Market Insights & PM Commentary – Q2 2023

Executive Summary:

- The Renaissance Global Health Care Fund (the Fund) outperformed its benchmark over 3-months
- The Fund outperforms over all major timeframes since our PM inception date in September 2022, including 3-months and YTD
- Portfolio turnover remains at historical norms with one new buy, and three outright liquidations from the portfolio
- Intuitive Surgical and IQIVIA were the top contributors to performance throughout the most recent quarter
- Thermo Fisher Scientific and Merck were the largest detractors from Fund performance
- Within the health care sector, we continue to remain defensive and cautiously optimistic
- The portfolio has fairly balanced exposure across the three major health care sub-sectors in pharmaceuticals, medical technology, and health care services
- Within each of the major sub-sectors, we've shifted our exposures to the least economically sensitive areas, and towards ones that are durable, long-term oriented and have less interest rate risk

After financial sector related volatility in Q1 2023, markets continued their upward ascent throughout the second quarter. Towards the end of May, US Democrats and Republicans reached a late agreement to suspend the debt ceiling into early 2025. In Canada, we saw the highly anticipated Q1 GDP report. The print was much stronger than expected at +3.1%, fueling the debate about whether the Bank of Canada was too quick in pausing its rate hiking cycle in January. Afterwards, the Bank of Canada surprised markets by increasing its policy rate by 0.25% reaching the highest levels in over a decade at 4.75%. In June, the Federal Reserve (the Fed) decided to keep rates unchanged at 5.25%, while the European Central Bank moved interest rates higher by 0.25%. The unchanged rate from the Fed was expected by the market, but a notable development was the communicated higher expected level of interest rates for 2023/2024. The Fed communicated that they saw interest rates needing to move an additional 0.50% higher over the remainder of this year. The statement from the Fed was viewed as being hawkish, however, the press conference from Chairman Powell leaned more balanced to dovish. All these factors left the market confused with interest rate expectations not aligning with the Feds short term projections. Central banks are keenly aware that their actions have material time delays between implementation and producing the desired economic outcome. Understanding this lagged effect, and after 500 basis points of hikes at a historic pace, central banks most likely know they are nearing the end of their tightening regime.

In this environment, global markets experienced positive absolute returns, with many major developed regions—including Europe, the USA, and Canada—gaining, while Asia-Pacific and emerging markets were slightly negative. Information technology stocks led a strong second quarter as artificial intelligence (AI) excitement drove equity returns. This led to the Nasdaq having its best first half in 40 years. Both the Nasdaq and S&P 500 reached new 52-week highs during June, having risen approximately 35% and 25% from their lows, respectively. The health care sector also experiencing positive returns during the quarter.

Given these developments, the Renaissance Global Health Care Fund Class F (the Fund) outperformed its benchmark over 3-months. The Fund outperforms over all major timeframes since our PM inception date in September 2022, including 3-months and YTD.

The portfolio remains fairly concentrated at 26 names as of quarter end, focusing on only the highest quality businesses within each sub-sector while also remaining quite diversified in all areas of innovation. Although we take advantage of opportunities when they emerge, we continue to remain quite defensive and our portfolio positioning has remained fairly static over the quarter. Earlier in 2022, we tilted the portfolio towards more defensive large-cap stocks to help limit downside risk and feel comfortable with our current positioning. Given these developments, portfolio turnover remains at historical norms with 1 new buy, and 3 outright liquidations from the portfolio. Keros was sold from the portfolio after their lead asset readout was mediocre. The efficacy remains to be seen and as a result we redeployed into higher conviction existing portfolio names. Mersana was also sold from the portfolio. The company's stock appreciated significantly when their lead asset went into Phase 3 trials. We decided to take profits on strong performance. 10x Genomics builds advanced research tools for genetic analysis and had strong performance YTD. We believed the stock was trading at a full valuation and sold it using the proceeds to build a position in Baxter. It is a multinational health care company helping treat kidney diseases and other medical conditions. We believe the stock should eventually be rerated through deleveraging and operational improvements as they gradually improve their credibility with the market. Historically, the company has fallen short of expectations and underperformed the broader health care market. However, management has offered better visibility into their future execution, and their core business remains strong allowing for an attractive entry point into the stock.

