

Health & Life: Supporting Better Patient Outcomes

Q&A with Todd Miller, Head of Private Equity Health & Life, Partners Group

Demographic trends and new treatments are pushing up healthcare costs globally, while the increasing personalization of drugs is adding complexity to the process of discovery. In a transformation accelerated by the pandemic, Health & Life enterprises are increasingly digitizing operations and offerings, while also creating businesses of scale in a bid to reduce costs, increase efficiency and improve patient outcomes.

Against this backdrop, Todd Miller explains where Partners Group sees opportunity in the Health & Life vertical and how investment, combined with strong governance, can enhance patient care and improve the daily work life of clinicians.



Todd Miller Head of Private Equity Health & Life

Health & Life is a broad category that can cover a range of sectors. How do you approach this area?

We take a holistic view to the Health & Life vertical, incorporating a focus on preventing illnesses as well as treating them. This captures not just healthcare – although this is the bulk of our portfolio – but also broader, related trends. Beyond the system that delivers healthcare services, our focus includes the theme of consumers increasingly taking control of their own health and wellbeing, such as through healthy living, exercise and nutrition. Younger generations in particular are focusing on healthier lifestyles, leading to a host of investable innovations.

The healthcare industry itself is vast and rapidly growing. Moreover, change is everywhere. Innovative new business models, software, and new treatments

allow the industry to modernize in order to meet enhanced patient demands. Private capital can play an important role in funding and enabling such change.

So how do you see the role of private capital in the Health & Life sector?

Private capital provides both funding and expertise. Healthcare is a complex area that includes private and public paying models – which vary according to where you live – as well as a large number of different providers and services, which together create an ecosystem that delivers healthcare, pharmaceuticals and medical devices.

As investors, we can fund innovation and help create scale so businesses and providers have the resources to invest in new technologies, services and treatments that deliver improved and more affordable patient care.

Furthermore, with appropriate governance, safety oversight and compliance standards, privately operated healthcare enterprises can deliver care with the highest standards of patient safety and outcomes.

There are risks in healthcare investing and some would argue that the pursuit of returns makes private equity ownership unsuited to the sector. How would you answer that?

I could not disagree more. Much of the overall global healthcare system has been – and will continue to be – operated by privately owned institutions. Private businesses have led to new care models, new technologies, and new therapies. Without the innovation from the private sector, the healthcare industry would be far behind where it is today. As professional owners of businesses, private equity

firms have an important role to play to further enable entrepreneurs, researchers, and clinicians to do what they do best, but to do so with greater access to investment capital, faster decision making, and enhanced oversight standards.

Much of this comes down to the application of ESG criteria. Starting with the G – something that is not talked about as much as the E and S in private equity, but is vital – investors need to balance clinical and business priorities. In most of our healthcare businesses, we have established an oversight board, comprised of our Operating Directors, as well as a medical executive board, which consists of physicians. This means we have some separation between business decisions and those around patient care and clinical quality. Ultimately, a company that provides better clinical results will be a better business.

The S is clearly also important in healthcare. It covers patient care, but it also encompasses employees, both clinical and non-clinical, such as front desk and administrative staff. All employees need to have the

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right work environment and compensation benefits for a sustainable career. By doing so, they can provide patients with high-quality services and, ultimately, build stronger businesses.

Straddling both public and private sector influences, healthcare businesses are also intertwined with the social decisions that governments and industries need to make. Making sure that we participate in these businesses in a way that benefits society is really important. By scaling these enterprises in a sustainable manner, we have the power to extend access to healthcare and reduce the overall costs of the healthcare delivery system.

What are the most important trends in the Health & Life space from a technology perspective? And how do these translate into investment opportunities?

One of the biggest trends is Digitization & Automation, which is also one of the giga themes guiding Partners Group’s thematic investing approach. Because of its complexity, the healthcare industry is between 10 and 20 years behind the rest of the economy in adopting new technologies. Therefore, investment opportunities in innovation are plentiful.

When we think about providers, such as hospitals and specialist physicians, digitization is a major opportunity. Enhancing and streamlining patient communication and scheduling are good examples. In the electronic medical records industry, technology is automating and digitizing a range of time-intensive administrative work, including record-keeping and provider payments – all of which cuts down on wasted resources and improves accuracy and efficiency.

Drug discovery is another key area, and we have invested in a few businesses that support the large biopharmaceutical industry. With a new wave of next

generation therapies, pharmaceuticals have grown ever more complex and customized to individual patients. Cell and gene therapies target diseases at the cellular level, entering our cells and rectifying genetic code. Technology, in the form of large databases and AI, is playing a role in sourcing the right patients for clinical trials as well as analysing ever-larger volumes of data. Scientists now can identify patterns more quickly and reduce the amount of time it takes to bring a new compound to market.

