

# Nasdaq Lux Health Tech Index:

## Nasdaq Lux Health Tech Index: A Novel Portfolio Construction Reflecting the Growth in Health Technology

The health care industry is thriving, so it is no surprise that investors have flocked toward opportunities in this sector. Yet, most investment vehicles focus primarily on the large-cap incumbents and marginalize new innovators. In July 2021, Nasdaq teamed up with Lux Capital, a \$4 billion venture capital firm focused on innovation and health care technology, to develop an index that fills the gap: the Nasdaq Lux Health Tech Index™ (NQHTEC™).

Many companies develop products that rely on technology to prevent, diagnose, treat and rehabilitate illnesses and diseases. The traditional players tend to specialize in medical devices and diagnostics as well as data, software, hardware and robotics. The average age of the top 10 largest medical device companies is about 96 years old, and they have survived the ups and downs of many market cycles. They are analog businesses that have adapted over time, but they are not digitally native. On the other hand, dozens of newer companies – many of which have listed on the Nasdaq Stock Market within the last 20 years - have integrated disruptive technology into their products to deliver new functionality and value to the health care industry.

NQHTEC is designed to capture exposure to both the historically stable incumbents as well as many of the smaller, innovative high growth companies.

“What we tried to do with the weighting of this index is make sure that investors get direct exposure to true innovation in health care,” Peter Hebert, Co-Founder and Managing Partner at Lux Capital explains. “It doesn’t just reflect the S&P health care components. Instead, it’s designed to capture the integration of modern technology into the health care system. In our view, it’s new and unique, and arguably one of the largest secular trends in the coming decades.”

The index’s 59 constituents are predominantly high growth companies that focus on disruptive technology in health care. About 83% of the index weight comes from the sub \$50 billion market cap contingent, and around 61% of the weight comes from the top 10 names. It is modified market cap weighted: the top five names are capped at 8%, and the rest are capped at 4%. The companies not only come from the U.S., but also the Netherlands, Sweden and China.

Importantly, there is a revenue growth contingent. New additions to the index must show they have grown their revenues at least 10% in each of the last two years prior to admission. To stay in the index, they must grow their revenues by 7% in at least one of the last two years.

“The index is designed to capture businesses that have revenue growth,” says Hebert. “We methodically screen for higher quality companies that represent this theme, not companies that have certain industry codes that reflect this theme.”

Medical equipment is the largest subsector, representing almost 50% of the index weight. Biotechnology and health care services are the next two biggest subsectors. A few of the constituents are in the medical supplies and medical services business, and others offer software.

“This structure differentiates NQHTEC from other health care and life sciences indexes that are either focused on large-cap pharma or biotech,” says Hebert. “Those companies generally have not captured the same benefits of digital technology.”

NQHTEC’s top holdings include Intuitive Surgical ([ISRG](#)), a pioneer in robotic surgery and creator of the da Vinci® Surgical System. Known for its Invisalign® product, Align Technology ([ALGN](#)) was one of the first companies to apply additive manufacturing and 3-D printing to dentistry. Veeva Systems ([VEEV](#)) provides electronic health records software, which is transforming health care systems, and Illumina ([ILMN](#)) specializes in genetic sequencing. DexCom ([DXCM](#)) offers continuous glucose monitoring, and Insulet ([PODD](#)) provides the Omnipod® injectable drug delivery system.

Admittedly, the life sciences sector has been in a bear market since 2021, and the general technology sector peaked in November 2021 and then took a downturn. That said, NQHTEC may be attractive to investors who are interested in a long holding period. They can take advantage of the opportunity via the First Trust Nasdaq Lux Digital Solutions ETF ([EKG](#)), which tracks the index.

“NQHTEC is not designed to be a market timing exercise, and one should expect volatility given the overall market and risks that people perceive in rising interest rates,” Hebert points out. “Like a lot of other high growth opportunities, there’s risk inherent in it. But in our view, this is a novel way of constructing a portfolio to reflect the secular growth in health technology.”

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