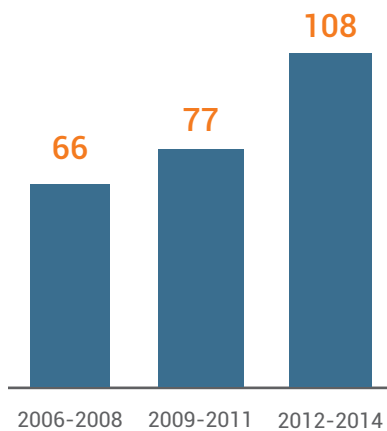


## ON THE BRINK OF BREAKTHROUGHS


**JANUS CAPITAL**  
Group

MAY 2015

## FDA DRUG APPROVALS ARE ON THE RISE



Source: Washington Analysis, FDA.

A new era of health care innovation looms on the horizon. Andy Acker, Portfolio Manager of the Janus Global Life Sciences Fund, explains what innovations lie ahead and what it means for investors.

### FROM THE LABORATORY TO THE PHARMACY

The cost and time to conduct genetic analysis has improved dramatically over the past decade. This has given scientists a better understanding of the underlying genetic causes of many diseases, and the ability to target them more directly. As the chart shows, this acceleration of innovation has led to a notable increase in the number of novel therapies coming to market. Innovations on the horizon are perhaps even more exciting, which is why we still see a solid outlook for the health care sector despite strong performance in recent years.

Understanding the genetic causes of disease was a significant catalyst for innovation, but only marked the beginning of medical advancements. An improved ability to manipulate genetic material is leading to further potential breakthroughs. Indeed, the toolbox doctors have at their disposal to fight diseases is rapidly evolving.

