



## HealthInvest October 2017 Letters

### Small & MicroCap Fund Value Fund

#### DISCLAIMER

Funds managed by HealthInvest Partners AB ("the Funds") are funds pursuant to the Swedish Mutual Funds Act (2004:46). It is the responsibility of each and every person interested in investing in these Funds to ensure that the investment takes place in accordance with applicable laws and other regulations. Foreign law may entail that an investment cannot be made by an investor from outside Sweden. HealthInvest Partners has no responsibility whatsoever to verify whether an investment made from outside Sweden takes place in accordance with the laws of the relevant country.

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

Healthcare investor sentiment was rather neutral in October. MSCI World Health Care Index decreased 1.3% in USD, but increased 1.2% in SEK due to the strengthening US currency.

On the political front, the focus of President Trump and the Republican party seems to have shifted from healthcare to tax reform. If the current tax reform bill would be enacted, many US healthcare corporations stand to benefit as it will permanently lower the corporate tax rate to 20 percent and also sharply reduce taxes for companies with international earnings in an attempt to encourage corporations to bring back some of the trillions in profits overseas.

## FUND PERFORMANCE

HealthInvest Small & MicroCap Fund rose 2.9% in October (A-SEK). Currency effects helped performance by 1.3 percentage points, indicating that the portfolio rose 1.6% in local currencies.

## MANAGEMENT, VALUATION & OUTLOOK

In October, the Fund built up a position in the Korean company Neopharm. Its main product line, Atopalm, is a series of moisturising creams for babies suffering from atopic dermatitis (sensitive skin). The brand is currently number two in terms of market share in Korea and shows healthy growth. To boost sales growth even further, Neopharm uses a two-pronged strategy including: 1) The launch of Atopalm for babies into China and; 2) Developing an adult moisturizing product line (Real Barrier). Neopharm enjoys gross margins over 70% and given the strong sales growth outlook, it is not unlikely that shares will trade at less than 10x free cash flow in 2020, clearly appetising in our view.

HealthInvest Small & MicroCap Fund (as an aggregate) is currently trading at 19.2x free cash flow. This is in line with the valuation of the healthcare sector (18.5x) as well as MSCI World Index (20.0x).

Valuation of the healthcare sector is at an historically attractive level (8% discount to MSCI World Index). This indicates upside potential as the sector usually trades at a substantial premium (10%-15%) due to its high structural growth and relatively low cyclical of sales and earnings.

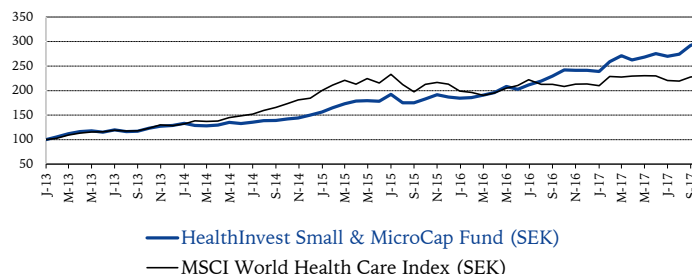
The Fund's net equity exposure was 103% at month end.

## FUND CHARACTERISTICS

HealthInvest Small & MicroCap Fund invests in small healthcare companies globally.

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

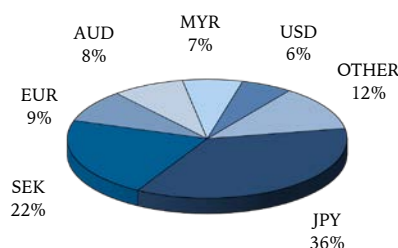
	NAV	Oct*	2017*	Since start*
HealthInvest Small & MicroCap (A-SEK)	276.6	2.9%	24.5%	200.0%
MSCI World Health Care Index (SEK)	2471.8	1.2%	8.0%	130.5%
MSCI World Health Care Index (USD)	295.2	-1.3%	17.2%	74.9%

\*Net of fees

## RISK MEASURES

	24 months	Since start
Return	64.9%	200.0%
Sharpe ratio	2.37	2.11
Standard deviation	11.2%	11.3%
Beta vs MSCI World Health Care Index	0.46	0.48
Downside risk	3.8%	5.4%
Active risk (tracking error)	11.5%	11.6%

