Global Stewardship – monthly bulletin

December 2022

The pace of innovation in healthcare is increasing thanks to a powerful convergence of science and technologies that are experiencing accelerating progress. As gene sequencing, machine learning, powerful imaging, sensors and cell therapies make their way out of academic labs and into everyday healthcare, our approach to healthcare is changing. For the first time, we can pinpoint the molecular and genetic causes of disease and have the technologies to access them. In time, healthcare has the potential to move on from the era of diagnosis and treatment to early detection and even prevention. An investment manager on our dedicated Health Innovation strategy, Marina Record, recently shared her view on how the healthcare landscape is undergoing transformative change.

It is an exciting time to invest in the healthcare industry. The portfolio has exposure to various companies in differing areas and stages of the value chain. Approximately 15 per cent of the portfolio is invested in the healthcare sector, from one of the portfolio's largest holdings, in US non-opioid pain drug company Pacira BioSciences, to Exact Sciences, an early-stage company specialising in cancer screening for early detection and diagnosis. In 2022, overshadowed by the macroeconomic and geopolitical issues dominating headlines, many of our portfolio's healthcare investments have made significant strides forward.

As previously mentioned, Pacira is optimistic about the launch of its oral version of the anaesthetic Exparel, its key growth driver. Not resting on their laurels, the company recently announced positive results for their canal nerve block treatments. An additional holding, STAAR Surgical, the medical devices company, continues to post impressive growth on a global basis. Most recently, overall unit sales were up 40 per cent, China up 52 per cent, the US up 63 per cent, and South Korea up 49 per cent. Operational performance remains strong, even if share prices remain weak.

With mixed feelings, we report that Abiomed, the revolutionary heart-pump manufacturer, is no longer a portfolio holding. The company was recently the subject of a takeover bid from Johnson & Johnston. At a 50 per cent premium to recent closing prices, the Abiomed board recommended the bid, and the deal is expected to close in early 2023. The acquisition feels opportunistic on the part of J&J, given that Abiomed is in the process of gaining final FDA approval for the next generation of its Impella pump. While we recognise the short-term benefits of such a healthy premium to clients, we feel there were many years of growth ahead for Abiomed which will now sit within the much bigger J&J machine.

Finally, Moderna recently released a very encouraging set of results for its personalised cancer vaccine. We believe its mRNA technology can potentially treat a broader range of viruses and diseases than the market currently appreciates. Moderna is proving to be the most ambitious and innovative in the field. Its recent Phase 2b study treated patients with late-stage melanoma (skin cancer) and demonstrated a clinically meaningful improvement in reducing the risk of recurrence or death. The study was in collaboration with Merck's Keytruda Anti-PD-1 therapy (a therapy that works to increase the ability of the body's immune system to fight tumour cells), and the outcome showed a 44 per cent reduction in risk as compared with Keytruda alone. This is a highly encouraging development, further validating the thesis. From here, Moderna plans to initiate a Phase 3 study in melanoma in 2023. The company is also rapidly expanding efforts to study additional tumour types and continues investing resources in scaling these programmes.

Performance

The MSCI ACWI Index posted a return of -3.9 per cent (in USD) in December and the Global Stewardship portfolio slightly underperformed the index.

Tesla, the world's leading electric car brand, continues to suffer under the weight of issues completely unrelated to its core business. Most recently, the market has become increasingly concerned by Elon Musk's acquisition of Twitter, his appointment as CEO, the cash needs of the acquisition and the distraction it is causing from the day-to-day running of Tesla itself. While we remain convinced by the product impact of Tesla and the ambition of its core beliefs, we have reduced the position size as our trust in management diminishes somewhat. We will continue to monitor developments closely.

Shopify, the Canadian ecommerce company, has been upfront in stating 2022 was an 'investment' year for the company: deliberately deploying capital back into its platform to strengthen the business for the long term to the detriment of short-term profitability. The shares have performed well recently, as shareholders begin to discount this investment paying off as we head into 2023 and look forward to a return to operating income profitability growth. The company recently highlighted record Black Friday/Cyber Monday sales of $7.5bn, representing growth of 21 per cent on the previous year. Our confidence in the Shopify platform continues to grow despite the short-term weakness in December, and we have added to the position recently.

By partnering with fashion brands who in turn recognise the value of their platform, Zalando has been carving out a substantial European market, with sights to expand beyond the continent. The share price has done well since the release of third-quarter results, which included 8 per cent more active customers, surpassing 50 million for the first time. Participants in the loyalty programme Plus nearly tripled, and the business made successful efforts to increase profitability. This softened the impact of declining consumer sentiment.

Apple, which is not held in the Global Stewardship's portfolio, was the leading contributor to performance during the month, by virtue of being a very big index constituent that fell a lot in share price terms.

Performance

Annual past performance to 31 December each year (net %)

	2018	2019	2020	2021	2022
Global Stewardship Composite	-9.3	29.1	75.6	0.4	-42.3
MSCI ACWI	-8.9	27.3	16.8	19.0	-18.0

Annualised returns to 31 December 2022 (net %)

	Composite Net (%)	Benchmark (%)	Relative (%)
December 2022	-5.1	-3.9	-1.2
3 Months	5.5	9.9	-4.4
One Year	-42.3	-18.0	-24.4
Three Years (p.a.)	0.6	4.5	-3.9
Five Years (p.a.)	3.5	5.8	-2.2
Since Inception*	8.8	8.7	0.1

Source: StatPro, MSCI
Benchmark: MSCI ACWI Index
Based on the Global Stewardship composite, in USD
*Global Stewardship inception date: 31/12/2015

Past performance is not a guide to future returns.

MSCI Legal Disclaimer

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Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com

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