Aberdeen's Akus On The Struggle Facing Healthcare, Biotech Investors

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Chuck Jaffe, in this episode of The NAVigator podcast interviews Jason Akus, Head of Healthcare Investing for Aberdeen Investments. Jason says that current conditions for healthcare and biotech investing are making for "one of the most challenging, difficult, and dislocated environments I've seen." While trades in technology, artificial intelligence, and the Magnificent Seven stocks have driven the stock market back to record-high levels, Akus notes that healthcare has been flat in 2025 with biotech faring only slightly better. Moreover, healthcare has been flat for two years, while the Standard & Poor's 500 was gaining about 40 percent. "It's not to say that healthcare is not growing earnings, it's just been left behind," more attractive growth sectors. Akus says that creates a lot of opportunities and attractive valuations for healthcare and biotech investors, as he sees market conditions changing and "green shoots" emerging as long-term innovations and developments pay off.

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CHUCK JAFFE: Jason Akus, head of healthcare investing for Aberdeen is here, we're talking about valuations, regulatory policy and more in the healthcare space., and this is 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, a unique industry organization representing the full spectrum of the closed-end fund business from investors and users 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 looking in the direction of healthcare investing with Jason Akus, head of healthcare investing for Aberdeen Investments, which has taken back the E's in its name, right? You might remember Jason when he last talked to us was with A-B-R-D-N, well, they've gone back to their full name, it's Aberdeen Investments, and you can learn more about the firm at AberdeenInvestments.com. If you want to learn more about closed-end funds, interval funds, and business-development companies generally, go to AICAlliance.org, the website for the Active Investment Company Alliance. Jason Akus, welcome back to The NAVigator.

JASON AKUS: Hey, Chuck. It's great to see you again and thanks for having me back, really appreciate it.

CHUCK JAFFE: Let's start with an overview of where things are right now, because we've got a market that's gotten back to record highs but we've got a lot of overarching headline risks. So what is the environment right now when it comes to healthcare and biotech?

JASON AKUS: Yeah, it's I think a great place to start the conversation, and before we dive in I just want to note that some of what I may say today will include probably forward-looking statements, and the typical, these statements are subject to risk uncertainty and those aren't necessarily of Aberdeen or its affiliates. But with that being said, yeah, it's been kind of a crazy environment in healthcare and biotech investing in 2025. I think as you noted, broader equity markets are at records, S&P, NASDAQ, they've definitely been doing well in 2025, but I've got to unfortunately say that it's been a little more rocky in the healthcare environment the last several months, and actually probably the last few years. I think over the last 20 plus years that I've been professionally investing in healthcare, I think it certainly feels like this has been one of the most challenging, difficult, and dislocated environments I've seen. When you look at healthcare, healthcare is made up of a dozen or so subsectors, and when we've one subsector falter, we usually see another one kind of pick up the slack, and in 2025 almost everything has certainly felt like it's been under pressure simultaneously, making it a really challenging investing environment. I'd even note the reliable managed care group companies like UnitedHealthcare, Humana, Molina, really has been a total minefield.

CHUCK JAFFE: Is there something specific that's creating that? Is that just general market conditions making it that valuations are out of whack or is it something structural or something in the industry? Because it's not like healthcare is the business we would say, "Oh, we expect that to really be hit by, say tariffs."

JASON AKUS: Yeah, certainly that particular subsector within healthcare, it's all US-domiciled, so there's certainly no issues with tariffs, but given the change in the administration and with more recently the passing of the Big Beautiful Bill and the discussions around the cuts in Medicaid, and potentially larger amounts of the Medicaid population coming off, whether that's from the immigration standpoint or just generally cuts, that's really put a lot of uncertainty on the forward guidance on companies that have a lot of exposure to Medicaid. Another thing that's been going on in the background, and it's not exactly fully clear to me why it's been happening, but healthcare utilization has been rather elevated, at least relative to what these companies were modeling. This could have been a side effect, it seems like Covid's an ancient memory now, but I think a lot of healthcare services were put off with it, surgeries, procedures, during that period of time, and that's kind of come back and the actual modeling I think was off, so this has led to a lot of these companies guiding down, guidance at least for the near term. And so when you put all these things together, it really has been a really challenging environment for the managed care group. UnitedHealthcare I think has been probably one of the best performing stocks, certainly in the S&P 500, you look over the last 20 to 30 years, it's been amazing. I don't think they've missed earnings in the last 20 years or so, and come 2025, it started with the unfortunate assassination of their CEO in New York City if you remember, and then from there it's just been really rough sledding. But we try to manage it, and I think longer term dislocations ultimately create opportunities, and I don't really see a long-term change to how healthcare gets delivered in the United States, at least for the foreseeable future, and I think this noise will settle and I think like most things there'll ultimately be opportunity.

