

October 2013 - Rhenman Healthcare Equity L/S

Monthly Update

October was a strong month for global equity markets after Washington, at the last moment, raised the debt ceiling and continued the funding of the federal budget. The global healthcare index rose by just over three percent. Biotech had a weak month and was down nearly three percent as a result of profit-taking and a deterioration in sentiment caused by the setback in Ariad (see more info below). The Fund had a weak month, falling by just over three per cent, partly due to the correction in the biotech sector and partly due to a relatively large holding in Ariad, a stock that fell by almost 90%. Sales activities of Iclusig, Ariad's cancer drug, were suspended in the United States due to the increasing problems with blood clotting. Despite attempts to reduce the dose, after patients responded to treatment, the company did not succeed in reversing the development of the side-effects. The FDA chose to be safe rather than sorry by stopping all ongoing clinical trials and also withdrawing the drug, but allowed continued treatment for patients who have no other options available. The company may not sell the drug in the US but may, however, give it away and consequently will not book any further U.S. sales.

The incident underlines the importance of minimizing the downside risks of individual investments at the Fund level and the associated need for sufficient diversification. The rule of thumb, to not risk more than one percent of the Fund's value in a single company-specific event, is a rule of thumb that is extremely difficult to apply in full because there are always unforeseeable risks. Nevertheless the rule of thumb is not without interest, but requires a deep systematic effort to examine investments partly against each other, and also by working with unlikely and highly improbable scenarios for the individual holdings. In the case of Ariad, a number of unfortunate circumstances coincided: first, cancer drugs are not usually among the categories that are primarily affected by suspensions. Cancer is almost always a struggle for life. Often in a clinical situation the doctor, in consultation with the patient, chooses to take risks in the choice of treatment in order to prolong and improve the patient's life. Second, Ariad's drug was already characterized as a drug of last resort, a drug that is used when other drugs no longer work or are not optimal. Third, its side-effects were well known and should not therefore have given rise to a review by the FDA unless an acceleration of the side-effects had been noted. From the FDA's point of view, however, the formulation of the problem gradually changed; the drug was starting to be used as a second-line treatment due to its impressive efficacy (i.e. before all other therapies were tried), and clinical trials were under way to eventually file for the approval as a first-line therapy. The FDA now wants to reconsider the conditions for the use of the drug and will probably convene an FDA panel in the coming months to review the conditions for its commercial reintroduction and possibly new clinical trials. Our current assessment is that the drug will be relaunched within six months to a year. Additional clinical trials in other indications may be reinitiated (as the drug is likely to be active in several other indications), but they will have to be started from scratch because the dose will have to be lowered.

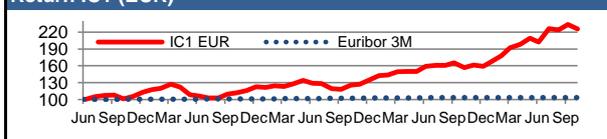
November and December are traditionally good months for equities and the conditions for a strong end to this year are good. October's correction in biotech was, after an outstanding year, pretty reasonable and appeared relatively benign, as companies took turns in going down and then stabilizing, and sometimes coming back during the course of the month. The third quarter results have been good to very good, and disappointments have been few. Biotech companies continue to attract glances from big corporates who are keen to acquire additional biotech projects and, as a result of low interest rates, would happily do so in the form of company takeovers, if possible. We are now entering a period where the stock market starts to discount profits for both 2014 and 2015. Profit growth for many companies will be high and a new generation of biotech companies will start turning profitable. Biotech will therefore continue to be an important part of the portfolio. We are pleased to see that interest in medical technology companies is on its way back across the board as economic conditions for the sector improve. Obamacare will lead to an increase in demand, which together with further growth in healthcare spending in emerging markets provides the prerequisites for a marked acceleration in profits for large pharmaceutical companies after the difficult patent expiry years of 2012/13. The outlook for most areas in which the Fund has exposure looks promising.

The Fund's largest positive contributions this month came from Alexion, McKesson and Gilead, while the largest negative contributors were Ariad, Celldex and Biomarin.

Return IC1 (EUR)

	Rhenman Healthcare Equity L/S IC1 (EUR)	3 Month Euribor (EUR)
October	-3.34%	0.02%
YTD	42.00%	0.18%
Since Inception (June 22, 2009)	125.66%	3.58%

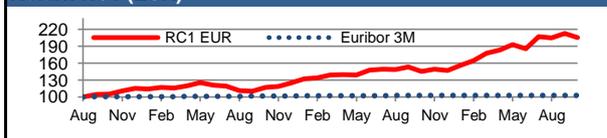
Return IC1 (EUR)



Return RC1 (EUR)

	Rhenman Healthcare Equity L/S RC1 (EUR)	3 Month Euribor (EUR)
October	-3.39%	0.02%
YTD	39.87%	0.18%
Since Inception (August 31, 2010)	105.49%	2.58%