## CURRENCY EXPOSURE



## SECTOR DISTRIBUTION (NET EXPOSURE)

PHARMACEUTICALS	25%
HEALTH CARE SERVICES	19%
HEALTH CARE EQUIPMENT	13%
HEALTH CARE SUPPLIES	12%
HEALTH CARE DISTRIBUTORS	9%
HEALTH CARE TECHNOLOGY	5%
LIFE SCIENCES TOOLS & SERVICES	5%
LIFE & HEALTH INSURANCE	4%
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

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## FUND PERFORMANCE

HealthInvest Value Fund increased 4.0% in October (share class B-SEK). Currency effects helped performance by 1.8 percentage points, indicating that the portfolio increased 2.2% in local currencies.

## MANAGEMENT, VALUATION & OUTLOOK

All but four of the Fund's holdings have now reported third quarter earnings and results have generally been favourable (median sales growth of 4.2% and median earnings per share growth of 11.9%). US diagnostic test company LabCorp came out on top, posting sales growth of 10%. On the weak side, US biopharma company Gilead Sciences' sales declined 13%. Gilead is facing tough competition which is pressuring drug prices and to some extent also volumes. However, the shares are trading at a 57% discount to the healthcare sector which is too steep in our view.

HealthInvest Value Fund (as an aggregate) is currently trading at 16.6x free cash flow. This compares favourably to both the healthcare sector (18.5x) as well as to MSCI World Index (20.0x).

Valuation of the healthcare sector is at an historically attractive level (8% discount to MSCI World Index). This indicates upside potential as the sector usually trades at a substantial premium (10%-15%) due to its high structural growth and relatively low cyclicity of sales and earnings.

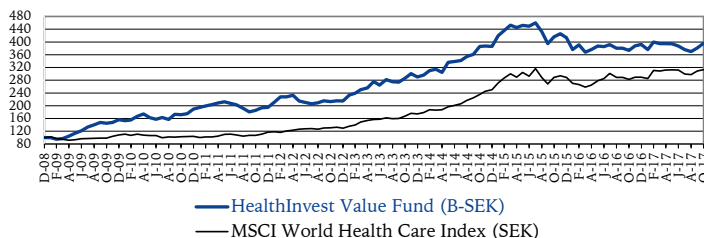
The Fund's net equity exposure was 83% at month end.

## 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

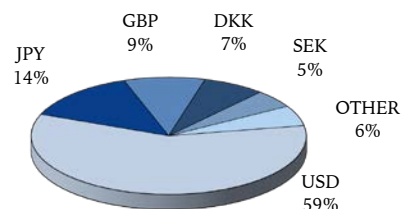
	NAV	Oct*	2017*	Since start*
HealthInvest Value Fund (A-SEK)	377.5	4.0%	1.5%	316.0%
HealthInvest Value Fund (B-SEK)	137.4	4.0%	1.1%	294.6%
HealthInvest Value Fund (C-EUR)	12.6	2.9%	-0.9%	328.5%
MSCI World Health Care Index (SEK)	2471.8	1.2%	8.0%	212.9%
MSCI World Health Care Index (USD)	295.2	-1.3%	17.2%	193.5%

\*Net of fees

## RISK MEASURES (SHARE CLASS B-SEK)

	24 months	Since start
Return	-4.7%	294.6%
Sharpe ratio	-0.09	1.10
Standard deviation	12.2%	14.8%
Beta vs MSCI World Health Care Index	0.81	0.60
Downside risk	9.1%	8.1%
Active risk (tracking error)	7.2%	13.7%

## CURRENCY EXPOSURE



## SECTOR DISTRIBUTION (NET EXPOSURE)

PHARMACEUTICALS	27%
BIOTECHNOLOGY	21%
MANAGED HEALTH CARE	13%
LIFE SCIENCES TOOLS & SERVICES	10%
HEALTH CARE EQUIPMENT	10%
HEALTH CARE SERVICES	10%
HEALTH CARE DISTRIBUTORS	7%

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