

# AlphaCentric LifeSci Healthcare Fund

## Quarterly Commentary 4Q2021



**LYFIX  
LYFAX  
LYFCX**

December 31, 2021 — Stock selection and active management of the Fund drove outperformance through Q4 2021 compared to the primary benchmark, the S&P Biotechnology Select Industry Index. Careful management of cost basis, exposure to robust cash flow/revenue growth companies, and avoidance of major negative clinical and regulatory data events limited the drawdown in the quarter, despite extreme selling pressure across the sector. For the full year, the Fund's +17.03% outperformance relative to the primary benchmark was driven by 1) upside capture from exposure to positive clinical/regulatory events, M&A, favorable earnings updates, and 2) drawdown protection from disciplined management of cost basis, avoidance of expensive high beta stocks, and avoidance major negative clinical/regulatory data events.

out to be the worst absolute and relative performance year in its history, trailing the S&P 500 by nearly 50%. Selling pressure during 4Q appeared indiscriminate at times, perhaps enhanced by tax loss selling, de-grossing and redemptions. The themes driving performance highlighted in our 3Q 2021 shareholder letter became further enhanced through 4Q. Two high profile, negative clinical data updates around year-end exemplified the pain from single stock drawdowns not seen in biotech for nearly two decades. Specifically, Allakos Inc (ALLK) and Bridgebio Pharma (BBIO) announced last December late-stage clinical data updates that sent each stock down ~\$4B in Mcap on day the news was released. These are the largest single-day destructions of Mcap we can recall in SMID cap biotech since what was then called Elan Corp lost >\$5B in Mcap when multiple sclerosis drug Tysabri was abruptly pulled from the market in 2005.

### Fund Performance as of 12/31/21 (Annualized if greater than 1 year)

Inception Date: 11/29/19	QTD	6 Mos	YTD	1 Year	2 Year	Inception
LYFIX	-4.84	-8.49	-3.35	-3.35	22.31	21.98
LYFAX	-4.92	-8.63	-3.61	-3.61	22.00	21.74
LYFCX	-5.07	-8.97	-4.32	-4.32	21.51	21.27
S&P Biotechnology Select Industry TR Index	-10.95	-17.36	-20.38	-20.38	8.59	9.15
S&P 500 Health Care Sector TR Index	11.17	12.77	26.13	26.13	19.62	20.75
Class A After Sales Charges	-10.41	-13.87	-9.14	-9.14	18.43	18.33

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](http://www.AlphaCentricFunds.com).

The maximum sales charge for Class "A" Shares is 5.75%. Total Operating Expenses are 2.77%, 3.52%, and 2.52%, for Class A, C, and I fund shares, respectively.

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, 2022.

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

### Market Overview

The S&P Biotechnology Select Index had a difficult 2021 which turned



Pfizer's acquisition of Arena Pharmaceuticals was big news for investors, and for the Fund as well

### Fund Overview

The Fund increased exposure to biotech and pharma companies that offered robust revenue and cash-flow growth profiles, as such favorable fundamentals were expected to outperform in the face of persistent selling pressure. Record cash generation and discounted valuations enabled numerous commercial-stage companies in the sector to announce enhanced capital return programs. Big pharmas mobilizing balance sheets included Novartis (NVS, \$15B buyback to be completed by end of 2023 or ~8% of shares outstanding) and Bristol-Myers Squibb (BMY, 10% dividend increase and a \$15B share buyback representing ~12% of the company's market value). Likewise, several smaller-cap, commercial stage biotechs began mobilizing balance sheets in a similar fashion. Specifically, Corcept Therapeutics (CORT) announced on results of their tender offer where 10m shares were repurchased for \$207.5m representing ~9% of shares

outstanding, and Collegium Pharmaceuticals (COLL) announced plans earlier in the year to purchase \$100m of stock equating to an estimated >10% of shares outstanding. The Fund previously disclosed holdings of BMY, NVS and COLL and was a beneficiary of these capital return programs.

