

Healthcare is Good to Have

Stockholm (HedgeNordic) – After a rough start to 2020, **Rhenman Healthcare Equity L/S** gained about 30 percent so far in the second quarter and broke into positive territory for the first time this year. The healthcare-focused, long-biased long/short equity fund managed by Henrik Rhenman and Susanna Urdmark (*pictured*) is up 2.6 percent year-to-date through the end of May after gaining 10.9 percent last month and 17 percent in April.

“May was another fantastic month followed by a great April,” Urdmark says in a monthly interview with Henrik Mitelman. The main share class of Rhenman Healthcare Equity L/S was up 2.6 percent in the first five months of 2020, “which we are quite happy about” considering that world equity indices were down about nine percent during the same period. “Surprisingly, it has been biotech and growth stocks that have been driving this development in performance,” explains Urdmark. “If we look at how the different sub-sectors have contributed to performance, biotech is the biggest contributor to this development.”

https://www.youtube.com/embed/dLK09_fFCns

One of the best performers in the fund’s highly diversified portfolio last month was Horizon Therapeutics, a U.S. pharmaceutical company specializing in rare diseases. “This is a company that we have owned for quite a while,” says Urdmark. “They have done an amazing job in transforming the company from selling not-so-complicated primary care products to focus more on rare diseases,” she reckons. Tepezza, an inhibitor for the treatment of thyroid eye disease, has been a very successful new launch at Horizon Therapeutics. “Before this drug, really the only option that patients had available was surgery,” explains Urdmark. “Now everyone is very happy about this new alternative and the company is seeing great potential for this drug.”

Detractors and COVID-19 Vaccines

Discussing the detractors from performance in the same interview, Henrik Rhenman says that “we usually either have a ‘dog’ [long-term loser] or some catastrophe.” According to Rhenman, “that’s the beauty of being so diversified as we are, because we can live with some mistakes.” The team’s “mistake of May was that we bought Gilead Sciences a little bit too early.” Gilead is working on ensuring global access to antiviral Remdesivir for COVID-19 patients. “It is going to be a big drug,” reckons Rhenman. Whereas some believe the demand for this product is temporary because of the potential roll-out of vaccines against COVID-19, Rhenman points out that history shows that “even with a vaccine for a disease, you always need treatment because not everyone is vaccinated.”

According to Rhenman, “it will take quite some time before the population at large is vaccinated.” Studies showed that patients with COVID-19 who were given Remdesivir recovered faster. “The beauty of this drug is that it works, it shortens hospitalization, and probably decreases mortality,” says Rhenman. The drug is “going to be used on a wide scale, but it is not a Panacea, it is not going to save the world from this disease,” reckons the founder of Rhenman & Partners Asset Management. Yet the drug “is going to impact the way we treat the diseases and that is very good,” says Rhenman. “It’s going to be a multi-billion-dollar drug,” he adds. “It’s a prediction, not a promise.”

On COVID-19 vaccine development, Urdmark points out that “everyone is getting more optimistic.” Vaccine development is generally a lengthy process. In the process of developing vaccines for COVID-19, “we have seen development stages being run in parallel rather than consequentially,

which means that we have been able to speed up this development,” she adds. “There are some 100 or so projects ongoing, of which about ten are in clinical development.”

Some projects are already showing promising results. “A couple of weeks ago, we got the first data from a phase I trial Moderna has been running, and they were able to show that their vaccine generates neutralizing antibodies,” says Urdmark. Yet “we still do not know what level of protection these antibodies have in protecting us from getting the disease and also how long this protection will last,” Urdmark acknowledges. She highlights that the World Health Organization (WHO) “believes that we could have a vaccine available sometime around at the end of this year or the beginning of next year.” Even so, “we are not going to be able to immunize the whole population,” Urdmark points out.

Valuations and Performance

Rhenman Healthcare Equity L/S delivered an annualized return of 19.1 percent since launching during the summer of 2009, reflecting the team’s positive view on the healthcare sector since the fund started. Henrik Rhenman remains optimistic about the healthcare sector. The sector’s price-to-earnings multiple has increased to reach the historical average of about 19. “Low interest rates, very expansionary monetary policy, the very good outlook for the pharmaceutical industry, a lot of drugs coming to the market and less political risks” are some factors behind the increase in valuations in the healthcare sector. “The corona-pandemic has taught us that healthcare is good to have.”