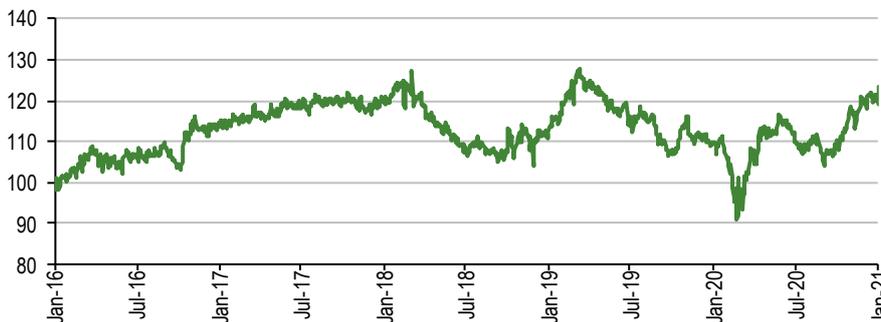


BB Biotech

Looking for innovation beyond the pandemic

BB Biotech (BION) provided a solid platform of growth for its investors in FY20, with Swiss franc share price and NAV total returns of 19.3% and 24.3% respectively, outperforming the Nasdaq Biotechnology index in NAV terms amid a weaker environment for the US dollar. While the fund's investment in mRNA platform company Moderna (share price +509% over 12 months) was the standout story after the rapid development of its successful COVID-19 vaccine, the BION team has been focused on backing companies bringing new technologies to bear in a number of innovative areas. This included investments at IPO in companies such as Generation Bio and Relay Therapeutics. BION has declared a cash distribution of 5% (CHF3.60) for FY20, which equates to a current yield of 4.3%.

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



Source: Refinitiv, Edison Investment Research. Total returns in sterling.

Why invest in biotechnology now?

As the world's focus has understandably been on navigating a route through the coronavirus pandemic, the biotechnology industry has proved its worth, driving the development of vaccines using a variety of technological approaches. However, the pace of innovation remains high in addressing other areas of unmet need, such as new cancer treatments and genetic medicine. Amid widespread lockdowns, the number of new treatments approved by the US Food and Drug Administration (FDA) in 2020 (53) was second only to the record of 59 approvals in 2018.

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 10-year NAV performance of 22% pa). Investors should understand that the sector can be volatile, given the often binary nature of clinical data and the ebb and flow of generalist investor interest, and that reversals can be swift and sharp. However, BION's increased focus on innovative smaller and mid-cap companies, coupled with its expert managers and executive board, should give it appeal for those who are prepared to take a long-term view.

Valuation and dividends

BION's current 12.4% premium to NAV is above both short and long-term averages, albeit below the peaks seen in 2020. The recently announced 5% (CHF3.60) distribution in respect of FY20 equates to a yield of 4.3% on the current share price.

Investment companies Biotechnology equities

1 March 2021

Price CHF84.40
Market cap CHF4,675.8m
AUM CHF4,160.5m

NAV** CHF75.10

Premium to NAV 12.4%

*Including income. At 26 February 2021.

Yield 4.3%

Ordinary shares in issue 55.4m

Code/ISIN BION/CH0038389992

Primary exchange SIX

AIC sector N/A

52-week high/low CHF92.20 CHF45.44

NAV* high/low CHF84.15 CHF40.75

*Including income

Gross gearing* 1.6%

Net gearing* 6.8%

*At 31 December 2020

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

- NAV outperformance of the Nasdaq Biotech index in three of the last five discrete years.
- Proven expertise in backing innovative companies, such as Moderna (bought pre-IPO).
- Fundamentals for the sector remain strong.

Bear points

- Equity valuations are elevated relative to history, with the biotech sector no exception.
- Biotech can be vulnerable to swings in market sentiment as generalist investors retrench.
- While the US political backdrop seems benign, there is always a risk of intervention on drug pricing.

