

# AlphaCentric LifeSci Healthcare Fund

## Quarterly Commentary 4Q2020



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December 31, 2020 — The Fund performed well over the fourth quarter, (+27.56% 4Q, +54.78% FY2020), significantly outpacing both the broad S&P Health Care TR Index (+8.03% 4Q, +13.45% FY2020) and the S&P Biotechnology Select Industry Index (+26.49 4Q, +48.10% FY2020). Alpha was generated across the three major subsectors of the portfolio; specifically, innovative biotech, robust cash flow/revenue growth companies, and direct funding of promising companies through private placements, IPOs or other structured transactions. The exceptional,



*Covid -19 has driven innovation in clinical diagnostics*

innovative power of the life sciences industry was showcased in the quarter by the remarkable developments in COVID-19 diagnostics, therapeutics, and vaccines. Specifically, the approval of several COVID-19 vaccine candidates with >90% efficacy and exceptional safety has set the stage, we believe, for full recovery from the global pandemic. We note this disruptive life sciences innovation engine has been supercharged with record capital markets activity in 2020 and is now firing on all cylinders. We highlight the fact that the Fund remains an active participant in this capital markets activity that puts cash directly on the balance sheets of life sciences innovators via direct purchase agreements. Notably, the Fund's private investment in Viracta Therapeutics will be converted into a listed holding following the reverse merger with Sunesis Pharmaceuticals (NASDAQ: SNSS). This combined precision oncology company will have over \$120 million of cash to enable late-stage clinical development of programs targeting virus-associated malignancies.

### Market Overview

The path out of the global COVID-19 pandemic was fully enabled in 4Q

2020 by the innovative power of the life sciences industry. FDA approval of novel vaccines less than one year from the discovery of the infectious agent is an unprecedented medical breakthrough. We have heard concerns from many of our investors that corners must have been cut to accelerate the speed of vaccine approval. We do not believe this is the case based on our review of the published regulatory filings and consultation with vaccine experts. In our view, the speed was enabled by 1) decades of foundational science to guide selection of high potential vaccine antigens from the genetic sequence of the virus, 2) existing capability to optimize a vaccine candidate containing the antigens, 3) at-risk capital spending to fully enable manufacturing capacity before clinical data release and 4) record breaking enrollment 30k+ patients in ~weeks for the late stage pivotal vaccine trials (these last two steps alone can each take well over a year). Remarkable progress was also made on COVID-19 diagnostics and therapeutics. There are too many discrete breakthroughs to name individually, but suffice it to say exiting 2020 there are now several FDA approved COVID-treatments ranging from small molecules to complex biologics complimented by a broad testing platform. Early data suggest the beneficial effects of current COVID-19 vaccines and therapies are maintained against several emergent viral mutations. It is expected second generation vaccines and therapeutics could be rapidly advanced in the case where a completely resistant viral strain became predominant.

**“We continue to see high quality science, a deep bench of seasoned life sciences entrepreneurs, accommodative regulators and abundant capital converging to unleash a disruptive innovation boom in the coming quarters/years.”**

The halo effect from these science-driven solutions to the global pandemic carried over from the prior quarter and again led to record capital markets activity in the life sciences sector. We continue to see high quality science, a deep bench of seasoned life sciences entrepreneurs, accommodative regulators and abundant capital converging to unleash a disruptive innovation boom in the coming quarters/years.

### Fund Overview

The Fund remains committed to translating deep domain expertise and thought leader insights into a fundamental, thesis-driven healthcare

portfolio. The collaboration with LifeSci Partners enables investment idea generation and due diligence across a global network. We seek to identify disruptive biopharma innovations that are validated by hard data. Story stocks may grab ephemeral headlines, but it requires a comprehensive data package for a new therapy to gain FDA approval and adoption by the medical community. Let's not forget the Hippocratic Oath! Our proprietary diligence and thought leader interviews seek to illuminate differentiated



*Aurinia's LUPKYNISTM (voclosporin) became the first FDA-approved oral therapy for the treatment of Lupus Nephritis*

solutions to critical unmet medical needs. The Fund is active in multiple therapeutic areas, and continues to prioritize molecularly targeted oncology therapeutics, inflammatory/immune therapeutics and cell/gene therapy as areas of specific interest. Our Q4 2020 holding of Aurinia Pharmaceuticals (NASDAQ AUPH) is an example of a company bringing forward an impactful therapy for a devastating autoimmune disease. Early in 2021, Aurinia's LUPKYNISTM (voclosporin) became the first FDA-approved oral therapy for the treatment of Lupus Nephritis (LN), a condition that causes irreversible kidney damage and increases the risk of kidney failure, cardiac events, and death. Early feedback we have heard from the prescribing community has been favorable and we look forward to following the company's progress bringing this innovative new therapy to patients.

**“...the Fund remains an active participant in the capital markets activity that enables life science innovators to move forward.”**

The Fund carefully tracks the key growth and valuation metrics of more mature healthcare companies to compliment the portfolio of disruptive biopharma innovators. The Fund's 4Q holdings include positions in Gilead Sciences (NASDAQ: GILD) and BioMarin Pharmaceuticals (NASDAQ: BMRN). In brief, both companies experienced significant share price dislocations toward the latter half of 2020 that, in our view, became decoupled from the business fundamentals and provide an attractive entry point. We will be closely monitoring 4Q earnings and are ready to scale into additional opportunities as they deviate from fundamental value.

