



Global Health Care: The Stealthy Growth Sector

MarketGrader Research
September 2021



Investment thesis

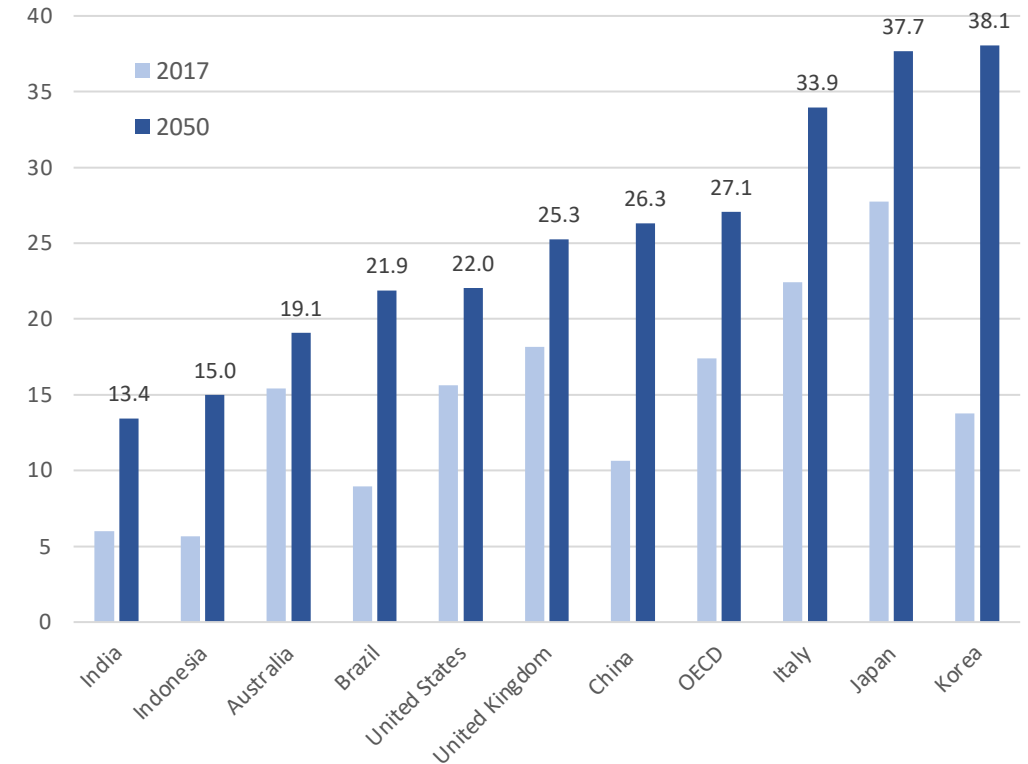
1. Global demographic trends and rising incomes in emerging economies all but guarantee further increases in global health care expenditures in the next two decades.
2. Health Care has not only been the best performing sector in the last two decades, but it also has the best track record during periods of market stress among global growth sectors.
3. Although Health Care has a global footprint and benefits from long-term secular growth trends, investors tend to invest locally and to allocate to it tactically rather than strategically.

As the world's population ages the demand for health care is expected to skyrocket in the next three decades.

- The global population aged over 65 will double by 2050 to 1.5 billion, while those aged over 80 will increase three-fold to 426 million.
- Currently more than three-quarters of people aged 65 and over have at least two chronic conditions.
- Spending per capita on health care in developed nations for those aged over 85 is six times greater than for those under 60.

Source: "The new economic cycle: Investing for a post-COVID world." Citi Global Wealth, Outlook 2021.

Population Aged 65 and Over (%)



Source: OECD Health Statistics 2019, OECD Historical Population Data and Projections Database, 2019.

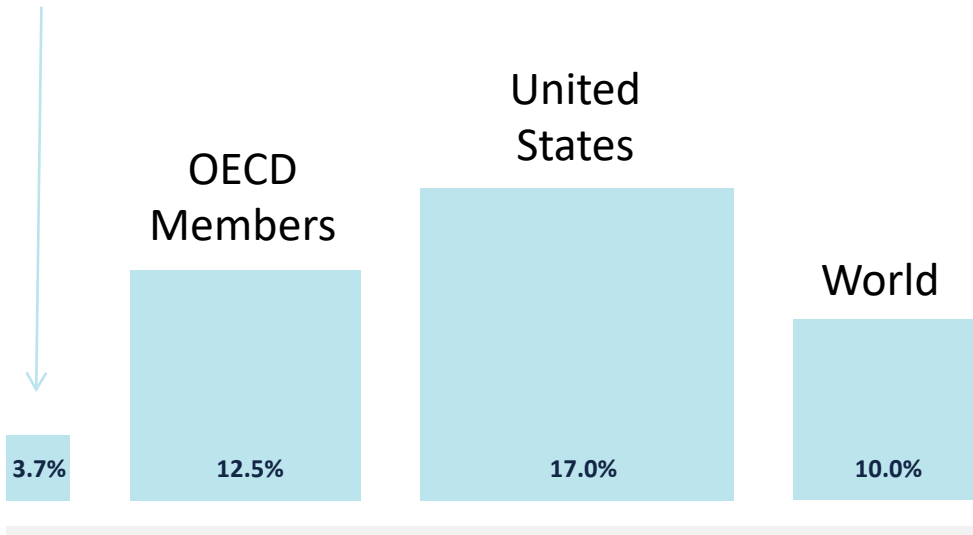
Prompting emerging economies to increase their health care expenditures to address their growing populations' needs

These will be the world's 5 most populous countries in 2050 (excluding the U.S.):

- India
- China
- Nigeria
- Pakistan
- Indonesia

Projected total population in 2050 = 4.1 billion, or 42% of world's population.

