

# Investment Note

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## Manulife Global Healthcare Strategy: New Lead Portfolio Manager stresses importance of industry knowledge



Steven Slaughter  
Lead Portfolio Manager

conviction” portfolio.

On 4 May 2018, Steven Slaughter took over as the new lead Portfolio Manager of the Manulife Global Healthcare Strategy (“the Strategy”). Slaughter brings unique experience to his new role in both healthcare and investment management. This investment note will summarise his professional background, as well as introduce the new guiding principles that he and his investment team will apply to potential investments of the Strategy to reach the end goal of a “high

### Background: Deep healthcare experience with tested investment savvy

Slaughter’s professional background stresses a blend of deep healthcare experience with tested investment savvy. Slaughter has over 30 years of experience, including corporate industry experience and buy-side investment experience.

After graduating from the University of Notre Dame with a degree in Biology, he worked at a blue chip medical equipment and supplies firm in sales/sales management where he gained a broad perspective on the pharmaceutical industry and hospital operations. Upon receiving an Master’s of Business Administration (MBA) with honors from Northwestern University, Slaughter returned to the healthcare sector, working in medical device product management, contracting and business development at a large pharmaceuticals and product firm. During his six-year tenure there, Slaughter was trained on various quantitative and qualitative methodologies to assess potential merger and acquisition (M&A) targets, a valuable skill set that would serve him well as he transitioned to his investment career.

Slaughter brought this extensive understanding of the health care industry and M&A methodologies to investment management. He was a Managing Director with a global asset management firm, where he successfully directed healthcare investment decisions for assets in large cap US Core and Global portfolios. During his eight years at the firm, his coverage included over 100 companies across the entire healthcare spectrum. Most recently, Slaughter was a Portfolio Manager with an investment management firm in Chicago, where he founded and managed a hedge fund. He also directed investment decisions for healthcare assets across the firm’s small cap strategies.

### Guiding principles: Combine scientific rigor with commercial viability

This unique blend of professional experience informs how Slaughter views potential investments. Indeed, as Slaughter states: “Our investment philosophy is rooted in a corporate business development approach that underpins the M&A activities deployed by leading industry participants.” Rather than

simply applying financial metrics screens (cash flows, yields etc.) to assess potential investments, Slaughter and his team initially apply three guiding principles to identify candidates for portfolio inclusion:

- First, **a focus on addressing unmet medical needs**. Unmet medical needs exist across the medical treatment spectrum: From treatments of chronic diseases prevalent in the population (e.g., diabetes) to treatments of underserved conditions (e.g., certain forms of cancer, CNS disease). Inventive treatments could include those that address a previously untreatable condition, or those that improve upon existing treatments that are either ineffective or poorly tolerated by patients. Slaughter and his team believe that innovative companies that offer groundbreaking medical advances in fields of unmet needs are potential investment opportunities.
- Second, **the ability to identify underappreciated market opportunities**. The healthcare sector has experienced rapid change driven by technological advances. Whereas previously large pharmaceutical firms undertook a bulk of the research and development (R&D) to identify new therapeutic options in new markets, the rise of biotechnology has spawned a proliferation of numerous start-up firms, many of which go public. While this new dynamic offers tremendous opportunity for investors, it also requires robust scientific and financial acumen. Slaughter and his team believe that breakthrough advances are key to driving outperformance, and they possess the experience, knowledge, and industry contacts to help assess these emerging market opportunities.
- Third, **the capability to reduce healthcare costs**. As populations grow older in many countries, health care costs have soared. Forecasts<sup>1</sup> predict that healthcare costs will continue to rise driving incremental strain on countries' healthcare budgets. Slaughter and his team believe that companies that offer products, services, or technologies capable of saving the healthcare system money provide compelling investment opportunities.

## End goal: A “high-conviction” portfolio

Following suitable target identification, Slaughter and his team pursue a disciplined portfolio management process grounded in deep scientific and financial due diligence, discounted cashflow modeling, risk management analytics, and appropriate valuation framework. The end goal of Slaughter and his team's investment process is to create a portfolio of “high conviction” equities that outperforms the Strategy's benchmark. That is, a portfolio of roughly 40 holdings in which the team establishes meaningful active positions in those securities deemed undervalued and maintain a long-term investment thesis. To this end, Slaughter and his team have already started reviewing existing portfolio holdings and reallocated capital to a series of high conviction investment ideas and look forward to seeing improved returns from this endeavor.

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<sup>1</sup> Source: The Lancet: <https://www.thelancet.com/journals/lancet/article/PIIS0140-6736%2816%2930167-2/abstract?code=lancet-site>

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