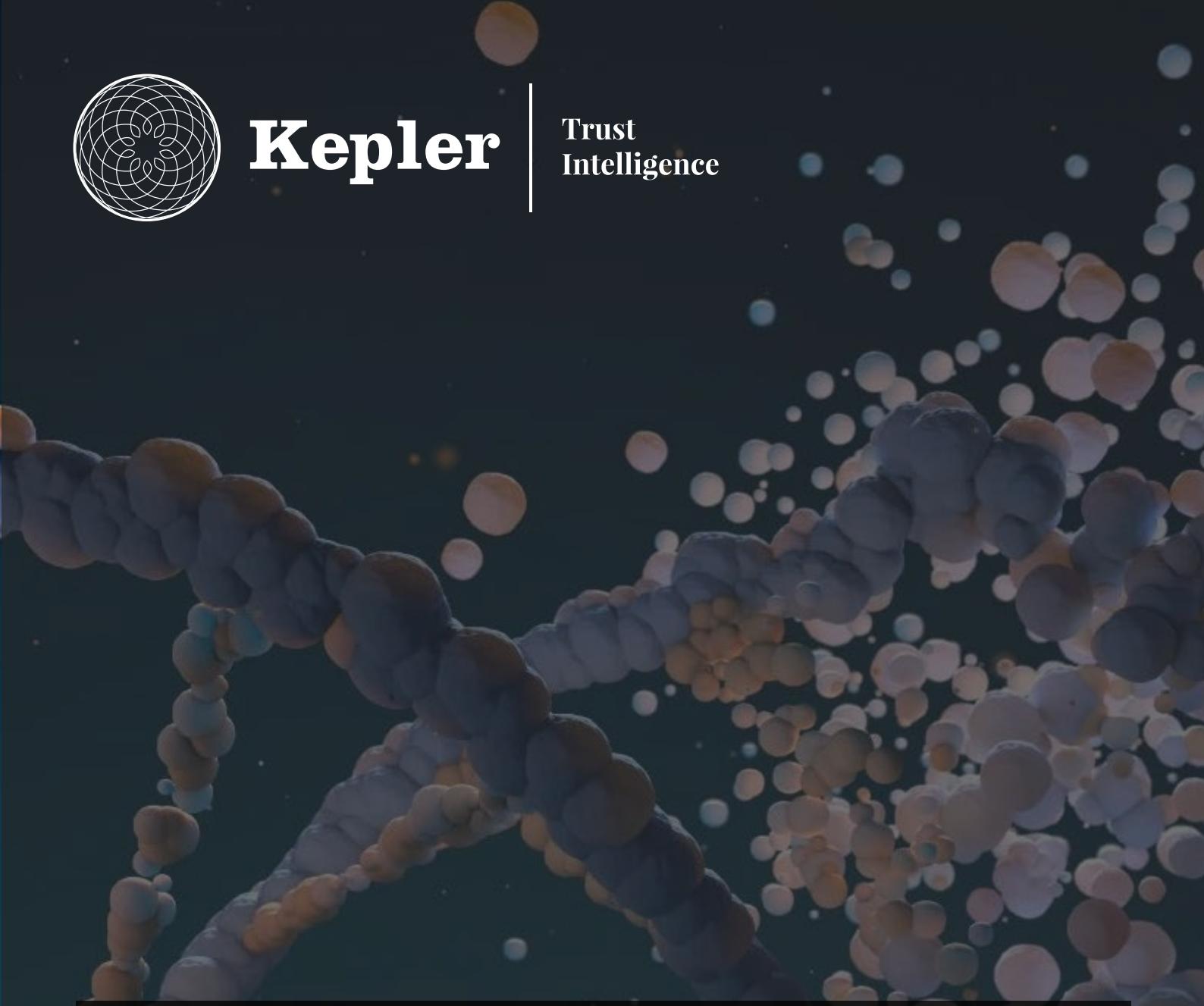

Kepler | Trust Intelligence

# Investing in biotechnology with investment trusts

How investment trusts can provide investors with access to the high-growth biotech sector.