Analysts

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**BB Biotech is a research client of
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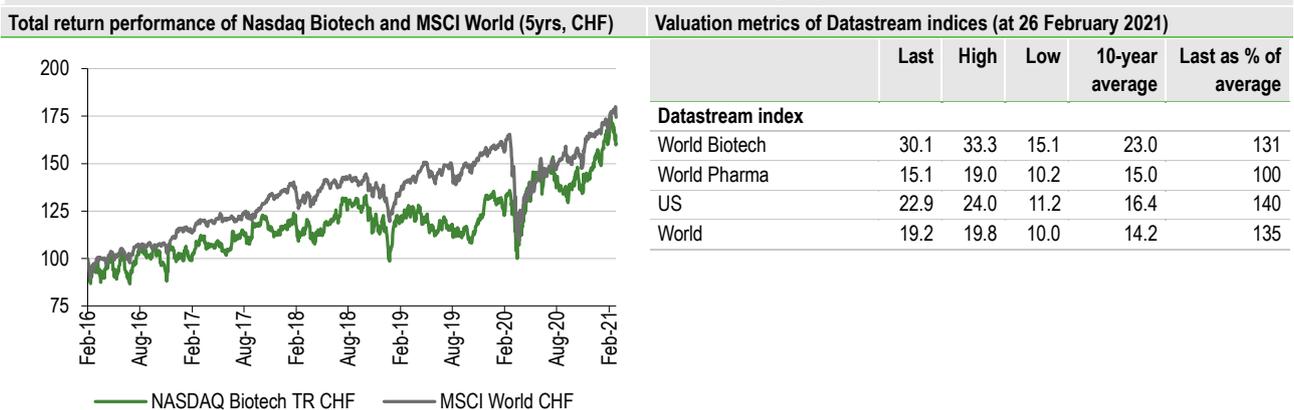
Market outlook: Biotech is more than a COVID-19 story

With the world's focus very much on the coronavirus pandemic that has dominated life for so many of us over the past 12 months, biotechnology has arguably been more in the public eye than ever before. Treatments (such as Gilead's remdesivir) and vaccines (Moderna, BioNTech/Pfizer, Novavax, Janssen et al) for COVID-19 have largely been founded on biotech innovation, even where they have been developed using the capabilities of major pharmaceutical companies. The focus on vaccine development continues, given the emergence of virus mutations, which may necessitate more frequent booster shots than had initially been expected.

However, biotech is more than just a pandemic story. The investment case for biotechnology and healthcare is underpinned by scientific advances and demographic factors. With life expectancy rising worldwide, as well as growing prosperity in developing markets, there is greater demand globally for treatments for previously intractable health issues such as dementia (where a breakthrough treatment is yet to be developed), while conditions such as heart disease and cancer are increasingly treatable, with good long-term outcomes. An example at the cutting edge of biotechnology is the promising trial results for gene-editing treatments focused on chronic haematological disorders such as beta thalassaemia and sickle cell disease, with data showing efficacy that could ultimately indicate a cure for these life-limiting conditions.

All this must, however, be viewed against the backdrop of an extended bull market in equities that has led to valuations that are in most cases well in excess of long-term average levels (see Exhibit 1). While uncertainty over the likely course of the pandemic caused a steep sell-off in stock markets in March 2020, the strong monetary and fiscal response to the effect of lockdowns on economies around the world – followed by positive news on COVID-19 vaccines towards the end of the year – assuaged investors' fears, and many indices closed 2020 at or near all-time highs. In such an environment, an investment strategy founded on in-depth research and focused on identifying the winners of tomorrow – before they are widely appreciated – could stand investors in good stead.

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



Source: Refinitiv, Edison Investment Research

The fund manager: Bellevue Asset Management

The manager's view: Continued innovation through technology

BION investment team head Daniel Koller argues that 2020 was the year in which the biotechnology sector really proved its worth, with multiple innovative technologies driving the development of safe and effective COVID-19 vaccines in record-breaking time. However, while the rollout of vaccination programmes means we can begin to look ahead to life beyond lockdown,

Koller warns the strain on global healthcare systems as a result of the pandemic will lead to consequences in the form of late diagnosis and delayed treatment of other disorders. In such a situation, the development of innovative new treatments for conditions such as cancer is more important than ever.

Despite the enormous efforts deployed by the biotech sector in combating coronavirus, the pace of innovation in other areas has remained robust, with 53 new treatments (not including emergency use authorisations for COVID-19 vaccines) approved by the US FDA during 2020, only a little behind the record 59 approvals in 2018, and an increase on the 48 seen in 2019. These included the go-ahead for 12 products developed by BION portfolio companies, including the emergency use authorisation for Moderna's mRNA-based COVID-19 vaccine. A further 10 treatments from portfolio companies could get the green light from the FDA in 2021, with Exelixis's cabozantinib already having received approval for use in renal cell carcinoma.

