



Abrdn's Akus Sees Opportunity As Healthcare Plays 'Catch Up' With The Market

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Jason Akus, Senior Investment Director and Head of Healthcare Investing at abrdn and manager of the firm's four closed-end funds covering biotech and healthcare. Read the Q&A below as Jason says that the stock market appears to be broadening out and that healthcare and biotech are both likely to be beneficiaries. Healthcare stocks have generally lagged the stock market since the start of 2023, but with the Standard & Poor's Health Care index up 11 percent in 2024 – respectable but still trailing the broader S&P 500 by about seven percentage points – there are strong signs of recovery. As the catch-up trade materializes, Akus believes there will be no shortage of potential opportunities ready to benefit even if the economy begins to slow.

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

CHUCK JAFFE: We're discussing the healthcare and biotech sectors with Jason Akus, head of healthcare investing at abrdn, welcome to The NAVigator. This is The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization representing the entire closed-end fund business from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. And today we're

looking in the direction of healthcare with Jason Akus, senior investment director and head of healthcare investing at abrdn, Aberdeen. They pronounce it A-B-R-D-N, where he runs the firm's four closed-end funds covering healthcare, that's their Healthcare Investors Fund, ticker HQT, then HQL, the Life Sciences Investors Fund, plus Healthcare Opportunities and World Healthcare, which are tickers THQ and THW respectively. You can learn more about the firm and the funds at abrdn.com, and if you look in the show notes for Jason, you'll find a long link that gets you directly to abrdn's Closed-End Fund Investors Center. Of course another big center of closed-end fund investing information is AICAlliance.org, that's the website for the Active Investment Company Alliance. Jason Akus, welcome to The NAVigator.

JASON AKUS: Hey Chuck. It's really, really nice to be here, and thank you for having me on the show.

CHUCK JAFFE: Let's start with the general outlook. Healthcare, a lot of things happening and obviously a lot of things being talked about in an election year, what's your take on where the industry is right now?

JASON AKUS: There's always a ton of stuff happening in healthcare, it's a pretty diverse group of subsectors ranging from hospitals to managed care, pharmaceuticals and obviously biotech, so there's always a lot of different things at play, but maybe it's worth just kind of reviewing where we've been and where do we think we're going? So I think when we talk about the broad S&P 1500 Health Care Index, it really has been trying to play a game of catch-up to the S&P 500 this year, and also in 2023, and I'm sure a lot of other sectors are trying to play catch-up as well given the strong rally that has been going on in technology. It's been a challenge trying to keep up, but as of July 17th, 2024, the S&P 1500 Health Care Index was up about 11% on the year, which is pretty respectable, but as I was just saying, it lags the broader S&P 500 which is up 18% year to date. This is certainly more encouraging than what we saw in 2023 with the S&P 500 up 26% and healthcare was basically flat, only up 1.6%. And as I mentioned, it really is just the Mag 7, technology, large cap growth [inaudible 0:03:05] and this fear of missing out, which we think is really leading to this relative underperformance of the sector.

CHUCK JAFFE: I was wondering whether or not if you removed the Magnificent 7 from the market benchmark, if you'd be outperforming the rest of it, and if we were looking at healthcare relative to say, an equal-weighted index, whether not healthcare is actually better

looking than it is, it's just being measured wrong if you compare it the rest of the market right now.

JASON AKUS: That's a really good point, Chuck. Without that Mag 7, I think healthcare actually trades probably a little bit better and more favorable than what it would appear on the surface. That's a good thing. When we look at the fundamentals across all of healthcare, to me and the team, it does look pretty positive in terms of revenue growth, earnings growth, and also we think the valuations look pretty attractive. If we look back maybe two weeks ago, I think it was around the beginning of July when we got that last CPI print, and we all of a sudden had this big rotation out of that Mag 7 into, I guess you can call it small cap, lower quality value type stocks, we really did see this relative underperformance of healthcare catch back up to the S&P by a few hundred basis points, so it's really encouraging to finally see that catch-up trade finally starting to materialize. When we look forward to the back half of 2024 we remain pretty optimistic about healthcare, even you mentioned the upcoming election which always certainly creates some volatility and noise around healthcare, and especially around the managed care subsector, I think it should be less fireworks this year than what we've seen in years past.

