

BB Biotech

Great valuation potential

According to BB Biotech's (BION) investment team, the biotech industry has never looked in such a good position. Following a sell-off in the last 18 months, a combination of fundamental industry strength and discounted valuations has recently attracted investors to return to the biotech market. In the sector, BION is differentiated from the Nasdaq Biotechnology Index by its concentrated portfolio (c 30 stocks) of what the investment manager, Bellevue Asset Management, believes to be best-in-class biotech growth opportunities. The BION team continues to focus on its core portfolio of biotech staples, such as Moderna, blended with undiscovered, innovative companies, bringing new technologies.

NAV total return relative to Nasdaq Biotech Index (CHF) over 10 years



Source: Refinitiv, Edison Investment Research. Total returns in Swiss francs.

Why invest in BION now?

With small- and mid-cap company valuations substantially lower than 12–18 months ago, BION's team believes there are compelling re-entry opportunities. In addition, more established mid-cap portfolio companies like Neurocrine, Incyte and Ionis Pharmaceuticals (the top holding with 11.8% portfolio weight at end July 2022) own attractive assets and technology, which could trigger renewed interest from investors, or from strategic partners as M&A targets.

The analyst's view

BION is a large and well-established (since 1993) player in biotech investment, with a positive long-term track record (annualised CHF 10-year NAV and share price total return of c 14% and c 18%, respectively, versus c 11% for the Nasdaq Biotechnology Index). BION, with its focus on innovative small- and mid-cap companies, experienced managers and executive board, should appeal to long-term investors. The very low M&A activity in the past 12 months means that much potential in BION's portfolio remained unrealised. The recent weaker performance compared to peers (see page 7) should reverse, if biotech equity prices continue to gain momentum, allowing high growth stocks like BION to perform well.

Valuation and dividends

BION's current 3.9% premium to NAV is below its historical averages of 25.2% and 13.5% (over one and five years, respectively). BION paid a dividend of CHF3.85 per share) for FY21, equal to a 5% yield at an average FY21 share price.

Investment companies Biotechnology equities

13 September 2022

Price CHF55.40
Market cap CHF3,069m
AUM** CHF2,854m

NAV* CHF53.30
 Premium to NAV 3.9%

*Including income. At 12 September 2022.

Yield 7.0%

Ordinary shares in issue 55.4m

Code/ISIN BION/CH0038389992

Primary exchange SIX

AIC sector N/A

52-week high/low CHF90.00 CHF51.00

NAV* high/low CHF46.60 CHF39.10

*Including income

Gearing** 113.2%

**At 30 June 2022.

Fund objective

BB Biotech, a Switzerland-based investment company, targets long-term capital growth from biotechnology companies developing and marketing innovative drugs. At least 90% of the portfolio is held in listed companies, primarily those that already have products on the market or promising drug candidates in advanced stages of development. BION is benchmarked against the Nasdaq Biotech Index (in CHF) but managed on a bottom-up basis, with a focused c 20–35 stock portfolio.

Bull points

- BION has high return potential, having recently increased exposure to new and existing holdings at much lower valuations, compared to 12–18 months ago.
- Proven expertise in backing innovative companies, such as Moderna (bought pre-IPO).
- Fundamentals for the sector remain strong.

Bear points

- Biotech can be vulnerable to swings in market sentiment as generalist investors retrench.
- The past 12 months has shown underperformance by biotech-focused versus broader healthcare listed funds.
- While the US political backdrop seems benign, there is always a risk of intervention on drug pricing.

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Market outlook: Biotech continues to innovate

The investment case for biotech and healthcare is underpinned by scientific advances and demographic factors. With life expectancy rising worldwide, as well as growing prosperity in developing markets, niche biotech products are finding their way to the mass market, often via big pharma companies. For example, the COVID-19 pandemic brought the development of mRNA technology to the next level and it was rolled out to the mass market. There are many applications for the technology, including serious cardiovascular diseases previously believed to be untreatable. The BION team believes that the recent positive results from the patient study by one of its portfolio holdings, Alnylam (5.0% of the portfolio at end July 2022, Exhibit 2), can be seen as a positive inflection point in mRNA technologies for the biotech sector as a whole.

