

Evolve Global Healthcare Enhanced Yield Fund

LIFE invests in top global healthcare companies, with the added value of a covered call strategy applied on up to 33% of the portfolio. Covered call options have the potential to provide extra income and help hedge long stock positions.

As at March 17, 2020



TICKER: LIFE (Hedged); LIFE.B (Unhedged); LIFE.U (USD)

UPDATE:

Health care is traditionally a defensive equity sector due to the general resilience of demand. This has also been the case in today's pandemic crisis. Despite negative returns, health care stocks continue to provide positive down-capture and there are even some bright spots in the sector.

Since the peak of the US equity market on February 19th to March 16th the S&P 500 has sold off by -29.41%, the S&P 500 Health Care Index has sold off -21.48%, an out performance of 7.93%.

Over the same period, the Evolve Global Healthcare Enhanced Yield Fund ("LIFE.U" – US dollar class) has lost -18.74%, an out performance of 10.67%. Put another way, LIFE has dropped only two-thirds as much as the broader equity market which is similar to the relative performance of health care stocks during the 2008 financial crisis. In addition, due to the covered call overlay, LIFE pays an attractive yield of 7%.

Some names in the Fund have actually posted positive returns over the period:

Gilead Sciences Inc. was a positive performer gaining 4.64% on news that their anti-viral drug Remdesivir could potentially play a role in treating COVID-19 patients. While conclusive testing is still underway, a patient was successfully treated in January. Although the news media is focused on a vaccine, the drug therapies to treat patients will be critical in saving lives.

Eli Lilly & Co. posted a positive return of 10.74% as investors seek the safety of large, dividend paying, health care companies. The company posted sales growth of 8% year-over-year for Q1/2020 and paid a 74 cent dividend driving the yield over 2%.

Two names in the portfolio have been granted emergency authorization from the US FDA to rapidly expand production of diagnostic tests for the novel coronavirus: Thermo Fischer Scientific Inc. aim to produce 5 million tests a week by April; the stock is up 5.88% month-to-date. Swiss diagnostics maker Roche Holding AG has been granted similar approval and is down only -1.6% month-to-date.

Testing kits are expected to be in high demand because they are viewed as a tool to facilitate the lifting of quarantine measures if enough tests can be conducted on a continual basis.





On Feb 21st we rolled our options into the March expiry. Given the levels of the markets at the time we made the decision to be fully deployed and wrote against the maximum 33% of the portfolio. This turned out to be a profitable decision.

At time of writing we have captured the full premium from this roll and closed all but one open contract. The remaining short call position is in Gilead which for reasons mentioned above continues to be a strong performer.

As we look to the next month, we are on the sidelines for the time being. While volatility remains high (the average implied volatility for calls 2-5% out of the money, one month from expiry is currently 60), premiums are not appropriately compensating us for the technical risk of selling at today's prices.

Bear markets are characterized by one-or-two day sharp rallies which can easily whipsaw a trader out of a short call position for a loss. In the past week we have seen many names move as much as 10% in either direction in a single day.

Our aim is to capture premium safely for investors and our risk systems are designed with that goal foremost in mind.

We are trailing the market down and will be establishing new calls when new lows have been confirmed for multiple trading sessions. We are looking for a breakout to either side. At the moment, the safest approach is to stay on the sidelines and respect the signals from our risk systems.

MACROECONOMIC HIGHLIGHTS:

The biggest story in global healthcare in February was, of course, the growing threat from the spread of COVID-19, the coronavirus that first emerged in late December 2019 and early January 2020.

While trading on global markets had been robust even until mid-February, an announcement of an outbreak in South Korea came late in the month, followed by new epicentres in Iran, Italy, and the United States (along with scattered infections in dozens of countries around the world and on every continent). At that point, coronavirus fears and precautionary measures quickly came to dominate global healthcare discussions as February wound down, and promised an even more eventful March.

