# EDISON

# HBM Healthcare Investments

## Strong results show success of strategy

Investment companies

**HBM Healthcare Investments (HBMN) has reported extremely strong results for the first half of FY19 (to 30 September), with net earnings of CHF177m. While market conditions have turned negative in October, HBMN's portfolio of private investments (c 36% of the total) and a market hedge covering c 20% of the listed portfolio should help to limit NAV volatility if the sell-off is prolonged. Results have been buoyed by good clinical data and a number of successful IPOs from the private portfolio, and HBMN's managers are focused on finding new private opportunities to replace those now in the public portfolio. Ten new investments in H119 were diversified by clinical focus and geography (US, Europe and Asia). HBMN's shares have re-rated substantially over the past year, arguably as a result of the ongoing evidence of successful execution of its strategy, as well as the high distribution policy (c 5% of NAV paid out each year).**

| 12 months ending | Share price (%) | NAV (%) | MSCI World Health Care (%) | NASDAQ Biotech (%) | FTSE All-Share (%) |
|---|---|---|---|---|---|
| 30/09/14 | 34.1 | 42.9 | 32.6 | 38.3 | 12.2 |
| 30/09/15 | 15.1 | 4.1 | 5.5 | 13.7 | (6.6) |
| 30/09/16 | 12.5 | 19.9 | 5.0 | (4.8) | (0.6) |
| 30/09/17 | 24.5 | 8.6 | 12.8 | 15.7 | 15.4 |
| 30/09/18 | 60.8 | 26.2 | 15.9 | 11.4 | 3.9 |

Source: Thomson Datastream. Note: All % on a total return basis in Swiss francs.

## Investment strategy: Public/private healthcare fund

HBMN aims to build a well-balanced global portfolio of private and public companies across the healthcare and biotechnology spectrum. At the heart of the strategy is a focus on more mature private companies with attractive valuations and convincing business models in terms of product pipeline, technology and management. Access to emerging companies in Asia is largely via funds, while the public equity portfolio (currently c 66% of assets) includes many stocks that began as private investments.

## Market outlook: Volatility can lead to opportunity

A marked pick-up in global equity market volatility in October has led to share price falls across global markets, with biotechnology and healthcare stocks no exception. At times when market sentiment swings towards the negative, generalist investors have tended to sell out of more volatile, specialist areas such as healthcare equities in favour of more defensive assets. This may provide opportunities for specialist investors with a long-term outlook, given healthcare fundamentals remain strong.

## Valuation: Substantial rerating over the past year

At 26 October 2018, HBMN's shares traded at a 7.0% discount to the 15 October NAV (HBMN releases NAVs fortnightly). The shares have re-rated dramatically over the past year, having historically traded at a 20-30% discount, and briefly reached a premium to NAV in late September. The decrease in the discount mirrors that seen by HBMN's Swiss peer BB Biotech, lately trading on a double-digit premium, and has arguably resulted from the fund's very strong long-term performance record, positive portfolio newsflow and the attraction of the 5% distribution policy.

**29 October 2018**

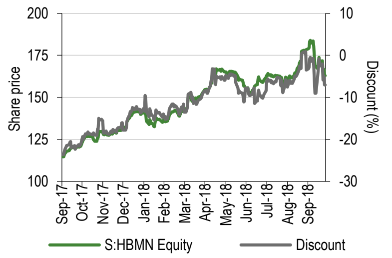
| | |
|---|---|
| **Price** | **CHF163.00** |
| **Market cap** | **CHF1,134.5m** |
| **AUM** | **CHF1,220.1m** |

| | |
|---|---|
| NAV* | CHF175.30 |
| Discount to NAV | 7.0% |

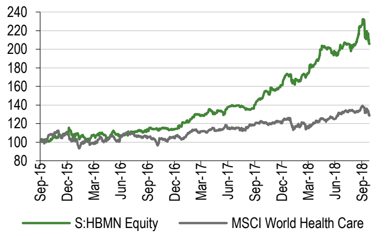
*Including income. As at 26 October 2018.

| | |
|---|---|
| Yield | 4.3% |
| Ordinary shares in issue | 7.0m |
| Code | HBMN |
| Primary exchange | SIX |
| AIC sector | N/A |

### Share price/discount performance




### Three-year performance vs index




| | | |
|---|---|---|
| 52-week high/low | CHF184.0 | CHF121.0 |
| NAV** high/low | CHF184.9 | CHF153.0 |

**Including income.

### Gearing

| | |
|---|---|
| Gross* | 10.0% |
| Net* | 2.7% |

*As at 30 September 2018.

### Analysts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***HBM Healthcare Investments is a research client of Edison Investment Research Limited***

## Exhibit 1: Company at a glance

**Investment objective and fund background**

HBM Healthcare Investments (formerly HBM BioVentures, renamed in 2012) is a Swiss investment company that aims to generate long-term capital gains by investment in private and public companies in the human medicine, biotech, medtech and diagnostic sectors, and related areas. It invests worldwide, predominantly in later-stage private companies (either directly or through funds) and publicly listed holdings, many of which began as private equity investments.

