

Quarterly Update: Smart Healthcare

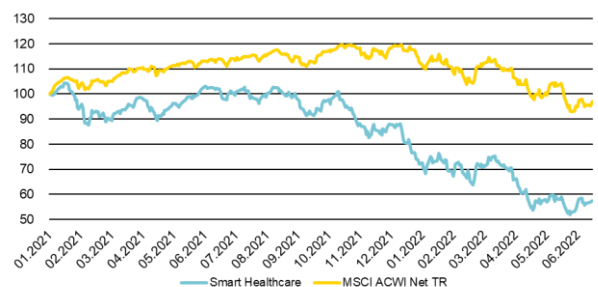
Big pharma stock held up well, health-tech companies under pressure



Summary

- Smart Healthcare performance below MSCI ACWI Index in Q2, but outperformance in June.
- Increase in Chinese stocks and reduction of companies with weak earnings profile.
- Positive outlook for companies addressing healthcare inefficiencies and labor shortages.

Graph 1: Net-Performance Vontobel Smart Healthcare AMC vs. MSCI ACWI TR Index, in USD



Source: MSCI, Vontobel. The return of the strategy may go down as well as up due to changes in rates of exchange between currencies. Past performance is not a reliable indicator of current or future performance.

Performance review Q2

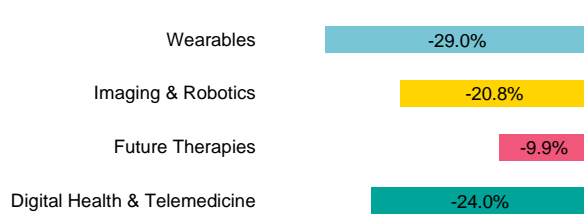
	1M	3M	YTD	1Y	ISSUANCE
Smart Healthcare	-5.3%	-24.3%	-36.3%	-45.5%	-44.3%
MSCI ACWI Net TR	-8.4%	-15.7%	-20.2%	-15.7%	-5.0%

Source: MSCI, Vontobel. The return of the strategy may go down as well as up due to changes in rates of exchange between currencies. Past performance is not a reliable indicator of current or future performance.

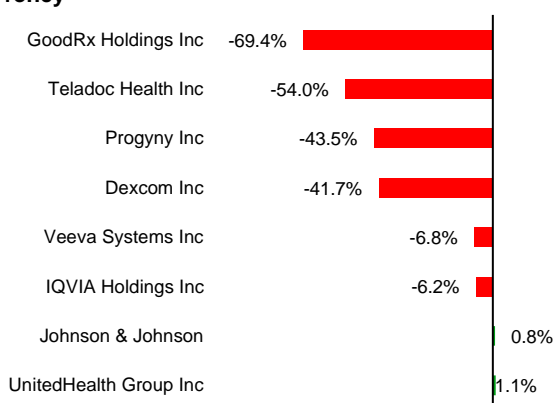
The strategic certificate on the Smart Healthcare Index lost 24.3% (net, in USD) in the second quarter, underperforming the broad equity market as measured by the MSCI ACWI Index. The environment for companies with new technology approaches to healthcare was challenging due to rising interest rates and the still prevalent aftermath of the Covid pandemic. While large pharmaceutical companies held steady in this environment, smaller and fast-growing companies with higher stock valuations sold off. This does not always reflect the business performance of these companies but is a consequence of the rise in inflation and rising interest rates.

While portfolio companies within the field of future therapies performed well in the past quarter, shares from the sub-themes' wearables and digital health & telemedicine were under strong pressure. GoodRx, an online comparison platform for drugs and medical services, showed a slowdown in growth because of the ongoing covid disruptions. In addition, the company was negatively impacted by a dispute with U.S. grocery chain Kroger and emerging competition from Amazon. Teladoc Health lost 54% in the quarter after the telehealth service presented disappointing numbers in its core chronic and mental health areas. While revenues almost quadrupled during the last 3 years, the share price trades below pre-pandemic levels. On the positive side, companies with large market capitalizations and stable earnings such as UnitedHealth and Johnson & Johnson help up steady in June. AI-healthcare company IQVIA and health-cloud provider Veeva showed strong quarterly results.

