Results analysis: International Biotechnology Trust

IBT reports a positive return during a period in which its benchmark fell...

Update
14 May 2025

- **International Biotechnology Trust (IBT) has reported strong results for the half-year ending 28/02/2025. Its positive NAV total return of 2.9% came during a negative period for its reference index, the Nasdaq Biotechnology Index, which ended it down 3.0%.**
- **Ailsa Craig and Marek Poszepczynski, co-managers of the trust since March 2021, have delivered a NAV total return of 14.7% to the period end, well ahead of the reference index' 2.9% return.**
- **The quoted portfolio (92.4% of the total investments) performed even better during the half-year, up 4.3%. The successful identification of M&A targets was a major driver of returns, with the takeout of IBT's then largest-holding Intra-Cellular Therapies by Johnson & Johnson being the most meaningful of these.**
- **Since the period end, uncertainty about US policy on tariffs and drug approvals have hit biotechs. Ailsa and Marek argue the dislocation is unlikely to persist for long given the strength of the sector on a fundamental basis, and they continue to look for opportunities in the smaller companies in their space.**
- **IBT has continued to pay dividends in line with its policy of paying out 4% of the previous year's ending NAV, in two equal installments. Dividends of 15.56p were paid in January, the first for the year ending 31/08/2025.**
- **The company's shares have traded at a discount to NAV over the period, and the ending figure of 11.2% was materially identical to the 11.3% at the start of the period. The board bought back c. 1.3m shares, or c. 3.6% of the weighted average shares in issue.**
- **Board chair, Kate Cornish-Bowden said: "We believe the long-term fundamentals for the biotechnology industry remain very much intact. Increasing demand for medicines to treat disease and help us live healthier, longer lives is inevitable as populations across the globe age. Combine this with the extraordinary progress in drug development in the last few years and the future for the sector looks very promising."**

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Kepler View

These are impressive results which continue Ailsa and Marek's strong performance since taking over the portfolio, during which period they have outperformed in a variety of environments, and in both rising and falling markets. We think this resilience reflects in part the basket approach the managers take to therapeutic areas, which avoids too much dependence on single stock picks in an area in which returns are driven by developing medical science and uncertain trial results.

Another factor has been the successful identification of likely M&A candidates. M&A is always an important driver of returns in the biotech sector, but the managers argue that upcoming patent expiries mean the need for large-cap pharma to find revenue-generating new ideas is especially acute. Some evidence can be seen in the acquisitions by Johnson & Johnson of Intra-Cellular Therapeutics and by Immedica of Marinus Pharmaceuticals during the period as well as Merck's agreement to acquire Springworks, another **International Biotechnology Trust (IBT)** holding, post period-end. Promising medical research, patent expiries and easing funding costs are all structural factors which would seem to support the growth of M&A as a trend, and IBT's tilt to the smaller end of the biotech market should increase the chances of it benefitting.

Since February, the biotechnology market has taken a significant hit, and is down around 20%. It has been caught up in the volatility stemming from Trump's developing policies on trade and hurt by controversy surrounding his pick of RFK Jr. as head of the Department of Health and Human Services and more recently, the appointment of Dr. Vinay Prasad as the new Director of the Centre for Biologics Evaluation and Research (CBER). This is a rapidly developing situation, with an uncertain end point. Biotechnology is generally a risk-on index and so can move sharply up or down on news, even if the fundamentals have changed very little. In our view, the current uncertainty is creating a valuation opportunity in what should remain an attractive growth market. Ailsa and Marek report valuations in the smaller companies in their universe are at historically low levels, while IBT's shares can be bought at a discount of around 9% at the time of writing.

Wherever policy settles, we think biotechnology is likely to prove a source of attractive returns to investors, particularly as and when interest rates decline. IBT's managers highlight that 70% of new drug approvals now originate from the sector, whereas ten years ago 70% of new approvals came from large cap pharmaceutical companies R&D departments. These are the new therapeutics that are desperately needed to treat aging populations in the developed world, with rare diseases, oncology and the central nervous system being the largest areas of focus in IBT's current portfolio. We think IBT offers access to an exciting growth market well supported by sector fundamentals, a sector that is cheap thanks to policy uncertainty, but which should be a prime beneficiary of a lower interest rate environment. And IBT offers active management under a team who have demonstrated their ability to add value through varied and difficult environments.

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