

SPEAKING OF ALTERNATIVES

S1 EP14: Let's Talk Healthcare Equity Investing

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Voice over >> Healthcare equity investing is one of the more dynamic, volatile, and exciting areas of the investment world. Breakthrough innovations can save or improve countless lives, but with innovation comes strong competition and the risk of failure. How can investors ascertain where the winners and losers might reside? Laurie explores the world of healthcare equity with Daniel Matviyenko, Managing Director, Portfolio Manager at Jennison Associates, to find out more.

Laurie Chan >> Welcome to "Speaking of Alternatives," the podcast where we explore the many layers of the alternatives landscape. I'm your host, Laurie Chan, and today we're unpacking the dynamic healthcare equity sector, a space known for its innovation, resilience, and complexity. Healthcare has historically been viewed as defensive, yet the sector experiences persistent volatility with breakthroughs in innovation, regulatory shifts, and macroeconomic currents. This creates a natural dispersion in healthcare securities, which provides a great opportunity for skilled managers to be able to pick the winners and the losers. To help us navigate this dynamic landscape today, I'm thrilled to be joined by Dan Matviyenko, Portfolio Manager at Jennison Associates. Dan, welcome. Thanks for joining us today.

Daniel Matviyenko >> Thanks for having me, Laurie. I'm excited to be here.

Laurie Chan >> Great. Well, before we get started, let's find out more about you. Tell us about your journey to investment management. How did you come to specialize in the healthcare space?

Daniel Matviyenko >> So like most people in this business, I ended up on the buy side managing money. I started out in the sell side equity analyst training program at one of the big investment banks. What I quickly realized was sell side is wonderful, but putting your money where your mouth is much more exciting. So within short order, I was hired by one of the hedge funds that we covered on the desk as a junior analyst, and off I went. The choice in healthcare was very easy for me because there really are only two sectors in the market where there's huge volatility, as you mentioned, but also interesting new innovations that create new markets in any given year. Healthcare is one of those two sectors, tech being the other. So for me, when I started and was given the choice of which sector to cover for the hedge fund, I immediately gravitated to healthcare, thinking this could be an incredibly exciting learning opportunity, and more importantly, an exciting way to

generate P&L.

Laurie Chan >> And I know we're going to talk about this later, that background, especially at that hedge fund, informs a lot of your macro views. So let's set the stage. The markets are grappling with uncertainty, geopolitical shifts, policy changes, trade tensions. Healthcare, in particular, is a mixed bag of opportunity and risk. What's your take on global healthcare equities right now? If you had one minute to convince me that there's an opportunity, what would you say?

Daniel Matviyenko >> Yeah, of course. So the interesting thing about healthcare is that we're very much used to volatility. Healthcare is one of the sectors where what happens in Washington, D.C. has far-reaching impacts across the entire sector. Now, specifically to healthcare, why healthcare? And I guess our outlook going forward is our view is the same as it's always been. In a sector or in an industry where you have players creating new markets. Just think about a disease state that may or may not have been treated last year and all of a sudden companies come up with incredible innovation, address the patient's need, address the disease, and also, importantly, bend the cost curve, meaning provide value to the system. That innovation will always get reward and always get paid for. On the flip side, given this is a long, short equity conversation, with every move, with every positive new product, with every positive new device, there's always an inherent loser. The way we talk about healthcare is the sector is a spider web. Something happens on one side of healthcare, be it in pharmaceutical, biotech, medical devices, et cetera, it has an impact across not only other companies in that subsector, but can have a far-reaching impact across companies in other subsectors. So again, if you think about a spider web, a tug on one side has far-reaching impacts across other names in the group. And so you can set up a long, short equity portfolio where not only do you take advantage of this innovation, your markets being created, new therapies, new procedures, but we can also generate a lot of P&L on the short side as they're clear losers from whatever the innovation is on the long side.

Laurie Chan >> That spider web creates a great visual, both on the opportunities and also the complexities of the space. So there's a few headlines we could dive into. I think there's a lot out there. I'm going to pick one or two to start here. AI, let's start with that. AI has the potential to revolutionize the world, while robotics also show promise. So what role will AI and robotics play in healthcare over the next decade? Or are these two areas just a hype?