With so much uncertainty and volatility in the stock market, the fund was down slightly (-5.43%) in February from its January performance. Despite this, however, there are some bright spots to highlight for several stocks held in the fund.

For example, the assistant director-general of the World Health Organization (WHO) said at a February press conference in Beijing that Gilead Sciences' drug Remdesivir may be the only



existing drug able to help treat coronavirus. Remdesivir is still considered experimental but has been used to treat the Ebola virus. Earlier in February, Gilead Sciences announced that it has been working with Chinese health authorities to see if Remdesivir can treat coronavirus symptoms. Gilead Sciences also revealed that in animal trials, Remdesivir had demonstrated some success in treating MERS and SARS (two viruses similar to coronavirus).ⁱ

In mid-February, Australia-based biotech company CSL Limited announced that it would provide technical expertise and a donation of its proprietary adjuvant technology to the University of Queensland to aid that institution's search for a coronavirus vaccine. CSL Limited also said it would make a US\$143,000 to the China Red Cross toward efforts to combat the epidemic.ⁱⁱ

French drug giant Sanofi said it would spin off a new company dedicated to creating the active ingredients for pharmaceuticals to offer European competition to a market currently dominated by Chinese and Indian manufacturers. The IPO for the new firm, which will be based in France, is expected in 2022 and could raise more than 1 billion euros.

Sanofi's CEO said the need for such a company had been brought "sharply into focus" by the risk of pharmaceutical supply chain disruption posed by the coronavirus outbreak. 60% of active pharmaceutical ingredients come from China, and 13% comes from India.ⁱⁱⁱ

Novo Nordisk A/S began a share repurchase program in February that aims to buy back B shares for an amount up to 2.9 billion Danish Krone. The repurchase program will run February 5 to May 4, 2020, inclusive.^{iv}

In non-coronavirus news, the US Food and Drug Administration (FDA) has accepted Roche's application for Priority Review for Tecentriq (atezolizumab) as a first-line monotherapy for people with advanced non-small cell lung cancers. A chemotherapy-free option, Tecentriq showed promise in early trials in increasing overall survival for people newly diagnosed with certain types of advanced non-small cell lung cancer. Roche has an extensive development program for Tecentriq, including testing in use against lung, genitourinary, skin, breast, gastrointestinal, gynecological, and head and neck cancers. This program will test Tecentriq both alone and in combination with other medicines.^v

The European Commission officially approved Pfizer's drug Vyndaqel for treating transthyretin amyloidosis in adult patients with cardiomyopathy. Use of the drug at a lower dose was previously approved, but sales were limited due to relatively lacklustre efficacy data. The results of the new dosage, however, were exemplary. Vyndaqel reduced the risk of death by 30% compared to placebo over a 30-month trial and reduced the frequency of cardiovascular-related hospitalization by 32%.^{vi}

PERFORMANCE ATTRIBUTION:

For February 2020, the best-performing stocks in LIFE were Gilead Sciences and AbbVie Inc. By weight, LIFE had the greatest exposure to Gilead Sciences, Roche Holding AG, and Novartis International AG.





SOURCES:

- ⁱ <https://www.cnn.com/2020/02/24/investing/gilead-sciences-coronavirus-who-remdesivir/index.html>
 - ⁱⁱ <https://www.genengnews.com/a-lists/how-to-conquer-coronavirus-top-35-treatments-in-development/>
 - ⁱⁱⁱ <https://www.statnews.com/2020/02/24/sanofi-to-start-pharmaceutical-ingredients-company-which-it-says-may-avert-future-shortages/>
 - ^{iv} <https://www.nasdaq.com/articles/stock-alert%3A-novo-nordisk-edges-up-2020-03-02>
 - ^v <https://www.roche.com/media/releases/med-cor-2020-02-19.htm>
 - ^{vi} <https://www.nasdaq.com/articles/pfizer-gains-european-approval-for-amyloidosis-drug-vyndaqel-2020-02-18>
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