

## April 2014 - Rhenman Healthcare Equity L/S

### Monthly Update

April was characterised both by geopolitical uncertainty centered on Ukraine, and also by increasing signs of the overall economy improving. Global stock markets rose slightly, while the healthcare index fell marginally. Within the healthcare sector the rotation towards large market cap companies continued, particularly towards the major pharmaceutical stocks. Valeant's bid for Allergan and Pfizer's indicative bid for Astra Zeneca and the restructuring activities involving Novartis, Glaxo and Eli Lilly overshadowed the strong Q1 results from large cap biotech. Small and mid-caps in both biotechnology and medical technology continued to fall. The service sector fared slightly better but not by much. Biotech has now fallen by 13% since the beginning of March. It is increasingly clear that investment banking activities, both in terms of IPOs and placements, flooded the market to such an extent that there was a significant negative impact on share prices overall in the sector. We believe that the large wave of IPOs is now behind us and that the number of placements will be severely limited going forward.

The Fund's main share class fell by 5.5%, measured in its base currency, the Euro. The decrease consisted of three main components: A fall in small and medium-sized companies in biotech and medical technology, around 3%, leverage (due to borrowing), around 1.5% and dollar weakness, nearly 1%. Biotechnology is now at an interesting place. Valuations are very attractive. Several of the major biotech companies have P/E ratios that are in line with, or lower than, both the average valuation of the S&P 500 (i.e. a general equity index) and most of the major pharmaceutical companies, based on 2017 estimated earnings. On 2017 profits, Amgen is now trading at 11x, Celgene at 10x, Biogen at 14x and Gilead at 8x. These ratios are remarkably low considering that these companies are growing faster than the average for both the S&P 500 and the major pharmaceutical companies, and that they also have better patent positions than the aforementioned companies. (In addition, it is possible to argue that biotech companies have better R&D portfolios, although this is harder to prove.) The reason for this relative valuation contraction may in part be a negative spillover effect from the smaller biotech companies. It may also be because traditional pharmaceutical companies are far more represented in the financial transactions that are now taking place, and that pharmaceutical companies are often seen as being particularly attractive in times of uncertainty.

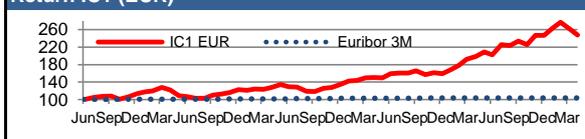
The three largest negative contributors for the month were Biomarin (a relatively large company that is not yet generating profits and which was thus particularly vulnerable when biotech sold off), Pharmacyclics (the market struggles to grasp the sales potential of their new leukemia drug even though it has very high efficacy, given that the underlying cancer grows slowly and that patients often are old when diagnosed) and Biogen Idec (trades at a high P/E multiple for 2014E at a time when companies with high P/E ratios have been hit particularly hard). The largest positive contributions came from Gilead (extremely strong sales), Alexion (strong sales and higher forecasts) and Alkermes (reported good phase-3 data for a wholly-owned drug for schizophrenia).

Despite a two-month decline for the Fund, we look upon the outlook for the current year positively. We are not buying young, newly-established companies but focusing instead on companies with positive cash flows. We continue to prefer growth companies over the traditional pharmaceutical companies unless financial transactions provide opportunities for significant short-term gains. We continue to own pharmaceutical companies with high levels of innovation. Generally speaking, the underlying pharmaceutical healthcare market continues to show good, stable sales growth in most regions.

#### Return IC1 (EUR)

	Rhenman Healthcare Equity L/S IC1 (EUR)	3 Month Euribor (EUR)
April	-5.54%	0.03%
YTD	0.41%	0.10%
Since Inception (June 22, 2009)	147.80%	3.71%

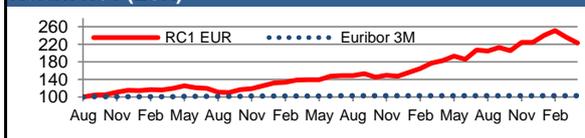
#### Return IC1 (EUR)



#### Return RC1 (EUR)

	Rhenman Healthcare Equity L/S RC1 (EUR)	3 Month Euribor (EUR)
April	-5.59%	0.03%
YTD	-0.70%	0.10%
Since Inception (August 31, 2010)	123.21%	2.72%

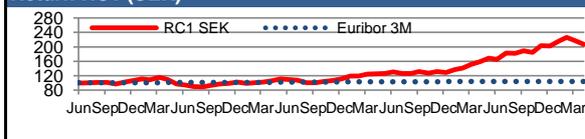
#### Return RC1 (EUR)



#### Return RC1 (SEK)

	Rhenman Healthcare Equity L/S RC1 (SEK)	3 Month Euribor (EUR)
April	-4.59%	0.03%
YTD	1.95%	0.10%
Since Inception (June 22, 2009)	106.33%	3.71%

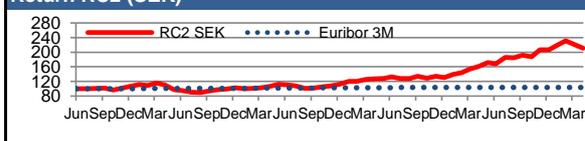
#### Return RC1 (SEK)



#### Return RC2 (SEK)

	Rhenman Healthcare Equity L/S RC2 (SEK)	3 Month Euribor (EUR)
April	-4.56%	0.03%
YTD	2.22%	0.10%
Since Inception (June 22, 2009)	110.98%	3.71%

#### 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	246.67	246.79	
2014	263.91	277.13	262.34	247.80									
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	5.01	-5.34	-5.54									+0.41
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	226.61	216.26	206.33									
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	5.09	-4.57	-4.59									+1.95
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	231.28	221.05	210.98									
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	5.14	-4.42	-4.56									+2.22
Risk (IC1)			Exposure <sup>4</sup>					Largest Long Positions					
Value at Risk, % <sup>1</sup>			3.7				Long		159%	Gilead			
Standard deviation, % <sup>2,3</sup>			21.7				Short		9%	Alexion			
Sharpe ratio <sup>2,3</sup>			1.1				Gross		169%	Biogen			
							Net		150%	Celgene			
										Bayer			

1) For holdings on April 30 (95% conf. Int, 250 days history). 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)			
USD	78%	EUR	8%
		DKK	3%



## 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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