Worldwide Healthcare Trust

Strong performance since inception

Investment trusts
Global healthcare equities

9 December 2024

Worldwide Healthcare Trust (WWH) will be celebrating its 30th birthday in 2025 and, despite more recent underperformance, the trust has served its shareholders well over the long term. Its NAV and share price total returns of +4,770% and +4,181% respectively, since launch in April 1995 to the end of September 2024, are considerably ahead of the benchmark's +2,438% total return. Co-managers, Sven Borho and Trevor Polischuk, at global healthcare specialist OrbiMed, remain bullish on the industry outlook. They believe that the sector is poised for a catch-up in relative performance, having uncharacteristically lagged the performance of the broad US market in recent quarters. The managers point to favourable healthcare industry fundamentals, which include a high level of innovation, a supportive regulatory environment and robust levels of M&A activity. This is partly due to an upcoming patent cliff and senior executives at major pharma companies have been vocal about the need to replenish their product lines as their key drugs go off patent.

WWH's half-year update with Borho and Polischuk

Source: WWH

Why consider WWH?

Borho and Polischuk believe that healthcare stocks should start to perform relatively better given favourable industry fundamentals, and now the uncertainty surrounding the US presidential election is out of the way. A broadening of market leadership away from the intense investor focus on the 'Magnificent Seven' stocks should also be beneficial for the performance of healthcare stocks.

Following the US election, and the Republican sweep in Congress, the managers made some changes to the portfolio including increasing gearing from 111% to 118%. They added to WWH's innovation and growth exposures, which has involved higher allocations to biotech and medtech stocks (the Biotech M&A swap basket is now the largest holding) with a reduction in more defensive areas such as pharma and healthcare services (sales included Merck and UnitedHealth).

Underlying WWH's active share repurchase programme is the board's strategy to limit the trust's discount to 6.0% in normal market conditions. However, the trust has not been immune to the trend of wider discounts in an environment of elevated investor risk aversion. The board is hopeful that with an improvement in investor sentiment and WWH's relative performance, the trust will be afforded a higher valuation (between Q117 and Q421, WWH traded close to NAV).

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Price		**335.0p**
Market cap		**£1,711m**
Total assets		**£2,299m**
NAV*		382.1p
Discount to NAV		12.3%
*Including income. At 5 December 2024.		
Yield		0.8%
Ordinary shares in issue		510.8m
Code/ISIN		WWH/GB00BN455J50
Primary exchange		LSE
AIC sector		Biotechnology & Healthcare
52-week high/low	371.0p	297.0p
NAV* high/low	408.7p	334.9p
*Including income		
Gearing*		10.7%
*At 31 October 2024.		

Fund objective

Worldwide Healthcare Trust is a specialist investment trust that invests in the global healthcare sector, with the objective of achieving a high level of capital growth. Gearing and derivative transactions are used to enhance capital returns and mitigate risk. Performance is measured against the MSCI World Health Care Index (sterling adjusted).

Bull points

- Specialised healthcare fund diversified by subsector, geography and market cap.
- Significant long-term record of outperformance versus the benchmark.
- Managers are able to draw on the very deep resources of OrbiMed's investment team.

Bear points

- Disappointing medium-term relative performance.
- Modest dividend yield.
- Periodic political risk from investing in healthcare stocks.

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Edison profile page

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WWH: Provision of H125 update

WWH is managed by OrbiMed, which is a leading global healthcare specialist with more than $17bn of assets under management. It operates from three continents with offices in New York, San Francisco, London, Herzliya (Israel), Hong Kong, Shanghai and Mumbai. OrbiMed has a team of around 140 people, of whom more than 35 hold PhD or MD qualifications and around 15 are former CEOs or company founders. The trust's portfolio is diversified by industry subsector, geography and market cap.