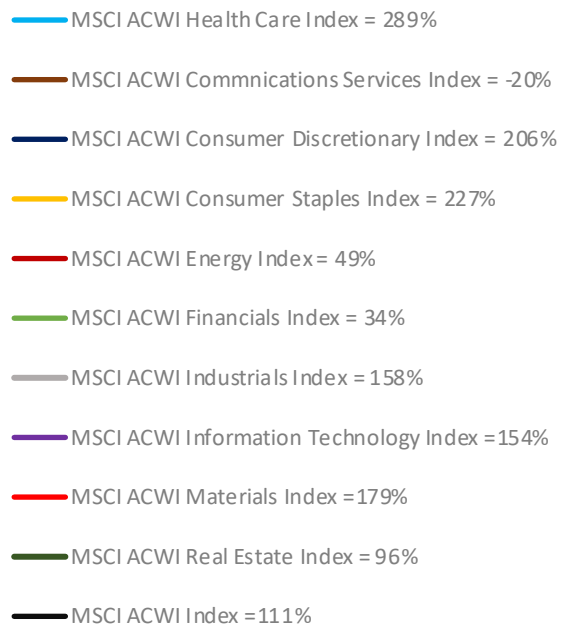
Their current avg. Health Care expenditure as % of GDP (2017): 3.7%



2017 Health Care expenditures as % of GDP

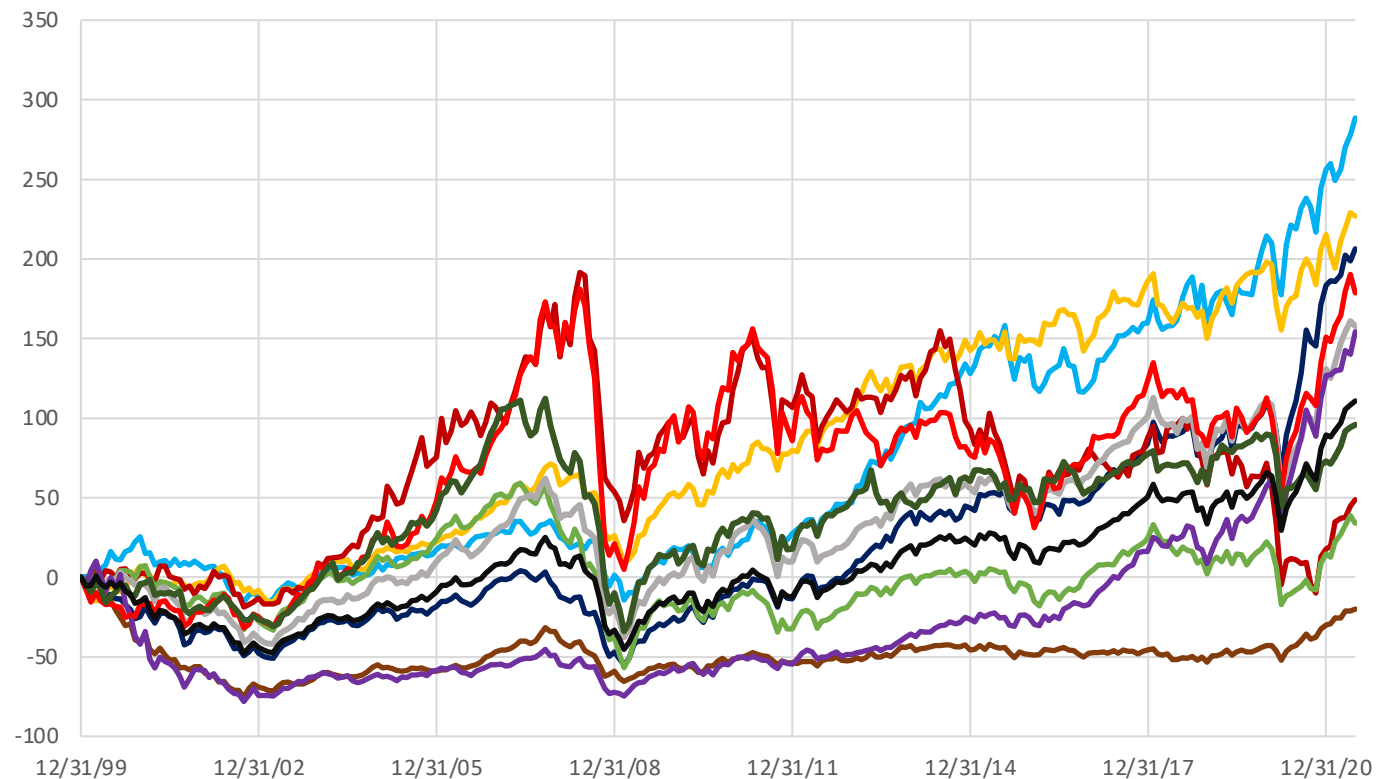
Sources: United Nations – Population Division (2050 population estimates). World Bank (Health Care expenditures as % of GDP, 2017)

No sector has outperformed health care across global markets in the last two decades

