AllianceBernstein

Healthcare Investing

Focusing on Business, not Science

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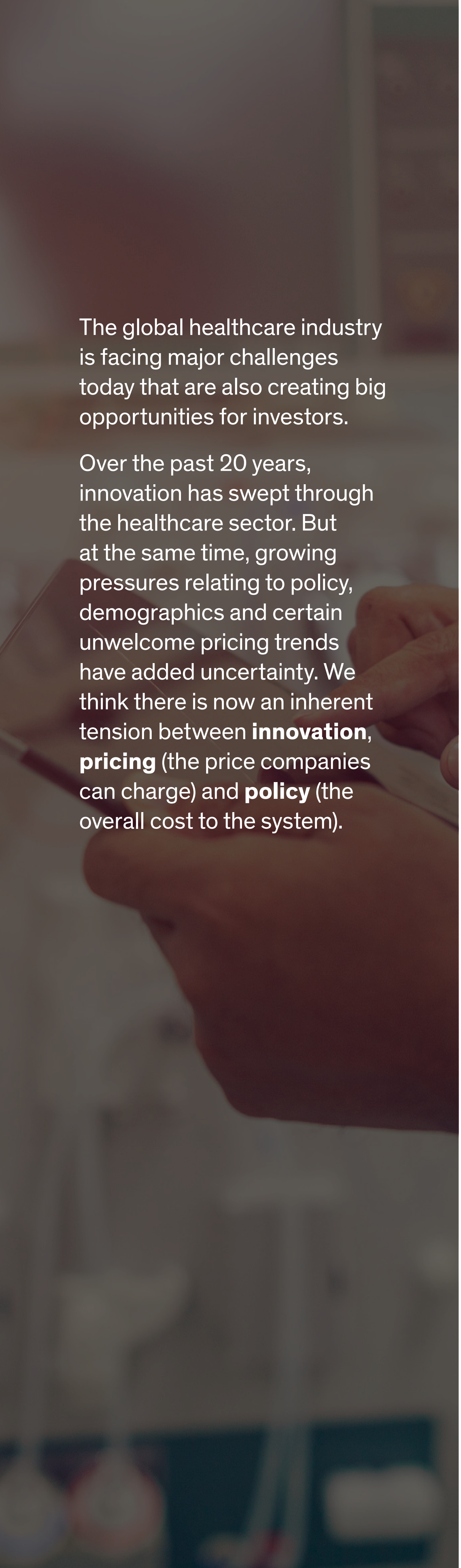

The global healthcare industry is facing major challenges today that are also creating big opportunities for investors.

Over the past 20 years, innovation has swept through the healthcare sector. But at the same time, growing pressures relating to policy, demographics and certain unwelcome pricing trends have added uncertainty. We think there is now an inherent tension between **innovation**, **pricing** (the price companies can charge) and **policy** (the overall cost to the system).

Innovation

Many of the scientific realities of today were just dreams two decades ago. Innovation in healthcare is redefining the sector's business dynamics in areas such as:

+ **DNA Sequencing**—In the 1990s, sequencing one human genome cost roughly US$3 billion and took 15 years. Today it can be done for roughly US$1,000 dollars in less than an hour. We expect further efficiencies going forward to bring costs down to US$100 per genome. And the data generated from sequencing DNA will unlock greater insights into how to develop better drugs and diagnostics, allowing earlier intervention with better medicines to greatly improve outcomes.
+ **Robotic Surgery**—Two decades ago, robotic surgery was in its infancy. Today it has been used over six million times cumulatively and one million times in 2018 alone. We believe the further penetration of robotics globally will continue to make the healthcare system more efficient through faster recovery times and lower complication rates.
+ **Virtualization**—Rapid advances in the virtualization of healthcare services mean that patients can now access medical care through their smartphones to enable quicker delivery of care and reduced costs.

Our investment process focuses on global companies with strong business fundamentals. We do not try to predict scientific outcomes.

Many healthcare investors attempt to bet on whether a drug trial will be successful in the hope that, if it is, investors will pay more and the drug company's stock price will rise. This is a flawed strategy, in our view. Even the scientists working on these trials, who may have devoted decades of their professional lives to these drugs, cannot predict the results.

As investors, we do not have any more reliable insight into a drug's likely effectiveness than the company. When we evaluate pharmaceutical companies, we invest in those that already have a profitable and proven product line-up as opposed to companies that the market thinks might have a promising future pipeline.

