

# The Biotech Growth Trust PLC



Portfolio Manager



Geoffrey Hsu



Richard Klemm

Information as at 30 September 2019

[www.biotechgt.com](http://www.biotechgt.com)

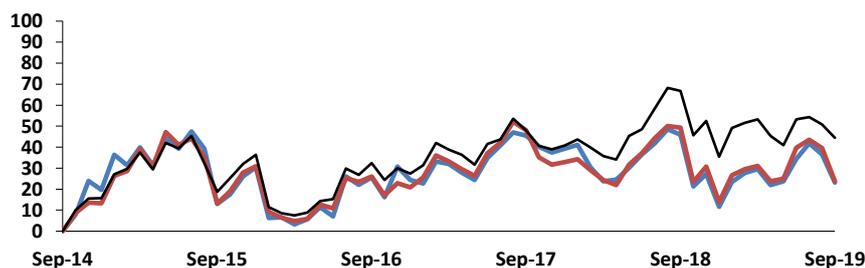


## Investment Objective and Benchmark Index

The Biotech Growth Trust PLC seeks capital appreciation through investment in the worldwide biotechnology industry. Performance is measured against its benchmark index, the NASDAQ Biotechnology Index (sterling adjusted).

## Five Year Performance (%)

Past performance is not a guide to future performance. The value of investments and the income from them may fall as well as rise and is not guaranteed; an investor may receive back less than the original amount invested.



Benchmark: NASDAQ Biotechnology Index (sterling adjusted) +44.4%

**Net Asset Value per share (total return) +23.9%**

**Share Price (total return) +23.1%**

Source: Morningstar, Index - Bloomberg.

## Commentary

In September, the NAV per share was down 11.3%, the share price was down 9.8% and the benchmark NASDAQ Biotechnology Index (sterling adjusted) was down 4.3%.

During a volatile month of headlines, the financial markets also saw increased volatility compared to previous months and a shift from momentum to value stocks. Biotechnology and the healthcare sector underperformed the broader markets in September. Many year-to-date outperformers in the healthcare sector drastically underperformed during the month on no fundamental news and major biotechnology stocks tended to outperform emerging biotechnology stocks. As the portfolio has a higher weighting of emerging biotechnology stocks compared to the benchmark, this positioning contributed to the underperformance. However, we continue to find value in many of the companies which underperformed in September, and have opportunistically added to our positions on unwarranted weakness.

Several macro headlines influenced investor sentiment in the month, including continued uncertainty about US-China trade negotiations and an expected 25 basis point reduction in interest rates by the US Federal Reserve. The announcement of a Presidential impeachment inquiry by the House Democrats has created additional political uncertainty and re-directed much of the legislative attention away from drug pricing plans, which we now see as unlikely to be resolved in 2019. As the fourth Democratic Presidential candidate debates approaches, many polls have shown Senator Elizabeth Warren gaining momentum, with some showing Warren ahead of frontrunner, former Vice President Joe Biden. While Biden is viewed as relatively benign for the healthcare sector, a major talking point of Warren's campaign has been her support of Medicare for all and the elimination of private insurers, which investors see as negative for the sector. While we continue to believe Medicare for All will be very difficult to enact, we see Warren's increasing momentum in the polls as a headwind for healthcare investors. Warren has also been very critical of the pharmaceutical industry and their pricing of drugs in the US. Even so, our view remains that whoever is elected President, extreme legislation on drug pricing will be difficult to enact given a split Congress, with Republicans controlling the Senate and Democrats controlling the House.

Acadia, Karyopharm and Flexion were the top positive contributors to performance during the month. Acadia shares were strong after the company released positive data from a Phase 3 trial of pimavanserin in dementia-related psychosis (DRP). We believe DRP is a potential multi-billion dollar market opportunity with pimavanserin poised to become the only available treatment option. Karyopharm shares outperformed as the company announced a royalty agreement for its refractory multiple myeloma treatment Xpovio. We believe early physician feedback on the launch of Xpovio also continues to be positive and indicates encouraging initial commercial uptake. Shares of Flexion were strong as prescription data showed increasing uptake of the company's osteoarthritis treatment Zilretta. MeiraGTX, Adverum and Neurocrine Biosciences were the largest negative contributors to performance during the month. MeiraGTX shares underperformed as a top shareholder, which operates as an independent biotechnology company messaged its intent to sell its shares to fund its own operations. We see recent weakness as unrelated to the fundamentals of MeiraGTX's business and view the company as underappreciated with multiple clinical-stage programs likely to drive value. Adverum shares were weak after the company presented initial data from an early-stage trial of gene therapy candidate ADVM-022 in wet age-related macular degeneration (AMD), where investors focused on a small average loss of visual acuity in the trial, as well as mild-to-moderate inflammation as seen in many gene therapy trials. We think concern over the program is misplaced, as visual acuity is historically highly variable in this heavily pretreated population, and inflammation was well-managed with topical steroids; we also see the early efficacy signals of ADVM-022 as very encouraging. We continue to view Neurocrine as a high-growth commercial biotech company transitioning to profitability that would make an attractive M&A target.