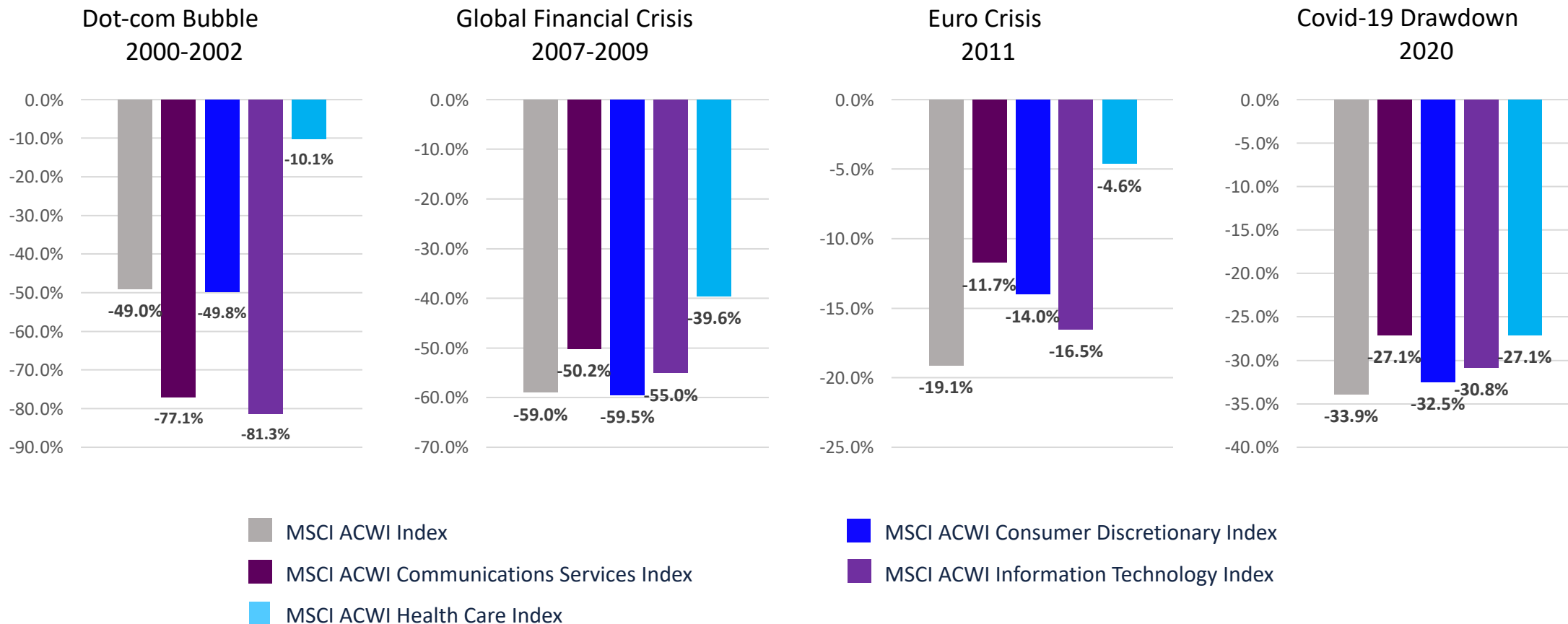


Source: Bloomberg.

Cumulative Price Returns for MSCI ACWI Indexes, Dec. 1999 – Jun. 2021

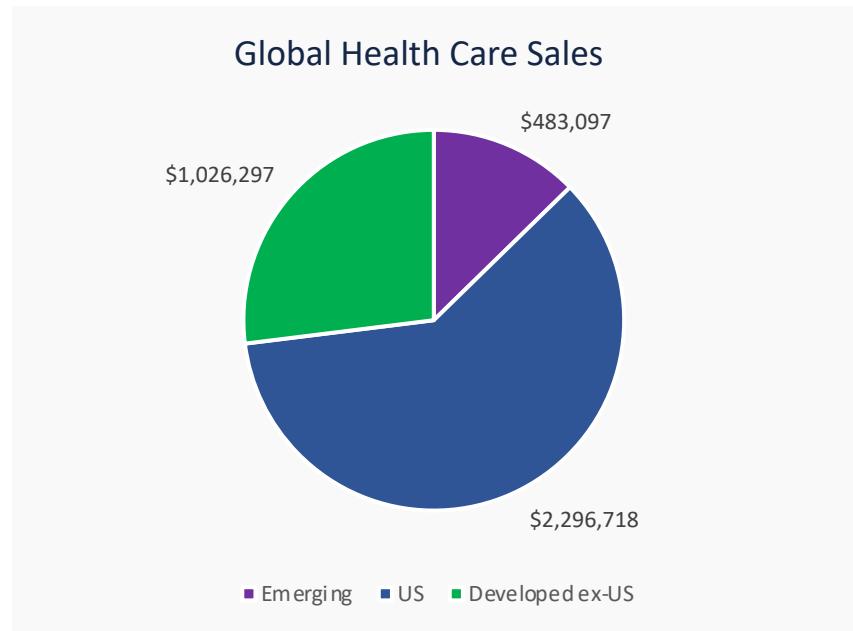


And no growth sector has done better during the market's biggest drawdowns since 2000

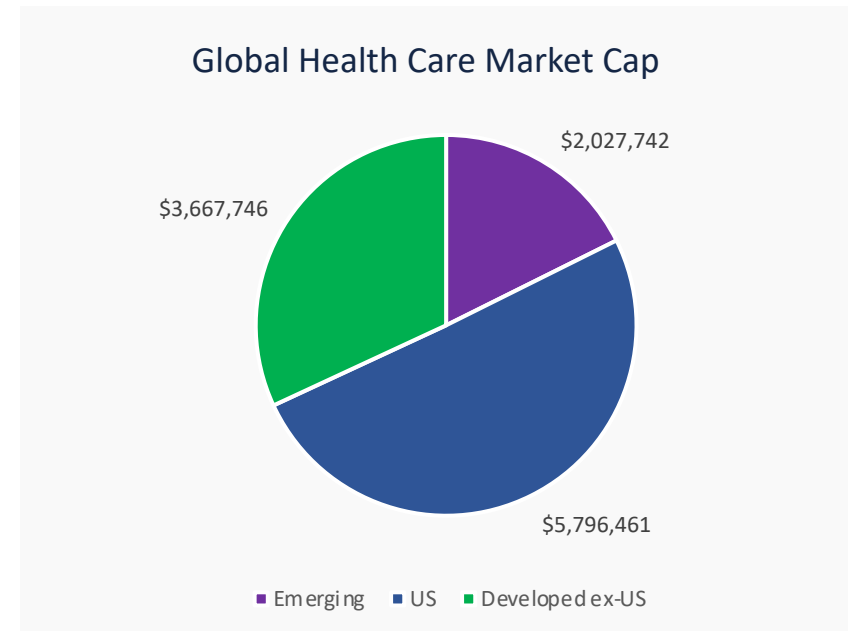


Source: Bloomberg

U.S. Health Care companies have in the past accounted for the lion's share of global health care sales and market cap



