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Satrix Healthcare Innovation Feeder ETF (JSE:STXHLT)

13.05.2022

Fund suitability

This ETF is suitable for investors with a high risk appetite seeking broad exposure to thematic equities (healthcare) over a long-term horizon

Fees

The fund will have a total expense ratio of 0.60%

Alternative funds

None

“Oncology and immunology are two leading areas for growth in healthcare innovation over the next few years”

While Covid-19 shows evidence of becoming increasingly endemic, the drivers of global healthcare have always been intact, some of which we focus on in this note. One of these drivers is that people are living longer. According to the World Health Organisation (WHO), the proportion of the world's population over 60 years will almost double to 22% from 12% over the 2015-2050 period.

Moreover, there has been a rise in global customer trends related to consumers taking ownership of their own health and wellness. According to data from the Global Wellness Institute, the global wellness economy was worth a sizeable \$4.4tn in 2020, dominated by sub-sectors such as healthy nutrition and weight loss (\$946bn), personal care (\$955bn) and physical activity (\$738bn).

Healthcare innovation, which is the focus of this week's ETF pick, also has fundamental drivers in favour of this specialised area of the market. IQVIA, a global provider of analytics and clinical research services expects oncology and immunology – two leading therapy areas – to grow between 9%-12% and 6%-9% annually by 2026. This will be supported by an increase in new treatments and medicines and will bring spending on the two markets globally to \$300bn and \$178bn respectively by 2026.

What makes oncology which is the study of cancer of particular interest, is that cancer is the leading cause of death worldwide - it accounted for almost 10-million deaths in 2020, according to the WHO. Breast and lung cancer were the top two contributors at 2.3-million and 2.2-million cases respectively.

AbbVie, which is the leading company in the **Satrix Healthcare Innovation Feeder ETF**, is a US-based pharmaceutical company involved in the research, development and delivery of new medicines. Immunology and oncology were the two biggest contributors (\$32.5bn) to total revenue (\$56.2bn) in FY21, growing by 14.1% and 8.7%, respectively.

Oncology accounted for over 50% of AbbVie's pipeline of medicines and treatments that are in the final of three phases before being submitted for regulatory approval. Veliparib is one of these treatments – it is being developed to treat breast and ovarian cancer.

Given the overall and specific drivers mentioned, we turn to the fund that will expose investors to this theme. The newly-launched Satrix Healthcare Innovation Feeder ETF will track the performance of the STOXX Global Breakthrough Healthcare Index by investing in the iShares Healthcare Innovation UCITS ETF. The index includes companies from selected countries exposed to a defined set of themes which are aging population, automation and robotics, digitalisation and breakthrough healthcare. To be eligible, companies must derive 50% or more of their revenue from the themes above.

In addition, the index - which is formed from the parent STOXX Global Total Market Index - applies further size and liquidity screens and uses an equal-weighted method to assign weights into the index. The ETF will cost 0.60%, which we think is expensive. However, this is reasonable when understood in the

context of it investing in a thematic, high-growth equity feeder ETF.

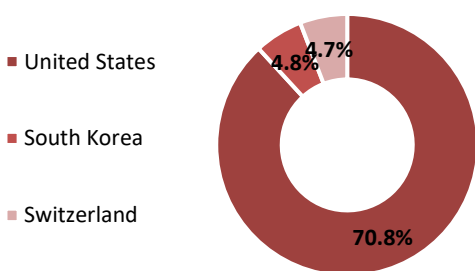
Investors are able to participate in the initial public offering of shares at the listing price until 17 May 2022 (midday) with the benefit of no brokerage and trading fees, according to Satrix.

While there are drivers that make healthcare relatively attractive, it is worth noting that AbbVie is approaching the end of a patent in 2023 related to one of its top-selling medicines, Humira, which treats arthritis. This will increase competitive pressure related to the medicine.

What's more, the research and development of medicines is quite risky in that delays in any part of the entire process (from research to the sale of a treatment), or an unsuccessful application with regulators can lead to a sharp decline or spike in the volatility of share prices. Moreover, medicine price controls or regulations that negatively affect profitability are a potential headwind for the healthcare sector.

We end on a positive note. Using the lower end of the oncology and immunology expenditure growth forecasts of IQVIA alone, the attractiveness of the theme (and ETF) is evident, as these rates are higher than forecasted global real GDP. In this regard, the International Monetary Fund recently downgraded its forecast of real GDP – it expects global output to grow 3.6% in both 2022 and 2023.