Finally, the Fund remains an active participant in the capital markets activity that enables life science innovators to move forward. Over the course of 2020, the Fund participated in over a dozen direct funding transactions of promising companies through private placements, IPOs, follow-on offerings and a structured transaction involving a reverse merger. Capital markets activity provides the fuel that enables the life sciences innovative engine to run.

### Top Ten Holdings as of 12/31/20

Holding	% of Portfolio
Cash	7.16%
Viracta Therapeutics Inc.	5.83%
Gilead Sciences Inc.	4.55%
Athira Pharma Inc. Private Stock	4.43%
BioMarin Pharmaceutical Inc.	4.36%
Regeneron Pharmaceuticals Inc.	4.16%
Odonate Therapeutics Inc.	3.76%
Bluebird Bio Inc.	2.64%
Zogenix Inc.	2.05%
Exelixis Inc.	1.86%

*Holdings are subject to change and should not be considered investment advice.*

### Outlook

Operation warp speed translated an approximately \$10 Billion pool of capital into some of the most significant breakthroughs in medical history. Capital markets activity for innovative life sciences companies exited 2020 at a nearly \$100 Billion run rate. This means nearly 10x the capital sourced in Operation Warp speed has been placed on innovate company balance sheets. This capital is now being spent to advance a wave of potential medical breakthrough across a broad waterfront of critical unmet needs. We see significant potential for value creation as many of these newly funded programs read out data over the next year and beyond. *α*

**Fund Performance as of 12/31/20** (Annualized if greater than 1 year)

Inception Date: 11/29/19	QTD	6 Mos	YTD	1 Year	Inception
<b>Class I</b>	27.56	38.99	54.78	54.78	46.91
<b>Class A</b>	27.49	38.80	54.42	54.42	46.74
<b>Class C</b>	27.30	38.71	54.32	54.32	46.66
<i>S&amp;P Biotechnology Select Industry Total Return Index</i>	26.49	25.79	48.10	48.10	45.88
<i>S&amp;P 500 Health Care Sector TR Index</i>	8.03	14.37	13.45	13.45	17.52
<b>Class A After Sales Charges</b>	20.15	30.80	45.52	45.52	42.90

Past performance is no guarantee of future results. There is no assurance that the Fund will achieve its investment objective.

The advisor has contractually agreed to waive fees and/or reimburse expenses to maintain the Fund's total annual operating expense ratio at 1.65%, 2.40% and 1.40% for Class A shares, Class C shares and Class I shares, respectively, excluding 12b-1 fees through July 31, 2021.

*The maximum sales charge for Class "A" Shares is 5.75%. Performance is historic and does not guarantee future results. Investment return and principal value will fluctuate with changing market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. To obtain the most recent month end performance information or the funds prospectus please call the Fund, toll free at 1-844-ACFUNDS (844-223-8637). You can also obtain a prospectus at www.AlphaCentricFunds.com.*

The S&P Biotechnology Select Industry Total Return Index represents the bio-technology sub-industry portion of the S&P Total Markets Index.

The S&P 500 Health Care Sector TR Index comprises those companies included in the S&P 500 that are classified as members of the GICS health care sector.

You cannot invest directly in an index. Unmanaged index returns do not reflect fees, expenses or sales charges. There is no assurance that the Fund will achieve its investment objective.

**Important Risk Information**

Investing in the Fund carries certain risks. The Fund will invest a percentage of its assets in derivatives, such as futures and options contracts. The use of such derivatives and the resulting high portfolio turn-over may expose the Fund to additional risks that it would not be subject to if it invested directly in the securities and commodities underlying those derivatives. The Fund may experience losses that exceed those experienced by funds that do not use futures contracts and options strategies. Investing in commodities markets may subject the Fund to greater volatility than investments in traditional securities. Currency trading risks include market risk, credit risk and country risk. Foreign investing involves risks not typically associated with U.S. investments. Changes in interest rates and the liquidity of certain investments could affect the Fund's overall performance. The Fund is

non-diversified and as a result, changes in the value of a single security may have significant effect on the Fund's value. Other risks include U.S. Government securities risks and investments in fixed income securities. Typically, a rise in interest rates causes a decline in the value of fixed income securities or derivatives owned by the Fund. Furthermore, the use of leveraging can magnify the potential for gain or loss and amplify the effects of market volatility on the Fund's share price. The Fund is subject to regulatory change and tax risks; changes to current rules could increase costs associated with an investment in the Fund. These factors may affect the value of your investment.

**Investors should carefully consider the investment objectives, risks, charges and expenses of the AlphaCentric Funds. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 844-ACFUNDS (844-223-8637) or at www.AlphaCentricFunds.com. The prospectus should be read carefully before investing. The AlphaCentric Funds are distributed by Northern Lights Distributors, LLC, member FINRA/SIPC. AlphaCentric Advisors, LLC is not affiliated with Northern Lights Distributors, LLC.**



Mark Charest, PhD  
Portfolio Manager

**Investment Sub-Advisor**  
LifeSci Fund Management

**Portfolio Manager**  
Mark Charest, PhD

- 10+ year career as an investor at several specialized \$1B+ AUM healthcare funds
- Led Medicinal Chemistry Lab at the Novartis Institutes for BioMedical Research focused on Oncology drug discovery
- Inventor on 8 drug patents
- Portfolio Manager at New Leaf Venture Partners
- National Science Foundation Graduate Research Fellow
- PhD and MS in Chemistry and Chemical Biology from Harvard University

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