



## HealthInvest October 2016 Letters

### MicroCap Fund Value Fund

#### DISCLAIMER

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Disputes or claims concerning the fund shall be resolved according to Swedish law and exclusively by Swedish courts of law. There is no guarantee that an investment in a fund managed by HealthInvest Partners cannot result in a loss. This applies irrespective of otherwise positive performance on the financial markets. Past performance is no guarantee of future results.

Information from the fund company shall not be considered a recommendation to invest in the Funds. Every person considering purchasing units in any of the Funds must make an independent assessment of such an investment and the risks associated therewith. Investments in the Funds should be seen as long-term investments.

Before you invest, you may want to review the Funds' prospectuses and simplified prospectuses, which contain more information about the Funds and their risks. You can find the Funds' prospectuses and other information about the Funds online at [www.healthinvest.se](http://www.healthinvest.se). You can also receive this information at no cost by calling +46 8 440 38 30 or by sending an e-mail request to [info@healthinvest.se](mailto:info@healthinvest.se).

## MARKET DEVELOPMENT

SmallCap healthcare companies had a weak month and MSCI World Small Health Care Index dropped 5.0% in SEK and 9.7% in USD. Especially biotech stocks had difficulties due to drug pricing concerns.

## FUND PERFORMANCE

HealthInvest MicroCap Fund rose 5.4% in October. Currency effects helped performance by 1.6 percentage points, indicating that the portfolio increased 3.8% in local currencies.

## MANAGEMENT, VALUATION & OUTLOOK

In October, we added three Japanese companies to the Fund:

DVx is a distributor of medical devices focused on cardiac arrhythmia (80% of total sales). Main products include pacemakers, ICDs and various catheters. The key strengths of DVx are a sharp focus on arrhythmia-related products, a veteran sales staff and its long track record of supplying large medical facilities. With a market share of 20%, DVx is expanding its market share as it continuously acquires new customers (its domestic market share was around 13% in 2008). The company has grown sales 11.7% CAGR the last three years with EBITDA margins around 5%. Valuation is appetizing at 17x free cash flow in our view.

EM Systems is a healthcare IT company with proprietary software helping pharmacies with the settlement and the claiming of proceeds from health insurers. The software is used by 13,000 pharmacies out of a target market of roughly 56,000 in Japan. EM Systems has a leading market share in Japan and has grown 7.9% CAGR the last three years with EBITDA margins above 17%. Shares are attractively priced at 16x free cash flow.

Rion is a Japanese hearing aid company with a leading market share domestically. Sales is not as fast growing (compared to DVx and EM systems) but still has increased at an acceptable 3% clip the last three years with increasing EBITDA margins (from 13.6% in 2012 to 15.4% in 2015). Shares are lowly valued at 10x free cash flow.

HealthInvest MicroCap Fund (as an aggregate) is currently trading at 15.1x free cash flow. This compares favorably to both the healthcare sector in general (17.2x) as well as to MSCI World Index (17.4x).

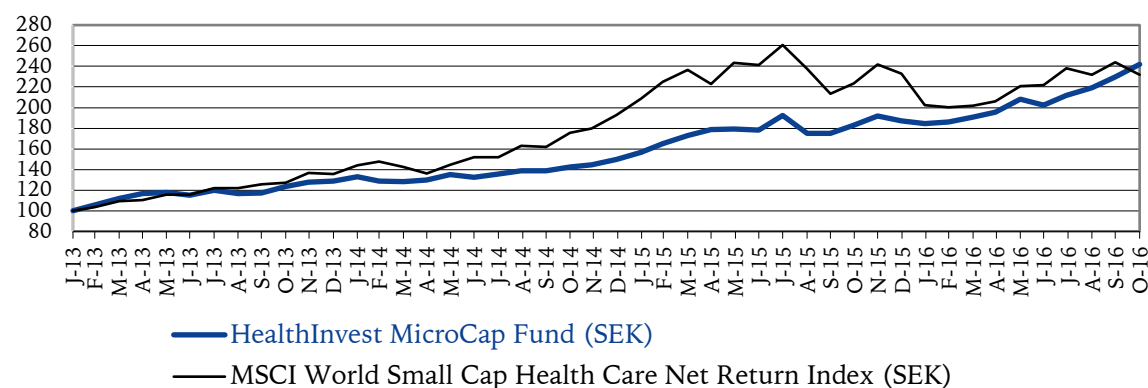
The Fund's net equity exposure was 92% at month end.