Looking ahead, Koller expects further proof of the worth of new technologies, on which BION has increasingly focused in recent years. These include gene editing, where a one-time treatment developed by Vertex and CRISPR Therapeutics (which uses the CRISPR-Cas9 process to make precise cuts in DNA, causing it to repair itself and overwrite errors in the genetic code) has provided a functional cure for beta thalassaemia and sickle cell disease in all trial patients so far. A recently added portfolio holding, Beam Therapeutics, is developing an even newer approach using base editing rather than cutting the genome; it is also targeting beta thalassaemia and sickle cell disease, although it is still at the preclinical stage of development. While the Vertex/CRISPR Therapeutics approach is rather invasive (it requires a stem cell transplant) and would be expensive to administer, the promise of an effective cure for the millions of people worldwide affected by these disorders is hard to ignore, and Koller says further technological advancements will be key in improving ease of use and administration routes, and lowering manufacturing and treatment costs. Vertex has already had commercial success with its treatments for cystic fibrosis, which have revolutionised the lives of many people affected by this life-limiting condition.

Moderna's rapid development of its SARS-nCoV-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. However, the team continues to see many new opportunities in emerging technologies targeting a broad range of clinical indications, providing a springboard for future growth as we move – hopefully – beyond the crisis stage of the pandemic.

Asset allocation

Current portfolio positioning

Throughout 2020, BION continued to increase its focus on the smaller end of the mid-cap biotech market, where innovation is arguably strongest. While these companies may be at a relatively early stage, technological and scientific advances mean that development timelines are becoming shorter, with modalities such as mRNA vaccines and gene editing swiftly moving from proof of concept to successful clinical trial outcomes.

While all but one of the top 10 holdings at 31 December 2020 (Exhibit 2) were held in the portfolio a year earlier, and the total number of holdings remained the same at 35, the 9.9pp decrease in concentration at the top of the portfolio is indicative of the greater opportunities seen further down the list. Despite this – and probably as a reflection of strong performance for the biotech sector as a whole in 2020 – the proportion of the portfolio in large-cap companies (\$30bn+) rose during the year from 8.9% to 18.9% of the total. However, the amount in the smallest companies (sub \$500m)

also rose, from 1.9% to 2.9% of the total. The largest decrease was in the \$1bn–5bn segment, which fell from 32.1% at 31 December 2019 to 25.2% at the end of 2020 (Exhibit 5).

Exhibit 2: Top 10 holdings (at 31 December 2020)

Company	Country	Main clinical focus	Portfolio weight %	
			31 December 2020	31 December 2019*
Ionis Pharmaceuticals	US	Genetic diseases	10.4	13.3
Moderna Therapeutics	US	mRNA platform	6.7	2.6
Neurocrine Biosciences	US	Neurological diseases/women's health	6.5	9.5
Argenx (ADR)	Netherlands	Orphan diseases	6.1	4.2
Incyte	US	Oncology	5.7	8.2
Vertex Pharmaceuticals	US	Orphan diseases	4.8	7.5
Alexion Pharmaceuticals	US	Orphan diseases	4.5	3.9
Arvinas	US	Oncology	4.1	1.4
Fate Therapeutics	US	Oncology	4.1	N/A
Agius Pharmaceuticals	US	Oncology	4.0	5.1
Top 10 (% of holdings)			56.9	66.8

Source: BB Biotech, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-December 2019 portfolio.

As shown in Exhibit 3, BION's portfolio exposure by clinical focus was largely unchanged over FY20, with the largest decrease a 3.4pp reduction in exposure to metabolic diseases, and the largest increase a 1.5pp rise in oncology exposure. Together, biotech companies developing treatments for rare diseases, cancer and neurological disorders account for the majority of the portfolio, 79.0% at 31 December 2020 compared with 80.0% a year earlier. However, 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.