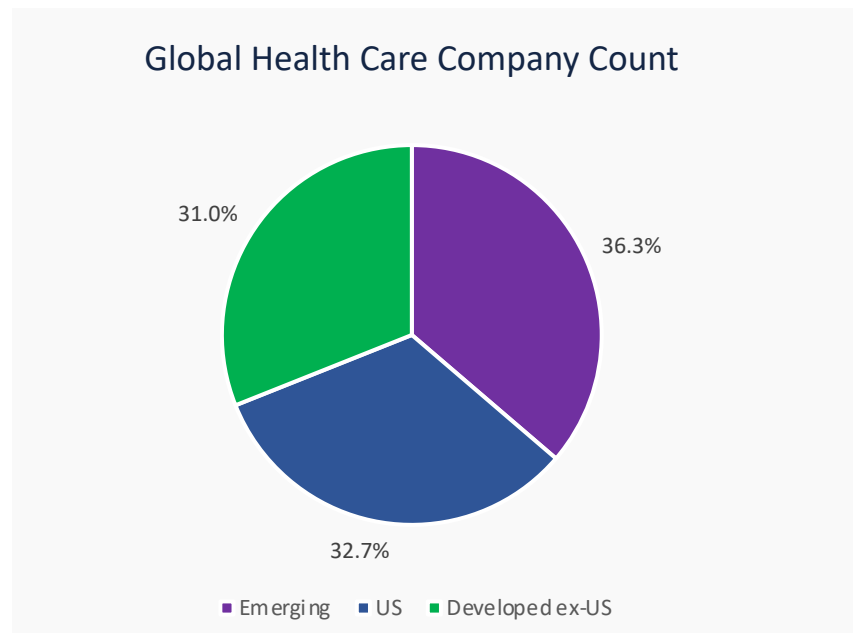
Today 60% of global health care revenue among publicly traded companies is generated by U.S. domiciled companies.



While 50% of the world's total Health Care sector market capitalization is also in U.S. domiciled companies.

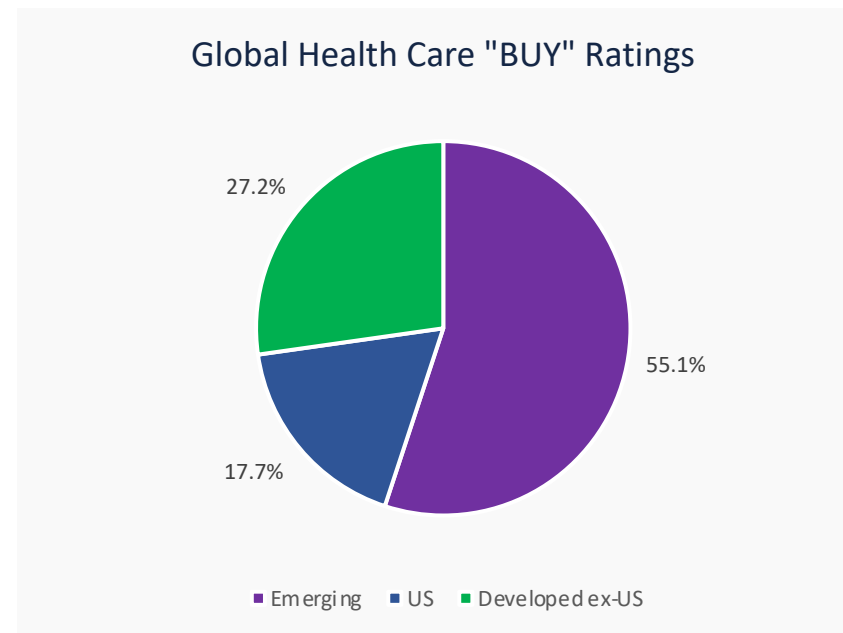
Sources: MarketGrader, FactSet.

However, most publicly traded health care companies are now domiciled outside the U.S., including more than three-quarters of all companies rated 'BUY' according to MarketGrader



Today 67% of the publicly traded global health care investable universe is domiciled outside the U.S.

Sources: MarketGrader, FactSet.



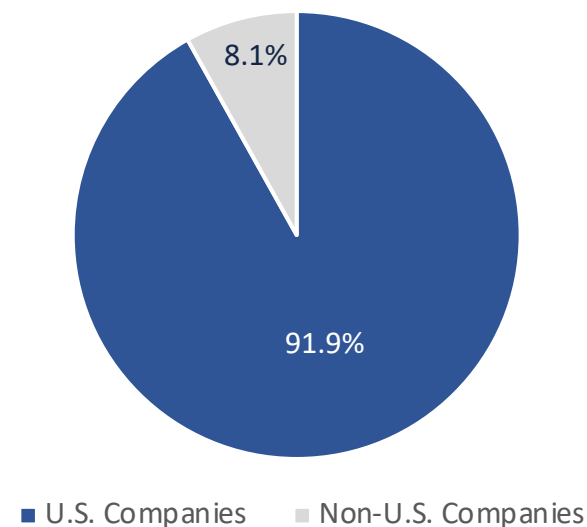
And 82% of all publicly traded companies rated 'BUY' according to MarketGrader are domiciled outside the U.S.

A strong domestic bias is also evident across all health care ETFs listed in the U.S., giving investors few options that focus on this global opportunity

- ▶ There are 44 ETFs listed in the U.S. focused on the Health Care sector or health care-related industries, with \$100.3 billion in total assets.
- ▶ \$92.2 billion is invested in U.S. domiciled companies and only \$8.1 billion is invested in non-U.S. domiciled companies.
- ▶ 19 of the 44 ETFs listed in the U.S., with aggregate AUM of \$31.2 billion, focus on a single industry or sub-industry within health care, such as biotechnology, pharmaceuticals, medical devices or cancer immunotherapies.