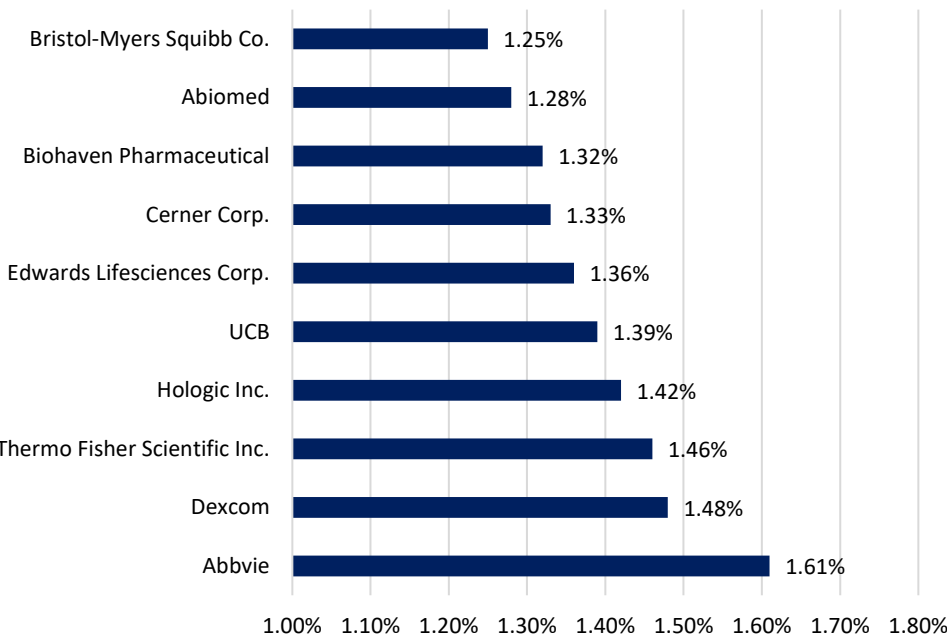
Country allocation – top 3 (%)



Investment approach and portfolio composition

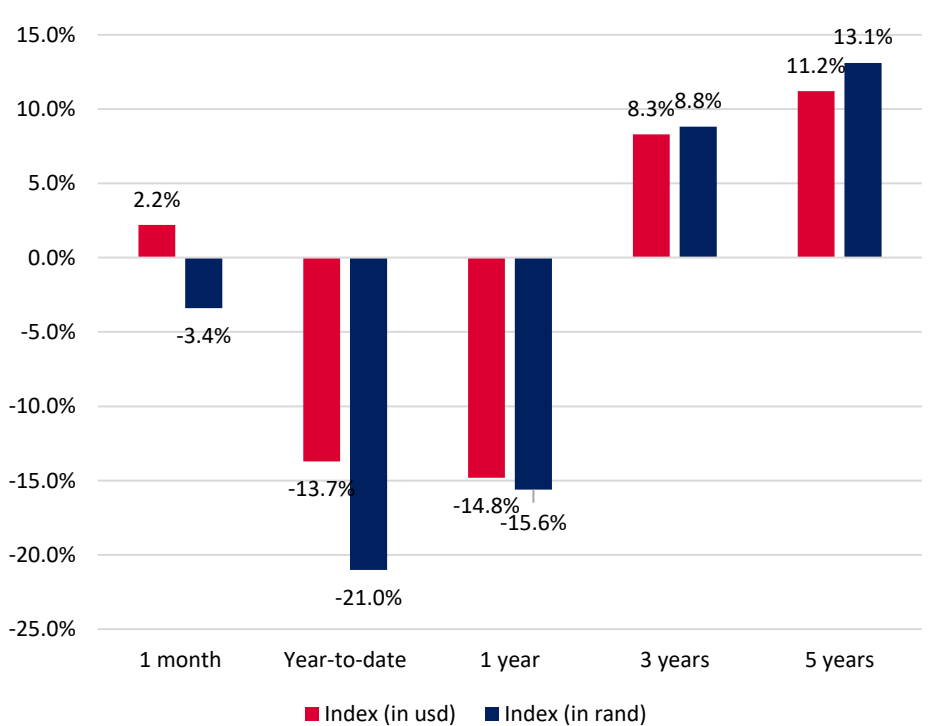
The Satrix Healthcare Innovation Feeder ETF will track the performance of the STOXX Global Breakthrough Healthcare Index before fees and expenses.

Top holdings (%)



Performance

Index performance to end-March 2022 (annualised for periods longer than one year; with dividends reinvested).



Fund information

Launch date (IPO end date)	26 May 2022 (17 May 2022)
Trading symbol (JSE)	STXHLT
Weighted average market cap.	N/A
Total expense ratio	0.60%
Risk rating	High
Benchmark	STOXX Global Breakthrough Healthcare Index

Market data: 13 May 2022

Spot price	N/A
Weekly high	N/A
Weekly low	N/A
Average monthly volume	N/A
Gross dividend yield	N/A

Source: Infront, yahoo finance

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