Graph 2: Performance sub-themes in Q2 (in USD)



Graph 3: Quarterly top/bottom performers, in local currency



Source: Vontobel, MSCI, Data as of 30.06.2022.

Transactions in Q2 2022

Due to the changing macro environment, the turnover in the portfolio was relatively high. A total of 17 shares were bought and 19 sold during the quarter. We sold companies with weak earnings profile and a disappointing outlook on the rest of the year. On the other hand, we bought companies with higher balance sheet quality and stable cash flows. In the medical technology sector, we saw buying opportunities in stocks such as Boston Scientific, Edwards Lifesciences and Bio-Rad. An overview of all transactions in the past quarter can be found at the end of this report.

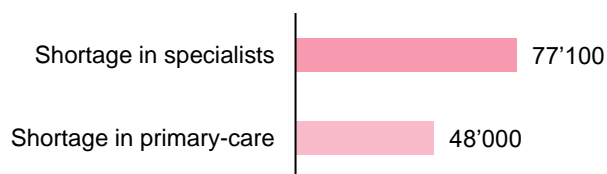
Outlook Smart Healthcare

The topic of "Smart Healthcare" is supported by demographic change and the shortage of healthcare workers (see chart 3). Companies that use more efficient technologies to counteract the shortcomings in the healthcare industry have the best prospects for sustainable growth and high margins. Three key questions are at the forefront of the stock selection process. i) Does the technology make the work of healthcare professionals easier? ii) Do the outcomes of preventive care/treatment for patients improve? iii) Does the solution lead to cost savings? The selection aims to invest in companies that find solutions to global healthcare challenges. Digitization plays a significant role and some of the key technologies are:

- **Electronic Medical Records (EMR)** - a relatively ripe sector with companies focused on collecting everyone's myriad health data and making it available to physicians at the touch of a button.
- **Revenue Cycle Management (RCM)** - focuses on optimizing the healthcare system's archaic payment systems with software and systems aimed at reducing receivables and ensuring that all benefits are collected on time.

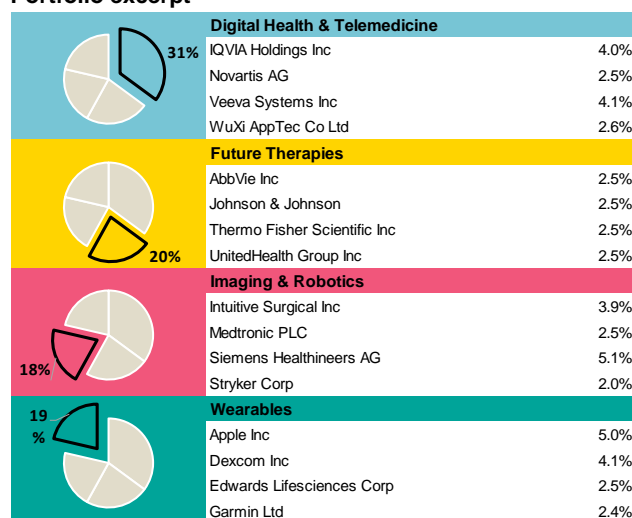
- **AI, Advanced analytics and software solutions** - a collective term for a range of software solutions that focus on Big Data and achieve better results from information that may already exist but is difficult to find or use.
- **Digital content and marketing for healthcare** - advertising revenue-driven, Internet-based solutions to healthcare problems such as recruitment, learning and sharing best practices.
- **Complete/home care/remote patient monitoring** - the increasing use of technology (sensors etc.) as a replacement/support for traditional physicians.

Grafik 3: Expected shortage of physicians in the U.S. by 2034



Source: Association of American Medical Colleges (AAMC)


Portfolio excerpt




Source: Vontobel, Data as of 30.06.2022.

