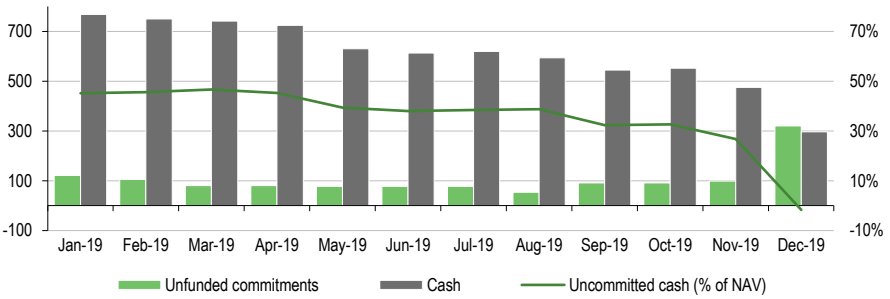
BioPharma Credit

High investment volume in H219

Investment trusts
Debt: Direct lending

BioPharma Credit (BPCR) offers investors access to a diverse portfolio of secured debt instruments for life science companies. During 2019, BPCR was able to deploy more than US$500m and was thus able to reduce the large cash position accumulated as a result of the share issue in late 2018 and prepayment of the Tesaro note in January 2019. New investments include the largest deal so far with Sarepta Therapeutics, where BPCR provided funding of up to US$350m (of which half was initially drawn). We estimate that BPCR's current loan portfolio has an attractive average coupon rate of c 9% (of which c 50% is at a fixed rate). On drawdown of outstanding commitments, arrangement fees and additional coupons will provide full cover of the annual dividend.

Successful deployment of excess cash in 2019



Source: BPCR, Edison Investment Research. Note: *Edison calculations including announced deals, excluding any interest received.

The market opportunity

BPCR takes advantage of the increasingly fragmented drug discovery market. As a result of the supportive regulatory environment (for orphan drugs in particular), there is a growing number of products entering clinical trials and being approved. The increasing number of cash-generating companies that are too young to obtain debt financing from traditional sources provides ample investment opportunities for BPCR at attractive coupon rates and arrangement/exit fees. High M&A activity normally supports BPCR's deal pipeline, while high equity valuations (encouraging companies to seek equity funding) constitute a limiting factor.

Why consider investing in BioPharma Credit?

- Access to biotech expertise through Pharmakon Advisors.
- Investment manager's expertise proven by 7–11% IRR on closed private funds.
- Benefiting from the cash flows generated by recently approved drugs.
- BPCR shares offer exposure to high-yielding, illiquid assets with daily trading.

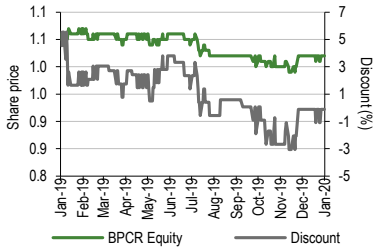
Valuation: Trading close to NAV

As at 22 January 2020, BPCR's shares are trading at a modest 0.2% discount to its last reported NAV (as at end-December 2019). The shares currently offer a c 7.0% trailing dividend yield, in line with BPCR's target.

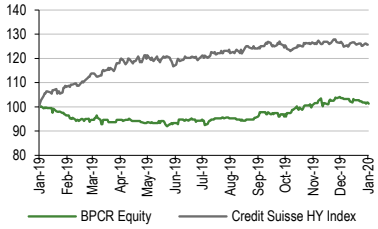
24 January 2020

Price	**US$1.02**
Market cap	**US$1,394.5m**
AUM	**US$1,403.7m**
NAV*	102.16c
Premium/(discount) to NAV	(0.2%)
*As at end-December 2019	
Yield	7.0%
Ordinary shares in issue	1,373.9m
Code	BPCR
Primary exchange	LSE
AIC sector	Debt – Direct Lending
Benchmark	N/A

Share price/discount performance



One-year performance vs index



52-week high/low	107c	99c
NAV* high/low	104.27c	101.40c
*Including income.		