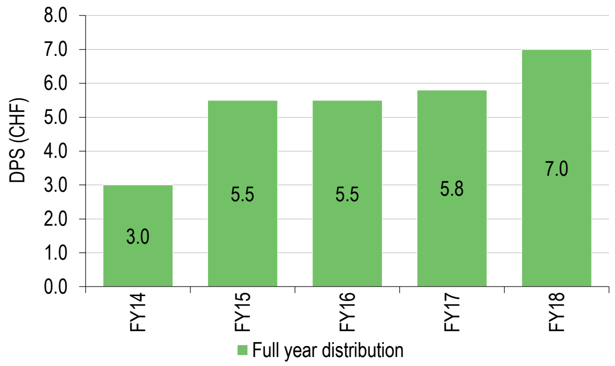
**Recent developments**

- 25 October 2018: Results for the second quarter of FY19. NAV per share +15.3% and share price +28.8% (all in CHF). Profits of CHF110.4m for the period. Positive trial data from portfolio companies and two significant IPOs from the private portfolio contributed to results. Pace of investment remains high, with five new private investments in the quarter.
- 25 July 2018: Results for the first quarter of FY19. NAV per share +5.8% and share price +13% (all in CHF). Profits of CHF 66.6m for the period. Results were buoyed by acquisitions and IPOs of several portfolio companies.

| Forthcoming | | Capital structure | | Fund details | |
|---|---|---|---|---|---|
| AGM | June 2019 | Ongoing charges | 1.24% | Group | HBM Partners |
| Quarterly results | 25 January 2019 | Net gearing | 2.7% | Manager | Team-managed |
| Year end | 31 March | Annual mgmt fee | 0.75% NAV + 0.75% market cap | Address | Bundesplatz 1, 6300 Zug, Switzerland |
| Dividend paid | June | Performance fee | Yes (see page 8) | | |
| Launch date | July 2001 (listed Feb 2008) | Company life | Indefinite | Phone | +41 41 710 75 77 |
| Continuation vote | None | Loan facilities | CHF100m bond issue | Website | www.hbmhealthcare.com |

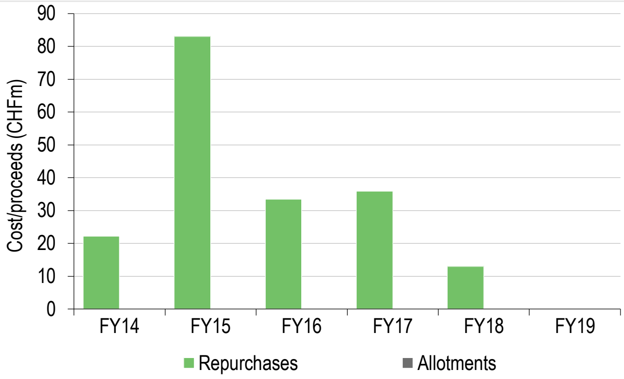
**Dividend policy and history (financial years)**

From FY13 HBMN has followed a policy focused on shareholder value, whereby c 3-5% is returned to shareholders annually as a capital distribution (c 5-8% total return of capital including buybacks), subject to portfolio performance and liquidity.

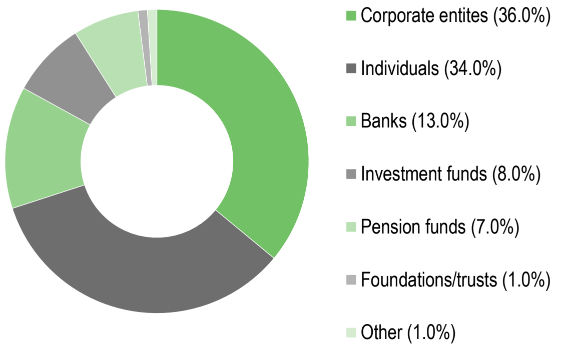



**Share buyback policy and history (financial years)**

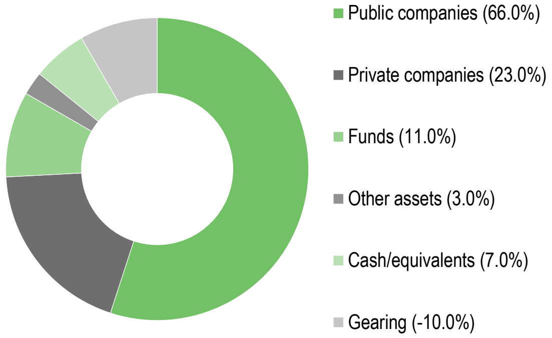
HBMN buys back shares in the market to help manage the discount. Its current buyback programme began in October 2016. The FY15 figure includes an issue of put options, which saw an additional 564,897 shares repurchased.




