PPIP

Pitt Pharmacy Investment Portfolio

Reporting Committee

Monthly Report: November 2018

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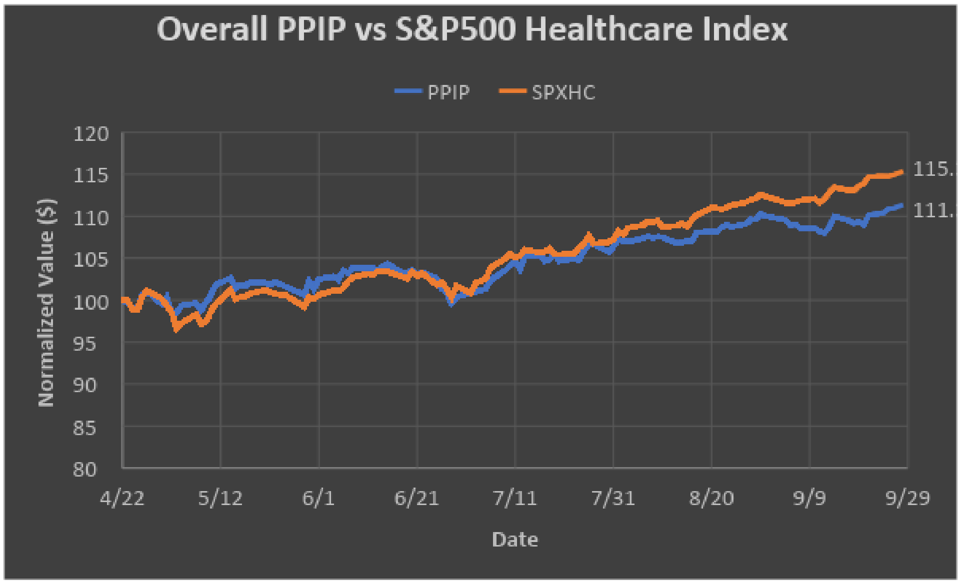
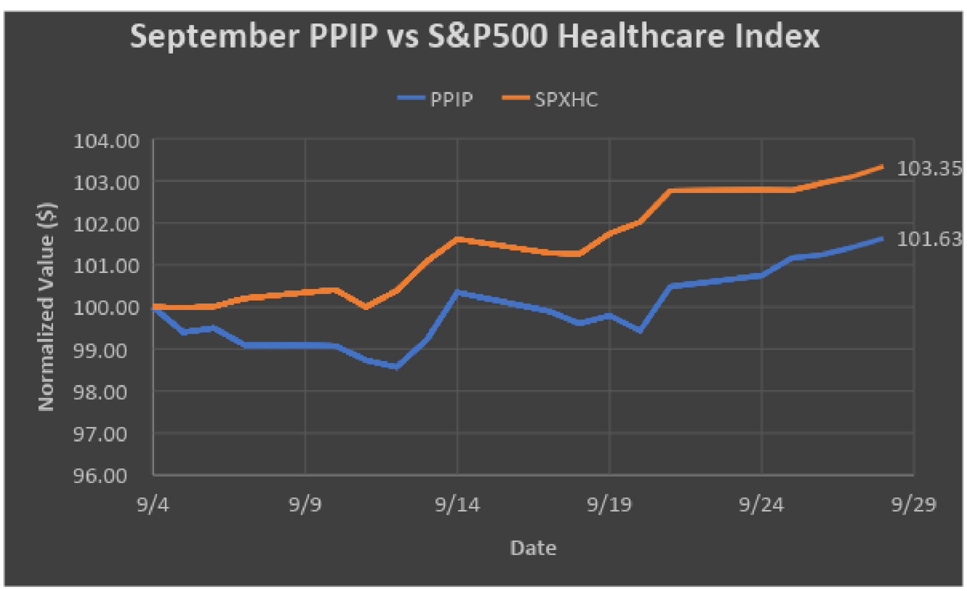
September Market Comparison

From the initial investment date through September 30th, the PPIP achieved an overall 11.37% gain. During this same period, the S&P 500 Healthcare Index (SPXHC) increased in value by 15.37%. In the context of the initial $50,000 investment, the PPIP has achieved a value of $55,685 as of September 30th while investing in the comparator SPXHC would have yielded $57,685. Therefore, the SPXHC index has outperformed the PPIP by 3.59% during the period of 4/22/18 – 9/30/18.



From the period of September 1st through September 30th, the PPIP achieved an overall 1.63% gain. During this same period, the SPXHC increased in value by 3.35%. In the context of a hypothetical initial $50,000 investment, the PPIP would have achieved a value of $50,815 during September while investing in the comparator SPXHC would have yielded $51,675. Therefore, the SPXHC index has outperformed the PPIP by 1.69% during the period of 9/1/18 – 9/30/18.



Similarities in the PPIP and SPXHC trend behavior suggest that both are subject to similar market-wide forces dictating values, and that neither is being affected significantly by the performance of any company-specific covariates.

Top Performers

For the month of September 2018, our portfolio's top 3 earners (by % gain) were Abbott Laboratories (ABT), Agios Pharmaceuticals (AGIO), and Concert Pharmaceuticals (CNCE).

Abbott Laboratories (ABT)- 6.242%

To start the month of September strong, Abbott announced that Aetna, a leading healthcare company in the US, will begin to cover Abbott's dorsal root ganglion (DRG) neurostimulation pain therapy. This coverage by Aetna will enable over 22 million medical plan members to access Abbott's chronic pain therapy, an obvious benefit for Abbott. The DRG therapy is particularly favorable due to the initiative to steer patients away from opioid-based treatments and direct them to non-opioid alternatives for pain management. This DRG therapy works by blocking/disrupting pain signals transmitted by the dorsal root ganglion, which is a nerve-filled structure located along the spinal cord that transmits sensory information to the CNS. In over a dozen clinical studies, Abbott's therapy has proven to provide superior pain relief to chronic pain patients who have not had success with other forms of pain therapy.