Gearing

Gross*	0.0%
Net*	0.0%
*As at end-December 2019.	

Analyst

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Edison profile page

BioPharma Credit is a research client of Edison Investment Research Limited

Exhibit 1: Company 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 GAV.

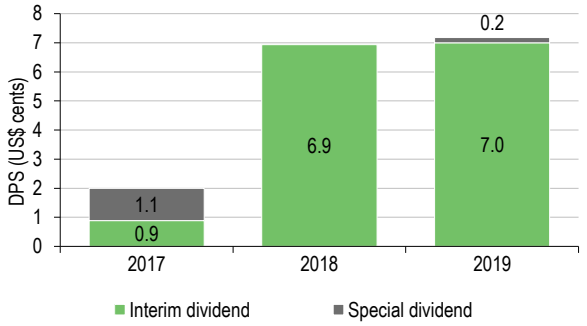
Recent developments

- 18 December 2019: Debt investment in Global Blood Therapeutics.
- 13 December 2019: Debt investment in Sarepta Therapeutics.
- 13 November 2019: Debt investment in Epizyme and Akebia.
- 7 November 2019: Dividend for the period ending September 2019 declared at US$0.0175 in the form of interest distribution.
- 13 September 2019: Debt investment in OptiNose.

Forthcoming		Capital structure		Fund details	
AGM	Mid-2020	Ongoing charges	1.2% (LTM ending H119)	Group	BioPharma Credit
Full year results	March 2020	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 accretion		
Launch date	24 October 2016	Company life	Indefinite	Phone	+1 (212) 883-1006
Continuation vote	See page 11	Loan facilities	None	Website	www.bpcruk.com

Dividend policy and history

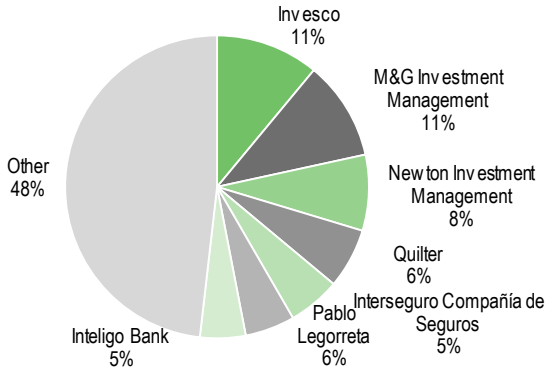
BPCR pays quarterly dividends in US dollars, and aims to pay a US$0.07 annualised dividend per share and deliver a 7% dividend yield for investors. During 2019, total DPS amounted to 7.18c, which included a special dividend following prepayment of the Tesaro note.



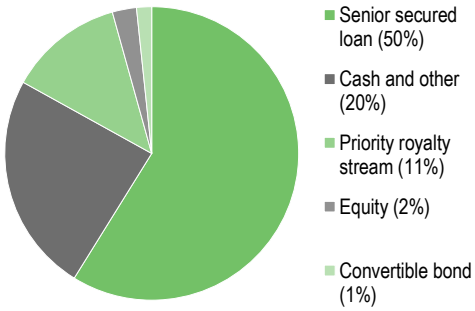
Share buyback policy and history

BPCR's board may perform share buybacks to limit the discount volatility and potentially provide an additional source of liquidity at attractive price levels. If 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 13 January 2019)



Portfolio exposure by security type (as at 31 December 2019)



Top holdings (as at 31 December 2019)

			Portfolio weight %*	
Company/borrower	Security type	Key underlying products	31 December 2019	31 December 2018
Sarepta	Senior secured loan	Exondys 51, Vyondys 53	12%	-
Novocure	Senior secured loan	Optune	11%	11%
Amicus	Senior secured loan	Galafold	11%	11%
Bristol-Myers Squibb	Priority royalty stream	Onglyza, Farxiga	11%	5%
Sebela	Senior secured loan	Suprep, Brisdelle, Analpram, Naftin, Lotronex	9%	14%
Lexicon	Senior secured loan	Xermelo, sotagliflozin	9%	9%
BDSI	Equity + senior secured loan	Belbuca, Bunavail, Symproic	5%	-
OptiNose	Senior secured loan	XHANCE, Onzetra	3%	-
Global Blood Therapeutics	Senior secured loan	Oxbryta	3%	-
Akebia	Senior secured loan	Auryxia	3%	-
Top 10 holdings			**77%**	**73%**

Source: BioPharma Credit, Edison Investment Research. Note: *Based on capital invested, ie excluding unfunded commitments.