Sources: MarketGrader, FactSet.

Health Care ETF Assets in the U.S. by Domicile of Holdings (based on weighted USD totals)



How can investors harness this opportunity?

Active Management Approach

Pros:

- In-depth knowledge of companies and science
- Early-stage investments in promising companies/therapies

Cons:

- Expensive (high management fees)
- Narrow exposures either by health care vertical or geography
- Many selections dependent on binary outcomes, which can lead to large drawdowns

Passive Management Approach

Pros:

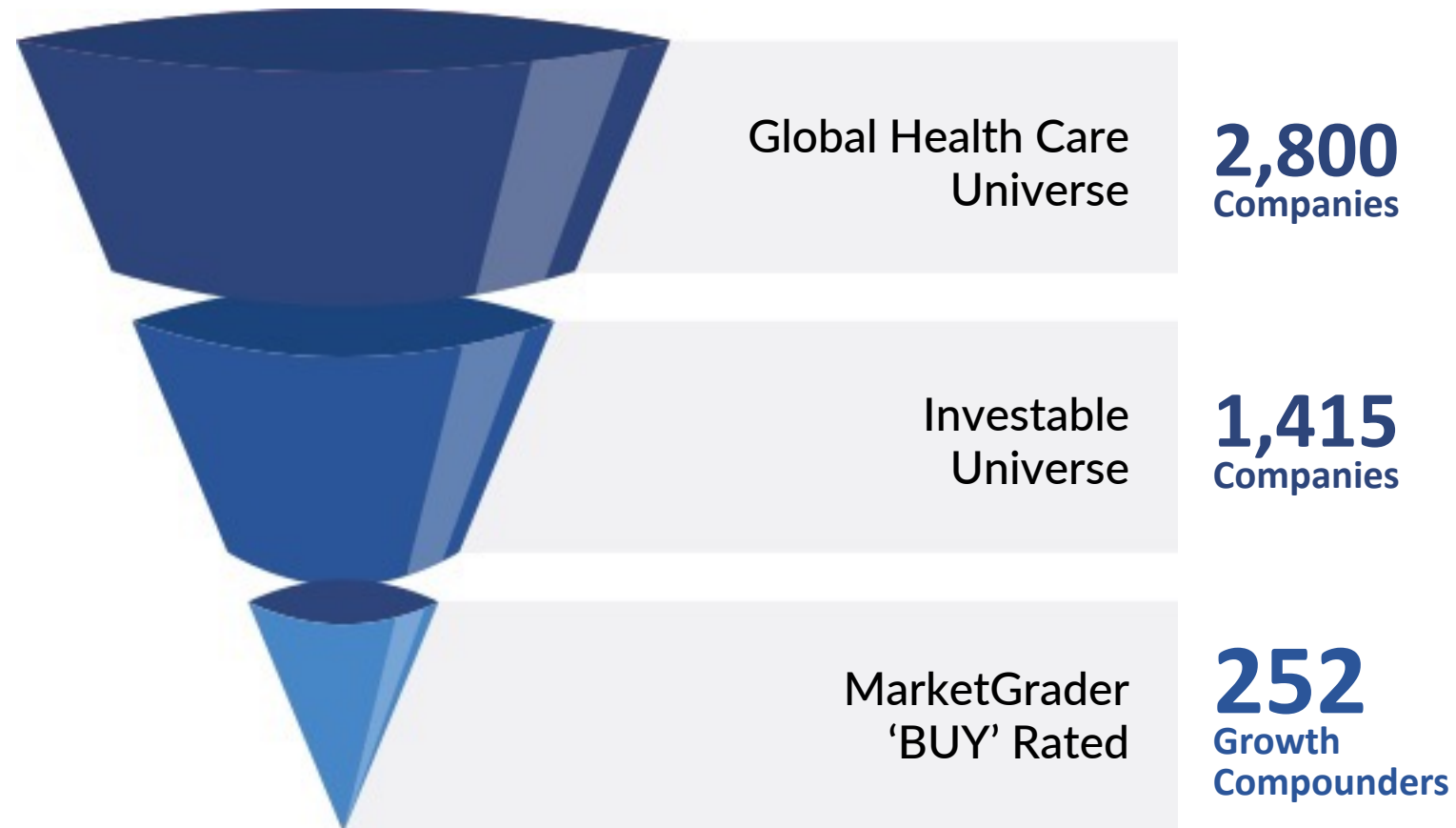
- Inexpensive (low management fees)
- Broad exposure across entire sector

Cons:

- Little or no exposure to fastest growing markets
- Over-exposure to mega caps because of weighting schemes
- Single-industry exposures (pharmaceuticals, biotech) lack diversification and have high volatility

Is there a middle way that combines the best of both approaches?

MarketGrader's Approach: Invest Globally but Be Selective



How do MarketGrader's ratings work?



1. Screening

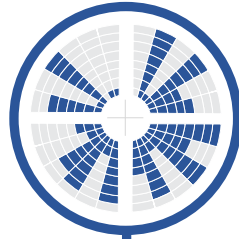
MarketGrader screens, analyzes and filters millions of data records from companies' financial statements, share prices and consensus estimates



2. Calculating

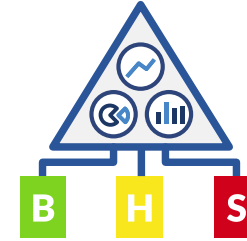
We then calculate a series of metrics to identify sustainable growth compounders at reasonable prices

How do MarketGrader's ratings work?



