

January 2014 - Rhenman Healthcare Equity L/S

Monthly Update

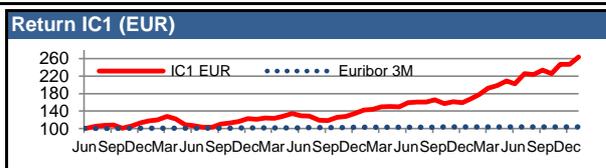
January turned out to be a decoupled month with weak markets overall as the world index fell by more than 3%, and for the emerging markets in particular, which fell further. On the other hand, the healthcare sector continued to show strength, particularly in biotech. Consequently the Fund far exceeded expectations with an appreciation of 6.9% in its base currency, the euro. In many emerging market countries, a need has arisen for interest rate increases and fiscal austerity measures which is worrying the stock market. A number of currencies in these countries are weak and, as an example, Argentina has devalued and also introduced a very restrictive monetary policy and price regulations. These developments in the currency markets can be viewed as if the dollar is appreciating against several such currencies. However, this has not yet happened against the euro since the Eurozone as a whole has a good current account balance and also tighter monetary policy than the United States. One could argue that financial policies are generally tighter in Europe than in the United States which further contributes to the strong and somewhat overvalued euro. The world is thus characterized by both a strong dollar and a strong euro against most other currencies, and this is affecting a number of emerging markets that are trying to manage currency developments and capital flows.

On the whole, however, emerging markets are in significantly better financial shape now, thanks to lower debt levels and better balance of payments, compared to the Asian crisis of the late 90s. We therefore look favourably on the prospects for global stock markets to recover from January's weak opening. The healthcare sector, on the other hand, probably needs to accumulate after a very strong 2013 and beginning of 2014. However, we continue to expect to be able to achieve our performance target of 12%, net of fees, for the full year 2014. The four sub-sectors of the healthcare sector (pharmaceuticals, biotechnology, medical technology and services) all have strong fundamental drivers and only the service sector has short-term question marks as a result of the U.S. insurance companies' difficulties in forecasting healthcare needs of those recently insured as a result of Obamacare.

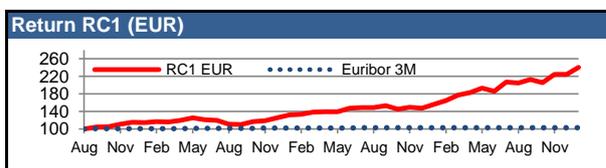
As usual, the month of January was full of company updates at the annual JP Morgan healthcare conference. Companies and investors are highly optimistic and the flow of capital into the healthcare space has been strong. Issuance activity has accelerated with many equity placements and IPOs. This strong optimism and high activity level is unfortunately an early warning sign of overheating, and we have now decided to reduce our net exposure and invest more defensively in the coming months. The U.S. biotech company Gilead is attracting considerable interest in connection with the launch of the drug Sovaldi against chronic hepatitis C. The stock market anticipates that this will be a record launch that has no parallel in history. Forecasts and estimates by some analysts indicate that Sovaldi could have sales of \$ 4 billion in the first year, possibly more. Nearly 2% of the world's population is infected with chronic hepatitis C, which can be a fatal disease if not treated. Previous therapies have not been satisfactory, neither in terms of side-effects nor efficacy. The new treatment therapies which will now be launched have very good efficacy and, on the whole, do not give rise to the earlier side-effects. Gilead is one of the fund's largest holdings, even though the stock has attracted a lot of attention and despite the risk of disappointments and possible multiple contraction as the company grows to be one of the sector's largest. Hepatitis C is an infectious disease, it is under-treated and the socio-economic gains from treating are great. The market for hepatitis C drugs should be one of the largest in the industry.

In the month of January, Pharmacyclis, NPS Pharmaceuticals and Incyte were the largest positive contributors while Active Biotech, Aegerion and Celgene were the biggest negative contributors. Active Biotech fell sharply after the company received a negative recommendation by the European authorities for its application for Nerventra (laquinimod), a treatment for multiple sclerosis. Pharmacyclis recovered its weak performance in December with good data reported in January for its leukemia drug ibrutinib. We look forward to an exciting year. It will be particularly interesting to follow any upcoming M&A activities and, if they continue to award the acquiring companies with rising share prices. In view of the prevailing low interest rate environment, we believe that this will be the case.

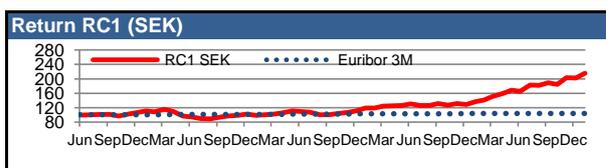
Return IC1 (EUR)			
	Rhenman Healthcare Equity L/S IC1 (EUR)	3 Month Euribor (EUR)	
January	6.94%	0.02%	
YTD	6.94%	0.02%	
Since Inception (June 22, 2009)	163.91%	3.64%	



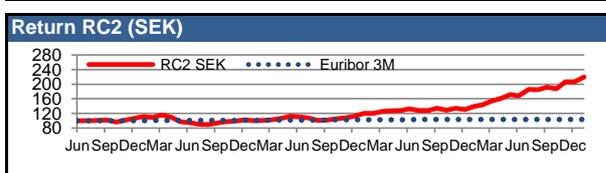
Return RC1 (EUR)			
	Rhenman Healthcare Equity L/S RC1 (EUR)	3 Month Euribor (EUR)	
January	6.90%	0.02%	
YTD	6.90%	0.02%	
Since Inception (August 31, 2010)	140.30%	2.64%	



Return RC1 (SEK)			
	Rhenman Healthcare Equity L/S RC1 (SEK)	3 Month Euribor (EUR)	
January	6.55%	0.02%	
YTD	6.55%	0.02%	
Since Inception (June 22, 2009)	115.63%	3.64%	



Return RC2 (SEK)			
	Rhenman Healthcare Equity L/S RC2 (SEK)	3 Month Euribor (EUR)	
January	6.58%	0.02%	
YTD	6.58%	0.02%	
Since Inception (June 22, 2009)	119.98%	3.64%	



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	246.67	246.79	
2014	263.91												
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	9.31	0.05	+55.29
2014	6.94												+6.94
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	184.41	203.02	202.38	
2014	215.63												
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	10.09	-0.32	+57.43
2014	6.55												+6.55
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	206.87	206.39	
2014	219.98												
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	10.12	-0.23	+57.79
2014	6.58												+6.58
Risk (IC1)			Exposure ⁴						Largest Long Positions				
Value at Risk, % ¹			2.3	Long				147%	Regeneron				
Standard deviation, % ^{2,3}			17.6	Short				12%	Gilead				
Sharpe ratio ^{2,3}			2.64	Gross				160%	Pharmacyclics				
				Net				135%	Biogen				
									Bayer				

1) For holdings on January 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	77%	EUR	8%
		DKK	5%

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) = RHLIC1 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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