



## HealthInvest September 2018 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 positive in September. MSCI World Health Care Index increased 2.0% in USD, but decreased 1.0% in SEK due to the strengthening Swedish currency.

## FUND PERFORMANCE

HealthInvest Small & MicroCap Fund declined 1.3% in September (A-SEK).

## MANAGEMENT, VALUATION & OUTLOOK

During the month, a new currency hedging policy was implemented which aims to eliminate a substantial portion of the Fund's foreign currency exposure. Previously, no hedging occurred.

The Fund built up three significant equity positions:

Orexo is a Swedish specialty pharma company with revenues stemming mostly from its opioid addiction medication Zubsolv. The product is benefiting from the spreading US opioid epidemic and we expect Zubsolv sales to grow over 30% in 2018. The number of deaths from opioid overdose in the US has nearly doubled over the past seven years, with an increased dynamic more recently. Most important, Orexo recently won a major patent dispute which will protect Zubsolv US sales until 2032. Shares are attractively valued at 11x free cash flow.

Cardinal Health is a US distributor of drugs and medical equipment. The company has an enviable position since the volumes on the US drug market are expected to grow for decades to come thanks to an ageing population. However, its stock has performed poorly as the company has been surprised by tougher price competition at the same time as investors are concerned that Amazon will join the market for drug distribution. We believe these concerns are exaggerated, and that Cardinal will have the possibility to turn the tide. If this bears out, the valuation of 11x free cash flow is too low.

Cigna is a US health insurance company. Over the last five years, the company has increased earnings per share by 11% CAGR. Since the market for health insurance in the US is dominated by a relatively small number of players, it is difficult to see any direct threat to continued positive development. Cigna is valued at 15 times free cash flow, and we regard this as an attractive multiple.

HealthInvest Small & MicroCap Fund (as an aggregate) is currently trading at 16.6x free cash flow. This compares favorably to the global healthcare sector (20.3x) as well as to MSCI World Index (23.2x).

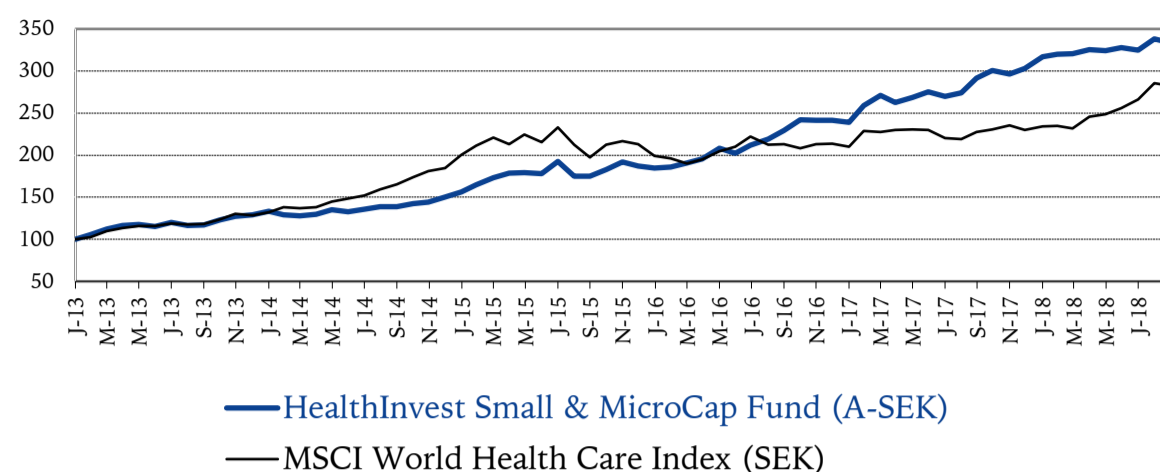
The Fund's net equity exposure was 93% at month end.