3. Aggregating

We aggregate all these data points into 24 individually graded indicators classified into Growth, Value, Profitability and Cash Flow



4. Rating

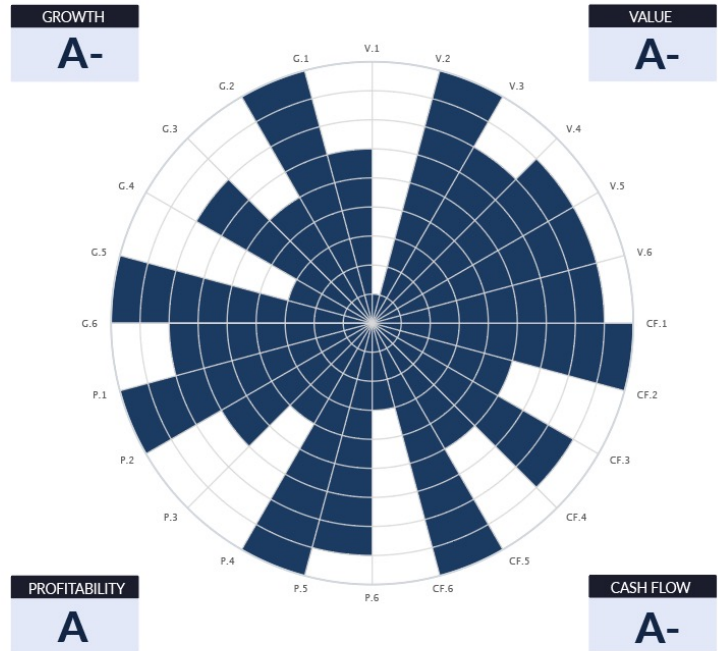
We apply our global rating methodology to translate those 24 indicators into a final MarketGrader Score and Rating

MarketGrader seeks global health care “Growth Compounders” regardless of domicile

(048260.KR)
Osstem Implant Co., Ltd.

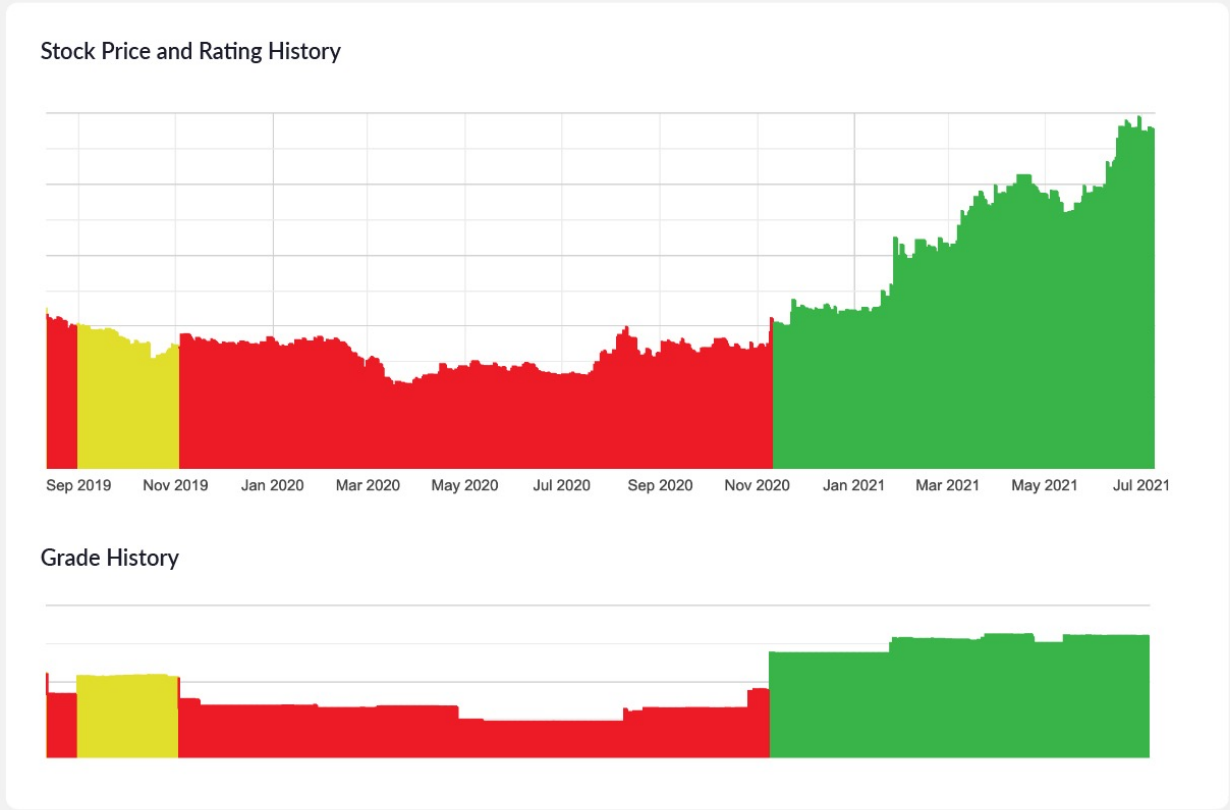
Korea, Republic Of
Health Care
Medical Specialties

BUY O **79.9**
Upgraded from Sell on 11/12/2020



Example of current Index constituent.