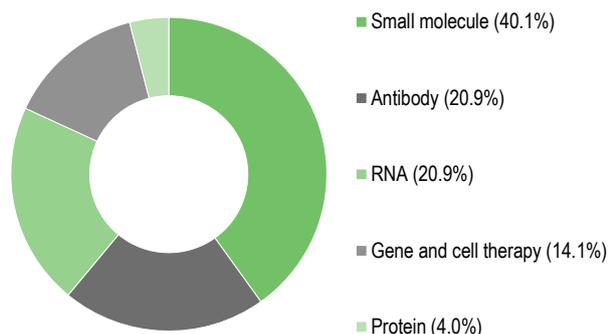
Exhibit 3: Portfolio exposure by clinical focus (% unless stated)

	Portfolio end-December 2020	Portfolio end-December 2019	Change (pp)
Orphan diseases	38.4	39.0	(0.6)
Oncology	26.7	25.2	1.5
Neurological diseases	13.9	15.8	(1.9)
Cardiovascular diseases	7.7	8.7	(1.0)
Metabolic diseases	4.9	8.3	(3.4)
Infectious diseases	0.2	0.2	0.0
Other	8.2	2.8	5.4
	100.0	100.0	

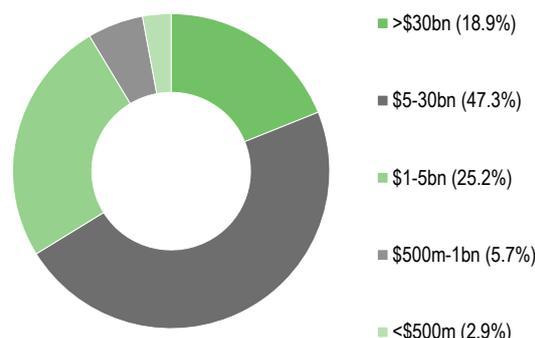
Source: BB Biotech, Edison Investment Research

In line with the greater concentration on new modalities, BION has recently begun publishing a portfolio breakdown by type of technology (Exhibit 4). While the small-molecule and antibody areas of biotechnology have been around for longest, the team has been finding exciting new opportunities in these areas, such as targeted oncology player Black Diamond Therapeutics in small-molecule, and antibody-focused Relay Therapeutics. Both companies are deploying massive computational power and machine learning to deepen understanding of disease processes and speed up the identification and development of new treatments.

In common with many fund managers, the BION team has been active throughout 2020, taking advantage of new opportunities that have arisen either as a result of market volatility or via the perhaps surprisingly buoyant new issue market. During Q120, new positions were taken in Black Diamond Therapeutics and Fate Therapeutics (now a top 10 holding), an immunotherapy specialist using stem cell technology. In the second quarter, the managers bought into genetic medicine player Generation Bio at IPO (at 24 February 2021, the shares were up 99% on the \$19 issue price). In Q320, Relay Therapeutics was also bought at IPO (now +116% on the \$20 IPO price), and the residual position in Akcea Therapeutics was sold. Throughout the first three quarters of the year, the managers took profits from large holdings that had done well, including top-slicing the position in Moderna several times, reinvesting the proceeds in newer, smaller holdings and companies whose good operational progress had not been rewarded by the market.

Exhibit 4: Portfolio breakdown by technology


Source: BB Biotech, at 31 December 2020.

Exhibit 5: Portfolio breakdown by market cap


Source: BB Biotech, at 31 December 2020.

Activity stepped up in the last quarter of the year, with three new positions, in Mersana (focused on antibody-drug conjugates, with a promising lead candidate in ovarian cancer), Beam Therapeutics (further boosting the genetic medicine franchise; the company uses base editing (that is, modifying the individual components of DNA) to correct genetic abnormalities, rather than cutting the genome in the way that established holding CRISPR Therapeutics does) and Biogen. Biogen is a large-cap biotech stock and the position has been instigated as a tactical play on differing attitudes between departments at the US FDA regarding the viability of the company's aducanumab treatment for Alzheimer's disease. In early February, the FDA pushed back its expected March 2021 decision to June (a move generally regarded as positive as the door remains open for future approval); however, this had a negligible impact on Biogen's share price. Four positions were sold: Myokardia was exited at a substantial profit (see Performance) following a takeover bid from Bristol-Myers Squibb, while the team felt the investment cases for G1 Therapeutics, Intercept and Sangamo were no longer viable. The team has continued to trim some positions and add to others in response to market dynamics and likely clinical progress.

