

# STANDARD & POOR'S



August 2011

## FCP OP MEDICAL BIOHEALTH-TRENDS FUND

Luxembourg-domiciled FCP - Part 1

Fund owner: Oppenheim Asset Management Services s.à r.l.

Fund manager/adviser: Medical Strategy GmbH

### Named portfolio manager/adviser(s):

Michael Fischer (since launch), Harald Schwarz (since launch) / Team

Peer group: biotechnology equities

Location: Gräfelfing

Launch date: October 2000

Fund size (June 2011): €106.85m

Contact group: +49 89 2727 2412 or

www.medicalstrategy.de

Further information on S&P's fund coverage can be found at [www.FundsInsights.com](http://www.FundsInsights.com)

### Investment style

	Value	Blend	Growth
Large-cap			
Mid-cap			
Small-cap			

### Performance statistics

	Three years
Fund	54.8%
Standard & Poor's peer median	15.7%
Index**	20.1%
Fund rank	6/80
Volatility-adjusted ranking	14/80

\*\* S&P Global 1200 Sec/Healthcare

Note: returns are cumulative

### Risk characteristics

	Three years
Maximum monthly drawdown (%)	-22.5
Volatility	27.4
Correlation	0.8
Beta	1.2

### Calendar-year decile ranks



Decile ranking in discrete annual periods. First decile shown as rank 10, second decile as rank nine with tenth decile as rank one.

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### Standard & Poor's opinion (August 2011)

The fund's adviser, Medical Strategy, is a specialist boutique, formed in 1994 by Michael Fischer, to focus exclusively on investing in biotech and healthcare companies. Both he and his co-manager, Harald Schwarz, have worked together for over 10 years, creating a constantly updated database of over 800 companies which, subject to product lines and financials, represent an investment opportunity.

The team uses this valuable resource to find companies with new products that can drive future earnings. Although Fischer and Schwarz have medical/pharma backgrounds, a three-man scientific council is also used to help gain a deeper understanding of the medical issues involved.

Portfolio construction follows a disciplined, bottom-up value approach, investing as an all-cap portfolio, but with a clear mid-/small-cap bias. Novartis and GlaxoSmithKline, for example, are both top 10 holdings in the current portfolio, but over 67% of the assets are in companies capitalised below \$2bn.

There is also a strong emphasis on product developers, rather than service providers, with typically, over 50% of the fund invested in companies that have a profitable product on the market, or are very close to doing so. Risk is controlled via diversification by sub-sector, company size, product type and the product's stage of development. Sales reflect price targets, changing fundamentals, or a takeover.

Performance can be volatile, like most funds in the sector, but the long-term track record is strong, which coupled with the team's consistent approach and experience, fully support an S&P AA rating.

### Fund manager & team

This fund is advised by Medical Strategy, a boutique specialising in biotechnology and healthcare investments. Led by Michael Fischer, the firm comprises three more fund manager/analysts, plus support staff, and manages around €165m. Three of the team have worked together for over 10 years. The average experience is over 15 years. A three-man scientific council is employed to help gain a deeper understanding of the medical issues involved.

Michael Fischer - owner and general manager - MD human medicine (Munich University), was CEO and partner of MCS from 1982 until 1997 and founded Medical Strategy in 1992 to offer advisory services in healthcare and biotechnology.

Harald Schwarz - economics (Berlin University), worked for various pharmaceutical companies from 1977 to 2000 and was managing director at MSD Chibret Pharma from 1994 until joining Medical Strategy in 2000.

Jürgen Harter - has over 20 years' experience in banking and fund management. He joined Medical Strategy in 2000.

Stefan Kraft - MA economics (Ludwig-Maximilians-University, Munich) joined the team in February 2010 after a three-month internship in 2009

### Management style

The fund invests exclusively in the biotechnology, emerging pharmaceuticals and medtech sectors, often with a bias towards companies capitalised between \$100m and \$2bn at purchase. The aim is to outperform the Nasdaq Biotech (EUR) index.

