

BioPharma Credit

Oversubscribed offering fuels further growth

BioPharma Credit (BPCR) provides access to a diverse portfolio of debt instruments for life science companies, consisting mainly of senior secured loans at present. Structural changes in the industry and high M&A activity constitute positive drivers of BPCR's new debt investments. Despite increased life sciences equity and convertible bonds issues, the trust has invested c US\$640m so far this year (and has outstanding commitments of US\$140.5–160.5m). The trust has recently completed a private placement, with US\$305m of final gross proceeds (after being upsized to US\$200m from US\$150m). Post the Amicus Therapeutics deal and advancing the second tranche of the Tesaro loan, BPCR visibly increased its exposure to floating-rate loans to c 62%.

Month ending	Share price (%)	NAV (%)	NASDAQ Biotechnology (%)	FTSE All-Share (%)	Credit Suisse HY (%)	S&P Euro Lev Loan (%)
31/05/18	(0.1)	(0.4)	4.7	(0.7)	(0.6)	(3.3)
30/06/18	1.5	0.9	1.4	(1.0)	2.1	(0.5)
31/07/18	3.8	1.0	6.2	0.6	(1.1)	0.5
31/08/18	3.0	0.9	4.9	(3.7)	1.4	(0.1)
30/09/18	(1.8)	0.7	(0.1)	1.0	1.3	0.4

Source: Thomson Datastream. Note: All % on a total return basis in US\$.

Investment strategy: Focus on approved products

BPCR targets an annualised dividend per share of US\$0.07 and a net total NAV return of 8–9% per year in the medium term through investment in debt assets of life sciences companies mainly in the US, Europe and Japan, such as senior secured loans (making up 88% of portfolio at end-September 2018), royalty debt instruments and priority royalty tranches. The prospective borrower's ability to service the coupon and principal payments is determined exclusively on the basis of approved drugs or medical devices with predictable cash flows and significant downside protection.

Market outlook: Good prospects in the biotech space

BPCR's investment pipeline is benefitting from the specialisation and fragmentation of the life sciences industry, supportive regulatory environment, increasing importance of orphan drugs and the willingness of large players to sell their non-core assets. This is further assisted by higher M&A activity in the sector driven by record-high FDA approval numbers, a solid level of smaller acquisitions of high-quality assets and the completion of tax reform. Although both equity and convertible bond issuance volumes have risen considerably in H118 (+31% and +126%, respectively), BPCR has proved it can effectively source new investments, as illustrated for instance by the recent Amicus deal.

Valuation: Offering a c 7% dividend yield at par

At 2 November 2018, BPCR's ordinary shares traded at a 1.6% premium to its last reported NAV (as at end-September 2018). The shares offer a 5.7% trailing dividend yield, but the last payment already represented, on an annualised basis, a yield of 7% at par (in line with BPCR's target of US\$0.07 annualised).

Investment trusts

6 November 2018

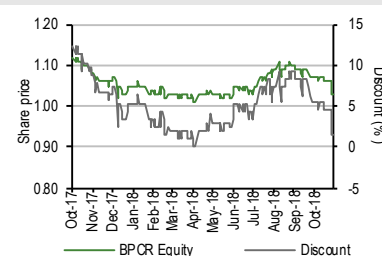
Price* **US\$1.03**
Market cap **US\$1,415.2m**
AUM** **US\$1,396.5m**

NAV (ordinary shares)*** 101.41c
 Premium/(discount) to NAV 1.6%

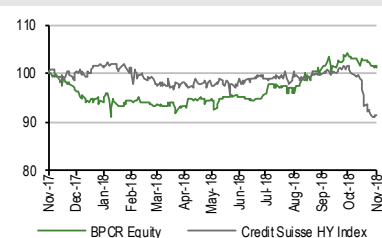
*Ordinary shares. **including US\$305m gross proceeds from recent placement ***As at end-September 2018.

Yield 5.7%
 Ordinary shares in issue 1,373.9m
 Code BPCR
 Primary exchange LSE
 AIC sector Specialist: Debt
 Benchmark N/A

Share price/discount performance



One-year performance vs index



52-week high/low 113.0c 100.0c
 NAV** high/low 101.49c 98.99c

**Including income.

Gearing

Gross* 0.0%
 Net* 0.0%

*As at June 2018.

Analysts

Milosz Papst +44 (0)20 3077 5720
 Rob Murphy +44 (0)20 3077 5733

investmenttrusts@edisongroup.com

[Edison profile page](#)

**BioPharma Credit is a
 research client of Edison
 Investment Research Limited**

Exhibit 1: BioPharma Credit at a glance

Investment objective and fund background

BioPharma Credit was incorporated in the UK in October 2016 and aims to generate predictable income for shareholders over the long term through a diversified portfolio of loans and other instruments backed by royalties or other cash flows derived from sales of approved life sciences products. This includes senior secured notes, royalty debt instruments and priority royalty tranches. BPCR may also invest in unsecured debt (up to 35% of gross assets) as well as credit-linked notes. It can also have an equity exposure of up to 15% of gross assets.