Fund profile

BPCR is a UK-domiciled fund incorporated in October 2016. It completed its IPO in March 2017 raising a total of US$762m, which included a US$339m seed portfolio from Pharmakon-advised funds (which was fully exited by January 2019). Subsequently, the company raised additional gross proceeds of around US$623m in three issues in December 2017, April 2018 and November 2018. The shares are listed in the specialist funds segment of the LSE.

BPCR's portfolio is composed of debt assets backed by cash flows from approved life sciences products, covering pharmaceuticals, biopharmaceuticals, medical devices and clinical diagnostics. This includes in particular senior secured loans granted to life sciences companies, which currently make up around 66% of the gross asset value including cash, or more than 80% if cash is excluded. The loans are secured by all or some of the borrower's assets and may include royalty collateral as well as other IP and marketing rights. Other portfolio constituents may be 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. The latter accounts for c 11% of BPCR's portfolio at present. As per BPCR's investment policy, its total equity exposure can be up to 15% of BPCR's gross assets (currently c 1% as per our estimates).

BPCR aims to generate 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. Potential upside to BPCR's return on individual investments may come from prepayments of senior secured loans, as 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% (with the exact rate dependent on the unexpired loan term).

BPCR aims at an average maturity of debt instruments of five years. However, borrowers from the life science industry often have the motivation to prepay the debt to refinance it on more attractive terms (eg extended maturity or lower interest). A takeover by another company represents an additional prepayment trigger (given that the loan agreements usually include a corresponding covenant). This is illustrated for instance by prepayment of the Tesaro loan in January 2019 resulting from the acquisition by GlaxoSmithKline, which generated US$45m in fees for BPCR and an IRR of 28.8%.

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 to end-December 2019, Pharmakon has invested US$4.4bn in 39 transactions across six biopharma funds (including BPCR), whose historical and estimated performance is illustrated in Exhibit 2. The newest private fund (BioPharma V) had its first closure in June 2019, raising US$268.4m in commitments. We estimate that this fund has so far invested around US$200m alongside BPCR (with total outstanding commitments of c US$170m). However, we note that BioPharma V is structured as a quasi-evergreen fund with further closures planned as the portfolio grows. The private fund should continue to have 50% participation in future debt investments alongside BPCR. Pharmakon has not experienced any defaults in its portfolio since it was established. For an additional comment on the performance of Pharmakon's previous private funds, see our earlier note.

Exhibit 2: Pharmakon Advisors' track record (private fund performance at end-December 2019)

	BioPharma I	BioPharma II	BioPharma III	BioPharma IV	BioPharma V
Launch date	June 2009	March 2011	February 2013	December 2015	June 2019
End of investment period	May 2010	March 2013	August 2015	December 2017	Evergreen
Invested amount (US$m)	263.7	343	463	512	197
Distributions to investors (US$m)	329.2	410.1	423.8	181.7	N/A
Unlevered Net IRR	11.3%	6.8%	11.3%	11.4%	N/A

