

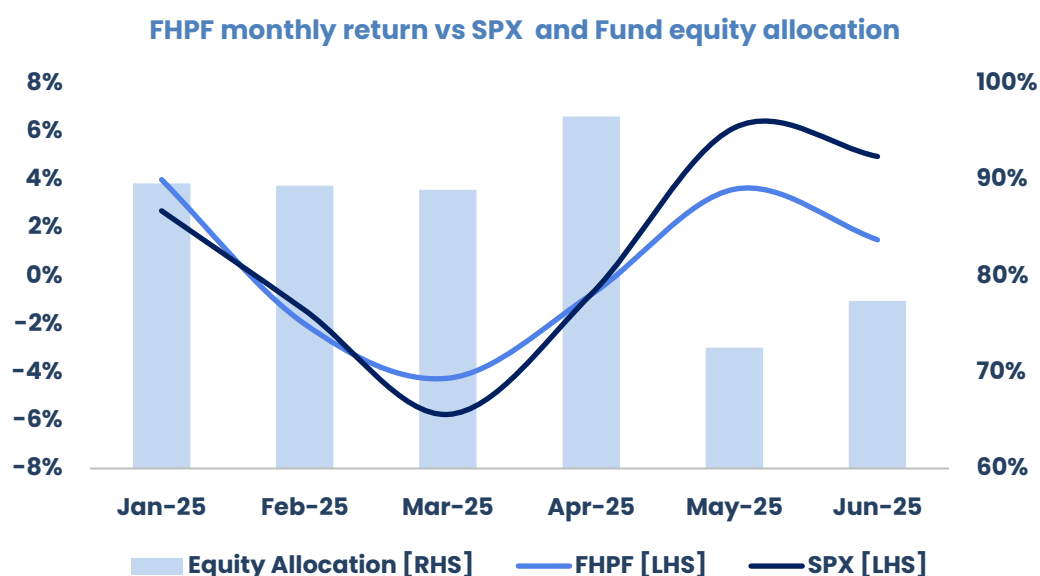
June 2025

Fountainhead Partnerships Fund

Investor Letter

Here we go again! The 2021 redux

Fountainhead Partnerships Fund (FHPF) posted a gain of over 1% in June and more than 4% for the second quarter of 2025, while the MSCI World (ACWI) and S&P 500 indices both surged by 10% during the same period. After outperforming the markets throughout the first quarter and much of the year, all the Fund's relative underperformance occurred in June, when FHPF lagged the benchmarks by 5 percentage points. The primary market drivers in June were the most speculative, non-profitable stocks—an area where we remain unexposed



In April, we increased equity allocation to 96%, then prudently reduced it to 75% by May's end, as the market rebounded much faster than expected. Market sentiment has swung from euphoria in Q1, to deep fear in April, and back to exuberance by June end.

What makes the market even more vulnerable to a potential drawdown now, compared to the first quarter, is that it's not just the MAG 7 driving returns. Hundreds of unprofitable US companies are also fueling the rally. This environment is reminiscent of the 2021 bubble, which was propelled by SPACs, EV concept, and solar companies' stocks. This time, the hype is centered on AI. We would be surprised if these current euphoric conditions end differently.

The GS Non-Profitable Technology Index (2021 and 2025)