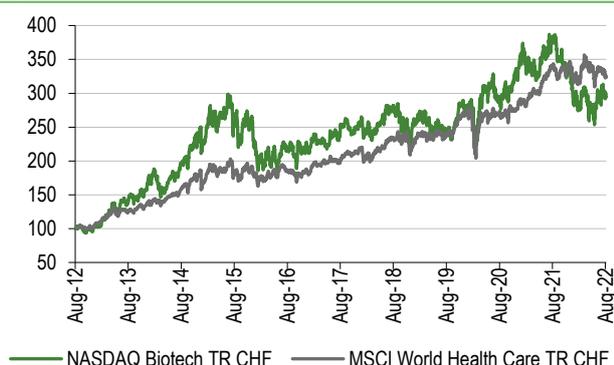
In spite of these developments, which continued throughout 2021, valuations in the sector contracted sharply, as an extended bull equity market reversed the trend during 2021 and continued to slump during most of H122 (see Exhibit 1). These downward trends extended to the biotech sector from the wider equity market. During a challenging 2021 and H122, biotech companies with marketed products and favourable pipeline updates held up better among peers. Yet overall, IPO activity and capital allocation into the sector were almost non-existent until the first signs of M&A activity in June led to a late quarter upswing in sector performance (Exhibit 1 left-hand side). In addition, a recent small pick-up in performance was aided by some investors returning to the market, attracted by discounted valuations.

The investment manager believes that COVID-19 is far from over, so researchers, healthcare systems and government agencies need to remain highly active and alert. In such an environment, an investment strategy founded on in-depth research and focused on identifying tomorrow's winners – before they are widely appreciated – could stand investors in good stead.

Exhibit 1 (right-hand side) shows that the global biotech sector with its current P/E of 23.1x trades at a discount to its 10-year average (25%) and this discount is higher than the 16% discount for the global pharma sector, which currently trades at a P/E of 20.0x. Eighteen months ago the biotech sector traded at a P/E of 30.1x and was at a 31% premium.

Exhibit 1: Performance and valuation of biotech and mainstream equity indices

Total return performance of Nasdaq Biotech and MSCI World Healthcare (10yrs, CHF)



Valuation metrics of Datastream indices (P/E at 12 September 2022)

	Last	High	Low	10-year average	Last as % of average
Datastream index					
World Biotech	23.1	79.6	18.8	30.9	75
World Pharma	20.0	28.8	18.0	23.7	84
US	21.3	36.6	15.3	22.6	94
World	16.1	28.0	13.2	18.0	89

Source: Refinitiv, Edison Investment Research

The fund manager: Bellevue Asset Management

The manager's view: Picking stocks at attractive valuations

The BION team believes that the current vibrant market provides it with attractive investment opportunities. The investment manager anticipates more M&A deals with biotech by large pharma companies. The team expects most to be staged licensing deals rather than outright acquisitions. Noting the strong private equity fund balance sheets and valuations below cash in a number of cases, the team expects more public biotech companies being taken private. Bellevue believes these developments are a sign that the public market sell-off has been overdone and the biotech sector is currently undervalued. In this environment, the team has been identifying new potential portfolio holdings as well as adding to existing holdings at attractive prices.

BION's investment team head Daniel Koller believes that the COVID-19 pandemic is not over. He warns that with the Omicron variant still circulating, the arrival of the autumn-winter season could see a sharp rise in infections. He believes that from now on, the world will be balancing between the pandemic and endemic stages in terms of COVID-19. Hence the focus on vaccine development continues, given the emergence of virus mutations, which may necessitate more frequent vaccine boosters than had initially been expected. Vaccines from Moderna, BioNTech/Pfizer, Novavax, Janssen have largely been founded on biotech innovation, even when they have been developed using the capabilities of major pharma companies. Further developments in the space may also lead to new additions to BION's portfolio.

Asset allocation

Current portfolio positioning

The portfolio had 31 holdings at 31 July 2022, down from 35 at 31 December 2020, as BION adapted to a challenging environment for the sector. While three new holdings entered the top 10 during the past 18 months, the top 10 concentration (at 31 July 2022, Exhibit 2) has increased by 16.1pp to 73.0% from 56.9% at 31 December 2020. This indicates the managers' strong conviction in their key positions, which have been in the portfolio for some time (more than three years for most). Two-thirds of the portfolio is invested in eight revenue-generating companies, four of which have shown sustained profits for many years; the remainder have strong balance sheets and the team expects them to be cash flow positive in the near future.

