

# ALPS MEDICAL BREAKTHROUGHS ETF MONTHLY INSIGHTS

February 2018

## Key Takeaways

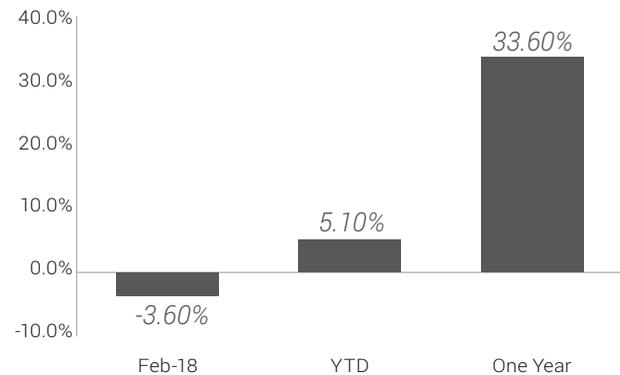
- Biotechnology stocks succumbed to elevated market volatility in February with the ALPS Medical Breakthroughs ETF (SBIO) losing 3.59% on the month.
- Stock-picking is tricky in the biotech space, particularly with smaller companies. 39 SBIO components finished higher while 56 posted negative returns, reminding investors that a basket approach can potentially reduce downside in biotech investments.
- Highlighting an unmet medical need: Food allergies, including those related to peanuts. By some estimates, approximately two million U.S. children suffer from peanut-related allergies.

## SBIO February Performance

SBIO lost 3.59% in February due in large part to weakness in mid-cap biotech stocks. Mid-caps represent 59.50% of SBIO's portfolios and lost 2.92%. Small-cap biotech names, which account for 40.50% of SBIO's roster, lost just 0.64% in February.

Adamas Pharmaceuticals (ADMS) was one of the most egregious offenders in the SBIO portfolio in February, plunging 35% and making it the second-biggest detractor to SBIO's February stumble. In February, the Food & Drug Administration (FDA) approved Osmotica Pharmaceutical's Parkinson's disease treatment, OSMOLEX ER, a rival treatment to Adamas' GOCOVRI, which was approved last August.<sup>1</sup>

## SBIO Performance (Net Asset Value)



Source: Bloomberg as of 2/28/2018.

**Past performance is not indicative of future returns.**

For standardized performance, please see Page 4.

## Staying The Course In Trying Times

The S&P 500 lost 3.69% in February as market participants fretted about rising inflation and 10-year Treasury yields flirting with 3%. In late February, the White House unveiled trade tariffs aimed at helping U.S. aluminum and steel producers, but financial markets repudiated the idea of tariffs, sending stocks lower.

Financing costs for any corporate borrower would rise on the back of higher interest rates, but SBIO's screen for companies that have 24 months of cash at current burn rates, puts its components at less risk of having to tap debt markets as financing costs increase.

After a flurry of mergers and acquisitions (M&A) in the biotech space in January, activity cooled in February, but at over \$25 billion, the 2018 pace of healthcare deal-making is already ahead of the \$50 billion seen in 2017. Plus, with the influx of repatriated cash via tax reform and pressure from generic competitors on marquee cash cow drugs, larger healthcare companies could go shopping for mid-sized and smaller biotech firms.

## What drove SBIO down in February

As was noted earlier, Adamas Pharmaceuticals was a major detractor to SBIO's February performance. The worst offender, however, was Akorn Inc (AKRX). Shares of Akorn plunged more than 40% after media outlets reported that German healthcare giant Fresenius could scuttle its deal to acquire Akorn.

Fresenius is investigating alleged breaches at Akorn into the latter's product development FDA integrity requirements. The German company said if its investigation reveals wrongdoing, it will withdraw from its acquisition contract with Akorn.<sup>2</sup>

Akorn issued the following statement about the investigation:

"Akorn and Fresenius Kabi AG, with the assistance of outside consultants, are investigating alleged breaches of FDA data integrity requirements relating to product development at the Company. To date, the Company's investigation has not found any facts that would result in a material impact on Akorn's operations and the Company does not believe this investigation should affect the closing of the transaction with Fresenius. The Company does not intend to provide further updates as the investigation proceeds. The Company is continuing to work to obtain regulatory clearance for the transaction."<sup>3</sup>