Performance: Innovation and M&A drive FY20 returns

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 (%)
31/01/17	20.6	15.8	0.6	0.1	3.2
31/01/18	38.4	23.1	16.8	17.3	18.5
31/01/19	0.3	(3.3)	3.1	9.5	(5.1)
31/01/20	(0.9)	(2.6)	1.2	12.9	7.6
31/01/21	34.0	45.7	31.3	7.9	(12.2)

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

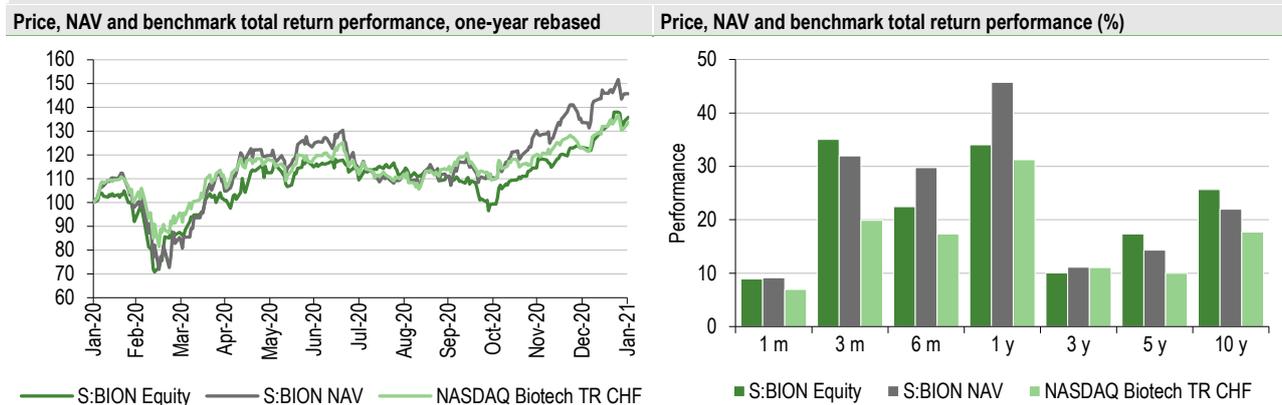
As shown in Exhibit 6, BION has outperformed the Nasdaq Biotechnology index in both share price and NAV terms in three of the last five discrete 12-month periods to 31 January (all in Swiss francs). This was particularly notable in the most recent 12 months, a period in which the Nasdaq Biotech index posted gains of more than 30% despite the widespread market volatility caused by the coronavirus pandemic.

Exhibit 7 (right-hand side) shows that BION has outperformed the index over a wide variety of periods, generating annualised returns of more than 20% pa over the past decade. The only period of marginal share price underperformance is over three years to 31 January 2021 (Exhibit 8).

Drivers of performance in FY20 (ended 31 December) included positive clinical readouts from the likes of Moderna, whose innovative mRNA vaccine for SARS-nCoV-2 drove the share price to more than double in November 2020 alone. While it subsequently fell back in December (perhaps as a

result of the investor tendency to 'buy the rumour, sell the news'), January 2021 was another strong month after the vaccine gained emergency use approval on both sides of the Atlantic. Notwithstanding these periods of volatility, Moderna's share price has risen more than 500% in US dollar terms over the 12 months to 24 February 2021.

Exhibit 7: Investment company performance to 31 January 2021



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

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	1.8	12.6	4.3	2.1	(2.8)	38.1	92.8
NAV relative to Nasdaq Biotech TR CHF	2.1	10.1	10.6	11.0	0.1	21.4	42.6
Price relative to MSCI World Health Care TR CHF	7.0	22.5	15.0	24.2	(0.1)	42.1	177.3
NAV relative to MSCI World Health Care TR CHF	7.3	19.7	21.9	35.1	2.8	24.9	105.1
Price relative to CBOE UK All Cos	8.8	12.4	7.1	52.6	48.6	102.7	610.9
NAV relative to CBOE UK All Cos	9.1	9.9	13.5	66.0	53.0	78.3	425.7

Source: Refinitiv, Bloomberg, Edison Investment Research. Note: Data to end-January 2021. Geometric calculation.