Daniel Matviyenko >> Yeah, so they're two separate things here. So robotics, we believe in, and we've been

big believers and investors in this space, we think will continue to dominate certain procedures. And as time goes by, we think robotic surgery, be it spine, hip, whatever, will come to dominate the operating room. So that's a big theme. We've been big believers in that, and we've expressed that in our portfolio. Now AI is much more complicated. So the difference between AI in the common sense is people think about consumer applications and so forth in healthcare are really twofold. One, in healthcare you have a lot of regulation. So as you think about Centers for Medicare Services, so CMS, Medicare, you think about patient privacy rules, HIPAA, any sort of data analysis has to be compliant with those rules. That's one sort of stumbling block as we think about AI. The second big difference is that at the company level, so let's talk about therapeutics for a minute, therapeutic companies that do research on the same set of molecules, so you're a pharmaceutical company or biotech company, I'm a biotech company. We're working on the same class of drugs. Our data is internal to us. There's no repositories out there that others can use. So if I fail in the trial because of X, Y, and Z, I may not even press release it. So meaning analysis of that data is much harder. The beautiful thing about AI is at the end of the day, AI is just a very good spreadsheet, or a good way to analyze large amounts of data. The difference in healthcare versus consumer versus broader applications that people think about in AI, the data to be analyzed is owned by the companies that produce this data. And so because it's so siloed and there can be dozens of companies working on very similar products, data analysis is very specific to that company. There's not a huge open market for that data to be shared across many companies. So that's a stumbling block we think healthcare is experiencing, but ultimately we think it's going to have an impact in drug discovery and drug development and so forth, or a bigger impact than it has now. Where we think now, in the more near future, AI will play a big role, is at the managed care level. So if you think about UnitedHealthcare, CVS that owns that, these companies have 30-plus million members, so 30-plus million touch points at any given point in time, plus they have dozens of years of data on other members from the last few decades. The beautiful thing about AI is they can identify a patient is X, 45 years old, 46 years old. This is the condition that it looks like that he has, or she has. What's the approach? What have we seen in our data? What have we seen in the millions and billions of touch points over the last decade plus where we think we can use that knowledge or that experience to help the doctor to help the patient? So that's here and now. Again, all these companies are working on this. They have projects in that regard. We think AI is going to be very helpful for physicians in the near term.

Laurie Chan >> That's great insights on AI and its impact on both sides of the coin here.

Voice over >> Tariffs and trade policy can have far-reaching effects on just about everything in the investment world, and healthcare is no exception. Supply chains for many American-made pharmaceutical products and medical devices begin abroad, whether just across the US-Mexico border or halfway around the globe.

Laurie Chan >> Let's dive into another topic that is making headlines globally, tariffs and trade tensions. So we're seeing headlines about supply chain vulnerabilities, especially for pharmaceutical ingredients and medical devices. How are these issues impacting healthcare companies? And more importantly, how are you factoring this into your investment thesis and decisions?

Daniel Matviyenko >> Let's start with the pharmaceutical ingredients you mentioned. 70% of our APIs, or active pharmaceutical ingredients, comes from outside of the United States, be it India or China. But a lot of the fill and finish happens in the United States. So that's the dynamic. Now without making a political statement, should we have more of the chain inside the United States? Probably. So I think that's one of the things the administration is focused on. Now specifically to tariffs, what do tariffs do? They increase the cost of doing business. Healthcare companies have very high gross margins. So take a given pharmaceutical company, 90 plus, well-run medical device companies have 70 plus, so any increase in cost is relatively small versus what the underlying gross margin is. Healthcare, we believe, can manage these increased costs much better than most companies out there because they have such high gross margins. Now we do manufacture a lot of our medical devices, for example, south of the border, Costa Rica, Mexico, what have you. So that's something that's going to have to get worked out, and each company has very different exposures. Ultimately, we don't think any of these tariffs will have a meaningful impact on P&Ls because, again, there's such a robust cost structure in place.

