

October 2010 - Rhenman Healthcare Equity L/S

Monthly Update

The month of October brought an increase in world stock markets generally. However, signals from the U.S. do suggest a lower growth period to come, whilst growth in emerging markets continues in strength. Northern Europe also showed surprising staying-power, particularly in relation to southern Europe.

The dollar continued its weakening trend, but the fall has slowed down somewhat. Long-term interest rates in the U.S. may well have bottomed out and this appears to coincide with the FED introducing a new program of quantitative easing ("QE2"). This program intends to support financial assets, increase inflation and will hopefully also increase banks' lending. S&P 500 rose further during the month, but its growth rate has fallen ahead of the U.S. elections and also due to the general uncertainty caused by renewed problems in the mortgage market. Pessimists, such as the economist David Rosenberg for instance, argue that U.S. growth will either be weak or very weak in coming quarters, partly because of the many people whose labour insurance is due to lapse and that restocking will slow down.

The fund's value rose roughly between 2 to 3.5 percent (depending on the fund class / currency) in October, while the healthcare sector remained unchanged. An additional company acquisition favoured the fund: this month it was King Pharmaceuticals, and in September it was Zymogenetics. King works in the field of painkillers, an area that the big companies want to expand in. The biotechnology sector is strong and managed care is recovering well. So far the reporting season has been good. Medical technology is the weakest sub-sector, due to reduced hospital utilization in the wake of the recession. The fund suffered a setback in Alkermes as a result of additional requirements for documentation of an important new medicine in diabetes. However, this favoured rival Novo Nordisk, a share we also owned. Overall, the fund is full of companies that see strength in their business, most obviously in biotechnology and pharmaceuticals.

The fund continues to be fully invested. We believe that the outlook is very good looking forward for the next six months and that this year's stable autumn period bodes well for its strength. We have previously mentioned that midterm election years in the U.S. usually end very strong. We also view the slightly increase in long-term interest rates as an indication that risk appetite is on the rise. At the very least, the deflationary trend is probably now broken. The program from the FED with further quantitative easing is likely to provide support for the stock market, even if some of this may already have been discounted. The global effect of this may be underestimated due to the fact that the weak dollar makes it hard for other countries to tighten their belts without their own currency strengthening too much. Thus, the expansionary global monetary policies should continue and in turn lead to rising stock markets. We consider it very likely that the healthcare sector will participate. The outcome of the U.S. elections, with widespread Republican success, is probably good for the sector since the implementation of the healthcare reform will be characterized by caution and market orientation.

Fresenius SE, Grifols SA and King Pharmaceuticals Inc gave the greatest positive contribution to the fund development during the month. Alkermes Inc., Q-Med AB and Nuvasive Inc were the largest negative contributors.

Return IC1 (EUR)

	Rhenman Healthcare Equity L/S IC1 (EUR)	3 Month Euribor (EUR)
October	2.01%	0.07%
YTD	-0.99%	0.60%
Since Inception (2009-06-22)	12.16%	1.10%

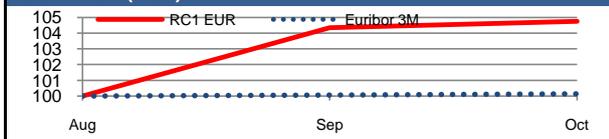
Return IC1 (EUR)



Return RC1 (EUR)

	Rhenman Healthcare Equity L/S RC1 (EUR)	3 Month Euribor (EUR)
October	0.38%	0.07%
YTD	4.75%	0.13%
Since Inception (2010-08-31)	4.75%	0.13%

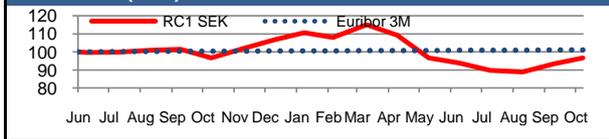
Return RC1 (EUR)



Return RC1 (SEK)

	Rhenman Healthcare Equity L/S RC1 (SEK)	3 Month Euribor (EUR)
October	3.45%	0.07%
YTD	-9.52%	0.60%
Since Inception (2009-06-22)	-3.41%	1.10%

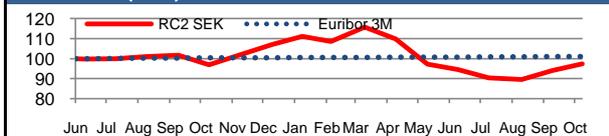
Return RC1 (SEK)



Return RC2 (SEK)

	Rhenman Healthcare Equity L/S RC2 (SEK)	3 Month Euribor (EUR)
October	3.49%	0.07%
YTD	-9.05%	0.60%
Since Inception (2009-06-22)	-2.62%	1.10%

Return RC2 (SEK)



IC1 (EUR) NAV												
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	102.63	109.95	112.16		

IC1 (EUR) 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	-0.20	7.13	2.01			-0.99

RC1 (EUR) NAV												
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009												
2010								100.00	104.35	104.75		

RC1 (EUR) Performance %, net of fees													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2009													
2010									4.35	0.38			+4.75

RC1 (SEK) NAV												
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	88.93	93.37	96.59		

RC1 (SEK) 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	-0.85	4.99	3.45			-9.52

RC2 (SEK) NAV												
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	89.58	94.10	97.38		

RC2 (SEK) 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	-0.81	5.05	3.49			-9.05

Risk (IC1)	Exposure	Largest Long Positions (% of equity)
Value at Risk, % ¹	3.10 Long	119.4% Merck Inc 4.9%
Standard deviation, % ^{2,3}	20.42 Short	19.9% Alexion Pharmaceuticals Inc 4.7%
Sharpe ratio ^{2,3}	0.43 Gross	139.3% Fresenius SE 4.7%
	Net	99.6% Celgene Corp 4.3%
		Shire Plc 3.9%

1) For holdings on October 29. 2) Since start until October 28.
3) Standard deviation and Sharpe ratio annualized.

Currency Exposure (% of equity > 5%)			
USD	62.3%	EUR	20.7%
		CHF	8.1%

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:	IC1 = EUR 250 000 RC1 = EUR 25 000, SEK 250 000 RC2 = SEK 2 500 000
• Minimum top-up investment:	No minimum
• Management fee:	IC1 = 1.5 %, RC1 = 2%, RC2 = 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:	IC1 (EUR) = LU0417598108, RC1 (EUR) = LU0417597555 RC1 (SEK) = LU0417597712, RC2 (SEK) = LU0417598017
• Bloomberg ticker:	IC1 (EUR) = RHLEIC1 LX, RC1 (EUR) = RHLERC1 LX RC1 (SEK) = RHLSRC1 LX, RC2 (SEK) = RHLSRC2 LX
• Lipper Reuters ticker:	IC1 (EUR) = 65147588, RC1 (EUR) = 65147589 RC1 (SEK) = 68014067, RC2 (SEK) = 68015239
• Telekurs ticker:	IC1 (EUR) = 10034579, RC1 (EUR) = 10034567 RC1 (SEK) = 10239523, RC2 (SEK) = 10239528

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