

# BusinessWeek

## INVESTING

### MUTUAL FUNDS

# A PROFITABLE PRESCRIPTION

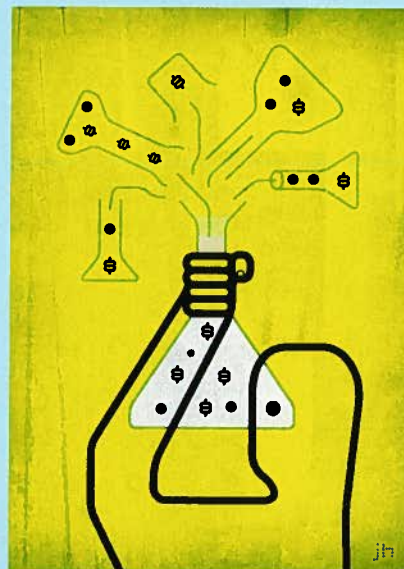
By Arlene Weintraub

Deal mania continues to sweep through the pharmaceutical industry, generating riches for investors who make the right bets at the right time. Case in point: On July 2, Johnson & Johnson formed a \$1 billion joint venture with biotech player Elan Corp. to develop an Alzheimer's drug. The news sent Elan's stock up 19%, to 8.30, before the market opened.

Placing a big bet on Elan would have been too risky for many individual investors. But investors in diversified pharmaceutical mutual funds, many of which bought up huge chunks of Elan when it was down-and-out, still got to benefit from the stock's big jump—and without a lot of angst.

Elan is a good example of why investing in pharmaceutical funds is a better strategy than buying individual stocks, especially now. Early in the year, megamergers were the story. But analysts predict that large companies will set their sights on lesser-known targets, buying biotechs or small drug companies outright or forming lucrative deals with them.

*BusinessWeek*, with the help of fund tracker Morningstar, screened for pharma funds with veteran managers who outperformed during the current consolidation wave as well as during previous deal-heavy periods. Three of the managers who make the grade are Evan McCulloch of Franklin Biotechnology Discovery Fund; Dr. Kris H. Jenner of T. Rowe Price Health Sciences Fund; and Samuel D. Isaly of OrbiMed Advisors, who oversees the Eaton Vance Worldwide Health Sciences Fund. Eaton Vance and T. Rowe hold healthy stakes in Elan and were buying shares of Wyeth before Pfizer came along in January and snapped up the company for \$68 billion. Franklin has performed well by betting big on tiny com-



JOHN HERSHEY

panies with promising drug pipelines. All three funds have beaten the Standard & Poor's 500-stock index over 1, 5, and 10 years, even after taking into account 5.75% front-end loads on the Franklin and Eaton Vance funds.

Isaly, who founded OrbiMed in 1989, says at least 15 companies in his fund could be M&A targets. "They have good products or promise of products, digestible market caps" and aren't already tied up in too many deals, he says. Two favorites: Dendreon and Allos Therapeutics.

T. Rowe Price's Jenner, a Johns Hopkins-trained M.D., looks for companies developing new approaches to treating widespread diseases. He's a big holder of Vertex Pharmaceuticals, which is in the late stages of testing a drug for Hepatitis C. "The benefit over the current standard of care would be substantial—and would make Vertex attractive," says Jenner, who has managed the fund since 2000.

Franklin's McCulloch says he's found plenty of gems trading below the true worth of their assets. For example, when McCulloch, a 12-year veteran of the fund, bought BioForm Medical, its market cap was just \$45 million, even though it had \$60 million in annual sales and \$52 million in cash. It sells a wrinkle-erasing dermal filler. Larger companies such as Johnson & Johnson and Allergan have invested heavily in such "aesthetic" products and could be looking to add to their portfolios, he says. **|BW|**

PHARMACEUTICAL FINDS		
FUND/TICKER	10-YEAR RETURN	TOP HOLDINGS
Eaton Vance Worldwide Health Sciences/ETHSX	8.6%*	Wyeth, Genzyme, Biogen Idec
Franklin Biotechnology Discovery/FBDIX	7.0*	Gilead Sciences, Celgene, Genzyme
T. Rowe Price Health Sciences/PRHSX	7.5	Gilead Sciences, Alexion Pharmaceuticals, Baxter International
Data: Morningstar; as of June 30 *returns adjusted for loads		



OrbiMed Advisors  
 767 Third Avenue, 30th Floor  
 New York, NY 10017  
 Phone: (212) 739-6400