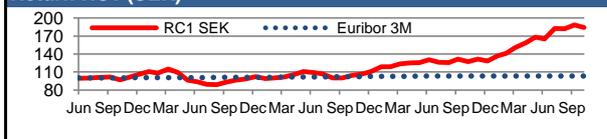
Return RC1 (EUR)



Return RC1 (SEK)

	Rhenman Healthcare Equity L/S RC1 (SEK)	3 Month Euribor (EUR)
October	-2.23%	0.02%
YTD	43.45%	0.18%
Since Inception (June 22, 2009)	84.41%	3.58%

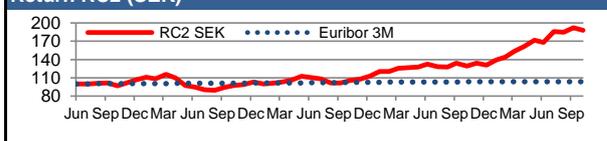
Return RC1 (SEK)



Return RC2 (SEK)

	Rhenman Healthcare Equity L/S RC2 (SEK)	3 Month Euribor (EUR)
October	-2.19%	0.02%
YTD	43.62%	0.18%
Since Inception (June 22, 2009)	87.86%	3.58%

Return RC2 (SEK)



IC1 (EUR) NAV per share													
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	116.17	122.73	
2011	121.53	124.28	123.35	127.79	134.24	129.26	128.19	119.36	118.28	125.67	127.48	134.59	
2012	142.42	143.99	149.51	150.29	150.07	159.07	160.74	160.74	165.47	156.93	161.34	158.92	
2013	168.92	178.11	191.91	198.41	209.10	202.53	225.87	223.66	233.45	225.66			
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	3.58	5.65	+8.34
2011	-0.98	2.26	-0.75	3.60	5.05	-3.71	-0.83	-6.89	-0.90	6.25	1.44	5.58	+9.66
2012	5.82	1.10	3.83	0.52	-0.15	6.00	1.05	0.00	2.94	-5.16	2.81	-1.50	+18.08
2013	6.29	5.44	7.75	3.39	5.39	-3.14	11.52	-0.98	4.38	-3.34			+42.00
RC1 (SEK) NAV per share													
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	98.29	102.16	
2011	98.91	100.22	101.80	105.28	111.04	109.04	107.03	100.09	100.29	104.24	106.42	111.05	
2012	118.78	118.87	123.79	125.05	125.79	130.61	126.17	125.85	131.65	127.25	131.60	128.55	
2013	136.76	141.24	150.89	158.78	168.47	165.25	182.72	181.89	188.61	188.61			
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	1.76	3.94	-4.30
2011	-3.18	1.32	1.58	3.42	5.47	-1.80	-1.84	-6.48	0.20	3.94	2.09	4.35	+8.70
2012	6.96	0.08	4.14	1.02	0.59	3.83	-3.40	-0.25	4.61	-3.34	3.42	-2.32	+15.76
2013	6.39	3.28	6.83	5.23	6.10	-1.91	10.57	-0.45	3.69	-2.23			+43.45
RC2 (SEK) NAV per share													
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	99.14	103.08	
2011	99.84	101.20	102.84	106.40	112.28	110.30	108.32	101.33	101.58	105.64	107.89	112.63	
2012	120.30	120.44	125.51	126.83	127.66	132.58	128.13	127.86	133.77	129.36	133.84	130.80	
2013	139.17	143.74	153.48	161.57	171.53	167.92	185.74	185.04	192.06	187.86			
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	1.81	3.97	-3.73
2011	-3.14	1.36	1.62	3.46	5.53	-1.76	-1.80	-6.45	0.25	4.00	2.13	4.39	+9.26
2012	6.81	0.12	4.21	1.05	0.65	3.85	-3.36	-0.21	4.62	-3.30	3.46	-2.27	+16.13
2013	6.40	3.28	6.78	5.27	6.16	-2.10	10.61	-0.38	3.79	-2.19			+43.62
Risk (IC1)			Exposure ⁴					Largest Long Positions					
Value at Risk, % ¹		2.0	Long					143% Roche					
Standard deviation, % ^{2,3}		17.3	Short					15% Biogen					
Sharpe ratio ^{2,3}		2.12	Gross					157% BioMarin					
			Net					128% Regeneron					
								Celgene					

1) For holdings on October 31. 2) Last 12 months.

3) Standard deviation and Sharpe ratio are annualized.

4) The exposure is adjusted for fund inflow at month end.

Currency Exposure (% of equity > 5%)					
USD	71%	EUR	9%	CHF	8%

Fund characteristics

- Target annual net returns in excess of 12% 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 60–80 core 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 2 500, SEK 500 RC2 = SEK 2 500 000
• Minimum top-up investment:	No minimum
• Management fee:	IC1 = 1.5 %, RC1 = 2%, RC2 = 1.5 %
• Hurdle rate:	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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