

# Market Commentary

## Third Quarter 2019



### CI Global Health Sciences Corporate Class

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Class F returns (in %) as at September 30, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (08/08/2000)
CI Global Health Sciences Corporate Class	-5.1	-20.2	-2.4	1.6	11.2	6.8

Sources: Bloomberg Finance L.P.; Morningstar Direct; and Altrinsic Global Advisors, LLC, as at September 30, 2019.

#### Market Overview

- As we have seen in previous quarters over the years, large diversified pharmaceutical and medical device companies performed well, while smaller, focused companies did not. Although not a biotechnology fund, the Fund's biotechnology weight has edged up over the past few years. The reason is that a scientific revolution is occurring regarding innovation. This revolution is actually lowering the risk of drug development, allowing companies to get their drugs to market faster and with fewer resources. However, this innovation is happening away from the large pharmaceutical companies and in the hands of smaller companies. These types of companies are more susceptible to the emotional swings of the market leading to more volatility.

#### Performance Summary

- In the third quarter of 2019, Class F of CI Global Health Sciences Corporate Class (the "Fund") returned -8.9%, underperforming its blended benchmark (50% the NASDAQ Biotechnology Total Return Index and 50% the S&P 500 Pharmaceuticals Total Return Index), which returned -5.1% over the same period.
- The Fund's underperformance during the quarter was driven by its exposure to biotech stocks and its concentrated nature.

#### Contributors to Performance

- Sugi Holdings Co., Ltd., a Japanese retail pharmacy, continued to execute well, as drug fulfillment is shifting from the hospital and doctor's office to the pharmacy.



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- CVS Health Corp. was also a positive contributor. CVS, a U.S. retail pharmacy, closed its acquisition of U.S. health insurance company Aetna Inc. at the end of last year and offered poorly received 2019 guidance. In the two quarters since then, CVS has shown better-than-expected results, boosting the stock. In the future, we expect that CVS/Aetna will be able to slow rising U.S. health care costs for patients and gain market share for themselves.

### **Detractors from Performance**

- Detractors from performance included medical devices company Merit Medical Systems, Inc. While we had reduced the Fund's weight in Merit as it approached our estimate of intrinsic value, the company made a long-term business decision that negatively impacted its stock in the short term. A large customer asked Merit to supply competitive products. While this is new business for Merit, it came at margins that caused management to revise its earnings down. Merit could have turned down the business, but by accepting it, the company has cemented a key business relationship for the long term.
- Alexion Pharmaceuticals, Inc., which manufactures drugs to treat rare blood disorders, received negative regulatory reviews of its patent for key drug Soliris. Instead of the hoped-for 2027 patent expiry, there is the possibility of a 2021 patent expiry. While this is a negative development, Alexion is already rapidly converting its Soliris sales to the follow-on drug Ultomiris.

### **Portfolio Activity**

- We eliminated four companies from the Fund's portfolio during the quarter. Among them was Voyager Therapeutics, Inc., a company treating Parkinson's disease with gene therapy, which we sold after it reached our intrinsic value.
- No holdings were added to the Fund.

### **Outlook**

- The other notable event of the quarter involved Intercept Pharmaceuticals Inc., one of the Fund's largest holdings. Intercept filed a new drug application for non-alcoholic steatohepatitis (NASH). We believe the NASH opportunity is large and not reflected in Intercept's stock price. Approval and launch should occur in the middle of 2020.

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- Looking forward, we expect the volatility in health care to continue as the U.S. Democrats get closer to nominating their presidential candidate. We also expect to see clinical results in hemophilia from Sangamo Therapeutics Inc., ophthalmology gene therapy results from Applied Genetics Technology Corp., and epilepsy results from Xenon Pharmaceuticals Inc. All are Fund holdings.

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