Recent developments

- 1 November 2018: Results of placing: BPCR raised US\$305m through the issue of 297.6m new ordinary shares.
- 19 October 2018: Net asset value as at end-September of ordinary and C shares at 101.41 US\$ cents and 100.38 US\$ cents, respectively.
- 19 October 2018: Dividend for the period ending September 2018 declared at US\$0.0175 in the form of interest distribution.
- 19 October 2018: Conversion of C shares at a ratio of 0.98984 ordinary shares for every C share.
- 19 October 2018: Proposed placing of new ordinary shares at US\$1.025 per share with targeted gross proceeds at US\$150m.
- 27 September 2018: H118 results release; NAV per ordinary share at 100.47 cents (end-December 2017: 100.91); gross assets at US\$1,077m, consisting of US\$927.8m in investments and US\$149.2m in cash.

Forthcoming		Capital structure		Fund details	
AGM	N/A	Ongoing charges	1.2%	Group	BioPharma Credit
Interim results	N/A	Net gearing	None	Manager	Pharmakon Advisors
Year end	31 December	Annual mgmt fee	1.0% of NAV	Address	110 East 59th Street 3300, New York, NY 10022
Dividend paid	Quarterly	Performance fee	10% of NAV	Phone	+1 (212) 883-1006
Launch date	24 October 2016	Trust life	Indefinite	Website	www.bpcruk.com
Continuation vote	See page 10	Loan facilities	None		

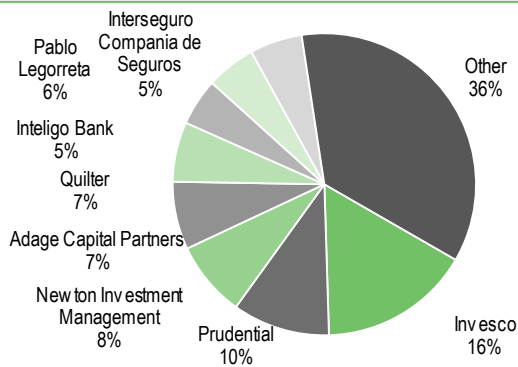
Dividend policy and history

BPCR will pay quarterly dividends in US dollars and maintain a pay-out ratio of at least 85%. The trust aims to pay a US\$0.07 annualised dividend per share. The trust paid two quarterly dividends on 31 October 2017 and 31 January 2018 of US\$0.01 per share each. On 29 March 2018, BPCR paid an interim dividend from FY17 earnings at US\$0.021 per share, of which US\$0.01 represented an ordinary dividend and US\$0.011 was a special dividend. On 28 September 2018, BPCR paid US\$0.0175 per share, which (on an annualised basis) is in line with the targeted 7 cents per year target. On 19 October 2018, the company announced an interim dividend for the period ended September 2018 at US\$0.0175 in the form of an interest distribution.

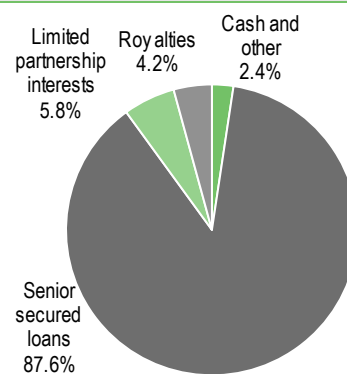
Share buyback policy and history

BPCR's board may perform share buybacks to limit the discount volatility and potentially provide additional source of liquidity at attractive price levels. In case the shares trade at an average discount over 5% (10%) during a three-month (six-month) rolling period, subject to meeting its target dividend, the trust will use 50% (100%) of capital and income proceeds generated after this rolling period for buybacks at least until the shares start trading at an average discount of 1% or less to NAV over a two-week rolling period. BPCR is authorised to execute share repurchases up to 14.99% of total shares in issue immediately after admission between the date of the resolution and the first AGM. The trust has not executed any buybacks yet.

Shareholder base (as at 6 November 2018)



Portfolio exposure by security type (as at 30 September 2018)



Top holdings (as at 30 September 2018)

Company/borrower	Security type	Key underlying products	Portfolio weight %	
			30 September 2018	30 September 2017*
Tesaro	Senior secured loan	Zejula, Varubi	30%	N/A
Sebela	Senior secured loan	Suprep, Brisdelle, Analpram, Naftin, Lotronex	17%	N/A
Amicus Therapeutics	Senior secured loan	Galafold	14%	N/A
Novocure	Senior secured loan	Optune	14%	N/A
Lexicon	Senior secured loan	Xermelo, sotagliflozin	11%	N/A
BioPharma III	Limited partnership interest	Nucynta, Gralise, Cambia, Zipsor, Ixiaro, Zio Patch, QSymia	6%	17%
Bristol Myers Squibb	Priority royalty stream	Onglyza, Farxiga	4%	N/A
RPS Note	Senior secured loan	21 blockbuster products, including Emtricitabine, Humira and DPP-IV	2%	17%
Top 10	-	-	97%	34%

Source: BioPharma Credit, Edison Investment Research. Note: *N/A where not in September 2017 top 10. Values calculated prior to the recent US\$305m offering, following which Tesaro currently represents around 23% of the portfolio.

