

## Janus Henderson Global Life Sciences Strategy

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### Key differentiators

**Deep fundamental research:** The investment team believes deep research uncovers the most compelling investment opportunities in the rapidly growing and highly complex area of life sciences\*.

**Highly experienced team:** The seven-member team of specialists has over a century of combined health care investment experience. It is crucial to understand the science as well as the business in this dynamic investment universe.

### Balanced and diversified approach:

The strategy seeks diversification across geographies, market capitalisations, and sub-sectors of healthcare including biotechnology, pharmaceuticals, health care services and medical devices.

**Valuation discipline:** Absolute valuation targets are set for each company, and a value-at-risk (VaR) framework seeks to minimise downside risks from individual share price volatility.

### Overview

The Janus Henderson Global Life Sciences strategy aims for long-term growth of capital by investing in the shares of life sciences companies worldwide. The strategy primarily focuses on identifying innovative companies addressing unmet medical needs or improving efficiencies in the fast-growing healthcare sector. Following decades of advanced research and development in biology, biochemistry, and genetics, new therapies are becoming available for unmet medical needs. Health care companies are increasing revenue, earnings and cash flow generation, while also creating significant

shareholder value across many industries – from pharmaceuticals to biotechnology to medical devices. Supportive demographics globally also provide a compelling long-term tailwind.

The investment team believes in the power of deep fundamental research to identify life sciences companies trading at a significant discount to the team's assessment of intrinsic value. The quality of the team, the depth of their research, and their balanced and disciplined approach set them apart in pursuing superior risk-adjusted results for clients.

### Team

The Global Life Sciences strategy is co-managed by Portfolio Managers Andy Acker and Ethan Lovell. The investment team consists of Andy and Ethan, who both retain equity analyst responsibilities, plus five equity research analysts from the Health Care Sector Team and one associate analyst. The team has more than a century of combined experience investing in the health care sector.

**Andy Acker, CFA**  
Portfolio Manager  
Analyst:  
Biotechnology  
21 years



**Ethan Lovell**  
Portfolio Manager  
Analyst: Global  
Pharmaceuticals/Devices  
23 years



**Biotechnology**  
Dan Lyons, PhD  
CFA, 17 years



**Speciality  
Pharmaceuticals**  
Andy Summers  
CFA, 19 years



**Health Care IT  
Medical Technology**  
Aaron Schaechterle,  
10 years



**Health Care  
Services**  
Rich Carney, CFA,  
17 years



**Biotechnology**  
John Scotti, DPhil,  
3 years

Source: Janus Henderson Investors as at 30 September 2017. Team is also supported by Associate Analyst Ryan Smith, pharmaceuticals sector. Years = years of investment experience.

\*Life Sciences companies seek to improve or maintain quality of life. They include companies engaged in research, development, production or distribution of products and services related to health and personal care, medicine or pharmaceuticals.

# Janus Henderson Global Life Sciences Strategy

## Investment process

The investment team adheres to the following four-step process in the management of the Global Life Sciences strategy, resulting in an approach that is consistent and repeatable:



### Step 1: Focusing the investable universe

The team assesses life sciences companies on a global basis from both a qualitative and quantitative standpoint. This narrows the list of stocks that warrant detailed coverage from a research perspective. The team focuses on the ideas where they believe they have a research advantage. Quantitative criteria include high or improving margins, improving return on invested capital (ROIC), identifiable revenue growth, earnings consistency, insider ownership, high free cash flow yield, and a compelling valuation. Qualitatively, they seek those companies with sustainable franchises, exciting pipelines, solid management, and shareholder-friendly company culture and incentives.

### Step 2: Intensive fundamental analysis

The team's approach is based on the goal that they should know the companies within their sectors as well as, or better than, anyone in the investment industry.

Not every life sciences innovation will succeed, so potential investment opportunities must be rigorously interrogated in order to accurately assess clinical and commercial risks. The team subscribes to 'the 90/90 rule': research shows that 90% of drugs that enter human clinical trials never make it to the market. Of those that do survive and launch, in the team's experience, market consensus estimates for their revenues are dramatically under- or overestimated approximately 90% of the time. The team aims to identify the opportunities with the best odds of both clinical and commercial success.

In order to assess the clinical and commercial viability of therapies, the team strives to become an industry participant by understanding all aspects of health care, which allows them to better assess **clinical risk** and **commercial risk**. This includes interviewing thought leaders in virtually every therapeutic area, attending medical conferences to see ground-breaking new data first-hand, reading scientific literature, and conducting physician surveys to gauge usage patterns.