CHUCK JAFFE: The last big run that we saw in healthcare investing was during the pandemic when everyone was looking at all the things tied to vaccines, now of course we have all the weight loss drugs, that seems to be driving it. Is that the next big wave or is there something else coming?

JASON AKUS: Yeah, as you mentioned the last big run was back in the pandemic, we saw a quite outsized within the biotech sector, there was an enormous amount of capital raising, IPO activity, and I think a lot of things ultimately got a little bit ahead of themselves. And so from that 2020 top biotech, when I say biotech I mean more the small and mid-cap capitalization sized companies did have a terrible drawdown, from peak to trough it was almost 60%. Last October of 2023, when the Fed did finally signal that we probably had reached peak rates, we saw this enormous relief rally, and so we saw a lot of the stocks appreciate quite significantly, and a lot of that was actually driven by I think some excitement around certainly the GLP-1 space, the obesity drugs, not just with Lilly and Novo Nordisk, but we're seeing a lot of companies obviously for good reasons enter into this space and starting to present data on their own obesity drugs, whether those are oral versions or

injectables, antibodies, so certainly there's a lot of excitement and a lot of hope that could drive future appreciation. And as always, I could spend days talking about it, but there's a ton of super innovative, interesting things happening in biotech from gene therapy to liquid biopsy, which is taking of blood tests and detect cancer to orphan drugs in rare genetic diseases. So there is a ton of stuff happening all the time, and of course we always have a lot of M&A activity happening in the background, as I'm sure you can appreciate these large pharma companies, their own internal R&D efforts really aren't enough to keep up the pace of new product development as they have drugs roll of patent and they lose drug exclusivity. So there's always an underlying bid to these companies and we're looking forward to hopefully when the Fed starts to cuts rates, maybe as soon as September, if it's not September it's going to be at some point in the next several months, but we think that biotech could actually do quite well in a decreasing interest rate environment.

CHUCK JAFFE: And in there, well, basically you answered my next question because I wanted to talk about M&A activity, which is great.

JASON AKUS: Oh. Sure.

CHUCK JAFFE: No, that's great, it allows us to cover some other ground, because that allows us to maybe drill in and look at the funds. Because you manage, as I said, the four closed-end funds, two more strongly focused on biotech, the other two broadly on healthcare. The biotech funds have been hot of late, I know you can't dig in too much to what's going on, but getting back to what we said about the market broadening out, is that what we're seeing there or is there a biotech rally coming? Or is this just we all want to hit new highs, that's part of what we're trying to do, but it's not necessarily signifying anything?

JASON AKUS: Yeah, so as you mentioned, we manage the four closed-end funds that invest entirely in healthcare, each has their own little different flavor of how they go about investing in the sector. HQL is very biotech-heavy, about 60-80% of those funds are invested in biotech, with THQ and THW being much more broadly invested across the sector. But biotech performance, as I was mentioning earlier when we had that pretty weak CPI print, really did catalyze I think some upbeat momentum in the sector which really has been lagging, I think the broader equities over the last few years. So I'm pretty optimistic, I hate to use the term cautiously optimistic, that this biotech performance can continue, hopefully for the foreseeable future. I think we'll see money rotate hopefully out of these, the Mag 7, all the

winners, into the laggards, so I think that balance should help drive performance as we move forward. And something we really didn't touch on but I think it's worth mentioning, is in two of our funds, HQH our Healthcare Investors Fund, HQL, our Life Sciences Investors Fund, they do actually make fairly significant investments in pre-public or venture capital investments in the biotech space. So we think this is an interesting and unique feature, certainly when you look across the mutual fund and closed-end fund space, that gives investors an opportunity and exposure to a part of the market that they don't typically get a chance to play in. This is something that we're certainly encouraged about, especially if you want to think about market cycles, and with biotech underperforming, venture typically lags public equity biotech by six months to a year, so we've been seeing some pretty attractive deals over the last year and have been making a bunch of interesting investments there.

CHUCK JAFFE: Jason, really interesting, I look forward to revisiting healthcare with you again down the line. Thanks for joining me on The NAVigator.

JASON AKUS: Thanks for having me.

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