



## abrdn's Omstead Says The Recent Healthcare Rally Is Just A Start

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Dan Omstead, global head of health care investments at abrdn, part of the team running the firm's Healthcare Investors, Life Science Investors, Healthcare Opportunities and World Healthcare funds. Read the Q&A below as Dan says that after several years of struggling, the recent rally in healthcare and biotech is significant, the start of a positive trend that should be able to withstand the pressures of an



election year to keep running higher from here. Omstead identifies a few areas – most notably the GLP-1 weight management drugs – that have the potential to not only change the world but to become massive sellers as they make and take over the market.

Dan Omstead

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**CHUCK JAFFE:** Dan Omstead, global head of healthcare investments at abrdn is here, and we're talking about investing in the healthcare sector now on The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, which is a unique industry organization that represents all facets of the closed-end fund industry from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will

point you in the right direction. And today we're pointed in the direction of healthcare with Dan Omstead, who was the chief executive officer at Tekla Capital Management, that's a fund sponsor that was running four funds when it was acquired by A-B-R-D-N, or abrdn if you will. Those four funds now carry the abrdn label, they are abrdn Healthcare Investors, abrdn Life Sciences Investors, abrdn Healthcare Opportunities, and abrdn World Healthcare. You can learn more about the firm and the funds at abrdn.com. And if you want to size up closed-end funds, interval funds, and business-development companies generally, go to AICAlliance.org, that's the website for the Active Investment Company Alliance. Dan Omstead, welcome back to The NAVigator.

**DAN OMSTEAD:** Thanks Chuck, happy to be here.

**CHUCK JAFFE:** Last time you and I spoke for The NAVigator it was June of 2021, we were still coming out of the pandemic and you were talking about the promise of a new generation of healthcare stocks. Well, depending on which sector in healthcare, some of that promise has been realized, but a lot of it is still out there. It's been interesting to me as I've talked to guests on Money Life that we have had a number of investors saying, "Now is the time to rotate towards healthcare, and more specifically biotech," but they're generalists, you're a specialist. You're in healthcare all the time, is this a particularly good time for healthcare?

**DAN OMSTEAD:** Well, I'm optimistic, you know? The big picture here has and will be positive, right? The population is getting older, people spend more money as they get older on healthcare, the innovation in the sector continues unabated and with really impressive results, and so when you combine that demand increasing in both size and scope and the availability of new products, I think that that's a win over any reasonable period of time. Having said that, as you say, the last couple of years have been tough for healthcare in general, biotech in particular, and so I would say since the time you mentioned, things have been tough in biotech. But then in the last six months or so we've had a very impressive rally in the biotech space, SMID biotech in particular. So if you're an optimist you say, "Wow, this is going up really good. Things are pretty good, all the fundamentals are solid, I'm in." If you're a pessimist you say, "Holy cow, you've had this big run, maybe it's not time." Honestly, I'm an optimist, so personally I think there's more to come over any reasonable period of time, in biotech in particular but in healthcare in general.

**CHUCK JAFFE:** Has healthcare and biotech been industries that have been particularly hit by the changing interest rate environment? You're talking about companies that need to be raising capital, raising capital, a lot tougher in an environment where you've got to pay a lot more for the money. Has that been part of the issue, and would we expect healthcare to benefit when we see the Fed start to trim back on rates?

**DAN OMSTEAD:** Well, I think yes and no, it's sort of both size and subsector-dependent, right? I would say one of the reasons why biotech was weak for that period from '21 till now is because you've had an increase in rates and in the SMID-cap space they spend a lot of money, they don't always make up more than they spend, and so capital is important and that's I think been a good portion of why biotech was weak. The bigger companies in the sector are less dependent on interest rates and are pharmaceuticals are sometimes thought of as being defensive, so I would say yes, for biotech in particular and SMID biotech for sure, normalizing rates should be a positive for that group.

**CHUCK JAFFE:** There has been a recent pickup in merger and acquisition activity generally across the market, in healthcare a little bit we're seeing signs. Is there a next wave of mergers and acquisitions to come? And if so, what does that mean for the industry?

**DAN OMSTEAD:** I'm optimistic about that. So the big picture is that large pharmaceutical companies depend on small companies in large part for their pipeline. If you get into the analysis and look at all the details, you find that the big companies, so-called drug companies, all the ones you've heard of have a bunch of products coming off patent here in the coming years. And so they're going to look both to their internal pipelines but also to these very cool, interesting, and novel biotech companies to provide pipelines that they can acquire. And so you've been having a pickup in this kind of thing, there was a decent M&A event this morning where a UK-based pharma bought a French biotech company, so I think that you're going to continue to see more and more of that as two things happen; data from the small companies are positive and as pharma gets closer and closer to the so-called loss of exclusivity that happens when their products go off patent. Again, I'm optimistic about the prospects for M&A and the impact that such prospects would have on the sector in general.