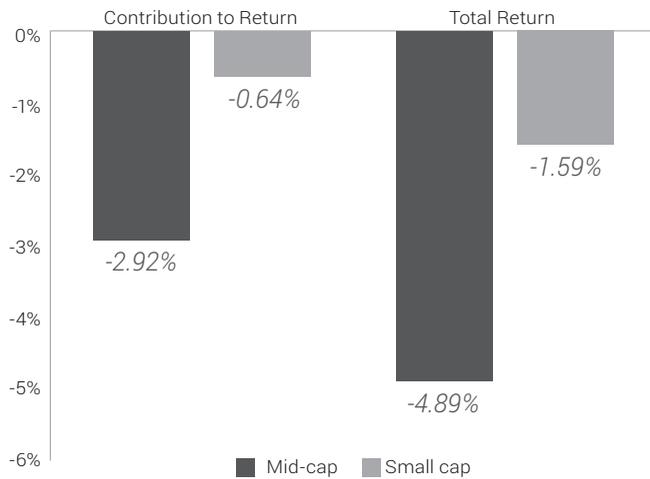
# ALPS MEDICAL BREAKTHROUGHS ETF MONTHLY INSIGHTS

February 2018

## SBIO Against Rival Indexes

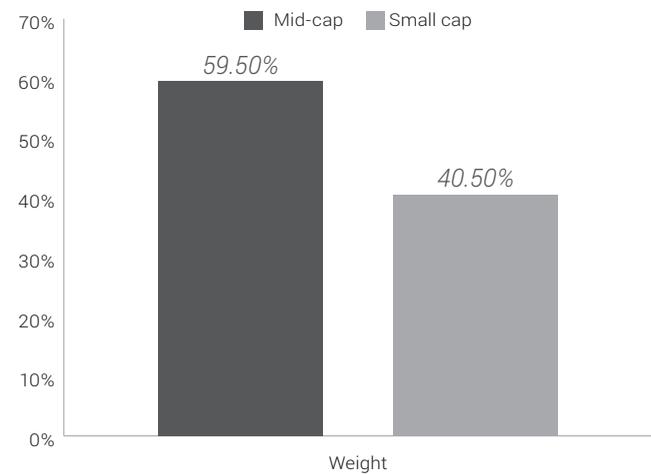
SBIO continues outperforming some rival biotech benchmarks. The large-cap-heavy Nasdaq Biotech Index fell 5.33%. Nearly two-thirds of that index's components are large-cap stocks. SBIO slightly trailed the equal-weight S&P Biotechnology Index due to weakness in SBIO's mid-cap members. The S&P Biotechnology Index allocates almost two-thirds of its combined weight to large- and mid-cap stocks.

### SBIO Mid vs Small Cap CTR and TR



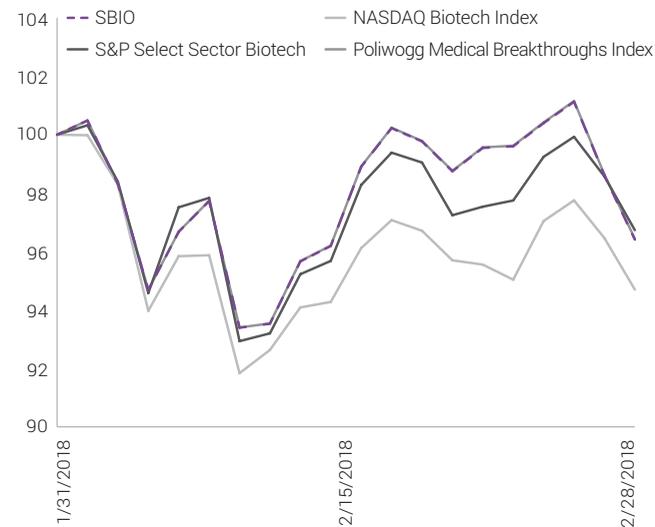
Source: Bloomberg as of 2/28/2018.

### SBIO Mid vs Small Cap Weightings



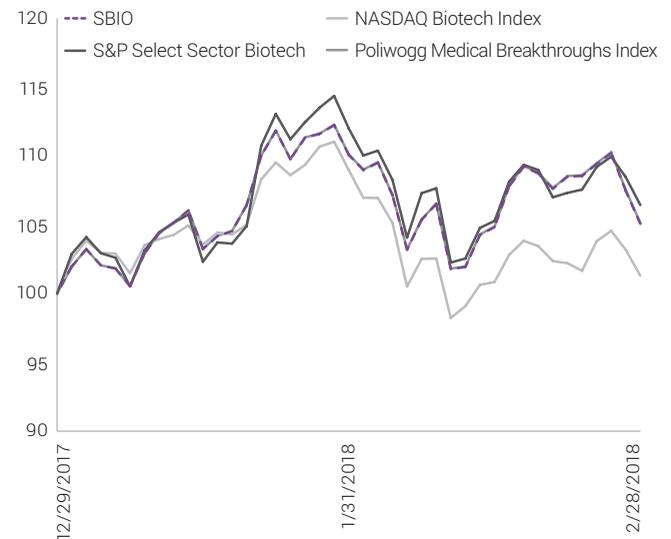
Source: Bloomberg as of 2/28/2018.