Fund profile

BPCR is a UK-domiciled fund incorporated in October 2016, which completed its IPO in March 2017 issuing new shares in exchange for a portfolio of seed assets and additional cash contribution from investors (total gross proceeds of US\$762m including a US\$339m seed portfolio). It is now listed in the specialist funds segment of the LSE. Subsequently, BPCR completed a placement of ordinary shares in December 2017 with US\$154m of gross proceeds, and completed a C shares offering with US\$163.8m of gross proceeds in April 2018. These funds, together with the value of already amortised seed assets (nearly US\$240m or 70% of initial amount outstanding as at end-August 2018), were already reinvested in five new loans and a priority royalty stream representing US\$987m.

BPCR's portfolio is composed of debt assets in the life sciences industry in the US, Europe and Japan, covering pharmaceuticals, bio-pharmaceuticals, medical devices and clinical diagnostics. This includes in particular senior secured loans (currently 88% of the portfolio) granted to life sciences companies, which are secured by all or some of the company's assets and may include royalty collateral as well as other IP and marketing rights. Other portfolio constituents may include royalty debt instruments, where the borrower is an owner of royalty rights whose obligations are secured by royalty collateral, and priority royalty tranches, where BPCR obtains the right to receive all or a fixed percentage of future royalty streams from the sale of a defined set of commercial-stage drugs.

BPCR aims at generating long-term returns mostly in the form of sustainable income distributions, with a targeted medium-term annualised dividend of US\$0.07 per share and a net total NAV return of 8–9% per year. The coupon rate on senior secured loans within BPCR's current portfolio ranges from 9% to 12% and originally represented predominantly fixed coupons. Since then, the company has advanced three loans (Tesaro, Sebela and Amicus Therapeutics) representing US\$660.7m with coupons based on USD LIBOR plus a spread. Potential upside to BPCR's return on individual investments may come from prepayments of senior secured loans, as the loan agreements often include a make-whole call provision covering two to three years of coupon payments and/or a prepayment fee of c 1–3% (the exact rate depends on the remaining time to maturity). BPCR aims at an average maturity of debt instruments at five years. However, borrowers from the life science industry often have the motivation to prepay the debt to refinance it on more attractive terms (extended maturity or lower interest), as exhibited by the recent Novocure transaction (see the current portfolio positioning section for further details).

The fund manager: Pharmakon Advisors

BPCR is managed by Pharmakon Advisors (established in 2009), which is run by Pedro Gonzalez de Cosio (co-founder and principal), Martin Friedman (principal) and Pablo Legorreta (co-founder and principal, who is also the founder and CEO of Royalty Pharma). Since inception, Pharmakon has invested US\$3.2bn across five biopharma funds (including BPCR), whose historical and estimated performance is illustrated in Exhibit 2. BioPharma I was launched in June 2009 and made its final distribution to investors in April 2014, realising a gross IRR of c 15% (net IRR of 11.3%, cash-on-cash return of 1.3x). BioPharma II has also reached life-end, with a realised net IRR of 6.8% compared to the initial target of high single digits. The performance of this fund was somewhat below Pharmakon's target due to weaker than expected return on a capped royalty, where the underlying drug's revenue growth was below expectations. BioPharma III and IV have reached the end of their investment periods; BioPharma III has already started returning capital to investors. Importantly, Pharmakon has not experienced any defaults in its portfolio since it was established.

Exhibit 2: Pharmakon Advisors' track record (private fund performance as at end-2017)

	BioPharma I	BioPharma II	BioPharma III	BioPharma IV
Launch date	June 2009	March 2011	February 2013	December 2015
End of investment period	May 2010	March 2013	August 2015	December 2017
Invested amount (US\$m)	263.7	343.0	463.0	512.9
Distributions to investors (US\$m)	329.2	410.1	423.8	181.7
Unlevered Net IRR	11.3%	6.8%	10.9%*	10.8%*

Source: BioPharma Credit FY17 release. Note: *Reflects historical performance through 31 December 2017 and returns estimated by Pharmakon thereafter.

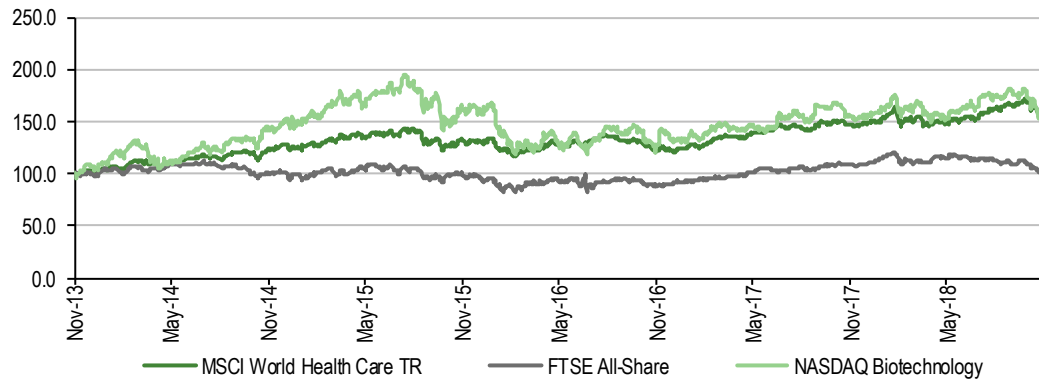
Broader market outlook

In our [initiation note](#) (May 2018) we discuss several key factors translating into new debt investment opportunities for BPCR. These include:

- The ongoing specialisation and fragmentation in the life sciences industry, which results in a transition from a fully integrated pharmaceutical company model to a system with new revenue-generating companies.
- As new life sciences products are approved, more companies become creditworthy by having their own products or by generating royalties (as products are being out-licensed to larger pharmaceutical companies).
- High R&D spending required to fund new drug development.
- More favourable global regulatory environment (eg the breakthrough therapy designation).
- Growing importance of orphan drugs.
- Increased willingness of big pharma players selling non-core products to smaller companies.
- Lack of other dedicated lenders or specialised debt markets.

The availability of attractive lending opportunities for BPCR is to some extent determined by the equity valuation levels of biotech companies. The higher the market multiples, the more willing companies are to raise new equity and the more limited the pool of potential transactions for BPCR. Conditions on the US stock market have remained relatively stable, with the NASDAQ Biotechnology TR index rising by c 2% in the year to date (after growing 21.6% in 2017). The current LTM P/E ratio for the index (based on profitable companies only) stands at c 17.4x compared to 18.4x as at end-2017 (based on Bloomberg data). As a result, both equity and convertible issuance increased in H118. According to BPCR data, global issuance by life science companies stood at US\$35.7bn compared with US\$27.2bn in H117, while US issuance of life sciences convertible bonds reached US\$5.2bn vs US\$2.3bn in H117. Despite these positive developments in the equity and convertibles markets, BPCR has been able to invest c US\$640m so far this year (including the US\$100m to the second tranche of the Tesaro loan committed last year).

Exhibit 3: Biotech and healthcare market performance



Source: Thomson Datastream, Edison Investment Research

Increased M&A activity in the sector provides BPCR with more lending opportunities. According to the company, global life sciences M&A volume rose 13.7% y-o-y to US\$126.6bn in H118, which is an illustration of a broader increase in M&A activity across industries triggered, among others, through the improved visibility associated with the completion of the US tax reform. In its recent Q218 *Global Pharma & Life Sciences Deals Insights*, PwC is indicating there is a positive outlook for the M&A activity in the biotech sub-sector in Q318, driven by companies expanding their pipelines with smaller acquisitions of high-quality assets. Additionally, record-high levels of FDA approvals should support activity in this area.

Asset allocation

Investment process: Leveraging sector expertise

BPCR's investment strategy relies on ongoing screening of a large number (>200) of potential opportunities. Individual investment selection is based on detailed analysis of the underlying product collateral, including the clinical utility of the product, competitive landscape, IP situation, pricing, reimbursement (insurance and Medicaid/Medicare coverage), the marketer's strength, as well as the opportunity's safety record, physician adoption and sales history. In performing this analysis, Pharmakon Advisors relies in part on Royalty Pharma's internal analyst team (seven analysts with a medical degree or background in biochemistry, biology or material sciences) based on the shared services agreement it has signed with Royalty Pharma. Importantly, in some instances, it may benefit from Royalty Pharma's solid understanding of the underlying asset. This is developed through its acquisition of a royalty interest at an earlier stage than BPCR's investment. Pharmakon will conduct primary market research and may also use third-party market research. The future sales potential of respective drugs is evaluated based on direct discussions with external experts and leading physicians. Moreover, the investment manager may rely on market research in the form of physician studies to examine safety, familiarity, usage and acceptance of respective products by practising doctors, as well as engagement of regulatory and manufacturing consultants. Finally, outside counsel may be leveraged to evaluate IP rights and the patent estate of the royalty collateral.

Pharmakon Advisors also examines the structure of royalty investments. It pays particular attention to the expected yield and duration, quality (ie, strength and enforceability) of collateral, coverage ratios (calculated as commercial licence value to the amount of debt outstanding), priority of payments, as well as cash flow projections and their impact on expected maturity and duration.

In the case of senior secured loans and unsecured debt, apart from examining the products marketed by the borrower, the fund manager also evaluates its credit profile and how the potential

investment is structured. In terms of the borrower's credit metrics, it takes into consideration expected product margins, coverage ratios (projected free cash flow to total debt and/or EV to debt), access to equity markets to raise fresh capital, quality of the management team, production capacity, as well as overall capital structure and other existing liabilities. The analysis of the investment structure is largely concentrated on the expected yield and duration, quality of collateral, covenants, call protections, structural yield enhancement (eg, additional coupons linked to sales) as well as access to liquidity in the case of listed stocks.

BPCR seeks investments with predictable cash flows and significant downside protection. Importantly, when evaluating new investment opportunities, BPCR is solely focused on approved products, thus avoiding the risks associated with drug development and clinical trials. If the borrower, in addition to approved drugs, also has products in late-stage clinical trials, these are not assumed to reach the market, hence giving BPCR a safety margin. To further minimise the risk, BPCR may include revenue and profitability covenants to loan agreements or provide debt funding in tranches depending on product sales ramp-up. Following investment, BPCR monitors its assets regularly and remains in contact with the borrower's management. Moreover, the investment manager and BPCR's board hold quarterly meetings to discuss the level of exposure to market risk at a portfolio level.

