TSX **LIFE**

SEMI-ANNUAL COMMENTARY

Evolve Global Healthcare Enhanced Yield Fund

LIFE invests in top global healthcare companies, with the added value of a covered call strategy applied on up to 33% of the portfolio. Covered call options have the potential to provide extra income and help hedge long stock positions.

As at June 30, 2020

TICKER: LIFE (Hedged); LIFE.B (Unhedged); LIFE.U (USD)

MACROECONOMIC HIGHLIGHTS:

The demand for healthcare products and services remained strong during the first half of the year in the wake of the devastating effects of the COVID-19 pandemic. In fact, it is not expected that demand would decline regardless of the state of the world economy, geopolitical disruptions or any other associated risks. In addition, the industry also continued to benefit from an aging population, increasing longevity and the growing incidence of chronic diseases.

During March, the ETF was the best performing equity ETF on the S&P/TSX, an attribution to the quality of its holdings. According to Raj Lala, President of Evolve ETFs, "there won't be much of a dip in demand for drugs despite the pandemic." He noted that in the short term, there would be an influx of cash into pharmaceutical research as companies look for effective therapies and a vaccine against COVID-19.

The ETF holds "mega cap" pharmaceutical companies, such as Eli Lily & Co, Novo-Nordisk ADR, Astra Zeneca ADR, Merck & Co., Pfizer Inc., among several other companies, which are "able to withstand any short-term cashflow issues that may arise as people unaffected by COVID-19 forego elective procedures and avoid visits to the doctor's office," said Lala.[i]

In April, Astra Zeneca, one of the fund's holdings announced that it will know by July whether its Covid-19 vaccine is effective. The company said that it had partnered with Oxford University to help develop and distribute the vaccine being researched by the Jenner Institute and Oxford Vaccine Group. Under the agreement, AstraZeneca would be responsible for the worldwide manufacturing and supply of Oxford's vaccine.[ii]

Named AZD1222, the experimental vaccine uses a non-replicating virus to carry genetic material for the SARS-CoV-2 spike protein, which should prime the immune system to attack the actual virus if encountered. In May, AstraZeneca agreed to supply 400 million doses of AZD1222 to the U.S. and UK and reached a $750 million agreement with the Coalition for Epidemic Preparedness Innovations, Gavi the Vaccine Alliance, and the Serum Institute of India to supply 1 billion doses to low and middle-income countries. A phase 2/3 trial of AZD1222 with around 10,000 volunteers has already begun, and other late-stage studies with the vaccine candidate are expected to begin soon.[iii]

In the meantime, a number of other pharmaceutical companies, several of which are held by the ETF, joined the race to develop a COVID-19 vaccine. The U.S. FDA counted 10 investigation drugs in trials, with 15 being considered for trial launches. Among these companies are Johnson & Johnson which is working on a potential vaccine with human testing due to begin in September; and Sanofi which announced plans to test its arthritis drug, Kevzara as a coronavirus treatment.[iv]

With the race for a COVID-19 vaccine heating up, the Trump administration has selected its finalists for Operation Warp Speed, which aims to deliver safe and effective coronavirus vaccines to Americans by the end of the year. Among the finalists are AstraZeneca, Merck, Pfizer and Johnson & Johnson – which are all held by the ETF. The vaccine programs selected will get access to additional government funding, clinical trial assistance and manufacturing help.[v]

In the meanwhile, Merck, which has been largely kept to the sidelines of the race for COVID-19 treatments, said it was buying Austrian vaccine maker Themis Bioscience and would collaborate with research non-profit, IAVI to develop two separate vaccines. It also announced a partnership with privately held Ridgeback Biotherapeutics to develop an experimental oral antiviral drug against COVID-19.

The Themis vaccine, developed in collaboration with the Institut Pasteur in Paris, is based on a modified measles virus that delivers bits of the SARS-CoV-2 virus into the body to prevent COVID-19. It was developed in part through funding from the Coalition for Epidemic Preparedness Innovations.[vi]

While the focus has largely been on the development of a COVID-19 vaccine in the first half, it was also recognized that of all industries and use case scenarios, nowhere might the advantages of artificial intelligence-driven data analysis be more tangibly felt than in the medical sector. AI has been accelerating innovation across the biomedical and pharmaceutical landscape in recent times, and its acceleration is well evidenced by the fact that just recently a data-driven algorithm managed to come up with a plausible solution to combat antibiotic-resistant infection strains. AI is also being used to track diseases on a global scale; revolutionize cancer diagnoses; analyze staffing needs; and minimize clinical variations to save on costs.[vii]

PERFORMANCE ATTRIBUTION:

During the first half, Eli Lily & Co. was the best performing stock in the portfolio and made the largest contribution to its performance. Gilead Sciences, the largest holding by weight was the second-best performing stock as well as the second largest contributor to the ETF's performance.

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SOURCES:

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[vii] https://techwireasia.com/2020/05/four-ways-data-and-ai-is-transforming-the-healthcare-sector/

DISCLAIMER:

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