**Shareholder base (as at 31 December 2017)**




**Portfolio exposure by investment type (as at 30 September 2018)**




**Top 10 holdings (as at 30 September 2018)**

| | | | Portfolio weight % | |
|---|---|---|---|---|
| **Company** | **Country** | **Clinical focus** | **30 September 2018** | **30 September 2017*** |
| Cathay Industrial Biotech** | China | Industrial polymers | 6.3 | 4.0 |
| Y-mAbs*** | Denmark | Cancer immunotherapy | 5.7 | 1.8 |
| Pacira Pharmaceuticals*** | US | Pain management | 3.8 | 3.8 |
| Vectura | UK | Respiratory diseases | 3.7 | 8.6 |
| Principia | US | Autoimmune diseases | 2.6 | N/A |
| Galapagos | Belgium/Netherlands | Cystic fibrosis and inflammation | 2.4 | 1.9 |
| Harmony** | US | Narcolepsy/cataplexy | 2.3 | 2.7 |
| Argenx | Belgium/US | Oncology/autoimmune | 2.2 | 0.5 |
| ObsEva*** | US | Women's health | 1.8 | 1.7 |
| Zogenix | US | CNS and rare diseases | 1.7 | N/A |
| **Top 10 (% of portfolio)** | | | **32.5** | **47.0** |

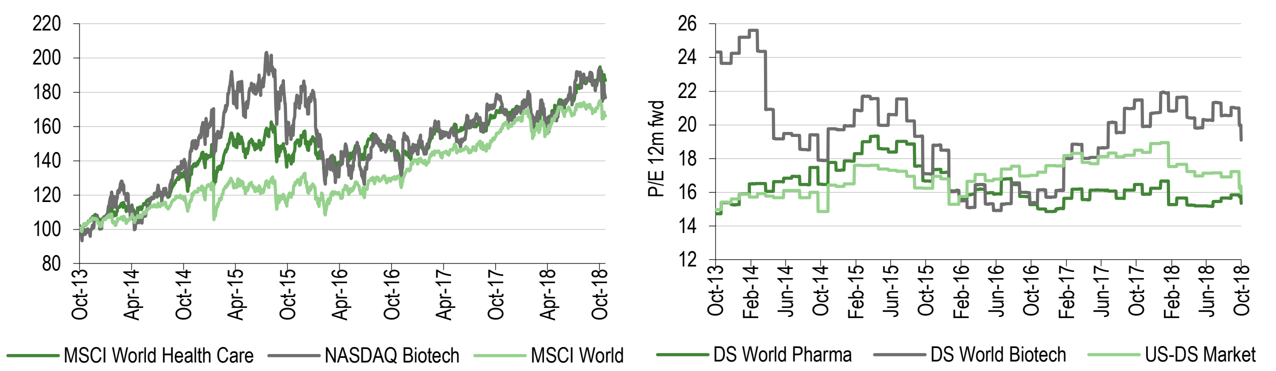
Source: HBM Healthcare Investments, Edison Investment Research. Note: *N/A where not in September 2017 portfolio. **Private company. ***Originally held in private portfolio.

# Market outlook: Further market volatility ahead?

The global healthcare sector has a number of structural drivers underpinning the strong growth of recent years. An increasing understanding of disease processes means many previously fatal conditions can now be treated or managed, but this presents its own challenges; across the world, ageing populations are leading to greater demand for healthcare services, with increasing need for treatment in areas such as Alzheimer's disease. In addition, there are opportunities for healthcare companies to serve the growing middle class in emerging economies, through the development of lower-cost generic drugs and by widening access to treatments and medicines via the internet. A more accommodative regulatory environment in the US and Europe is helping to get new treatments to market, and providing an environment in which drug companies feel encouraged to innovate.

**Exhibit 2: Market performance and valuation**

**Healthcare, biotech and global equity index total returns (CHF)** | **Healthcare, biotech and US equity valuations (12m forward P/E)**




Source: Thomson Datastream, Edison Investment Research. Valuation data as at 25 October 2018.

However, as shown in Exhibit 2 (left-hand chart), while returns from healthcare and biotechnology indices have been strong over the past five years, they have also been volatile. This is particularly true in the more innovative area of biotech, where share prices can rise or fall sharply on binary (positive or negative) outcomes from clinical trials. At the same time (right-hand chart), valuations of biotech companies (based on 12-month forward P/E ratios) are well above those of the broad US equity market, in spite of the recent market correction. Often at negative turning points in stock market cycles, generalist investors – who may have been enticed into healthcare stocks because of their strong performance – retrench into cash, bonds or less volatile equities, which can exacerbate any correction in the sector, although this may provide opportunities for more specialist healthcare investors with a better understanding of the clinical outlook for companies. A further layer of protection from volatility may be afforded by an allocation to unlisted companies, which – while they may be more risky from an operational perspective, as they may be at an earlier stage of development – are not subject to swings in investor sentiment.

# Fund profile: Blend of listed and unlisted healthcare

HBM Healthcare Investments (HBMN) began life in 2001 as HBM BioVentures, a biopharmaceutical-focused private equity investor. It has been listed on the SIX Swiss Exchange since 2008 and is managed by Zug, Switzerland-based HBM Partners. Over time it has evolved into a diversified portfolio of private and public companies and private equity funds, with holdings from around the world and across a spread of healthcare sectors. While listed companies currently make up the majority of holdings, many of these are companies that began as investments in the private portfolio.