**CHUCK JAFFE:** We of course are ramping up for an election, the future of healthcare a distinctive issue that will be discussed throughout the whole proceedings. How much do you

worry that the outcome of the election will have an impact on healthcare, and what would be the impact you would expect?

**DAN OMSTEAD:** So I would say this would be one of the things they need to think hard about. For a long time one of the main parties was very pro-healthcare and the other was not so much. I would say everybody's picking on healthcare and biotech these days as far as the election is going, and so I think this is going to be a limiting factor until you get the election over with, and then I think you'll get an even better performance. Whatever you're going to see for the positives I just mentioned in the short time, once the election is over I think you'll have even the potential for more upside after the election.

**CHUCK JAFFE:** For a long time leading up to the pandemic it would have been easy to look at healthcare and go, "Here's a sector that has been a strong positive, that's been a plus sector, you can expect better than market returns from it and of course there's eternal and always growing demand." But it has cooled off as we've discussed a little bit broadly and specifically on the biotech side. What's the long-term outlook for you? I mean, what is the appropriate expectation that an investor should have if they're buying healthcare and theoretically doing it through one of your funds?

**DAN OMSTEAD:** In general I would say that from what I know and see, paying your bills for medical procedures and insurance and healthcare are about the last thing that somebody gives up on, and so I think this provides a floor for the sector, and as a result the sector has traditionally been looked at as being kind of defensive, so that keeps a reasonable expectation or a base in the sector. I think innovation is continuing to go through the roof, cool stuff happening every day, and one of the great things about my job is I get to look at some new solution for cancer or some other disease. Every day a CEO comes in and says, "Here's how I can cure cancer," or cure this disease or whatever with the company, and this is both a fun thing to work on but more importantly a fantastic thing both for the country and for individuals in particular, so I think the prospects are good. I'll say what I said before, and that is that as people get older they spend more money, and the population is getting older, so this all leads in my mind to having basically a defensive sector where you get upside from the prospects that people buy products and don't fail to pay their bills. It's just I think a good sector and a very cool place to be.

**CHUCK JAFFE:** Is there one healthcare development or pending development, one of those treatments that you see perhaps or what have you, you don't have to necessarily mention the stocks involved behind it, but is there one that excites you more than the rest? Is there one thing that you just kind of go, "Yeah, I think they're going to get this"? The same way that we saw Moderna when it figured out the vaccine go from small company to giant, is there something out there where you're looking going, "Here's the problem that I think healthcare's ready to solve, and I want to be invested in that solution"?

**DAN OMSTEAD:** Yeah, I think the so-called GLP-1 products, these are the ones that are out there that are treating diabetes and obesity, these products have already but are continuing to create a market that might be the biggest new market ever, maybe even eclipsing what you saw with the Covid vaccines from Moderna, as you say. These drugs have tremendous benefits for people who are obese, people who are diabetic, you have lots of cardiovascular and other kind of side-effect benefits that are coming out of these drugs, many of the subset analysts are talking hundreds of billions of dollars of revenue coming here in the next four, five, six years. So this group is one of the few things I've seen in healthcare that just everyone knows about and is almost certainly going to change the world in a way that you have hardly ever seen. It's a very cool space and a very interesting opportunity, not only for obesity and weight loss and diabetes but for a whole plethora of related conditions with cardiovascular, kidney, and so forth. Very cool space, I think.

**CHUCK JAFFE:** Dan, it's been very cool talking with you about that space and healthcare in general. Thanks so much for joining me on The NAVigator.

**DAN OMSTEAD:** Anytime, be well.

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yes, I am Chuck Jaffe, and I'd love it if you'd check out my hour-long weekday show on your favorite podcast app or by going to MoneyLifeShow.com. To learn more about interval funds, closed-end funds, and business-development companies go to AICAlliance.org, that's the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest Dan Omstead, he's the global head of healthcare investments at abrdn, and he oversees four closed-end funds there, abrdn Healthcare Investors, abrdn Life Sciences Investors, abrdn Healthcare Opportunities, and abrdn World Healthcare. Learn more about the firm and the

funds at abrdn.com. The NAVigator podcast is new every Friday, make sure you don't miss an episode by subscribing or following along on your favorite podcast app. We'll see you again next week, and until then, happy investing everybody.

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