Laurie Chan >> Got it. So that tariffs, AI, some of these headlines, I think, are augmenting the natural dispersion of winners and losers in the healthcare space. Let's take a step back and help our audience understand how do you think about the universe of healthcare subsectors? Can you briefly describe the four main buckets and how you go about sizing some of these opportunities?

Daniel Matviyenko >> Yeah, of course. And one more quick point, if I may, on the whole tariff thing, United States has two industries where we are the world leader. One is obviously tech, but the second one is healthcare. If you think about innovation, if you think about companies that have created life-changing

therapies over the last 50-plus years, the overwhelming majority has come from the United States, or it has come from companies that were funded by American companies. As we think about very big picture, what is the administration intending to do? What do we think is going to be the outcome of all of this near-term volatility? We can't imagine a scenario where United States, the government, will handicap one of our key comparative advantage industries. So we're very used to volatility in this space, but it will take a longer-term view to take the lens out. We think healthcare will ultimately end up in a very good place. Now specifically to your question on subsectors, there really are four subsectors as we think about the sector. And importantly, they all trade very independently of one another, given macro dynamics, given, again, what goes on in DC. Therapeutics, as we think about them as biotech and pharma is one. That's anything that goes into your body from an injection to aspirin to whatever. The second one is medical devices, same thing, goes from gauze on the very low end to ICDs and stents and this robotics, robotic surgery we just discussed. Thirdly, you have healthcare services. So healthcare services is everything on the periphery. So managed care, think about your HMOs, its labs. When you go in to get blood tests, there are two main labs in the United States publicly traded. And lastly, there's life science tools companies produce products, reagents, machines, or research. So you can see, as I'm describing these sectors, how everything is interconnected. Managed care and Medicare pays for the services and devices and therapeutics. Life science tool companies rely on pharmaceutical companies and biotech companies to spend money to generate new research. So again, back to the spider web example, everything is very much tied in.

Laurie Chan >> I was just going to mention that. How you described those opportunities, those subsectors, really paints a picture of the visual with the spider web.

Voice Over >> Having access to both long and short investments effectively diversifies the potential benefits one can derive from applying insights garnered through extensive research into the winners and losers in the quickly evolving world of healthcare investing.

Laurie Chan >> Dan, you run a strategy that generally is 30 to 50% net long. And I think in our recent conversations, you're about 40 net long currently. Talk to me about your long side of the portfolio. What are you seeing as the real areas of opportunity now? How do you go about sourcing those opportunities? And also, how do you size them?

Daniel Matviyenko >> One thing I just want to make sure we're all on the same page on is this idea that

because we have these four very different subsectors, selecting the exposure and size in a given subsector we believe is very important for generating returns. You can own the best stocks in a subsector that nobody really cares about or is having headwinds from DC or whatever the case may be, you will not make money. So subsector selection to us and sizing and timing is very important to what we do. Now specifically to your question opportunities, maybe I'll start with therapeutics since it's the most volatile and quote-unquote, the most interesting. One of the areas we've had a lot of success in over the last 18 months is what we call diseases of the young. If you think about what the Inflation Reduction Act did specifically to healthcare, specifically therapeutics, they incentivized companies from working on products specific for Medicare patients, so 65 and over. It was a non-intended consequences. In essence, what happened was the government, or Medicare CMS, has limited the amount of time a pharmaceutical company can have patent protection and not have to negotiate with Medicare to nine years for small molecules, so small molecules is aspirin, Lipitor, whatever, and 13 years for biologics. The biologics are the more complex molecules for cancer, rare diseases, and so forth. Because the government did that, companies said, well, why would I want to work on therapeutics or product areas where I have to negotiate with government after 9 or 13 years? So over the last 18 months, those pharmaceutical companies really wrapped their head around the changing landscape. We've seen an increase not only in R&D being rotated out of what historically been productive areas for 65 and older population to diseases that affect the younger set of Americans and people worldwide. So not only have we seen that money move around, but also we've seen M&A in that space. So we've taken advantage of companies that work, unfortunately, on diseases for people 65 and younger. That's been a big theme in our book. The aforementioned robotic surgery theme has also been very big in our portfolio. Robotic surgery on the surface really does two things. One, it limits the blood loss and limits the damage that is done peripherally during a surgery. And secondarily, it's a great marketing tools for hospitals and so forth. So they can say, hey, we have this very cool machine, and the patient comes in and leaves the operating room and the hospital much quicker, and we're doing it in this quote, unquote newfangled way. So, hey, come to our facility. So that's been a big driver of returns and the number of companies in that space have really benefited from that. So that's on the long side. And again, we're very open eyes, open lens on seeing innovation thematically. So there's a theme like the aforementioned, the diseases of the young.

