Market Insights & PM Commentary – Q4 2023

January 2024

Executive Summary:

- The Renaissance Global Health Care Fund underperformed its benchmark over 3-months
- Portfolio turnover was below historical norms with 0 new buys or outright liquidations from the portfolio
- Sonova and IQIVA were the top contributors to performance throughout the most recent quarter
- Pfizer and Merck were the largest detractors from Fund performance
- We continue to not own Eli Lilly and Novo Nordisk and believe demand for these obesity drugs will moderate, competition will increase, pricing will become much more competitive, and over the longer term generics will emerge
- 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

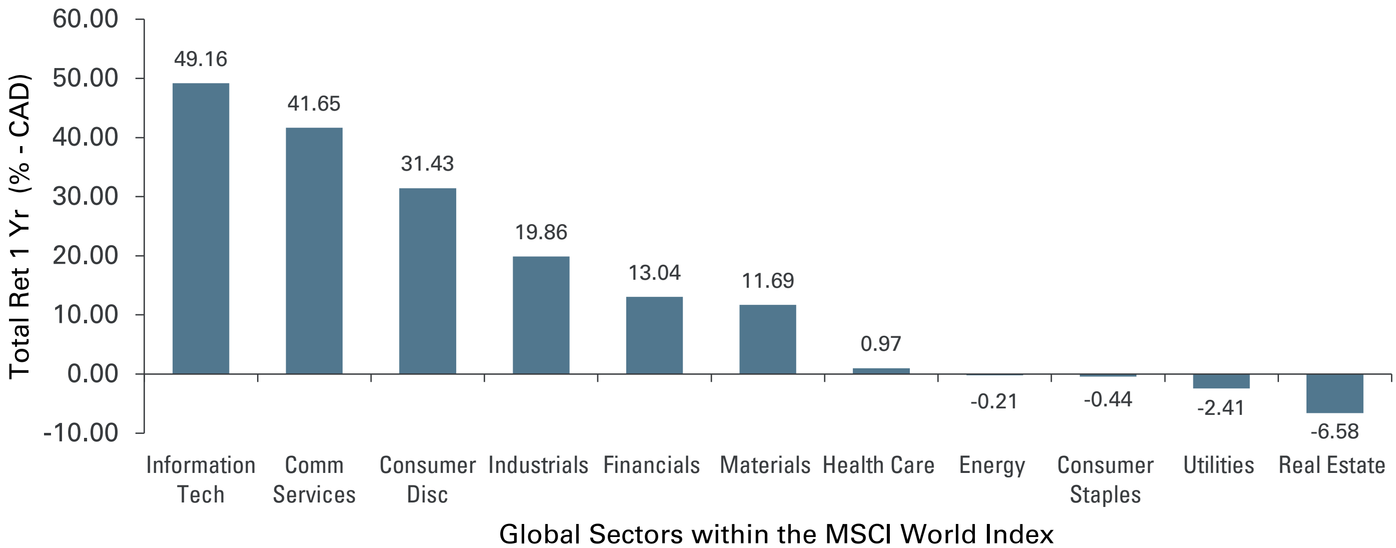
After a volatile 2022, markets experienced a significant rebound in 2023. The year was characterized by intense highs and lows, with an abundance of volatility spread out through the year. What seems now like a distant memory, the year started off with the US regional banking crisis—exemplified with Silicon Valley Bank's rapid demise—and the associated sell-off in financial related stocks. Afterwards, markets found more stable footing with a summer upswing driven by a group of stocks labelled the Magnificent 7: Apple, Amazon, Alphabet, Meta, Microsoft, Nvidia and Tesla. Volatility briefly returned in the fall, but was followed by a late end-of-year rally. Investors quickly came to the realization that central banks were in the final innings of this rate tightening cycle, and a hard economic landing was not needed to cool inflation. The Federal Reserve (Fed) and Bank of Canada (BoC) have made significant progress on tempering inflation and are nearing the end of their rate hiking campaigns, if not already there. In fact, the Fed affirmed as much in their December meeting minutes, with committee members seeing rates "at peak or near" the end of the cycle and signaled that interest rates would start to decrease in 2024. Equity markets subsequently ended the year with the proverbial Santa Clause Rally, continuing the upward trajectory that started on October 27. It caused the S&P 500 to approach all-time highs and credit spreads to hover near post-pandemic lows. All in all, it was a strong year for equities with the S&P 500 up 22.9% (in CAD), MSCI World Index up 20.5%, MSCI EAFE Index up 15.1% (in CAD), and the S&P/TSX Composite up 11.8% (in CAD). A summary of returns are shown below:

Index Name – As at December 31, 2023	1 Month	3 Months	1 Year
S&P/TSX Composite Index	3.91%	8.10%	11.75%
S&P 500 TR Index	1.67%	8.93%	22.90%
MSCI World Index	2.03%	8.66%	20.47%
MSCI EAFE Index	2.42%	7.69%	15.07%
MSCI Europe Index	2.11%	8.31%	16.67%
MSCI United Kingdom Index	1.65%	4.22%	11.03%
MSCI AC Asia Pacific Index	1.68%	5.29%	8.46%
MSCI EM Index	1.05%	5.20%	6.88%

The information was prepared by CIBC Asset Management Inc. using the following third-party service providers: Morningstar Direct as at December 31, 2023.

The health care sector experienced positive absolute returns during the fourth quarter and throughout 2023, but remained middle of the pack when compared to other global sectors.

2023 Global Sector Returns (In Canadian Dollars)



The information was prepared by CIBC Asset Management Inc. using the following third-party service providers: Morningstar Direct as at December 31, 2023.

In this environment, the Renaissance Global Health Care Fund Class F underperformed its benchmark over 3-months. The portfolio remains concentrated at 25 names as of quarter-end, focusing on only the highest quality businesses within each sub-industry while also remaining quite diversified. 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. Throughout 2022 and early 2023, we tilted the portfolio towards more defensive large-cap stocks to help limit downside risk and feel comfortable with our current positioning. Therefore, portfolio turnover was below historical averages with 0 new buys and outright liquidations.

Our thoughts on our positions

Many of the businesses we own experienced strong performance in the fourth quarter of 2023 to end the year. Sonova is a global leader in innovative hearing care solutions from personal audio devices and wireless communication systems to audiological care services, hearing aids and cochlear implants. The company released very strong quarterly earnings which beat consensus expectations and showed robust end-market fundamentals. Its hearing aid business performed exceptionally well. We continue to like Sonova's growth prospects going forward. 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, the company's share price rebounded in-line with risk-on sentiment. It benefited from higher growth stocks performing well throughout the end of 2023. IQVIA is a core holding and a best-in-class research and development organization which we foresee owning over the long term.

Pfizer was the largest detractor from relative performance over the quarter. The company underperformed after issuing weaker than expected 2024 guidance. This was related to lower than expected Covid-19 vaccine revenue. In addition, the company had a significant pipeline setback related to an oral obesity drug candidate. Despite the weakness, we continue to have high conviction in the company and have maintained our active weight throughout the volatility. The company is reasonably priced, well positioned after their Seagen acquisition, and believe they will outperform lowered market expectations in 2024.

Merck is a global pharmaceutical company. The company's stock experienced weakness after a neurology drug trial readout showed no efficacy and indicated that there were flaws in the design of the study. Despite the news, the company has a strong pipeline, and a technology adjacent business that can be spun-off in the near future representing significant upside opportunity. We added to the stock on weakness.

Our thoughts on Eli Lilly and Novo Nordisk

We continue to not own Eli Lilly and Novo Nordisk. They are both large pharmaceutical companies that benefitted from a positive study related to their leading GLP-1 obesity drugs such as Ozempic, Wegovy, and Mounjaro. Our thesis is that demand for these obesity drugs will moderate, competition will increase, pricing will become much more competitive, and over the longer term generics will emerge. New prescriptions in the US have recently been decreasing and demand is moderating from initially high levels. Outside of the obesity markets, Novo Nordisk and Eli Lily have patent cliffs for their core base business and we fear a future multiples contraction. We believe current valuations are unsustainable and continue to not own each of the stocks.

Navigating through the start of 2024

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. We did make minor moves in Q4, increasing exposure to US managed care, and slightly decreasing our pharmaceuticals exposure. We increased our existing exposure to CVS which we believe is unappreciated by the market, and reduced our position in pharmaceutical companies like Sanofi. Despite the rebalancing, our overall positioning has remained fairly consistent throughout 2023. 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.

Regardless if the Santa Claus rally spills into 2024 or volatility returns, we will continue to be opportunistic by increasing our exposure to innovative high-quality businesses sub-sectors 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.

Fund Name CAD As at December 31, 2023	3 Months	1 Year	Since PM Inception 09/1/2022 to 12/312023	3 Years	5 Years	10 Years
Renaissance Global Health Care Class F	1.20%	-1.26%	5.46%	0.85%	6.07%	9.40%
MSCI World Health Care Index (Net)	3.26%	0.97%	9.99%	6.76%	9.69%	11.39%

Source: CIBC Asset Management, Morningstar Direct. Fund returns are net of fees. As at December 31, 2023

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