Update from WWH's managers

Speaking after the result of the 2024 US presidential election, Borho and Polischuk believe that the Republican sweep of both the Senate and the House of Representatives is a clear win for the performance of healthcare stocks. The managers consider that positive developments will outweigh any negatives, highlighting the potential for a range of favourable healthcare industry outcomes. These include changes to the Inflation Reduction Act-led drug price reform or changes to generic rules by equalising small molecules (nine years) with biotech (13 years); more biotech M&A under a new head of the Federal Trade Commission (FTC) who will replace the current commissioner who is not in favour of M&A; healthcare industry-friendly leadership at other relevant regulatory bodies, continued high levels of innovation and tax cuts under a pro-business president. Importantly, the overhang of negative legislation has been removed with a Republican administration. Against these positive developments is the appointment of vaccine-sceptic Robert F Kennedy Jr as health secretary, the effects of which are yet to be determined.

Borho and Polischuk highlight that the healthcare sector delivered record underperformance versus the broad US market in 2023 (-24.2pp). This trend has continued in 2024; at the end of November the healthcare sector was the worst performing of the 11 market sectors with a 9.4% total return versus a 28.1% total return for the S&P 500 Index. The managers suggest that this performance differential provides a significant opportunity for investors given the healthcare sector's long-term historical robust performance.

Turning their attention to the biotech sector, Borho and Polischuk point to the XBI Index (S&P Biotech ETF), which is a proxy for mid-cap biotech. It outperformed during COVID-19 to Q121, then experienced its largest drawdown until mid-2022, when biotech stocks started to perform better following an M&A inflexion in April 2022. This trend is supported by: 1) large-cap pharma facing a patent cliff similar to early 2000s, with c $270bn in branded sales at risk from 2024–30; 2) lower Medicare drug pricing starting in 2026; 3) small-cap biotech valuations remain very inexpensive, based on a ratio of market cap to net cash on the balance sheet; and 4) innovation is at an all-time high, with 65% of the total industry pipeline coming from small-cap biotech. As mentioned above, a change of FTC leadership should also be supportive for biotech M&A.

Last year was a record year for new drug approvals by the US Food and Drug Administration, with a total of 67 compared with 45 in 2022. These were split between chemical drugs (55 vs 37 in 2022) and biological products (12 vs eight in 2022). The number of approvals has remained robust in 2024, including for the treatment of Alzheimer's, pulmonary disease and skin cancer, bringing the eight-year total to around 450. This above-average rate may well continue given that President Trump believes the best way to control drug prices is more competition, which is a function of the number of drug approvals.

An area of particular interest in healthcare is the treatment of obesity. The managers explain that GLP-1 as a drug class is 20 years old and they believe it is just getting started (initially prescribed for diabetes, and now for the treatment of obesity). This year has been about supply issues versus an insatiable demand for GLP-1 products. Industry leaders in this field Eli Lilly and Novo Nordisk have increased their sales guidance twice in 2024 and are investing $40bn over five years to increase manufacturing capacity. So far, there has been limited non-US rollout, but the managers expect an inflexion in 2025. They believe that Lilly and Novo will maintain their dominance with the next generation/alternative obesity products, where high demand is supported by GLP-1 drugs having a range of clinical benefits outside of diabetes.

Highlights from H125 results (ending 30 September)

Performance – NAV and share price total returns of +0.6% and +3.6% respectively were ahead of the benchmark's flat total return. This was despite the currency headwind of a 6.2% strengthening of sterling versus the US dollar. The three largest positive contributors to WWH's performance were: Tenet Healthcare (healthcare providers & services) and Boston Scientific and Intuitive Surgical (both healthcare equipment & supplies), while the three largest detractors were Merck and Novo Nordisk (both pharmaceuticals) and Apellis (biotech).

Dividends – the board declared an unchanged 0.7p per share interim dividend. Dividends paid are the minimum required to satisfy investment trust rules as the board prefers capital to be reinvested back into the trust's portfolio.

Share repurchases – c 28.2m shares were bought back into treasury at a cost of c £99.8m and at an average 9.6% discount.