Laurie Chan >> Yeah.

Daniel Matviyenko >> And then how do we exploit that theme? So what are the best companies we like, the products we like? It's very important, obviously, not only to have the theme right, but to have the individual security selection done correctly. That's been thematic investment, both long and short, just to be clear. And I'm sure we'll talk about the short side of the book. Thematic investment is very important to us.

Voice Over >> Making smart calls is the basis of successful investing. However, what can truly tip the scales in one's favor is to put more conviction behind the best investment ideas. The challenge is gaining enough confidence to be able to identify and maximize the best investments with the highest potential. That can magnify the wins while mitigating the relative impact of losses.

Laurie Chan >> You talked about diseases of the young, which I'm hearing is a big theme in the book, but talk a little bit more about that sizing. What is that art and science into how you come about sizing that position?

Daniel Matviyenko >> Our belief is sizing really is the key metric to think about. In this business in long, short equity and, frankly, in any sort of investing, there's really two parts to it. One part is hit rate. How many ideas actually work, long or short? But I believe the more important part is the slugging. So for every dollar you lose, how many dollars do you make? So sizing the investment at the right point in time, in our view, is more important than actually picking the right investment. In very simple terms, if you have 100 stocks in the portfolio, and you equal weight them all, so 1% each, so you have 100% exposure, if you have a 50% hit rate, you make no money. Half lose money, half make money. Now if you have a 48% hit rate, God forbid, you've lost money. But if you have a 48% hit rate but you have 180% slugging, so for every dollar you lose, you make 1.8 dollars. All of a sudden, with a below 50 hit rate, you've generated outstanding returns for your investors. So sizing is very important. And we're very cognizant and pay close attention to catalysts. You need a catalyst to unlock the value. You can't just own a stock because you think, hey, like this is a great company. You need something that the market doesn't understand that market will come around if and when that event happens, earnings, FTA events, whatever the case may be. And then you need to size it appropriately. So you have to be at the right size ahead of that event that will unlock the value. So we pay very close attention to that dynamic.

Laurie Chan >> Excellent. That's a very interesting perspective on things. Now I can see how you size the book. So let's shift gears to the short side of the book, which I really want to highlight here because Jenison has been able to deliver alpha not only on the long side, but more importantly, on the short side. So let's

spend a bit more time there. How do you source ideas on the short side of the book? What is the secret sauce to generating that alpha on the short side?