## FUND CHARACTERISTICS

HealthInvest Small & MicroCap Fund mainly 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

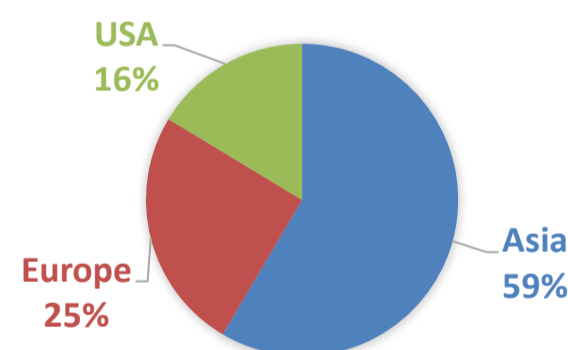
	NAV	Sept*	2018*	Since start*
HealthInvest Small & MicroCap (A-SEK)	307.4	-1.3%	10.1%	233.3%
HealthInvest Small & MicroCap (B-SEK)	110.5	-1.3%	9.7%	257.9%
MSCI World Health Care Index (SEK)	3031.8	-1.0%	22.9%	182.7%
MSCI World Health Care Index (USD)	341.4	2.0%	13.2%	102.3%

\*Net of fees. Share class B started on November 1, 2017. The historical return preceding that date is the return of HealthInvest Small & MicroCap Fund adjusted for the fee structure of share class B.

## RISK MEASURES (SHARE CLASS A-SEK)

	24 months	Since start
Return	45.4%	233.3%
Sharpe ratio	2.00	2.05
Standard deviation	10.0%	10.8%
Beta vs MSCI World Health Care Index	0.37	0.45
Downside risk	3.0%	5.0%
Active risk (tracking error)	11.2%	11.5%

## GEOGRAPHICAL DISTRIBUTION (NET EXPOSURE)



## SECTOR DISTRIBUTION (NET EXPOSURE)

HEALTH CARE EQUIPMENT	28%
PHARMACEUTICALS	21%
HEALTH CARE DISTRIBUTORS	11%
HEALTH CARE SERVICES	9%
BIOTECHNOLOGY	8%
LIFE SCIENCES TOOLS & SERVICES	7%
HEALTH CARE SUPPLIES	7%
MANAGED HEALTH CARE	5%
OTHER	5%

## DISCLAIMER

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 positive in September. MSCI World Health Care Index increased 2.0% in USD, but decreased 1.0% in SEK due to the strengthening Swedish currency.

## FUND PERFORMANCE

HealthInvest Value Fund was roughly unchanged in September (share class B-SEK).

## MANAGEMENT, VALUATION & OUTLOOK

In September, a new currency hedging policy was implemented which aims to eliminate a significant portion of the Fund's foreign currency exposure. Previously, no hedging occurred.

During the month, the Fund built up two equity positions:

Johnson & Johnson is a healthcare behemoth with three main business areas (pharmaceuticals, medical device and consumer). We are impressed by the stability of the company and its strong market shares. The earnings growth outlook is favourable as EPS is expected to rise around 12% annually the next three years (2017-2020, CAGR). Shares are reasonably valued at 20x free cash flow.

Merck is one of the world largest pharmaceutical companies and enjoys great success with Keytruda, an immunotherapy drug that works in many different cancer settings. Although global sales of Keytruda already amounts to around USD7bn, it may double the next four years, driving significant earnings growth for the company. In our view, shares are attractively valued at 21x free cash flow.

HealthInvest Value Fund (as an aggregate) is currently trading at 19.7x free cash flow. This compares favourably to the global healthcare sector (20.3x) as well as to MSCI World Index (23.2x).

The Fund's net equity exposure was 81% at month end.

Please note that the Fund will merge into HealthInvest Small & MicroCap Fund on December 12, 2018. Information about the merger has been sent to the unit holders and has been published on [www.healthinvest.se](http://www.healthinvest.se).