Exhibit 2: Top 10 holdings (at 31 July 2022)

Company	Country	Main clinical focus	Portfolio weight %	
			31 July 2022	31 December 2020*
Ionis Pharmaceuticals	US	Genetic diseases	11.8	10.4
Argenx (ADR)	Netherlands	Orphan diseases	11.5	6.1
Neurocrine Biosciences	US	Neurological diseases/women's health	9.1	6.5
Vertex Pharmaceuticals	US	Orphan diseases	9.0	4.8
Moderna Therapeutics	US	mRNA platform	7.3	6.7
Incyte	US	Oncology	6.8	5.7
Intra-Cellular Therapies	US	Neurological diseases	6.3	N/A
Alnylam Pharmaceuticals	US	Genetic diseases	5.0	N/A
Sage Therapeutics	US	Neurological diseases	3.2	N/A
Radius Health	US	Women's health and osteoporosis	3.0	N/A
Top 10 (% of holdings)			73.0	56.9

Source: BB Biotech, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end December 2020 portfolio.

An example of a growth story with a strong balance sheet is top 10 holding Moderna, which has become a core portfolio holding over the last two years. The rapid development of its SARS-CoV-2 vaccine was the standout story for BION in 2020, validating the investment case for a stock that the team bought in 2018 when it was a tiny, unlisted company, and providing Moderna with the funds to continue developing its mRNA-based technology platform for use in many more indications. The

team continues to see many new opportunities in emerging technologies targeting a broad range of clinical indications, providing a background for future growth.

As shown in Exhibit 3, BION's portfolio exposure by clinical focus over FY21 and H122 (to end June 2022) retained its core segments, albeit the focus shifted slightly. Portfolio exposure is led by the rare disease category followed by oncology and neurology/psychiatry. Retaining its top positions, orphan diseases and oncology decreased 5.4pp and 2.7pp, respectively. Another sector with a sizeable 6.7pp reduction in exposure was cardiovascular diseases, resulting in this segment becoming the smallest at 1.0%. Together, biotech companies developing treatments for rare diseases, cancer and neurological disorders continue to account for the majority of the portfolio, 76.0% at 30 June 2022 compared to 79.0% at 31 December 2020.

In addition, the team is increasingly focused on emerging technologies that could lead to novel treatment methods with attractive therapeutic profiles and substantial economic rewards. These future technologies include RNA platforms and cell and gene therapies. Combined, they resulted in increases in the inflammation & immunology and infectious diseases segments by 13.0pp and 6.8pp, respectively. We note that the company removed the 'other' segment, which was 8.2% at 31 December 2020, and to a large extent comprised the inflammation & immunology segment.

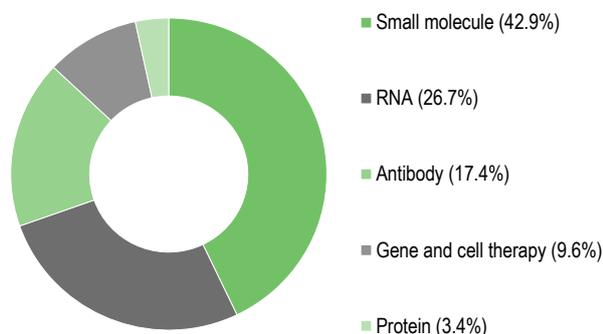
Exhibit 3: Portfolio exposure by clinical focus (% unless stated)

	Portfolio end June 2022	Portfolio end December 2020	Change (pp)
Orphan diseases	33.0	38.4	(5.4)
Oncology	24.0	26.7	(2.7)
Neurological diseases	19.0	13.9	5.1
Inflammation & immunology	13.0	0.0	13.0
Infectious diseases	7.0	0.2	6.8
Metabolic diseases	3.0	4.9	(1.9)
Cardiovascular diseases	1.0	7.7	(6.7)
Other	0.0	8.2	(8.2)
	100.0	100.0	

Source: BB Biotech, Edison Investment Research

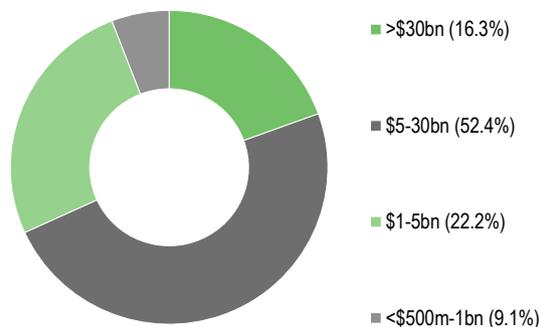
The portfolio split by technology type is shown in Exhibit 4. While the small molecule and antibody areas of biotechnology have been around the longest, the team has been finding exciting new opportunities in these areas such as targeted oncology player Black Diamond Therapeutics in small molecules and antibody-focused Relay Therapeutics. Both companies are deploying massive computational power and machine learning to deepen the understanding of disease processes and speed up the identification and development of new treatments.