The continued pace of M&A activity (with the industry showing it is increasingly comfortable concluding deals remotely) was also positive for BION's portfolio. The managers tendered their position in Myokardia in November 2020 following a \$13.1bn takeover bid by Bristol-Myers Squibb, with the \$248m proceeds from the sale representing a profit of \$205m (c 6% of BION's NAV) over the life of the holding. With both clinical innovation and corporate activity set to continue in 2021, BION's FY20 results (share price and NAV total returns of 19.3% and 24.3% respectively in Swiss franc terms) and recent portfolio activity (boosting investment in innovative earlier-stage companies) should provide it with a solid platform from which to benefit from the positive fundamentals of the biotechnology sector. However, it is important for investors to remember the potential for further equity market volatility remains elevated given the ongoing pandemic and the generally high level of stock market valuations.

Exhibit 9: NAV total return performance relative to Nasdaq Biotech index over three years



Source: Refinitiv, Bloomberg, Edison Investment Research

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) that focus primarily on biotech stocks, and four (BB Healthcare, HBMN, Polar Capital Global Healthcare and Worldwide Healthcare Trust) that 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 19 February 2021 (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	5,013.7	32.3	46.7	107.8	621.6	1.25 (TER)	No	13.9	107	3.9
BB Healthcare	1,211.5	23.4	83.4	--	--	1.16	No	1.8	100	3.3
Biotech Growth Trust	853.7	45.7	96.4	124.6	641.8	1.10	Yes	2.2	105	0.0
HBM Healthcare Investments	2,400.2	36.4	112.7	174.9	542.2	1.03	Yes	12.5	103	2.5
International Biotechnology Trust	415.7	21.2	44.7	75.7	362.6	1.29	Yes	1.6	102	3.4
Polar Capital Global Healthcare	365.1	1.3	33.5	47.5	165.3	1.09	Yes	(11.1)	102	0.7
Syncona	2,121.8	(0.0)	33.5	54.1	--	1.82	No	25.1	100	1.1
Worldwide Healthcare Trust	3,089.2	15.2	54.4	97.8	365.6	0.88	Yes	1.6	98	0.7
Simple average (8 funds)	1,933.9	21.9	63.2	97.5	449.8	1.20		6.0	102	2.0
BION rank in peer group	1	3	5	3	2	3		2	1	1

Source: Morningstar, Bloomberg, Edison Investment Research. Note: *Performance at 18 February 2021 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, it is the funds focusing on listed biotech companies that have done best in NAV total return terms over the past year, with BION producing the third highest performance in the group over this period. It has also posted above-average returns over five and 10 years, ranking third of seven and second of six funds respectively over these periods, although the three-year numbers are below the peer group average. Over five years BION is one of four funds to have effectively doubled investors' money, while only BIOG has surpassed BION's stellar 621.6% total return over 10 years. The two funds have historically looked quite different, with BIOG having a greater proportion in large-cap biotech, although its increased focus on smaller and mid-cap companies in the past couple of years has helped its medium-term performance.

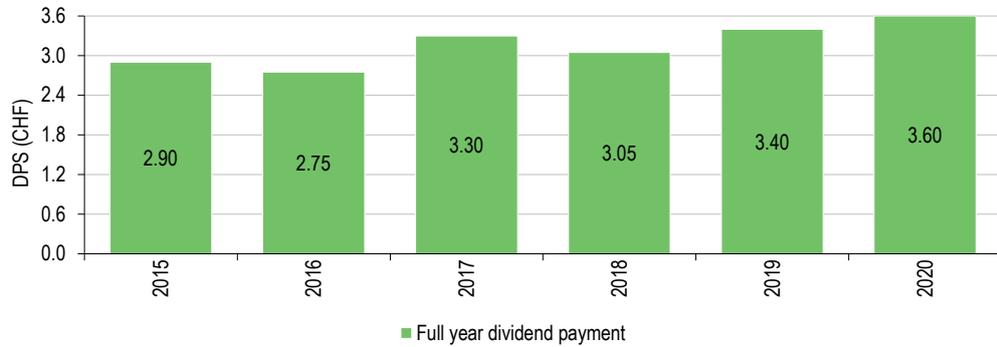
Dividends: Year-on-year growth aided by timing effect

BION pays an annual distribution, the level of which is set at 5% of the volume-weighted average share price in December each year. Although biotechnology 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. BION received CHF1.1m in portfolio dividends in FY19, but this equates only 2c per share compared with the total distribution of CHF3.40 per share. 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 FY20, a distribution of CHF3.60 per share has been announced, and will be 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 4.4% over the past 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. The fact that the distribution is based on the volume-weighted December share price, rather than an average for the full year or each quarter, has been beneficial for investors in 2020, given that the December average price was c CHF72, compared with an average of c CHF65 for the year as a whole. At 26 February 2021, BION's shares had a forward dividend yield (based on the announced FY20 payout) of 4.3% and a historical yield (based on the FY19 dividend) of 4.0%.

