

Navigating Emerging Markets Healthcare Trends

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Historically, investing in the emerging markets healthcare sector typically involved finding low-cost drug manufacturers that had received approval from the U.S. Food and Drug Administration (FDA) and planned to take advantage of the patent expiry pipeline in U.S. markets. A number of Indian pharmaceutical companies experienced surging stock prices and market valuations as legal protection for branded drugs ended. Among these companies, nothing exemplified the rise of Indian patent challenges more than the battle between Ranbaxy and Pfizer over the American company's cholesterol-reducing drug Lipitor in the early 2000s. At its peak, Lipitor generated \$17 billion, accounting for almost a fourth of Pfizer's revenues.

However, the market cap of generic pharmaceutical players peaked around 2015, followed by declining valuations driven by the intense price competition among low-cost producers and heightened scrutiny and audits by the FDA. The sector began showing signs of recovery in the midst of the COVID-19 pandemic, helped by increased domestic demand for drugs.

In our view, the focus within the healthcare sector is turning more inwards. Instead of a sector dominated by exporters of generic drugs, there is now an increasing focus on the domestic market, and a diversification away from pure product companies. From its peak of 90% in 2012, the share of pharmaceutical companies in the MSCI EM Health Care Index has fallen to 33% today. We are now seeing the rise of biotech companies, healthcare equipment makers, life science tools and service providers. Emerging themes within the sector include private sector hospitals, medical tourism and health insurance.

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Healthcare Services

The pandemic brought to light the shortcomings of the global healthcare infrastructure, particularly in emerging markets. In response, countries are trying to devise healthcare plans that ensure care for all their citizens. Indonesia has launched Jaminan Kesehatan Nasional (JKN), a mandatory health insurance program, designed to bring basic medical treatment and facilities to the entire population. Remarkably, the JKN program has provided coverage for 93% of Indonesia's population in less than a decade since its launch in 2014. India, on the other hand, has introduced the Ayushman Bharat program to cover the bottom 40% of the population, aiming to enhance access to healthcare for those who need it most.

Demographic shifts will provide further opportunities in the healthcare sector.

Emerging market populations are aging at a faster rate than those in developed countries. While people across the globe are living longer and having fewer children, this phenomenon is more pronounced in developing economies. Over the next 30 years, the over-65 population in emerging markets will grow 2.7% annually, more than double the rate of developed countries. This increased longevity will drive higher demand for healthcare services.

Countries like China, Malaysia, South Korea and Thailand are experiencing rapid urbanization and rising incomes. As prosperity and wealth have improved, lifestyle habits commonly associated with developed countries, such as increased fast-food consumption and a greater prevalence of affluent-nation ailments such as diabetes and cancer, have become more prominent.

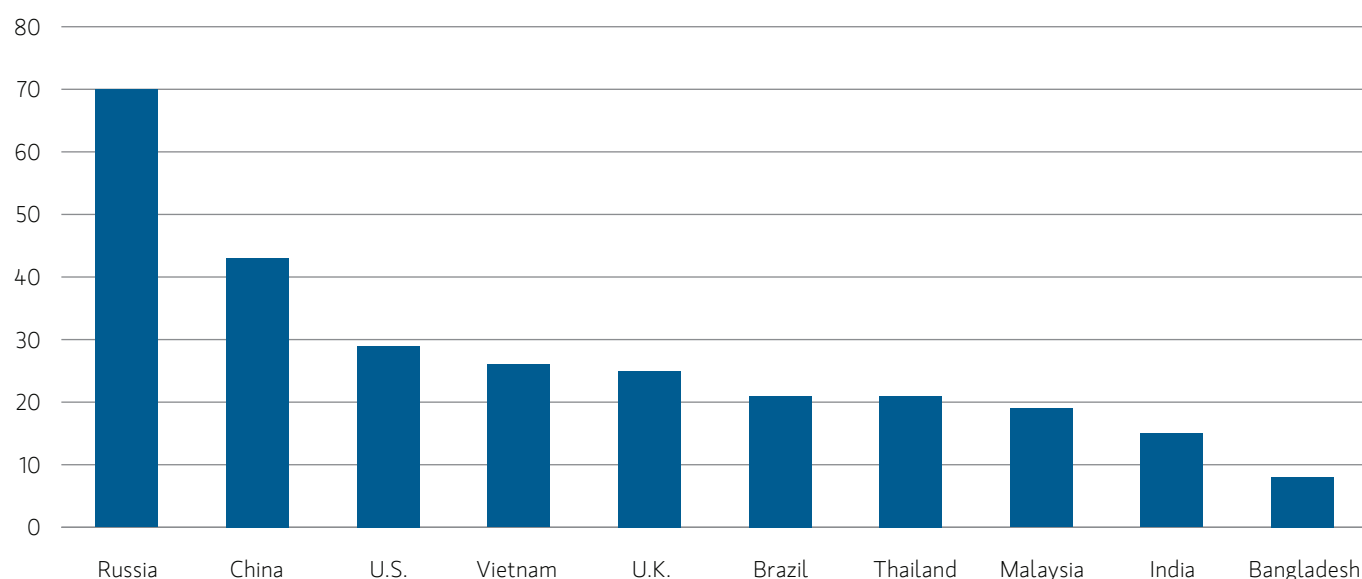
Healthcare expenditure in emerging economies is predicted to grow and ultimately catch up with developing nations'. Currently, the U.S. spends 19% of its GDP on health, while Europe allocates roughly 12%. In India and Southeast Asia, healthcare expenditures range from only 3 to 5% of GDP.

