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Hello and welcome to Fidelity Connects. The Fidelity Investments Canada podcast connecting you to the world of investing and helping you stay ahead.

Today we're talking about the global healthcare sector, vaccine distribution, and what the incoming Biden Administration means for healthcare and investors.

We're joined by portfolio manager for Fidelity Global Health Care Fund, Alex Gold and portfolio co-manager Dr. Judith Finegold at their respective homes in England.

The vaccine rollout has begun, but there are concerns that many developing countries will be without doses for the foreseeable future.

In the US, as the Biden administration comes into power, how will the new government alter the rollout and aid supplies? And globally, how does everyone grapple with a new COVID variant?

When asked if vaccine stories are investable, Gold and Finegold say they are not investing in a Covid vaccine. Given the humanitarian conflict, they are not interested. Their eyes are on China - a country that has historically had a cheap cost of labour. Their access to scientists and capital make them a world leader in that industry. To Gold and Finegold, this is an extremely exciting opportunity.

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[02:12]

Pamela Ritchie: I'm going to begin with you Judith to bring us up to date. We see headlines, we look around the world, we often look in our local headlines about vaccine rollout. India, Brazil are getting things up and running, Israel seems to be a country that's looked to as a test case, what do we need to know about the global vaccine rollout right now?

Judith Finegold: Oh, my gosh, it's a big question to answer but let me break it down into a few things. Since last time we spoke, we're very fortunate to have three positive vaccine [audio cuts out] efficacy with acceptable safety although short follow-ups. These have begun a rollout throughout the world. We know now that we have vaccines which can prevent us becoming severely unwell from COVID and hopefully prevent the majority of hospitalizations. So that's a really encouraging thing. The one thing that I think that people don't talk about enough is that the only trial that really looked at whether these vaccines stop us having asymptomatic infections and spreading the virus still is the AstraZeneca trial, and the AstraZeneca trial, to be perfectly frank, was not encouraging that the vaccines would stop us having asymptomatic spread.

I could, for example, get a vaccine and be absolutely fine, but I could still get COVID and I could still potentially spread it around the office if I went back to the office. So, what does this mean? I think this means that what we've seen coming from countries, very subtly, is a recognition and an increased focus on vaccinating much younger age groups as soon as [audio cuts out] to reopen the economies properly, not just reduced high risk and reduced hospitalizations. We're going to have to probably vaccinate to a younger age as well.

Globally you're seeing, just very quickly [indecipherable] developed in the less developed world a huge divergence and I think that's going to continue through 2021.

Pamela Ritchie: Actually sorry I didn't mean to interrupt you. Feel free to do a bit more of the global picture there, because I think we'd like to know.

Judith Finegold: No absolutely. So, I think that we're seeing in the developed world, different rates in different countries depending on vaccine availability. Some of it is luck, which company did you have the vaccine agreements with and which has got the supply ready for the countries. But you're seeing a huge impetus and I'm sure they're going to all kind of ramp up through 2021. But in the developing world there is a real concern about vaccine availability, and vaccine rollout and the speed of that. I think it's important for every country to be focused in on this quite frankly because we're not actually going to stop COVID [audio cuts out] stopping globally the pandemic.

[04:46]

Pamela Ritchie: It's fascinating. Alex, I'll go to you next. In terms of the rollout, those are obviously some of the incredibly important scientific pieces of the rollout. Are there types of hiccups and bumps that have been hit that, from an investment perspective, we'll go down that road further, that we need to know about? Are you impressed by the rollout? Less impressed? What do you think?

Alex Gold: Obviously I think governments globally have had an unenviable job weighing up the balancing act between public health safety and economic damage which has been what every government globally has had to try and deal with in balance. The UK government, obviously we're based in London, seems to have secured good amounts of vaccines in terms of supply and are rolling out quite efficiently, aided by the fact that we have a centralized health care system in the NHS. But really, I guess, the reason that Judith and I and our team of 12 analysts globally are focusing on this, is because the investment implications are important. When will we get back to normal? When will the economy reopen? The market's forward looking and trying to anticipate these factors and look through transitory issues, even though COVID may be a two-year transitory issue. We don't know how long it will be.