Exhibit 4: Portfolio breakdown by technology



Source: BB Biotech, at 31 July 2022

Exhibit 5: Portfolio breakdown by market cap



Source: BB Biotech, at 30 June 2022

The proportion of the portfolio in large-cap companies (\$30bn+) was down 2.6pp during the last 18 months to 16.3% of the total (at end June 2022). The \$1–5bn segment was also down 3.0pp to 22.2%. The medium-size companies segment of \$5–30bn increased by 5.1pp and at 52.4% remains the largest (Exhibit 5).

The team initiated a new position in Celldex, a clinical-stage company developing treatments for inflammatory and allergic conditions, in June 2022. The managers believe that Celldex is an attractive addition to BION's portfolio in autoimmune diseases, alongside investments in Argenx and Kezar.

The team sold the position in Nektar Therapeutics during Q222, as its drugs, bimepegaldesleukin (peg-IL2) in combination with Opdivo, which were at the development stage, failed to achieve clinical benefit for unresectable or metastatic melanoma, renal cell carcinoma or bladder cancer. During Q122 the investment team liquidated the position in Biogen after it failed to develop a plausible pricing strategy for its Alzheimer's treatment, Aduhelm.

On the product development side of BION's portfolio holdings, the investment team has seen a number of promising product launches in H122. These include Argenx's Vyvgart in myasthenia gravis, Intra-Cellular's Caplyta in schizophrenia and bipolar disorder, Agios's Pyrukynd in adults with pyruvate kinase deficiency, Alnylam's Amvuttra in polyneuropathy of hereditary transthyretin-mediated amyloidosis and Moderna's Spikevax as the world continues to adapt to the COVID-19 pandemic. Moderna showed that its bivalent booster mRNA vaccine mRNA-1273.214 achieved potent neutralising antibody responses to the new Omicron subvariants, providing more scope for revenue and profit growth. Vertex and partner Crispr Therapeutics, both current portfolio companies, presented additional data for their gene-edited autologous cell therapy. The companies guided for a regulatory filing for these new technologies in the second half of 2022 and a possible market launch in 2023. Ionis and partner AstraZeneca reported positive interim data for one of their joint studies. The companies will file for regulatory review by year-end with a potential market launch in 2023.

Performance: Constrained by reduced risk appetite

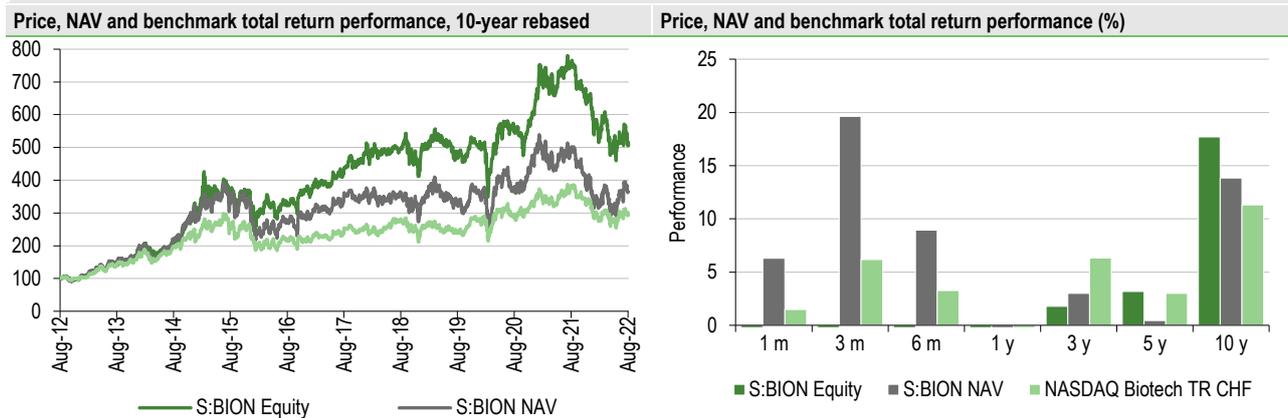
Exhibit 6: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	Nasdaq Biotech CHF (%)	MSCI World Health Care CHF (%)	CBOE UK All Cos CHF (%)	MSCI World CHF (%)
31/08/18	13.1	1.0	11.3	14.7	5.9	14.4
31/08/19	(1.9)	(7.4)	(13.4)	3.1	(3.9)	3.2
31/08/20	15.2	13.3	20.6	11.9	(13.4)	6.9
31/08/21	35.3	29.1	28.4	26.2	32.9	32.6
31/08/22	(32.4)	(25.3)	(22.4)	(4.8)	(8.3)	(9.1)

