Profit from powerful growth in healthcare

Sven Borho, co-founder and managing partner of OrbiMed and portfolio manager of the Worldwide Healthcare Trust, discusses the outlook for innovation and expansion in the sector with Andrew Van Sickle

Andrew Van Sickle: Healthcare is a broad term. Could you start by outlining what exactly is in the MSCI World Healthcare index, the benchmark for your fund?

Sven Borho: It captures every single part of the industry. You have the big pharmaceutical groups; more innovative smaller-cap pharma and biotechnology firms; generic drugmakers; medical-device makers; and service providers. These are the big health-management organisations (HMOs) in the US (the health insurers) and private hospitals. The index is diversified across the US, Europe and Japan, although it doesn't capture healthcare in emerging markets.

AVS: It's often said that "health is wealth", and investors have traditionally been able to count on both structural growth and income in this sector. But the index has had a difficult decade. What has gone wrong?

SB: One problem is that the price of pharmaceuticals became a political football, creating years of uncertainty. Drug prices were a key theme in the presidential election between Hillary Clinton and Donald Trump. We got a form of drug-price controls under Joe Biden, and the regime was tightened when Donald Trump returned to power.

The other key headwind was the rise in interest rates over the past few years. That hampers growth stocks, such as smaller biotechs, as dearer money reduces the present value of future profits. The S&P Biotechnology Select Industry index went nowhere between mid-2015 and mid-2025. The S&P Health Care Select Sector index gained 60% over that period, compared with 300% for the S&P 500 or 400% for the Nasdaq.

AVS: Is the drug-price threat receding now?

SB: Yes, the sector knows where it stands now, so the uncertainty discount has started to recede. Trump was irritated that US drug prices were higher than elsewhere. He has now cut a deal with the sector, whereby the government will pay lower prices for future drugs and for current ones being delivered to Medicaid and Medicare programmes. The deal is being done with most-favoured nation (MFN) pricing, whereby prices will match those offered to a basket of other developed countries.

Meanwhile, mergers and acquisitions (M&A) are on the rise as big companies try to compensate for major drugs going off patent. When a drug reaches that stage, prices collapse by 98% as generic competition takes its toll. Merck's Keytruda, for instance, a cancer drug with annual sales of $30bn, goes off patent in 2028. Each of the Big Pharma companies will see a large product go off patent between 2025 and 2028. This coincides with the Trump government's pricing deal, so the sector is facing a double whammy.

History shows it is impossible to rectify a pipeline gap like this through internal research and development (R&D) alone. So the big names will go shopping, acquiring the right to develop a drug from smaller firms with promising products, or buying them outright. Big Pharma wants products with annual sales potential of $3bn and above. If you're a speciality pharma firm or a biotech with a drug boasting that kind of potential, you're on someone's shopping list. That is why 30% of our portfolio is in biotech companies, with a heavy focus on those most likely to be bought out. Overall, 12% of the portfolio comprises a "basket" of the stocks most likely to be bought out.

AVS: Returning briefly to drug development, what proportion of drugs successfully move from discovery to approval?

SB: The percentage hasn't changed much over the years: one in ten make it from pre-clinical trials through to regulatory approval. This is the biggest bottleneck in the sector. One can't speed up the process, which takes ten, even 15 years. Patients need to be on a drug for a certain amount of time, for instance.

And costs have risen sharply. Traditionally, it would cost around $1bn to bring a drug to market. These days, it's north of $2bn. Getting one person enrolled in a clinical trial can cost $300,000. Compliance and regulatory requirements, along with the general inflation trend, have driven up expenses.

AVS: What effect could AI have on the sector?

SB: It is likely to help us come up with more compounds to test, but that will just add more potential treatments to the bottleneck building up before the clinical testing process. It is in the areas of diagnosis and treatment of disease that AI will be transformative. Given how it can amalgamate data – including your blood tests and MRI scans, say – and compare new information to it, it should become far better than a GP at diagnosing and treating disease. It may not be too long before people don't see a GP at all.

This should massively reduce costs – as should robots performing surgery. I think manual surgery will be a thing of the past in the not too distant future. Already today you could have a physician operating in London on a patient in New York with a medical robot. One of our favourite companies, therefore, is Intuitive Surgical, which manufacturers robotic surgeons.