While governments plan on providing comprehensive universal healthcare and better services, more people will likely turn to private care options as incomes increase. Private sector hospital chains are improving services and offering greater affordability, enabling middle-income families access to high-quality private healthcare. The combination of private and public options ensures that 91% of Indonesia's population is covered, creating a diverse and robust healthcare landscape.

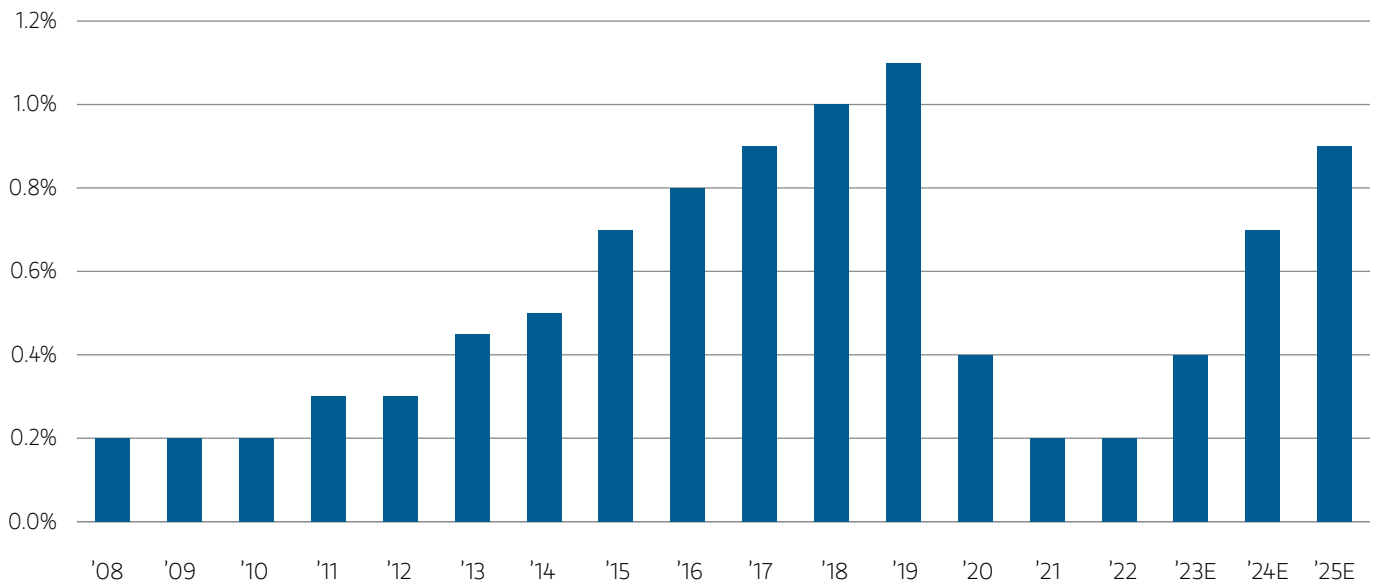
DISPLAY 1

Bed Density in Emerging Markets Is Still Woefully Inadequate

Beds per 10,000 in population



Source: Haver, CRISIL Research. As of December 2022.