Source: Refinitiv, Bloomberg. Note: All % on a total return basis in Swiss francs.

As shown in Exhibit 6, BION has outperformed the Nasdaq Biotechnology Index in share price terms in three and NAV terms in two of the last five discrete 12-month periods to 31 August (all in Swiss franc terms). The last 12 months have been very challenging for the biotech sector as investors preferred to reduce risk and exposure to a sector they perceived as risky and volatile. As a concentrated fund (31 positions), BION lagged the index on a total return basis (see Exhibit 9).

Exhibit 7 (right-hand side) shows that BION has outperformed the index over the long term, with its share price and NAV generating annualised returns of c 18% pa and c 14% pa, respectively, over the last 10 years.

Exhibit 7: Investment company performance to 31 August 2022


Source: Refinitiv, Bloomberg, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

One of the key drivers of underperformance in the past 12 months (ended 31 August) was top 10 holding Moderna (7.3% position in BION's portfolio at end July 2022), which suffered from the market sell-off as investors feared that its successful product, mRNA vaccine for SARS-CoV-2, would be hard to repeat with a similar magnitude of success. The market devalued the company and its stock fell c 60% (in CHF) over the last 12 months to 31 August. That said, the rest of BION's top eight holdings (with the exception of Incyte, which fell 2%), posted positive total returns over the last 12 months. The investment managers retain a strong conviction in Moderna's stock. Also during the falling market, investors switched to larger companies, de-risking their exposure, and BION's focus on small and mid-sized businesses contributed to its underperformance relative to the index.

More recent performance has been encouraging. As the biotech market began its recovery over the last couple of months, BION's NAV outperformed the Nasdaq Biotechnology Index over the past one-, three- and six-month periods (Exhibit 8).

Exhibit 8: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Nasdaq Biotech TR CHF	(2.3)	(6.5)	(8.9)	(12.8)	(12.3)	0.9	74.6
NAV relative to Nasdaq Biotech TR CHF	4.7	12.7	5.5	(3.7)	(9.1)	(11.7)	24.9
Price relative to MSCI World Health Care TR CHF	2.9	3.7	(6.6)	(29.0)	(21.6)	(26.5)	58.2
NAV relative to MSCI World Health Care TR CHF	10.4	24.9	8.2	(21.6)	(18.7)	(35.7)	13.2
Price relative to MSCI World CHF	0.9	3.1	(1.0)	(25.6)	(18.2)	(23.1)	91.2
NAV relative to MSCI World CHF	8.2	24.3	14.6	(17.8)	(15.1)	(32.7)	36.8

Source: Refinitiv, Bloomberg, Edison Investment Research. Note: Data to end August 2022. Geometric calculation.

Exhibit 9: NAV total return performance relative to Nasdaq Biotech Index over one year


Source: Refinitiv, Bloomberg, Edison Investment Research. Data to end August 2022.

Peer group comparison

BION is not included in the AIC's Biotechnology & Healthcare sector owing to its primary listing being in Switzerland, but in Exhibit 10 we present it and fellow Swiss company HBM Healthcare Investments (HBMN) alongside the members of the AIC peer group, which provides a relevant comparison. Within this group there are three funds (BION, Biotech Growth Trust (BIOG) and International Biotechnology Trust (IBT)) that focus primarily on biotech stocks, and four (BB Healthcare, HBM Healthcare Investments (HBMN), Polar Capital Global Healthcare and Worldwide Healthcare Trust) which have a broader healthcare remit and generally include some biotech stocks alongside those from other sectors. The last fund, Syncona, is a venture capital/growth capital investor focusing on backing and building early-stage companies, mainly in the biotech space.