IN ASSOCIATION WTIH

Schroders

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The biotechnology sector is leading the way in cutting-edge innovation, from growing miniature human organs on microchips to pioneering biodegradable plastics to combat the 450 million tonnes of plastic waste generated globally each year.

Yet these are only a fraction of the challenges the biotech sector is tackling, leveraging living cells to develop ground-breaking solutions for some of the world's most pressing societal and environmental issues.

But it's the game-changing treatments for cancer that have arguably earned the highest accolades. According to the World Health Organisation, cancer is responsible for 10 million deaths and 20 million new cases per year, with cases projected to rise by 75% to hit over 35 million a year by 2050.

However, precision oncology is revolutionising cancer treatments by profiling the DNA of cancer cells to deliver targeted, personalised therapies with better outcomes and fewer side effects. Meanwhile, advancements in blood protein analysis could pave the way for a cost-effective and highly accurate multi-cancer screening test.

Beyond cancer, the biotech sector is also pioneering treatments for previously untreatable conditions. Gene therapy, which replaces faulty or missing genes with functional copies, has already succeeded in developing breakthrough treatments for genetic disorders such as haemophilia and inherited blindness.

Artificial intelligence (AI) is also proving to be a powerful catalyst in the sector, accelerating drug discovery by analysing vast datasets and potentially shortening the drug development timeline. Generative AI is also transforming personalised medicine by processing huge amounts of patient data to create tailored treatment plans based on genetic profiles and lifestyles, minimising a costly (and often ineffective) trial-and-error approach.

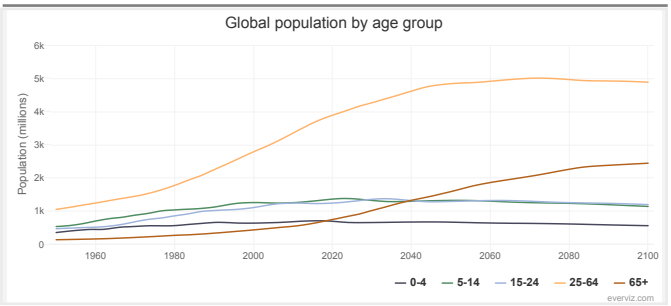
## *Why invest in biotechnology?*

Biotech is a high-growth market, which is forecast to grow by 14% annually from $1.8 trillion in 2025 to $6.3 trillion by 2035, according to Precedence Research, and offers a number of idiosyncratic drivers to other growth sectors.

### Demand from 'older, richer & sicker' population

A key driver of demand is the demographic 'time bomb' created by an ever-ageing population. The United Nations forecasts that the over-65 age group will grow by 150% from 800 million in 2024 to two billion by 2067, as shown in the graph below:

**Fig.1: The Over-65s Is The Fastest-Growing Age Group**




Source: United Nations, World Population Prospects, 2024, based on forecast numbers from 2025 to 2100.

In addition to an ageing population, longer life expectancy, a rise in the prevalence of chronic diseases such as cancer and diabetes, and a growing middle class in emerging economies has driven global spending on medicines up by 14% over the past five years, with IQVIA forecasting it will reach $3.7 trillion by 2029.



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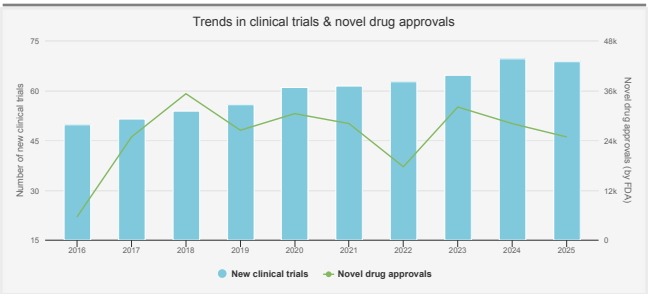
## Healthy pipeline of innovative treatments

On the supply side, the rapid expansion of biologic treatments and therapies is constantly expanding the universe of products, particularly in chronic and complex diseases.

