

# The Biotech Growth Trust PLC



Portfolio Manager



Geoffrey Hsu

Information as at 31 March 2020

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

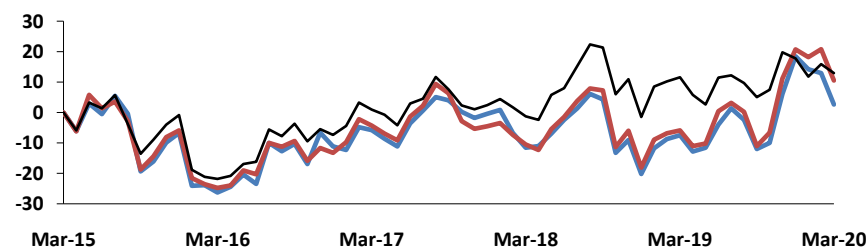


## Investment Objective and Benchmark Index

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.



Net Asset Value per share (total return) +10.7%

Share Price (total return) +2.6%

Benchmark: NASDAQ Biotechnology Index (sterling adjusted) +12.9%

Source: Morningstar, Index - Bloomberg.

## Commentary

In March, the NAV per share was down 8.4%, the share price was down 9.2% and the benchmark NASDAQ Biotechnology Index (sterling adjusted) was down 2.6%.

Biotechnology outperformed the broader markets in March amid an historic downturn in the market. The coronavirus pandemic has clearly had a dramatic impact on public markets and everyday life. With several national governments enacting stay-at-home and social distancing orders in March, the economic impact of the pandemic has been significant, though we continue to believe the "flattening of the curve" and ultimately a return to normal worldwide productivity will occur in the coming months.

Despite the volatility and panic in the markets, we continue to see several potential near-term events which could bolster investor confidence, including signs that social distancing measures are effectively reducing the rate of new cases, a peaking in new case numbers in critical geographies such as northern Italy and New York, advancements in treatments or vaccines for the virus in the next few months, and warmer weather with the arrival of spring, which could help to limit further viral spread. We note China has begun to relax its social distancing orders, suggesting the outbreak can be managed.

Given the dramatic market volatility in March, we believe much of the economic impact of the pandemic is already reflected in stock prices. The U.S. government has taken aggressive measures to support the economy, including a \$2.2 trillion fiscal stimulus package and quantitative easing, which we believe will help stabilize the markets and catalyze an economic recovery. While the pandemic has been disruptive for most business operations, we see this as a temporary phenomenon and expect fundamentals in the biotech industry to be unchanged longer-term. Healthcare remains a defensive, essential business which we believe should fare well during government-mandated lockdowns. While we expect some temporary negative impact on prescription trends and clinical trial timelines, we expect business to ramp up quickly as lockdowns are eased and believe the headwinds for the industry are manageable. We have taken advantage of the market volatility to add to positions in high-quality companies and those with particularly inelastic businesses. Importantly, we believe many of the political overhangs on the biotech sector have dissipated, as drug pricing legislation is no longer being considered due to the COVID-19 crisis and Joe Biden, a centrist on healthcare policy, has become the presumptive Democratic presidential nominee.

During March, the portfolio's tilt towards emerging biotech led to underperformance versus the benchmark index, as the higher-beta emerging biotechs suffered larger declines than large-cap biotech during the broad market sell-off. However, we would expect the emerging biotechs to rebound more strongly when the market recovers. We intend to maintain our emphasis on emerging biotech as we believe that segment of the industry delivers the most innovation and opportunity for share price appreciation longer-term.

## Biography

**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.

## 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 OrbiMed or any affiliate. 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.

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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 31 March 2020 (% of total investments)

| Name                    | Total       |
|-------------------------|-------------|
| Vertex Pharmaceuticals  | 8.4         |
| Gilead Sciences         | 7.3         |
| Biogen                  | 5.4         |
| Applied Therapeutics    | 4.4         |
| Amgen                   | 4.3         |
| Sarepta Therapeutics    | 4.3         |
| Neurocrine Biosciences  | 3.4         |
| Mirati Therapeutics     | 3.2         |
| Hansoh Pharmaceutical   | 3.1         |
| BioMarin Pharmaceutical | 2.8         |
| <b>Total</b>            | <b>46.6</b> |

### Geographical Breakdown as at 31 March 2020 (%)

|                    |               |
|--------------------|---------------|
| Norther America    | 85.7%         |
| China              | 6.2%          |
| Continental Europe | 3.5%          |
| *Unquoted          | 3.5%          |
| Other              | 1.0%          |
| United Kingdom     | 0.1%          |
| <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 OrbiMed or an affiliate thereof.