It is vital that team members engage extensively with physicians because their decisions affect 80% of health care spending. It is also crucial to assess the likelihood of payer<sup>1</sup> reimbursement based on the cost effectiveness of a proposed therapy and the probability of adoption by the patients themselves. To assist with this, the team's proprietary research includes using an internally developed database that combines volume data with weekly pricings of over 10,000 products to project sales trends, and analysing upcoming clinical trials using proprietary bio-statistical models.

In addition to bottom-up, fundamental research the team assesses how regulatory pressures and investor perceptions influence individual stocks and sub-sectors. The portfolio may be adjusted accordingly.

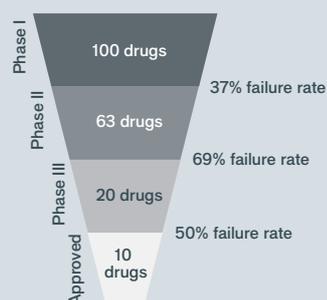
All data points from the team's research are incorporated into detailed financial models to project future cash flows. The goal is to identify key leverage points within the business model that will drive value creation within a two- to three-year timeframe. The team conducts discounted cash flows (DCF) analyses to arrive at a price target, alongside other valuation tools such as sum-of-the-parts analysis, private equity transactions, and liquidation values. The team chooses to invest when it believes this future cash flow potential is significantly underestimated by the market.

The team's objective is to construct a diversified sector portfolio that represents only their best ideas. They contemplate the clinical and commercial inputs alongside outputs from their detailed modelling to identify stocks from across the healthcare sector for potential inclusion in the portfolio. This part of the process is designed to help mitigate portfolio **construction risk**. Construction risk together with clinical risk and commercial risk comprise the three primary risks of healthcare, which the team calls the '**three Cs**'. The research process and the portfolio construction process work in harmony to help mitigate the three C's and generate risk-adjusted returns for shareholders.

<sup>1</sup>Payers = entities other than the patient that finance or reimburse the cost of health services such as pharmacy benefit managers and insurers.

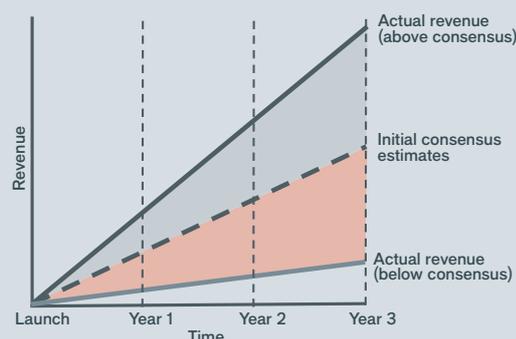
#### Clinical risk

**90%** of drugs that enter human clinical trials never make it to the market.



#### Commercial risk

**90%** of the time consensus estimates for new drug launches are wrong, in our experience.



Source: BIO Industry Analysis, 2016. Diagrams are for illustrative purposes. Statistically, only 10 drugs are approved for every 100 that enter clinical trials.

# Janus Henderson Global Life Sciences Strategy

## Step 3: Stock selection and portfolio construction

The portfolio looks to hold 70 to 100 stocks, diversified across sub-sectors and market capitalisations\*.

The portfolio is comprised of companies that can be categorised into three conceptual groups: core growth, emerging growth, and opportunistic investments. In general, about half of the portfolio is invested in core growth holdings, emerging growth comprises roughly 20% to 30% of the portfolio, and the remaining weight consists of opportunistic investments. Position sizes are determined by conviction, risk, and discount to intrinsic value. The decision to buy or sell a stock ultimately rests with Andy and Ethan as Co-Managers of the strategy.



the industry”.

Andy Acker, CFA, Portfolio Manager

Our approach to fundamental analysis is to get to know the companies within our sectors as well as, or better than, anyone in

Core growth 40-60%	Emerging growth 20-30%	Opportunistic 20-30%
<ul style="list-style-type: none"> <li>• Dominant franchises; superior products and services</li> <li>• Strong management with significant equity ownership</li> <li>• Efficient use of capital</li> <li>• Sustainable free cash flow generation</li> </ul>	<ul style="list-style-type: none"> <li>• New product cycles</li> <li>• Significant pipeline opportunities</li> <li>• Accelerating top/bottom line</li> </ul>	<ul style="list-style-type: none"> <li>• Restructurings, spinoffs and mergers</li> <li>• Hidden assets</li> <li>• Missed expectations or short-term issues</li> </ul>

### Risk controls

The portfolio is built following a VaR framework, seeking to mitigate the downside when investing in early development stage companies. This approach focuses attention on downside risks, especially those arising from binary events – such as clinical trial announcements or regulatory decisions – that may lead to significant share price volatility. In practice, this means the position size of any one holding is limited so that, in a worst-case scenario, the estimated adverse impact from a particular event should not exceed 1% of the portfolio's performance.