But ultimately people still have health care needs as they're getting older and the population is older. Over the course of this year, we expect that, as a vaccine is rolled out, people who need medical operations or drugs will start going back to hospitals, and there will be a backlog of patients who need to have procedures and drugs, which we think positions the health care sector well, both in near term and longer-term investment.

[06:44]

Pamela Ritchie: Judith, I'll go back to you — and that's fascinating. We'll pick that up with the incoming Biden administration in a second 'cause there's a lot to say there — but Judith tell me a bit about the new variants that we hear about, and I'll tell you, your audio is just a little in and out so I may ask you to switch to the phone but so far, so good so we'll leave it. But the variants that we hear about, they seem to be different, one more from Europe, one more from South Africa. Give us some perspective on how to think about these?

Judith Finegold: First of all mutations are expected with this kind of a virus because they're rapidly mutating. If you think about the amount that this virus has infected people worldwide, we have to expect that mutations are going to be part of the story from now on. The UK and South Africa variants are kind of [indecipherable] from where we believe they originate from and they each have their own specific mutations. These mutations have actually been seen before, but not in these specific combinations. That's why Moderna are pretty confident that their current vaccines can address these point mutations because they've seen it before and they tested. What they need to do now is take, not just the one point mutation, but take the whole combination of mutations in that particular variant, and just double check with their vaccine. But that's why you're seeing fairly positive feedback from the companies at this early stage.

On a broader point, 'cause I know there's a lot of subtleties to how you test these mutations, but on a broader point if there is a significant mutation in 2021 that the vaccines are not effective against, I do not think that the market is expecting this and this will definitely be downside for the market. The reason for that is not 'cause we can't adapt the vaccines', we can and you know you're going to have a lead time of three to four months, which is unavoidable, to remake the vaccines. If you imagine you found a new variant, you test it [audio cuts out], that might take one to two months, three to four months lead time and then approval. Do you see what I mean? It's pushing you back at least six months from having a supply to then release that vaccination again. I don't think the market is expecting this in 2021 and I really hope on many levels it doesn't happen, but I think that that is probably the key risk to the general market actually in 2021.

[09:01]

Pamela Ritchie: Very interesting. Something that the bond market looks at, I know. Alex, I'd like to ask you about the incoming Biden administration, the stimulus money that it's going to try to spend, the amount of that, it's obviously tied to a COVID aid bridge; there's lots of different terms put around it Alex, but what does it mean for health care in terms of investment? Does it mean something particularly for investors?

Alex Gold: Yes, the U.S. election has been a huge focal point for investors since February 2019, when we had the Democratic primaries, and it was uncertain whether we would have Bernie Sanders running for the Democrats, or a more moderate Democrat like Joe Biden. And in the end, Biden has clearly won, not just the Democratic nomination, but the U.S. presidency. Then obviously last week we then, or a couple of weeks ago, we then had clarity that the Democrats also won the Senate by 51 to 50 votes. They have a very small majority. But what that does mean is that there is slightly more likelihood of being able to push through both the fiscal stimulus' which you've talked about and I think Janet Yellen was out today trying to pass, help push through a \$1.9 trillion stimulus. It does also mean that there are going to be slightly more potential changes to the health care system.

Importantly however, in his campaign and from what we've seen so far, Biden wants to build on the current system, and even in the proposed \$1.9 trillion stimulus it's focused on trying to give Medicaid patients, people that can't afford a lot of access to health care, is trying to give support to the States for Medicaid. And I think longer term what a lot of people are hoping is that, I think it's 12 to 14 states in the U.S. still haven't rolled out Medicaid, the hope is that the federal government will start to continue to incentivize those states to roll it out further. Which is really just building on the Obamacare Affordable Care Act, which Biden as Vice-President helped to implement. So I think in summary, Biden for health care, both short term and medium term, is expected to be more evolutionary than revolutionary for the sector.