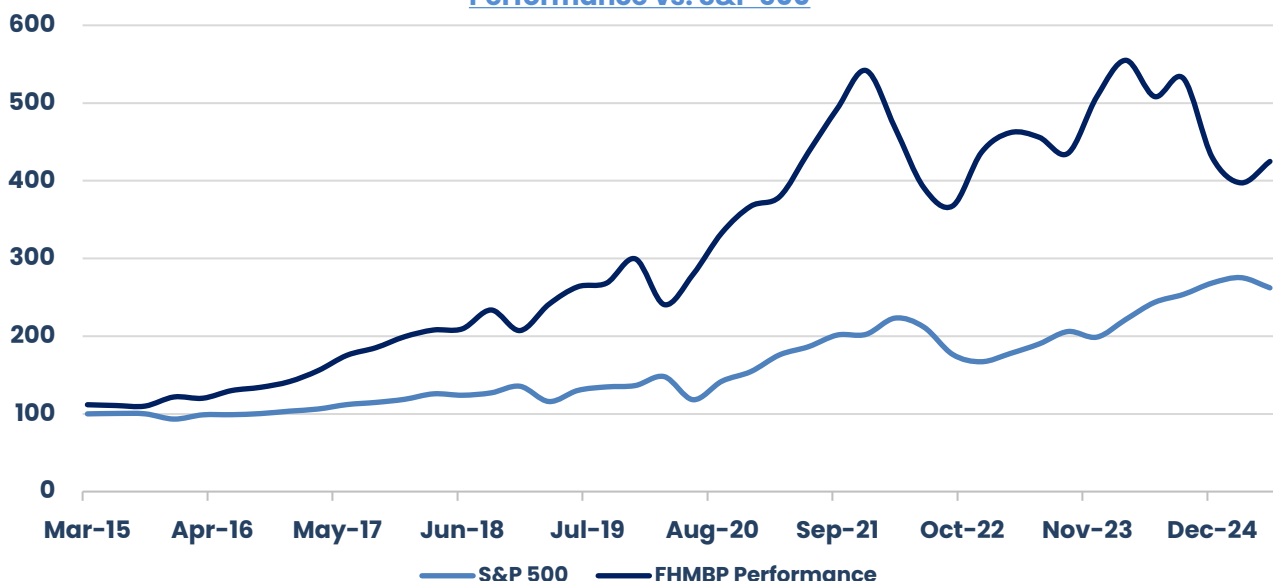


Fountainhead positioning for outperformance:

Since inception, our strategy has consistently outperformed the broader stock market—even with minimal exposure to the technology and communication services sectors. MedTech and Healthcare stocks have formed the cornerstone of our quality-growth approach, providing a stable foundation for our portfolio over the past decade. We refer to this carefully curated group of holdings as **FHMBP**.

Our selection process focuses on companies that reliably generate positive cash flow, maintain low balance sheet leverage, and demonstrate disciplined capital allocation between growth initiatives and shareholder returns. While we have lagged at times—such as in 2018 and 2024—the superior growth profile of our portfolio has consistently restored outperformance.

Fountainhead MedTech-BioPharma Portfolio (FHMBP)
Performance vs. S&P 500



Fountainhead Partnerships

Recently, these stocks have come under pressure due to uncertainty surrounding U.S. healthcare policy. The underperformance of FHMBP over the past twelve months has been driven primarily by investor concerns about how potential policy changes could impact the healthcare sector's growth outlook. Despite these headwinds, earnings for these companies have remained resilient. However, heightened investor caution has led to significant correction in their valuations.

