HEALTHCARE INVESTING IN 2025

Seeking higher returns through private markets in health investments amid global market shifts

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3 Key takeaways

1.
AI has the potential to accelerate progress in some areas of the healthcare industry, but investors should understand its limitations too.

2.
The industry is adapting to changes in the US policies and regulations affecting healthcare, while China is becoming more innovative.

3.
Diversification across healthcare players and geographies may help investors maintain potential upside exposure while managing risks.

We were delighted to host a roundtable discussion with healthcare investors and entrepreneurs in Milan earlier this month, sharing insights on healthcare investing in the private markets. As well as presenting evidence of the strong returns historically delivered by the industry and the secular tailwinds we expect to sustain this performance in the future, we introduced our approach to investing across different private equity health businesses stages to provide broad exposure to these positive trends. In this brief note, we also touch on some of the more specific aspects of investing in healthcare today.

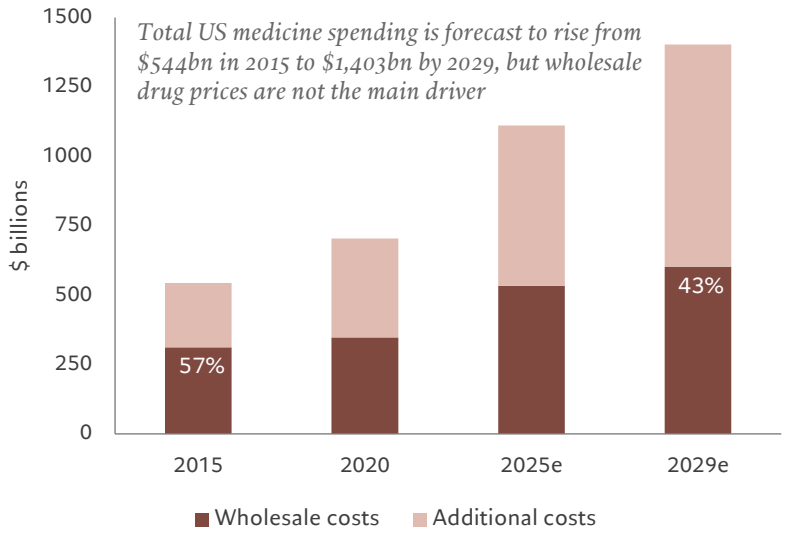
AI IN HEALTHCARE

AI is not a panacea. While it already works well for some applications, like pattern recognition in medical imaging or clinical-trial optimisation, it isn't yet making a significant dent in clinical development timelines. Many of its techniques are not new and have been leveraged by the industry for a long time (e.g. literature mining), but some new advances – such as protein folding elucidation – are proving important in the drug discovery landscape. Data availability also increasingly make a difference. It's important to understand that although these approaches have the potential to increase the initial throughput of the discovery process, they don't materially shorten the path to commercialisation.

DEVELOPMENTS IN THE US

1. Domestic policy

The new leadership of the Department of Health & Human Services was expected to disrupt the industry's regulation, but we haven't witnessed substantial delays or decreases in the quality of submitted dossiers. Indeed, the Food and Drug Administration's approval rate is in line with previous years so far. Certain politically sensitive areas like vaccines are potentially more at risk, but these are a relatively small part of the healthcare industry (and not part of our own investment strategy). Where there are efforts to reduce drug pricing, the pressure is on middle-men costs (e.g. pharmacy benefit managers); as the chart illustrates, the latter category has contributed – and is expected to continue contributing – the most to inflation in medicine costs. Indeed, shares in several listed drugmakers rose after they confirmed they would participate in Trump's direct-to-consumer platform, as in theory it reduces prices for patients without sacrificing manufacturers' margins.

