Tomorrow never dies

Returns from biotechnology are starting to reflect the sector's spectacular scientific ambition.

Update
05 December 2025

Analysts:
Jo Groves
jo@keplerpartners.com

The late Steve Jobs observed, "The people who are crazy enough to think they can change the world are the ones who do." Biotech has certainly epitomised that pioneering spirit, from obesity drugs revolutionising global healthcare to gene therapy tackling previously untreatable diseases.

The returns for investors, however, haven't always quite matched the scientific ambition, with the heady euphoria of the pandemic flipping into a protracted bear market as rising interest rates and risk-off sentiment weighed on valuations. Last year saw tentative signs of recovery, fuelled by optimism around a pro-business Trump administration, but subsequently stalled on FDA changes and tariff speculation.

Despite these headwinds, the underlying investment case for biotech has remained as strong as ever, thanks to the powerful structural drivers of ageing populations, a rising burden of chronic diseases and the drive to improve healthcare efficiency. A Darwinian sector shake-out of speculative companies has also left behind a higher-quality universe in its wake.

And it seems that valuations are finally beginning to reflect fundamentals over short-term noise: the NASDAQ Biotechnology Index (NBI) has chalked up an impressive near-40% gain in the last six months, comfortably eclipsing the 16% for the S&P 500. The pressing question is whether this marks the long-awaited start of a sustained recovery for biotech.

Turning a corner

Political risk hasn't disappeared but greater clarity has helped to allay fears. The US administration's recently-announced 100% tariff on branded pharmaceutical imports appears primarily aimed at high-volume, mass-market drugs (rather than the smaller-scale, specialist treatments typical of biotech) and companies investing in US manufacturing facilities are exempt. The UK has also recently secured a zero tariff deal on pharmaceuticals in return for a 25% price increase on new US drugs.

It's a similar story for the Most Favoured Nation pricing order which benchmarks US drug prices against the lowest price paid in developed countries. To date, this policy has focused on mainstream blockbusters such as Novo Nordisk's Ozempic and Eli Lilly's Zepbound rather than niche biotech treatments.

Regulatory concerns are also easing. While political appointments have been a mixed bag (particularly for vaccine developers), fears of an anti-industry stance are fading. The FDA continues to approve drugs at pace, and initiatives such as the National Priority Review Voucher pilot aims to cut approval times from a year to as little as one or two months, potentially adding an additional year of revenue before patent expiry.

Meanwhile, M&A is back with a bang. Big pharma remains heavily reliant on blockbuster drugs, with revenue falling by as much as 80% in the first year after patent expiry. With a projected $240 billion revenue gap by 2030, pharmaceutical companies have amassed a $1.3 trillion war chest to replenish their pipelines.

Biotech companies now account for 70% of clinical trials, offering nimble, capital-light R&D that can be scaled through big pharma's global sales infrastructure. M&A is likely to remain a key driver for returns, as acquiring late-stage assets continues to be the most efficient route to near-term revenue growth for major pharma players.

The macro backdrop is also looking more supportive, with the NBI historically trading inversely with interest rates. Sentiment seems to be following suit, with the long-term growth potential of biotech attracting renewed interest from investors looking

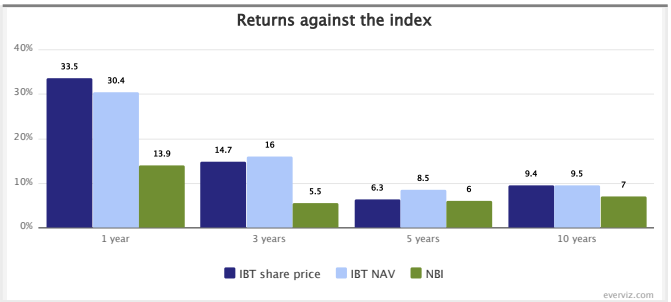
to diversify beyond the concentrated leadership in the technology sector.

In summary, the current rally reflects more than just a short-term rebound from depressed valuations, with genuine momentum driven by innovation, clearer regulatory policy and a healthy M&A pipeline.

Handle with care

In a sector where the science drives the value, expertise and selectivity remain paramount. **International Biotechnology Trust (IBT)** has exemplified this, navigating multiple market cycles to outperform the NBI over one, three, five and ten years, as shown below.

Fig.1: IBT Has A Track Record Of Superior Performance



Source: Schroders factsheet (as at 31/10/2025), based on NASDAQ Biotechnology TR in GBP
Past performance is not a reliable indicator of future results

Asset allocation has played a central role in this success. Managers Ailsa Craig and Marek Poszepczynski's investment process includes a top-down approach, tailoring portfolio exposure to each phase of the biotech cycle. This was demonstrated by their timely shift into more profitable large-caps, such as Gilead, in 2021 ahead of valuations suffering a sharp correction.

As large-cap valuations extended, the managers have pivoted towards clinically de-risked small- and mid-cap companies, building a materially higher weighting than the index. These firms have products which have already launched, are in late-stage trials or under FDA review, offering exposure to the highest-growth phase of the development cycle.

While this segment often commands the highest acquisition premiums, these companies can also generate strong returns by remaining independent thanks to their clear path to commercialisation.

Identifying M&A targets is not a formal objective but IBT has an impressive hit rate on this front, chalking up 34 acquisitions since 2020 and nine this year alone. Notable deals include Novartis's $12 billion purchase of Avidity at a 46% premium and Johnson & Johnson's $15 billion acquisition of Intra-Cellular at a 40% uplift.

The managers have also reduced oncology exposure in recent years: despite attracting significant funding, finding likely winners is difficult in a highly-crowded market, with IBT instead opting for later-stage companies with clearer paths to market.

Around a third of the portfolio is currently allocated to rare diseases, which combines a high unmet medical need, lower clinical trial costs and attractive commercial dynamics. Rare diseases are a key area of focus for the FDA, with regulatory frameworks such as the Orphan Drug Act providing meaningful incentives in the way of market exclusivity and accelerated approval pathways.

And finally, IBT has also put its closed-end structure to good use, increasing gearing to around 20% after Liberation Day to take advantage of the dip in sector valuations and paying its investors a dividend of 4% of NAV.

In rude health

With cutting-edge innovation, strong secular tailwinds and greater regulatory clarity, biotech's recovery looks increasingly well-supported.

For active investors, the sector may be entering a period where scientific breakthroughs and shareholder returns finally move in tandem, a fitting testament to those visionary mindsets that seek to change the world.

All data as at 03/12/2025 unless stated otherwise.

View the latest research note here

Click here to add IBT to your watchlist

Click here to read related research

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 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.