Source: All portfolio information sourced from Frostrow Capital LLP

### Discrete Performance – Calendar Years (%)

| Percentage Growth | 2015 | 2016 | 2017 | 2018  | 2019 | YTD   |
|-------------------|------|------|------|-------|------|-------|
| NAV               | 15.6 | -7.6 | 9.9  | -14.3 | 47.4 | -8.4  |
| Share Price       | 9.1  | -4.7 | 12.1 | -19.9 | 48.5 | -13.4 |
| Benchmark         | 17.8 | -6.5 | 10.5 | -3.8  | 19.6 | -4.2  |

### Standardised Discrete Performance (%)

| Percentage Growth<br>12 Month Return | Mar 15-<br>Mar 16 | Mar 16-<br>Mar 17 | Mar 17-<br>Mar 18 | Mar 18-<br>Mar 19 | Mar 19-<br>Mar 20 |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| NAV                                  | -24.8             | 27.5              | -6.7              | 5.3               | 17.4              |
| Share Price                          | -26.3             | 27.9              | -6.2              | 4.6               | 10.9              |
| Index                                | -21.8             | 29.2              | -2.2              | 13.0              | 1.2               |

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 will be held in 2020).

This financial promotion is issued by Frostrow Capital LLP which is authorised and regulated by the Financial Conduct Authority ("FCA").

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

### Fast Facts

As at 31 March 2020

|   |  |
|---|--|
| <b>Launch Date</b>                                    | June 1997  |
| <b>AIC Sector</b>                                     | Biotechnology & Healthcare   |
| <b>Date of Appointment of OrbiMed</b>                 | 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>                              | 39,207,269 Ordinary Shares of 25p  |

### Trust Characteristics

|                                   |  |
|-----------------------------------|--|
| <b>Number of Holdings</b>         | 62   |
| <b>Total Net Assets (£m)</b>      | £362.2m  |
| <b>Market Capitalisation (£m)</b> | £319.1m  |
| <b>Dividend Policy</b>            | It is not anticipated that the Company will pay a dividend |
| <b>Gearing (AIC basis)</b>        | 9.3%   |
| <b>Leverage**</b>                 |  |
| <b>Gross &amp; Commitment</b>     | 109.3%   |
| <b>Share Price (p)</b>            | 814.00   |
| <b>NAV (p)</b>                    | 923.91   |
| <b>(Discount) / Premium</b>       | (11.9%)  |

\*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 |
| <b>Global Intermediary Identification Number (GIIN)</b> | U1MQ70.99999.SL.826  |
| <b>Bloomberg</b>  | BIOG LN              |
| <b>EPIC</b>   | BIOG                 |

### How to Contact Us

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CanSino Biologics, Karyopharm and Vertex Pharmaceuticals were the top positive contributors to performance during the month. Shares in CanSino Biologics continued their upward momentum as the Chinese company announced that its coronavirus vaccine had entered a Phase 1 clinical trial. CanSino's coronavirus vaccine is the leading COVID-19 vaccine candidate in China and will be one of the earliest COVID-19 vaccines worldwide to report clinical data. Karyopharm outperformed as the company announced positive Phase 3 data from a trial of Xpovio in multiple myeloma patients in the second-line setting and beyond, which substantially expands the drug's addressable patient population. Vertex shares appreciated after the company announced minimal impact to its commercial business due to the COVID-19 pandemic and reiterated financial guidance for the year. We continue to see Vertex as one of the highest quality large-cap biotech companies, supported by a strong commercial portfolio and significant pipeline optionality to drive continued growth.

Milestone Pharmaceuticals, Neurocrine Biosciences and Athenex were the largest negative contributors to performance during the month. Shares of Milestone declined after the company announced that its Phase 3 trial of etipamil in acute paroxysmal supraventricular tachycardia did not meet its primary endpoint, despite showing signs of efficacy at earlier timepoints in the study. Neurocrine shares were weak as investors anticipated a disproportionately large impact of the COVID-19 pandemic to sales of the company's commercial product, Ingrezza, which relies heavily on in-person salesforce promotion. We expect Ingrezza will remain a key product for psychiatrists and continue to see Neurocrine as a solid commercial-stage biotech company with meaningful pipeline candidates. Athenex shares were weak due to a perceived financing overhang for the company. We would expect the shares to recover once they complete a financing and file their breast cancer drug Oraxol to the FDA.