In fact, ‘speed-to-market’ is one of the key themes we have been looking at more recently. Because of the complexity involved in developing next generation therapies, the pharmaceutical industry cannot develop these treatments alone. Specialty contract research organizations (CROs) and contract commercialization organizations (CCOs) can help accelerate the trial, regulatory approval and commercialization process for new drugs, enabling the pharma industry to save time and money in bringing life-changing new treatments to patients.

What about other trends – you mentioned consumerization, for example?

Consumerization is very relevant in healthcare. In places where you have healthcare insurance, there is a mix of what health insurance covers (be it public or private) and what the consumer pays for. Increasingly, the cost is shouldered by consumers, who are naturally focusing more on quality of provision and cost of service than in previous decades. Higher private pay fits neatly with our New Living investment giga theme, which involves consumers taking more control of their healthcare and a rising focus on healthy living.

The other important trend is the need for increased efficiency in healthcare. As populations age, societies

are spending more and more on elderly patient care. Healthcare expenditures are escalating and rising as a proportion of GDP. We therefore need to reduce the overall costs of healthcare while also providing better care. That often comes down to the efficiency that scale can bring. Yet, healthcare segments remain highly fragmented. Private capital has a role to play here; in particular, as it relates to consolidating sub-specialty areas.

At Partners Group, for example, we've made a number of investments in physician practice management businesses, specialising in physical therapy, optometry, eye care surgery, women's health, and dermatology. Each of these institutions provides physicians with an opportunity to practice medicine and deliver care with the support, technology and resources of an industry-leading, clinically driven efficient platform.

COVID-19 clearly had a profound impact on the healthcare industry. To what extent has this opened up investment opportunities?

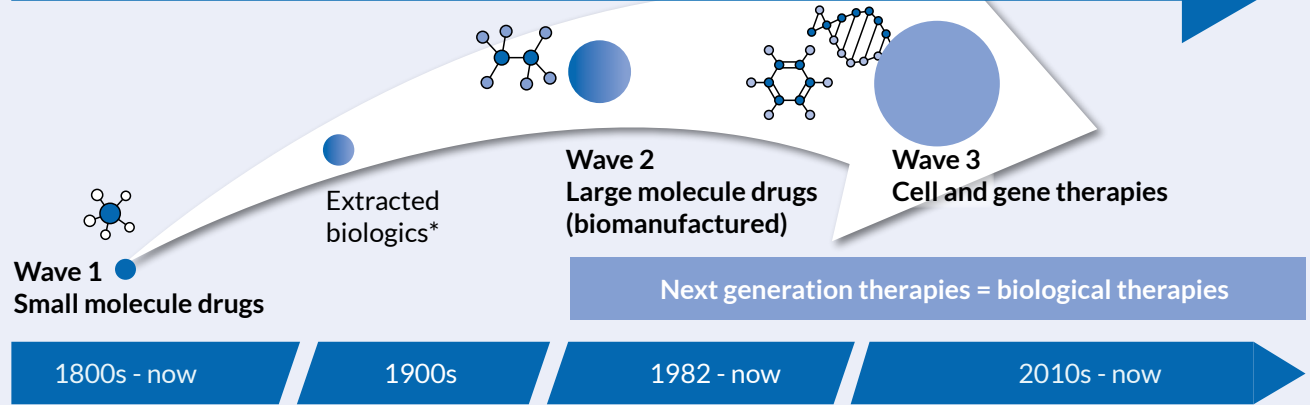
One of the biggest shifts has been a move to tele-health. While this has been around for a long time, adoption was not widespread until it became the only safe way to treat and interact with patients for many conditions. The arrival of COVID-19 accelerated the use of virtual healthcare by about a decade as payers, including governments, now see this model as a central part of care delivery alongside in-person appointments.