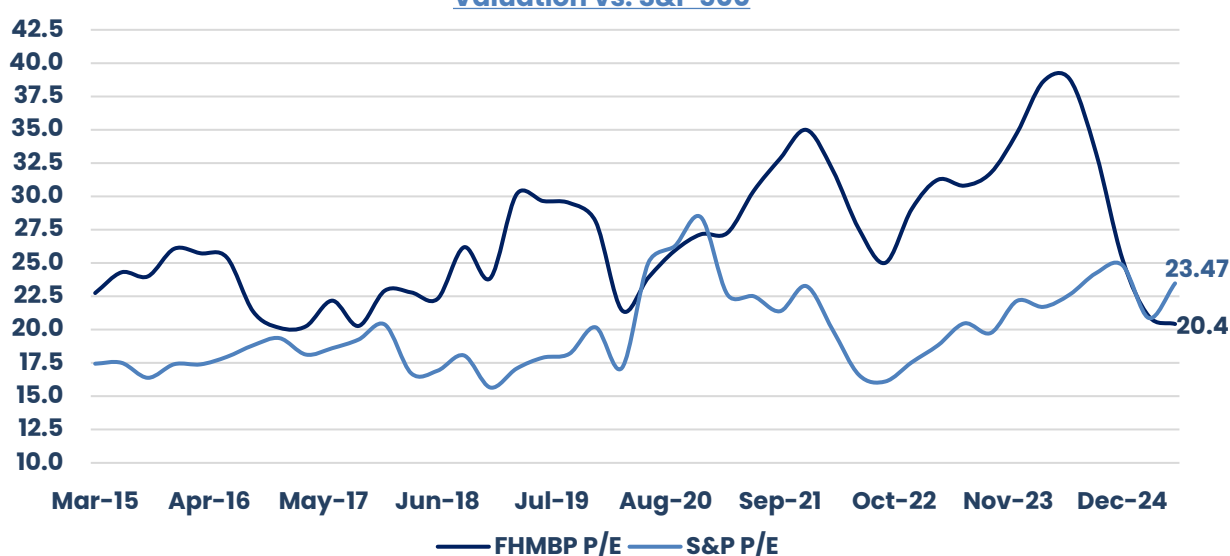
While we acknowledge that the sector faces uncertainty, we remain optimistic about its long-term return potential. In our view:

1. The healthcare sector has over-corrected in response to policy concerns.
2. There are compelling opportunities across various subsectors.
3. Secular growth drivers—such as an aging population and ongoing advances in medical technology—continue to support a positive outlook.

We are confident that our portfolio holdings have significant potential energy, poised to convert into kinetic gains.

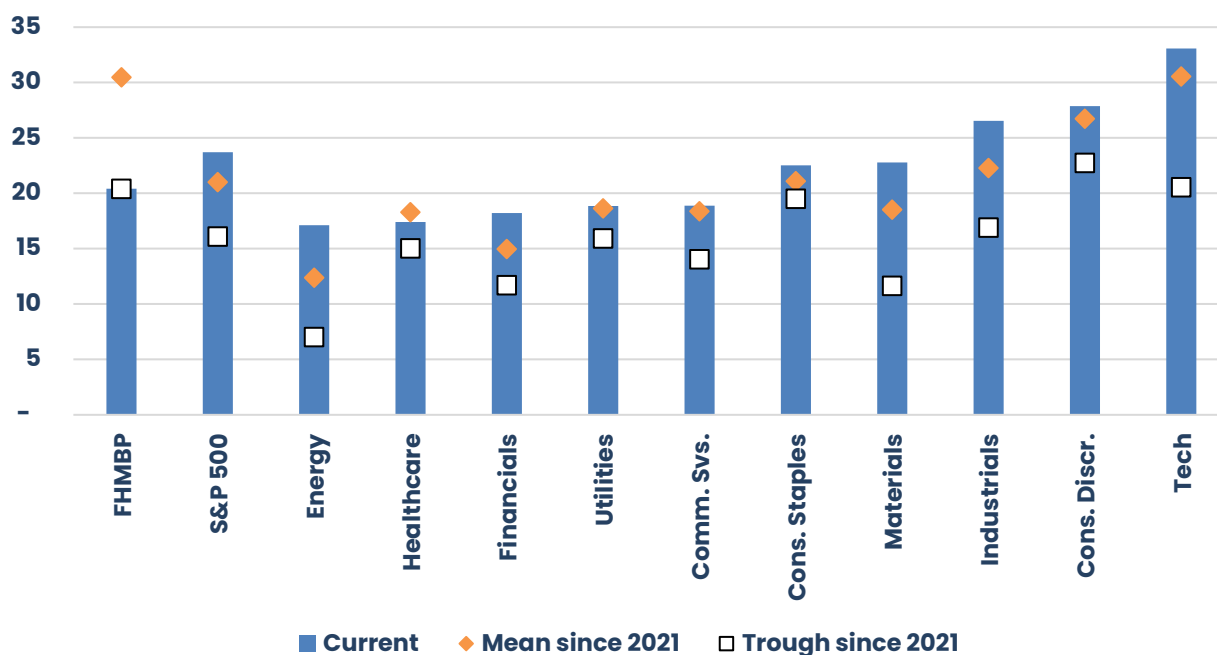
1. Rerating of valuation: Of the three main reasons for our optimistic outlook on healthcare stocks, valuation rerating is likely to drive the greatest returns. Historically, our healthcare holdings traded at a premium to the market's PE multiple, but now they trade at a discount—sometimes a substantial one. We are already seeing this discount begin to narrow and anticipate meaningful valuation upside over the next 6–12 months.

