Returns

As at 31 January 2025	1m %	3m %	1y %	3y % pa	5y % pa	Since inception % pa (Nov 13)
Gross	4.8	8.9	2.4	1.1	2.3	10.4
Net of Fees	4.8	8.9	2.4	1.1	2.3	9.6
S&P Biotechnology Select Industry Index (converted to AUD)	2.9	1.0	11.9	3.8	2.4	11.7

Portfolio Composition

NAV per share	% in cash	% shares in USD	% shares in AUD
1.72*	33	41	26

Commentary

For the month of January, CE made some solid gains. There was no transaction of any significance during the month. The portfolio is already well positioned, but not quite optimal yet. I will explain further below.

We are coming out of the tail end (hopefully) of a prolonged bear market in life sciences and healthcare. The cleansing continues as participants fight for scarce and precious capital. The total number of public biotech companies have declined by about 15% from 2022 to 2024. Nevertheless, the total value of the index has increased- a sign of recovery.

I spent the last 12 months being cautious and defensive, with a heavy cash weighting. This is reflected in both portfolio performance (lagging) and portfolio volatility (very low). Whilst the outlook for the life sciences and healthcare sector has improved, the general market continues to be buffeted by macro events affecting sentiment. Even as I write, global markets are reeling from Trump’s tariff announcements. It was not even two weeks ago when DeepSeek caused turmoil in the US tech markets. Importantly, none of these events will affect the secular trends driving the life sciences and healthcare sector.

To briefly recap, the life sciences sector is essentially the ecosystem supporting the drug discovery and manufacturing industry. The healthcare sector is the ecosystem supporting the delivery of healthcare to consumers and patients. The CE portfolio is equally exposed to both sectors (see Appendix 2). This mix will ebb and flow depending on opportunities available.

The main segments of both of these ecosystems can be roughly divided into 3 further subcategories. These are 1) suppliers of picks and shovels, 2) infrastructure and 3) services. These subsectors are distinguished on the basis of how revenue to the business is classified from the perspective of the customer, which respectively corresponds to 1) cost of goods sold, 2) capex and 3) expenses. For example, revenue from the sale of a vial rubber stopper by West Pharmaceuticals to Pfizer will be a component of Pfizer’s cost of goods in the production of a vaccine stored in that vial. Importantly, this means that revenue of a picks and shovels supplier is directly correlated to either price or volume of its customers goods.

The CE portfolio is predominantly invested in picks and shovels, in both life sciences and healthcare (see Appendix 2). I expect to maintain this stance going forward.

Life Sciences Funding Dynamics in 2024

Funding for life sciences comes from three main sources- big pharma, capital markets (including venture capital) and government grants. In 2024, big pharma continues to operate with tight budgets, prioritising late stage and commercial projects. As of early 2025, cost efficiency programs at big pharma are continuing, with employee layoffs, restructuring and yield efficiency programs in operations, especially manufacturing.

As for capital markets and venture capital funding, total funding in 2024 was slightly above 2023. However, this was not evenly spread. There were fewer funding rounds. Massive raises went into high profile names with established leadership. This has forced small and midsized biotechs to stretch out their cash to ensure a longer runway. At present, there is no evidence pointing to any recovery.

Lastly, academics and labs are also spending cautiously in the wake of uncertainties in government funding with the new Trump admiinistration. We will get more color on this situation in early 2025 when companies start quarterly reporting in early February.

The funding dynamics in 2024 favoured participants in late stage manufacturing and commercial activities, particularly bioprocessing. Bioprocessing is the development and manufacturing of biologics medicine such as mRNA vaccines and monoclonal antibodies. However, recovery for most of 2024 was hampered by destocking activities and depressed capital equipment purchases caused by tight budgets. It was only until end of 2024 when companies started reporting an uptake in capital orders and signalled the conclusion of destocking activities by customers.

Conversely, participants in early stage drug discovery and R&D experienced a very challenging 2024. Once again, lack of funds and budget tightening. Companies supplying tools into the R&D space all struggled as orders were reduced or delayed.

As at the date of this memorandum, the CE portfolio's exposure to bioprocessing is 12.6%. The portfolio's exposure to R&D is higher at 14%. Given the dynamics explained above, I do not expect to deploy any further capital into R&D exposure until changes are evident in the funding environment.