Current portfolio positioning

BPCR's portfolio structure at end-September 2018 is presented in Exhibit 4. Following the recent Amicus Therapeutics deal, BPCR became fully invested (although it has recently completed a new placing raising US\$305m of gross proceeds). Importantly, we appreciate BPCR's efforts to increase the exposure to floating-rate loans. Following the Amicus deal (concluded-post balance sheet date) and advancement of the Sebelo loan as well as the second tranche of the Tesaro loan, floating-rate debt investments represent around 62% of BPCR's portfolio. For a detailed examination of the underlying drugs, please see our [initiation note](#).

The trust has recently funded US\$100m as part of the second tranche of the Tesaro loan. Originally, BPCR planned to advance US\$148m. However, to remain in line with its exposure limits to a single investment (30% of NAV), it has assigned US\$48m to other investors. Compared to initial assumptions, this has increased the weighting to the first tranche, which has a slightly higher coupon rate (LIBOR+8.0% compared with LIBOR+7.5% in case of the second tranche). The loan is primarily backed by rights to Zejula, a PARP inhibitor used to treat recurrent ovarian cancer. Zejula's sales in H118 quadrupled to US\$102.8m from US\$25.9m in H117, but the company lowered its FY18 sales guidance to US\$225–235m from the previous US\$255–275m, predominantly following the revision of expectations for market penetration of PARP inhibitors for ovarian cancer maintenance treatment in the US. We understand that the uptake in the case of maintenance treatment products that are not first-line therapies is usually slower in comparison to new products for treating diseases with no prior cure available. PARP inhibitors display a very high adoption rate for ovarian cancer specialists; this is much slower for community oncologists, who are confronted with only a few ovarian cancer cases per year and consequently may not have fully realised the importance of this treatment option yet.

The current Evaluate Pharma consensus for 2018 sales of Zejula stands at US\$228m, which is within the range guided by the management and implies a 109% y-o-y increase, broadly in line with what is expected for Lynparza (+106%) and somewhat below the consensus estimate for Rubraca (+132%). Zejula's consensus for 2020 fell from US\$895m at the beginning of the year to US\$549m currently. Tesaro recently completed the enrolment to the PRIMA Phase 3 monotherapy trial in first-line ovarian cancer regardless of biomarker status, which is irrespective of BRCA mutations. The interim safety data will be presented at the ESMO conference in October and the final dataset on the PRIMA trial will be published towards the end of 2019. Potential success would significantly

improve the sales potential for Zejula. However, it must be noted that BPCR made the loan investment even without taking into account this potential boost to sales given its focus on approved and commercial-stage products and indications. Pharmakon Advisors remain confident that the sales outlook for Zejula's approved indications more than covers Tesaro's future obligations under the BPCR loan.

For other recent portfolio developments, the trust has provided additional funding of the total expected purchased payments linked to Bristol Myers Squibb, bringing the outstanding amount to US\$46.0m at end-August 2018. Overall, BPCR committed to funding an estimated US\$140–160m in 2018–2020 with this respect. Finally, the seed assets (limited partnership interest in BioPharma III and the RPS Note) continue to amortise and represent only c 9% of NAV (vs 24% at end-2017).

Exhibit 4: Portfolio composition as at end-September 2018

Counterparty/borrower	Asset	Underlying products	Fair value (US\$m)	Expected maturity	Coupon/royalties	Fees and other	% of net assets
Tesaro	Senior secured loan	Zejula, Varubi	322.0 (both tranches)	21 November 2024; Make-whole: two years	Libor + 8.0% (tranche A), Libor + 7.5% (tranche B); Libor is subject to a floor of 1% and certain caps	Funding fee: 2% on each tranche; Amortisation: two-year interest only then 3% quarterly; prepayment: 3%/2%/1% before second/third/fourth anniversary of tranche A	30%
Sebela	Senior secured loan	Suprep, Brisdelle, Analpram, Naftin, Lotronex	194.2	1 May 2023	High single-digit floating coupon (uncapped)	Quarterly amortization starts post-Q318; funding fee 1.5%; other fees were not disclosed, but are in line with comparable deals	17%
Amicus	Senior secured loan	Galafold	150.0	28 September 2023	Libor 3M +7.5%	Amortisation: four years interest only, then quarterly; funding fee 2%; prepayment fee not disclosed but in line with comparable deals	14%
Novocure	Senior secured loan	Optune	150.0	7 February 2023; Make-whole: 2.5 year	9% (fixed)	Amortisation: bullet at maturity; prepayment fee at 2% or 1% prior to the third or fourth anniversary	14%
Lexicon	Senior secured loan	Xermelo, sotagliflozin	124.5 (first tranche)	18 December 2022; Make-whole: 3 years	9% (fixed)	Amortisation: bullet at maturity; prepayment: 2%/1% before fourth or fifth anniversary of tranche A	11%
BioPharma III	Limited partnership interest	-	62.2	Various maturities through Q321; most loans have make-whole clauses	12% average (various coupons between 9-13%)	Most loans have pre-payment premiums	6%
Depomed*	Senior secured loan	Nucynta, Gralise, Cambia, Zipsor,	N/A	April 2022	10.75% (with a floating component)	2.25% up-front funding fee	N/A
Valneva*	Senior secured loan	Ixiaro	N/A	2018	9.5% coupon plus 2.0-2.6% royalty of Valneva's share of Ixiaro/Jespect sales	-	N/A
iRhythm*	Senior secured loan	Zio Patch	N/A	2021	N/A	Amortisation: interest-only for the first four years; straight-line for the last two years	N/A
Bristol Myers Squibb	Priority Royalty Stream	Onglyza, Farxiga	46.0	31 December 2059 or such other date TBA	No Coupon; Expected high single digit return	N/A	4%
RPS	Senior secured loan	21 products	38.4	2019	12% (fixed)	Quarterly payments applied to principal after interest	2%
Cash and other	-	-	144.5	-	-	-	3%
Total	-	-	1081.8	-	-	-	100%