Tele-health is particularly prevalent in the mental health sector. Finding therapists virtually today is easier than in the past, and many consumers have become very comfortable with appointments delivered by video in the privacy of their own home. Virtual care delivery has picked up momentum in other segments of healthcare as well. Patients and consumers have become more accustomed to this method of delivery, and physicians

SPEED-TO-MARKET: PARTNERS GROUP'S THEMATIC JOURNEY

1 Identify transformative trend

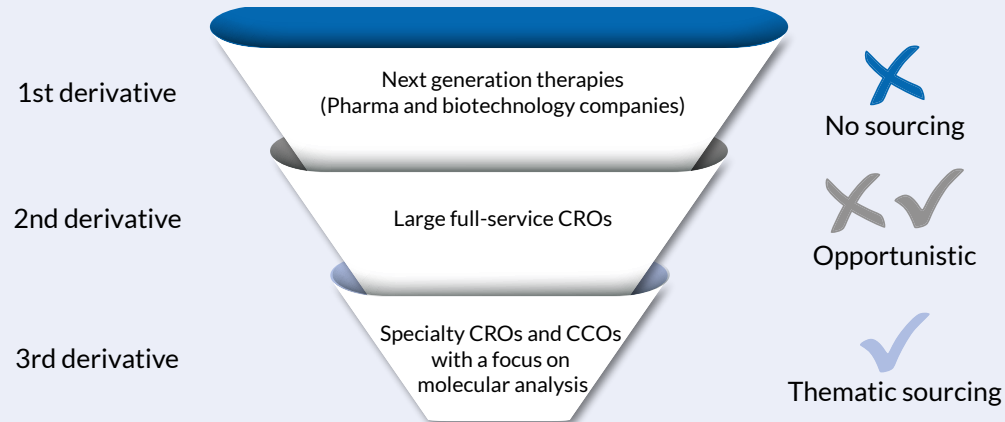
Increasing complexity of therapeutic intervention



2 Identify companies in less obvious sub-sectors benefiting from the transformative trend

Starting from the industry as a whole, we look for 2nd and 3rd degree derivatives that allow us to gain exposure to growth trends.

This allows us to identify our target universe.



*Efficacy against serious diseases, i.e. cancer, immune diseases, genetic disorders. Small molecules have high efficacy against infectious diseases and some cancers.

Source: Partners Group (2022). For illustrative purposes only.

welcome the benefit of triaging more patients virtually to determine which of them need a physical, clinic-based appointment. The evolution of digital healthcare also requires new thinking to be applied to previously established concepts. For example, a company's real estate strategy and scheduling require a new approach. Going forward, leading care providers will need to offer care according to patient preferences and needs.

What are your predictions for the future of the Health & Life sector?

The industry will continue to grow as people take more control of their health and as new treatments emerge. Technology will transform Health & Life as it improves the efficiency of interfaces, work flows and connections through the whole ecosystem. Such improvements will bring a better patient experience, but also better outcomes as people get to see the right physician at the right time so the focus can be on prevention.

Consolidation will be a big theme. So far, this has been regional, but I'd expect to see some global consolidation among larger providers over the coming years. And lastly, the biopharmaceutical industry will continue to grow, with therapeutics becoming ever more complex and effective. The emergence of new treatments for patients with rare conditions is a particularly exciting development.

3 Target companies with the strongest development potential

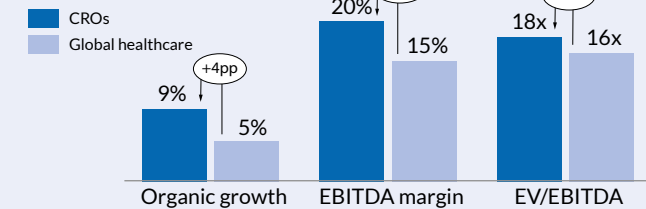
Specialized CROs and CCOs are well positioned to partner with the pharma and biotech companies that are leading the way in therapeutic evolution, increasing speed-to-market.

Specialty contract research organizations (CROs)

Market drivers

1. Biopharma companies are competing on drug innovation and speed-to-market
2. Increasing use of molecular biomarkers to test and develop personalized medicines that have better efficacy and lesser side effects

Snapshot

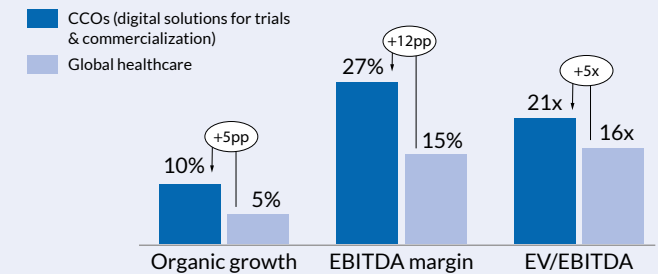


Specialty contract commercialization organizations (CCOs) providing digital solutions

Market drivers

1. More patient-focused care: complex treatment landscape and need to identify the right treatment for the right patient subtypes
2. Rising physician specialization and more evidence-based medicine
3. Increasing regulatory and reporting requirements

Snapshot



Source: Partners Group (2022). For illustrative purposes only.

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