



Results analysis: International Biotechnology Trust

IBT continues to outperform its index, showcasing the benefits of active management...

Update
05 October 2024

- Once again, IBT has beaten the NASDAQ Biotechnology Index with a NAV total return of 15.9% for the year ending 31/08/2024, compared to 15.3% for the benchmark index (on a sterling-adjusted basis with dividends reinvested). The share price total return was 10.3% due to a widening of the discount during the year, despite the trust's strong performance.
- The biotech sector saw a marked recovery over the financial year, driven by investor confidence that interest rates had peaked at the end of 2023. This recovery started with the larger-cap pharmaceutical companies and later broadened to small and mid-cap companies, reflecting renewed confidence in the sector.
- Strong contributors to outperformance included autoimmune company Vera Therapeutics, which is developing a promising late-stage, disease-modifying therapy for IgA nephropathy (a chronic kidney disease). Insmed also reported positive phase three clinical trial results for its treatment for bronchiectasis, prompting the managers to build a significant position, with the shares subsequently appreciating another 30%.
- IBT's portfolio continued to benefit from M&A activity, with the acquisition of two quoted holdings by Bristol Myers Squibb during the financial year. The company's acquisition of commercial-stage, targeted lung cancer specialist Mirati Therapeutics completed in January. This was followed by the completion of its acquisition of Karuna Therapeutics, which has potential first-in-class drugs under development for neurological and psychiatric conditions, with Cobenfy receiving FDA approval in September 2024 for the treatment of schizophrenia.
- The private equity portfolio, which currently comprises 8.6% of total assets, is primarily represented by two venture capital funds managed by SV Health. These funds have also had a successful year with two acquisitions and another company achieving a significant uplift in share price following its IPO on NASDAQ.
- The Company's dividend policy is to make dividend payments equivalent to 4% of the Company's NAV, as at the last day of

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the preceding financial year ending 31 August, through two semi-annual distributions. The first dividend for the year of 13.9p per share was paid on 26/01/2024 and the second payment of 14.5p per share was made on 23/08/2024.

- The board continues to keep the discount to NAV under close review and is committed to buying back its shares to help manage the position. Although 2,483,273 shares were bought back during the year, the discount widened from 6.3% to 11.3%.
- Chair Kate Cornish-Bowden commented: "It is rewarding to report on the green shoots of a recovery in the biotechnology sector following an unprecedented period of share price declines in the sector. Relative valuations are compelling and the potential rewards for investors in innovative companies developing future treatments look more attractive than ever."



Kepler View

After a three-year bear market, it is encouraging to see clear signs of a recovery in the biotech sector. This reflects more positive sentiment as interest rates start to fall, with an uptick in private and follow-on financing and tentative signs that the IPO pipeline may be strengthening, albeit slowly.

M&A activity remains a strong driver of returns, with 25 companies in the **International Biotechnology (IBT)** portfolio having been acquired since 2021. With large-cap pharmaceutical companies looking to plug significant revenue gaps from patent expiries, the biotech sector remains a primary source of innovation, accounting for 80% of the potential medicines in the global development pipeline, according to IQVIA. There has been substantial growth in clinical trials over the last decade with a record high forecast for 2024, based on the current run rate.

2024 saw the 30th anniversary of the launch of IBT, managers Ailsa Craig and Marek Poszepczynski reached their three-year anniversary as joint lead managers of the trust earlier this year, while this month marks the one-year anniversary of their move to Schroders. Despite considerable sector volatility, they have presided over an annualised NAV return of 3.6% in the three years to 31/08/2024, comfortably in excess of the -0.7% return for the NASDAQ Biotechnology Index over the same period and during that period, IBT has outperformed the NASDAQ Biotechnology Index in both rising and falling performance periods for the sector, demonstrating that it is an “all weather” fund.

The managers’ investment strategy remains focused on identifying companies with innovative technologies, strong intellectual property and solid growth potential. The managers continue to manage ‘binary event risk’ by reducing exposure ahead of key milestones such as clinical trial results and regulatory approvals. They also take a ‘basket’ approach to certain therapeutic areas, taking smaller positions across the most promising companies rather than backing a single company.

As a result, Ailsa and Marek continue to demonstrate the benefits of active management in an inherently cyclical sector. The managers believe that the biotech sector is currently entering the ‘equilibrium’ phase, characterised by strong growth but fair valuations, prompting IBT’s well-timed move into higher-growth, earlier-stage small-caps in late 2023. However, there is also a strong emphasis on capital preservation, with the managers reducing the trust’s exposure to higher-risk, smaller companies during the downturn in 2022.

Looking ahead, the biotech sector is supported by strong secular growth drivers, including the demographic timebomb of ageing populations, increased healthcare spending by developing countries and the soaring incidence of age-related diseases such as cancer and heart disease. Additionally, falling interest rates could be a tailwind for returns due to the sector’s strong historical inverse correlation with US interest rates. We think these robust fundamentals may present an attractive opportunity for investors given IBT’s proven track record and current discount.

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