Source: BioPharma Credit

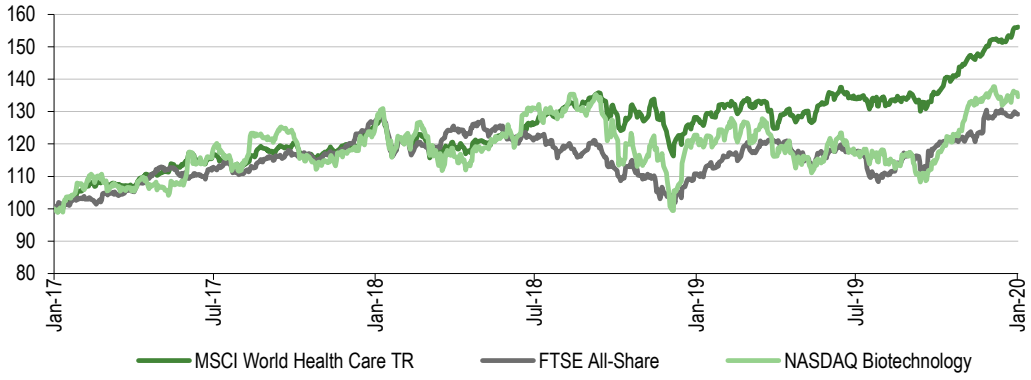
Market outlook: High biotech equity valuations

In our initiation note published on 17 May 2018, we outlined the key factors that drive the biotech sector (and BPCR's investment opportunities) at present. This includes in particular the ongoing specialisation and fragmentation in the life sciences industry, resulting in the 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, while they still lack the availability of debt financing from non-dedicated lenders such as banks. At the same time, specialised lenders in the biotechnology sector remain a niche subsector.

All else being equal, the availability of attractive lending opportunities for BPCR can be affected by high equity valuation levels in the biotech sector. 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. The NASDAQ Biotechnology Index has increased 23% since 1 October 2019 (on the back of a broader equity market rally) after several months of moving sideways (see Exhibit 3). The current trailing P/E ratio for the index (based on profitable companies only) stands at 19.7x compared to 16.4x as at end-2018 (based on Bloomberg data). As a result, global equity issuance by life science companies increased to US$32.1bn in H119 compared with US$27.7bn in H118 (according to BPCR data). Having said that, Pharmakon was still able to commit more than US$1.0bn in new investments on behalf of its clients during 2019.

Simultaneously, global life sciences' M&A volume was robust during 2019 with US$359bn in deal value according to PwC (up from US$221bn in 2018). The increase in value was driven by megadeals (with BMS/Celgene and AbbVie/Allergan leading the way), as the number of transactions stayed flat at 248.

Exhibit 3: Biotech and healthcare market three-year performance



Source: Thomson Datastream, Edison Investment Research

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 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 on the expertise of its three principals, which have a combined 70+ year track record investing in the life sciences industry, as well as that of its growing research team. Since the time of the IPO, Pharmakon has hired two associates with expertise in life sciences equity research and academic backgrounds in biomedical engineering and biophysics. Pharmakon also benefits from its access to Royalty Pharma's internal analyst team (eight 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. 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 engaging regulatory and manufacturing consultants. Finally, external counsel may be leveraged to evaluate IP rights and the patent estate of the royalty collateral.

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 only assigns collateral value to 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 current portfolio structure is presented in Exhibit 4. For a detailed examination of the underlying drugs in the portfolio, please see our initiation note and subsequent review notes on BDSI, OptiNose, Epizyme and Akebia, as well as the section below for Sarepta Therapeutics and Global Blood Therapeutics.