CHUCK JAFFE: In that opportunity, is there a benefit to pursuing it in closed-end funds? Is there a bit for you of an advantage as a manager to be working with the closed-end structure?

JASON AKUS: Yeah, absolutely. I think within healthcare it's really great to be managing, we manage at Aberdeen, four healthcare closed-end funds, and the beauty of the closed-end fund wrapper is that in some ways it's permanent capital. So it kind of allows us to lean into volatility when the markets are expressing a lot of volatility and dislocation, and we don't have to worry about those forced redemptions that open-ended funds or ETFs may see in those type of environments. So as we were just discussing, it's been a pretty challenging environment in healthcare, and in biotech in particular, so when we get these brutal selloffs, whether you get announcements that leadership is changing in the FDA, and with MAHA, Make America Healthy movement, and vaccine skepticism, you can get these selloffs, but those end up being buying opportunities for us because I think we have a good understanding of the companies in our universe and we can take a longer term investment horizon, and I think the closed-end fund structure really does give us an advantage over other fund structures. Another thing that our funds have done historically, in particular our HQH and HQL fund, they have fairly significant exposures in pre-public, venture stage biotech companies, and so venture investments are obviously illiquid and given what's been going on in healthcare, it's been good for valuations. We've seen valuations come down across the board, but also on the venture side, pre-public, and the closed-end fund wrapper does allow us to invest in this space for the long term, once again without having to worry about the liquidity components of the marked-to-market, day-to-day issues.

CHUCK JAFFE: Let's talk just a little bit about valuations. The market is back towards record highs, does that make it significantly harder for you to find anything that's worth buying? Or is it not a problem because there's enough choice and there's enough innovation and enough new stuff happening?

JASON AKUS: Yeah, I think there really is a huge valuation disconnect from healthcare and biotech, pharmaceuticals, to the broader market. I'm sure most of your listeners would know that the AI trade, the Mag Seven trade, the technology trade has really, I think, driven a lot of the broader equities to these records. When you compare that to healthcare, if we look at a broad measure of healthcare year to date, the S&P 1500 Healthcare Index, as of the close last night, the total return of that is zero percent, so we're kind of flat on the year. Biotech's been a little bit better, maybe about 3%, and that compares to the S&P 500, about 9%. And you say, "Well, that's not that crazy," but if we look at healthcare let's say over the last two years, the total return of healthcare is once again basically flat while the S&P 500 is up 40%. So it's not to say that healthcare is not growing earnings or not doing what they've been doing, it's just been left behind, I think, just kind of on this FOMO trade with more attractive growth factors, and so I think this valuation disconnect certainly, I think healthcare is full of opportunities in terms of longer term stock appreciations. And then biotech, it certainly has been a challenging environment, especially post-Covid, all these biotech companies went crazy, we saw companies like Moderna trading bigger than Bristol Myers, multiple hundreds of billion dollar market caps, I think a lot of that wind has finally come out of the sails or the balloon's deflated or however you want to describe it. When you look at biotech, there's so many companies now trading at negative enterprise values, which basically means that they have more cash than their market cap. Now granted these companies, they don't have products in the market, they don't make revenues, and these pre-commercial biotechs just burn cash to develop drugs. But that being said, there are a lot of very interesting ideas, a lot of innovation in here, and I think for the active investor who's willing to put the time in to understand the fundamentals and risk-reward, there's potentially so many wonderful long-term ideas. We saw something yesterday, where a French biotech company that has shares listed here in the US, they announced some phase III data in a trial for IBD, inflammatory bowel disease, specifically in ulcerative colitis, that was really actually quite amazing, and what's even more special about what they announced is that this is an oral therapy in a market that's traditionally been subcutaneous or an injectable market. The stock was up to 500 to 600%, it probably went from pretty close to almost having no enterprise value a month or two ago, and now it's trading at multiple billions. So had this failed, the stock would probably be basically a zero, but that's kind of the environment, biotech investing is at these levels, there's certainly a lot of downside risk, but the reward can be great if you are willing to put the time and willing to understand the risk-reward.

