

# Health Innovation Q2 investment update

July 2024

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Investment manager Rose Nguyen and investment specialist Diana Philip give an update on the Health Innovation Strategy covering Q2 2024.

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**Your capital is at risk. Past performance is not a guide to future returns.**

**Diana Philip (DP):** Hello and welcome to the Q2 2024 update for the Health Innovation Strategy. As a brief reminder, Health Innovation is our only thematic strategy at Baillie Gifford and we are seeking to invest in innovative healthcare companies that are taking advantage of the great convergence of advancing technologies into the healthcare sector.

I'm Diana Philip, I'm an investment specialist on the strategy and I'm joined by Rose who is one of the three decision makers on Health Innovation.

Rose, I thought that a very good place to start would be to talk about performance. It has been more challenging as we continue throughout 2024 as companies in the innovative healthcare sector navigate what have been some very difficult headwinds. I wonder if you could touch on that and also what have been some of the principal detractors to performance within the portfolio?

**Rose Nguyen (RN):** Hello, Diana. Hello, everyone. Performance continues to be challenging for the strategy as we get into Q2 of this year for a variety of reasons. As we know, companies in the healthcare industry continue to combat headwinds from a tough macro environment and adjustments to a post-pandemic environment. If we look back to the start of 2021, then we can see divergence across some subsectors of the healthcare industry. The sectors that are higher growth and higher duration stocks suffer more from interest rate increases and budget reductions from academic labs and pharmaceutical companies. For example, some companies in our portfolio in the tools and life science equipment providers, such as Illumina and 10x Genomics, have seen slowing demand growth as a result of academic R&D budget reductions. [In] contrast to that, the more defensible subsectors such as pharmaceutical and healthcare providers have been relatively more

resilient in this current environment. Having said that, we still remain very excited about the strong fundamental progress that we see within our portfolio companies. And we think that the underperformance so far is actually masking some really exciting innovations and exciting progress that we are observing.

**DP:** It would be great to explore that further, Rose, both in terms of the fundamentals of the overall portfolio, which are strengthening, but also could you bring to life some examples in the portfolio where we are seeing signs of significant progress?

**RN:** Of course. At the portfolio level, we continue to see our companies scaling up and getting to more profitable levels. For example, companies like Alnylam and Exact Sciences have recently become free cash flow positive as they continue to scale their operations. Some other companies in the portfolio have also taken initiatives to reduce their operating expenses and shore up their balance sheet resilience. Some early-stage companies like Denali have also managed to raise more capital, again, in an effort to strengthen their balance sheet.

An example of a company that has shown really promising progress is Alnylam. It is one of our top holdings in the portfolio. And in the last month, Alnylam reported extremely outstanding results from its phase three study of its drug Amvuttra, which is used to address a rare and progressive heart disease called ATTR cardiomyopathy. This is a study that was most awaited in the biotech industry because of the implication that the study has for patients, as well as the implication for Alnylam's future. ATTR cardiomyopathy is a rare disease, but it's actually growing in terms of diagnosis and prevalence. Globally, there are more than 500,000 patients who have this disease, and it's estimated that this can become more than \$10bn market opportunity worldwide. In its phase three study, Alnylam shows that it can reduce the risk of death and hospitalization and other cardiovascular events by 28 per cent compared to placebo. This is extremely good news for patients. And it also allows Alnylam to unlock a huge market opportunity and accelerate its pipeline development.

**DP:** Really encouraging news, both for the company then and for patients going forward. I also wanted to touch on turnover, Rose. It has ticked up as we take advantage of some really exciting new opportunities to enter the portfolio. And I think that's a very strong sign of the enthusiasm that the team has for the opportunity ahead. There were a couple of new additions to the portfolio this quarter and I wonder if you could give us more information on particularly Zealand Pharma and Vertex.

**RN:** Sure. We are very excited to take new holdings in Zealand Pharma and Vertex for our clients. Zealand Pharma is a Danish biotech company that is developing treatments for obesity and other

metabolic diseases. Now, we all know obesity is an extremely prevalent disease worldwide and is estimated that this can become the biggest drug market in the world in the next decade or so. As this market evolves and matures, we believe that it will become more fragmented with more companies entering the market, bringing different drugs with new mechanisms of action to tackle obesity. And we believe that Zealand with its long history in making drugs for diabetes, obesity and other metabolic diseases has a very good chance of taking share in this expanding market. And what's really exciting for us is that Zealand is bringing out a new drug with an entirely new mechanism of action to tackle obesity. This drug has shown in early human studies that it can potentially generate a similar magnitude of weight loss compared to other GLP-1 drugs on the market, but with fewer side effects, such as lean muscle loss, nausea and vomiting and so on. This is really exciting because if successful, Zealand's drug can potentially be used as a standalone therapy or as a combination therapy for obesity patients.

**DP:** Excellent. And Vertex?

**RN:** Yes. Vertex is a larger cap US biopharma company, and is best known for its drugs in cystic fibrosis. Cystic fibrosis is a rare lung disease that is very life-threatening. And Vertex drugs in cystic fibrosis have been hailed a miracle for patients because they can improve life expectancy for patients from around 30 years of age to above 70 years. And this forms a very cash generative and resilient core franchise for Vertex. And it forms the foundation for the company to then expand into other disease areas, such as pain, sickle cell, and type 1 diabetes. The reason why we really like Vertex is one, their management team is outstanding. They have a very distinctive business model and differentiated culture. And most of all, we really like their serial innovation approach. In every disease that they enter, they will aim to out-compete innovators and out-innovate themselves so that they can own the entire disease area. They have done that in cystic fibrosis and we believe there is a strong rationale for them to repeat that success into other disease areas like pain, sickle cell and so on.

**DP:** Thank you, Rose. Before we wrap up and we are running out of time, the team is just back from the US. And I know that you had some really exciting conversations with management teams. And I would love you to give a little bit of a flavour of the tone that was coming from management, because I think it spells out just how exciting this opportunity is ahead to invest in healthcare.

**RN:** Yes, we have just come back from a very exciting investment trip in the US. And coming back from the trip, I feel really excited about the pace of innovation that we are still seeing in our portfolio companies and the scale of the opportunities ahead of them. The management teams that we met with, they remain really steadfast in their quest for the opportunities ahead of them. And

they remain very, you know, highly convicted in the innovations and the convergence of technologies that we still see in life sciences.

For example, Moderna has been racing ahead in terms of expansion beyond the Covid-19 vaccine. And so now it has got approval for its RSV vaccine, which is validation of the scalability of its messenger RNA technology platform. It has also recently read out very positive results in its combination vaccine for both flu and Covid-19. And it's expanding very fast into personalized cancer vaccines as well. So even though the stock has been relatively volatile, if we look underneath that, the pace of innovation remains extremely exciting and the scale of the opportunities are tremendous.

**DP:** I think that's a fantastic place to end this update. Thank you very much for listening and thank you for your support. Please do provide feedback or get in touch if you would like additional information.

Thank you.

## Health Innovation

### Annual past performance to 30 June each year (net%)

	2020	2021	2022	2023	2024
Health Innovation Composite	40.4	58.2	-48.3	5.2	-13.0
MSCI ACWI Index	2.6	39.9	-15.4	17.1	19.9

### Annualised returns to 30 June 2024 (net%)

	1 year	5 years	10 years	Since inception
Health Innovation Composite*	-13.0	1.0	N/A	3.2
MSCI ACWI Index	19.9	11.3	N/A	11.8

\*Inception date: 31 October 2018.

Source: Baillie Gifford & Co and MSCI. USD. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite.

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