[11:41]

Pamela Ritchie: Interesting. So maybe more of a slow burn there. Lots of questions rolling in. Alex, I just want to follow up with you on that. Is there an implication for drug prices with this? If the federal government in the United States, let's say, is trying to cover more people or at least create policy to do that, do drug prices come down or not? What's the impact?

Alex Gold: That's a good question and that is very topical. I think because the Democrats won the Senate with the Georgia runoffs, there is an increasing likelihood that drug price rhetoric, we don't know whether they'll be able to implement it because you still need bipartisan support in order to get anything through. You probably need 60 in the Senate. But certainly increased drug pricing rhetoric is likely and we've seen that. Whether there will be big changes is still uncertain. Trump already tried to put through the most favoured nation clause where he was trying to reduce U.S. pricing significantly versus a basket of other countries. There's a lot of pushback on that. I think when we spoke to a lot of the CEOs at all the pharmaceutical companies at J.P. Morgan, which is the big health care conference last week, it's the big flagship conference of the year, and when we spoke to them the feeling is that there will continue to be pressure on drug prices but again it's not going to be an overhaul of the system. I think it would be too expensive and too — especially at this time with COVID — it would be too disruptive to the system as well to drive a significant change at this point.

[13:22]

Pamela Ritchie: There's so many questions rolling in, I just want to make sure we put them all through in the right order here. Lots of questions about valuation Alex, which is a question for you, so I'm going to just come back to that. But Judith, I wanted you to sketch out for us your background; you have a cardiology background as a doctor, but you also look quite carefully at the biotech sector, at smaller-cap companies. Can you sketch out for us a little bit about what you look at and maybe what's been moving lately?

Judith Finegold: Good question. So I, as you said, was a doctor in the NHS as a cardiologist for almost eight years, but I was also a medical researcher and I finished with doing a PhD. I kind of focused on clinical trials at the later stage of research. What I look at the majority of the time is the biopharma industry and my true probably passion is really the biotech industry, and that favours more to mid-cap investing 'cause that's really where the innovation is and then the good innovation gets acquired into the large-caps - that's the way. I think that coronavirus has been pretty fascinating because I think it's really put the spotlight on the innovation in the biotech sector, but it's interesting because generalists are now asking me about it, but the innovation's already been there. It's been building up for the [audio cuts out] hold on a second, what is this messenger RNA vaccine and what is CRISPR gene editing?

So we have seen valuations go through the roof, which as a biotech investor makes me uneasy in the short term. But in the long term when I look at the fundamentals of the industry, I think I am looking for it to, following it for the next year, 5 to 10 years. I think it's really exciting times.

[15:02]

Pamela Ritchie: That's so interesting. Alex, I'll bring it to you to follow up maybe on valuations, but also the question of whether is the vaccine story investable? This is the question. If it's shorter term, great; if it's longer term, does that change how you invest in some of the companies producing vaccines for COVID-19 specifically? Comments?

Alex Gold: That's an interesting debate. Judith and I, with our team, and we've been doing due diligence on the vaccines and trying to speak to Carewells and understand which vaccine would be best, and what the implications are. We decided quite early on that ... at least the drug companies and the therapeutic companies ... not to play the COVID vaccine card because we felt, given the humanitarian nature of the crisis, a lot of the profits would be relatively low because you can't really profit here from this. AstraZeneca has been most outspoken in saying they will produce their drugs at cost and take them to the developing world. You already start to see a bit of pushback when the likes of Pfizer and Moderna are seen as charging \$20 per dose. In our view where given we like investing in good quality companies with sustainable business models; we aren't investing specifically in a COVID vaccine or the COVID therapeutic.

However, there are areas of the market like life science and tools where some of these businesses, which have been involved in diagnostics and helping provide a lot of the tests, have seen huge tailwinds in terms of their businesses. Some businesses have had additional revenues of \$6 billion in one year, in 2020 and whilst again those diagnostics from testing people if they've got COVID are not sustainable, they do give cash flows on a one to two year basis, which a lot of these businesses are already starting to reinvest to drive future growth and more durable growth areas for them. We've seen again a couple of weeks ago at J.P. Morgan, we saw two or three announcements of companies within the diagnostics and tools sector, who are already reinvesting those COVID cash flows to make themselves better businesses. So in those areas we are happy to [audio cuts out] think it's a good opportunity.