IQVIA reports that biotech now accounts for the majority of new treatments in clinical trials, which hit a record high in 2024, as shown in the graph below. There has also been a healthy pipeline for novel (new) drug approvals, with recent approvals for treatments for lung cancer, leukaemia, haemophilia, schizophrenia, and Alzheimer's, amongst others.

**Fig.2: Innovation Is Helping To Meet Rising Demand**




Source: New clinical trials registered with ClinicalTrials.gov as at 17/03/2026, novel drug approvals by the FDA (US Food & Drug Administration)

Additionally, biotech companies are encouraged to develop orphan drugs (treatments for rare diseases with no current therapies) as these products can benefit from fast-track approvals and extended market exclusivity, reducing development costs by one-third compared to standard drugs, according to the UK BioIndustry Association.

## Plugging the patent gap

Another tailwind to returns is the high level of M&A activity in the biotech sector. Due to the expiry of almost 200 key patents by 2030, major pharma companies face a 'patent cliff' for some of their best-selling blockbuster drugs, with a forecast $200bn shortfall in annual revenue. This loss to revenues is compounded by the Inflation Reduction Act in the US, cutting prices of some of the most widely-used drugs in the US from 2026.

As a result, pharmaceutical companies have turned to acquisitions of smaller, nimbler biotech firms to replenish their R&D pipelines, leveraging their global distribution capabilities to speed up the time to market for new products.

M&A hit a record high in 2023, slowed in 2024 ahead of the US elections, and resumed in earnest in 2025. Johnson & Johnson's $14.6 billion acquisition of neuroscience drugmaker Intra-Cellular Therapies was the year's standout deal, though Novartis topped the table for overall spend at $29 billion, with Eli Lilly, Merck and Sanofi also among the most active dealmakers.

## Back to basics

The biotech sector has endured a difficult period in which fundamentals have been overshadowed by geopolitical and macro noise. The Trump administration has so far proven broadly net neutral for the sector but the first half of 2025 was challenging, with markets unsettled by tariff announcements, drug pricing concerns and questions over FDA leadership and resourcing.

However, the second half saw a meaningful recovery as investors began to recognise that biotech was less exposed to pricing reform than broader pharma and FDA approvals continued at pace, despite the leadership changes. The new FDA Commissioner has also struck a more pragmatic tone, emphasising faster pathways from invention to patient and greater flexibility in trial design.

On the macro front, the Fed cut rates three times in late 2025, providing support to biotech valuations given the sector's historical inverse relationship with interest rates, though the trajectory for 2026 remains subject to some uncertainty amid fresh inflationary pressures.

As a result, the NASDAQ Biotechnology Index rallied 46% from its April lows to finish 2025 with a net gain of over 30% (in USD), as macro headwinds eased and clinical fundamentals reasserted themselves.

The outlook is looking increasingly constructive: equity issuance has been robust, an IPO pipeline is building and valuations remain below historical averages. A broadening out from the Magnificent Seven could also provide further momentum as investors seek new sources of growth.

## How difficult is it to invest in biotechnology?

Investing in individual biotech companies can be difficult for private investors in terms of research and monitoring. In addition, investing in the biotech sector comes with a high level of complexity due to the specialist nature of the products and technologies.

Understanding the science behind drugs and the competitive landscape for each drug is essential, as well as having a detailed knowledge of all the companies operating in the sector. This requires an in-depth knowledge of biology, chemistry, clinical studies, regulatory processes and medical knowledge of the diseases they seek to treat. As a result, successful specialist fund managers in this field often have years of experience, a related degree and clinical expertise.