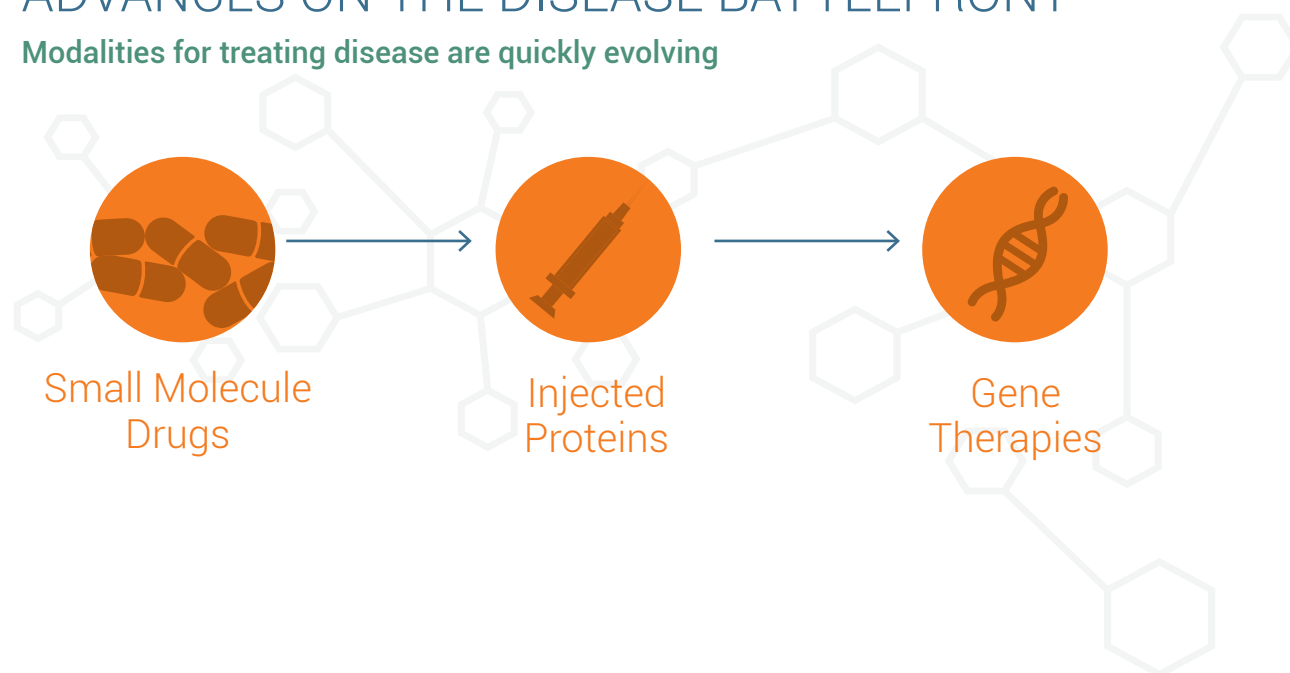


**ANDY ACKER, CFA**  
Portfolio Manager  
Janus Global Life Sciences Fund

"We still see considerable growth potential ahead for the health care sector, even after a strong three-year run."

# ADVANCES ON THE DISEASE BATTLEFRONT

Modalities for treating disease are quickly evolving



## THE TOOLBOX FOR TREATING DISEASE IS EVOLVING

For much of the last century, small molecule drugs (standard pills) were the only treatment option. In the 1980s, injected proteins were introduced to treat certain diseases, and the 1990s saw the introduction of therapeutic antibodies. However, the new modalities being developed today would have seemed like science fiction 10 years ago.

For example, many diseases are the result of our own DNA (the blueprint of life) producing a toxic or harmful protein, or failing to produce a much needed one. Scientists can now use “gene therapies” to replace a defective gene with a functional copy, allowing the body to correctly produce the protein that had been missing or defective. This is enabling potentially curative therapies for diseases such as hemophilia, sickle cell anemia, and many causes of blindness. Likewise, genetic therapies could address many other diseases in the future.

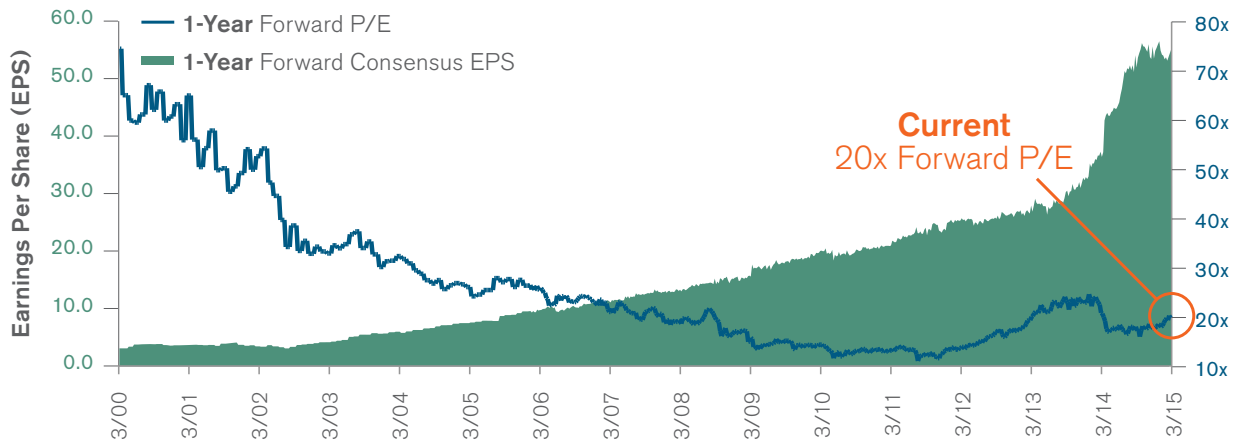
New modalities of treatment are also providing promising new options in the battle against cancer. Scientists today can extract cells from the body, reprogram them to attack cancer cells, and reinsert them, providing potentially curative therapies. Immune-oncology drugs, which take the brakes off our immune system, are another promising approach. Companies are in the earliest stages of applying this innovation, with two immune-oncology drugs recently gaining FDA approval. In the coming years, combinations of treatments could also deliver an “accelerator” to fight cancer more aggressively, or add a vaccine to help our immune systems recognize cancer cells. As companies experiment with these combinations, we expect vastly improved treatments to emerge that offer the promise of long-term functional cures.

