

Investing in Biotechnology: Disrupting the Healthcare Space

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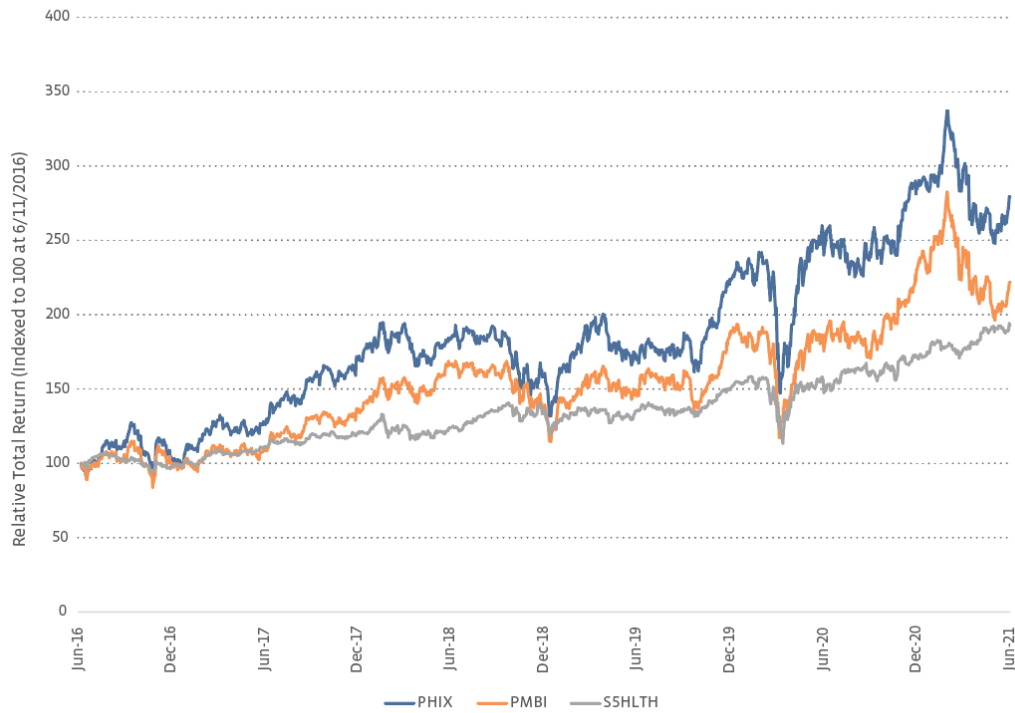
Biotechnology companies are some of the largest disruptors within the broader healthcare sector—these companies create new and innovative treatments for critical diseases like cancer, Alzheimer's disease, and more recently COVID-19. The [S-Network Medical Breakthroughs Index](#) (PMBI)—which is the underlying index for the ALPS Medical Breakthroughs ETF (SBIO)—and the [S-Network Healthcare Innovation Index](#) (PHIX)—which is the underlying index for the SmartTrust Healthcare Innovations Unit Investment Trust—both offer exposure to biotechnology stocks that have one or more drugs in Phase II and Phase III U.S. FDA trials. This strategy reduces the likelihood of early-stage failures in preclinical or Phase I trials, while still leaving potential for stock price growth once the drug is officially approved. See our detailed reports on PMBI [here](#) and PHIX [here](#).

Another way biotech companies see significant stock price appreciation is through acquisitions. Since biotechnology companies focus on research & development, they are often acquired by large pharmaceutical companies which can market and distribute the treatment. In the most recent example, [MorphoSys AG](#) (MOR) recently announced the acquisition of biotechnology firm, [Constellation Pharmaceuticals](#) (CNST) at an approximately 70% premium to its previous closing price while CNST was a constituent of both PMBI and PHIX. According to [DealForma](#), biopharma M&A activity [grew](#) (although total dollars decreased) from ~350 deals (\$254 billion) in 2019 to 384 deals (\$190.9 billion) in 2020. Deal activity so far in 2021 has been relatively muted, but strong innovation and competition could trigger a recovery in M&A activity.

One method to quantify biotechnology innovation is through the [FDA's](#) novel drug approval list. The FDA [defines](#) novel drugs as “innovative products that serve previously unmet medical needs or otherwise significantly help to advance patient treatments” where the active ingredient has not previously been approved in the United States. In 2020, the FDA's Center of Drug Evaluation and Research (CDER) [approved](#) 53 novel drugs—above the average rate of 40 novel drugs per year since 2011-2019. So far novel drug approvals in 2021 are about in line with last year with 26 drugs [approved](#) year-to-date as of June 7. Examples of novel drugs that have recently gained publicity are remdesivir (approved October 22, 2020 to treat COVID-19) and aducanumab (approved June, 7, 2021 to treat Alzheimer's disease).