Biotech companies also face unique challenges in getting drugs through the research, clinical trial and regulatory approval phases to market, which often takes 10 to 15 years. This requires a high level of capital expenditure, with only 14% of all drugs in clinical trials making it through to regulatory approval, according to the UK BioIndustry Association.

Mitigating this risk of failure can be a major hurdle for investors in individual companies, but investing in a portfolio of companies via a fund increases the overall odds of success and reduces specific risks through diversification. In addition, professional fund managers can use their in-depth knowledge to further manage risk by reducing exposure to companies ahead of clinical trial results or avoiding more speculative, unfunded companies.

## Why invest in biotechnology with investment trusts?

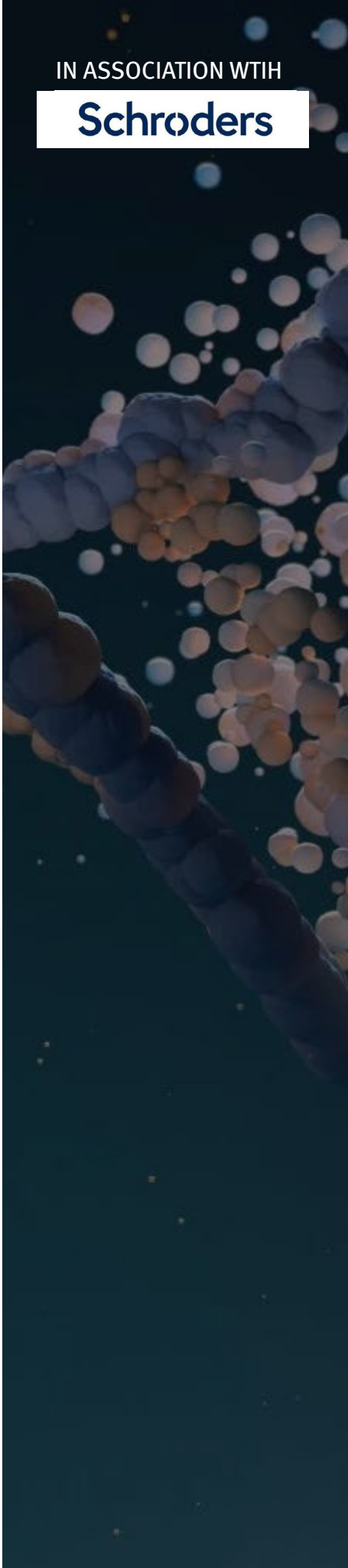
Investment trusts are a type of fund that enables investors to gain broad exposure to the biotech sector while managing some of the risks mentioned above. By buying shares in the investment trust, investors have exposure to the portfolio of assets held by the trust rather than having to buy shares in individual companies.

There are currently seven trusts specialising in the biotech and healthcare sector on the London Stock Exchange. The scope varies by trust, with some trusts investing in a more concentrated portfolio of companies while others take a broader approach.

Most of these trusts have managers with extensive knowledge and experience of investing in the biotech sector. By way of example, the managers of the International







Biotechnology Trust (IBT), which we look at in more detail below, all have biotech-related degrees, as well as decades of experience in working with and analysing companies in the sector.

The trusts are also differentiated by the nature of their investments, with some focusing more on the riskier, earlier stage of drug development, some specialising in the biotech space and others on the broader healthcare arena, including pharmaceuticals, hospitals and medical technology.

In addition, biotech trusts can take stakes in firms that are off-limits to individual investors because the companies are not publicly listed or listed in countries that are more difficult for investors to access. Some trusts take stakes in biotech venture capital firms, which allows the managers to piggyback on the expertise of specialist investors in early-stage, private companies.

## *Biotechnology investment trusts vs open-ended funds*

It's fair to say that some of the benefits mentioned above, whether a diversified portfolio or manager expertise, also apply to open-ended funds. However, investment trusts have some unique attributes, which may help them deliver superior returns compared to their open-ended peers.