## FUND CHARACTERISTICS

HealthInvest MicroCap Fund invests in healthcare companies globally. The main focus is on microcap companies.

The investment approach includes an emphasis on low valuations and potential catalysts to boost shareholder value. The fund started operations on January 31, 2013.

## PERFORMANCE SINCE START (SEK)



## PERFORMANCE

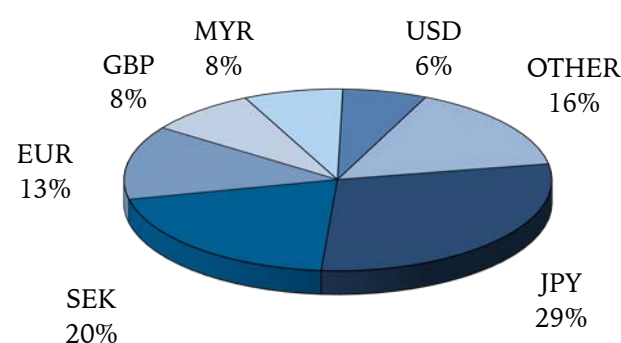
	NAV/Share	Oct*	2016*
HealthInvest MicroCap Fund (SEK)	227.0	5.4%	29.5%
MSCI World Small Cap Health (SEK)	22013.8	-5.0%	-0.4%
MSCI World Small Cap Health (USD)	2439.3	-9.7%	-6.7%

\*Net of fees

## RISK MEASURES

	24 months	Since start
Return	69.9%	141.6%
Sharpe ratio	2.19	2.14
Standard deviation	12.8%	11.3%
Beta vs MSCI World Small Cap HC Index	0.34	0.32
Downside risk	6.9%	5.7%
Active risk (tracking error)	17.7%	15.8%

## CURRENCY EXPOSURE



## SECTOR DISTRIBUTION (NET EXPOSURE)

HEALTH CARE SERVICES	20%
PHARMACEUTICALS	19%
HEALTH CARE SUPPLIES	15%
HEALTH CARE DISTRIBUTORS	14%
BIOTECHNOLOGY	12%
HEALTH CARE TECHNOLOGY	8%
HEALTH CARE EQUIPMENT	6%
OTHER	7%

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Past performance is no guarantee of future results. An investment can rise or fall in value and investors may fail to recover the invested capital. Information from the fund company shall not be considered a recommendation to invest in the Fund. Key investor information document (KIID) and prospectus can be obtained at [www.healthinvest.se](http://www.healthinvest.se). You can also receive this information at no cost by calling +46 8 440 38 30.

## MARKET DEVELOPMENT

Healthcare investor sentiment was negative in October as MSCI World Health Care Index decreased 6.9% in USD and 2.1% in SEK. Especially biotech stocks had a difficult month, plummeting 11.4% due to drug pricing concerns.

## FUND PERFORMANCE

HealthInvest Value Fund declined 1.8% in October (share class B-SEK), slightly better than benchmark index. Currency effects helped performance by 3.3 percentage points, indicating that the portfolio decreased 5.1% in local currencies.

## MANAGEMENT, VALUATION & OUTLOOK

In October, we added McKesson as a significant holding to the equity portfolio. McKesson is one of the oldest and largest health care companies in the United States, serving as a wholesaler more than 50% of US hospitals, 20% of physicians and 96% of the top 25 health insurer plans. The company delivers one third of all the medications in the US, and also distributes medical supplies, healthcare equipment and beauty care products.

Unfortunately, the timing of the investment was not stellar as McKesson reported disappointing quarterly results on 30 October and more importantly, downgraded its earnings outlook. In addition to a moderating drug pricing inflation (price inflation is favorable for distributors), several large client contracts with independent pharmacy groups seems to have been repriced at lower rates (the old contracts were far off current market rates). This will dampen the earnings power of McKesson in the short term. However, given the current stock valuation of 11x free cash flow, we stick to the investment.