M&A also accelerated during the quarter with more than half a dozen transactions announced. The most exciting in our view was Pfizer's \$6.7B takeout of Arena Pharmaceuticals (ARNA) announced in December. The deal was nearly a 100% premium to the prior day's close price, providing a substantial near-term gain for shareholders on record, including the Fund, which had previously disclosed holding a position in ARNA. The timing of the transaction was somewhat unusual as ARNA was expected to report pivotal data for its lead program, etrasimod a sphingosine 1 phosphate (S1P) receptor modulator, in early 2022. Pfizer's confidence to take data risk to gain control of an asset with multi-blockbuster potential bodes well for future M&A. Pfizer's balance sheet has been bolstered by the success of COMIRNATY® (COVID-19 Vaccine, mRNA), which has now become the most successful pharmaceutical launch in history with >\$24B in revenue in the first four quarters. We expect Pfizer and other COVID-19 vaccine/therapeutic cash flow beneficiaries to more aggressively deploy capital to bolster long-term growth as the durability of COVID-19 cash flow streams is expected to fade along with the pandemic.

### Top Ten Holdings as of 12/31/21

Holding	% of Portfolio
Galapagos NV	4.86%
Arena Pharmaceuticals Inc	4.36%
Incyte Corp	4.17%
MorphoSys AG	3.89%
Zogenix Inc	3.81%
Jazz Pharmaceuticals PLC	3.62%
Puma Biotechnology Inc	3.46%
ACADIA Pharmaceuticals Inc	3.42%
Collegium Pharmaceutical Inc	3.21%
Arcutis Biotherapeutics Inc	3.09%

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

**“The pullback in biotech starting in February 2021 is now the longest on record at 11 months and counting.”**

### Outlook

Volatility is expected to remain elevated as broad indices enter 2022 at extreme valuations as many expect FED policy to tighten for the first time since 2018. Many expect biotech's 2021 record underperformance relative to the S&P 500 and NASDAQ 100 to begin to reverse in 2022, as valuations and fundamentals begin to matter more than momentum. The pullback in biotech starting in February 2021 is now the longest on record at 11 months and counting. Comparatively, the prior pullback during the initial COVID-19 lockdowns in early 2020 was ~36% deep and only lasted a couple of months. Similarly, the pullback during the FED policy tightening at the end of 2018 was also ~36% deep and lasted about four months. Biotech starts 2022 with nearly n=250 companies trading at <\$100m enterprise value [enterprise value (EV) = market capitalization (Mcap) net of cash and debt]. An additional n=50 companies are trading at a negative EV. This is in stark contrast to the broad S&P 500's and NASDAQ 100's seemingly unwavering march upwards, making about 70 all-time-highs in 2021.

We continue to be optimistic as we expect to see multiple significant strategic or program updates that create value for biotech shareholders and could potentially catalyze a rally in 2022. Sector-specific headwinds are expected to moderate in 2022 as expectations for even modest drug pricing reforms have become more distant. Failure to pass the Build Back Better bill seemingly takes any near-term drug pricing legislative reforms off the table. The regulatory outlook for 2022 is similarly brightening with the pending confirmation of Dr. Robert Califf, an accomplished cardiologist and a former FDA Commissioner under President Obama. Projected improvements in the FDA's collaboration and engagement with sponsor companies under Dr. Califf could remove yet another fundamental headwind for the sector.

In the past 15 years, the S&P Biotechnology Select Index has never been down two years in a row. The Fund enters 2022 with a fully-deployed, fundamental, thesis-driven portfolio. Robust cash flow and revenue growth companies are emphasized along with development stage innovators with potential to deliver positive strategic or program updates. Favorable fundamental developments, high-volume capitulation of sellers, and rotation of fund flows are expected to provide a bottom for the existing biotech pullback and set the stage for a 2022 rally. **α**

### 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.

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.

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](http://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  
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**Investment Sub-Advisor**  
LifeSci Fund Management

**Portfolio Manager**  
Mark Charest, PhD

- 12+ 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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