### SBIO vs Biotech Indexes 1M Total Return - February



Source: Bloomberg as of 2/28/2018.

### SBIO vs Biotech Indexes - Year to Date



Source: Bloomberg as of 2/28/2018.

# ALPS MEDICAL BREAKTHROUGHS ETF

## MONTHLY INSIGHTS

February 2018

### *Unmet Medical Need: Peanut Allergies*

Peanut allergies are the most common food-related allergies. Symptoms range from minor (itchiness, sneezing and swelling) to severe cases involving cardiac arrest and potentially fatal anaphylaxis. To date, the FDA and the European Medicines Agency have not approved treatments for peanut allergies, meaning a potentially massive opportunity exists for biopharmaceutical companies on this front.

"The current standard of care is limited to diagnosis, avoidance of the allergenic food, and treatment of allergic reactions from accidental ingestion with autoinjectable epinephrine," according to the "Efficacy and Safety of AR101 in Oral Immunotherapy for Peanut Allergy: Results of ARC001" study.

Several SBIO components are working on therapies and treatments for food-related allergies. For example, DBV Technologies SA (DBVT), an epicutaneous immunotherapy company, is working on the Viaskin Peanut treatment. Viaskin Peanut is the midst of two long-term Phase III studies for patients 4-11 years old and a Phase III trial for patients 1-3 years old, according to the company.

In February, shares of Aimmune Therapeutics Inc (AIMT) surged after the California-based company said its Phase 3 PALISADE efficacy trial of AR101 met the primary endpoint. That treatment has Breakthrough Therapy Designation for peanut-allergic patients ages 4-17, according to Aimmune.

"Of patients ages 4-17, 296 patients (79.6%) from the AR101 arm completed the trial, compared to 116 patients (93.5%) from the placebo arm," according to a statement. "Of these AR101 completers, 96.3% tolerated a single highest dose of at least 300 mg (443 mg cumulative) of peanut protein in the exit DBPCFC, 84.5% tolerated at least 600 mg (1043 mg cumulative), and 63.2% tolerated 1000 mg (2043 mg cumulative)." <sup>4</sup>

**Refresher: SBIO screens for holdings that have at least one drug in stage II or III of the clinical trial process, and have 24 months' worth of cash at their current cash burn rate. This creates a basket of securities that has a greater probability of success in the FDA trial process, and potential for upside share price movement.**

### *3 Fabulous February Performers*

Not all SBIO holdings disappointed in February. For example, **AMAG Pharmaceuticals Inc. (AMAG)** soared 46.69%. AMAG said the FDA approved the company's "application to broaden the existing label for Feraheme beyond the current chronic kidney disease (CKD) indication to include all eligible adult Iron Deficiency Anemia (IDA) patients who have intolerance to oral iron or have had unsatisfactory response to oral iron." <sup>5</sup>

That approval potentially doubles the market for Feraheme. On February 14, 2018, AMAG said the FDA approved Makena, an auto-injector used to reduce the risk of pre-term in certain at-risk pregnancies. Makena, which is seven years old, is the only FDA-approved treatment available for pregnant women who have had a prior spontaneous preterm birth. Makena revenue was \$400 million last year, according to AMAG.

"About one in 10 babies in the U.S. are born prematurely. The consequences of preterm birth are a significant public health issue, and Makena has served an important medical need for appropriate at-risk pregnant mothers over the past several years," said Sean Blackwell, M.D., Chair of the Department of Obstetrics, Gynecology, and Reproductive Sciences at the University of Texas Medical School and President of the Society for Maternal-Fetal Medicine (SMFM). "The Makena subcutaneous auto-injector offers healthcare providers an important alternative mode of delivery for patients at risk of recurrent preterm birth." <sup>6</sup>

Shares of **Achillion Pharmaceuticals, Inc. (ACHN)** jumped 22.64%. On February 26, 2018, the company said the European Medicines Agency Committee for Orphan Medicinal Products issued a positive opinion on ACH-4471 for orphan status as a potential treatment for the rare kidney disorder known as C3 glomerulopathy, (C3G).<sup>7</sup>

The company also said it is trimming staff by 20%, a move that is expected to result in savings of \$10 million this year.