"We don't believe you can consistently predict scientific outcomes and deliver a repeatable investment process over the long term, so we focus on the business." **Vinay Thapar, Portfolio Manager**

Pricing and Policy

Concerns and key challenges

- Some healthcare companies have relied too much on price rises; this is a very different model from other sectors. Technology companies cannot raise the price of one of their older phone or television models. But this often happens in the pharmaceuticals market. In our view, this is an unsustainable business model that needs to change to better align pricing with the value of products and services.
- Twenty years ago, chemotherapy cost US$200 per month, there were awful side effects and it might have extended the patient's life by a few weeks. Now, the performance of the therapy has increased dramatically to the point where in many cases, cancer patients can be cured. However, the treatment is much more expensive and can cost US$100,000.
- The US consumer has become more responsible for bearing the cost of their treatment post Affordable Care Act/Obamacare. When consumers have to pay the first US$5,000, they are more aware and careful about what they are paying for.
- However, overall, there is a secular, long-term growth trend in global healthcare. In particular, emerging markets are fuelling growth as these countries rise up the wealth curve and invest more in healthcare, either through policy or from individuals who are spending a larger proportion of their growing wealth on healthcare. Companies that can deliver value-enhancing products and save costs in the system should benefit from huge growth opportunities, in our view.

Business Fundamentals

We look for businesses whose products benefit the patient, create efficiencies in the overall healthcare system and result in improving profitability for the company.

Taking these three forces into consideration, we seek to evaluate a healthcare business without trying to predict the outcome of clinical drug trials. In our view, innovative healthcare companies that are positioned for long-term success amid pricing pressures and shifting policy sands should demonstrate the following attributes:

- High or improving returns on invested capital (ROIC)
- Strong reinvestment rates
- Healthy balance sheets
- Durable competitive advantages

Investing effectively in healthcare stocks requires a unique set of skills. It's not about scientific insight. By applying a disciplined investment process that integrates the diverse factors that affect healthcare businesses, investors can access sources of strong return potential that can invigorate an equity portfolio for the long term.

AB International Health Care Portfolio

Key Information as of 31 March 2020

Fund Type	SICAV
Inception Date	05 July 1995
Net Assets	US$1,515 million
Geographic Allocation	Global
Benchmark	MSCI World Healthcare Index
Morningstar Category	Sector Equity Healthcare
Number of Holdings	41
Base Currency	US Dollar
Share Class	I USD Acc.
ISIN	LU0097089360
Entry Charge*	Up to 1.50%
Ongoing Charge ^	1.21% p.a.

* This is the maximum figure; the entry charge may be less than this. ^Ongoing charges include fees and certain expenses of the Portfolio as of the most recent KIID, and may be subject to a cap which is reflected above if applicable. Full details of the charges are available in the Portfolio's prospectus.

Portfolio Manager

Vinay Thapar (20 years' experience)
John Fogarty (27 years' experience)

Investor Profile

The Portfolio will suit higher–risk–tolerant investors seeking the medium- to long-term rewards of equity investment.

Further Information
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INVESTMENT RISKS TO CONSIDER

Investment in the Portfolio entails certain risks. These and other risks are described in the Portfolio's prospectus. Investment returns and principal value of the Portfolio will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Some of the principal risks of investing in the Portfolio include:

Emerging-Markets Risk: Where the Portfolio invests in emerging markets, these assets are generally smaller and more sensitive to economic and political factors, and may be less easily traded, which could cause a loss to the Portfolio. **Focused Portfolio Risk:** Investing in a limited number of issuers, industries, sectors or countries may subject the Portfolio to greater volatility than one invested in a larger or more diverse array of securities. **Allocation Risk:** The risk that the allocation of investments between growth and value companies may have a more significant effect on the Portfolio's Net Asset Value (NAV) when one of these strategies is not performing as well as the other. In addition, the transaction costs of rebalancing the investments may, over time, be significant. **Portfolio Turnover Risk:** A portfolio may be actively managed and turnover may, in response to market conditions, exceed 100%. A higher rate of portfolio turnover increases brokerage and other expenses. High portfolio turnover may also result in the realization of substantial net short-term capital gains, which may be taxable when distributed. **Derivatives Risk:** The Portfolio may include financial derivative instruments. These may be used to obtain, increase or reduce exposure to underlying assets and may create gearing; their use may result in greater fluctuations of the net asset value. **OTC Derivatives Counterparty Risk:** Transactions in over-the-counter (OTC) derivatives markets may have generally less governmental regulation and supervision than transactions entered into on organized exchanges. These will be subject to the risk that its direct counterparty will not perform its obligations and that the Portfolio will sustain losses. **Equity Securities Risk:** The value of equity investments may fluctuate in response to the activities and results of individual companies or because of market and economic conditions. These investments may decline over short- or long-term periods.

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