Source: BioPharma Credit, Edison Investment Research. Note: *Depomed, Valneva and iRhythm are part of BioPharma III portfolio.

New investment: Amicus Therapeutics

On 20 September, BPCR announced it had entered into a definitive loan agreement for a US\$150m senior secured loan with Amicus Therapeutics, a biotech company focused on the treatment of rare metabolic diseases. As the five-year loan has a floating coupon rate of LIBOR plus 7.5% (subject to a floor of 1% and certain caps), we appreciate BPCR's increased exposure to potential further

interest rate increases in the US. Additionally, the loan arrangement includes a funding fee at 2%. The loan is interest-only for the first four years.

The proceeds will be used for the acquisition of Celenex, a private clinical-stage gene therapy company that is a spin-off of the Nationwide Children's Hospital in Ohio, with the worldwide development and commercial rights for 10 gene therapy programmes in Phase I/II, pre-clinical or discovery stage. The loan proceeds will be also spent on development costs spread over several years. However, according to BPCR's investment policy, the loan investments may be secured solely by approved products. In the case of Amicus, the loan will be permanently backed by commercial rights to Galafold (migalastat), a product used for adult treatment of Fabry disease, a rare X-chromosome linked genetic disease (connected with a defective gene, GLA) occurring predominantly in males with an incidence of about one per 60,000 births. Usually it manifests itself between three and 10 years of age with multiple symptoms including chronic pain and shortens life expectancy by 10 to 20 years with damage to the skin, kidneys (renal failure is the main cause of death), cardiovascular system (heart) and central nervous system (brain and muscle control) with increased stroke risk.

The disease has no cure although gene therapies might potentially be developed in the future (this is not likely to happen within the next few years). Existing treatments are either palliative (pain relief) or involve repeat fortnightly injections of enzyme replacement therapy (ERT), which remove some of the excess glycolipid with a recombinant form of GAL, either Shire's Replagal (agalsidase alfa) or Sanofi's Fabrazyme (agalsidase beta). However, injected enzymes cannot access the brain and, as a result, central nervous system symptoms persist.

Galafold (migalastat) was approved for EU-wide marketing on 26 May 2016 and it was also approved for Japan in March 2018. The FDA approved it for sale in the US on 13 August 2018. Some of its key advantages are that it is orally administered and less expensive than ERT, as the drug itself is priced in line with ERT, but the treatment does not involve accompanying expenses such as nurses, injections, and so on). Moreover, the active GLA is produced inside the cell where it is needed and consequently there is no risk of an immune response, which occurred in case of some patients with replacement enzymes, limiting the effective dose. This may potentially prove more effective in the longer term, but this has yet to be confirmed. However, we expect a steady rather than rapid adoption rate, as patients need to be rotated out of treatment therapies that work (even if they are less effective) and because Galafold's clinical added gains are not yet entirely clear. The latter is underpinned by a comment from the National Institute for Health and Care Excellence, which suggests that there remain 'important limitations and uncertainties' over the data set on Galafold; however, we believe this is typical for rare disease trials (due to limited number of patients, high interpatient clinical variability and the lack of clear endpoints). Although no head-to-head trials have been conducted so far, it seems that Galafold's effectiveness is comparable with ERT.

