



KIEGER HEALTHCARE Monthly Commentary

Zurich, 4 May 2021

Healthcare rebounds after a subdued Q1

The MSCI World Healthcare NR Index gained 3.8% in April, while the MSCI World NR Index increased 4.7%. Re-opening/cyclical sectors suffered a temporary sharp selloff during the month. 10-year Treasury yields also backed down (from a peak of 1.74% at March-end to 1.64% today), potentially indicating some risk that it is too early to sound the all-clear on COVID-19.

Within the Healthcare sector, Life Sciences Tools & Services had a strong month, helped by quarterly results, M&A (PPD, IQVIA) and vaccine production-related news (Avantor, Sartorius). Equipment & Supplies also enjoyed above-average returns (positive quarterly results, the anticipated resumption of elective procedures and rebound from the February/March selloff). Pharma performance was below-average, due to mixed quarterly results and other stock-specific news.

The Q1 reporting season is in full swing with, at the time of writing, 47% of MSCI World Healthcare firms having released their numbers. 72% of companies have beaten EPS expectations, with a 3.6% aggregate upside surprise (below historical average). In terms of revenues, market expectations have been exceeded by a 0.2% in aggregate, 67% of firms having surprised positively. Providers & Services (stock-specific drivers), Life Sciences (broad-based rebound, vaccine manufacturing or point of care test providers) and MedTech (benefitting from vaccination campaigns in developed countries and the resumption of elective procedures) are the main contributors. Pharma lies at the other end of the spectrum, either because the firms have still not returned to pre-COVID-19 patient volume levels or because of other specific issues.

In the spotlight

COVID-19 treatments:

AstraZeneca: In Europe, 300 (out of 33.6mn) people to whom the AstraZeneca vaccine was injected developed blood clots, some fatal. On 7 April, the European Medicines Agency (EMA) concluded to a possible link between the vaccine and these blood clots, but also reaffirmed that benefits outweigh risks. Still, Europe remains divided on the use of AstraZeneca's vaccine, with many western countries halting/administering it only to the elderly and almost all eastern nations continuing to inject it to all adults.

Johnson & Johnson: On 13 April, the FDA asked the states to halt usage of the vaccine. This followed reports that, within 14 days of receiving the injection, a couple of women developed blood clots. As a result, the company decided to delay the rollout of its vaccine in Europe (where it had been approved in March) while the EMA reassessed risks. On 20 April, Johnson & Johnson announced that it would resume shipments to Europe, after the EMA had stated that the benefits of the vaccine would outweigh the risks but called for a note of warning on its label. On 23 April, the FDA ended its recommended pause.

Pfizer/BioNTech: The firms have requested FDA vaccine clearance for the 12-18 age group, following robust antibody responses in a phase 3 US clinical trial. Note also that Israel is examining a small number of cases of heart inflammation in adults having received the vaccine.

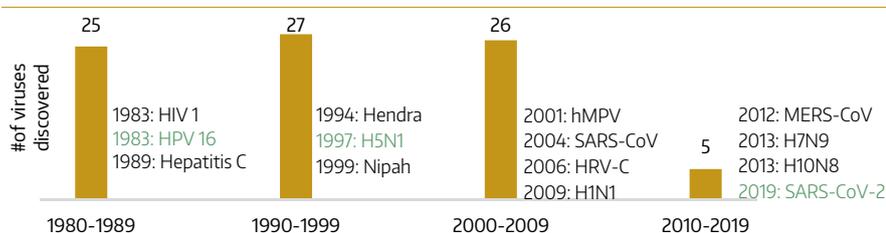
Moderna during its vaccine day said that it will make a third booster shot available by the fall. Further, they raised their 2021 vaccine-supply forecast to 800mn-1bn doses and further expects to increase capacity in 2022 to up to 3bn shots.

Roche and Regeneron announced positive results of a phase 3 trial of their antibody cocktail (casirivimab and imdevimab) in preventing COVID-19 contagion to household contacts of infected individuals. The cocktail reduced the risk of symptomatic infections by 81% in those uninfected when they entered the trial. This data is being shared with the FDA and EMA.

M&A: activity in the CRO space remains high, with Thermo Fisher having reached an agreement to buy PPD for USD 17.4bn, thus completing its offering to Pharma and Biotech customers by providing also clinical research services. The deal was announced only weeks after ICON acquired PRA (USD 12bn) and LabCorp stated (pressed by activist investor Jana) that it will review its combined Diagnostics-CRO structure.

Politics: Democrats leaned on Joe Biden to include Medicare expansion and prescription drug measures in his USD 1.8trn "American Families Plan" (AFP) proposal. When the AFP was officially presented on 28 April, these two themes were nonetheless not included, Biden wanting to treat healthcare as a separate topic.

Chart of the Month: Many unaddressed viruses have emerged over the past 40 years



Source: Moderna

Over the past four decades, more than 80 viruses have been discovered, of which the best known are listed above. But only three vaccines against these viruses have been developed since 1980 (in green): against the 1983 human papillomavirus (HPV 16), against the 1997 Bird Flu (H5N1) and against the 2019 Coronavirus (SARS-CoV-2). This latest pandemic is a strong proof of concept for mRNA-based vaccines, which have the potential to not only tackle many of the unaddressed viruses but also disrupt existing vaccine markets and other disease areas (e.g. oncology).

Kieger Healthcare Team



Dr. Maria Specogna
Lead Manager Sustainable
Healthcare Fund
+41 44 444 1828
maria.specogna@kieger.com



Urban Fritsche
Lead Manager Impact Healthcare
Fund
+41 44 444 1858
urban.fritsche@kieger.com



Raphael Oesch, CFA
Lead Manager Healthcare Blue Chip
Fund
+41 44 444 1849
raphael.oesch@kieger.com



Alexandra Egg, CFA
Research Analyst
+41 44 444 1829
alexandra.egg@kieger.com



Flavio Mancino, CFA
Research Analyst
+41 44 444 1626
flavio.mancino@kieger.com



Camille Rigaud, CFA
Research Analyst
+41 44 444 1857
camille.rigaud@kieger.com

For a comprehensive overview of our investment strategies please contact us:

Kieger AG

+41 44 444 1844
Limmatstrasse 264, 8005 Zurich
info@kieger.com
www.kieger.com

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