Exhibit 11: Dividend history since FY15



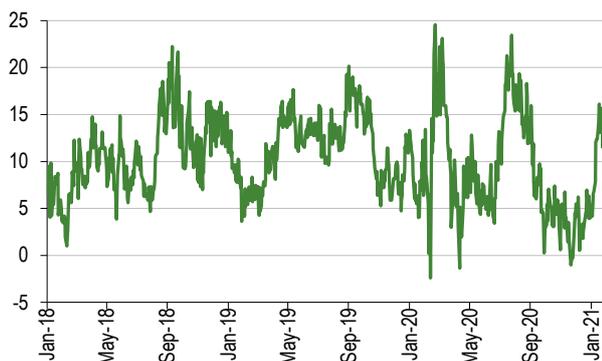
Source: Bloomberg, Edison Investment Research

Discount: Still at a premium amid market volatility

Having historically stood at a double-digit discount to NAV until early 2016, for the past five years BION's shares on average have traded at a c 5% premium. The move to a premium was arguably underpinned by strong investor interest in the biotechnology sector, buying by passive investors following index inclusion, and the high distribution policy detailed in the Dividends section. Amid the COVID-19 driven market volatility of the past 12 months, the shares have traded between a small discount to NAV (reaching 2.4%, a three-year high, on 13 March 2020) and a record high premium of 24.5% on 23 March 2020 as global markets rebounded, although a near-record 23.4% was seen in August 2020 as well.

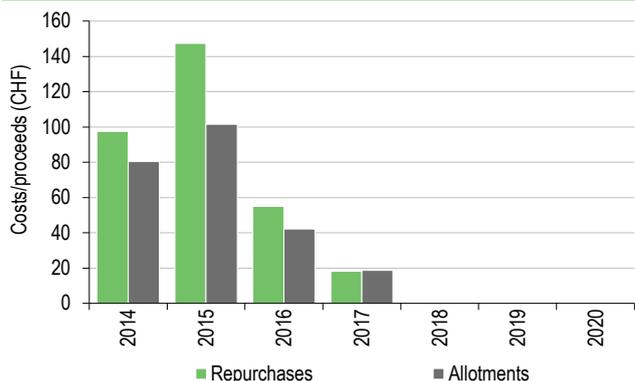
While there is a share buyback facility in place (see Capital structure), no repurchases have occurred since 2018. There has also been no share issuance to manage the premium to NAV, although the healthy level of trading liquidity (see Exhibit 15) suggests that investors do not find the premium rating a deterrent. At 26 February 2021, BION's share price stood at a 12.4% premium to NAV, above the 12-month average premium of 9.0% after a strong run of share price performance in early February.

Exhibit 12: Premium/discount over three years



Source: Refinitiv, Bloomberg, Edison Investment Research

Exhibit 13: Buybacks and issuance



Source: Morningstar, Edison Investment Research

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 on positive or negative clinical developments, the fund's long-term track record vindicates its approach, with sector-beating NAV total returns of more than 630% in Swiss franc terms over 10 years. 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 (currently five: Ionis, Moderna, Neurocrine, Argenx and Incyte), which are expected to make up a substantial part of the portfolio (35.3% at 31 December 2020). Up to 10% of assets may be invested in unquoted companies, although none are 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 higher 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 profits 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 models, 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 biotechnology 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.

BION's approach to ESG

While there is no official statement specifically detailing BION's approach to environmental, social and governance (ESG) issues, it is clear that any investment strategy that targets companies developing innovative solutions to intractable medical problems is helping to provide a social benefit as new treatments come to fruition. On the governance side, a thorough assessment of the quality of management is a fundamental part of the Bellevue team's investment process, and the team engages with company managements on ESG issues and is active in voting on ESG issues. Bellevue adheres to United Nations and International Labour Organization standards. The biotechnology sector is also active in providing solutions to environmental challenges, such as in the production of synthetic fibres from renewable rather than petrochemical sources. While this is largely the preserve of industrial rather than medical biotech companies, BION is assessed by MSCI as having lower carbon risk than the Nasdaq Biotech index average, and also has a higher MSCI ESG rating than the index in aggregate.

