



Results analysis: International Biotechnology Trust

IBT delivered positive performance in a down year for the index, and has soared since.

Update
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- International Biotechnology Trust has delivered resilient performance during a volatile market. The share price total return for the year ending 31/08/2025 was 3.5% and the NAV total return 0.7%; during this period the NASDAQ Biotechnology Index fell 6%.
- Since the period-end, the market has rallied and IBT is now up 28.7% and 27.6% since August 2024, ahead of the S&P 500 and the reference index.
- During the financial year, the quoted portfolio delivered impressive performance, up 3.8% in total return terms, with M&A an important driver of returns. Managers Ailsa Craig and Marek Poszepczynski look for precisely the sort of features that often lead to companies being taken out by larger players, and this approach paid dividends during a period in which the index as a whole remained weak.
- On 02/10/2025, the board announced the establishment of a new limited partnership with Schroders Capital to facilitate further investment in unquoted biotechnology funds. The initial commitment of £10 million represents approximately 4% of the company's net asset value.
- IBT's dividend policy is to pay out 4% of the closing NAV of the last financial year in dividends in equal quarterly installments. Given the sharp rally in the past few months, the dividend yield implied is 3.2% on an annualized basis, although share buybacks will affect this.
- The board is committed to buying back shares to help manage the discount, and states that, "buying back shares at a discount to NAV is not only accretive to our shareholders but demonstrates our confidence in the underlying fundamental value of our investments." C. 3.1m shares were repurchased during the year, equivalent to roughly 8.7% of the weighted average in issue over the year.
- The board have negotiated a lower management fee for the quoted portfolio. From 01/09/2025, the fee has fallen to 0.7% from 0.65%.
- Chair of the board, Kate Cornish-Bowden, said: "The convergence of the transformational progress in scientific innovation, the impact of artificial intelligence (AI) on trials and approvals, and increasing demand for treatments should make biotechnology a lucrative investment for shareholders in the years to come."

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Kepler View

International Biotechnology's (IBT) strong performance during this period highlights the attractions of active investment in this industry and the managers' specific strategy. While the sector has been under pressure thanks to high interest rates and political uncertainty, picking companies with the right assets has helped deliver strong returns thanks to dynamics in the science and the larger businesses' portfolios of treatments.

Ailsa and Marek have positioned the portfolio with a significant overweight position in businesses that are clinically de-risked, i.e. that have proven treatments in the final moments of regulatory approval or already launched. These companies should benefit as the larger pharmaceutical companies seek to refresh their portfolios of drugs as important patents expire in the next few years. This was the motivation behind a number of the five takeovers from the portfolio in the reporting period, with Merck, for example, a company with a pressing need to rebuild its pipeline, buying out both Springworks Therapeutics and Verona Pharma, at 26% and 23% premia to the carrying values in IBT's NAV.



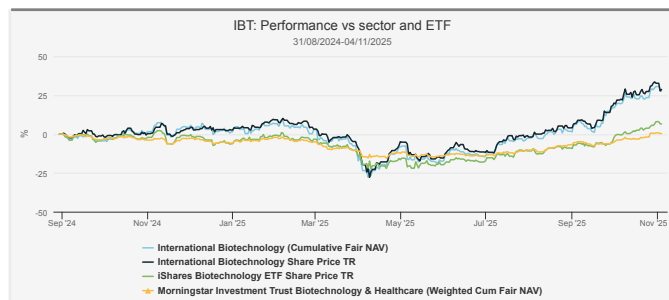
While outperformance in tough markets reflects impressive fund management, we think what investors really want to hear is that the industry is back in favour, and in the past few months there are very encouraging signs. Biotechnology is a rate-sensitive industry, and the two US rate cuts seen since August along with a general view that more will be needed must have contributed to the remarkable rally – IBT's NAV is up 25% since the end of August, well ahead of the reference index' 18%. Performance has been aided by Ailsa and Marek's well-timed decision to add to their gearing around the lows of April's tariff-induced selloff and bring it up to its highs since the financial crisis. They have since allowed gearing to drift down as the market has rallied. The chart below shows performance since the start of the 2025 financial year, and we note over this period IBT has significantly outperformed its sector peers.

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Fig.1: Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

One of the reasons biotechnology looks like an exciting area in which to invest is the state of the science. Major advances in the treatments of rare diseases and cancer back the investment cases in the two largest areas of focus for IBT. Ailsa and Marek note that the companies they own on the cusp of commercialisation could be commercial successes on their own, let alone any potential for them to be taken out by large caps. Concern about the impact of tariffs has weighed on the industry at times this year but biotechnology firms are not directly targeted by the tariffs that have been discussed, and often don't even have direct exposure to global supply lines at all. Whatever the structure of the global pharmaceutical industry, we think the innovation and new treatments generated by biotechs are going to be a driver of investment return.

IBT is, in our view, the premier vehicle in the listed biotechnology sector. Ailsa and Marek have proven the worth of their strategy in rising and falling markets since taking over management in March 2021 and outperformed their direct peers. The 4% of NAV capital dividend should make the trust appealing to both income and growth investors, while the share price discount of 11% at the time of writing brings added value.



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