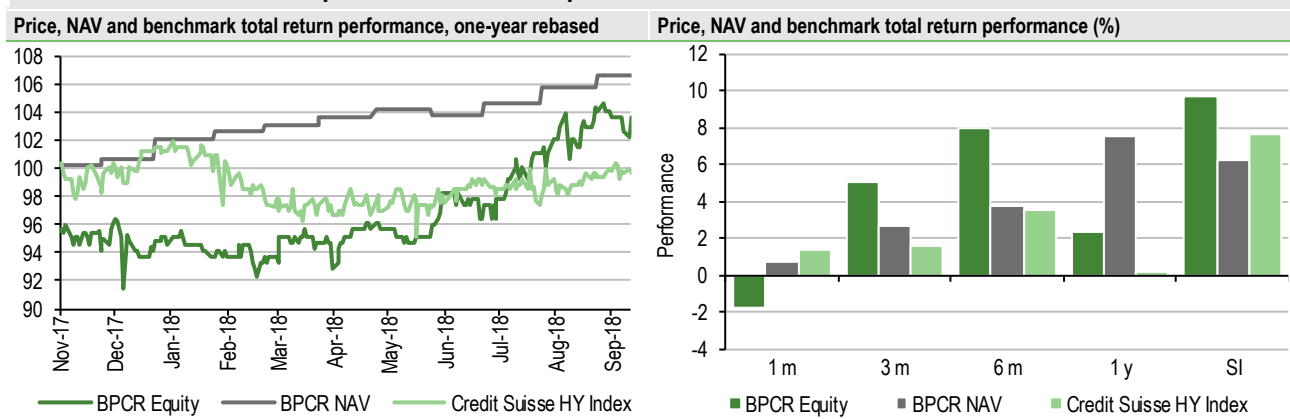
Sales in FY17 stood at US\$36.9m following the mid-2016 EMA approval and 9M18 sales reached US\$58.6m. Consequently, Amicus believes it is on track to achieve the higher end of its FY18 guidance at US\$80–90m. This compares with current Evaluate Pharma consensus estimates at US\$88m (with US\$172m and US\$237m expected in 2019 and 2020, respectively). We estimate that the global market for Fabry disease in 2017 was worth c US\$1.3bn, with Replagal sales at US\$472m and Fabrazyme revenues at US\$816m. It is important to note that clinical diagnosis can be difficult and needs a confirmatory enzyme test. Any patient on ERT could transfer to Galafold if they have an amenable mutation. Although there is no completely reliable estimate of the number of current ERT patients treatable with Galafold, Amicus believes this figure is around 35–50%. We estimate that even if 20% of patients switch to Galafold (which corresponds to an achievable market of around US\$240m), it would suffice to service the loan given low marketing costs (rare diseases are treated normally in specialist centres and there is usually a very engaged patient

community) and high repeat, chronic use prescription rates. Moreover, there is additional market opportunity from patients not treated with ERT. In conjunction with the current Amicus cash position at US\$564m as at end-September 2018, we believe the deal has a comfortable safety margin for BPCR.

Performance: Recently completed portfolio ramp-up

BPCR is targeting a net total NAV return of 8–9% per year in the medium term. All of BPCR's current debt investments offer a coupon rate of at least 9% per year. The trust's annualised total return NAV performance since admission (March 2017) stands at 6.2%, as BPCR was adding new investments to its portfolio and thus was subject to a meaningful cash drag. Over the same period, the Credit Suisse HY index generated an annualised 7.7% total return. The fund became fully invested following the completion of the Amicus Therapeutics deal, but has recently completed another placement of new ordinary shares. BPCR's ordinary share price performance was particularly strong over the six months ended August 2018, while it moderated somewhat subsequently (the price went down from US\$1.10 to US\$1.05, although this is also because of the ex-date for the 1.8 cent dividend on 31 August).

Exhibit 5: Investment trust performance to 30 September 2018



Source: Thomson Datastream, Edison Investment Research. Note: Since inception performance figures annualised. Inception date is 24 October 2016. BPCR Equity performance measured based on ordinary shares.

Discount: Continues to trade at a premium to NAV

Over the last 12 months, BPCR traded at a premium to its last reported NAV. The premium declined from 12% in October 2017 to around 2% in February and March 2018 on the back of overall investor sentiment deterioration, but rebounded subsequently to reach 8–10% in August, assisted by the positive market sentiment and recent new loan investments. The current premium to NAV stands at c 1.6%, which we believe reflects tightening spreads on the broader debt markets and seems to discount a certain upside to the return generated by regular coupon payments, which is predominantly associated with prepayment fees on BPCR's loan investments based on make-whole provisions included in loan arrangements. The premium has narrowed a bit recently which may be associated with the last placement (completed at an issue price of US\$1.025).

Capital structure and fees

Pharmakon Advisors receives a management fee equal to 1% of NAV less US\$100,000, calculated monthly (ie, 1/12 of 1% of NAV on the last business day of the month minus 1/12 of US\$100,000) and payable quarterly.

The investment manager is also entitled to a performance fee of 10% of NAV accretion over the respective 12-month performance period ending 31 December, subject to a high watermark and hurdle rate of 6% per year. Importantly, if BPCR's shares trade at an average discount to NAV of at least 5% during a rolling three-month period, the investment manager should use 50% of the corresponding performance fee for market acquisitions of shares.

In addition, BPCR will incur ongoing expenses. These include the fees of the board members, company secretary, administrator and registrar, as well as other operating expenses such as legal, advisory, PR and listing fees. The ongoing expenses ratio at 31 December 2017 stood at 1.2% of NAV per year. This may decline modestly as BPCR's portfolio grows.

As at 18 October 2018, BPCR held only US\$55.4m in cash (unaudited figure). BPCR has recently converted the outstanding C shares to ordinary shares (following the deployment of the proceeds in the Amicus deal) at a ratio of 0.9898. Moreover, the trust announced the results of its placement of new ordinary shares at an issue price of US\$1.025. It initially targeted gross proceeds of US\$150m to fund further investments (and outstanding potential commitments). However, due to strong investor interest, it increased the offering to US\$200m, which was still oversubscribed (the final gross proceeds raised were US\$305m).