Exhibit 4: Portfolio composition as at end-December 2019

Counterparty /borrower	Asset	Underlying products	Fair value (US$m)	Expected maturity	Coupon/royalties	Fees and other	% of net assets
Sarepta Therapeutics	Senior secured loan	Exondys 51, Vyondys 53	175.0	December 2023; Make-whole: 2 years	8.5% (fixed)	Funding fee 1.75%; exit fee 2%; prepayment fee at 2% on or prior to the third anniversary and 1% thereafter	12%
Novocure	Senior secured loan	Optune	150.0	7 February 2023; Make-whole: 2.5 years	9% (fixed)	Amortisation: bullet at maturity; prepayment fee at 2% or 1% prior to the third or fourth anniversary	11%
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	11%
Bristol-Myers Squibb	Priority royalty stream	Onglyza, Farxiga	149.9	31 December 2059 or such other date TBA	No Coupon; Expected high single-digit return	N/A	11%
Sebela	Senior secured loan	Suprep, Brisdelle, Analpram, Naftin, Lotronex	130.3	1 May 2023	High single-digit floating coupon (uncapped)	Quarterly amortisation starts post-Q318; funding fee 1.5%; other fees were not disclosed, but are in line with comparable deals	9%
Lexicon	Senior secured loan	Xermelo, sotagliflozin	124.5	18 December 2022; Make-whole: 3 years	9% (fixed)	Amortisation: bullet at maturity; prepayment: 2%/1% before fourth or fifth anniversary of tranche A	9%
BDSI	Equity + senior secured loan	Belbuca, Bunavail, Symproic	77.0	28 May 2025	Libor 3M + 7.5%	Amortisation: 30-month interest only, then quarterly; funding fee 2%; prepayment fee not disclosed but in line with comparable deals	5%
OptiNose	Senior secured loan	XHANCE, Onzetra	46.0	12 September 2024	10.75% (fixed)	Amortisation: 39 months interest only, then quarterly; funding fee 0.75% of drawn and undrawn + three-year warrants on OptiNose shares at zero cost; prepayment fee not disclosed but in line with comparable deals	3%
Global Blood Therapeutics	Senior secured loan	Oxbryta	41.3	December 2025	Libor 3M + 7%	Funding fee 1.75%; exit fee of 2%	3%
Akebia	Senior secured loan	Auryxia	40.0	November 2024; Make-whole: 2 years	Libor 3M + 7.75%	Funding fee 2%; prepayment fee at 2% and 1% prior to the third and fourth anniversary and 0.5% thereafter	3%
Epizyme	Senior secured loan	Tazemetostat	12.5	November 2024	Libor + 7.75%	Funding fee 2%; subject to certain prepayment and make-whole fees	1%

Source: BioPharma Credit, Edison Investment Research

In 2019, BPCR agreed to provide US$680m in senior secured loans to six companies, of which c US$373m has been already drawn (see Exhibit 5). In addition, during 2019, BPCR advanced a further US$85.7m associated with its interest in the stream of payments from Bristol-Myers Squibb (BMS). BPCR also made its first minor equity investment in BDSI (see our review note published on 3 June 2019 for more details), which we estimate represented c 1% of BPCR's portfolio at end-December 2019, and invested c US$22m in an undisclosed company's convertible bond (c 1% of reported NAV at end-December 2019).

Exhibit 5: BPCR's debt investments in 2019

Company	Date	Amount initially drawn (US$m)	BPCR's total commitment (US$m)	Total commitment incl. BioPharma V (US$m)	BPCR's share in total commitment
BDSI	May-19	60.0	80.0	N/A	100%
OptiNose	Sep-19	44.0	82.5	150	55%
Epizyme	Nov-19	12.5	35.0	70*	50%
Akebia	Nov-19	40.0	50.0	100	50%
Sarepta	Dec-19	175.0	350.0	500	70%
Global Blood Therapeutics	Dec-19	41.3	82.5	150	55%

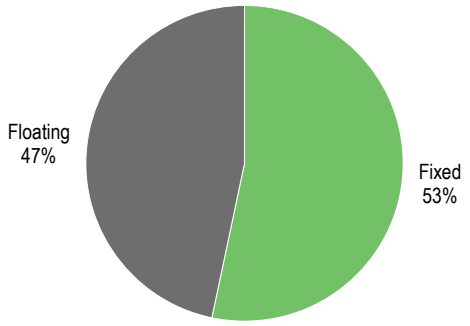
Source: BioPharma Credit, Edison Investment Research, Note: *Expandable by up to US$300m.

As at 31 December 2019, BPCR held US$296.6m in gross cash, representing c 20% of NAV. This represents a decline from US$474.9m at end-November 2019, due to the payment of first loan tranches to Sarepta and Global Blood Therapeutics, as well as the interim dividend paid in December.

