

Janus Henderson Global Life Sciences Fund

November 2019

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For professional investors only

Fund manager names: Andy Acker, CFA

Market Recap

Health care stocks continued to rise in November as worries about the potential for a single-payer health plan in the US eased slightly. Indeed, during the period, presidential candidate Sen. Elizabeth Warren said it would likely take three years to introduce a proposal for universal coverage should she win the election. At the same time, new drug approvals continued while additional mergers and acquisitions were announced. On a sub-sector basis, managed health care and health care services delivered double-digit returns. No sub-sectors experienced losses.

Performance

The fund returned 8.1%, outperforming its benchmark, the MSCI World Health Care IndexSM, which returned 4.7%.

The fund's stock selection in biotechnology, as well as an overweight position to the sub-sector, contributed most to outperformance. Weighing on relative returns was the fund's positioning in health care services.

Portfolio Attribution

On an absolute basis, Myovant Sciences was the largest contributor. The stock rose following the news that relugolix, an oral GnRH antagonist for advanced prostate cancer, met its primary and secondary endpoints in late-stage clinical trials. The result will allow the company to apply for Food and Drug Administration (FDA) approval in 2020. Relugolix would be the first prostate treatment of its kind to be delivered orally, potentially improving patients' quality of life. Should further trials confirm other benefits, including reduced cardiovascular events and a delay in the onset of castration resistance (a stage of prostate cancer in which tumours grow despite low testosterone levels), we believe relugolix could have blockbuster sales potential (over \$1 billion).

Neurocrine Biosciences also aided performance. During the period, the company reported better-than-expected sales for lead drug Ingrezza, which addresses tardive dyskinesia (TD), a movement disorder that affects up to 500,000 people in the US. Ingrezza's clinical benefit has been supported by higher-than-expected compliance and follow-up data indicating an increased benefit for patients who continue to take the medicine long term. Given the drug's sales growth so far and relatively low penetration, we believe Ingrezza has multibillion-dollar sales potential.

AnaptysBio was the largest detractor during the period. The stock declined when the company reported that etokimab, a wholly owned antibody for the treatment of atopic (allergic) diseases, failed to provide a measurable improvement for eczema patients during late-stage clinical trials. In addition, a second drug candidate, ANB019, a treatment for rare and severe forms of psoriasis, is taking longer than expected to develop. In light of these disappointments, we exited the stock.

GW Pharmaceuticals, which develops and manufactures cannabis-based therapies, was another significant detractor. The stock declined after the company reported only a modest topline beat for epilepsy treatment Epidiolex during the third quarter. Still, we continue to like GW's long-term growth outlook. Epidiolex launched in the US in late 2018 and already has a \$400 million run rate, suggesting a rapid growth rate. Furthermore, GW is expanding the drug's IP protection and researching other indications. Lastly, the firm is investing in clinical trials to bring another cannabis-related drug, Sativex, to the US for the treatment of spasticity due to multiple sclerosis.

Outlook and Investment Approach

With a year until the 2020 election, we think political uncertainty will remain an overhang for health care in the near term. We have experienced periods like this before (including the last presidential election) and believe the best solution is to take a balanced approach. To that end, we have built up positions in medical device companies that we believe should help offset near-term volatility. These firms largely sit outside the political quagmire and are driving advances in robotic-assisted surgery, continuous glucose monitors for diabetes and other areas that we believe are in the early innings of a long growth cycle. For similar reasons, we also favour companies that manufacture cash-pay products, such as contact lenses, and animal health.

At the same time, we remain encouraged by the rapid advances being made across a number of therapeutic areas and the rising demand for health care globally. By sticking to a disciplined investment strategy – looking for stocks that trade at a discount to our estimate of a company's intrinsic value and analysing both the clinical and commercial potential of new products and services – we aim to cut through near-term volatility and be well positioned to capture these growth opportunities over the long term.

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Source: Janus Henderson Investors, as at 30 November 2019

Effective 1 May 2019, Ethan Lovell is no longer a fund manager for the Global Life Sciences Fund

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