural tailwinds of an ageing population and a rising middle class.

Examples of global listed healthcare companies



Stryker is one of the world's leading medical technology companies, based in the United States. Impacting more than 150 million patients annually, Stryker is the leader in orthopaedic devices and robots and has a first-mover advantage.

UNITEDHEALTH GROUP

UnitedHealth Group is the leading managed care organisation in the US with key positions in health insurance, healthcare services and pharmacy benefits management.



HCA Healthcare, Inc. founded in 1968 is an American for-profit operator of health care facilities. It comprises 186 hospitals and approximately 2,400 sites of care in 20 US states and in the UK.



Novo Nordisk is a leading global healthcare company. Founded in 1923 and headquartered in Denmark, Novo Nordisk specialises in diabetes and weight-loss drugs, with products available in over 170 countries.

As at February 2025

What sets our approach apart?

There are thousands of companies listed on world exchanges. However, at Magellan we regard our eligible universe of potential investments to be only about 200 companies. These are the companies we believe to be of sufficient quality to consider for investment, companies in which we have a high degree of certainty in their ability to protect and grow earnings into the future. This requires rigorous fundamental research into the economics of the company and a deep understanding of the company's strategic direction and the industry in which it operates.

At Magellan, this focus on quality companies represents the core of our investment philosophy and goes directly to achieving our investment objectives for our investors.

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