The fund uses the MSCI World Health Care index as a reference benchmark for performance measurement. However, given HBMN's significant holdings in unlisted companies, the index is an imperfect comparator. Because the private companies are generally only revalued on significant events such as follow-on funding or a major clinical data release, their performance will be less volatile than that of listed holdings. As a further partial hedge against equity market volatility, HBMN has a short position in an ETF following the NASDAQ Biotechnology index, covering c 20% of the listed portfolio.

HBMN's primary investment objective is to achieve capital growth. However, in line with a number of peers, it recognises that investors favour income as well as growth; as a result, the fund has a high distribution policy, paying out c 5% of its NAV (mainly funded from capital profits) each year.

## The fund manager: HBM Partners

### The manager's view: Keep building to achieve right balance

HBM Partners CEO Andreas Wicki and CFO Erwin Troxler note that value creation continues to be strong among HBMN's holdings, underpinned by the two recent initial public offerings (IPOs) from the private portfolio (Y-mAbs Therapeutics and Principia Biopharma), as well as a strong pipeline of clinical catalysts in both the private and public portfolios.

The managers expect the pace of investment in HBMN's private portfolio to pick up, and they are targeting new opportunities of c CHF100m pa over the next few years, in part to replace holdings lost from the private segment owing to a higher-than-expected rate of IPOs and merger and acquisition (M&A) activity in recent years. While HBMN tends to continue to hold companies that move from the private to the public portfolio via IPO (currently c 29% of the listed portfolio by value began as private investments), M&A can mean the fund loses exposure to companies the managers had hoped to hold for the long term. Wicki notes that with many public companies having performed strongly until the recent period of stock market weakness, acquirers tend to get more value from buying smaller, private companies. As such, the managers see what they describe as a normal pace of M&A activity targeting companies in the $1-3bn range, but less activity at the higher end, in spite of companies' having more available cash as a result of US tax cuts. Wicki attributes this to the boards and management of larger companies tending to feel any potential bid is too low. He gives the example of oncology-focused biotechnology company Tesaro, where a rumoured bid at $150-180 when the shares were at c $140 failed to materialise; following a poor product launch and competitive pressure from a rival ovarian cancer drug with better clinical data, the share price corrected substantially and now stands at c $30. HBMN continues to hold Tesaro, however, as the managers say its long-term clinical prospects remain favourable.

In geographical terms, most healthcare – and particularly biotech – funds are heavily weighted to the US, where the majority of listed healthcare companies are based. While HBMN has a c 75% US weighting, the managers are actively increasing exposure to Asia as part of a well-balanced and diversified portfolio. Wicki describes the strategy as "building a portfolio of Asian champions", principally through private equity fund investments and co-investments alongside funds, although also via direct investments, such as the recent purchases of Singapore medtech distributor Cure Everlife and Chinese online pharmacy and healthcare platform Guangdong Jianke Pharmaceutical. The managers see significant growth potential from Asian companies. "In the US, emerging biotech companies took 20-25 years to become big biotech companies. In China, it is happening a lot faster," says Wicki.

# Asset allocation

## Investment process: Diversified private/public portfolio

Investment manager HBM Partners has two teams of professionals – many of whom have a life sciences background – covering private and public markets. HBMN invests across both areas, in companies covering the healthcare and biotechnology spectrum. The teams meet weekly to share information on market and clinical developments.

HBMN's managers generate investment ideas from diverse sources, including their own global industry networks, as well as third-party analyst output and industry conferences. Although listed companies currently make up around two-thirds of the portfolio, the private portfolio is arguably the driving force behind the strategy. Some 36% of gross assets (across individual companies and funds) is currently invested in private companies, with a further 19.2% of the total (28.9% of the listed portfolio) held in companies that began as private investments. Most of the private portfolio is valued at cost, giving significant upside potential in the event of a takeover or IPO, although valuations may be adjusted in response to further funding rounds, the entry of strategic investors (as was the case recently with Sai Life Sciences), or clinical data releases. Listed company valuations are based on the latest share price, and therefore are likely to be more volatile (although the investments themselves may be less risky at an absolute level) than the private investments.

The portfolio is managed with a long-term outlook, although holdings may exit the portfolio as a result of M&A. So far in 2018, new investments have been concentrated in the private portfolio, to rebuild the allocation following the public market debuts of holdings such as Apitnyx, Y-mAbs Therapeutics and Principia Biopharma. Given the current high proportion of holdings in the listed portfolio, HBMN has taken a short position in an ETF tracking the NASDAQ Biotechnology index, to provide downside protection in volatile equity market conditions. The position covered around one-fifth of the public portfolio at 30 September 2018.

HBMN's portfolio is diversified by geography, clinical focus and development stage. Investments in developed markets are usually made directly, with private equity funds more often used to gain exposure to areas such as Asia, where it may be harder for the portfolio managers to assess individual private companies.