Fountainhead MedTech-BioPharma Portfolio (FHMBP)
Valuation vs. S&P 500



Comparing FHMBP/Healthcare PER with its own mean and with the market multiple reinforces its attractive valuations. It's PER of 20x is at a 33% discount to its own mean and at a 14% discount to S&P500. We believe this discount will narrow as investors will start appreciating the high, non-cyclical growth of the sector.

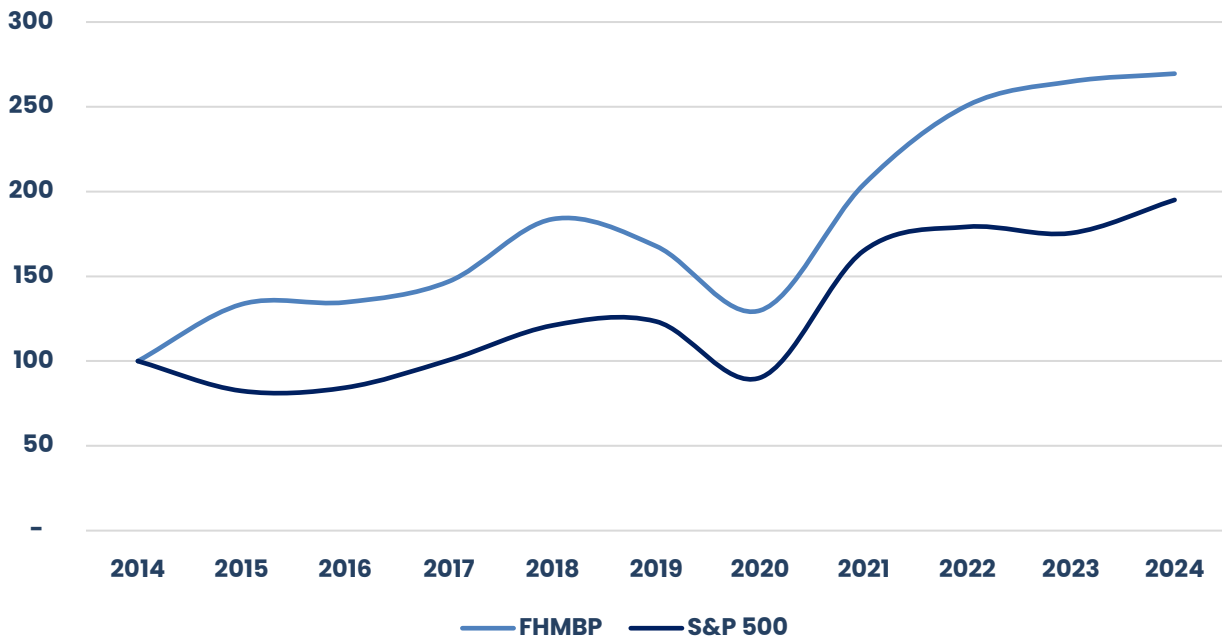
FHMBP – PER vs Other S&P500 Sectors



Sectors that are trading at >20% above their respective mean are Energy, Financials and Materials. Tech Sector is currently trading at 40% premium to the market and 8% above its own mean. It now accounts for 33% of S&P500. Consumer Discretionary is trading at 4% premium to mean and 18% premium to the market. This has been discussed further in the Letter under The Narrow market.

