The Daily Telegraph

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'The world will be a better place because of Covid'

The pandemic made doctors more willing to try new approaches to care, Paul Major of the Bellevue Healthcare Trust tells Danielle Levy

Healthcare stocks have largely been left out in the cold as investors have flocked to companies that benefitted from the reopening of economies following multiple lockdowns.

Paul Major, co-manager of the Bellevue Healthcare Trust (formerly known as BB Healthcare), suspects this won't last. He says healthcare is "the growth story of our age".

His £1bn investment trust has struggled over the past year because of its exposure to small and medium-sized healthcare stocks, which investors have shunned. Bellevue Healthcare's shares have lost 11pc; rivals have fallen by 18pc on average. Fortunately, the trust's five-year returns have remained strong at 65pc, against rivals' 32pc.

Mr Major tells *Telegraph Money* why he thinks medical companies have much to offer in an inflationary environment and highlights a "tremendous opportunity" in innovative smaller stocks right now.

HOW DO YOU INVEST?

We like to own companies that can profit from improving healthcare systems in the Western world, and make them fit for purpose in the 21st century. We looked at a patient's journey through the system and identified where the pinch points are, and where we can intervene to improve care outcomes, lower care costs or enable doctors to make better decisions. In many cases we have identified companies that do all three via their products, technologies or services.

WHY HAS THE TRUST'S PERFORMANCE DISAPPOINTED OVER THE PAST YEAR?

I have covered healthcare for the past 25 years and the past six to nine months have been very unusual. We have seen large, diversified, frankly boring companies perform well, and exciting, innovative small- and medium-sized companies lose value in many cases. This is unusual as historic data shows you are generally better off investing in disruptive smaller companies. This is because there is a material impact on their profits and share price if they succeed.

From launch in 2016 to 2021 we were the best performer in our category. However, as we run a concentrated portfolio focused on innovators, we have struggled in the current environment. Nothing has changed fundamentally for the industry so we see no reason why the normal market system, where innovation is rewarded, will not reassert itself in due time.

You can either look at this as a period when what we do isn't working and sell. Or say that the market is behaving irrationally, presenting us with a tremendous opportunity to buy shares at valuations at multi-year lows.

WHAT IS THE LEGACY OF COVID FOR THE HEALTHCARE SECTOR?

First, Covid highlighted the extent of chronic underinvestment in healthcare systems in most developed countries. Second, particularly outside America, doctors had been unwilling to experiment with care. When Covid arrived, no one knew how to treat people. They got a lot of stuff wrong and people died.

Then there was a huge amount of experiment and innovation, which got shared in real time among physicians in open clinical papers – and it was a great period for Britain, as we led on many of these innovations. This is one positive to come out of the pandemic: doctors are more willing to try out and evaluate different approaches to care. The world will be a better place because of this.

HOW IS INFLATION AFFECTING COMPANIES IN THE PORTFOLIO?

Healthcare is one of the best sectors to invest in during periods of high inflation. Why? It comes back to the question of demand. No rational person consumes healthcare services voluntarily, so healthcare sits outside that "price elasticity of demand" tension you see in other sectors.

As healthcare companies increase prices, demand doesn't fall. These businesses can increase prices because governments have recognised that their services are absolutely essential.

WHAT HAS BEEN YOUR BEST INVESTMENT?

We invested in GW Pharmaceuticals in late 2019 and exited in January 2021 following a bid from Jazz Pharmaceuticals. We doubled our money and still have exposure to the underlying drug assets because we own Jazz in the portfolio.

AND YOUR WORST?

NMC Healthcare, a private healthcare provider in the Middle East, turned out to be a victim of financial fraud, so we made a loss. It was frustrating because we knew the firm had some issues.

We spent a huge amount of time working with other investors, doing due diligence and speaking to management. At the end of the day if people lie to you, it is difficult to get satisfactory answers.

IN FOCUS

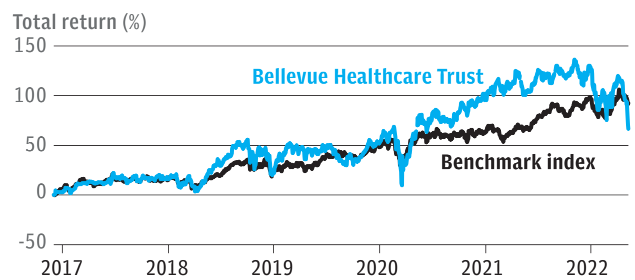
Paul Major
Jazz Pharmaceuticals

It's our largest holding but has been out of favour as investors have been concerned about its growth. But the company has given guidance on what sales and profitability will look like up to 2025. These numbers are extremely credible, even cautious. This is a profitable company and growth will come from products already approved in the US, so there is no regulatory risk.

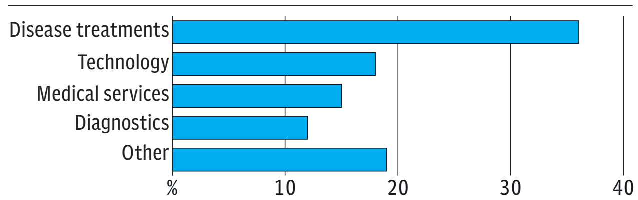
BELLEVUE HEALTHCARE

FE fundinfo

How does the fund measure up?



Where does the fund invest?



SOURCE: FE FUNDINFO, BELLVUE HEALTHCARE TRUST

KEY FACTS

Launch date
Dec 2016

Total return year to date
-26pc

Annual charge
1.08pc

Total number of stocks
29

Share price premium
1.36pc

Top 10 holdings (as of 30/04/2022)

1. Jazz Pharmaceuticals	8.8pc	6. CareDx	5.3pc
2. Option Care Health	7.2pc	7. Amedisys	4.8pc
3. Sarepta Therapeutics	6.2pc	8. United Health Group	4.2pc
4. Insmed	5.8pc	9=. Tandem Diabetes Care	4pc
5. Anthem	5.4pc	9=. Axonics Modulation	4pc

£1,665

What £1,000 invested at launch would be worth now