## HEALTH CARE INNOVATION IS NOT LIMITED TO BIOTECH

Biotech and pharmaceutical companies have grabbed headlines, but they are not the only companies making exciting progress within the health care sector. Medical device companies are also making promising improvements. Historically, medical device “innovation” simply meant making a device smaller or extending its battery life. As hospitals increased focus on cost containment, they stopped paying higher prices for products that represented only small, incremental improvements. This has forced device companies to up their game. We are now seeing a number of innovative devices introduced that are less invasive, less painful, more durable and more cost effective than their predecessors.

# DEEPER LOOK INTO BIOTECH EARNINGS

MSCI World Index<sup>SM</sup> – Biotech Industry as of 3/31/15



Source: DataStream.

## WHAT IT MEANS FOR INVESTORS

The rapid changes taking place at health care companies have been accompanied by strong performance for the sector, causing some to question whether valuations have become extended. We still see exciting growth potential for many companies, but believe a selective approach is important. We see pockets of over-enthusiasm, particularly among some small-cap biotech companies that are early stage or where success depends on the prospects of a single product. However, we believe for many companies valuations are justified by strong growth prospects.

For many innovative drugs that launched over the past few years, street estimates have dramatically underestimated the earnings potential. Gilead's growth after the launch of its hepatitis C drug, Sovaldi, serves as an example. Before Sovaldi launched, Gilead traded at a P/E of over 40 on trailing consensus estimates. However, the drug was such a meaningful improvement for hepatitis C patients (curing over 90 percent) that it commanded higher pricing and achieved more rapid uptake than expected. In 2014, earnings per share for Gilead shot up nearly 300 percent. Despite strong stock performance, Gilead's P/E multiple actually declined, and is now at less than 13.

Going forward, investors will need to understand the science behind drugs in development to separate the truly innovative companies from those that have been driven by enthusiasm for the sector. We believe those companies that are truly innovating and addressing high, unmet medical needs still represent some of the best growth opportunities in today's markets.

## PORTFOLIO CONSIDERATIONS



**While valuations for some biotech companies seem high, we still see considerable growth opportunities for many stocks within the health care sector.** We believe the innovative nature of many new therapies will lead to considerable earnings growth for those companies for years to come, justifying valuations.

**Opportunities within the health care sector are not limited solely to biotech.**

**An understanding of the science behind new therapies is key to differentiating truly innovative companies** and avoiding those stocks driven purely by momentum.

## ANDY ACKER, CFA

Andy Acker is Portfolio Manager of the Janus Global Life Sciences strategy and Portfolio Manager and Executive Vice President of Janus Global Life Sciences Fund, a position he has held since May 2007. Mr. Acker served as Co-Portfolio Manager of the Janus Aspen Global Life Sciences portfolios from October 2004 to April 2007. He also serves as an equity research analyst and co-team leader of the health care sector research team. Mr. Acker joined Janus in August 1999 as an equity research analyst, focusing on companies in the biotechnology and pharmaceutical industries. Prior to Janus, he worked as a strategy consultant for the Boston Consulting Group and as a health care analyst for Morgan Stanley Venture Partners. Mr. Acker received his bachelor of science degree in biochemical sciences from Harvard University, graduating magna cum laude and Phi Beta Kappa. He also earned an MBA from the Harvard Business School, graduating with honors. Mr. Acker holds the Chartered Financial Analyst designation and has 18 years of financial industry experience.



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Investments focused on a single sector, country or region are subject to increased volatility because such investments may react similarly to market developments and a significant portion of assets may be invested in a small number of issuers.

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As of 3/31/15 the portfolio had a 1.73 percent weighting in Gilead.

Investment products offered are: NOT FDIC-INSURED. MAY LOSE VALUE. NO BANK GUARANTEE.

### **FOR MORE INFORMATION CONTACT JANUS**

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