

Bringing investments to life



There is currently a buzz around healthcare. Traditionally seen as a defensive sector, increasingly fund managers are finding growth potential in many healthcare and pharmaceutical companies. Some of these may be on the cusp of making significant breakthroughs – be it through the development of new drugs, or the adoption of cutting-edge technologies – while others are accessing growth through previously untapped markets.

The latter group, are often focused on emerging countries with growing middle class populations. The assumption is that alongside an increase in average household incomes – with all the middle class trappings – there will be a greater number of people suffering from diseases previously deemed ‘first world problems’. These include diabetes and obesity. Additionally more people should be able to pay for healthcare in countries where state provision has historically been low.

The BNY Mellon Investment Management healthcare e-zine

is designed to highlight – to your clients – stories driving investment in this sector.

We explore the industry trends, challenges and innovations shaping global healthcare and the ways they impact our everyday lives.

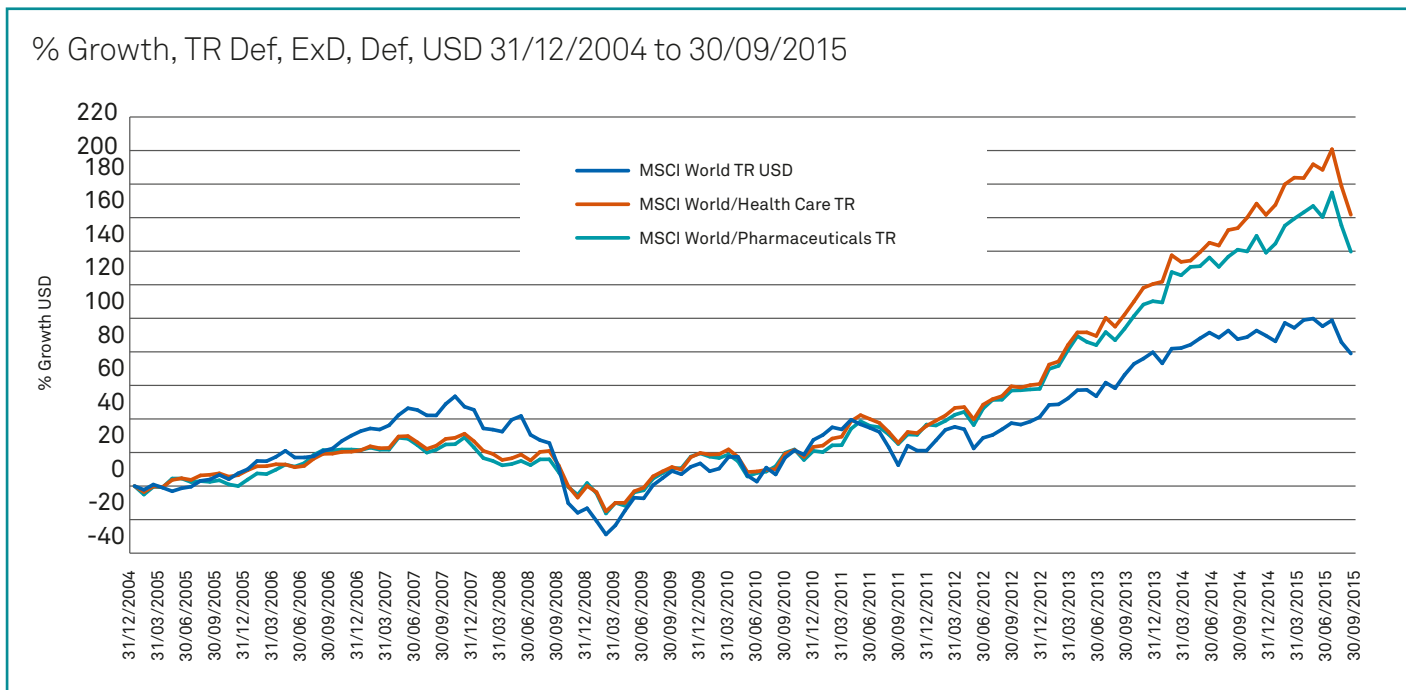


BNY MELLON

Performance credentials

Over 10 years the MSCI World Healthcare sector and MSCI World Pharmaceuticals sector have outperformed the MSCI World Index by a significant amount, with the healthcare sector

returning more than 160% over the timeframe and the pharmaceutical sector putting in around 140% of growth, compared with 80% from the MSCI World Index.¹



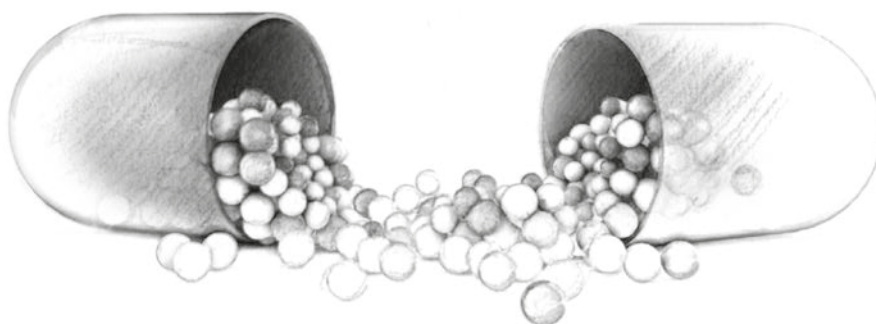
Source: Lipper, 30 September 2015

What our investment professionals say:

Stephen Rowntree, global healthcare analyst at BNY Mellon boutique Newton, says: “For six of the past nine years (up to 31 December 2014) healthcare has been among the top five performing industry sectors globally.”