DISPLAY 2**Medical Tourism Contributed to for 1% of Thailand's GDP**

Source: Euromonitor, Maybank. As of December 2022. Forecasts and/or estimates are subject to change and may not actually come to pass.

Private Sector Hospitals

Once considered the domain of the government or non-profit organizations in emerging markets, private sector hospitals are now on the rise. From China to Indonesia to Saudi Arabia, large private sector healthcare players are capturing market share from smaller nursing homes, stand-alone hospitals and government-run institutions. The growing middle class, fueled by economic expansion, will drive demand for higher quality service. Bed density in emerging markets is still woefully inadequate and requires a rapid increase to meet the surging need. India currently trails regional rivals in bed density, with only 15 beds per 10,000 people. In comparison, Malaysia offers 19 beds/10,000 and Vietnam 26, both falling far short of China's 43 beds per 10,000 (*Display 1 - see previous page*).

Insurance Coverage

Many governments grapple with the challenge of containing costs while pushing for wider healthcare coverage. India's "National Health Protection Mission" aims to provide coverage for 70% of India's population, but less than 20% have access to insurance.

In Saudi Arabia, although only 15% of the population has private insurance coverage, the number of private clinics is rising, while government health centers decline.

Medical Tourism

Thailand, which historically has had a reputation for quality healthcare, has long been a pioneer in medical tourism. Pre-COVID, medical tourism contributed to 1% of Thailand's GDP and accounted for almost 30% of revenues for the country's largest listed hospital chain (*Display 2*).

For a stand-alone hospital in Bangkok, the share was even higher, at around two-thirds of revenues.

India is one of the world's most cost-effective healthcare destinations, with medical tourism accounting for 6.4% of its tourism industry. For example, the cost of a hip or knee replacement in India is about \$7,000, one-seventh the cost in the U.S. and one-half the cost in Korea (*Display 3 - see following page*).

Reversing Outbound Medical Tourism

While countries like Thailand have been attracting overseas patients, the opposite trend is visible in countries like Indonesia. The country's deputy health minister recently reported that one million Indonesians are heading overseas to receive medical treatment, which means the country is losing roughly \$11.5 billion a year.

DISPLAY 3**India Is a Cost-Effective Destination for Healthcare***Cost of certain surgeries (in USD)*

AILMENTS	US	KOREA	SINGAPORE	THAILAND	INDIA
Hip replacement	50,000	14,120	12,000	7,879	7,000
Knee replacement	50,000	19,800	13,000	12,297	6,200
Heart bypass	144,000	28,900	18,500	15,121	5,200
Angioplasty	57,000	15,200	13,000	3,788	3,300
Heart valve replacement	170,000	43,500	12,500	21,212	5,500
Dental implant	2,800	4,200	1,500	3,636	1,000

Source: CRISIL Research. As of December 2022.

To reverse this trend, the Indonesian government is establishing special economic zones to build high-quality hospitals, and recently passed a health bill that allows foreign doctors to practice in Indonesia. To streamline bureaucratic procedures and ease the strain on the country's health services, foreign specialists that have practiced overseas for five years or more are exempt from the evaluation requirement. The goal is to provide Indonesians with access to top-tier medical care within their own country, eliminating the need to travel abroad for critical healthcare services.

Headwinds

Government controls, subsidies and populist measures present some of the challenges the healthcare sector faces. In China, the National Reimbursement Drug List (NRDL), provides government reimbursement coverage for higher-priced treatments, but only after drugmakers have lowered their prices to be included in the list. India has implemented stringent price caps on several products, including lowering the cost of coronary stents by 80%.

Although governments can impose controls on the private sector, they recognize the importance of a robust private healthcare system to supplement state efforts, particularly in a post-COVID world. Healthcare in emerging markets is underpenetrated, and as income levels rise, there is growing demand for better insurance providers and healthcare services. Private hospital groups, insurance companies and medical tourism providers can expect pockets of growth in response to these changing dynamics.

Risk Considerations

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this portfolio. Please be aware that this portfolio may be subject to certain additional risks. In general, **equities securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in **emerging market countries** are greater than the risks generally associated with investments in foreign developed countries.

DEFINITIONS

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. It includes all private and public consumption, government outlays, investments and net exports.

INDEX DEFINITIONS

The **MSCI EM Health Care Index** includes large and mid cap securities across 24 Emerging Markets countries. All securities in the indices are classified in the Health Care sectors, respectively, as per the Global Industry Classification Standard (GICS®).

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