Daniel Matviyenko >> Yeah, I don't know if there's a secret sauce, but it's really all process. As in anything else in life, if you have a process that works that you constantly adjust for new information learned, it's basically machine learning, but human version thereof. Sourcing ideas both long and short. Sourcing ideas is really multiple ways. One, we obviously have a very tenured analyst staff. So these folks are out there meeting with companies all year long at conferences and at one-on-one meetings. Myself and Deb are always out there as well meeting with companies, conferences, the medical meetings, whatever the case may be. That's one place we get ideas. We do a lot of primary research both for long and short, so meeting with the company, meeting with their competitors and so forth, speaking to physicians. Dr. XYZ, what's interesting in your field that we should be paying attention to? All of this comes in. And then lastly, I would say we have quantitative tools that we've built over the last four years that help us identify names just from a technical standpoint, or from a financial quality standpoint that we all of a sudden, oh wow, this is interesting, we should do some more work. Now, specifically to the short side of the book, the simplest way I can describe this, it's the inverse of the long. On long, we like names that have margin expansion, that have new products, most importantly, that are being launched. They're, as I mentioned earlier, improving the human condition, bending the cost curve, whatever the case may be. On the short side, it's the opposite. If you think about a bad company, it's a company whose products are being outmoded. It's a company that has a management team that's not well versed and not well put together. It's a company where, most importantly, expectations don't match what you view as fundamentals. And so we look at our short book as an absolute return vehicle. It's not a hedge. We're not just short a bunch of names because we're long a bunch of names. We look to make money in an absolute basis, irrespective of the market direction on our shorts. And so back to what I mentioned earlier, thematic investments and so forth. You can have a theme where you really like a set of names long because they're doing these amazing new things. But again, back to the spider web, you have a bunch of names, a bunch of stocks, a bunch of companies on the other side where the opposite is true. They're the losers. They're the ones that are getting their business disrupted by companies that you're really excited about. And so having the industry knowledge, having a view on the sector broadly, on the subsector individually, the four subsectors I mentioned, is key to really identifying great short opportunities.

Laurie Chan >> That's great on understanding the process. Talk about some of the themes and opportunities right now on the short side. What are you focused on?

Daniel Matviyenko >> The most interesting one, I think, and also the one that I think our audience would be most familiar with is what happens in healthcare as GLP-1s are getting broader adoption. I'm sure we've all read about these drugs, they've been around for 20-plus years. They're initially for type 2 diabetics, but the more societal benefit is the fact that they're very good weight loss drugs. For the first time in ever, we have a set of therapeutics that have a very low side effect profile, that are easy to take, right? So you just need a refrigerator for now and then ultimately we're going to have oral GLP-1s, that have all these amazing benefits. So obviously weight loss, cardioprotective qualities, and so on. We believe the GLP-1 class will be over \$100 billion in the United States. Now, again, I can't stress this enough, this idea of the spider web, all these people taking GLP-1s, losing all this weight, wonderful, right? It's a great societal benefit. Now, there's a whole set of companies out there that have benefited from having an overweight US population. The simplest example is sleep apnea. Overwhelming majority of patients with sleep apnea who are on a CPAP device, so a tube, a mask that you breathe through every night, are obese. As these patients hopefully lose weight over the next 5, 6, 10 years, the need for CPAP, we do think, will decrease. Not only CPAP, but it's also the need for having surgery to deal with whatever the issues are that are causing sleep apnea. Weight loss, we do think, is the major comorbidity. So positive impact on society from GLP-1s, weight loss, cardioprotective qualities, and so forth. Negative impact on some of the companies that have benefited from an overweight United States.

Voice Over >> The question of top-down versus bottom-up portfolio construction is an important one. Even portfolio managers who assess opportunities on a stock-by-stock basis need to be aware of macroeconomic forces and overall market conditions as they analyze the most attractive individual securities.

Laurie Chan >> Right. So, you just talked about some great opportunities on the long side and also some opportunities on the short side. How do you put this all together? When we think about portfolio construction, how do you build the portfolio and how do you tilt that portfolio to different market conditions based on subsector performance?

Daniel Matviyenko >> That's a great question. So first and foremost, we're bottoms up fundamental investors. Our portfolio is 100% specific risk. So we're not making macro bets in any way, shape, or form. We're not, as I mentioned, hedging the book with options on indexes, baskets, whatever. We really do live and

