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EMERGING HEALTHCARE

Monthly Update
October 2020

As of October 20th , the PVG Emerging Healthcare Strategy is up 12.62% for 2020 thus far. PVG began offering this composite recently, the management of PVG has been managing this type of strategy since 2012, and are now offering it for all PVG customers. The strategy is very unique, as it is focused generally on small emerging healthcare companies primarily in the biotech sector. Over the years, very many public biotech stocks have been created by Wall Street, this has created a lot of inefficacy in the market allowing investors that do the appropriate research to garner very attractive returns. This sector is a high risk and high return investment, which we try to reduce the risk and increase return with in-depth research.

Our research focuses on several key factors. We like companies that have significant cash to fund their product development, this is critical to having a good stock otherwise there is an overhang and limits the upside. Secondly, we want a solid pipeline of potential drugs that have good clinical data and likelihood of approval. We really like late stage drugs where the clinical data has been efficacious. There are other aspects as well we focus on that leads to likely approval and avoid long-shots. Lastly, good management in this sector is critical. Many management teams are led by scientific teams, but we also look for a pedigree of success in clinical development and business savvy.

We would encourage investors that use this strategy to take a multi-year approach to their time horizon, as the short-term there is generally not a high degree of correlation with the market as the success of the stocks in the strategy have very little link with the economy or monetary policy. This strategy depends on the individual success of the companies. Some companies will not succeed while others could have extraordinary upside.

We believe we are in a very fertile environment for these types of companies to succeed. Many companies have been pushing their drugs through their trials and are maturing. There has been plenty of investor money available to fund these trials. Drug development over the years is vastly improved allowing for more efficient use of capital and success. There is now even a group of companies that use artificial intelligence or computer science to create drugs and increase their odds of success. The FDA has been wonderful in working to speed up the development time of drug approval and has incentivize companies to focus on small unmet medical diseases called orphan drugs (not related to age). Companies that develop orphan drugs can get approval very quickly and provide investors with very significant returns very quickly. We really like companies that focus on orphan drugs.

We are very optimistic on this sector. We see very strong returns if our companies are successful. We have a portfolio concentrated on small companies and have diversified the risk in terms of individual stock holdings, but clearly it is not diversified by sector, it is primarily focused only on healthcare. The historical returns have been very strong, and we would expect these trends to continue in perhaps a lumpy fashion. We would weight this strategy appropriately for each individual investor depending on their risk tolerance.