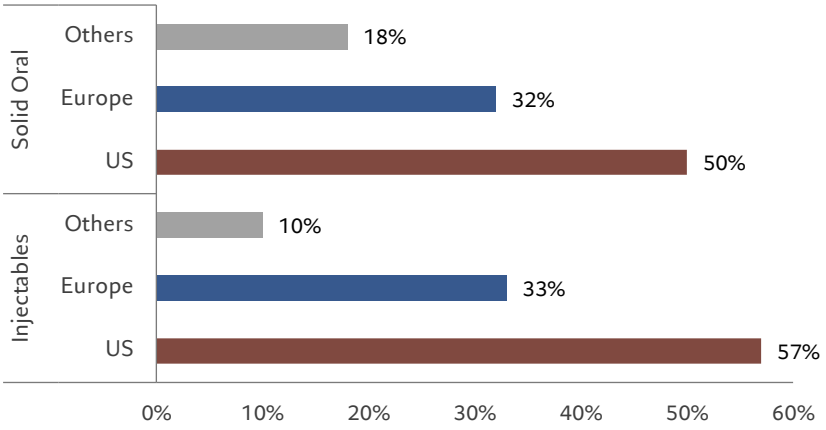


Source: IQVIA Institute, 2025. Wholesale costs represent Wholesale Acquisition Cost (WAC); additional costs represent delta between WAC and net sales. There is no assurance that any trends depicted or described above will continue or that any projections will ultimately materialise.

2. Trade policy

The Trump administration is using Most Favoured Nation status and tariffs to push pharmaceutical companies to move more manufacturing to the US. Re-shoring poses the question of cost optimisation (as US manufacturing is more expensive than offshoring), which challenges the long-term sustainability of this model. In fact, we see that most of the largest pharma companies have already announced plans to develop US sites (thereby limiting the tariff levels they face) and many higher-value components (e.g. advanced therapeutic modalities) are already manufactured in the US, whereas higher-volume components (e.g. pharmaceutical ingredients) are still expected to be produced abroad.

A majority of branded drugs (which face a 100% tariff unless their manufacturer has a US production plant) are already produced in the US...



Source: JPMorgan Research, 2025.

...but pharma companies have already been proactively expanding their US manufacturing footprint (and even EU imports face only a 15% cap, eliminating meaningful tariff risk for the pharma sector).

Innovation in China

Meanwhile, China has transitioned from playing a primarily manufacturing role to being more innovative. True *de novo* innovation still remains largely driven by the US but, when a novel target is clinically validated, screening Chinese assets (such as drug candidates or technologies) has become the norm. A larger volume of transactions is thus now being seen in China's biotech market.

Investment Implications

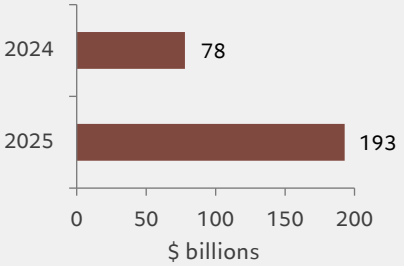
If they prove persistent over the longer term, some of these changes in the healthcare industry could have a lasting influence. In particular, the lack of funding for research could weaken US strength in innovation. Europe could therefore have an opportunity to improve its own competitive advantages, while China is clearly trying to position itself as a potential competitor.

While the market is in flux, investing across different company maturities and profiles in healthcare offers a way to capture positive trends while keeping a balanced risk/return portfolio.

- For example, investing in later-stage medtech can help control exposure to highly cash-intensive situations. Conversely, biotech investing benefits from important value creation at pre-revenue stages and is supported by pharma M&A *(see chart to left)*.
    - M&A remains the main exit route for biotech companies, helping mitigate dependence on public markets for exits.
- In addition, global diversification allows the selection of the most promising companies irrespective of their geographic location.

Robust biopharma M&A activity in 2025 has been driven by looming patent cliffs on blockbuster drugs and big pharma's strong balance sheets, but no single deal has exceeded $15bn this year – highlighting the quantity of transactions being pursued to plug future pharma pipelines.

Global biopharma M&A volume



Source: Capital IQ, 2025. 2025 figure is annualised. There is no assurance that any trends depicted or described above will continue or that any projections will ultimately materialise.

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