die by our stock selection. That's how we like it, and that's what I think as an investor you want from a long, short manager. Macro plays a very big role in healthcare or any subsector at any given point in time. So right now as we're recording this podcast, we're living through that sort of macro driven volatility. What does that mean? You can have points in time where the macro is fairly stable, rates are not moving, the dollar's not moving, and stocks oscillate around some sort of a median, and then you get paid or lose money on events, earnings, FDA events, or whatever the case may be. Right now, we're in an environment where macro matters, trade wars in Europe, the Pakistan, India flare up. These events are moving rates, moving currency, and they're having major impact on factors. Stocks trade not necessarily to their fundamentals on any given day, but more with the market, or whatever the market is excited or worried about at that given point in time. Understanding what your investments are exposed to in a given environment we think is important. We're not looking to hedge out factor exposure. We're not looking to run a completely beta neutral book, but knowing that, let's say, now is probably not the time to be long, high volatility, high multiple names because of a worsening macro backdrop is important. We tend to size our positions partially with macro view as an input. The simplest example is interest rates. Interest rates drive a lot of what goes on in the market. In a period of rising interest rates back in 2021, we reduced our exposure to buy the tax significantly because biotech companies needed to raise money, and obviously with higher interest rates, it's more difficult to do that. And then biotech companies also had very high multiples. So you sort of had the worst of both worlds. You have growth that needs to raise money. And that was the right call. Now, the flip side of that in healthcare, and again, going back to this idea that healthcare subsectors trade differently from one another, the flip side of that trade was by companies that are positively correlated to rising interest rates. And in our case, that's managed care. So when we made that change, that was the absolutely right call.

Laurie Chan >> Dan, I think that's an excellent example of how it's important to have that macro top-down view and marry that with that bottoms-up fundamental approach.

Daniel Matviyenko >> Thank you.

Laurie Chan >> Great. So at PGIM, we always strive to address the most pressing concerns of our clients and partners. Our distribution teams have gathered some questions from the field. So let's go through a few of those right now. The first one is on policy reform. President Trump is looking to streamline the FDA's drug approvals and has also pointed vaccine skeptic Robert F. Kennedy Jr. as the U.S. health secretary. How

should investors interpret these political wins, particularly given how quickly the government plans can change?

Daniel Matviyenko >> I think the last sentence you said is the key one. So again, without making any sort of political statements, our belief is that the approach of the administration is to come in heavy, make big pronouncements, and then sort of walk it back to something more measurable. I mean, we're seeing it as we're doing this podcast. We're seeing this with tariffs. So make crazy pronouncements, raise tariffs to 145% on X, Y, and Z country, and then gently walk it back as we do deals. We think the same approach is going to happen here. We always go back to this idea that healthcare really is one of the United States' most competitive or highest lead sectors of the economy. So we think there are really two things here, Robert F. Kennedy, the FDA, and then obviously drug pricing and whatever else that they're focused on right now. So on drug pricing we do think ultimately not much will be done. We have the IRAs I mentioned, so we do have a drug pricing mechanism already that's laws in place. Now on the FDA, it's a little bit more nuanced. We've seen the articles where people were fired, people have quit at the FDA, at the agency, which is not great for healthcare or for biotech throughout the near term because you don't have people reviewing drug files, and you sort of slow down the whole process. Over time, we think that's going to get resolved. And if anything, this is, I guess, a sneaky contra view, that if anything, we do think over time, timelines to market will shorten. So what does that mean? The United States has one of the most onerous approval processes in the world. I think the most difficult one there is, frankly. Now there's a reason for that. We're data heavy. We want to see a lot of examples. Unlike Europe, we really want to see the product working and not only see that the product is not harming the patient. Now the cynic in me would say, gosh, if the approval process gets easier, that means ultimately it'll attract capital. Pharma companies will say, hey, let's do more projects. So let's say, Laurie, you and I started a company and say, hey, we can do this. It used to cost 500 million. Now we can get there in 50. Great. Let's start a company and get a product to market. I'm still making a joke here, but the point is easier time to market, less onerous, less expensive way to get there ultimately, we think, will be rewarded in the market. So right now, yes, it's very volatile, but a year from now, our view is everything will be fine. Everything will be calm, and then ultimately, U.S. will maintain and hopefully increase that edge in innovation.

Laurie Chan >> That's great. This is also another question that you kind of answered, but looking ahead, what major industry shifts should investors be watching, and how might these reshape the opportunity set in

healthcare?

