

## July 2010 - Rhenman Healthcare Equity L/S

### Monthly Update

July's development was twofold as the world stock markets rose slightly but the healthcare sector declined, mostly due to the weakening dollar. As anticipated, the reporting season was strong, with a majority of companies beating estimates. That also applied to the healthcare sector, with reports generally well accepted with a few exceptions. Nerves were high among investors and many companies were sold off when a positive share price reaction did not follow seemingly good reports. A common objection was that sales growth was not always equally strong as profit growth, which in principle could indicate weaker results to come. The main reasons for modest revenue growth were currency fluctuations and price pressure in Europe. In addition, cautious buying patterns among those companies that mainly sell to other businesses surely played a factor and to some extent the "utilization" of healthcare, that is when medical consultations or surgeries are postponed as a result of unemployment, mainly in the U.S.

In the base currency Euro, the fund decreased in value. This decline is entirely due to currency movements, in particular the dollar depreciation. In local currencies, the fund rose slightly. The fund had two setbacks, namely Roche and Teva. A follow-up study of the Roche breast cancer drug Avastin in metastatic breast cancer received a negative evaluation from an FDA panel. Apparently the drug could not show any improvement in survival, nor did it improve quality of life. Roche will therefore probably lose in the order of one percent of consolidated sales. The share has fallen about 25% since spring and now yields 5% and has a P/E-ratio (price/earnings) of 10, which is close to a record low for this company. Teva was indirectly affected by the biotechnology company Momenta receiving US approval for a generic low molecular heparin (the original product is manufactured and sold by Sanofi). There is concern that Teva's drug Copaxone, which is estimated to account for 40% of the Group's profits, is now at higher risk of generic competition in the U.S within just a few years (the U.S. represents about half the world market). If this happens, then approximately 20% of Teva's profit would be at stake. The market's reaction to this piece of news was very negative and Teva now also has a P/E-ratio close to 10, although the company has great business opportunities ahead. The principal or hypothetical setback for Teva (that generic competition would come earlier for their main product) is also a sign of strength which the market has missed in its first reaction. Teva is in fact the world's largest manufacturer of generics and if it will indeed be easier to register generic biotech products then Teva will obviously be one of the major beneficiaries.

Looking ahead, the big threat, according to many, is that the U.S. economy may grow only around 1.5% in the second half (which is too weak a growth to reduce unemployment and thus increases the risk of deflation), making sales growth most decisive for the valuation of companies. The fear is that companies that already have slowing growth will suffer even more, and that there is obviously a limit to how much savings can be made to sustain profit growth. The difference in P/E-ratios among companies with strong "topline" (sales growth) and those who have weak is already quite high. The valuation difference is potentially becoming too big but as long as the market focuses on the likely weak GDP growth in the second half the difference will persist and may even become greater.

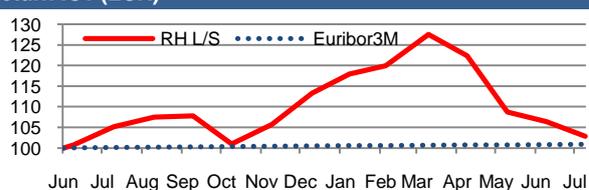
The third quarter is traditionally the most difficult, and September is statistically the weakest month of the year. Elections in the United States are approaching and many investors will be hesitant for that reason too. Companies with a geographically broad and stable sales base, such as Roche, are in a good position to do well. Many such companies are well represented in our portfolio. These companies will continue to grow, even if the U.S. recovery remains weak.

Beckman Coulter Inc (short position), Lonza Group AG and Medco Health Solutions Inc (short position) yielded the greatest positive contribution to the fund's development during the month. Roche Holding AG, Teva Pharmaceuticals and Gilead Sciences Inc were the largest negative contributors.

#### Return IC1 (EUR)

	Rhenman Healthcare Equity L/S IC1 (EUR)	3 Month Euribor
July	-3.35%	0.06%
YTD	-9.22%	0.39%
Since Inception (2009-06-22)	2.84%	0.90%

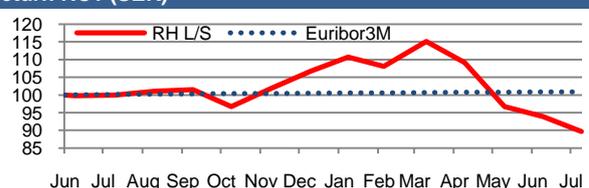
#### Return IC1 (EUR)



#### Return RC1 (SEK)

	Rhenman Healthcare Equity L/S RC1 (SEK)	3 Month Euribor
July	-4.45%	0.06%
YTD	-15.98%	0.39%
Since Inception (2009-06-22)	-10.31%	0.90%

