May 2010 - Rhenman Healthcare Equity L/S

Monthly Update

May was a highly volatile and weak month for the equity markets as a result of the continued concerns about government deficits primarily in Greece, Portugal, Spain and Ireland. The EU organized an emergency rescue operation in order to facilitate these EU members' future financial needs, but the ECB's initiative to buy mainly Greek and Portuguese bonds was met by sharp criticism from some quarters. Pessimism prevails as to how these countries' negative development should be broken. Greek imports for example, are several times larger than its exports. Greek exports are difficult to increase against the country's main European trading partners today as the possibility of devaluation is missing.

An economic slimming-down (increased taxes, public spending cuts, higher retirement ages and lower wages) is one possible but very laborious process Greece has started. The market fears that this is a sacrifice Greeks themselves may find hard to accept and that the country may spiral into social turmoil. As indicated by the market for so-called credit default swaps (insurance against credit risk), it is not unlikely that a Greek default may occur sometime during the next five years.

It is clear that European banks and other bond market players with significant positions in these countries' bonds have a difficult adjustment to make in terms of their balance sheets. So the risk of continuing unrest and high volatility will force the ECB, at least intermittently, to continue their bond purchases in order to indirectly save large European banks' balance sheets and stimulate lending by an expansionary monetary policy.

The fund had a strong negative development in May. A number of negative factors combined:

1. As a result of dollar hedging the fund had no significant exposure to the rising dollar and no exposure to the yen that also surged. This had a negative impact on the fund by an estimated 4%.

2. The fund had a large over-exposure to drug companies and large biotechnology companies, which had a very weak month due to renewed concern about pricing pressure on drugs in Europe. This had a negative impact on the fund by an estimated 5%.

In line with our risk reduction strategy, we have reduced the Fund's exposure: the dollar hedge is now removed since we believe that an undervalued euro is the most likely prerequisite for stabilizing the currency union. Another reason is that many financial players are expected to have disposal needs of bonds issued by the most indebted countries. This is likely to result in continuously volatile markets with an accompanying pressure on the euro. We have an active options strategy to take advantage of high prices on mainly put options. In our view the stock market is greatly oversold and remains very volatile, and may certainly continue being so for some time to come.

Previous events in the stock market may shed some light on today's crisis: the Russian crisis in the summer of 1998, and the takeover of Long Term Capital in September that same year marked a profound and dramatic correction during a time period of approximately two months. A powerful intervention by the Federal Reserve meant that relatively strong fundamentals could take over, and the year ended in positive territory with a large margin. This historical example shows that crises and crisis management can be the basis for a strong stock market.

In the healthcare sector, accelerating pricing pressure (about 3-4% in 2010) on drugs in Europe could be a potential threat, but there is cause for a more optimistic view. One possible interpretation of the savings packages initiated in several countries is that they create room for continued growth of the healthcare sector. The long-term, structural trend to increase the healthcare sector's share of GDP has hardly been broken by the course of events currently in progress. The demographic trends are too strong and the medical advances are of too much importance for society to ignore them. We would also like to point out that the pricing pressure in the U.S. is low, and the fast-growing pharmaceutical markets in developing countries compensate for the rather marginal increase in European pricing pressure.

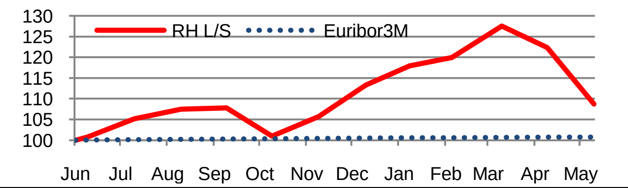
The main reason for our optimistic outlook is that the valuations in our sector are undoubtedly among the most attractive we've ever seen. For example, the Pfizer share is currently trading at half of what it was in August 1998, now with a dividend yield of nearly 5%. The same applies to most large European drug companies that are now also benefiting from a fairly significant strengthening of the dollar. We see many other company valuations that are likely to be even more attractive as these companies also have good long-term growth potential.

McKesson Corp., Merck KGaA and Cardinal Health Inc. contributed most positively to the fund's development during the month. Gilead Sciences Inc., Medtronic Inc. and Celgene Corp. were the greatest negative contributors.

Return IC1 (EUR)

	Rhenman Healthcare Equity L/S IC1 (EUR)	3 Month Euribor
April	-11.10%	0.05%
YTD	-4.02%	0.28%
Since Inception (2009-06-22)	8.73%	0.79%

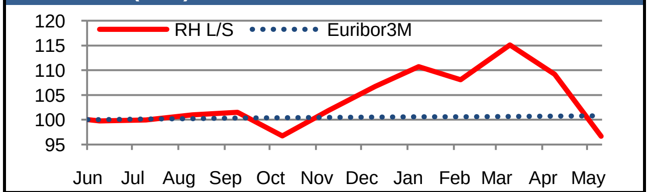
Return IC1 (EUR)



Return RC1 (SEK)