## Current portfolio positioning

At 30 September 2018 there were more than 90 holdings (across private and public companies and funds) in the HBMN portfolio, with the top 10 positions making up 32.5% of total assets. This was a marked fall in concentration from 47.0% a year ago, largely attributable to the takeover of largest holding Advanced Accelerator Applications (AAA), which made up c 15% of the portfolio at 30 September 2017. Eight of the current top 10 holdings were held in the portfolio a year ago.

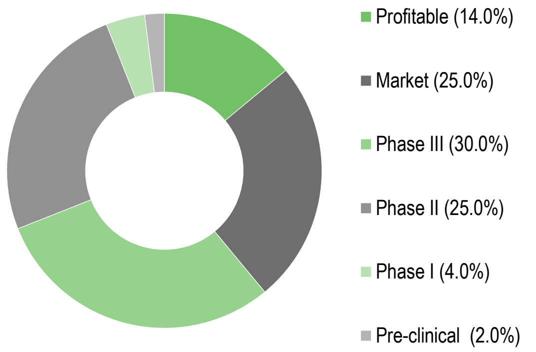
**Exhibit 3: Portfolio sector positions (% unless stated)**

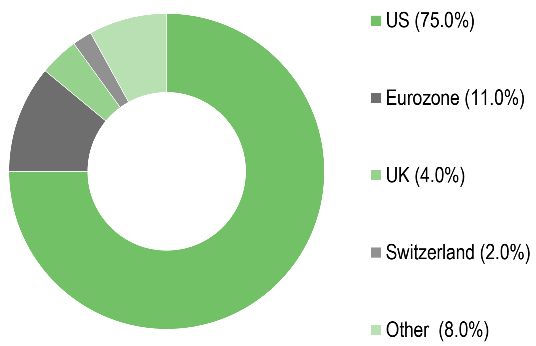
| | Portfolio end-September 2018 | Portfolio end-September 2017 | Change (pp) |
|---|---|---|---|
| Orphan diseases | 21.0 | N/S | N/A |
| Oncology | 18.0 | 32.0 | (14.0) |
| CNS disorders | 12.0 | 8.0 | 4.0 |
| Autoimmune diseases | 7.0 | 5.0 | 2.0 |
| Respiratory diseases | 5.0 | 10.0 | (5.0) |
| Metabolic diseases | 4.0 | 8.0 | (4.0) |
| Infectious diseases | 4.0 | 4.0 | - |
| Medtech/diagnostics | 3.0 | 5.0 | (2.0) |
| Others | 26.0 | 28.0 | (2.0) |
| | **100.0** | **100.0** | |

Source: HBM Healthcare Investments, Edison Investment Research. Note: N/S – not separately stated; may be included in other categories.

Exhibit 3 shows the breakdown of the portfolio by clinical focus. Major changes over the past 12 months include a 14pp fall in oncology (again, largely attributable to the takeover of AAA), and the introduction of a new 'orphan disease' category. The fall in exposure to respiratory diseases is principally a result of poor share price performance from Vectura after another delay in approval for its generic version of asthma medication Advair, while the rise in central nervous system disorders has been assisted by a quadrupling in the share price of BioArtic following positive Phase II trial data in Alzheimer's disease. HBMN has reduced its holding by one-third but is still sitting on a substantial profit.

**Exhibit 4: Portfolio distribution by stage* and country/currency as at 30 September 2018**




Source: HBM Healthcare Investments, Edison Investment Research. Note: *Classified by most advanced stage.

The main changes in geographical exposure (Exhibit 4, right-hand chart) over 12 months to 30 September 2018 were a 4pp fall in the UK (where Vectura is the sole holding) and a 4pp increase in the US. From a development stage perspective (left-hand chart), the most notable change was a 6pp fall in Phase III and a 6pp rise in Phase II.

After a significant amount of M&A activity in the portfolio (the takeover of AAA in Q318 was followed by three more transactions in Q119 [ending 30 June 2018], with ARMO Biosciences taken over by Eli Lilly, AveXis acquired by Novartis, and private company TandemLife/Cardiac Assist bought by LivaNova), HBMN's managers have been busy deploying the proceeds, mainly in new private investments. A US$10m commitment to private equity investor C-Bridge Capital has so far been deployed in two direct co-investments in early-stage companies in China, with $3m invested in in-licensing specialist Everest Medicines in Q119, and $2m in Nuance Biotech in Q219. Four new direct private investments were made in Q119: Sublimity Therapeutics, an Irish company developing a treatment for ulcerative colitis; Corvidia Therapeutics, an AstraZeneca spinoff conducting Phase II trials in chronic kidney disease; iTeos Therapeutics, a Belgian immuno-oncology company; and Singaporean medical device distributor Cure Everlife.