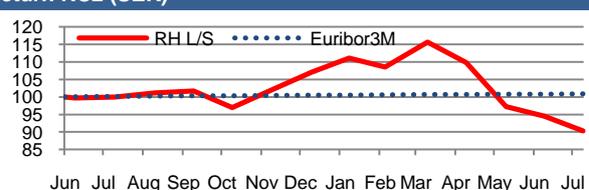
#### Return RC1 (SEK)



#### Return RC2 (SEK)

	Rhenman Healthcare Equity L/S RC2 (SEK)	3 Month Euribor
July	-4.40%	0.06%
YTD	-15.65%	0.39%
Since Inception (2009-06-22)	-9.69%	0.90%

#### Return RC2 (SEK)



**Monthly Performance**
**IC1 NAV (EUR)**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009						100.75	105.19	107.47	107.83	100.99	105.70	113.28
2010	117.91	119.94	127.53	122.31	108.73	106.40	102.84					

**IC1 Performance % (net of fees)**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2009						0.75	4.41	2.17	0.33	-6.34	4.66	7.17	+13.28
2010	4.09	1.72	6.33	-4.09	-11.10	-2.14	-3.35						-9.22

**RC1 NAV (SEK)**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009						99.74	99.92	101.00	101.51	96.72	101.85	106.75
2010	110.70	108.05	115.09	109.18	96.69	93.87	89.69					

**RC1 Performance % (net of fees)**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2009						-0.26	0.18	1.08	0.50	-4.72	5.30	4.81	+6.75
2010	3.70	-2.39	6.52	-5.14	-11.44	-2.92	-4.45						-15.98

**RC2 NAV (SEK)**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009						99.74	99.98	101.12	101.68	96.94	102.10	107.07
2010	111.07	108.57	115.69	109.78	97.28	94.47	90.31					

**RC2 Performance % (net of fees)**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2009						-0.26	0.24	1.14	0.55	-4.66	5.32	4.87	+7.07
2010	3.74	-2.25	6.56	-5.11	-11.39	-2.89	-4.40						-15.65

Risk	Exposure	Largest Long Positions (% of equity)
Value at Risk, % <sup>1</sup>	4.70	Long 116.3% Roche Holding AG 6.8%
Standard deviation, % <sup>2,3</sup>	21.01	Short 25.6% Fresenius SE 6.1%
Sharpe ratio <sup>2,3</sup>	0.10	Gross 141.8% Novartis AG 5.7%
		Net 90.7% Lonza 4.0%
		Celgene Corp 3.7%

1) For holdings on July 30. 2) Since start until July 29.  
3) Standard deviation and Sharpe ratio annualized.

**Currency Exposure (% of equity)**

USD	61.6%
EUR	13.0%
CHF	19.4%
GBP	3.2%
NOK	1.7%
HKD	1.6%
DKK	0.4%
SEK	-0.9%

## Fund characteristics

- Target annual returns in excess of 15% (before fees) with a volatility below the stock market
- Long-term investment horizon but active trading around holdings
- Roughly equal allocation to small-, mid- and large-cap companies
- Typically 60–70 positions out of a 500 company universe
- Portfolio company size > USD 200 million
- Cash flow positive companies are predominant

## Key Data

• Base currency:	EUR
• Subscription/redemption frequency:	Monthly (T-3)
• Share classes:	(R) Retail class / (I) Institutional class
• Minimum initial investment:	RC1 = SEK 250 000 RC2 = SEK 2 500 000 IC1 = EUR 250 000
• Minimum top-up investment:	No minimum
• Management fee:	RC1 = 2 %, RC2 = 1,5 %, IC1 = 1,5 %
• Benchmark:	Euribor 90D
• Performance fee (quarterly):	20 % (high water mark)
• Soft close:	EUR 500m
• Hard close:	EUR 1bn
• Dividends:	R = Only capitalization I = Capitalization + Distribution
• Legal Structure:	Open-ended FCP (Fonds Commun de Placement) under Part II of the Luxembourg Law on Investment Funds (20 Dec, 2002)
• Fund Management Company:	SEB Fund Services S.A.
• Fund Promotor (Sponsor):	SEB Fund Services S.A.
• Investment Manager:	Rhenman & Partners Asset Management AB
• Placement and Distribution Agent:	Rhenman & Partners Asset Management AB
• Custodian Bank and Paying Agent:	Skandinaviska Enskilda Banken S.A.
• Prime Broker:	Skandinaviska Enskilda Banken AB (publ)
• External Auditor:	PricewaterhouseCoopers (PwC)
• Swedish registration:	Yes (since November 5, 2009)
• ISIN:	RC1 = LU0417597712, RC2 = LU0417590817, IC1 = LU0417598108
• Bloomberg ticker:	RC1 = RHLSRC1 LX, RC2 = RHLSRC2 LX, IC1 = RHLEIC1 LX
• Lipper Reuters ticker:	RC1 = 68014067, RC2 = 68015239, IC1 = 65147588
• Telekurs ticker:	RC1 = 10239523, RC2 = 10239528, IC1 = 10034579

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