Gearing: Modestly geared through low-cost loan

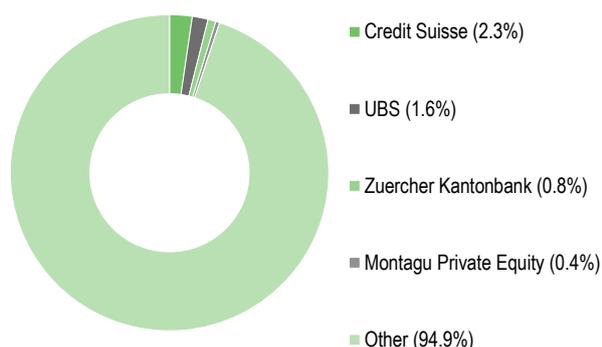
Gearing is available via a short-term bank loan with an interest rate of 0.40%. At end-FY20 (31 December), CHF63m of the loan was drawn (having begun the year at CHF150m and reached a peak of CHF337m at 31 March 2020), equating to c 1.6% of net assets. The quarterly number for the degree of investment (broadly similar to net gearing) was 106.8% at 31 December 2020.

Fees & charges: All-in fee gives competitive TER

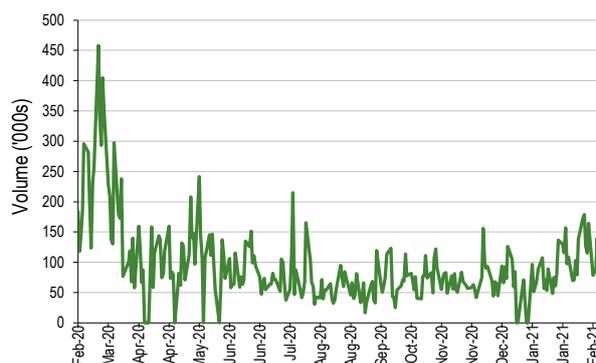
The fund pays Bellevue Asset Management an all-in management fee of 1.1% a year. At end-FY20, the total expense ratio (broadly equivalent to an investment trust's ongoing charges) was 1.25% of the fund's market capitalisation, which is competitive with the majority of peers (see Exhibit 9), particularly given that unlike most of the peer group, BION is not subject to a performance fee.

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. 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 2019.

Exhibit 14: Major shareholders


Source: Bloomberg, at 28 January 2021

Exhibit 15: Average daily volume


Source: Refinitiv. Note: 12 months to 24 February 2021.

As shown in Exhibit 14, the shareholder base is broadly diversified with few significant holders. Trading liquidity is reasonably consistent (Exhibit 15), with an average daily traded volume (based on the Switzerland listing) of 96,700 shares (c 0.17% of the share base) over the past 12 months, although this picked up markedly at the height of the COVID-19 driven market volatility in March 2020, when the daily trading volume reached more than 400,000 shares.

The board

Exhibit 16: BION's board of directors

Board member	Year of appointment	Remuneration in FY20*	Shareholdings at end-FY20
Dr Erich Hunziker (chairman)	2011 (2013)	CHF360,000	957,884 (FY19: 1,457,884)
Dr Clive Meanwell	2003	CHF275,000	5,163 (FY19: 5,163)
Dr Thomas von Planta	2019	CHF272,500	12,000 (FY19: 12,000)
Dr Susan Galbraith	2020	CHF62,500**	0
Prof Dr Mads Krosggaard Thomsen	2020	CHF187,500**	0

Source: BB Biotech, Edison Investment Research. Note: *Excluding social insurance contributions for Swiss citizens. **CHF250,000 pro rata.

BION has an executive board made up of five industry-specialist directors. The board signs off on all major investment decisions, although day-to-day portfolio management rests with Bellevue. During FY20 Professor Dr Klaus Strein retired from the board after seven years' service, and two new appointments were made. Professor Dr Mads Krosggaard Thomsen, until recently chief science officer at Novo Nordisk and now CEO of the Novo Nordisk Foundation, became a director of BION in March 2020. In October 2020 the board was further enhanced with the appointment of Dr Susan Galbraith, head of oncology research and early development at AstraZeneca.

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