Given the volatility and uncertainty in the sector, biotechnology is a difficult space for individual stock picking and many investors instead choose to follow an index strategy. Broader healthcare indexes, however, tend to lack concentrated biotechnology exposure. The [S&P 500 Health Care Index](#) (S5HLTH) does not contain any PMBI or PHIX constituents, although it does contain larger biotechnology companies (all of its top 10 constituents have market caps over \$100 billion). PMBI focuses on small to mid-cap stocks with market caps ranging from \$200 million to \$5 billion, while PHIX focuses on those with relatively higher market caps from \$1 billion to \$50 billion. The screening strategy behind PMBI and PHIX has helped achieve higher total return than S5HLTH over the past five years (115.6% for PMBI and 172.2% for PHIX compared to 91.0% for S5HLTH), which further validates its benefits over a broad-based sector strategy for those investors seeking a thematic growth opportunity.

PMBI and PHIX Have Historically Outperformed the Broader Healthcare Sector



Source: Bloomberg, Alerian and S-Network Global Indexes as of 6/11/2021

Index	Ticker	Total-Return Performance				
		30 Days	YTD	1-Year	3-Year	5-Year
Healthcare						
S-Network Healthcare Technology Index	HLTHX	9.75%	-1.81%	53.16%	130.36%	232.33%
S-Network Medical Breakthroughs Index	PMBI	11.61%	-2.64%	26.46%	33.78%	115.62%
S-Network Healthcare Innovation Index	PHIX	11.22%	-1.81%	16.31%	52.11%	172.16%
Technology						
O'Shares Global Internet Giants Index	OGIGX	10.39%	0.11%	59.32%	119.14%	340.85%
S-Network North American Disruptor Index	SNNADX	13.40%	15.81%	67.04%	78.58%	N/A
S-Network US Disruptor Index	SNUSDY	16.59%	18.35%	81.22%	93.48%	245.41%
S-Network Tech Target Index	SNTECH	13.08%	15.06%	70.76%	60.97%	183.22%
Water						
S-Network Global Water Index	JGI	6.63%	13.29%	39.62%	51.44%	85.39%
S-Network Global Water Works Index	JWW	4.80%	10.05%	21.92%	52.60%	75.59%
S-Network Global Water Technology Index	JWT	8.53%	16.61%	58.72%	45.83%	89.23%
Smart Climate Risk						
S-Network Smart Climate Risk 50 Index	SNSC50	3.53%	12.54%	38.01%	54.25%	128.43%
S-Network Smart Climate Risk 250 Index	SNSC250	3.28%	13.83%	40.80%	56.70%	128.54%
Other						
S-Network Streaming & Gaming Index	STREAM	10.94%	12.11%	71.55%	99.16%	N/A
S-Network Infrastructure Builders Index	EIBI	-1.96%	14.75%	49.64%	28.39%	74.36%
S-Network Space Index	SPACE	7.39%	21.09%	59.11%	22.14%	56.13%
S-Network MicroSectors Gold Miners Index	MINERS	4.49%	3.97%	18.58%	70.16%	N/A

Source: S-Network Global Indexes. All performance data as of June 11, 2021.

Related Research:

[Biotechnology: Capturing Innovation and Potential M&A Upside](#)

[Capturing Biotech Innovators and M&A Targets](#)

[Investing in Space: Growth Beyond this World](#)

[Riding the ESG Wave by Investing in Water](#)

[How Is Digitization Impacting Businesses and Creating Opportunities for Investors?](#)

Underlying Index | Associated Product/Direct-Indexing Platform Availability

Healthcare

[S-Network Medical Breakthroughs Index \(PMBI\)](#) | ALPS Medical Breakthroughs ETF (SBIO)

[S-Network Healthcare Innovation Index \(PHIX\)](#) | SmartTrust Healthcare Innovations Trust; Available on the C8 platform and the SMARtX platform

Technology

[O'Shares Global Internet Giants Index \(OGIGX\)](#) | O'Shares Global Internet Giants ETF (OGIG)

[S-Network North American Disruptor Index \(SNNADX\)](#) | SmartTrust Technology Revolution Trust – Includes 30 stocks from SNNADX

[S-Network US Disruptor Index \(SNUSDIX\)](#) | Available on the SMARtX platform

S-Network Tech Target Index (SNTECH) | Available on the SMARtX Platform

Water

[S-Network Global Water Index \(JGI\)](#) | Invesco Global Water Portfolio – Includes 25 stocks from JGI; Available on the C8 platform

Smart Climate Risk

S-Network Smart Climate Risk 50 Index (SNSC50) | Available on the C8 platform and the SMARtX platform

S-Network Smart Climate Risk 250 Index (SNSC250) | Available on the C8 platform

Other

[S-Network Infrastructure Builders Index \(EIBI\)](#) | Available on the C8 platform

[S-Network Space Index \(SPACE\)](#) | Procure Space ETF (UFO)

[S-Network MicroSectors Gold Miners Index \(MINERS\)](#) | MicroSectors Gold Miners 3x Leveraged ETN (GD XU), MicroSectors Gold Miners -3x Inverse Leveraged ETN (GD XD)

About Alerian and S-Network Global Indexes

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