Stock’s performance since upgrade on Nov. 2020 = 132%



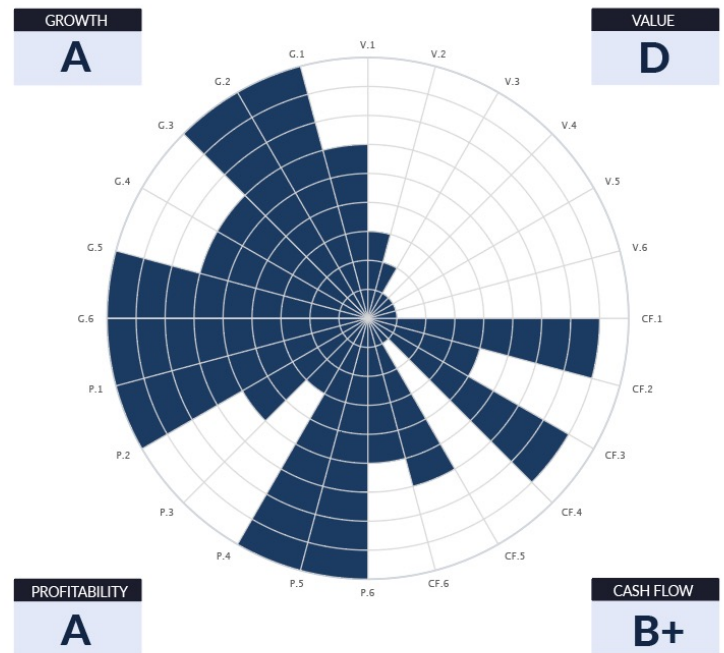
Performance refers to cumulative price return since MarketGrader upgraded the stock to ‘BUY’

MarketGrader seeks global health care “Growth Compounders” regardless of domicile

(JYNT)
Joint Corp

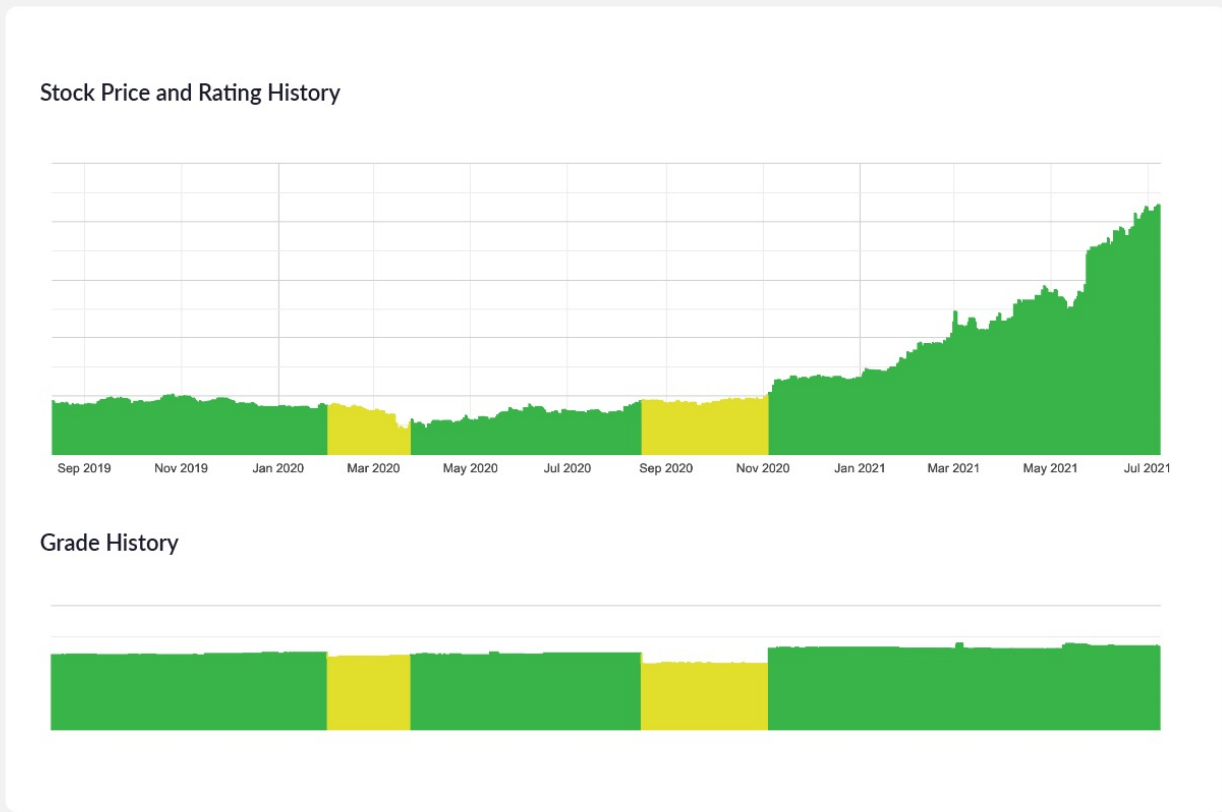
United States Of America
Health Care
Hospital/Nursing Management