Board changes – Sian Hansen and William Hemmings joined the Board at the beginning of October 2024. Hansen is a non-executive director of Pacific Assets Trust, and was formerly the COO at CT Group, which is a global strategic consultancy business and a non-executive director of JPMorgan Multi-Asset Global Growth & Income. Hemmings was the former head of closed-end funds and head of investment companies at abrdn, and a director and deputy chair of the AIC.

Current portfolio positioning

Reflecting its dominance in the global healthcare industry, the majority of WWH's portfolio is made up of US-listed stocks. The trust's largest holding is its biotech M&A target swap basket, which is a derivative product constructed and managed by OrbiMed and made up of 20 biotech companies that the firm considers to be the most likely M&A targets. This strategy has proved successful as since the swap basket's inception at the end of April 2022 to the end of October 2024, it has appreciated by 74.8%, which has surpassed both the performance of the XBI Index (+28.2%) and the NASDAQ Biotech Index (+20.9%).

Exhibit 1: Top 10 holdings (at 31 October 2024)

Company	Region	Sector	Portfolio weight %	
			31 Oct 2024	31 Oct 2023*
Biotech M&A target swap	North America	Swap baskets	9.1	4.6
Eli Lilly & Co	North America	Pharmaceuticals	8.8	4.7
Boston Scientific	North America	Healthcare equipment & supplies	7.5	5.4
Intuitive Surgical	North America	Healthcare equipment & supplies	5.7	4.2
Novo Nordisk	Europe	Pharmaceuticals	5.5	6.9
AstraZeneca	Europe	Pharmaceuticals	5.4	5.7
Stryker	North America	Healthcare equipment & supplies	3.6	N/A
Tenet Healthcare	North America	Healthcare providers & services	3.6	N/A
Biogen	North America	Biotechnology	3.4	N/A
Daiichi Sankyo	Japan	Pharmaceuticals	3.2	3.2
Top 10 (% of portfolio)			**55.8**	**46.1**

Source: WWH, Edison Investment Research. Note: *N/A where not in end-October 2023 top 10.

At the end of October 2024, WWH's top 10 positions made up 55.8% of the fund, which was a higher concentration versus 46.1% y-o-y; seven positions were common to both periods. There were 56 holdings in the portfolio, which had a 63.2% active share versus 60 and 65.1% respectively 12 months earlier. Active share is a measure of how a fund compares with its benchmark, with 0%

being full index replication and 100% no commonality. Annualised turnover of 42.1% at the end of October 2024 was much lower than 62.3% a year before.

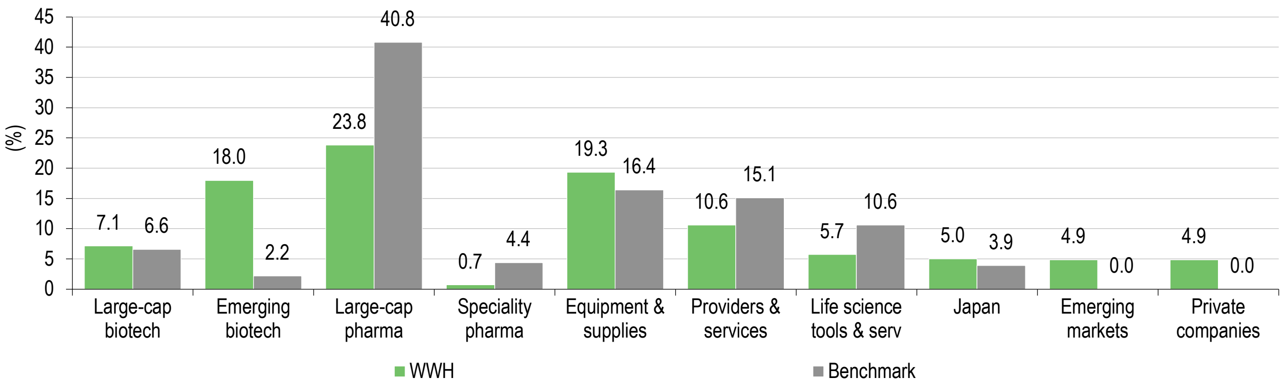
While there have been changes to WWH's portfolio following the Republican sweep in the US presidential election, exhibits 4 and 5 demonstrate the managers' long-term strategy of favouring emerging biotech stocks rather than large-cap pharma companies. The trust also has allocations to emerging markets and private companies, which are not represented in the benchmark.

