

Yorkville Asset Management Inc

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Yorkville Asset Management top executives think now is the time to invest in Canadian healthcare

Established in 2010, Yorkville Asset Management Inc has always been laser-focused on investing in the healthcare space.

Unlike most institutional investors, the team at Yorkville - led by CEO Hussein Amad and managing director Ralph Desando - saw then opportunities for returns in the highly fragmented Canadian healthcare sector. Both Amad and Desando, who had a working relationship for about 15 years prior to Yorkville, decided to build a business to cater to ultra-high net worth clients, providing services both in the public and private markets.

Today the firm holds a number of funds, including a unique Health Care Fund that invests in healthcare-related businesses like long term care, institutional pharmacy and other ancillary health care silos. It recently invested nearly \$40 million into CareRX (TSE:CRRX), formerly Centric Health Corporation, a leading Canadian provider of specialty pharmacy services to senior communities, which just completed a \$44 million acquisition of specialty pharmacy firm Remedy Holdings Inc.

Now, with the global coronavirus (COVID-19) pandemic having harshly exposed many of the sector's deficiencies, there is no better time to look at how private enterprise can step in to fill the funding gap apparent in healthcare. In an exclusive interview with Proactive, Yorkville's Amad and Desando talk about the impact of the pandemic on the Canadian healthcare system and how investors can be a part of improving the system for future generations - all while generating healthy returns.

Why did Yorkville decide to focus on healthcare investments?

Hussein Amad (HA): Our single largest asset class in public markets tends to be the healthcare space, and it's served us well. Healthcare is a non-discretionary sector. In Canada, the private market is very fragmented. Most areas needed massive investment and redevelopment, including institutional pharmacies. Unlike in the US or Europe, the healthcare sector in Canada is a sizable sector of the economy, but a big component of it is debt-financed. There is a disconnect between public markets and investors in the healthcare space. We saw opportunities to add value to our investors, add value to the system - and create a better future for our retirement!

Has your investing approach changed at all in 2020 in light of the coronavirus pandemic?

HA: If anything, it's strengthened our commitment to the sector. Having a passion about what we do has strengthened our resolve to become an even bigger player in institutional pharmacies, medical equipment and the like. In Canada alone, there's an average 20 ventilators per 100,000 people, but Ontario is least prepared with only 12 ventilators per 100,000 people (for a dismal total of 1,800 ventilators for the province) which was exposed at the start of the pandemic. Doctors in Canada should not be having to make a choice as to who receives treatment. We need investments in the sector so that no one is put in that position.

Ralph Desando (RD): The fact that we diversified our healthcare holdings to include additional silos has really prepared

Share Information

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Website: www.yorkvilleasset.com

Company Synopsis:

Yorkville Asset Management Inc. ("Yorkville") is an independent investment boutique that was founded on our unbiased commitment to our clients' success, and a strong dedication to risk management.

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our fund and given our investors an even better position to move forward from this pandemic. A lot of the work we've been doing lately has been educating clients on the benefits of what Yorkville has done for healthcare and how we see the opportunities streaming from the pandemic in the future.

HA: Before the pandemic, Ralph was one of the few people saying we needed to look in our backyard for opportunities. Most investors shy away from heavily regulated industries because they handcuff you, in a way. People don't realize that the government facility rating system is still built on 20 to 30-year-old designs. It's really up to investors to move quickly to rectify the system as only the current government has moved the needle on redevelopment.

One of our pet peeves is when we come across an institutional client in healthcare that doesn't own Canadian assets, because the return isn't high enough for them as it would be in the US or overseas. A lot of these issues have to be addressed, but they require so many moving parts from governments that it's left to direct investors to try and help solve the problem. Investors don't like red tape, but because of the exodus of investments, Canada's healthcare system has fallen behind.

Have there been any opportunities for investment that have opened up as a result of COVID-19 - for example, vaccine development?

HA: There are around 254 therapies and 95 vaccines from 160 companies for COVID19 currently being explored, and we are investing in those that are public. In Canada, there are only a few companies that are leading the way in finding the vaccine. I wish Canada could take that lead but the funding simply isn't there for these companies. The COVID-19 pandemic has highlighted deficiencies in many areas - home care, pharmaceutical dispensing - where Canada has to catch up to a modern way of doing things. We decided to enter the institutional pharma business when we found the right partners in Centric Health who could lead the way. We were impressed with their game plan and believed we could help them add value and achieve their objectives.

RD: We are looking at expansion in other provinces as a result of the pandemic, including opportunities that may not have been there a few months ago.

The Yorkville team has talked quite a bit in recent months about how to "get comfortable with the uncomfortable." How do investors do that?

HA: These cycles where we see a major change in habits shouldn't be feared from an investor's perspective. Often when these shifts occur, there is a massive amount of wealth that is accrued right afterwards. For an investor, being with the investment company that is ahead of the game gives them a leg up. It's incredibly important to have trust and confidence in your experienced management team. Ralph and I are updating our clients on a weekly basis, keeping them up to date with information and our insights.

How would you assess the performance of your Health Care funds?

RD: The fund has provided a really stable return over its lifetime, which is a function of how we set it up to ensure it was managed efficiently. Its continued returns are a result of our diversification strategy - by doing so, we were able to reduce structural costs of the Fund to help investors enhance their returns. It is important to note that most of our health care funds are only available to accredited investors.

HA: I would define its success also by the fact that we've invested domestically and generated stable returns. The same fund in any other market could be substantially higher, but for those investors who are risk-averse and looking for less headaches, that fund addressed those needs. I echo what Ralph said about the availability of the fund to accredited and institutional investors, and it is important for everyone to check the associated risks with such, or the suitability of any investment with their own advisors before making any investment decisions.

What has this experience taught us about the state of Canadian healthcare and the value of investing in the industry?

RD: The pandemic has exposed the effects of red tape that has delayed redevelopment significantly. Our first redevelopment project started in 2012 and three governments later, we finally have five redevelopment projects approved. It's too long a period to get those approvals. I think we're going to see a significant acceleration of those projects in order to be better prepared in the future as well as better funding. Our other investment, CareRX, has also highlighted its importance to Canadians as an essential service, continuing without disruption to service or major impact to revenues. Having two health care businesses that are essential services as core investments has demonstrated the value of investing in healthcare.

Another thing that has been highlighted is that the amount of money for funding in long term care is insufficient and needs to be improved. This cannot be done by governments acting alone. Yorkville is well-positioned as a leader in the space to affect change for elderly care.

HA: It saddens me that it took a pandemic to bring these issues to light, but now when we talk to investors about healthcare, it is top of the mind for them. There is no greater satisfaction that anyone can get than to say that they were part of changing a system for the better. Private investors are needed - they have capital that they need to deploy and capital needs to be active. There's no better place for us to have it deployed than in Canada.

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