**Ascendis Pharma A/S (ASND)**, another SBIO holding, surged 22.01% in February. The Danish company is applying its innovative TransCon technology, which combines the benefits of prodrug and sustained-release technologies, to develop a pipeline of best-in-class therapeutics that address significant unmet medical needs. Wedbush raised its price target on Ascendis to \$67 from \$62 while maintaining an Outperform rating on the shares.

"We note the previously announced positive TC-PTH Phase 1 results in healthy subjects - especially infusion-like effects and unique calcium activity along with the known profile of parathyroid hormone suggest to us that TC-PTH is likely to have similar effects in hypoparathyroidism patients and have included this candidate in our pipeline valuation, raising our price target to \$67 from \$62," said Wedbush analyst Lianna Moussatos.<sup>8</sup>

# ALPS MEDICAL BREAKTHROUGHS ETF

## MONTHLY INSIGHTS

February 2018

### SBIO Top/Bottom Performers – February 2018

Leaders	Performance
Amag Pharmaceuticals Inc (AMAG US)	46.69%
Achillion Pharmaceuticals (ACHN US)	22.64%
Ascendis Pharma A/S - Adr (ASND US)	22.01%
Immunogen Inc (IMGN US)	21.02%
Medicnova Inc (MNOV US)	18.21%
Array Biopharma Inc (ARRY US)	16.87%
Anaptysbio Inc (ANAB US)	16.48%
Kura Oncology Inc (KURA US)	15.31%
Progenics Pharmaceuticals (PGNX US)	14.19%
Myokardia Inc (MYOK US)	12.79%

Laggards	Performance
Rhythm Pharmaceuticals Inc (RYTM US)	-18.12%
Tesaro Inc (TSRO US)	-18.13%
Xoma Corp (XOMA US)	-18.42%
Zynerba Pharmaceuticals Inc (ZYNE US)	-19.44%
Nucana Plc-Adr (NCNA US)	-20.73%
Lannett Co Inc (LCI US)	-21.38%
Avadel Pharmaceuticals Plc (AVDL US)	-21.60%
Protagonist Therapeutics Inc (PTGX US)	-25.85%
Adamas Pharmaceuticals Inc (ADMS US)	-35.39%
Akorn Inc (AKRX US)	-47.42%

Source: Bloomberg as of 2/28/2018.

Holdings are subject to change.

Past performance is not indicative of future returns.

### SBIO Performance as of 12/31/17

Total Returns	3 Month	6 Month	YTD	1 Year	3 Year	Cumulative	Annualized
						S.I <sup>1</sup>	S.I <sup>1</sup>
ALPS Medical Breakthroughs ETF (Net Asset Value)	6.61%	20.03%	44.91%	44.91%	10.32%	35.03%	10.52%
ALPS Medical Breakthroughs ETF (Market Price) <sup>2</sup>	6.74%	20.17%	45.03%	45.03%	10.34%	35.20%	10.56%
Poliwogg Medical Breakthroughs Total Return Index	6.75%	20.23%	45.29%	45.29%	10.76%	36.67%	10.96%

Performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be higher or lower than actual data quoted. Call 1.866.234.5852 or visit [www.alpssectordividenddogs.com](http://www.alpssectordividenddogs.com) for current month end performance. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

<sup>1</sup> Fund inception date of 12/31/14. Total Return for a period less than one year is not annualized.

<sup>2</sup> Market Price is based on the midpoint of the bid/ask spread at 4 p.m. ET and does not represent the returns an investor would receive if shares were traded at other times.

### ETF Stats

Ticker:	SBIO
Underlying Index:	Poliwogg Medical Breakthroughs Index (PMBI)
Listing Exchange:	NYSE Arca
CUSIP:	00162Q593
Fund Inception:	12/30/14
Dividends Paid:	Annually
Gross Expense Ratio:	0.50%
As of December 31, 2017	

### Top 10 Holdings (%)<sup>^</sup>

Galapagos Nv-Spon Adr	3.84%
Tesaro Inc	3.64%
Beigene Ltd-Adr	3.59%
Taro Pharmaceutical Ind	3.42%
Akorn Inc	3.25%
Fibrogen Inc	3.14%
Sarepta Therapeutics Inc	2.90%
Gw Pharmaceuticals -Adr	2.70%
Clovis Oncology Inc	2.69%
Portola Pharmaceuticals	2.56%

<sup>^</sup> As of December 31, 2017, Holdings subject to change. Daily holdings are available on the [Alpsfunds.com](http://Alpsfunds.com) website.