Exhibit 2: Portfolio year-on-year subsector changes and active weights (% unless stated)

	Portfolio end-October 2024	Portfolio end-October 2023	Change (pp)	Active weight vs index (pp)
Large-cap biotech	7.1	2.8	4.3	0.5
Emerging biotech	18.0	22.0	(4.0)	15.8
Large-cap pharma	23.8	25.8	(2.0)	(17.0)
Speciality pharma	0.7	0.4	0.4	(3.7)
Healthcare equipment &	19.3	14.5	4.8	2.9
Healthcare providers &	10.6	13.1	(2.6)	(4.5)
Life science tools &	5.7	4.0	1.7	(4.9)
Japan	5.0	5.7	(0.7)	1.1
Emerging markets	4.9	5.2	(0.3)	4.9
Private companies	4.9	6.5	(1.6)	4.9
Total	**100.0**	**100.0**		

Source: WWH, Edison Investment Research. Note: Adjusted for gearing.

Exhibit 3: WWH's subsector exposure versus the benchmark (at end-October 2024)



Source: WWH, Edison Investment Research

Performance: Hopeful for industry improvement

WWH is the largest fund in the AIC Biotechnology & Healthcare sector. Its NAV total returns are above average over the last one, three and 10 years ranking fifth and fourth out of seven funds and second out of five funds respectively but is modestly below average over the last five years.

Exhibit 4: AIC Biotechnology & Healthcare sector at 6 December 2024*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Worldwide Healthcare Trust	1,711.2	15.8	13.4	34.8	132.6	(12.6)	0.9	Yes	118	0.8
Bellevue Healthcare Trust	355.3	8.0	(6.1)	30.5		(12.0)	1.0	No	100	4.3
Biotech Growth Trust	291.6	19.3	(9.7)	8.5	46.7	(7.6)	1.2	Yes	106	0.0
International Biotechnology Trust	253.9	25.4	25.1	48.1	122.1	(12.8)	1.2	Yes	109	4.0
Polar Capital Global Healthcare	441.4	16.2	26.2	63.2	142.8	(6.6)	0.9	Yes	100	0.6
RTW Biotech Opportunities	395.2	16.2	20.4	72.5		(22.7)	2.0	Yes	100	0.0
Syncona	645.3	0.2	4.0	(10.1)	66.8	(42.7)	1.9	No	100	0.0
Average (7 funds)	**584.8**	**14.4**	**10.5**	**35.4**	**102.2**	**(16.7)**	**1.3**		**105**	**1.4**
WWH rank in peer group	**1**	**5**	**4**	**4**	**2**	**4**	**1**		**1**	**3**

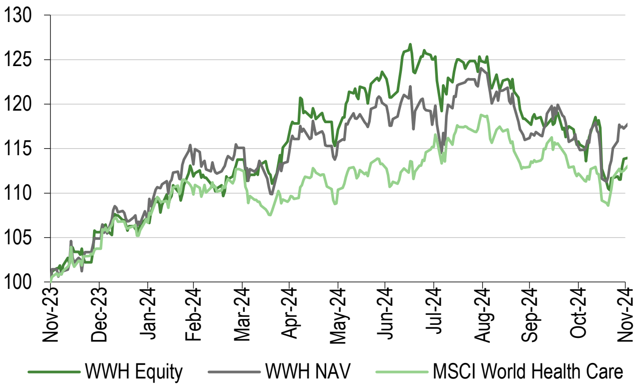
Source: Morningstar, Edison Investment Research. Note: *Performance data to 5 December 2024 based on ex-par NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The trust's closest peers are Bellevue Healthcare Trust and Polar Capital Global Healthcare Trust; compared with these two funds, the trust ranks second over the last one, three and five years.