Exhibit 10: Selected peer group at 31 August 2022 (in CHF terms)*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Disc/prem (cum-fair)	Net gearing	Dividend yield
BB Biotech	3,069.2	(25.3)	9.3	2.3	265.4	1.22 (TER)	No	3.9	113	7.0
BB Healthcare	1,167.2	(15.8)	50.0	65.9		1.08	No	(5.3)	100	0.0
Biotech Growth Trust	458.6	(28.1)	19.9	6.9	178.8	1.06	No	(7.5)	109	0.0
HBM Healthcare Investments	1,794.9	(15.7)	56.6	127.9	500.7	1.03	Yes	(8.1)	103	0.0
International Biotechnology Trust	312.7	(16.6)	17.2	16.6	186.6	1.23	Yes	(6.6)	110	0.0
Polar Capital Global Healthcare	434.9	(4.3)	33.6	53.1	152.0	0.92	Yes	(8.8)	105	0.6
Syncona	1,520.7	(0.4)	(7.4)	33.1		0.48	No	3.1	100	0.0
Worldwide Healthcare Trust	2,498.8	(13.7)	24.2	32.8	230.7	0.85	Yes	(6.9)	103	0.7
Simple average (eight funds)	1,407.1	(15.0)	25.6	42.5	265.4	0.99		(4.5)	105	1.1
BION rank in peer group	1	7	7	8	2	1		1	1	1

Source: Morningstar, Bloomberg, Edison Investment Research. Note: *Performance at 31 August 2022 based on ex-par NAV. TR = total return. TER = total expense ratio. Net gearing is total assets less cash and equivalents as a percentage of net assets.

In general, the funds with a broader healthcare remit have done best in NAV total return terms over the past year. During this period, three listed biotech companies lagged the peer group average in NAV total return terms. While BION performed better than BIOG, it lagged IBT that does not have significant exposure to Moderna, which performed poorly during the past 12 months. BION's last 12-month underperformance versus peers has had a negative effect on its medium-term performance relative to the peer group. Over three and five years, BION ranks seventh and eighth, respectively, among the eight peers.

Long-term performance remains strong. Over 10 years BION is one of the two funds to have effectively more than tripled investors' money, while only HBMN has surpassed BION's stellar 265.4% NAV total return over 10 years (to end August 2022). The two funds have historically looked quite different, with HBMN having a broader remit, as well as more stocks and private companies within the portfolio.

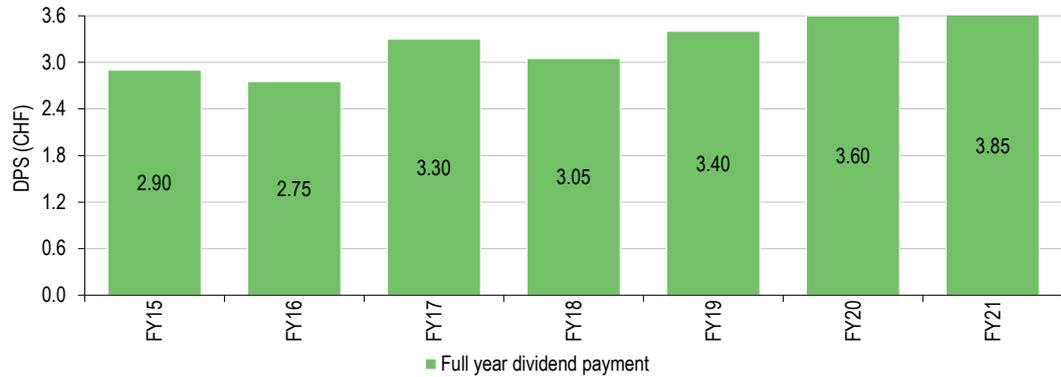
Dividends: Year-on-year growth aided by timing

BION pays an annual dividend, the level of which is set at 5% of the volume-weighted average share price in December each year. Although biotech is not a high-yielding sector (many companies are at a relatively early stage of development and may prefer to reinvest whatever cash flows they have to fund future growth), BION's directors recognise shareholders' appetite for income in an environment where yields on other assets are low. However, it is important for investors to be aware that the distributions may in part represent a return of their capital. The high distribution policy (introduced in 2012) has arguably been one of the factors underlying the shares' move from a discount to NAV to a sustained premium in recent years.

