Portfolio update: The Biotech Growth Trust

BIOG's shares have more than doubled since early 2025, yet the portfolio remains cheap.

Update
11 August 2026

- **The Biotech Growth Trust (BIOG) has delivered outstanding returns over the past year as the biotechnology industry recovers from a period of low valuations, boosted by multiple factors. The NAV total return in the 12 months ending 31/07/2026 was 87.0%, with the shares up 95.8%. Both numbers are more than twice the 43.1% return delivered by the Nasdaq Biotechnology Index benchmark.**

- **The strong absolute and relative performance has been broad-based, with stocks across a number of clinical areas contributing, as well as those with drugs at phase two, phase three or commercial stages. A meaningful overweight to small- and mid-caps at the start of the year has helped deliver the considerable alpha.**

- **Managers Geoff Hsu and Josh Golomb argue the biotechnology industry still looks remarkably cheap, having only just started to rebound from the 'longest and most extreme' period of underperformance in its history. While valuations, looking at market cap to net cash, have improved over the past year, they remain at the levels seen at the nadir of the dotcom bust or Great Financial Crisis.**

- **Geoff and Josh retain their overweight to small caps, where the underperformance has been the worst and they think the outperformance potential remains the best.**

- **Rate cuts, an improving regulatory and political environment and M&A have all been key drivers of biotech's recovery. Over the summer, a number of M&A transactions have been announced which will deliver strong returns to BIOG's shareholders, and the managers estimate c. 80% of the portfolio is invested in potential M&A targets.**

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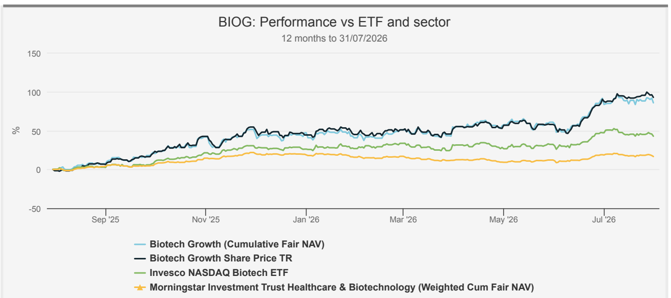
Performance

The Biotech Growth Trust's (BIOG) exceptional returns over the past year reflect a decisive change in a number of factors. Rate cuts in the US have been helpful, as although biotech is funded by equity not debt, the costs are correlated. Perhaps more important has been a reduction in perceived political and regulatory risk. There were fears that the Trump administration could be oppositional to biotech based on the appointment of vaccine sceptic RFK Jr to the cabinet, while its policies on pricing and trade created some uncertainty. However, the administration's stance on regulation has proven to be helpful, while drug pricing settlements have had minimal negative impact. We also think that the maturity of the artificial intelligence (AI) trade has seen some growth investors look to diversify away from the obvious first winners in that new industry.

However, overall, we think the picture is of broader macro or political factors fading and investors focusing instead on the exceptionally strong fundamentals. Valuations remain very cheap across the sector, looking at market cap to net cash. This means that companies are on average in a strong position financially. Most importantly, this is accompanied by an exciting picture from a medical point of view. Promising advances are being made across a variety of modalities, many of them entirely novel, for a broad swathe of illnesses and conditions with massive unmet medical need.

Industry dynamics are another dimension of this strong fundamental picture. Large-cap pharmaceutical companies are facing a patent cliff over the coming years which has created a need to fund replacement products and revenues. This has led to a strong stream of acquisitions across the industry, many of which have delivered strong gains for BIOG this year. In the second quarter of 2026 alone, BIOG announced the acquisition of a number of portfolio holdings. argenx SE agreed to buy Forte Biosciences at a 40.5% premium to the market share price, with Forte making up 3.03% of BIOG's portfolio. GSK agreed to buy Nuvalent for a price 40% above the market value, with the latter making up 1.5% of BIOG's portfolio. Esperion represented 2.5% of the portfolio when it agreed to be acquired by ARCHIMED at a 58% premium, while Apellis was 1.74% of the portfolio when it agreed a deal with Biogen at a 163% premium. The significant size of the positions as well as the premiums have been a real boost for BIOG shareholders and help explain the level of outperformance.

Fig.1: One-Year Performance

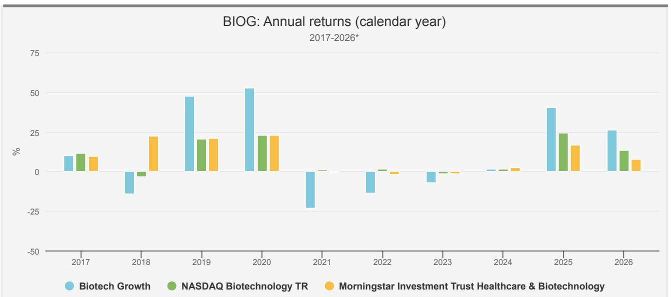


Source: Morningstar

Past performance is not a reliable indicator of future results.