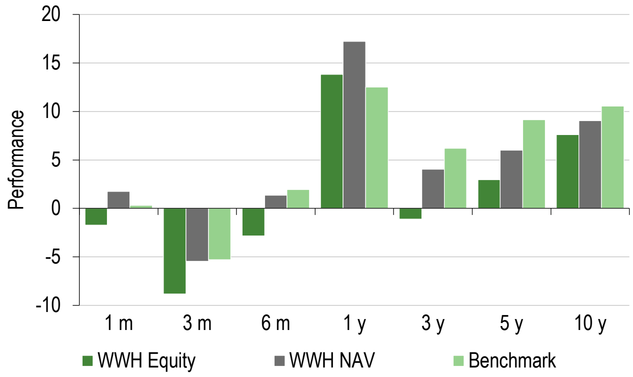
All of the funds in the sector are trading at a discount and WWH's is currently the fourth widest. It has the highest leverage and the third largest yield of the four funds that pay a dividend (the two funds with the largest dividend yields make distributions out of capital).

Exhibit 5: Investment trust performance to 30 November 2024

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: LSEG, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Exhibit 6: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI World Health Care	(2.0)	(3.8)	(4.7)	1.1	(19.3)	(25.3)	(23.6)
NAV relative to MSCI World Health Care	1.4	(0.2)	(0.6)	4.2	(6.0)	(13.6)	(12.7)
Price relative to World-DS Pharma & Bio	1.0	(0.4)	(3.9)	0.6	(21.7)	(23.6)	(12.4)
NAV relative to World-DS Pharma & Bio	4.6	3.3	0.2	3.6	(8.8)	(11.6)	0.2
Price relative to CBOE UK All Cos	(4.3)	(8.8)	(5.2)	(2.5)	(24.3)	(12.9)	14.2
NAV relative to CBOE UK All Cos	(0.9)	(5.4)	(1.1)	0.5	(11.9)	0.8	30.6

Source: LSEG, Edison Investment Research. Note: Data to end-November 2024. Geometric calculation.

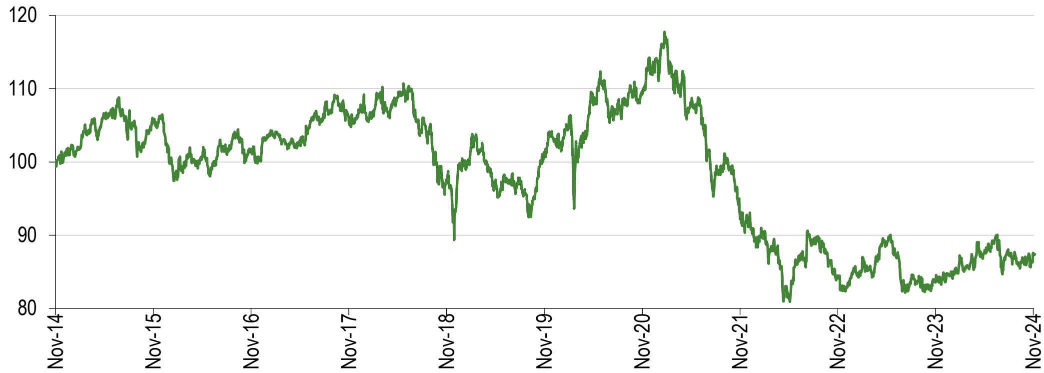
WWH's strategy of favouring emerging biotech stocks over large-cap pharma companies has been successful over the long term. However, it was detrimental to the trust's performance between the end of February 2021 and the end of May 2022 (Exhibit 7), when growth stocks came under pressure in a rising interest rate environment.