Healthcare Funding Dynamics in 2024

Funding for healthcare comes mainly from governments, insurers, and patients. Generally speaking, healthcare systems have limited budgets to satisfy increasing demands for services. After a horrid 2023 when most hospitals ran out of money due to cost inflation, 2024 was marked with cautiousness as everyone underspent and preserved their budgets. Going into 2025, the expectation is set for a more or less "normalised" situation.

In this sector, I expect to continue to deploy capital into best in class or first in class businesses. Examples include structural heart, organ transplant logistics, quality control software, functional neurosurgery, robotics surgery and radiopharma.

Thoughts and Strategies Looking Forward

I continue to build out a diversified portfolio into best in class and first in class companies. I expect to adjust the weighting of various portfolio components to capture better returns- eg shifting of R&D exposure into manufacturing. The life sciences/healthcare sector is likely to produce above market and above GDP growth for many decades to come, driven by secular tends such as aging and chronic disease.

However, investors cannot quite capture these secular trends with a simple index ETF. The main reason for this is that the index also encompasses revenue derived from R&D spending. It is no secret that big pharma's ROI on R&D spending is abysmal. Apart from a slight uptake during COVID, the return on R&D dollars in this sector is barely nudging 2%. As far as possible, I build the CE portfolio to exclude this component as much as possible.

We enter 2025 with increasing confidence as recovery continues in life sciences and funding starts trickling back into the sector. Our strategy and roadmap are clear. We continue to be aided by the secular tailwinds of aging and chronic disease will continue to help our businesses. Our differentiated insights will allow us to further position capital into areas presenting attractive risk return profiles.

Housekeeping

We currently have minimal franking credits, therefore no dividend is necessary for this year. As we have underperformed our benchmark of 6%, no directors fees are payable for the last 12 month period. For existing investor partners, the deficit of 3.1% will be brought forward into the current period. For new investor partners, the applicable benchmark is 6%.

We look forward to 2025 with greater optimism as the life sciences and healthcare sector continues to recover from a prolonged bear market. Caution is still warranted due to geopolitical tensions, the unpredictability of the Trump administration and elevated levels of markets.

Thank you for your trust and confidence in us.

Regards

Peter Phan

Portfolio Manager

Appendix 1: Gross Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	SPSIBI
2022	-5.5	0	0.5	-4.5	1.0	-0.5	2.0	-1.0	-5.0	2.0	4.0	-0.5	**-7.5**	-20.4
2023	2.0	2.0	-1.2	1.8	-2.3	0.0	5.4	-5.7	-3.0	-7.5	6.1	6.4	**2.9**	6.9
2024	1.2	1.0	0.5	-7	2.5	-1.8	0.0	3.1	0.0	-3.5	2.5	1.2	**-1.2**	10.6
2025	4.8												**4.8**	2.9

SPSIBI = S&P Biotechnology Select Industry Index (converted to AUD)

Appendix 2: Portfolio Composition

Functional Sub-Sectors*	% of portfolio
Cash	33%
Software/Data	23%
Tools and Devices	11%
Bioprocessing	13%
Genomics	6%
Radiopharma	7%
Drug Discovery	2%
Legacy- Financial Industry	5%

Industry Sectors*	% of portfolio
Cash	33%
Life Sciences	29%
Healthcare	33%
Legacy- Financial Industry	5%

Business Model Categories*	% of portfolio
Cash	33%
Picks and Shovels	55%
Services	7%
Infrastructure	0%
Legacy- Financial Industry	5%

Appendix 3: CE NAV

CE commenced on 1 November 2013 with shares issued at $1 per share, backed by $1 of cash per share.

CE NAV is after payment of dividend and director fees in calendar month February of each year. These payments “reset” the NAV as follows:

(a) 1.52 to 1.34 in Feb 2017,
(b) 1.46 to 1.39 in Feb 2018,
(c) 1.39 to 1.39 in Feb 2019,
(d) 2.29 to 2.10 in Feb 2020,
(e) 2.53 to 2.25 in Feb 2021,
(f) 2.03 to 1.77 in Feb 2022,
(g) 1.77 to 1.65 in Feb 2023.
(h) 1.65 to 1.65 in Feb 2024.