A team approach is adopted, with each member having sector research responsibilities and full involvement in debating portfolio changes.

Over the last 15 years the firm has built a database of over 800 companies, updated continually with company reports and any other relevant data. Broker contacts, journals, conferences and medical contacts are used to gather information. Attractive stocks are highlighted for further investigation, with the managers using their experience to assess potential revenues, risks and consequent valuations.

Success is driven by understanding which products will potentially drive changes in company earnings and being able to identify these innovative products at an early stage. Positions are traded on changes in valuation/sentiment and on changing risk levels, usually associated with key data releases and announcements. The portfolio is diversified in 70/90 stocks and maintains exposure to all three sub-sectors.

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## Portfolio & performance analysis (June 2011)

Another year of solid outperformance over 2010, followed by relatively minor underperformance year-to-date, has seen the fund's cumulative returns move comfortably into a top-decile ranking over three years to date and solidly second quartile over five years.

The combination of the fund's growth from €80 to €107m, coupled with the team finding more mid-/small-cap opportunities, has been reflected in an increased number of holdings, up from 80 to 90 and a reduction in the top-10 concentration from 31% to 27% of portfolio assets.

At 1 June, 67% of the portfolio was in companies capitalised below \$2bn, largely at the expense of those in the \$2bn to \$50bn market-cap range. Companies over \$50bn were only marginally underweight, at 12% against an index 15%, this being reflected in the portfolio top 10, which included index heavyweights Sanofi-aventis, GlaxoSmithKline and Novartis.

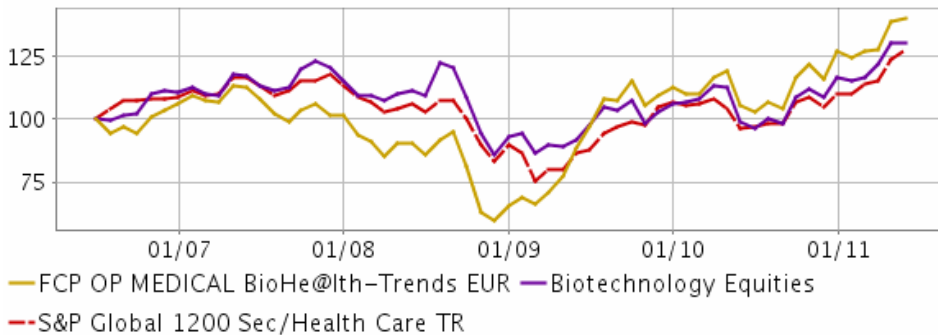
More importantly from the managers' viewpoint, 39% of the portfolio was invested in companies that had profitable products on the market, 30% had products moving towards profitability, 17% had products in phase III and looking for approval and only 11% were companies in which their major product was in an early clinical phase.

The fund's emphasis throughout our review period has been on the product-based sectors, as opposed to service companies, with the current portfolio focusing on biotechnology 46%, pharmaceuticals 30% and medical equipment 8%. After deducting a 3% cash position, this left a balance of 13% split between speciality finance, medical supplies, healthcare providers and speciality chemicals.

As ever, stock selection has been the key driver of performance over the last 12 months, with notable successes coming from a broad range of sub-sectors, as reflected in the likes of ZymoGenetics, Crucell, BTG, Eurofins Scientific and Spectrum Pharmaceuticals.

Added value came from a number of takeovers including Javelin, ATS Medical, ZymoGenetics, Genzyme and Celera.