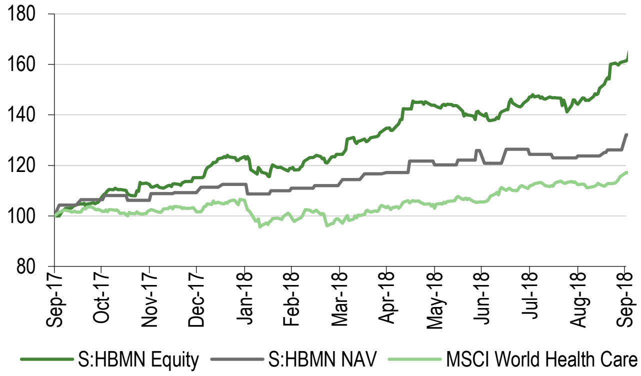
In Q219 (ending 30 September 2018), a further four new private investments were made (not including the co-investment in Nuance Biotech): Guangdong Jianke Pharmaceutical (a $15m investment), China's leading online pharmacy/healthcare platform; Cardialen, a US medical device specialist focused on cardiac arrhythmia; Galera Therapeutics, which is developing a compound to alleviate oral mucositis, a common side-effect of radiotherapy; and Principia Biopharma, which is developing small-molecule drugs for oral administration to treat a variety of cancers and immunological problems. Together, these 10 new investments in H119 represented commitments of c CHF87m (based on 25 October exchange rates), of which c CHF16m is yet to be drawn.

Among the more significant developments in Q219 were the IPOs of Y-mAbs Therapeutics (a new private investment in October 2017) and Principia Biopharma. HBMN topped up its stakes in both companies as part of the IPO process and both performed very well following flotation: at the end of September 2018, Y-mAbs was HBMN's largest listed holding, valued at CHF80m versus an investment of CHF32m, and Principia had increased in value from CHF19m to CHF36m.

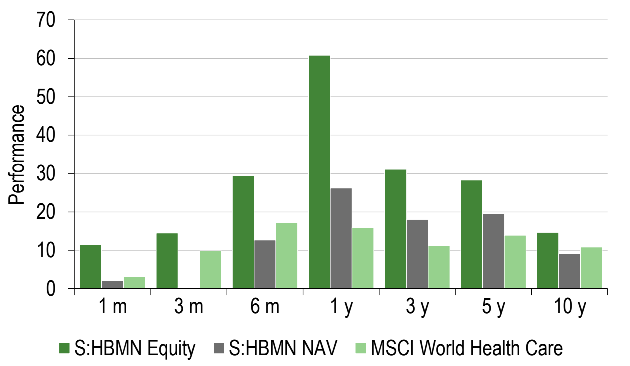
## Performance: Private portfolio drives strong returns

**Exhibit 5: Investment company performance to 30 September 2018**

**Price, NAV and benchmark total return performance, one-year rebased**




**Price, NAV and benchmark total return performance (%)**




Source: Thomson Datastream, Morningstar, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

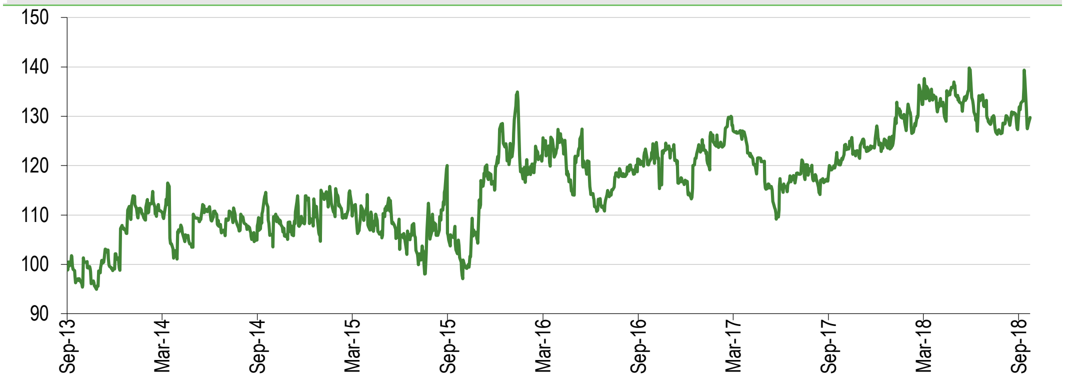
**Exhibit 6: Share price and NAV total return performance, relative to indices (%)**

| | One month | Three months | Six months | One year | Three years | Five years | 10 years |
|---|---|---|---|---|---|---|---|
| Price relative to MSCI World Health Care | 8.2 | 4.3 | 10.4 | 38.8 | 64.2 | 81.1 | 40.9 |
| NAV relative to MSCI World Health Care | (1.1) | (8.7) | (3.9) | 8.9 | 19.7 | 27.3 | (14.2) |
| Price relative to NASDAQ Biotech | 10.5 | 4.7 | 10.6 | 44.4 | 83.7 | 80.3 | (4.5) |
| NAV relative to NASDAQ Biotech | 1.1 | (8.4) | (3.6) | 13.3 | 33.9 | 26.7 | (41.9) |
| Price relative to FTSE All-Share | 9.3 | 18.8 | 25.9 | 54.8 | 89.1 | 178.5 | 158.6 |
| NAV relative to FTSE All-Share | (0.1) | 4.0 | 9.7 | 21.5 | 37.9 | 95.7 | 57.4 |

Source: Thomson Datastream, Morningstar, Edison Investment Research. Note: Data to end-September 2018. Geometric calculation.