	Rhenman Healthcare Equity L/S RC1 (SEK)	3 Month Euribor
April	-11.44%	0.05%
YTD	-9.42%	0.28%
Since Inception (2009-06-22)	-3.31%	0.79%

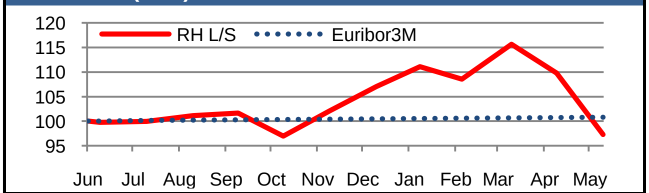
Return RC1 (SEK)



Return RC2 (SEK)

	Rhenman Healthcare Equity L/S RC2 (SEK)	3 Month Euribor
April	-11.39%	0.05%
YTD	-9.14%	0.28%
Since Inception (2009-06-22)	-2.72%	0.79%

Return RC2 (SEK)



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Monthly Performance

IC1 NAV (EUR)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009						100.75	105.19	107.47	107.83	100.99	105.70	113.28
2010	117.91	119.94	127.53	122.31	108.73							

IC1 Performance % (net of fees)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2009						0.75	4.41	2.17	0.33	-6.34	4.66	7.17	+13.28
2010	4.09	1.72	6.33	-4.09	-11.10								-4.02

RC1 NAV (SEK)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009						99.74	99.92	101.00	101.51	96.72	101.85	106.75
2010	110.70	108.05	115.09	109.18	96.69							

RC1 Performance % (net of fees)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2009						-0.26	0.18	1.08	0.50	-4.72	5.30	4.81	+6.75
2010	3.70	-2.39	6.52	-5.14	-11.44								-9.42

RC2 NAV (SEK)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009						99.74	99.98	101.12	101.68	96.94	102.10	107.07
2010	111.07	108.57	115.69	109.78	97.28							

RC2 Performance % (net of fees)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2009						-0.26	0.24	1.14	0.55	-4.66	5.32	4.87	+7.07
2010	3.74	-2.25	6.56	-5.11	-11.39								-9.14

Risk		Exposure		Largest Long Positions (% of equity)	
Value at Risk, %[1]	3.49	Long	72.2%	Fresenius SE	9.7%
Standard deviation, %[2,3]	19.87	Short	33.1%	Synthes Inc	8.2%
Sharpe ratio[2,3]	0.39	Gross	105.3%	Grifols S.A.	8.0%
		Net	39.2%	Shire Plc	6.3%
		Net (adjusted)[4]	35.5%	Gilead Sciences Inc	6.2%

1) For holdings on May 31. 2) Since start until May 27.
3) Standard deviation and Sharpe ratio annualized. 4) Adjusted for net fund inflow for June.

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Fund characteristics

- Target annual returns in excess of 15% (before fees) with a volatility below the stock market
- Long-term investment horizon but active trading around holdings
- Roughly equal allocation to small-, mid- and large-cap companies
- Typically 60–70 positions out of a 500 company universe
- Portfolio company size > USD 200 million
- Cash flow positive companies are predominant

Key Data

• Base currency:	EUR
• Subscription/redemption frequency:	Monthly (T-3)
• Share classes:	(R) Retail class / (I) Institutional class
• Minimum initial investment:	RC1 = SEK 250 000
	RC2 = SEK 2 500 000
	IC1 = EUR 250 000
• Minimum top-up investment:	No minimum
• Management fee:	RC1 = 2 %, RC2 = 1,5 %, IC1 = 1,5 %
• Benchmark:	Euribor 90D
• Performance fee (quarterly):	20 % (high water mark)
• Soft close:	EUR 500m
• Hard close:	EUR 1bn
• Dividends:	R = Only capitalization
	I = Capitalization + Distribution
• Legal Structure:	Open-ended FCP (Fonds Commun de Placement) under
	Part II of the Luxembourg Law on Investment Funds (20 Dec, 2002)
• Fund Management Company:	SEB Fund Services S.A.
• Fund Promotor (Sponsor):	SEB Fund Services S.A.
• Investment Manager:	Rhenman & Partners Asset Management AB
• Placement and Distribution Agent:	Rhenman & Partners Asset Management AB
• Custodian Bank and Paying Agent:	Skandinaviska Enskilda Banken S.A.
• Prime Broker:	Skandinaviska Enskilda Banken AB (publ)
• External Auditor:	PricewaterhouseCoopers (PwC)
• Swedish registration:	Yes (since November 5, 2009)
• ISIN:	RC1 = LU0417597712, RC2 = LU0417590817, IC1 = LU0417598108
• Bloomberg ticker:	RC1 = RHLSRC1 LX, RC2 = RHLSRC2 LX, IC1 = RHLEIC1 LX
• Lipper Reuters ticker:	RC1 = 68014067, RC2 = 68015239, IC1 = 65147588
• Telekurs ticker:	RC1 = 10239523, RC2 = 10239528, IC1 = 10034579

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