Looking at WWH's recent performance, in October, share prices were influenced by company earnings, with strong results from medtech firms Boston Scientific and Intuitive Surgical due to innovation and good business execution. Four emerging biotech companies reported key product revenues that exceeded consensus expectations: Argenx, Neurocrine Biosciences, Sarepta Therapeutics and Vertex Pharmaceuticals. However, in major pharma, Eli Lilly's and Merck's share prices fell following mixed earnings reports, while AstraZeneca's China head was detained on fraud charges. Elevance, which is a healthcare insurance provider, saw its stock come under pressure following an earnings miss and lower guidance; this position was sold.

Healthcare stocks were generally weak in September, although Chinese share prices rallied strongly on the announcement of further economic stimulus. WWH's position in Vaxcyte performed well as the company released best-in-class data for its clinical-stage pneumococcal vaccine. On the other hand, Novo Nordisk's share price fell on the release of data for its novel oral CB-1 antagonist for obesity due to concerns about the amount of weight loss and the drug's safety profile.

In August, large-cap pharma companies performed well, particularly Eli Lilly, after reporting a very strong Q224, with revenue and earnings surpassing consensus expectations helped by strong sales of 'diabesity' products Mounjaro and Zepbound. This led Eli Lilly to raise its 2024 revenue guidance once again. Biotech stocks were weak due to macroeconomic factors.

Exhibit 7: NAV total return performance relative to benchmark over 10 years



Source: LSEG, Edison Investment Research

Exhibit 8: Five-year discrete performance data

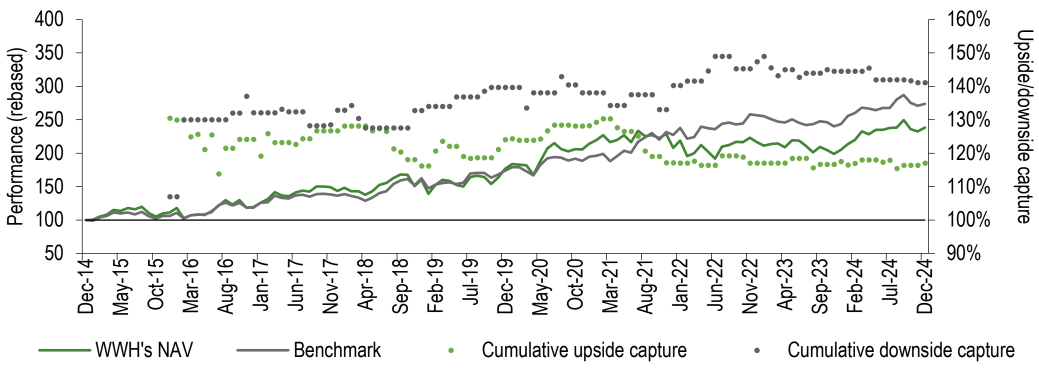
12 months ending	Share price (%)	NAV (%)	MSCI World Health Care (%)	DS World Pharma and Biotech (%)	CBOE UK All Companies (%)
30/11/20	20.6	20.1	10.9	12.6	(11.2)
30/11/21	(0.8)	(0.9)	16.6	8.9	17.1
30/11/22	(5.7)	4.3	14.7	15.5	7.9
30/11/23	(9.9)	(7.9)	(7.2)	(5.5)	1.5
30/11/24	13.8	17.2	12.5	13.2	16.7

Source: LSEG. Note: All % on a total return basis in pounds sterling.

WWH's upside/downside analysis

WWH's upside/downside capture analysis is shown in Exhibit 9. Over the last decade, its cumulative upside capture rate of 117% implies that in months when healthcare stocks rise, the trust is likely to outperform by around 17%. WWH's downside capture rate of 141% implies that, during periods of falling healthcare stock prices, the trust is likely to underperform by a much larger 41%. This is unsurprising given the managers' preference for higher beta biotech stocks compared with lower beta pharma stocks.

Exhibit 9: WWH's upside/downside capture over the last 10 years



Source: LSEG, Edison Investment Research. Note: Cumulative upside/downside capture calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the exhibit due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

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