CHUCK JAFFE: One of the other things about putting that time in is that biotech particularly is an area where there's a lot of investing in venture opportunities. How much is that impacting what you're doing right now?

JASON AKUS: It's always been a part of our funds and our investment process, as I was describing, two of our funds have a very long history of doing venture investing. Our oldest fund, HQH, IPOed all the way back I want to say 1987-1988, and it was specifically created at the time to allow a retail investor to get exposure to venture investments. Once again it's the benefit of a closed-end fund structure to allow you to do that, you don't need to be an accredited investor and have tons of money to get that exposure, but that being said, it's something we're always looking at, we're always making investments in. And kind of back to that 2025 challenging environment, we've seen valuations in the venture space actually come in, I think given all the volatility, whether it's with the tariff announcements, the market volatility creating opportunities, we've seen a lot of the traditional venture investors in healthcare, biotech, actually back off and valuations have come down. I think over my 20 plus, getting close to 25 years of investing, is I think you've got to just keep investing full cycle, even though the environment looks challenging and things could be potentially scary, those are actually the best opportunities to actually have some pretty significant long-term gains. And so we keep at it, and hopefully the market gets better and capital market windows open and will allow for some exits, but you know, it's just a matter of time, I don't know if that's three months, six months, to five years, but I'm certain it will happen again.

CHUCK JAFFE: Speaking of time, quickly because we're almost out of time, if I have to ask you for a market outlook, I know we started this with you talking about, "Hey, I might be making forward-looking statements and they're your opinion," et cetera, but the next six to 12 months, are you expecting healthcare and biotech in general to do better than the broad market or is it going to be tough sledding here?

JASON AKUS: I may sound like a broken record for people who've heard me speak elsewhere, and I keep saying healthcare is going to outperform, and so I haven't been exactly right on that, but I really do believe the more that this healthcare broader market disconnect goes on, I really do think healthcare really should outperform the broader market. I encourage everyone to look at the relative performance of healthcare and biotech versus the broader market, and there has been just so many opportunities. And if the US does go into a recession or there's some type of macro dislocation, I really do think we'll see market participants go back into healthcare and give us relative outperformance, but on a long-term basis, on an absolute basis, I think we're going to see positive returns. I just always go back to that long-term view that healthcare has just such tremendous tailwinds, we have the aging demographics here in the US, globally, population aging, innovation, it's always there, companies are innovating, looking for better solutions to the delivery of health care, from drugs to health care services, and so it's a great time to be investing and not to be optimistic. But just even in the last week or two with some of this positive news, pick up in M&A, we're in Q2, earnings, they've been, these announcements, despite fundamentals being a little bleak, we've seen actually stock performance post-earning announcements, so I think we have some, I hate the term green shoots, but I think we're seeing 'em.

CHUCK JAFFE: Jason, great stuff. I appreciate the time. Thanks so much for joining me on The NAVigator, we'll get an update on healthcare from you again down the line.

JASON AKUS: Awesome. Thank you so much for having me again.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and I am Chuck Jaffe and you can check out my show on your favorite podcast app or by going to MoneyLifeShow.com. To learn more about closed-end funds, interval funds, and business-development companies, go to AICAlliance.org, that's the website for the Active Investment Company Alliance. Thanks to my guest, Jason Akus, he's healthcare investing for Aberdeen Investments, which you can learn about online at AberdeenInvestments.com. The NAVigator podcast has something new for you every Friday, make sure you never miss an episode by subscribing or following along on your favorite podcast app. And if you liked this podcast, please leave a review and tell your friends, because that stuff really does help. We'll be back next week with more closed-end fund fun, and until then, happy investing, everybody.

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