HBMN's NAV and particularly its share price performance have been impressive over the 12 months to 30 September 2018, with total returns in Swiss francs of 26.2% and 60.8% respectively, compared with 15.9% for the MSCI World Health Care index (Exhibit 5). This has been driven in large part by M&A activity and the IPOs of several private companies in the portfolio, with HBMN's share price rising by more than the NAV as investors have backed the successful execution of the fund's public/private strategy. While NAV performance in the latter part of the period has trailed both the benchmark and the NASDAQ Biotechnology index, the fund has a strong record versus both indices over three and five years (Exhibit 6). At a stock level, contributors to recent performance include the takeovers of listed companies ARMO Biosciences and AveXis and private company TandemLife (together generating c CHF100m in profits for HBMN), and the successful IPOs of private holdings Apitnyx, Y-mAbs Therapeutics and Principia Biopharma. Other factors included a recovery in the share price of Pacira Pharmaceuticals, positive trial data for BioArctic, and a revaluation of private Indian company Sai Life Sciences, after a US private equity investor took a significant stake.

**Exhibit 7: NAV TR performance relative to MSCI World Health Care in CHF over five years**

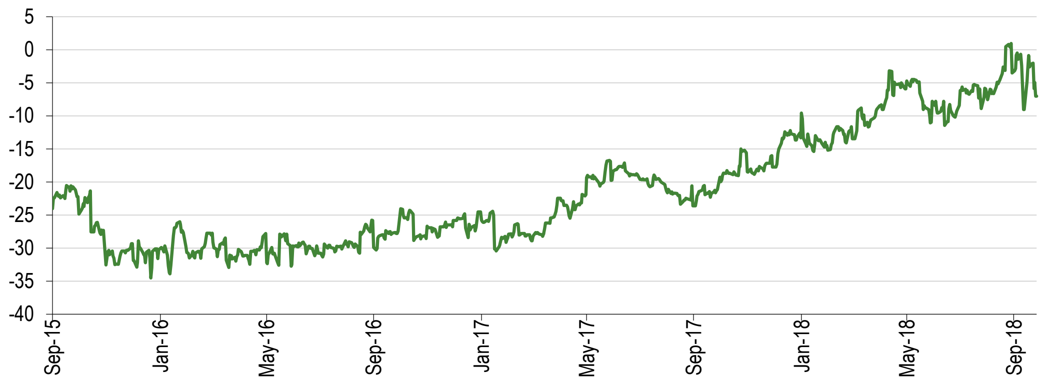



Source: Thomson Datastream, Morningstar, Edison Investment Research

## Discount: Substantial re-rating over past year

Having traded broadly at a discount of between 20% and 30% from autumn 2009 to autumn 2017, HBMN has seen a marked narrowing in its discount to NAV over the past 12 months and briefly reached a premium of c 1% in late September. At 26 October 2018, the shares traded at a discount of 7.0% (based on the 15 October NAV), which compares with a one-year average of 11.2%, and longer-term average discounts of c 21-27% over three, five and 10 years. HBMN's managers say demand for the shares has been boosted by a series of successful IPOs and M&A from the private portfolio, which stand as evidence of the validity of the fund's approach, as well as the fact that its principal Swiss-listed peer, BB Biotech (BION), has been trading on a double-digit premium. (BION has also rerated substantially in recent years, thanks in part to its high distribution policy, as well as inclusion in a number of European indices.) Troxler and Wicki say they have seen an increase in buying interest from both larger shareholders and smaller retail investors.

**Exhibit 8: Share price discount/premium to NAV (including income) over three years (%)**




Source: Thomson Datastream, Morningstar, Edison Investment Research

## Capital structure and fees

Listed on the SIX Swiss Exchange and structured as a closed-end investment company, HBMN has 7.0m shares in issue. Having previously held c 80,000 shares in treasury, the majority of these were cancelled in September 2018, resulting in a par value repayment of CHF1.50 per share to fund the second tranche of the FY18 distribution. Gearing is available through two CHF50m tranches of bonds, maturing in 2021 and 2023, with coupons of 2.0% and 2.5% respectively.

The portfolio manager, HBM Partners, receives an annual management fee equal to 0.75% of NAV plus 0.75% of market capitalisation. A performance fee, equal to 15% of outperformance, may also be paid if the year-end NAV is more than 5% above the high water mark (the year-end NAV at which a performance fee was last paid). A performance fee of CHF15.9m (c 1.4% of net assets) was paid in respect of FY18; the year-end NAV of CHF166.43 will therefore form the new high water mark. We calculate ongoing charges (excluding the performance fee) at 1.24% for FY18 (FY17: 1.5%).