Firstly, open-ended funds are not publicly traded (unlike investment trusts), meaning that the size of the open-ended investable fund will rise and shrink with the purchase and sale of units in the fund. This means that open-ended funds typically hold a sizeable proportion of cash in reserve in order to meet redemption requests for investors, which can create a 'drag' on returns, and also limits their ability to invest in less liquid or private stocks.

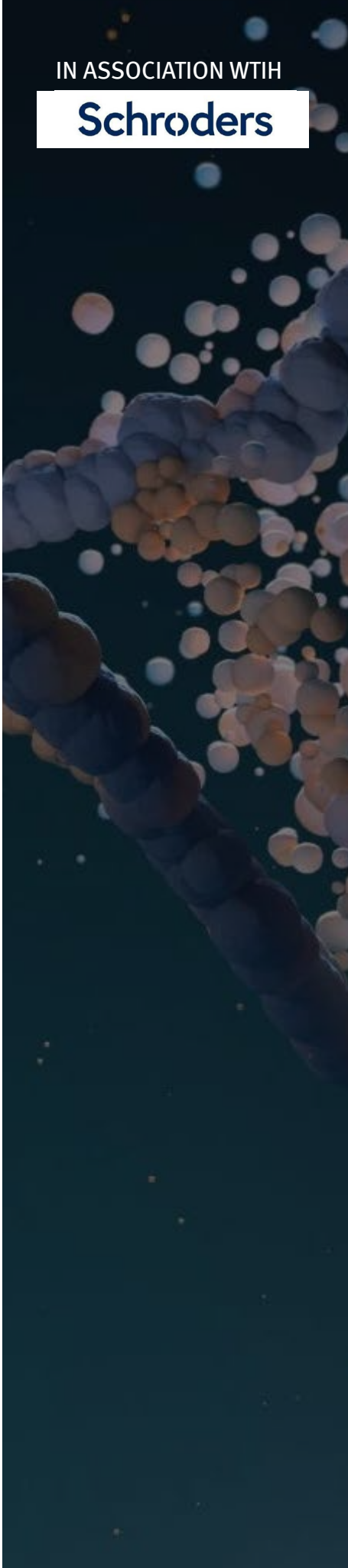
Investment trusts do not have this problem as publicly traded companies. The buying and selling of shares in the investment trust does not impact the size of the investable fund and, as trusts are not required to keep cash for redemptions, this can boost returns for investors and allow longer-term investment in smaller companies and private companies or funds.

Another factor is gearing, whereby the trust can borrow money with the goal of enhancing returns (although it can also increase losses). Trusts are typically able to borrow up to a certain percentage, for example, 20% of the assets under management, whereas open-ended funds are not able to deploy gearing.

Lastly, investment trusts can use capital reserves to pay dividends (if desired). This can provide income for investors in a sector that is more growth than income-focused, such as biotech.







# Case Study

## International Biotechnology Trust (IBT)

IN ASSOCIATION WTIH

Schroders

**Launched:** 1994

**Manager:** Schroder Investment Management

**Ongoing charges:** 1.2%

**Investment policy:** The trust aims to deliver long-term capital growth by investing in biotechnology and other life sciences companies.

**Comparative Index:** NASDAQ Biotechnology Index (NBI)

International Biotechnology Trust (IBT) aims to deliver long-term growth for shareholders by investing in leading biotechnology and other life sciences companies.

Co-lead managers Ailsa Craig and Marek Poszepczynski are bottom-up stock pickers looking for the best companies in the biotech industry across the market-cap spectrum. They also invest in companies at various stages of development, which the managers categorise as profitable, revenue growth or early stage. The managers apply a top-down overlay, which allows them to tilt the portfolio into more stable, advanced companies in anticipation of market turbulence or towards more cutting-edge, earlier-stage companies in anticipation of periods of growth.