## Cumulative performance



## Calendar year performance

	2007		2008		2009		2010		YTD June 2011	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	-3.9	67/70	-35.8	74/76	72.3	3/84	13.0	25/94	10.4	59/97
Index**	4.5		-21.2		19.2		3.0		16.0	
Median	4.9		-19.1		10.7		9.8		12.7	

\*\* S&P Global 1200 Sec/Healthcare

Fund benchmark: Nasdaq Biotech index (EUR)

Share class screened: LU0119891520 (Ord)

## Portfolio characteristics (June 2011)

No. of holdings	90
% in top 10	27.4
Turnover ratio (%)	101

## Top 10 holdings

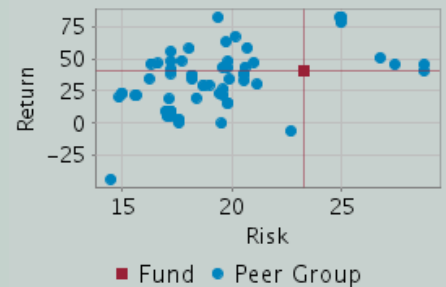
Company	%
ImmunoGen *	4.4
Celera *	3.4
Ligand Pharma *	2.9
BTG *	2.8
Baxter *	2.5
Sanofi-aventis	2.4
Biomarin *	2.4
GlaxoSmithKline	2.3
Novartis *	2.2
Progenics	2.1

\* In top 10 holdings a year ago

## Sector allocation

Sector	%
Biotechnology	46.0
Healthcare providers	4.0
Medical equipment	8.0
Medical supplies	3.0
Pharmaceuticals	30.0
Speciality chemicals	2.0
Speciality finance	4.0
Cash	3.0

## Risk return (standard deviation) over five years



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## Symbols and Definitions

### Long-only fund ratings

- AAA The fund demonstrates the highest standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.
- AA The fund demonstrates very high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.
- A The fund demonstrates high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

### Fund-of-hedge-funds ratings

#### Absolute return fund ratings

#### Specialist fund ratings

- AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.
- AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.
- A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

### Ucits III flexible beta fund ratings

- AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.
- AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.
- A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

### All fund ratings

- Not Rated (NR) Funds designated as Not Rated currently do not meet the requisite performance standards and/or the minimum qualitative criteria to achieve a fund rating.
- Under Review (UR) Ratings are placed Under Review when significant management changes occur at the fund manager or fund management team level and Standard & Poor's Fund Services has not had the opportunity yet to evaluate their impact on the qualitative appraisal.
- (New) Signifies where a major event has occurred for which there is no fund-specific track record available. This includes: funds recently launched, the implementation of a new investment process or mandate and may include structural changes within a fund team.
- Tenure Review (TR) The fund manager/team involved in the management of the fund does not currently have the minimum 12 months relevant investment management experience required to be eligible to be considered for a rating.
- Long-term fund management rating The fund has been rated in the A/AA/AAA fund rating band for five consecutive years or more, and continues to hold a rating.

### Bond fund volatility ratings

The bond fund volatility rating is our current opinion of a fund's sensitivity to changing market conditions. Volatility ratings evaluate the fund's sensitivity to interest rate movement, credit risk, investment diversification or concentration, liquidity, leverage and other factors. For V1-V4 categories, risk is considered relative to a portfolio composed of government securities and denominated in the base currency of the fund.

- V1 Bond funds that possess low sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within one to three years, and denominated in the base currency of the fund. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising the highest quality fixed income instruments with an average maturity of 12 months or less. Within this category, certain funds are designated with a plus sign (+), indicating extremely low sensitivity to changing market conditions.
- V2 Bond funds that possess low to moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within three to seven years, and denominated in the base currency of the fund.
- V3 Bond funds that possess moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within seven to 10 years, and denominated in the base currency of the fund.
- V4 Bond funds that possess moderate to high sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing beyond 10 years and denominated in the base currency of the fund.
- V5 Bond funds that possess high sensitivity to changing market conditions. These funds may be exposed to a variety of significant risks including high concentration risks, high leverage, and investments in complex structured and/or less liquid securities.
- V6 Bond funds that possess the highest sensitivity to changing market conditions. These funds include those with highly speculative investment strategies with multiple forms of significant risks, with little or no diversification benefits.

### Absolute return fund N ratings

The N rating is Standard & Poor's indication of a fund's potential capital stability in normal markets. It is a qualitative rating but is based on annualised weekly downside deviation. N1 is the most stable and N9 the least.