At the same time, we calculate that BPCR currently has c US$320m outstanding commitments (including Sarepta and Global Blood Therapeutics), with over 90% covered by BPCR's current cash. We note that all these commitments (except for the last US$11m OptiNose tranche) are to be drawn before the end of 2020 (if at all), while none of BPCR's debt investments matures in 2020 (see Exhibit 7). We believe there is limited scope to cover the unfunded commitments with ongoing income from coupon payments, as these are largely paid out in dividends (see the Dividend policy and record section on page 11 for details).

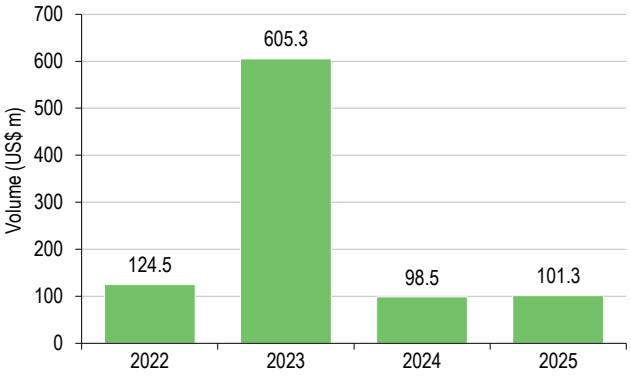
Consequently, it is possible that at some stage during the year, BPCR will explore additional options to fund the commitments and/or prospective new investments. This may not necessarily happen in early 2020, given that the two largest undrawn commitments are attributable to the most recent investments concluded in December 2019 (Sarepta Therapeutics and Global Blood Therapeutics) and are more likely to be drawn in the second half of the year.

Exhibit 6: Senior secured loan breakdown by coupon type at end-December 2019



Source: BioPharma Credit, Edison Investment Research

Exhibit 7: Senior secured loan breakdown by maturity at end-December 2019



Source: BioPharma Credit, Edison Investment Research

Sarepta Therapeutics investment

BPCR announced in December 2019 that it has entered into a senior secured loan agreement with Sarepta Therapeutics and will invest up to US$350m in two tranches, with US$175m drawn initially and the second tranche of up to US$175m provided by end-December 2020. Like recent transactions, BPCR invested alongside the BioPharma V private fund, which will provide an additional up to US$150m. It is worth noting that 70% of the deal was allocated to BPCR (compared to 50% in the case of the Epizyme and Akebia deals and 55% in the case of the earlier OptiNose transaction), allowing utilisation of a greater part of the company's ample dry powder at that time (uncommitted cash at end-November 2019 of c US$375.9m). The loan matures in December 2023 and bears a fixed coupon rate of 8.50% (although slightly below previous deals) payable quarterly in arrears. It is worth noting that half the interest on the first tranche payable during the first 12 months may be paid in kind (ie capitalised) at Sarepta's election. The loan is also subject to a healthy arrangement fee of 1.75% of the total loan amount (payable on funding) and an exit fee of 2.0%. On top of this, the loan agreement covers a prepayment fee of 2.0% (up to the third year after the funding date) or 1.0% (thereafter and prior to the maturity date), as well as a make-whole arrangement up to the second anniversary of the funding date.

Sarepta Therapeutics is a drug-discovery company with revenues of US$0.4bn in 2019, expected to reach more than US$4bn by 2024, according to EvaluatePharma. The company is focusing on precision RNA-targeted genetic medicine designed to influence the production of selected proteins involved in rare diseases. This includes in particular the Duchenne muscular dystrophy (DMD), limb-girdle muscular dystrophy diseases (LGMD), MPS IIIA and other disorders related to the central nervous system. DMD is caused when the dystrophin gene cannot make any/enough dystrophin protein. Sarepta is using its proprietary phosphorodiamidate morpholino oligomer (PMO)