Meanwhile, US-based **George Saffaye**, senior portfolio strategist at The Boston Company Asset Management (TBCAM)², also a BNY Mellon company, says: “Innovation and the Affordable Care Act in the US are providing potential drivers to the healthcare sector. Some valuations are rich but if companies have strong pipelines their earnings growth can support those higher valuations.”

Rob Marshall-Lee, investment leader of Newton’s Emerging and Asian equity team, points out the sector is also a significant consideration in these markets: “Healthcare expenditure in many emerging markets is starting from a very low level. As the middle class populations in some of these countries continue to grow so too should the numbers of people able to afford healthcare. State provision of healthcare is also very low compared with many developed countries, so it will be a priority for people as they start to have disposable income to take care of their healthcare provision.”

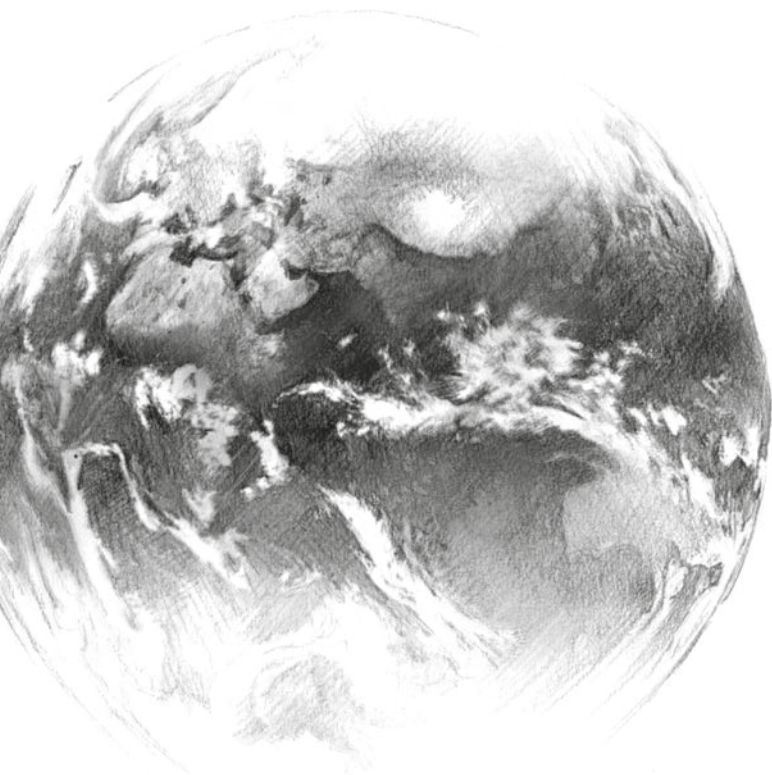


¹ Source: Lipper IM, 30 September 2015

² BNY Mellon Investment Management EMEA Limited is the distributor of the capabilities of its investment managers in Europe, Middle East, Africa and Latin America. Investment managers are appointed by BNY Mellon Investment Management EMEA Limited or affiliated fund operating companies to undertake portfolio management services in respect of the products and services provided by BNY Mellon Investment Management EMEA Limited or the fund operating companies. These products and services are governed by bilateral contracts entered into by BNY Mellon Investment Management EMEA Limited and its clients or by the Prospectus and associated documents related to the funds

Sector analysis

- More than 120 stocks in the MSCI World Index are classified as 'healthcare' companies, (as at 30 September 2015) and the sector is one of the dominant parts of UK and European stock markets. This is in no small part due to the fact that some of the world's largest pharmaceutical companies are domiciled in the UK and Europe. These include: UK-based multi-nationals AstraZeneca and GlaxoSmithKline, Swiss giants Novartis and Roche as well as French and German companies Sanofi, and Bayer. All were listed in the 2015 Forbes' 2000 list of top global companies.³
- In the UK the pharmaceutical sector is the third-largest sub-classification in the FTSE All-Share, even though it only houses 12 companies; in the S&P 500 pharmaceuticals is the largest sector with just 11 companies and biotech is the fifth largest sub-class of the US index with nine. But healthcare is larger than just pharma and biotech, there are also companies within the healthcare supply chain, medical/healthcare equipment groups, outsourcing services, distributors, hospitals and even chemical companies.⁴



Our funds' exposure to healthcare

While companies beyond the largest, most recognisable, names may not be well-known to consumers, many of their products will be. Equally, exposure to these companies plays an important role in many BNY Mellon Funds.

