

Healthcare Alternatives Funds: Competitive Landscape Executive Summary

The Jefferies Prime Services team recently conducted a deep dive across the healthcare sector.

Using regulatory filings, ADVs, publicly available information and information from databases like eVestment, we mapped a landscape that has evolved and matured considerably in recent years.

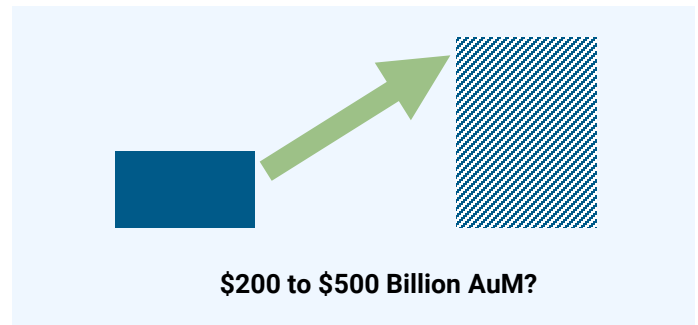
Among the themes and topics explored:

Scoping the Competitive Landscape

- How many material stand alone healthcare funds are there?
- How are they structured?
- What strategies or products are offered?
- Do healthcare managers have pricing power?
- How do managers differentiate in a crowded market?
- What strategic or operating initiatives are taking shape for the next 3 – 5 years?

Are Healthcare Funds Unique Among Sector Firms?

- Is healthcare a more volatile industry? Can realized intraday volatility be instructive?
- Does the growth trajectory of healthcare funds differ from other sectors?
- What is the value proposition for healthcare as a sector in the current market environment?
- Do the structures, exposures and performance of healthcare funds merit differentiated pricing?
- How does investing in private assets come into play?



Source: Jefferies

HEALTHCARE FUNDS LEAD THE SECTOR LANDSCAPE

Prequin recently reported that healthcare funds are the most prevalent sector funds in North America.

What Could Drive Asset Growth?

- Bullish views on the sector itself – healthcare is still estimated to contribute to ~20% of U.S. GDP over the next decade.
- Healthcare has been somewhat of a ballast sector in recessionary periods in the past.
- Ability to navigate more volatile markets – especially across sector specialists.
- Willingness to strategically construct additional share classes to align with investment horizons and allocator demand.
- Shift in minimum initial investment numbers
- Enduring ability for managers to operate as price setters, with fees remaining on the more expensive end of the range.

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This is a snapshot of a deep dive we conducted of the healthcare competitive landscape in 2H2022. For access to the full suite of data and analysis, contact your Jefferies salesperson.

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FLAGSHIP

FLAGSHIP PLUS

HEALTHCARE MULTI-STRATS

A number of healthcare firms over time evolve to sector multi-strategy firms. While there is clear differentiation among managers, we explore the extent to which healthcare firms fall into the above classifications.

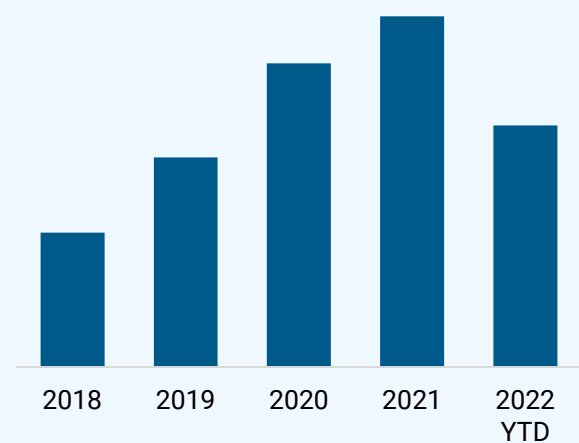
The value proposition for managers has been reasserted in recent markets – and we continue to monitor the ongoing growth for open healthcare mandates.

The sector’s traditional ability to outperform in recessionary environments is one driver prompting allocators to consider leaning into the space.

The Road to Half a Trillion examines the term, fee and liquidity structures of more than 40 products and share classes, and delves into other levers of alignment for both emerging and established managers.

We also look at how funds have performed and navigated volatile markets, given the sector has witnessed heightened volatility comparable to other sectors.

Healthcare Investor Open Mandates



Source: Jefferies

Realized intraday volatility by sector 2022 YTD

Sector	Jan '22	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sept '22
Communication Services	57.30%	55.50%	53.80%						
Consumer Discretionary	60.90%	58.90%	58.20%						
Consumer Staples	46.10%	44.50%	44.90%						
Energy	60.10%	59.10%	60.80%						
Financials	48.40%	46.30%	45.90%						
Health Care	71.80%	67.70%	64.80%	<i>For full intraday volatility numbers contact your Jefferies salesperson</i>					
Industrials	54.30%	52.60%	50.50%						
Information Technology	60.40%	58.20%	56.10%						
Materials	51.90%	50.40%	51.20%						
Real Estate	40.10%	40.00%	36.80%						
Utilities	35.40%	35.70%	33.20%						

Source: Jefferies

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TECHNICAL SKILLS AND SPECIALIZATION

Healthcare stands apart with a **high bar of technical expertise sometimes** required to invest in and navigate the space. Many funds aim to create a team with balanced knowledge and experience in both science and business fundamentals.

- Many **founders are technically trained with MD's or PhD's**. It is more common to see medical, scientific or technical degrees than at many other sector funds.
- At least a third of healthcare-dedicated firms we explored leverage a **scientist advisory board**.
- Some allocators note a preference for a "deep bench" of individuals, with **advanced medical or scientific degrees at the fund**. However, this knowledge should be balanced with professional risk takers and **investment management experience**.

FULL ECOSYSTEM INVESTMENT

Healthcare funds have the ability to **diversify into different asset classes and industry sub-sectors**, while staying focused on the same sector. This may allow managers to stay nimble through various macro environments

- **Healthcare firms follow a more common path of growth or evolution** than other sector funds.
- The path to healthcare multi-strat typically evolves from a **flagship offering**, then add an **additional product** (privates, early stage, co-investments etc.) creating a **'flagship plus' offering**.
- **Full lifecycle investors can** look across public and private markets and even niche strategies, such as private credit and royalties.

A Trusted Prime Broker Partner for Healthcare	Research and Corporate Access	Banking Expertise	Trading Desk Market Strategy
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