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LONDON

Who will be the winners and losers from Obama's US healthcare reform legislation?

FDR tried it in 1935. The Clinton administration attempted it again in 1993 and failed in a spectacular fashion. Now another highly popular Democratic leader, President Obama, has made healthcare reform the centrepiece of his presidency and with the invocation of some arcane US legislative manoeuvring, a degree of reform seems inevitable. Speaking from San Francisco, **Michael Dauchot, M.D. of RCM, a global asset manager and company of Allianz Global Investors**, looks at the likely winners and losers from this legislation.

"Two subsectors emerged as clear beneficiaries before healthcare reform negotiations even got underway: the life science 'tools' companies, and the healthcare information technology space. Part of the economic recovery package enacted in February 2009 called for increased funding of National Institutes of Health (NIH) research and healthcare information technologies. That provided a much needed boost to the tools space, which was otherwise facing continued contraction in industry R&D spending from consolidation. Similarly, the stimulus package boosted healthcare IT spending, an industry that Obama viewed as playing a critical role in bending the healthcare cost curve. Many of the companies in each of these areas immediately rallied, while others—like McKesson (US healthcare services and information technology company ranked on the FORTUNE 500)—were slower to react and, in our opinion, offer a compelling investment opportunity.

"McKesson is uniquely positioned, because the company is first and foremost a drug wholesaler and a member of an industry that stands to benefit from increasing coverage, a central tenet of healthcare reform. With government mediation off the table, those companies that gain from the simple expansion of the insurance pool emerge as the clear winners of reform. Put simply, expanded coverage brings more of the population in to the healthcare distribution chain, which almost by definition, fuels growth in pharmacy benefit managers (PBMs) and drug wholesalers.

"The group that stands to lose the most from the Democrat's initial proposal is the managed care organizations (MCOs), who faced the possibility of competing with a government-funded public plan that would have almost certainly offered lower premiums. Throughout his campaign and presidency, Obama decried the ability of MCOs to expand profits by 'cherry picking', which left many patients with exorbitant medical bills, and, in some cases, no insurance at all.

"Ultimately, Congress settled on the creation of an 'exchange' that would offer private healthcare insurance in a transparent and competitive market, and one that would prevent insurers from denying care to anyone for pre-existing conditions. The quid pro quo for MCOs is less profit per patient, but more patients—particularly young and healthy ones—under coverage.

“The quid pro quo dealt to the MCO’s will to a lesser extent be felt by other major healthcare subsectors. The pharmaceutical industry will pay excise taxes and offer deeper discounts to seniors, while the device industry’s outlay will be limited to the former. In both cases, there is the expectation that some of those incremental costs will be offset by the creation of a larger U.S. patient pool, although we estimate a more favourable outcome for the drug industry. Overall, the biotechnology industry emerges virtually unscathed, though there continues to be some last-minute discussion on easing the introduction of so-called biosimilars*.

“In sum, we anticipate that by sometime in second quarter 2010, legislation will be passed that over time will insure an additional 35 million Americans and thus fuel unit growth across all healthcare subsectors, albeit at incrementally lower profit rates. We view MCOs as generally undervalued due to exaggerated fears, while those companies in the distribution chain are on the cusp of an under-appreciated acceleration in growth as the insurance pool expands.”

- Ends -

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Notes to Editors

* Biosimilars or Follow-on biologics are terms used to describe officially approved new versions of biopharmaceutical products, following patent expiry.

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Photographs

High-resolution photographs of our investment professionals are available to download here:

http://www.rcm.com/london/press_professionals.php

Awards

- RCM named winner of Active North American Equity at Pensions & Investment Provider awards 2009. RCM US Large Cap Select Growth is managed by Scott Migliori, Co-CIO for US Equities, RCM.
- RCM named No.1 leading fund management firm for SRI Research by Thomson Reuters Extel 2009.
- Global CIO of RCM, Andreas Utermann, named CIO of the Year by Funds Europe magazine 2008.

- Winner of European Investment Trust of the Year by Investment Week magazine, 2008, for the RCM-managed Charter European Trust.
- Allianz RCM Global EcoTrends Fund named winner Best Climate Change Investment fund 2008, by Holden & Partners/ Incisive Media.

About RCM (all data source: RCM as at 31/12/09)

RCM is a global asset manager operating from six international offices - San Francisco, London, Frankfurt, Hong Kong, Tokyo and Sydney – with assets under management of over \$140 billion worldwide. The firm provides a range of investment management solutions to institutions and individual clients. At RCM we believe that by generating and exploiting an information advantage, we will be able to deliver superior and consistent investment results for the benefit of our clients - a philosophy we call RCM informed. RCM is a company of Allianz Global Investors, a pre-eminent global asset management group committed to helping clients achieve sustainable success. As a company of Allianz Global Investors, RCM offers a distinctive investment philosophy and culture, while benefiting from the scale and substantial resources of our parent; including business support, industry best-practices and financial investment. This enhances our ability to attract and retain talent, and provide superior insight and investment performance.

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