Daniel Matviyenko >> The biggest one, obviously, as you've so well pointed out, is AI. My prediction, the comments I made earlier, that's what I believe now, that's what we as a team believe now, but ultimately that could all change. Because again, the pace of innovation, as we all know, is so quick and so unpredictable. We could see a scenario, for example, where we need way less physicians and so AI is instrumental in helping them make diagnoses, and that would be actually a very good thing because, as you know, we have shortage in this country. That would be amazing for patients, and any companies that can take advantage of that in a meaningful way will be big winners. I also do think that AI over time will create faster pathways to market. So at a very simple level, you and I are a pharma company. We're working on a drug for type 1 diabetes. We can screen so much better with quicker tools, with better computing, with whatever, and ultimately refine a molecule that will actually do something incredible much faster than we could, let's say, five years ago. So again, this would all be incredibly additive for the sector and selfishly for investors because you will be invested in something that's tackling a multi-billion-dollar market that frankly doesn't exist today. So AI, as we sit here today, we're early and we like to say that healthcare is a decade behind tech because of all the hurdles as it relates to regulation, but ultimately healthcare will get there.

Laurie Chan >> I think AI will transform many things and create even more opportunities for the healthcare investor. Another question that's coming up is around recessionary concerns. How does this economic uncertainty shape your healthcare investment strategy? Have you done some stress tests on the portfolio? If you could talk about that, that would be helpful, I think, for our audience today.

Daniel Matviyenko >> Yeah, of course. The approach stays the same. Obviously, there's tweaks here and there, but our view, our belief that innovation over time gets rewarded is an evergreen sort of view. Specifically to where do we spend our time and our investors' money, that will change. At a very base level, healthcare tends to act defensively in a period of economic uncertainty. We do think that will hold if we are going into recession, but there's obviously caveats to that. At a very simple level, anything that's out of pocket, so think dental, vision, whatever, will probably see a more negative impact than things that you must do, any sort of cardiac procedure. So, as we sit here today, our book's exposure is exactly that. Our long positions, for the most part, have exposure to names and subsectors where you simply must get stuff done. We've avoided dental, which has been the right call, and we frankly made money on the other side of the book over the last

year and a half. And then we've avoided or made money on the short side in any sort of aesthetic or out of pocket procedure. That's where we are today. Now there's no recession, and a lot of these stocks are discounted as we sit here today. Will we look the other way? Absolutely. This dynamic nature of our book and this dynamic view that is informed by macro as we discussed earlier is very much present, but ultimately we need innovation. We need to say this company is really doing something differentiated that will have a far-reaching, positive impact. And on the flip side, obviously, this company is doing something that nobody cares about or no longer will care about as these new products come online. So let's look, take advantage on the short side.

Laurie Chan >> Excellent, Dan. Those are fascinating points. Thanks for breaking it all down and giving us a peek into your thought process and also your playbook. As we wrap up here, I'd like to summarize what I've heard as the three key takeaways from our discussion. First, healthcare's inherent volatility driven by innovation, policy shifts, macroeconomic currents, presents opportunities for skilled managers to pick through that spider web and generate alpha on both the long side and the short side of the book. Second, advancements in AI and digital health are transforming patient care and creating disruptors that can drive investment opportunities in this evolving sector. And third, long-term outperformance requires a flexible forward-thinking manager that combines both a top-down thematic insight with a rigorous bottom-up security selection process, especially when navigating policy shifts and geopolitical uncertainty. These insights remind us of the dynamic nature of healthcare investing and the critical role that a specialized manager like Jennison can play in navigating this complex sector. So with that, Dan, thanks for joining us. I appreciate it.

Daniel Matviyenko >> Laurie, this is wonderful. Thanks for having me.

Laurie Chan >> And to our listeners, thank you for tuning in to this episode of "Speaking of Alternatives." We hope you found today's discussion to be informative and helpful. Join us next time when our guest is Rick Romano, Senior Portfolio Manager at PGIM Real Estate. Rick will be here to discuss how global real estate income trusts are positioned to benefit from the current market environment on "Speaking of Alternatives."

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