- An overweight to the healthcare sector is common to a number of BNY Mellon funds. As of 30 September: the Newton-managed **Global Emerging Markets** strategy had 10.81% compared with 2.89% in the MSCI Emerging Markets index; the **BNY Mellon Long Term Global Equity** strategy had a healthcare sector allocation of 16.04% (its third largest sectoral position), which compares with a 13.33% weighting in the MSCI World index; and **Newton Global Income** strategy had 15.32% invested in the sector versus 11.77% in the FTSE World index. In fact four of Global Income's top 15 positions as of 30 September were healthcare-related stocks.
- Newton's **Real Return** strategy has just under 8% invested in the pharmaceutical and biotech sector but also has exposure to other healthcare-related sectors, like medical equipment.
- Meanwhile, at TBCAM, the US Opportunities strategy had a slight overweight of 15.57% compared with 15.38% from the S&P 500 Index as of 30 September, while its **Euroland Small Cap** strategy had 10.2% allocated to healthcare versus a weighting of 4.8% in the S&P Eurozone Small Cap Index.⁵
- BNY Mellon boutiques are not alone in identifying potential in healthcare: Funds across the industry also allocate a healthy amount to the sector, with an average allocation of 8.07% in funds within the IA UK All Companies sector and 8.68% in the IA UK Equity Income sector; there is an average allocation of 12.29% to healthcare in funds within the IA Global Equity sector.⁶

³Forbes: 'Global 2000 list', 6 May 2015

⁴Sourced from Bloomberg 16 October 2015

⁵Source: BNY Mellon, all TBCAM data are weighted averages for the third quarter of 2015

⁶Source: BNY Mellon, all data as at 30 September, unless otherwise stated

So what?

The BNY Mellon healthcare e-zine 'Going viral' is designed to help advisers make connections with their clients. It helps illustrate why your clients should invest, bringing the stories behind investments alive and providing you with an ice-breaker.

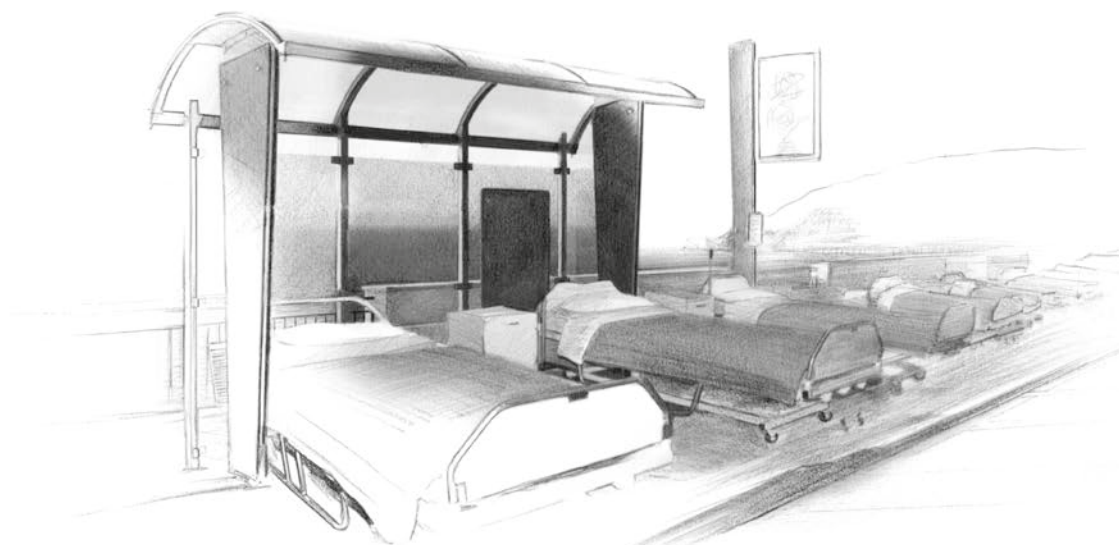
Hilary Lopez, head of IM EMEA intermediary sales, BNY Mellon Investment Management, says:

"Getting clients to engage with their investment portfolios can sometimes feel like an uphill struggle, with many investors viewing the asset management sector as opaque and confusing. The digital age has made it easier to present relevant and eye-catching content to a larger number of clients in a format they can easily digest and interact with. These sector e-zines are designed to smooth your clients' journey; bringing investments to life to help you join the dots between their day-to-day life and portfolios."

Client conversation starters:

- What are the biggest stories in the healthcare sector at the moment?
- How much do you think healthcare has contributed to your investment returns over the past 10 years?
- How much exposure do you think your portfolio has to healthcare?
- What do you think the average exposure to the healthcare sector is for UK equity funds?

To access the BNY Mellon healthcare e-zine, [CLICK HERE](#)



Important information

Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and can fall as well as rise due to stock market and currency movements. When investments are sold, investors may get back less than they originally invested.

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