Judith Finegold: And Alex, just to follow on, if it's okay, just one piece of work we have done more broadly is what is the impact. The vaccine speed that we've seen is unprecedented. It is a phenomenal success story of the industry and I think it should not be minimized at all, but we've come to start thinking is what does this mean for the broader vaccine industry? So before this Moderna was not known as a leading vaccine name; Sanofi was a leading vaccine name. So what did this mean for the terminal value of these vaccine companies? Can the newer technologies really disrupt the industry? So that's kind of an area of work that we did. We've done some [indecipherable] days, we've spoken to all the vaccine companies, we've spoken to Carewells. So it's not just thinking in the near term, it's also thinking 5, 10 years, what does that broader vaccine market look like.

[18:17]

Pamela Ritchie: Can I ask who buys the vaccines? In the developing world you have a lot of governments that are essentially providing a version of universal health care. I'm guessing a bunch of them are feeling pretty tapped out right now buying up a whole bunch of vaccines on this front. Does that affect the way you look at vaccines going forward? Are they universally available? How does that fit in because they're government markets in a lot of cases. Is that correct?

Judith Finegold: Yeah. A lot of the vaccine markets are government markets and so if you look at the pricing of the vaccines, they're relatively low priced, low margin products. In the developing world in general as you said, most of them are government, but there is a larger private payer market. What has happened is that there's been a lot of [indecipherable] some other international organizations have done collaborations with vaccine manufacturers, set up their own supply chains to try to decrease the cost of all the vaccines for coronavirus. And that's a standard path. I think one could argue at this point that they maybe haven't done as good a job as we would hope, because there are some countries like South Africa where vaccine availability is not coming anywhere soon, so that's a big concern.

[19:33]

Pamela Ritchie: Alex, the universal health care system to whatever degree it is effective in China is there, but there are things being built on top of it as I understand it. Quickly, what kind of opportunity does China offer for the health care fund that you run?

Alex Gold: There are several areas. Judith, I'll let you talk about the innovative side and then there's other areas in terms of the clinical research organizations as well.

Judith Finegold: Obviously everyone knows that China has a huge population, that's a given. But probably what you don't know is that there is over 200 million private pay in China, so the private pay market is almost as big as the U.S. market which is kind of, you know. So what you're seeing in China is that it's gone from ... if you look two or three years ago, this was the generic old legacy drug industry, and there's this huge emphasis now on innovation, starting their own biotech industry and you're just seeing huge amounts of funding and effort go into this. So not only do you have the demographic tailwind, but you also have [audio cuts out] start of the innovation coming now, so I think from a therapeutic innovation angle it's extremely, extremely exciting and it's an area that we're fortunate to have a Hong Kong based investor who's a sector specialist and she's, it's pretty good to have that resource.

Pamela Ritchie: Alex, do you want to add to that?

Alex Gold: The only other [audio cuts out] add is that China, because historically it's had a cheap cost of labour and parts are cheaper, cost of manufacturing and doing research, there are some world leading, world class companies there like WuXi Biologics and WuXi AppTec, world leaders in helping manufacture drugs for all the big pharma companies in the western world and helping do clinical drug research for them. That's an industry that's partly outsourced and China is a world leader because of their access to scientists as well, and their access to capital in that industry. So in various parts of the health care value chain, China is developing quickly into a world leader.

[21:52]

Pamela Ritchie: I want to come back to a supply chain question in a second but is there ... let's just go with that now. We talk about supply chains a lot right now in a lot of different industries in the global trade picture, how different or similar is health care? Do you see more protection of supply lines basically? Either of you, I'm not sure who that's best for.