BIOG's longer-term track record is one of significant outperformance in rising markets and underperformance in falling markets, with a consistent tilt to small- and mid-caps being a factor. We think this makes it an attractive vehicle to consider if a longer-term recovery is underway.

Fig.2: Returns



Source: Morningstar. *Data to 31/07/2026

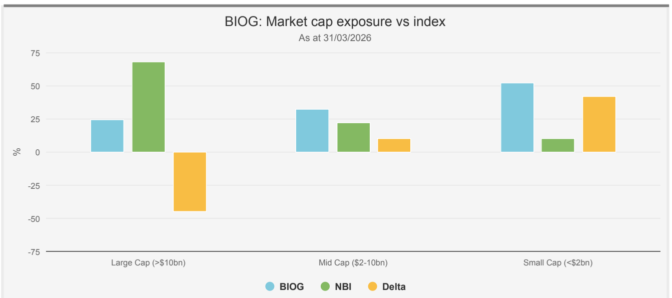
Past performance is not a reliable indicator of future results.

Positioning

BIOG's portfolio is spread across various therapeutic areas, and the managers highlight their exposure to multiple new modalities in all the key areas. In oncology, a major area of unmet clinical need, the portfolio owns companies working on cellular therapies, antibody-drug conjugates, bispecific antibodies and vaccines amongst other modalities. The managers highlight there are many 'firsts' among the new therapeutic approvals in 2025 and 2026, reflecting breakthroughs in treatments for cancer and elsewhere using new methods. Central Nervous System (CNS) disease is another key area for the portfolio, with BIOG owning companies working on anti-psychotics, depression, epilepsy, neurocognitive disorders like Alzheimer's, and other areas. This is a key area of interest for large-cap pharma, and there have been many acquisitions in this space including Avidity Biosciences, which was owned by BIOG until it was acquired by Novartis last year.

A key element of the positioning remains the overweight to small and mid-caps. This has only increased over the past year, with a huge overweight of 42 percentage points to small caps, as the chart below shows. This reflects the valuations that Geoff and Josh see as well as the industry dynamics which are pushing a steady flow of M&A.

Fig.2: Market Cap Positioning



Source: BIOG

The managers remain positive on the outlook for innovation in biotech. They note the US authorities are acutely aware of the competition emerging in China, where companies are making a growing number of breakthroughs and there has been a high value of acquisitions by large-cap western pharmaceutical companies. In fact, 30% of new clinical trial starts in the global biopharmaceutical industry are now conducted by Chinese companies, a higher market share than Europe's and rapidly approaching the 35% of the U.S. Furthermore, In March, China officially upgraded biotech to an "emerging pillar industry", meaning biotech is now deemed a critical industry for national economic growth. It is clear that the authorities will be supporting the industry going forwards, and the US is being forced to respond, creating a beneficial competitive environment for biotech investors. The FDA has been tweaking regulations to be more supportive and bringing in AI to help accelerate its processes, and the managers highlight AI is proving fruitful in both regulation and drug discovery. BIOG does invest directly in Chinese stocks at times, although as of 30/06/2026 the exposure was low, at 4.5%. However, OrbiMed's analysts based in Hong Kong and Shanghai mean it is well-placed to take advantage of the opportunities as they emerge. Indeed, over the 2026 financial year the team was able to secure an allocation to the IPOs of Genfleet Therapeutics and Leads Biolabs, Chinese oncology companies whose shares rose 64% and 111% respectively by the year end in local currency terms. BIOG's Chinese exposure has been much higher in the past, and we expect it to be so again, with a locally-based team giving the trust an advantage versus its peers in this market.

Kepler View

Biotech was something of a forgotten growth market for a few years. With investors now looking to diversify growth portfolios from a more complicated AI story, we think this is a good time to consider buying back into the industry. Exciting advances in medical science are at the heart of the case for owning biotech: this is a source of huge opportunity given the unmet medical need in an ageing and ever-richer global population.

BIOG has a strong track record of outperforming in bull markets, backed by the team's extensive resources and experience in a highly specialised industry. The returns over the last year are consistent with past performance patterns, and illustrate Geoff and Josh's ability to add considerable value through stock selection. As such, we think it is an attractive way to attempt to maximise the potential in a continued recovery, always bearing in mind that the small-cap tilt and modest use of gearing (6.9% as of the end of June) is likely to bring downside risks and volatility too.

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