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Excellence in Specialty Investments

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Emerging Markets Healthcare sector comeback

Numerous fundamental factors are indicating that the recent advance by healthcare stocks across the Asia-Pacific region and in emerging market countries is solidifying into a sustained recovery. That applies to Chinese healthcare stocks in particular. The release of pent-up demand in China after zero-COVID restrictions were eased and initial regulatory approvals of innovative Chinese drugs have created promising growth dynamics.

Remo Krauer, Portfolio Manager, Bellevue Asia Pacific Healthcare Fund / Bellevue Emerging Markets Healthcare Fund

After a string of difficult years, a trend reversal is under way in emerging market healthcare stocks. The sector comeback in China is particularly obvious. The upward business momentum of healthcare companies there can be traced to the reopening of the economy after the government abandoned its zero-COVID policy on the one hand and to government reforms to enhance the healthcare systems on the other, which have created new growth triggers.

After all the uncertainty of the past few years, the Chinese healthcare industry can again unleash its full potential. The Chinese healthcare market is forecast to show average annual growth of about 10%. Various subsectors of China's healthcare industry are profiting from the reopening of the economy. Higher numbers of patients for stationary care have improved clinic capacity utilization. Surgical procedures are one example here. An increase in these procedures is, in turn, boosting business in various subsegments of the medtech industry, for example for manufacturers of prostheses for hip and knee joint replacement procedures in orthopedics, or stent and heart valve providers in cardiology. Sales are also on the rise at distributors and pharmacies, where foot traffic has picked up.

China's government had no other choice

Healthcare remains a high-priority industry in China. Demand for healthcare products and services is rapidly growing as the country's population rapidly ages, so the government is literally being forced to invest resources in the modernization of existing healthcare structures and in innovative technology. As for government price regulation, the latest signals indicate that price controls are starting to shift in favor of the supply side, which is likely to have a positive impact on company earnings going forward.

To summarize, China offers the most exciting healthcare universe of all emerging market countries today in view of the attractive valuations and high sales and profit growth rates. Chinese companies have clearly improved their innovative capabilities. Biotech companies such as Legend Biotech and BeiGene are now marketing their cancer treatments in the US. BeiGene's leukemia medicine marketed as Brukinsa belongs to the drug class of BTK inhibitors and has a very good chance of becoming a "best-in-class" BTK inhibitor owing to its superior efficacy. That same applies to Legend Biotech's cell therapy used to treat multiple myeloma. WuXi Biologics is another company worth noting. It offers R&D and manufacturing services for biologics that are globally competitive.

Breakthrough in Alzheimer's research

Looking beyond China, there are also companies in other Asian countries that are playing an important role in the development of groundbreaking new drugs. Daiichi Sankyo, a Japanese pharmaceutical company, has partnered with AstraZeneca on Enhertu, a new breast cancer drug launched last year that has peak sales potential in the high-single-digit billions. Eisai Pharma and Biogen were granted marketing authorization for Lecanemab in early January 2023, the first drug that actually slows the progression of Alzheimer's. In Australia, CSL Ltd received regulatory approval for its hemophilia B gene therapy.

Interesting investment opportunities in India and Brazil

In the Indian healthcare sector, operators of hospital chains such as Apollo Hospitals (digitalization strategy) and generics manufacturers such as Dr. Reddy's and Sun Pharma (strong positions in India and specialty pharma products in the US) deserve special mention. Outside Asia-Pacific, we see the most attractive investment opportunities in Brazil. We currently like Raia, a pharmacy chain, and Hypera, a company focused on generic and specialty drug manufacturing. Both have little exposure to the economic cycle in Brazil, which gives them a defensive profile. They also stand to reap a considerable benefit from demographic aging and the related above-average healthcare market growth.

China heavily weighted in fund portfolios

We have given Chinese stocks high weightings in the portfolios of both funds. In the Bellevue Emerging Markets Healthcare Fund, the China allocation is more than 60% and in the Bellevue Asia Pacific Healthcare Fund it is about 40%. Generally speaking about half of the Asia Pacific Healthcare Fund's portfolio is invested in emerging markets and the other half in developed countries in Asia-Pacific, such as Japan, Australia and New Zealand. That gives the fund a somewhat more defensive profile. In the Emerging Markets Healthcare Fund, the China allocation is combined with a higher weighting of Indian stocks and with investments in Brazil, Hungary and the Middle East.

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