In respect of FY21, BION paid a regular dividend of CHF3.85 per share (a 6.9% increase over FY20). Applied to the average share price in December 2021 and consistent with the dividend policy introduced in 2012, this corresponds to a 5% dividend yield. In respect of FY20, CHF3.60 per

share was paid to shareholders in March 2021. This is an increase of 5.9% over FY19. The distribution has grown at a compound annual rate of 7.0% over the last five years, although it is worth noting that because it is calculated as a set percentage of the share price, the payout may fall as well as rise depending on BION's performance. As BION's share price has retreated materially over the last year, at 31 August 2022 its shares had a relatively high historical yield (last 12 months) of c 7.0%.

Exhibit 11: Dividend history since FY15



Source: Bloomberg, Edison Investment Research

Discount: Still at a premium amid market volatility

Having historically stood at a double-digit discount to NAV until early 2016, for the last five years BION's shares have traded at a premium on average. The move to a premium was arguably underpinned by strong investor interest in the biotech sector, buying by passive investors following index inclusion and the high distribution policy detailed in the Dividends section above. As biotech stock valuations fell during 2021 and 2022, BION reached a record-high premium to NAV of c 40% in January 2022, which has been falling ever since.

While there is a share buyback facility in place (see Capital structure), no repurchases have occurred since 2018. Nor has there been any share issuance to manage the premium to NAV, although the healthy level of trading liquidity (see Exhibit 14) suggests that investors do not find the premium rating a deterrent. At 12 September 2022, BION's share price stood at an 3.9% premium to NAV, below the 12-month average premium of 25.2%.

Exhibit 12: Premium/discount over five years



Source: Refinitiv, Bloomberg, Edison Investment Research

Gearing: Geared through low-cost loan

Gearing is available via a short-term bank loan with an interest rate of 0.40%. At end June 2022, CHF326m was drawn, equating to c 12.9% of net assets (CHF355m outstanding at end FY21 on 31 December). We note that the investment managers have been using lowered valuations over the past 18 months as an opportunity to add to the portfolio at what they believe are favourable prices. For comparison, at the end of FY20, CHF63m was drawn, equating to c 1.6% of net assets. The number for the degree of investment (broadly similar to net gearing) was 113.2% at 30 June 2022. This is within the manager's normal guidance range of 95–115%.

Fees and charges: All-in fee gives competitive TER

The fund pays Bellevue Asset Management an all-in management fee of 1.1% per year. At end FY21, the total expense ratio (broadly equivalent to an investment trust's ongoing charges) was 1.22% of the fund's market capitalisation, which is competitive versus the majority of peers (see Exhibit 10), particularly given that, unlike half of the peer group, BION is not subject to a performance fee.

Fund profile: Focused portfolio with high conviction

Launched in 1993, BION is one of the largest specialist funds investing in the fast-growing sector of biotechnology. It is managed by Bellevue Asset Management, a healthcare investment manager headquartered in Switzerland, and has an executive board of industry experts who oversee major investment decisions. BION has a strong focus on innovation and primarily aims to achieve capital growth for its investors, with a total return target of c 15% pa. Although returns can be volatile, as biotech companies' share prices can move significantly following positive or negative clinical developments, the fund's long-term track record vindicates its approach, with sector-beating NAV total returns. BION is incorporated and listed in Switzerland, and also has listings on German and Italian exchanges. The fund measures its performance against the Nasdaq Biotechnology Index (in Swiss franc terms), although its concentrated portfolio (c 30–35 stocks, with an official range of 20–35) and greater focus on mid-cap companies means its performance is likely to differ significantly from that of the benchmark.

The portfolio blends earlier-stage biotech companies with those that already have products on the market and are profitable. It has five to eight core holdings, which are expected to make up a substantial part of the portfolio. Up to 10% of assets may be invested in unquoted companies, although none is currently held, following the IPO of Moderna Therapeutics in December 2018.

Investment process: Backing biotech innovation

BION's lead portfolio manager, Daniel Koller, heads a team including six other investment professionals – based in New York and Zurich – with a variety of scientific and medical specialisms. Koller is the joint-longest serving member of the management team, having been involved with the fund since 2004. The scientific backgrounds of the managers are fundamental to their understanding of the clinical landscape, and they keep their knowledge up to date by meeting (virtually or in person) clinicians and biotech company executives, monitoring medical journals and attending industry conferences.