- Patent Cliff of USD 300bn in next 5 years favoring Contract Research Organizations (CROs):** The top 20 biopharma companies have each invested an average of \$5.1 billion annually in R&D over the past 20 years, bringing over 800 new drugs to market and broadening therapeutic options for patients. Shareholders have benefited as well, with these companies delivering strong earnings growth and average annual shareholders returns of 12%.

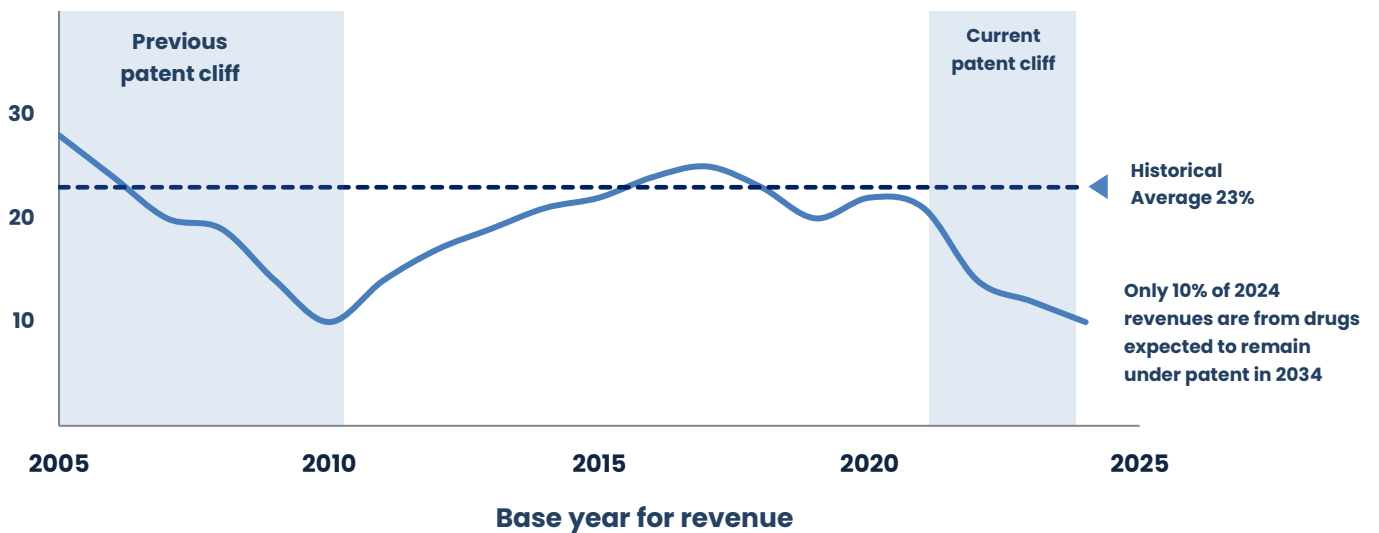
FHMBP vs S&P 500 EPS growth



The biopharma sector's total revenue reached \$1 trillion in 2024. However, \$300 billion in revenue is set to go off-patent in the next five years—a steep patent cliff, comparable to the early 2000s.

The Biopharma Industry Faces a Major Drop in Patented Drug Revenues

Revenue from drugs still under patent after 10 years (%)



According to Boston Consulting Group, \$150 billion of revenue will be affected by 2027 alone. This will put significant pressure on large healthcare companies to develop new blockbuster drugs. This drive for new drug