Strategic Certificate on the Smart Healthcare Index		
Reference currency	ISIN	Mgmt. fee
CHF	CH0581517833	1.25%
EUR	DE000VP9VJW7	1.25%
USD	CH0573915805	1.25%

Transactions in Q2 2022

STOCKS BOUGHT 	
Argenx	<ul style="list-style-type: none"> Global biotechnology company in the field of immunology. Efgartigimod is the first antibody fragment in its class to target the neonatal Fc receptor (FcRn).
ABIOMED	<ul style="list-style-type: none"> Manufacturer of minimally invasive heart pumps
Agilent Technologies	<ul style="list-style-type: none"> Leading life sciences and chemical analysis provider
AbbVie	<ul style="list-style-type: none"> Improving operating margins and solid organic growth
Boston Scientific	<ul style="list-style-type: none"> Provider of precision medicine, genetics and genomics for immunology, oncology, neuroscience and virology. P/E ratio of 11x (2022e) below peer group.
Bio-Rad Laboratories	<ul style="list-style-type: none"> Diversified and conservative medtech company in the cardiovascular space.
Edwards Lifesciences	<ul style="list-style-type: none"> Trades in-line with industry average based on PE, despite better outlook.
Garmin	<ul style="list-style-type: none"> Life science and diagnostics company with broad product portfolio
Hologic	<ul style="list-style-type: none"> Increasing growth, high cash on balance sheet
Horizon Therapeutics	<ul style="list-style-type: none"> Leading transcatheter aortic valve replacement company
Illumina	<ul style="list-style-type: none"> Strong growth expected in India and China
iRhythm Technologies	<ul style="list-style-type: none"> Technology leader in fitness/outdoor wearables
Novartis	<ul style="list-style-type: none"> Unique features such as Heart Rate Variability
Penumbra	<ul style="list-style-type: none"> Diagnostics provider in growing women's health market
ResMed	<ul style="list-style-type: none"> Stable cash flows, numerous new products in pipeline
Shenzhen Mindray	<ul style="list-style-type: none"> Medicine in core areas of rare diseases and autoimmune disorders
Wuxi AppTex	<ul style="list-style-type: none"> Historically low P/E ratio, increasing cash flows

STOCKS SOLD 	
Abbott Laboratories	<ul style="list-style-type: none"> Covid Tests sales should decline significantly
Accolade	<ul style="list-style-type: none"> Weak quarterly results and current difficult environment due to negative cash flows
CRISPR Therapeutics	<ul style="list-style-type: none"> No profit outlook in the next few years and negative cash flows
Doximity	<ul style="list-style-type: none"> Recent share price increase triggered our sell
Guardant Health	<ul style="list-style-type: none"> High valuation and volatile end markets in web spending for pharmaceuticals
10x Genomics	<ul style="list-style-type: none"> Little visibility after weak Q1 results. Company is loss making
1Life Healthcare	<ul style="list-style-type: none"> 2022 outlook would be lowered, stock expensive based on new outlook
Health Catalyst	<ul style="list-style-type: none"> Acquisition rumors drove price up in June, sold due to no profitability
HealthEquity	<ul style="list-style-type: none"> No positive EBITDA expected before 2023. Uninteresting in current environment
Masimo	<ul style="list-style-type: none"> Sold after 50% rise in first half due to high valuation
Neurocrine Biosciences	<ul style="list-style-type: none"> Supply chain difficulties for critical electrical components led to outlook cut
OptimizeRx	<ul style="list-style-type: none"> Patent dispute with Apple
Pfizer	<ul style="list-style-type: none"> Profit taking after buying the stock in Q1
Pacific Biosciences	<ul style="list-style-type: none"> Short-term headwinds, long-term attractive healthcare technology company
Roche	<ul style="list-style-type: none"> COVID sales expected to weaken, pipeline of other drugs rather weak and strong USD causing difficulties
Siegfried Holding	<ul style="list-style-type: none"> Conservative outlook. High risk of missing quarterly results due to dependence on few customer (purchase price of gene sequencing machines amounts to several million USD)
Signify Health	<ul style="list-style-type: none"> Uncertainties in the second half of the year (fewer COVID tests, inflation, Russia)
Schrodinger	<ul style="list-style-type: none"> We prefer Lonza due to higher margins
ViewRay	<ul style="list-style-type: none"> Good long-term prospects in in-home-care but weak ECS business

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Vontobel Wealth Management
T +41 58 283 71 11
wealthmanagement@vontobel.com

vontobel.com/wm