Portfolio update: The Biotech Growth Trust

- **The recent sell-off in the biotech industry after a soaring year of returns has created a buying opportunity in some high-quality names, according to the managers of Biotech Growth Trust (BIOG).**
- **BIOG's NAV was up 40% this year by 27/08/2026, and share price returns were 47%. However, a US rate hike and persistent inflation raising fears of more to come have contributed to a sharp sell-off, and at the time of writing the 2026 NAV total return is 8.9% and share price 12.7%.**
- **BIOG's small-cap tilt was helpful in the rally and hurt relative returns in the sell-off, and in response to changing conditions, the managers have shifted their focus to the mid-caps and brought net gearing down to 0%.**
- **M&A slowed over the summer, having been a major driver of the rally. The managers expect it to return, with large cap pharma in need of new products to replace expiring patents, and suggest a more stable US Treasury environment could be what is needed for the sector to recover.**
- **BIOG favouring small caps, its use of gearing and active approach to stock selection contribute to it having an excellent track record of outperforming when the biotech industry rallies.**

Performance

Biotech Growth's (BIOG) managers, Geoff Hsu and Josh Golumb, delivered significant outperformance of the Nasdaq Biotechnology Index in the recovery rally which started in April 2025. To illustrate this, in the trust's financial year ending 31/03/2026, a NAV total return of 74% was over twice the index return of 35%. The SMID-cap bias was beneficial as these companies rallied the furthest, while positive gearing and multiple acquisitions of portfolio companies also boosted returns. The index continued to perform well in the first quarter of the current financial year, before a significant sell-off began in August.

Small-caps have been hit harder in this sell-off, which is the typical pattern. However, successful results in a cancer drug trial by Moderna, which BIOG did not own, were another factor driving large caps ahead of small caps. Moderna's shares more than tripled on the news, which was presented as a successful cancer vaccine, although the drug is a personalised treatment intended to stop spread or recurrence in someone already suffering from melanoma. There is hope that successful results will be replicated in ongoing trials for other cancers. Moderna has been a remarkably volatile stock over the years, and so we think some caution is warranted.

Concerns about inflation potentially leading to rate hikes started to affect the market in July, and M&A also went quiet. In terms of the former, we have seen one rate hike, and the possibility of others may be weighing on the market. Geoff and Josh argue it is volatility in US ten-year treasury yields rather than high rates themselves which tends to hit biotech the hardest, so clear forward guidance could be what is needed for a recovery, even if that involves another hike in the short-term. In terms of M&A, October has seen Merck return to the table in pursuit of new drugs to replace sales of Keytruda, responsible for around half its revenues. This is a prime example of the situation the large caps find themselves in: even if the rates outlook remains unhelpful, they have a desperate need to replace sales which are likely to be lost in the coming years. Industry estimates are for c. $450bn in revenues to roll off-patent by 2028.

A return of M&A would be likely to benefit small and mid-caps the most, and BIOG remains tilted to these segments. This is a major reason behind its track record of significant outperformance in rising markets and underperformance in falling markets, which can be seen in the chart below. While the managers have dialled back the gearing and their exposure to small-caps, we expect this performance pattern to remain, and as such BIOG could be a good option for those who want to maximise the potential to benefit from a sector-wide rally, albeit at the cost of downside risk.

BIOG has a strong track record of out-performing in bull markets. Thomas McMahon

RETURNS
Source: Morningstar
Past performance is not a reliable indicator of future results

For compliance purposes, we show the five-year chart below, with the cumulative relative performance in red, where an upwards-sloping line denotes a period of outperformance and vice-versa. This period captures three poor years for the sector (see chart above), and as such BIOG's NAV total return of 15.2% compares to a 49.6% total return for the ETF. However, BIOG's outperformance since April 2025 is visible, as well as the sharp

Authorised and regulated by the Financial Conduct Authority. Kepler Partners LLP, 70 Conduit Street, London W1S 2GF
Tel: +44 (0) 203 384 8796 / Registered Company Number OC334771 / www.keplerpartners.com

03 November 2026 View latest version

selloff in recent weeks.

FIVE-YEAR PERFORMANCE
Source: Morningstar
Past performance is not a reliable indicator of future results

Positioning

High exposure to small and mid-caps and positions in lots of potential M&A targets remain features of the portfolio's positioning. This is despite the managers recently tilting slightly from small to mid-cap. It's also worth noting that Geoff and Josh insist that any position they hold is attractive in its own right, rather purely as a takeover target, meaning that an acquisition is not the only route to a payoff.

Another feature worth highlighting is the exposure to Asia, specifically China. Traditionally, the biotech industry has been heavily concentrated in the US. However, China is rapidly growing in importance when it comes to medical innovation, and in March 2026 the 15th Five-Year Plan was adopted which identifies biomanufacturing and advanced materials as prioritised areas for technological breakthroughs, elevating it alongside semiconductors and electric vehicles as key drivers of growth. This builds on years of investment and progress, with China accounting for 32% of trial starts in 2025, up from 18% in 2019 and 6% in 2014. OrbiMed has two analysts based in Hong Kong covering this growing centre of innovation, which allows them to assess Chinese companies as competitors or as takeover targets - Chinese biotechs signed a record $60bn of cross-border licensing deals in Q1 2026.

BIOG's exposure to China is reasonably low at present, with 3.7% in the country as of the end of September. However, the managers have taken this up much further in the past, but are cognisant of valuations as well as growth potential when assessing opportunities. With OrbiMed having a locally-based team, we think the trust is in a very strong position to benefit as the Chinese biotech sector develops, which may come at a very rapid rate. The team cover other Asian countries too, and BIOG had 1.7% invested in Taiwanese companies as of the same date, so this is more than just a China story.

OrbiMed's venture arm gives Geoff and Josh earlier sight of companies and better understanding of their competitive positions. They also have the option to invest in unlisted companies, although exposure here was below 100bps when we last spoke to the manager. While the unlisted and China exposure have the potential to add alpha and to figure highly in the portfolio in the future, at present it remains heavily focused on the US and on clinically de-risked companies, many of which are potential M&A candidates.

Kepler View

We think the recent pullback could be a good opportunity to add to the biotech industry. The potential for more rate hikes in the US could weigh on the market in the short term, but we think the fundamentals will reassert themselves once there is some clarity. For us the key fundamentals are the looming patent cliff which means large cap pharma needs to buy in new drugs to replace lost sales, and the strong state of innovation across multiple clinical areas. Biotech is an exciting industry market which has delivered exceptional returns in bull markets and could be a good addition to a growth-focused portfolio.

BIOG's use of gearing, SMID-cap tilt and highly active stock selection mean it has all the tools to take advantage of this growth and add alpha, although these factors mean it is likely to underperform in a falling market. Additionally, we like the strong presence in Asia, and think it could be of great benefit to long-term shareholders given the outlook for the industry in China. Meanwhile, the unlisted exposure offers another avenue for alpha generation. It is unashamedly a return-seeking proposition, which we think should appeal to long-term growth investors looking to maximise returns and take advantage of some short-term weakness in the market.

Read our research on BIOG Click here to add BIOG to your watchlist

Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and

Authorised and regulated by the Financial Conduct Authority. Kepler Partners LLP, 70 Conduit Street, London W1S 2GF
Tel: +44 (0) 203 384 8796 / Registered Company Number OC334771 / www.keplerpartners.com

you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm’s internal rules. A copy of the firm’s Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street , London W1S 2GF with registered number OC334771.