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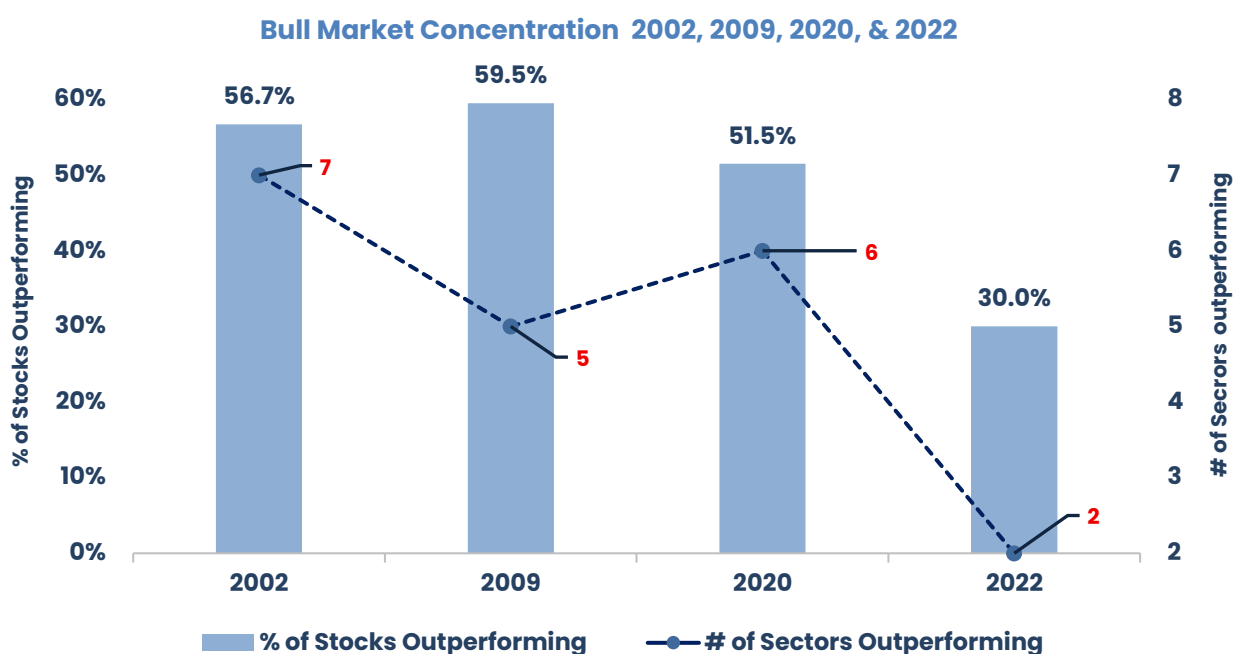
discovery will be significantly positive for our Contract Research Organizations (CROs) who will benefit from increase R&D spending.

We will share a detailed note on our CROs holdings in the coming weeks.

3. Aging population's requirements for medical needs: Proposed US healthcare budget cuts have weighed on some of our holdings, but we believe these will have minimal impact on company's revenues. The aging population is a secular trend; demand for procedures like hip and knee replacements remains robust, regardless of whether funding comes from government or private insurers. For companies like Stryker (SYK.US), this means revenue stability.

The Narrow market:

As stock investors know all too well, this has been and continues to be a very "narrow" bull market. Since its inception in October 2022, only during three quarters have more than 50% of the stocks outpaced the overall S&P 500 index. In the other 8 quarters, more than one-half of the names in the overall index have been relative losers. Likewise, in 8 of the 11 quarters, six or less of the 11 sectors have outperformed. Such lousy participation during this bull has made it extremely difficult for investors to beat the S&P 500 index.



Most recently, participation has remained very narrow. In the second quarter of 2025, only 28.9% of the stocks and 4/11 of the sectors outpaced the overall S&P

500 index. During the entire contemporary bull market, only 30% of the stocks and only 2/11 sectors (technology and communication services) have outpaced the overall S&P 500 index. By comparison, in the previous three bull markets in 2002, 2009 and 2020, between 51.5% to 59.5% of the stocks outpaced the overall index! When will leadership finally broaden during this bull market? Nobody knows for sure, but perhaps it will broaden significantly once the Federal Reserve finally decides to implement a sustained easing in monetary policy.