Our thoughts on our positions

Many businesses continued their upward trajectory throughout the most recent quarter. Intuitive Surgical develops, manufactures, and markets robotic products designed to improve clinical outcomes of patients. The company benefitted from expectations of continuous growth for surgical procedures. The medical industry is still working through procedures that were delayed from Covid-19. Clearing the backlog has been beneficial for Intuitive Surgical's business and as a result the company had a strong quarter.

IQVIA is a US health information technology data company that has built a robust network of clinical research trials and associated laboratory and analytical services. The company contributes to the advancement of research globally through insightful analysis and scientific expertise applied to granular non-identified patient-level data. Throughout the quarter, IQVIA's stock rebounded from a prior sell-off related to biopharmaceutical companies delaying their research projects because of financing issues and higher interest rates. While this downturn was underway, we believed it was short term in nature. The research projects that IQIVIA engages in have long-term contracts in place. Even if projects are delayed, there is visibility that they will be fulfilled in future quarters. The potential for growth over the medium term caused a significant rebound throughout the second quarter.

Despite the Fund's outperformance, there were a few detractors from overall performance. Thermo Fisher Scientific and Merck were the largest detractors from Fund performance and both declined for similar reasons. Within the medical technology sub-sector, concerns related to near-term financing for the biotechnology sector caused weakness in associated businesses. Many biotechnology projects were delayed, and the orders they would typically be placing with medical technology companies have been pushed into the second half of 2023. The delay of orders only means that the revenue loss experienced today will likely result in a significant rebound towards the end of the year. Thermo Fisher and Merck remain core holdings and we have added to them on weakness. We continue to have high conviction in both businesses.

Navigating a complex and potentially volatile remainder of 2023

Within the health care sector, we continue to remain defensive and cautiously optimistic. The portfolio has fairly balanced exposure across the three major health care sub-sectors in pharmaceuticals, medical technology, and health care services. Within each of the major sub-sectors, we've shifted our exposures to the least economically sensitive areas, and towards ones that are durable, long-term oriented and have less interest rate risk. We've shifted a lot of our biotechnology names into large-cap pharmaceuticals, small or mid-cap (SMID) medical technology stocks into large-cap, and core medical services companies rather than tactical. Pharmaceuticals are quite defensive and accrue vast free cash flow that can eventually be used for acquisitions of biotechnology stocks. Over the medium term, we expect an eventual rebound in biotechnology and look for opportunities to invest based on encouraging future launches or pipeline readouts. In medical technology, the sector as a whole has less of a favourable outlook in this market environment, but we have been very selective and have sizeable exposure. The companies we do own, such as Medtronic, have extremely attractive valuations, purchasing them at multi-year lows.

It is important to remain vigilant in this environment, and we have capitalized on market volatility by increasing our exposure to innovative high-quality businesses in large cap pharmaceuticals, defensive and diversified businesses, and industries with strong secular growth drivers. We believe this approach will continue serve investors well over the long-term. As per usual, we will continue our alpha generation focus that is driven through deep fundamental analysis underpinned by a capital preservation approach to risk management.

For more information on the Renaissance Global Health Care Fund, contact your CIBC representative today.

	3 Months	**YTD**	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Since PM Inception 9/1/2022 -6/30/2023**
Renaissance Global Health Care Class F	0.63	0.03	8.26	2.82	6.73	11.85	8.18
MSCI World/Health Care Index (Net)	0.14	-1.58	9.04	7.49	10.17	12.86	6.15

As at June 30, 2023 CAD. Source: CIBC Asset Management, Morningstar Direct. Fund returns are net of fees.

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