Wellington Global Health Care Equity Fund

WELLINGTON MANAGEMENT®

MARKET REVIEW

Global equities remained steady for most of the month but sold off in the final days, as investors awaited key US elections, navigated heightened geopolitical tensions in the Middle East, and assessed ongoing policy easing measures. Favorable US economic data, including subdued inflation, drove expectations that the US Federal Reserve (Fed) may slow its pace of rate cuts. This sentiment was further emphasized by the notable rise in 10-year Treasury yields, which reached 4.28% in October, up from a 15-month low of 3.62% in late September, underscoring the market's expectations for the pace of Fed rate cuts, positive economic indicators, and improved prospects for a soft landing. In Europe, third-quarter GDP exceeded expectations, and the European Central Bank lowered interest rates by 25 basis points, to 3.25%, amid waning inflation and a weak economic outlook. Emerging markets faced pressure from a stronger US dollar, while the conflict in the Middle East reached its one-year mark, with military strikes escalating between Israel and Iran.

The MSCI World Health Care NET returned -4.8% for the period. Within the index, all of the sectors declined over the month. Health care services and medical technology were the bottom performing sectors, while biopharma mid cap and biopharma large cap were the top performing sectors for the month.

FUND PERFORMANCE AND ATTRIBUTION

- The fund modestly underperformed the index over the period.
- Security selection was the primary driver of relative underperformance. Weak selection in health care services and biopharma mid cap was modestly offset by selection in medical technology. Sector allocation, a result of our bottom-up stock selection process, contributed to returns. Allocation effect was driven by our overweight to biopharma mid cap and out of benchmark allocation to biopharma small cap, but modestly offset by our underweight to biopharma large cap and overweight to health care services.
- At the issuer level, our top two relative contributors were an overweight to Argenx and not owning Regeneron Pharmaceuticals, while our top two relative detractors were an underweight to AbbVie and an out of benchmark allocation to Acadia Healthcare.
- Shares of Argenx rose during the month after the company reported third quarter earnings results ahead of investor expectations, driven by strong Vyvgart sales. The Vyvgart launch in generalized Myasthenia Gravis remains strong, and the first quarter of sales in the CDIP indication was off to a good start. Shares of AbbVie rose during the period as the company announced better-than-expected third quarter results. Strong performance was driven by impressive sales of Skyrizi and Rinvoq leading to higher sales forecasts for the remainder of the year. Elahere and Venclexta also favorably contributed within the oncology and neuroscience segments. Management raised full-year 2024 EPS guidance and increased the quarterly dividend.

FUND POSITIONING AND OUTLOOK

Biopharma remains a rich environment for innovation. We are excited about developments among GLP-1 and next-generation metabolic medicines, antibody drug conjugates for cancer treatment, and various modalities of genetic medicines. US drug pricing remains a risk to watch, but the first round of Medicare negotiated prices released in August were generally within expectations. Ultimately, we think pricing risks are manageable and continue to find opportunities in companies with rich pipelines and strong track records of productive business development. We are selectively finding attractive valuation opportunities in large cap biopharma. A number of SMID-cap biopharma companies remain well positioned as sources of innovation and potential solutions to pipeline gaps for larger companies, and the subsector may benefit from moderating inflation and lower interest rates. Recent positive clinical readouts across therapeutic areas underscore the quality and breadth of the opportunity set today.

We believe medical technology innovation has never been stronger due to advancements in technology development, engineering capabilities and integrated informatics. Product cycles and biopharma innovation are creating investment opportunities. Areas of most interest to us now include interventional cardiology, robotics, and diagnostics including liquid (blood) biopsy.

Health care services companies remain well-positioned to help solve the societal challenge of rising health care costs and to benefit from the ongoing transition from a fee-for-service to a fee-for-value care system. Higher utilization and rate pressures remain medium-term headwinds for Medicare Advantage but long-term opportunities remain robust. Providers should benefit from higher utilization and behavioral health companies have bipartisan political support in the US. Broadly, we favor companies focused on improving patient outcomes while reining in costs as well as scaled-based players with rising regional market share.

At the end of the period, our largest exposures were biopharma large cap and health care services and we were least exposed to biopharma small cap and biopharma mid cap. From a regional perspective, our largest exposures were North America and Developed Europe & Middle East ex UK and we were least exposed to Emerging Markets. We had no exposure to Developed Asia Pacific ex Japan.

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