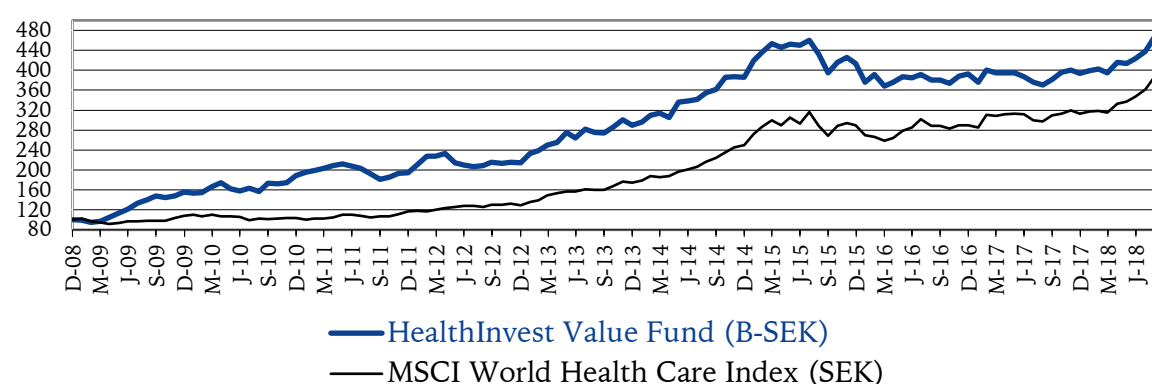
If you wish to obtain additional information on the merger or other information on your fund ownership, you are welcome to contact us.

## 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 started operations on December 30, 2008.

## PERFORMANCE SINCE START (SEK)



## PERFORMANCE

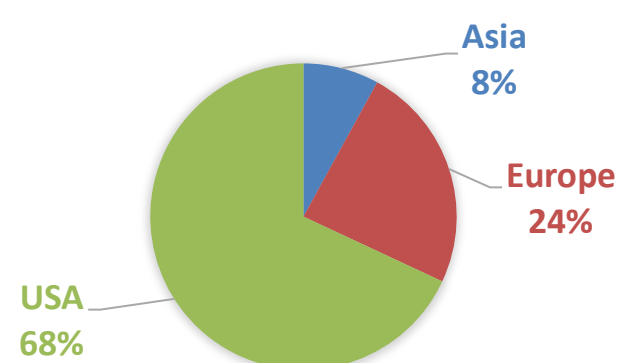
	NAV	Sept*	2018*	Since start*
HealthInvest Value Fund (A-SEK)	447.4	0.0%	19.2%	393.1%
HealthInvest Value Fund (B-SEK)	162.2	0.0%	18.8%	365.6%
HealthInvest Value Fund (C-EUR)	14.0	3.4%	12.9%	378.0%
MSCI World Health Care Index (SEK)	3031.8	-1.0%	22.9%	182.7%
MSCI World Health Care Index (USD)	341.4	2.0%	13.2%	102.3%

\*Net of fees. Share class B and C started on November 1, 2013. The returns preceding that date are the returns of HealthInvest Value Fund adjusted for the fee structure of share class B and C.

## RISK MEASURES (SHARE CLASS B-SEK)

	24 months	Since start
Return	18.8%	365.6%
Sharpe ratio	1.13	1.15
Standard deviation	10.1%	14.4%
Beta vs MSCI World Health Care Index	0.83	0.62
Downside risk	4.5%	7.7%
Active risk (tracking error)	4.4%	13.1%

## GEOGRAPHICAL DISTRIBUTION (NET EXPOSURE)



## SECTOR DISTRIBUTION (NET EXPOSURE)

PHARMACEUTICALS	51%
HEALTH CARE SERVICES	11%
MANAGED HEALTH CARE	9%
BIOTECHNOLOGY	8%
ELECTRONIC EQUIPMENT & INSTRUMENTS	8%
HEALTH CARE DISTRIBUTORS	8%
LIFE SCIENCES TOOLS & SERVICES	5%

## DISCLAIMER

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.