EMERGING HEALTHCARE

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Overview
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In our opinion, the two most interesting sectors of the market are healthcare and technology. The technology sector has matured over the years and is dominated by very large monopolistic companies, just the opposite is true for healthcare. The innovation is largely with the smaller companies, the large drug companies need the small companies for their eventual pipelines of new drugs via acquisition. There are around 800 emerging healthcare companies, far larger than any other sector. This creates opportunity in information flow for astute investors.

Investing in emerging healthcare stocks is high-risk and can have high volatility as many stocks in this sector are small cap and have low stock prices. Drug development is a high-risk endeavor. The drug either works or it does not. When stocks in this sector have positive news, they tend to have very exaggerated moves to the upside. As an example, Axsome (AXSM), a company we know well went from a low of a $1.00 to over $100 in less than a year in 2018/2019. There are also other examples of numerous biotechnology companies that also fail their trials causing their stocks to torpedo down.

We try to focus on companies that have multiple drugs or devices in their pipeline, so if a drug does not work the stock may fall to it cash value on the balance sheet, but there still may be significant value. We believe the balance sheet is important part of our investment selection process and look for companies trading as close to cash as possible. We like companies that are fully financed through critical data or approval. We are willing to take more risk if a stock has massive upside in front of phase 3 data and the data looks compelling in earlier trials.

A couple of examples of stocks we find attractive are VNDA and VBLT. VNDA is generating about $248 million in revenues with 2 drugs and growing with 8 other indications either in phase 3 or waiting for FDA approval. The stock has a $900 million market cap, $370 million in cash, and the company is profitable. The other example, VBLT is much more speculative, has $125 million market cap, about $50 million in cash, and could file for approval by the end of the year on a very unique cancer drug. This cancer drug is a gene therapy, in which it tells the tumor to die, grow new antigens and turns the tumor from cold to hot so chemo and also kill it. This stock could be 10x higher or more in 12 months. We believe the risk/reward is compelling. We have about 30 stocks in the portfolio that we believe have compelling upside.

Overview:

- The portfolio is focused on emerging healthcare stocks primarily drug development, biotechnology, medical devices, and digital monitoring. Major areas of interest, cancer, orphan drugs, drug development using artificial intelligence, and unique devices such as mobile monitoring.

- Approximately 30 stocks to diversify individual stock risk.

- Security selection criteria of 5x-10x upside potential over a 5-year or less time horizon.

- There are over 800 emerging healthcare stocks in total, making the universe inefficient, allowing for superior returns through security selection.

- Superior research as PVG tracks the pipeline progress of drugs being developed through their proprietary database. Additionally, the companies' reported cash position on their balance sheet, cash burn, and market cap. This is a screen and monitoring process of a large number of stocks, looking for well-funded companies, that are undervalued, with late-stage clinical assets. PVG does in-depth analysis on each company, with frequent communications with company management.

- We realize timing is everything and overweight the stocks with catalysts with the greatest near-term potential and the least amount of risk. As a result, we have a portfolio of stocks with big upside potential.

- The manager has a superior track record and extensive history.

- Average annual return of over 40%, up 45.8% in 2020, and up 1.4% for the first quarter. The returns may be very uneven and non-correlated with the overall market.