AI should allow us to get a grip on healthcare expenditure; 12% of total healthcare spending (which in the US comprises a fifth of GDP) is on drugs, a proportion that hasn't changed over the years. Hospitals, surgeries, GPs and so on account for the rest. There should now be deflation in that 88%, counteracting the expense of the ageing of the population.

AVS: What impact will weight-loss drugs have?

SB: People tend to think of the cosmetic element, and of course that spurred early adoption, but the big story is the impact on chronic diseases linked to excess weight, notably the big ones: cardiovascular disease, cancer and diabetes. Data suggests these treatments cut your chance of contracting Type-2 diabetes by 80%.

"AI should prove more effective than a GP at diagnosing and treating disease"

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One of the trust's key holdings is robotic-surgery specialist Intuitive Surgical

There are spillover effects in other areas – sleep apnea, for instance, or hip and knee surgeries, the odds of which dwindle if you are walking around with 20% less body weight. The next stage of the boom will be increasingly common oral treatments rather than injectables, with Eli Lilly the leader in the subsector. Weight-loss is a thriving division for other big names, but for me the most interesting way to play weight-loss drugs is Structure Therapeutics.

It focuses on oral treatments for obesity and related diseases. It has an oral obesity treatment about to enter phase III (the final stage of clinical trials) and it is second only to Eli Lilly's. It should hit the market a year after the pharma giant's treatment (which is supposed to arrive this month). The group will probably be acquired. Weight-loss treatments will be the largest drug category for years to come.

AVS: Tell us about your fund and its top-three holdings?

SB: We launched it in 1995; I have been in the sector for 35 years. The trusts's net asset value (NAV) enjoyed a compound annual return of 13.5% from the fund's inception until the late spring of 2025, eclipsing the benchmark index's 11.3%. The secret to our success is an enduring focus on innovation – the highest-growth companies. We've always been agnostic about where those companies are, so we are widely geographically diversified. Our overweight position in biotechnology compared with the benchmark again highlights the concentration on innovation.

Eli Lilly, AstraZeneca and Boston Scientific are the top-three beyond our M&A basket. The last is one of the fastest-growing and best-managed medical-devices firms, a long-term compounder with 15% yearly growth in earnings per share. Eli Lilly is a bet on the weight-loss theme. AstraZeneca is the second-fastest growing pharma group in the world, mostly driven by oncology. We like to identify the fast growers, even in the large-cap segment. Intuitive Surgical and Boston Scientific are the fastest-growing medical-technology firms.

It's worth highlighting our holding in China's Jiangsu Hengrui Pharmaceuticals too. It's worth 5% of the portfolio and provides access to the extraordinary innovation in the Chinese pharma sector. Jiangsu has an R&D pipeline of approximately 150 projects, the second-largest in the world after Pfizer's 156. They have a competitive compound in practically every area.

What's more, going from the pre-clinical stage of the pipeline to phase one or two data (the stage at which you receive the first efficacy data in human clinical trials) takes them a third as long as Western companies and costs them 90% less. The scientists doing the work are just as qualified as in the West; many will have done their PhD or worked in a biotech here. Costs of R&D are much lower in China, as is the regulatory burden, especially when it comes to early stage trials.

Once they get to phase three of clinical trials, however, it gets trickier. A Chinese firm can't do those trials in Western markets. It has to licence the drug out to Western counterparts. The US regulator, the Food and Drug Administration, doesn't trust Chinese data, while there are also political sensitivities surrounding the process. As a result, Western firms' heads of R&D go to China to or three times a year to discuss such deals, which can be massive.

That is a transformative theme. At the epicentre is Jiangsu Hengrui. It is the Chinese biopharmaceutical equivalent of Nvidia. It is the biggest innovator. I mentioned that Jiangsu's number of R&D projects in clinical trials is second to Pfizer's, but if you include pre-clinical projects, it has the world's largest pipeline. I think it has another 500 projects. And the quality of its compounds is absolutely first-class.

"Jiangsu Hengrui offers access to the extraordinary growth and innovation in Chinese pharma"