## Biographies

**Geoffrey C. Hsu, CFA**, is a General Partner of OrbiMed, having joined in 2002 as a biotechnology analyst. Prior to joining OrbiMed, he worked as an analyst in the healthcare investment banking group at Lehman Brothers. Geoff received his A.B. degree summa cum laude from Harvard University and holds an M.B.A. from Harvard Business School. Prior to business school, he spent two years studying medicine at Harvard Medical School.

**Richard D. Klemm, Ph.D., CFA**, is a Public Equity Partner at OrbiMed focused on biotechnology companies. He completed a Ph.D. from the Massachusetts Institute of Technology in molecular biology in 2000. Richard has published scientific articles in the fields of DNA replication and transcription. He received a B.A. from the University of California, Berkeley in 1994 with majors in molecular and cell biology and economics.

## Portfolio Manager Profile

Portfolio management services are provided by OrbiMed Capital LLC (OrbiMed). OrbiMed is owned by six principals, including Geoff Hsu. The U.S.-based firm employs over 80 experienced investment professionals who between them have extensive scientific, medical, financial and operational expertise. They employ a bottom-up stock selection process driven by intensive proprietary research, which involves company visits and developing an understanding of commercial prospects and development programmes for individual drugs. The firm covers some 600 international pharmaceutical and biotechnology companies, two thirds of which are actively researched. OrbiMed is registered as an investment adviser under the U.S. Securities and Exchange Commission (SEC). SEC registration does not imply a certain level of skill or training.

## Investment Policy

In order to achieve its investment objective, the Company invests in a diversified portfolio of shares and related securities in biotechnology companies on a worldwide basis. The Company will not invest more than 15% of the value of its gross assets in any one individual stock at the time of acquisition. It will not invest more than 10% of the value of its gross assets in direct unquoted investments at the time of acquisition. This limit does not include any investment in private equity funds managed by the Portfolio Manager or any affiliates of such entity. Up to US\$15m, after the deduction of proceeds of disposal and other returns of capital, may be invested in private equity funds managed by OrbiMed or an affiliate. The Company's borrowing policy is that borrowings will not exceed 20% of the Company's net assets. The Company may be unable to invest directly in certain countries. In these circumstances, the Company may gain exposure to companies in such countries by investing indirectly through swaps. Where the Company invests in swaps, exposure to underlying assets will not exceed 5% of the gross assets of the Company at the time of entering into the contract.

## Discount Control Mechanism

The Directors have adopted an active discount management policy to establish and support an improved rating in the Company's shares through the use of share buybacks, with a view to limiting the discount to NAV per share at which the shares trade to no more than 6%. Shares bought back will be cancelled.

The Biotech Growth Trust PLC conducts its affairs so that its shares can be recommended by independent financial advisers ("IFAs") to retail private investors. The shares are excluded from the Financial Conduct Authority's ("FCA's") restrictions which apply to non-mainstream investment products because they are shares in a UK-listed investment trust.

## The Biotech Growth Trust PLC

### 10 Largest Holdings at 30 September 2019 (% of total investments)

Name	Total
Vertex Pharmaceuticals	9.9
Neurocrine Biosciences	7.7
Amgen	5.2
Deciphera Pharmaceuticals	4.9
Gilead Sciences	4.5
Alexion Pharmaceuticals	3.9
Exelixis	3.8
Regeneron Pharmaceuticals	3.7
Hansoh Pharmaceutical	3.6
MeiraGTx	3.5
<b>Total</b>	<b>50.7</b>

### Geographical Breakdown as at 30 September 2019 (%)

North America	82.1%
Other	10.7%
Continental Europe	5.6%
*Unquoted	0.9%
United Kingdom	0.7%
<b>Total</b>	<b>100.0%</b>

\* No more than 10% of gross assets will be invested in direct unquoted investments at the time of acquisition. The Company may also invest or commit for investment a maximum of US\$15m, after the deduction of proceeds of disposal and other returns of capital, in private equity funds managed by the Company's Portfolio Manager or an affiliate thereof.

