# Wellington Global Health Care Equity Fund

WELLINGTON MANAGEMENT®



## MARKET REVIEW

Global equities rose for the fifth consecutive month as market performance broadened to smaller-cap companies and the MSCI ACWI Index reached record highs. Dovish signals from major central banks and AI enthusiasm provided a meaningful tailwind, even as ongoing geopolitical tensions exerted pressure on international business and trade. Global economic growth gained momentum as the J.P.Morgan Global Composite Purchasing Managers Index (PMI) accelerated to an eight-month high. Headline inflation in most developed markets continued to moderate despite underlying pockets of persistent price pressures at the core level that have added uncertainty about the timing and magnitude of interest-rate reductions. The US Federal Reserve, Bank of England, and European Central Bank held interest rates unchanged and reconfirmed projections for rate cuts later this year. In a notable development, the Bank of Japan increased its policy rate for the first time since 2007. This decision came as the Japanese yen fell to a 30-year low, wage growth exceeded expectations, and weaker economic growth pushed the country to the brink of a recession. China's economy showed improvements in March amid better industrial production and retail sales, while officials announced a GDP target of 5% for 2024, signaling a commitment to continued policy support in the face of local government financial fragility and a struggling property sector.

The MSCI World Health Care NET returned 2.4% over the period. Within the index, all of the sectors rose over the month. Health care services and biopharma large cap were the top performing sectors, while biopharma mid cap and medical technology were the bottom performing sectors for the month.

## FUND PERFORMANCE AND ATTRIBUTION

- The fund underperformed the index over the period, however delivered overall positive returns.
- Security selection was a driver of relative underperformance. Weak selection in biopharma mid cap and health care services was partially offset by selection in medical technology. Sector allocation, a result of our bottom-up stock selection process, also detracted from returns. Allocation effect was driven by our overweight to biopharma mid cap and out of benchmark allocation to biopharma small cap, but partially offset by our underweight to medical technology and overweight to health care services.
- At the issuer level, our top two relative contributors were an out of benchmark allocation to Fusion Pharm and not owning Johnson & Johnson, while our top two relative detractors were an underweight to Novo Nordisk and an out of benchmark allocation to Celldex Therapeutics.
- Shares of Fusion Pharmaceuticals, a clinical-stage oncology company, rose after AstraZeneca agreed to acquire the company for as much as $2.4 billion. The deal gives AstraZeneca access to next-generation radioconjugates, medicines with the potential to transform cancer treatment. Shares of Novo Nordisk rose in March. At the company's Capital Markets Day, management shared a bullish business update driven by their strong position in the diabetes and obesity markets. The company highlighted a robust development pipeline which includes impressive initial data on oral weight loss drug amycretin as well as a readout slated for late 2024 of high dose semaglutide which expects a 20-21% weight loss target.

## FUND POSITIONING AND OUTLOOK

Groundbreaking innovation, supportive valuations and business models positioned to show resilience through the cycle should benefit long-term investors in the sector.

Biopharma remains a rich environment for innovation. We are excited about developments among GLP-1 and next-generation metabolic medicines, ADCs for cancer treatment, and various forms of genetic medicines. We remain discerning in large-cap biopharma, where patent expirations are significant and US drug prices are under pressure from the IRA legislation starting in 2025 (Medicare Part D redesign) and 2026 (negotiated prices). We have been finding opportunities in companies with rich pipelines and strong track records of productive business development. Smid-cap biopharma companies remain well positioned as sources of innovation and potential solutions to pipeline gaps for larger companies. Volatility has created opportunities to add to higher quality companies at attractive prices during the quarter. Recent 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. Recent volatility and disruption across the subsector driven by biotech funding uncertainty, large pharma R&D prioritization, China's slowdown, or surgical procedure tailwinds have created investment opportunity. Areas of most interest to us now include interventional cardiology, life science tools, 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 some will benefit from the ongoing transition from a fee-for-service to a fee-for-value care system. We remain selective within managed care as negative sentiment persists amid higher cost and utilization trends. On the other hand, providers should benefit from related trends. Broadly, we favor companies focused on improving patient outcomes while reining in costs.

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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**PAST PERFORMANCE DOES NOT PREDICT FUTURE RETURNS. AN INVESTMENT CAN LOSE VALUE.**

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