HealthInvest Value Fund (as an aggregate) is currently trading at 12.1x free cash flow. This compares favourably to both the healthcare sector in general (17.2x) as well as to MSCI World Index (17.4x).

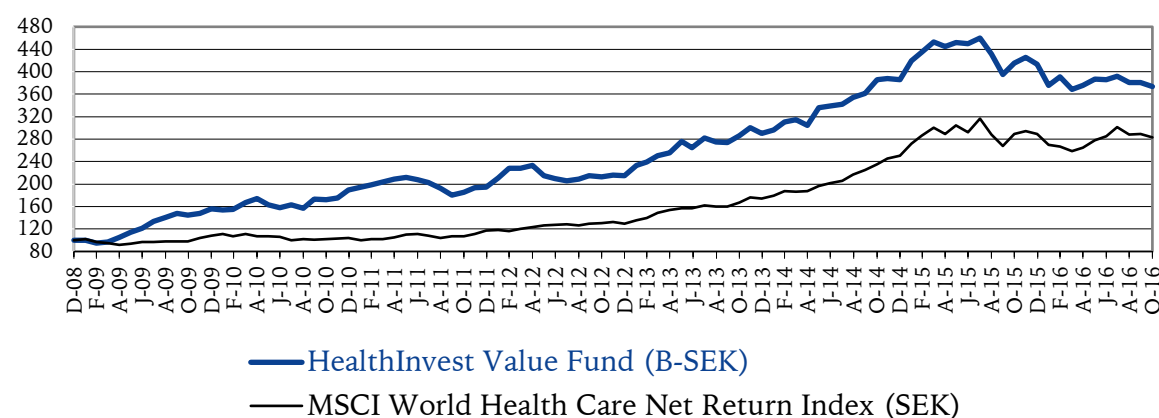
The Fund's net equity exposure was 85% at month end.

## FUND CHARACTERISTICS

HealthInvest Value Fund invests in healthcare companies globally with an emphasis on the US market. The focus is on profitable companies with easily understood business models.

The investment approach includes a strong emphasis on low valuations and potential catalysts to boost shareholder value. The fund was started on December 30, 2008.

## PERFORMANCE SINCE START (SEK)



## PERFORMANCE

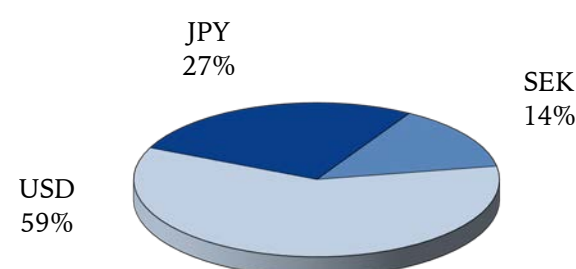
	NAV/Share	Oct*	2016*	Since start*
HealthInvest Value Fund (A-SEK)	354.4	-1.7%	-9.2%	290.6%
HealthInvest Value Fund (B-SEK)	129.7	-1.8%	-9.6%	272.4%
HealthInvest Value Fund (C-EUR)	11.7	-4.2%	-16.0%	299.6%
HealthInvest Value Fund (D-SEK)	95.0	-1.7%	-9.3%	338.0%
MSCI World Health Care Index (SEK)	2235.2	-2.1%	-2.2%	182.9%
MSCI World Health Care Index (USD)	247.7	-6.9%	-8.3%	146.3%

\*Net of fees

## RISK MEASURES (SHARE CLASS B-SEK)

	24 months	Since start
Return	-3.1%	272.4%
Sharpe ratio	-0.01	1.15
Standard deviation	14.9%	15.2%
Beta vs MSCI World Health Care Index	0.70	0.58
Downside risk	11.1%	8.3%
Active risk (tracking error)	9.1%	14.4%

## CURRENCY EXPOSURE



## SECTOR DISTRIBUTION (NET EXPOSURE)

PHARMACEUTICALS	25%
HEALTH CARE DISTRIBUTORS	14%
MANAGED HEALTH CARE	14%
HEALTH CARE SERVICES	14%
LIFE SCIENCES TOOLS & SERVICES	11%
BIOTECHNOLOGY	8%
HEALTH CARE SUPPLIES	5%
HEALTH CARE EQUIPMENT	5%
OTHER	3%

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