Parameter*	Portfolio characteristics as at 30 September 2017
Number of holdings	70-100
Position sizes (min/max at purchase)	25-500 basis points. Position sizes may exceed 5% in order to gain active exposure to a large index holding
Top 10	25%-35% of the portfolio
Sub-sector positions	Pharmaceuticals (30-40%); biotechnology (30-40%); healthcare services (10-20%); and medical devices (10-20%)
Market cap range	Aims to be diversified and balanced across large-, mid-, and small capitalisations.
Cash	Aims to be fully invested with cash at 1-3%.

\*Please refer to the fund's Prospectus. Portfolio parameters not defined within the Prospectus are informally used to guide portfolio construction and may vary over time; they are used here for illustrative purposes and are correct at the time of publication.

## Step 4: Sell discipline

Key reasons a stock may be sold include the following:

- Portfolio upgraded with a new idea that the team believes represents better risk/reward opportunity
- Price reflects team's estimate of intrinsic value
- Company or industry fundamentals change, or the team believes competitive advantages have deteriorated
- Position size exceeds VaR parameters

Additionally, positions may be adjusted based on absolute and relative risk monitoring targets.

# Janus Henderson Global Life Sciences Strategy

## Risk management

### Independent risk monitoring

Janus Henderson has an independent Investment Risk Team (reporting into the Chief Risk Officer), which is ultimately responsible for the oversight and challenge of market risk. The day-to-day market risk activities are carried out by the Portfolio Risk & Analytics Team reporting into the Chief Investment Officer (CIO). This ensures that the resourcing of market risk is appropriate and in line with the investment strategies followed under the CIO, while providing an independent check of the suitability and effectiveness of the market risk function.

The Janus Henderson Market Risk Function, comprising the Portfolio Risk & Analytics Team and the Investment Risk Team, work closely

with senior management and portfolio managers as part of the overall investment risk management and oversight process.

Portfolio managers and senior management have access to a variety of third party and internally built risk management tools in order to qualify and quantify the various types of market risks. Daily reports and dashboards are used for day to day monitoring of the portfolio's exposures and risks and regular oversight meetings are held with the fund managers to discuss any relevant risk in the portfolio. A monthly investment performance and risk meeting is held with senior management, allowing the teams to escalate any potential remaining issues and provide senior management with an independent view of the portfolio.

## Portfolio Managers



### Andy Acker, CFA

#### Portfolio Manager

Andy Acker is co-portfolio manager for the Global Life Sciences Strategy, a position he has held since 2007. Prior to this Andy was an assistant portfolio manager on the strategy from 2003 to 2007. He joined Janus in 1999 as a research analyst, focusing on companies

in the biotechnology and pharmaceutical industries. Before Janus, he worked as a strategy consultant for the Boston Consulting Group and as a health care analyst for Morgan Stanley Venture Partners. Andy received his bachelor of science degree in biochemical sciences from Harvard University, graduating magna cum laude and Phi Beta Kappa. He also earned an MBA from Harvard Business School, graduating with honours. Andy holds the Chartered Financial Analyst designation and has 21 years of financial industry experience.



### Ethan Lovell

#### Portfolio Manager

Ethan Lovell is co-portfolio manager for the Global Life Sciences Strategy, a position he has held since 2016. Prior to this, he was an assistant portfolio manager on the strategy. Before joining Janus in 2007 as a research analyst, he was a director at ClearBridge

Advisors, covering companies in the pharmaceutical, biotechnology and medical device industries. Previously, Ethan was managing director and founding partner of Saranac Capital, LP, where he was a health care sector portfolio manager and has also worked at Salomon Brothers Asset Management. Ethan began his career at Bear, Stearns & Co. as an equity research analyst and received a bachelor of arts degree, with a double major in chemistry and economics from Bowdoin College and an MBA from Tulane University. Ethan has 23 years of financial industry experience.

**Investments in the strategy are focused on life sciences companies, therefore changes in government regulation or subsidies or technology may affect the value of the strategy's investments. The strategy's returns may potentially be more volatile than those strategies with less concentrated portfolios.**

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