gene therapy platform to develop a series of RNA candidates aimed at targeting 30% of the Duchenne community by 2020. In addition, the platform is expected to develop several gene therapy programmes for LGMD. The PMO technology platform aims to provide one-time disease modifying therapies. The relatively short time since gene therapies were approved (for eg Kymriah) means the commercialisation model is still evolving. However, the orphan nature of the disease and one-time treatment model should mean a relatively high price point. Sarepta currently has a pipeline of more than 20 therapies in various stages of development (discovery, preclinical and clinical). The company has two drugs approved in the US: Exondys 51 (eteplirsen) and Vyondys 53 (golodirsen). The former received FDA approval in September 2016 and is marketed in the US for the treatment (but not cure) of DMD in patients who have a confirmed mutation of the DMD gene which is amenable to exon 51 skipping. These patients represent c 13% of the DMD population, which is characterised by a worldwide prevalence rate of one per 3,500 live male births according to the National Organization for Rare Disorders. Exondys 51 sales posted solid growth recently and were up c 27% y-o-y to US$380.8m in 2019 (with Q419 revenues of US$100.1m). Current EvaluatePharma consensus indicates FY20 sales of US$468m, suggesting solid loan collateral.

Sarepta's second commercial-stage drug, Vyondys 53 or golodirsen, is an antisense oligonucleotide. Golodirsen is designed to treat DMD in patients with a confirmed mutation amenable to exon 53 skipping (and may treat up to 8% of the DMD population, according to Sarepta's CEO). It was recently granted accelerated approval, which the company announced on 12 December 2019 (the day before BPCR's debt investment was announced). This was a reversal of the complete response letter (CRL) received in August 2019, which raised the risk of infections related to intravenous infusion ports and renal toxicity. The company announced that commercial distribution in the US will start immediately after approval. Sarepta has already launched a confirmatory study and will voluntarily withdraw Vyondys from the market, if results do not support a clinical benefit of the drug. Current EvaluatePharma consensus for FY21 and FY22 stands at US$36m and US$91m, respectively. However, we note that it is based on analyst estimates from early November and thus does not take account of the FDA approval obtained in December.

Moreover, the company has a late-stage drug called Casimersen (SRP-4045) developed to treat patients with genetic mutations that are amenable to exon 45 skipping (8% of DMD population). Sarepta targets FDA approval in 2020. The company previously highlighted that Casimersen's New Drug Application (NDA) submission to the FDA was dependent on further clarity on the FDA's CRL in relation to the Vyondys 53 (golodirsen) NDA discussed above. Golodirsen's recent approval opened the door to Casimersen's NDA submission, which was initiated in January 2020. EvaluatePharma consensus for the drug from early November implies FY20 and FY21 sales of US$5m and US$34m, respectively.

With respect to Sarepta's balance sheet, it had US$1.1bn in cash, cash equivalents and investments at end-September 2019. Moreover, Roche has recently agreed to make an upfront payment of US$750m in cash and a US$400m equity investment in Sarepta (at a price of US$158.59 per share) for the exclusive ex-US rights to SRP-9001, Sarepta's investigational micro-dystrophin gene therapy for DMD. Sarepta is also eligible to receive up to US$1.73bn in regulatory and sales milestone payments related to SRP-9001.

Global Blood Therapeutics investment

In December 2019, BPCR also announced a senior secured loan investment in Global Blood Therapeutics (GBT) of up to US$82.5m in two tranches, with US$41.25m drawn initially and the remainder available until end-2020. BioPharma V will provide an additional US$67.5m, implying BPCR's share in the deal is 55%. The loan matures in December 2025 with scheduled amortisation commencing in Q223. The interest is based on floating rate three-month Libor + 7.0% (with the base rate subject to a 2.0% floor), which we see as attractive and broadly in line with most of

BPCR's deals. The loan is subject to a 1.5% arrangement fee on funding and a 2.0% fee on loan repayment at maturity (with certain prepayment fees also included in the agreement). The loan is secured on all GBT's assets.