Agios Pharmaceuticals (AGIO)- 4.84%

September was a busy month for Agios, starting with the naming of their new CEO, Jacqualyn Fouse, on September 4th. Fouse came from Celgene Corp., where she was president and CEO. Agios' previous CEO, David Schenkein, has been in the position since 2009 and grew the company to where it is today. He is transitioning to the role of executive chairman and will sit on the boards Science and Technology Committee. Fouse is familiar with Agios, serving on the board since December 2017. She stated that she plans to expand markets outside of the US and focus on Agios' existing drug candidates in development. Agios continues to integrate its newly approved (July 2018) leukemia drug Tibsovo into the market with a plan of issuing a regulatory filing for the drug in the EU later this year.

Concert Pharmaceuticals (CNCE)- 9.763%

One reason Concert Pharmaceuticals stock has been popular among investors is the company's above average return on equity (ROE) in their respective industry. This figure is even more impressive when considering Concert has no net debt, which can skew the value of a company's ROE. During September, the company announced they will be conducting another study involving a higher dose for their alopecia areata therapy CTP-543. The drug candidate is currently in Phase 2a of clinical trials and believes adding the study of a higher dosage will enable researchers to determine an appropriate dose for the drug in late stage clinical developments. This drug candidate is substantial due to the fact that there are currently no drugs approved by the FDA for the treatment of alopecia areata.

Weakest Performers

AbbVie (ABBV) -5.51%

Despite following up an impressively strong month with a myriad of promising news, AbbVie's legal trouble bleeds into the market, inciting heavy losses to end September. On August 22nd, AbbVie exercised its option and license agreement with Argenx to assume worldwide development and marketing privileges for ARGX-115, a glycoprotein A repetitions predominant (GARP) target and TGF-β regulator, currently in preclinical development. This partnership originates from the inception of the agreement in April 2016. Currently, Eli Lilly's galunisertib, in Phase II/III development, is the competitor in TGF-β inhibition. This news came on the same day that positive Phase III extension study results were published for elagolix-low hormonal combination therapy to reduced menstrual bleeding in women with uterine fibroids. Elagolix alone, Orilissa, was approved in July for endometriosis induced pain. AbbVie intends to submit its MA in 2019. In the following week, Imbruvica receives its 9th FDA approval, in conjunction with Roche's Rituxan, for Waldenstrom's macroglobulinemia. The sNDA for the non-Hodgkin's lymphoma medication was based on favorable Phase III ELARIS UF-Extend trial results comparing the combination to Rituxan alone. AbbVie holds the first chemotherapy-free medication for WM in the market; however, AstraZeneca is currently testing Calquence, FDA approved for mantle cell lymphoma, to compete. On September 7th, AbbVie reports quarterly dividends of $0.96 per share, a 4.2% yield. To compare, the S&P declared a yield of 1.89%. While this news helped rebound small losses developed from a slow start to September, it would not pull the stock back to net even. On September 18th, the California Department of Insurance filled a lawsuit against the company for providing kickbacks to prescribers to boost Humira sales. Though the allegations were refused, with a representative stating the claims "had no merit," the company would still incur a 3% loss by close.

GlaxoSmithKline (GSK) -2.99%

After a period of skepticism, introduced by a July earnings report indicating imminent corporate restructuring, GSK posts losses significant enough to make our list of September's weakest performers. This was catalyzed by the company announcing they are terminating 650 domestic employees as a cost savings strategy to reinvest in R&D for future growth. News of downsizing compounded poorly with a Complete Response Letter from the FDA in regard to the sBLA submitted for approved Nucala (mepolizumab) to expand its indications to include eosinophilic COPD. The overall yield was a 3.0% loss over a seven day stretch. However, the company is in a favorable position to recoup these losses in full after consecutive strong sessions backed by ViiV Healthcare, a GSK subsidiary, submitting a MAA to the EMA for its two-drug combination tablet indicated to treat HIV-1 infections, with expectations of an FDA submission in October, and strong competition between bidders for GSK's Indian Horlicks nutrition business. Worth noting is the ongoing investigation of a GSK scientist who admitted to stealing proprietary information in attempt to launch a rival company sparking competition from China's pharmaceutical market. This has not seemed to have an impact on the holding; however, it will continue to serve as negative publicity for the company moving forward.

Agios Pharmaceuticals (AGIO) -3.58%

Though on the list of weakest performing stocks, the compounded change does not adequately portray the entire month. The company was poised to negate its early August losses with 9.87% growth through the first two weeks of the month; however, significant changes in company outlook cleared these earnings in less than a week. On September 4th, the nine-year CEO, David Schenkein, announced he will be stepping down at the end of the year and become executive chairmen. This leaves his replacement, former Celgene President and COO Jaqualyn Fouse, in charge launching their newly approved acute myeloid leukemia medication, Tibsovo. While Schenkein claims this move was not made to correct issues with the company's direction, it was announced a day later that Agios will end the three-year collaboration with Celgene on vorasidenib, its IDH1/IDH2 inhibitor currently in clinical trials. Even though no explanation was given for the split, one can assume it stems from the success Agios had independently marketing Tibsovo. Overall, these actions resulted in a 13.14% loss over four days.