

ASIA'S COMING HEALTHCARE BOOM

We take a bullish long-term stance on few sectors around the world — healthcare in Asia ex Japan is one. A combination of key regional factors—including demographics, urbanization and existing infrastructure gaps—all point to sustainable growth. Additionally, the competitive position of the region's domestic healthcare providers, including local barriers and a low cost base enable future growth in export and service outsourcing.

We believe that the long-term potential of Asia ex Japan's healthcare sector and the competitive advantages that Asian firms enjoy over global peers portend a key long-term opportunity for investors.

Why Healthcare in Asia is primed for expansion

Asia ex Japan's ageing population, rising urbanization and lack of medical infrastructure coupled with nascent health insurance systems provide powerful impetus for long term growth. Asia already represents 60 percent of the world population. In fact, some of the region's countries—such as Korea, Thailand and China—have rapidly ageing demographics, which will lead to a population comprising almost 1 billion aged 65 and older in Asia by the year 2050, according to the United Nations (World Population Prospects: The 2015 Revision). We believe the demand for medicine and healthcare services in Asia ex Japan can only increase.

Rising urbanization and better living standards will also amplify healthcare demands in Asia. As countries in Asia urbanize, their GDP per capita will improve, leading to an increase in healthcare spending relative to GDP. By means of comparison, healthcare spending in relation to GDP in the US, Germany and Japan in 2014 was 17%, 11% and 10%, respectively. Asia ex Japan on the other hand, was only spending 4 - 7% of GDP on healthcare in 2014, according to the World Health Organization. As these countries converge towards the same level of economic development as the US, Germany and Japan, their healthcare spending in relation to GDP will undoubtedly advance.

Finally, existing infrastructure gaps in Asia ex Japan presents a need for investment in medical infrastructure, such as hospitals, beds, healthcare professionals and medical equipment to meet rising demand, that will spur spending in other healthcare segments. In addition, healthcare insurance is still at an early development stage in Asia ex Japan. The region is at a crucial juncture in how it provides healthcare to its citizenry and the imminent shift from out-of-pocket to public/private insurance funding will further accelerate healthcare spending.

Asian healthcare firms have a competitive advantage

We believe that Asian healthcare firms can fully capture the growth in their home market, and that some firms may even gain market share outside Asia ex Japan.

Healthcare is largely influenced by local culture, distribution and regulation. For example, understanding traditional medical treatment in countries like China is critical and not easy for non-local players. Distribution is also extremely complicated throughout the region with no one-model-fits-all solution due to the area's geography, size, culture and languages. Also, regulations—such as the drug approval process— differ in each country and frequently change, which makes it difficult for foreign players to keep up.

In most Asia ex Japan countries, affordability remains a key issue in healthcare. The strongest and best positioned healthcare companies can leverage their lower cost structure, such as for labor, to gain an advantage over their international peers.

The Opportunity in Asia ex Japan Healthcare

Asia's healthcare sector has retreated in 2016, largely due to a combination of temporary, cyclical factors (such as sector rotation from healthcare to energy/material) and temporary price corrections (in particular, in the India generic pharma sector). Our view is that the recent market adjustment does not undermine the fundamental long-term growth story for Asia healthcare and that the mid-to-long-term investment thesis of the sector remains intact.

As a result, we consider the drawdown in Asia ex Japan's healthcare sector as an investment opportunity for long term investors like ourselves.

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