The universe of established and developing biotech companies globally, from which BION’s managers construct the portfolio, has grown to more than 1,000 stocks, so a variety of filters are employed to arrive at the final list of c 30–35 companies. The team begins by focusing on clinical areas where advances in science and technology coexist with strong market potential, looking at factors such as indication and mechanism of action. This brings the opportunity set down to c 300–400 companies, which is further refined to a ‘long list’ of c 100 stocks by applying a variety of quantitative and qualitative screens. These candidate stocks are modelled and analysed by the investment team, assessing factors such as innovation, quality of company management, intellectual property (the team prefers wholly owned assets), pharmacoeconomics and company financials. The team concentrates its efforts on identifying truly novel products which, while they may initially come with a high price tag, essentially reduce healthcare costs over the long term because of their greater efficiency or better safety profile. While the clinical side is the main driver of investment decisions, companies considered for inclusion in the portfolio should also have the potential to achieve above-average sales and profit growth.

The investment team produces an investment proposal for each potential holding that passes through the due diligence process, which is then presented to BION’s executive board. The proposal includes financial model, clinical data, recommendations on purchase price and position size (new positions tend to come into the portfolio at 0.5–4.0% of NAV) and estimates of potential upside and downside. The executive board signs off on all new positions, complete exits and major changes in weightings.

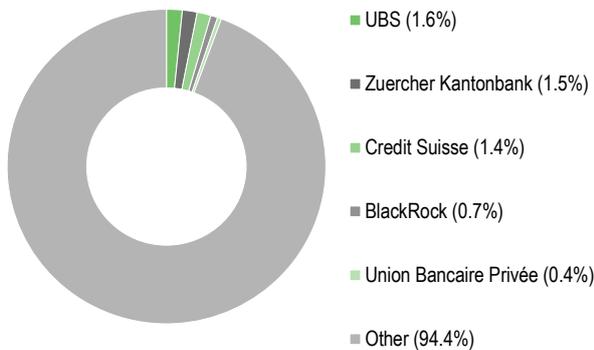
While the investment universe is global, BION has a bias towards the US, as this is where the majority of the world’s biotech companies are based. The portfolio tends to focus away from the large-cap ‘evergreen’ stocks that dominate the Nasdaq Biotechnology Index, preferring mid-cap companies that have greater growth potential but are not necessarily higher risk, as many have products on the market already and may be less exposed to patent expiries.

The team actively manages the fund, trimming positions to lock in gains and keep them from becoming too large, and topping up underperforming holdings. Complete exits may occur where a stock has reached its valuation target, or if poor clinical data or regulatory outcomes call the original investment thesis into question.

Capital structure

BION is a Switzerland-incorporated, closed-end investment company with one class of share. Its primary Swiss franc-denominated stock market listing is on the SIX Swiss Exchange, and it also has euro-denominated listings in Germany and Italy.

Exhibit 13: Major shareholders



Source: Bloomberg, at 6 September 2022.

Exhibit 14: Average daily volume



Source: Refinitiv. Note: 12 months to 6 September 2022.

Since September 2018 it has been a constituent of the SMIM Index in Switzerland, made up of the next 50 largest and most liquid companies after the 20 blue-chip constituents of the Swiss Market Index (SMI). There are currently 55.4m shares in issue.

Following the expiry of its previous three-year share buyback authority (which was not used), BION has authority to repurchase up to 10% of its shares (5,540,000 shares) over a period of 36 months from April 2022. Until 31 August 2022, no shares had been repurchased under this share buyback programme.

As shown in Exhibit 13, the shareholder base is broadly diversified with few significant holders. Trading liquidity is reasonably consistent (Exhibit 14), with an average daily traded volume (based on the Switzerland listing) of 67,600 shares (c 0.12% of the share base) over the past 12 months.

The board

At the AGM on 17 March 2022, shareholders approved the recommendations from the board and company by re-electing all four current board members and electing two new board members. Dr Pearl Huang, CEO of Cygnal Therapeutics, and Dr Laura Hamill, former executive vice president of worldwide commercial operations for Gilead, have become directors of BION, bringing the board to a highly experienced and diverse leadership group of six. The four re-elected directors are Dr Erich Hunziker (chairman), Dr Clive Meanwell (vice chairman), Professor Dr Mads Krogsgaard Thomsen and Dr Thomas von Planta.

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