BUY O **67.0**
Upgraded from Hold on 11/05/2020



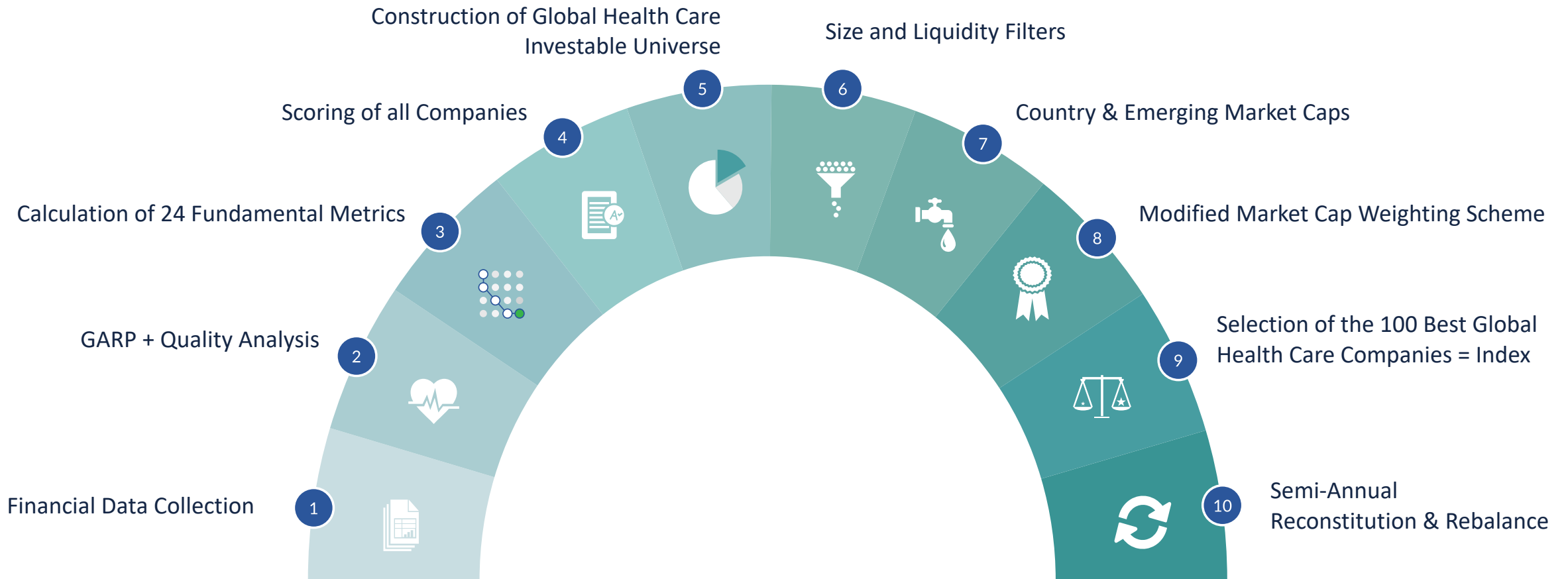
Example of current Index constituent.

Stock's performance since upgrade on Nov. 2020 = 334%



Performance refers to cumulative price return since MarketGrader upgraded the stock to 'BUY'

MarketGrader Global Health Care Leaders Index Selection and Construction Process



MarketGrader Global Health Care Leaders Index

Index Bio

Average Market Cap: \$22.9 billion

Median Market Cap: \$5.5 billion

Average 3-Month Trading Volume: \$90.3 million

Last Rebalance Date: March 22, 2021

Companies Replaced: 50

Biggest Industry Increase: Medical Specialties

Biggest Industry Decrease: Major Pharmaceuticals

U.S. Companies: 42 EM Companies: 17 DM (ex-U.S.): 31

Index Bio as of June 20, 2021. Source: MarketGrader.

Summary of Index Rules

Min. market cap: \$500M

Minimum liquidity: \$2M 3-Mo. Avg Volume

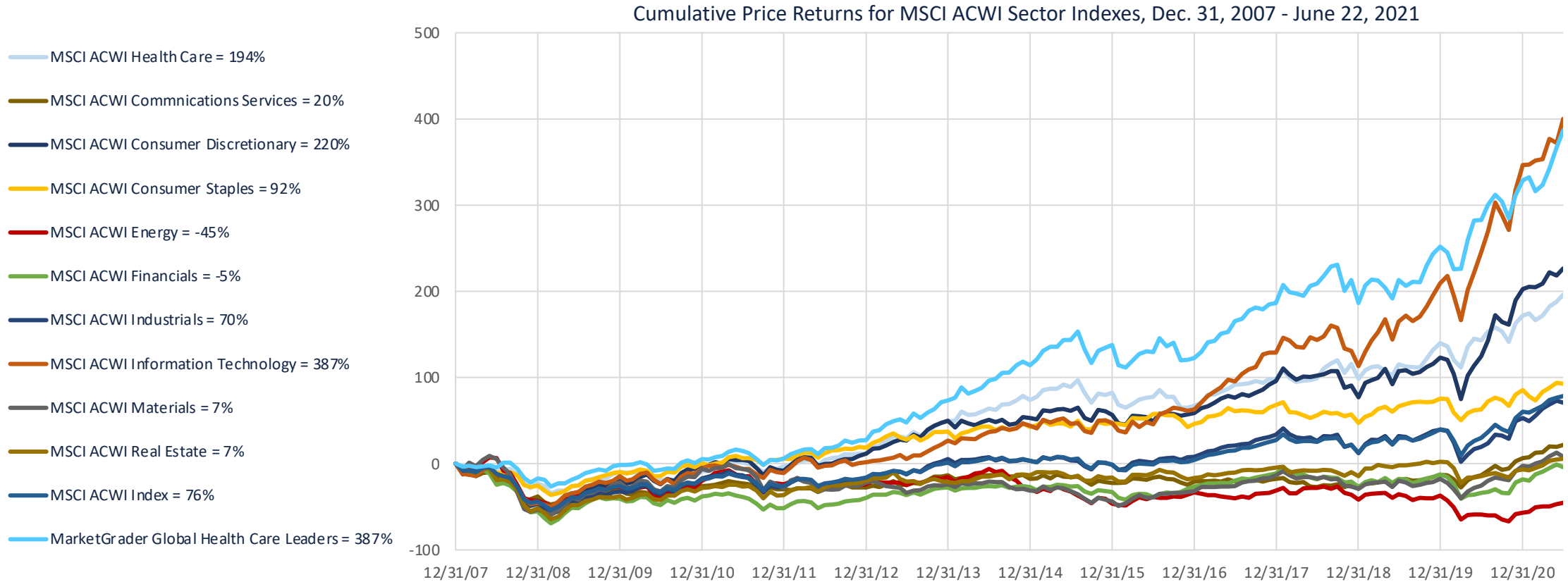
Max Exposure to Emerging Markets: 20 companies

Max exposure to single EM country: 10 companies

Rebalance: semi-annual in March and September

Weighting: 5% cap and 0.25% min. across constituents

MarketGrader Global Health Care Leaders handily beat the global benchmark since its base date in 2007



The MarketGrader Global Health Care Leaders Index was first published on May 31, 2021. All historical values prior to that date are based on back-testing. Sources: Bloomberg (benchmark returns), Refinitiv (MarketGrader Index returns).

Thank You