IBT also has a small allocation to unlisted funds and companies, which IBT's board aims to maintain at 5% to 15% of the portfolio. This predominantly consists of two funds managed by SV Health Investors, alongside a partnership with Schroders Capital.

In the ten-year period to 21/03/2026, IBT has delivered total share price returns of 220%, more than double the AIC peer group average of 92% and significantly ahead of the 141% return from the benchmark index.

In addition, IBT featured ninth on the AIC's list of 68 ISA millionaire investment companies, companies in which an investment of the maximum ISA allowance every year since ISAs were introduced in 1999 would have returned over £1 million by early 2026. There are no guarantees that this will be repeated in the future; however, the managers believe that improvements in technology and the secular growth trends of a growing middle class and ageing population should support the biotech sector moving forward.

### 1) What is the investment trust's goal?

IBT's goal is to deliver long-term capital growth for shareholders by investing in biotechnology and life sciences companies.

### 2) What kind of stocks do the managers like?

The managers are predominantly bottom-up stock pickers and look for companies providing treatments for unmet medical needs that offer superior pricing power. They focus on well-financed companies with experienced management teams and boards, innovative high unmet medical products, the potential for high growth and a positive social impact.

The majority of IBT's portfolio is invested in US biotech stocks, which offer innovative products and superior access to equity funding, in addition to the regulatory scrutiny of being listed in the US.

### 3) Are investment decisions driven by a particular investment style?

The managers invest in the best growth opportunities across the full spectrum of the biotechnology sector. They believe that growth in the big names in their benchmark index, the NASDAQ Biotechnology Index, is likely to slow in the years ahead in comparison to smaller peers, mainly as a result of lower innovation and the expiry of patents. In this scenario, the managers' active approach to asset allocation in the sector should prove beneficial.

However, IBT's managers look at growth prospects in conjunction with a company's current valuation and risk profile. They will also look to manage risks around the binary outcomes of drug trials and regulatory approvals, both of which can cause substantial volatility in share prices.

### 4) How many stocks does the investment trust typically hold?

The trust managers do not have a rigid number of stocks that they hold but they target a portfolio of around 90-100 companies.

### 5) What is the investment trust's dividend policy?

IBT currently aims to pay a dividend equal to 4% of its net asset value at the end of its previous financial year

(currently August 31st). This is paid semi-annually, with dividends distributed in January and August. It should be noted that this policy means the dividend will rise when the NAV rises and fall if the NAV declines.

This provides a highly-differentiated income strategy compared to its peers, and paying dividends from capital rather than dividends from underlying companies increases the security of the income stream for investors.

## 6) What are the investment trust's ongoing charges?

The investment trust's ongoing charges are 1.2%.

## 7) Does the investment trust have performance fees?

The performance fee on the quoted pool is 10% of relative outperformance above the sterling-adjusted NASDAQ Biotechnology Index plus a 0.5% hurdle. There is a maximum quoted performance fee of 1.25% of IBT's NAV and it is only payable in respect of financial periods when the NAV per share (total return) has increased. The performance fee on the directly-held unquoted pool, excluding unquoted funds, is 20% of net realised gains, taking into account any unrealised losses (but not unrealised gains) and is capped at 2% of IBT's NAV.

There is no performance fee calculated on unquoted funds as the fund manager has carried interest in these funds.

## 8) How much attention do the managers pay to the index, and to what extent are absolute returns important?

IBT's managers operate a benchmark-aware but not constrained approach to the benchmark index, the NASDAQ Biotechnology Index.

## 9) Does the investment trust use gearing and, if so, is it structural or opportunity-led?

The managers can use gearing up to 30% of NAV although, in practice, gearing rarely exceeds 15%. Gearing is deployed tactically, with the managers aiming to utilise it when they anticipate a period of enhanced returns.

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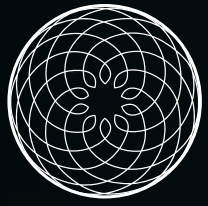

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