Currently there is no debt at the BPCR level, but the trust is exploring the option of using debt at trust level. BPCR has a leverage cap of 50% of NAV calculated at the time of the drawdown. However, the fund manager is only allowed to incur indebtedness on behalf of the company of up to 25% of NAV without prior approval of BPCR's board.

A continuation vote will be put to shareholders at the first AGM following the fifth anniversary of initial admission (27 March 2017) and, if passed, at the AGM held every third year thereafter. Furthermore, a vote will also occur within two months from the end of any 12-month rolling period where BPCR's shares have, on average, traded at a discount in excess of 10% of NAV. However, BPCR's board may execute share buybacks as a means to limit the discount volatility and potentially provide an additional source of liquidity at attractive price levels. Please refer to the [issue prospectus](#) for more detailed share repurchase guidelines. The trust has not executed any buybacks yet.

Dividend policy and record

BPCR will pay quarterly dividends in US dollars. The trust intends to deliver a US\$0.07 annualised dividend per share. BPCR may designate a part or full dividend amount as an 'interest distribution' and should be able to deduct this from its income when calculating taxable profit for the relevant period (assuming it generated enough 'qualifying interest income'). On 19 October 2018, the company announced an interim dividend for the period ended September 2018 at US\$0.0175 in the form of an interest distribution.

Peer group comparison

BPCR is part of the AIC Specialist: Debt sector, which contains funds with a wide variety of investment strategies, although none invest in the life sciences credit market. Nevertheless, we have combined a list of funds investing in various types of debt.

The trust was floated in March 2017 and there is no three- and five-year NAV total return performance available. In Exhibit 6, we thus present the NAV total return for the last six and 12 months, which in the case of BPCR stood at 3.7% (vs peer average of 2.0%) and 7.5% (ahead of peer average of 4.0%), respectively. The trust trades at a 1.6% premium to last reported NAV. This is either ahead or broadly in line with the respective peers, which mostly trade at a low-single digit discount or premium (with the exception of Chenavari Toro Income Fund). Interestingly, apart from BPCR, only Chenavari Toro Income Fund charges a performance fee within the analysed trusts group. In line with the comparative group, BPCR has no leverage at present, although the investment manager is willing to potentially use the limit of 25% of NAV, which does not require BPCR board approval. BPCR's dividend yield stands at 5.7% on an LTM basis, but the last dividend payment is in line (when annualised) with the trust's 7% target.

Exhibit 6: Selected peer group at 2 November 2018

% unless stated	Market cap £m	NAV TR 6 months	NAV TR one year	NAV TR three year	NAV TR five year	Discount (ex-par)	Ongoing charge (%)	Perf. fee	Net gearing	Dividend yield (%)
BioPharma Credit	1,091.0	3.7**	7.5**	N/A	N/A	1.6	1.2*	Yes	100	5.7
Chenavari Toro Income Fund	223.2	1.8	3.3	49.5	N/A	(20.6)	1.3	Yes	100	10.3
CVC Credit Partners Euro Opps (GBP)	392.2	3.9	5.7	27.2	41.5	2.5	0.6	No	100	4.7
Hadrian's Wall Secured Investments	123.2	4.6	7.1		N/A	0.8	2.1	No	100	6.1
JPMorgan Global Convertible Income Fund	117.0	(1.1)	(1.8)	10.9	16.6	(5.1)	1.0	No	96	5.0
NB Global Floating Rate Income GBP	717.2	1.1	3.2	11.8	19.7	(5.3)	1.2	No	100	4.1
TwentyFour Income	475.0	(0.2)	3.6	21.8	41.5	4.7	0.9	No	100	6.0
Average	416.2	2.0	4.0	24.3	29.8	(2.8)	1.2	-	99	6.0
Trust rank in sector	1	1	1	N/A	N/A	4	4	-	1	4

Source: Morningstar, Edison Investment Research. Note: TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets. *Company data; **Edison Investment Research estimate based on company. BPCR performance measured based on ordinary shares.

The board

BPCR's board comprises four directors, all of whom are non-executive and independent. They joined on incorporation of the investment trust. Jeremy Sillem (chairman) has extensive experience in asset management, with 28 years at Lazard and its predecessor entities, as well as Bear Stearns International. He is also the managing partner of Spencer House Partners, a financial advisory company that provides capital to the asset and wealth management industry. Duncan Budge is chairman of Dunedin Enterprise Investment Trust and Artemis Alpha Trust, and is also non-executive director of Lazard World Trust Fund, Lowland Investment Company, Menhaden Capital and Asset Value Investors. He is a former director of J Rothschild Capital Management. Colin Bond is the CFO of Vifor Pharma, a specialty pharma company based in Zurich and a former CFO of Evotec. Harry Hyman is the founder and managing director of Primary Health Properties.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the Financial Conduct Authority ([Financial Conduct Authority](#)). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by BioPharma Credit and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.