# ALPS MEDICAL BREAKTHROUGHS ETF MONTHLY INSIGHTS

February 2018

## Important Disclosure & Definitions

*An investor should consider the investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus which contain this and other information call 844.234.5852 or visit [www.alpsfunds.com](http://www.alpsfunds.com). Read the prospectus carefully before investing. Shares are not individually redeemable and the owners of shares may purchase or redeem shares from a fund in creation units (blocks of 50,000 shares) only.*

*This fund may not be suitable for all investors. There are risks involved with investing in ETFs including the loss of money. The Fund is considered non-diversified and as a result may experience great volatility than a diversified fund. The Fund's investments are concentrated in the pharmaceuticals and biotechnology industries, and underperformance in these areas will result in underperformance in the Fund. Investments in small and micro capitalization companies are more volatile than companies with larger market capitalizations. Companies in the pharmaceuticals and biotechnology industry may be subject to extensive litigation based on product liability and similar claims. Legislation introduced or considered by certain governments on such industries or on the healthcare sector cannot be predicted. Companies in the pharmaceuticals industry are subject to competitive forces that may make it difficult to raise prices and, in fact, may result in price discounting. The profitability of some companies in the pharmaceuticals industry may be dependent on a relatively limited number of products. In addition, their products can become obsolete due to industry innovation, changes in technologies or other market developments. Many new products in the pharmaceuticals industry are subject to government approvals, regulation and reimbursement rates. The process of obtaining government approvals may be long and costly. Many companies in the pharmaceuticals industry are heavily dependent on patents and intellectual property rights. The loss or impairment of these rights may adversely affect the profitability of these companies. The development of new drugs generally has a high failure rate, and such failures may negatively impact the stock price of the company developing the failed drug. Biotechnology companies may have persistent losses during a new product's transition from development to production. In order to fund operations, biotechnology companies may require financing from the capital markets, which may not always be available on satisfactory terms or at all. Poliwogg Medical Breakthroughs Index: The index consists of small and mid-cap pharmaceutical and biotechnology stocks listed on US stock exchanges that have one or more drugs in either Phase II or Phase III US FDA clinical trials.*

*The NASDAQ Biotechnology Total Return Index is a modified market capitalization-weighted index designed to measure the performance of all NASDAQ stocks in the biotechnology sector. The index was developed with a base value of 200 as of November 1, 1993. The total return includes the reinvestment of cash dividends. One cannot invest directly in an index.*

*The S&P Biotechnology Select Industry Index is comprised of stocks in the S&P total market index that are classified in the GICS Biotechnology sub-industry.*

*One may not invest directly in an index.*

*ALPS Portfolio Solutions Distributor, Inc. is the distributor for the ALPS Medical Breakthroughs ETF*

<sup>1</sup> <https://www.foxbusiness.com/markets/why-adamas-pharmaceuticals-fell-today>

<sup>2</sup> <https://thefly.com/landingPageNews.php?id=2689990&headline=AKRX;FSNUY-Akorn-sinks--after-Fresenius-announces-investigation-into-data-breaches>

<sup>3</sup> <http://investors.akorn.com/phoenix.zhtml?c=78132&p=irol-newsArticle&ID=2334759>

<sup>4</sup> <https://www.businesswire.com/news/home/20180221006552/en/>

<sup>5</sup> <https://www.amagpharma.com/news/amag-pharmaceuticals-announces-fda-approval-of-supplemental-new-drug-application-snda-for-feraheme-ferumoxytol-injection/>

<sup>6</sup> <https://www.amagpharma.com/news/amag-pharmaceuticals-announces-fda-approval-of-makena-hydroxyprogesterone-caproate-injection-subcutaneous-auto-injector-to-reduce-the-risk-of-preterm-birth-in-certain-at-risk-women/>

<sup>7</sup> <http://www.foxbusiness.com/markets/why-achillion-pharmaceuticals-inc-stock-spiked-today>

<sup>8</sup> <https://www.streetinsider.com/Analyst+Comments/Ascendis+Pharma+%28ASND%29+PT+Raised+to+%2467+at+Wedbush/13863858.html>

SMB000184 6/29/2018