## Dividend policy and record

HBMN recognises the appeal of paying an income to its investors, and since FY13 has followed a high distribution policy, under which it pays out 5-8% of its NAV each year through a combination of cash distributions and share buybacks. Historically it has paid a single distribution of c 5% of year-end NAV out of capital reserves in June. Because its remaining capital reserves were insufficient to fund the whole of the planned distribution for FY18, the CHF7.00 payout was split into two instalments, with CHF5.50 paid in June from the reserve and the remaining CHF1.50 in September as a nominal value repayment. Future distributions will also be funded by incremental nominal value repayments, as it is not tax-efficient for HBMN to transfer a larger portion of the nominal value into reserves to fund future distributions. However, it is likely that the schedule will revert to a single payment in June. The FY18 distribution is an increase of 20.7% on the CHF5.80 paid for FY17, reflecting strong NAV performance, and represents a yield of 4.3% on the current share price.

## Peer group comparison

Exhibit 9 below shows HBMN alongside the members of the Association of Investment Companies' specialist Biotech & Healthcare sector, as well as its fellow Switzerland-based fund, BB Biotech, and Woodford Patient Capital Trust, which is classed as a UK All Companies fund but has c 57% of its portfolio in healthcare companies. The peer group is otherwise a mix of healthcare generalists and biotechnology specialists, and while the majority of funds are overwhelmingly invested in listed equities, four of them (HBMN, International Biotechnology Trust, Syncona and Woodford Patient Capital) have significant investments in private companies.

In performance terms, the more diversified healthcare funds have generally outperformed the biotech funds over one and three years, while over five and 10 years, the picture is more mixed. HBMN has produced the third-highest Swiss franc NAV total return (well above the peer group average) over one year, ranks comfortably first over three and five years, and is fifth out of five funds with a 10-year track record, principally as a result of a very poor period of performance during the global financial crisis. Ongoing charges are broadly average and HBMN may also levy a performance fee, in line with the majority of peers. The fund's discount to NAV has narrowed significantly, but still remains at the wider end of the range; both BB Biotech and Syncona are trading at double-digit premiums, which pulls the average above par. Gearing is below average, while the dividend yield is above average. Although biotech companies in particular are not known for paying dividends, many of the funds in the peer group – including HBMN – pay out a set proportion of their NAV as an annual distribution, leading to an average yield of 2.2% for the group.

**Exhibit 9: Selected peer group as at 25 October 2018*, in CHF terms**

| % unless stated | Market cap CHFm | NAV TR 1 year | NAV TR 3 year | NAV TR 5 year | NAV TR 10 year | Ongoing charge | Perf. fee | Discount (ex-par) | Net gearing | Dividend yield |
|---|---|---|---|---|---|---|---|---|---|---|
| **HBM Healthcare Investments** | **1,255.1** | **13.5** | **59.8** | **136.0** | **141.1** | **1.2** | **Yes** | **(7.0)** | **103** | **4.1** |
| BB Biotech AG | 3,390.5 | (10.1) | 1.3 | 109.0 | 348.8 | 1.3 | No | 10.7 | 109 | 4.7 |
| BB Healthcare Trust | 511.5 | 16.7 | -- | -- | -- | 1.4 | No | 2.8 | 106 | 2.9 |
| Biotech Growth Trust | 481.4 | (11.6) | (4.8) | 55.3 | 353.3 | 1.1 | Yes | (5.5) | 113 | 0.0 |
| International Biotechnology Trust | 284.3 | 0.7 | 7.5 | 87.2 | 228.0 | 0.9 | Yes | (0.2) | 100 | 4.3 |
| Polar Capital Glbl Healthcare | 326.9 | 8.5 | 16.2 | 53.0 | -- | 1.4 | Yes | (6.7) | 100 | 1.6 |
| Syncona | 2,117.0 | 17.9 | 39.8 | 63.5 | -- | 1.6 | No | 29.5 | 100 | 0.9 |
| Woodford Patient Capital Trust | 880.8 | 1.7 | (11.1) | -- | -- | 0.2 | Yes | (16.5) | 116 | 0.3 |
| Worldwide Healthcare Trust | 1,664.5 | (0.2) | 24.7 | 100.1 | 288.4 | 0.9 | Yes | 1.9 | 110 | 0.7 |
| **Sector average** | **1,212.5** | **4.1** | **16.7** | **86.3** | **271.9** | **1.1** | | **1.0** | **106** | **2.2** |
| **HBMN rank in peer group** | **4** | **3** | **1** | **1** | **5** | **5** | | **8** | **6** | **3** |

Source: Morningstar, Edison Investment Research. Note: *Performance to 23 October 2018. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

## The board

HBMN has a non-executive board, made up of six directors. The chairman, Hans Peter Hasler, and Robert A Ingram both joined the board in 2009. Dr Heinz Riesenhuber is the longest-serving director, having been on the board since HBMN's launch in 2001. Dr Rudolf Lanz was appointed in 2003, while Dr Eduard E Holdener joined the board in 2008. Most recently, Mario G Giuliani was appointed in 2012. Messrs Hasler, Ingram and Giuliani and Dr Holdener have all held executive roles at pharmaceutical or biotech companies. Dr Riesenhuber was a German MP for more than 40 years and is a former minister for scientific research, while Dr Lanz is a lawyer and corporate financier.

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