Alex Gold: There was talk about this in particular in the middle of last year when Trump was venting some frustrations about China and the origination of COVID, and he was trying to onshore certain manufacturing for pharmaceutical companies and other parts of, well, not just health care, but other parts of U.S. industry back into the U.S. So when we've spoken to some of the health care companies we invest in, some of them are increasing their dual sourcing and increasingly ensuring they do have a U.S. footprint, but it already is a very global industry, so from my perspective I don't think there's too much disruption at this point, but things are changing and I don't know what the Biden administration will do in that respect.

[23:25]

Pamela Ritchie: Alex, can you take us through a little bit of the positioning landscape? I know you can't always talk specifically about what you're doing this very moment, but as you set up for this year, you've outlined a number of the risks, opportunities, how do you look at positioning right now?

Alex Gold: It ties into one of your earlier questions about valuation and actually even this morning there's something from [indecipherable] strategists about how from at least a sentiment perspective the markets are very bullish, and when I interpret that I think about what that means for health care, actually the valuations are not too hot at all. We've got areas of the market like the large-cap pharmaceutical sector which is trading near 10-year lows relative to the industry. Relative to the market it does have slightly lower growth but it's still a very durable industry with good cash flows and good innovation as we've seen last year. Then we've got other areas of the market like medical devices which supply hips and knees or heart valve products, they have severe disruption because of COVID and people not being allowed to hospitals. We think as the vaccine is rolled out, notwithstanding some of these issues with variants, that is an area that should recover rapidly as people need their health procedures. Then the final area which we think is interesting, where we've got our biggest overweight, is the life science and tool sector. This is a sector which helps perform diagnostics to COVID, but also other areas of the market. It's a good way of preventing strain on the hospital system because everyone you diagnose doesn't have to go to hospital and spend time there and it's also part of the market which supplies equipment to the drug manufacturers. So there's no binary risk, and actually the long-term growth rates of that life science and tool sector is very attractive in particular with more funding coming on from central governments, given the amplification that COVID-19 has had on the health care sector.

[25:45]

Pamela Ritchie: Fascinating. Judith, another question coming in from an investor right now, can you expand more on the mRNA shot, or that technology, versus the more traditional vaccine? I guess sort of pros and cons.

Judith Finegold: Great question. Let's just [audio cuts out] COVID [indecipherable] that we had an mRNA vaccine which has come to commercialization. This is obviously a newer kind of technology. I would say if you look at a company like Moderna, they have had actually quite a lot of vaccine trials which are ongoing and things in other virus states, so they do have more safety database than maybe people give them credit for. If we look at what we would call additional virus vaccines, the best example is probably the Sanofi vaccine for coronavirus, and they announced before Christmas that their phase one, so their phase one data didn't show good enough antibody response and they need to go back to scratch. At the same time as the messenger RNA and the AstraZeneca, which is also a novel type of vaccine, at the same time as they were completing and coming to the market, the more standardized vaccines are still having problems. I think that that does show that these newer techniques are much easier to use, they're much easier to make these vaccines. I think that's a given, I think that's been proven. But on the flip side what we don't have is [audio cuts out], we don't have longevity of safety databases and we don't have the same confidence necessary in manufacturing of the supply chain.

But who knows? Maybe in three years' time, they may actually overtake the more conventional vaccines. I would say that when you speak to the messenger RNA companies, they are trying to disrupt where they can disrupt in vaccines. They're going try to disrupt the current vaccines which aren't very good such as the flu vaccine. It's normally got less than 50% efficacy. There are other vaccines such as the shingles vaccines which are excellent and they're not going to try to disrupt them. So I think it's kind of nuanced but yeah.

[27:44]

Pamela Ritchie: That's very interesting. Maybe I'll struggle less with my five-year old, getting her vaccinated for the flu each year if they do more on that front. I want to thank both of you, there's so much more to discuss. I want to talk more about the commercialization of health care, but we'll save it for another time. Thank you for your perspectives, Judith and Alex. Very, very important moment to be speaking to you. Thank you.

Ending: [28:06]

Voiceover:

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