Source: All portfolio information sourced from Frostrow Capital LLP

### Discrete Performance – Calendar Years (%)

Percentage Growth 12 Month Return	2014	2015	2016	2017	2018	YTD
NAV	43.1	15.6	-7.6	9.9	-14.3	8.6
Share Price	44.9	9.1	-4.7	12.1	-19.9	10.3
Index	42.6	17.8	-6.5	10.5	-3.8	6.6

### Standardised Discrete Performance (%)

Percentage Growth 12 Month Return	Sep 14- Sep 15	Sep 15- Sep 16	Sep 16- Sep 17	Sep 17- Sep 18	Sep 18- Sep 19
NAV	13.3	11.3	17.4	0.9	-17.1
Share Price	12.9	11.3	15.9	0.4	-15.7
Index	18.8	11.4	11.7	12.8	-13.5

Past performance is not a guide to future performance. The value of investments and the income from them may fall as well as rise and is not guaranteed.

Source: NAV (total return; fully diluted) & Share Price (total return) – Morningstar. Index - Bloomberg.

### Risk Warnings

This document is for information purposes only and does not constitute an offer or invitation to purchase shares in the Company and has not been prepared in connection with any such offer or invitation. Before investing in the Company, or any other investment product, you should satisfy yourself as to its suitability and the risks involved, and you may wish to consult a financial adviser.

Any return you receive depends on future market performance and is uncertain. The Company does not seek any protection from future market performance so you could lose some or all of your investment. Shares of the Company are bought and sold on the London Stock Exchange (LSE). The price you pay or receive, like other listed shares, is determined by supply and demand and may be at a discount or premium to the underlying net asset value of the Company. Usually, at any given time, the price you pay for a share will be higher than the price you could sell it. For further information on the principal risks the Company is exposed to please refer to the Company's Annual Report or Investor Disclosure Document available at [www.biotechgt.com](http://www.biotechgt.com). The Company can borrow to purchase investments, this could potentially magnify any losses or gains made by the Company.

### Important Information

The Biotech Growth Trust PLC is a public limited company whose shares are premium listed on the LSE and is registered with HMRC as an investment trust. The Company has an indeterminate life, although shareholders consider and vote on the continuation of the Company every five years (the next such vote will be held in 2020).

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### Fast Facts

As at 30 September 2019

<b>Launch Date</b>	June 1997
<b>AIC Sector</b>	Biotechnology & Healthcare
	Date of Appointment of OrbiMed 19 May 2005
<b>Annual Management Fee</b> (payable by the Company)	0.65% of net assets <u>plus</u> 0.30% of market cap. <u>plus</u> £60,000
<b>Performance fee</b>	See Annual Report for details
<b>Ongoing charges*</b>	1.1%
<b>Continuation Vote</b>	At AGM in 2020; every 5 years
<b>Year / Half Year</b>	31 March / 30 September
<b>Capital Structure</b>	45,735,075 Ordinary Shares of 25p

### Trust Characteristics

<b>Number of Holdings</b>	44
<b>Total Net Assets (£m)</b>	£339.9m
<b>Market Capitalisation (£m)</b>	£319.2m
<b>Dividend Policy</b>	It is not anticipated that the Company will pay a dividend
<b>Gearing (AIC basis)</b>	8.8%
<b>Leverage**</b>	
<b>Gross &amp; Commitment</b>	108.8%
<b>Share Price (p)</b>	698.00
<b>NAV (p)</b>	743.10
<b>(Discount) / Premium</b>	(6.1%)

\*Calculated at the financial year end, includes management fees and all other operating expenses, excludes performance fees.

\*\*The Board has set the leverage limit for both the Gross and the Commitment basis at 130% of the Company's Net Asset Value.

### Codes

<b>Sedol</b>	0038551
<b>ISIN</b>	GB0000385517
<b>Legal Entity Identifier (LEI)</b>	549300Z41EP32MI2DN29
Global Intermediary Identification Number (GIIN)	U1MQ70.99999.SL.826
<b>Bloomberg</b>	BIOG LN
<b>EPIC</b>	BIOG

### How to Contact Us

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