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2021 was a difficult year for the S&P Biotechnology Select Index — the worst absolute and relative performance year in its history in fact — trailing the S&P 500 by nearly 50%.

However, it is worth noting that over the past 15 years, the S&P Biotechnology Select Index has never been down two years in a row.

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 that began 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. 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.

Again, in the past 15 years, the S&P Biotechnology Select Index has never been down two consecutive years, and although past performance is no guarantee of future results, we feel optimistic going into this new year.



Enterprise Value (EV) Equation

$EV = \text{Market Capitalization} + \text{Total Debt} - \text{Cash}$



We believe the potential for drug pricing reform in the near future is looking dim

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. 

To learn more about investing in biotech during this market pullback, read our Fund Insight piece: [Holding or Adding to Investments During Drawdowns](#)

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. 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. 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.

The forecasts and/or opinions may not come to pass and are subject to change.



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- 12+ year career as an investor at several specialized \$1B+ AUM healthcare funds
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