Global Blood Therapeutics is a NASDAQ-listed biopharmaceutical company focusing on treating genetic blood disorders. In November 2019, the FDA granted accelerated approval of its first drug, Oxbryta (voxelotor), for the treatment of sickle cell disease (SCD) in adults and patients over 12 years of age. Oxbryta, which is a once-daily oral product, is the first FDA-approved treatment that inhibits HbS polymerisation. Sickle cell disease is the most common inherited blood disorder in the US, with 107k diagnosed patients according to Quest Diagnostics lab data and an estimated mid-single-digit million number of people affected worldwide. The disorder is an abnormality in the oxygen-carrying protein haemoglobin found in red blood cells, which leads to them sticking in blood vessels and blocking regular blood flow. It causes pain, anaemia and can lead to strokes and organ failures. Initial prescription data have not been published yet, but EvaluatePharma consensus for Oxbryta sales indicates US$1.5bn in 2024. We note that consensus is based on estimates made prior to the approval. Voxelotor is also in Phase IIa trials for a label expansion to younger patients.

GBT also has a pipeline of less advanced therapies in the field. Inclacumab is a p-selectin inhibitor to address pain crises associated with SCD, with manufacturing underway. Recently, GBT entered into a partnering agreement with Syros Pharmaceuticals to discover novel therapies for SCD and beta thalassemia (another genetic blood disorder). Under the agreement, Syros will identify therapeutic targets that induce foetal haemoglobin, and GBT receives an option to obtain an exclusive licence to develop and commercialise products resulting from the collaboration. GBT will pay Syros US$20m upfront and will cover up to US$40m of research expenses for three years. Syros can receive up to US$315m on option exercise and the achievement of specific milestones, and will be eligible for further royalties.

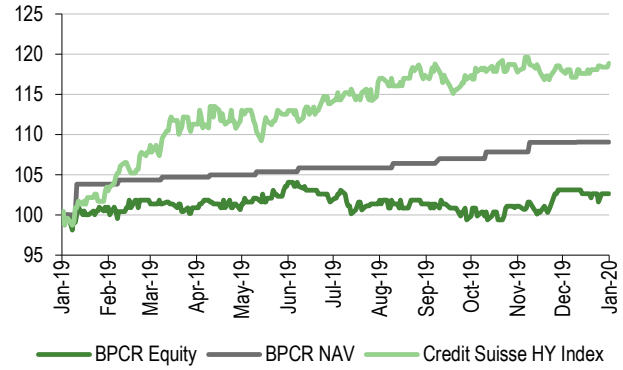
As at end-September 2019, GBT had US$696m in cash and marketable securities at its disposal. Together with the funding from Pharmakon, GBT believes this provides the company with the necessary runway to achieve positive cash flow, while enabling it to proceed with its development pipeline. During the 12-month period ending September 2019, GBT incurred US$234m in expenses, of which US$146m was R&D-related.

Performance: Assisted by Tesaro prepayment

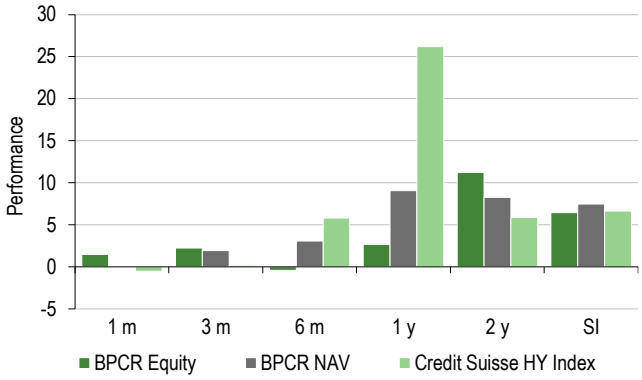
BPCR's annualised NAV total return (TR) since admission (March 2017) to December 2019 stands at 7.5%. Performance in 2017 and 2018 was somewhat below the targeted 8–9% pa as the company gradually added new investments to its portfolio and thus was subject to a meaningful cash drag. Nevertheless, this was ahead of the 7.1% pa posted by the Credit Suisse HY index over the same period. More recently, BPCR's total return NAV performance was in line with the target and ahead of the Credit Suisse HY Index over two years ended December 2019, when BPCR delivered a solid 8.2% NAV TR pa. At present, all of BPCR's debt investments offer a coupon rate of at least 8.5% pa.

Exhibit 8: Investment trust performance to 31 December 2019

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



Price, NAV and benchmark total return performance (%)

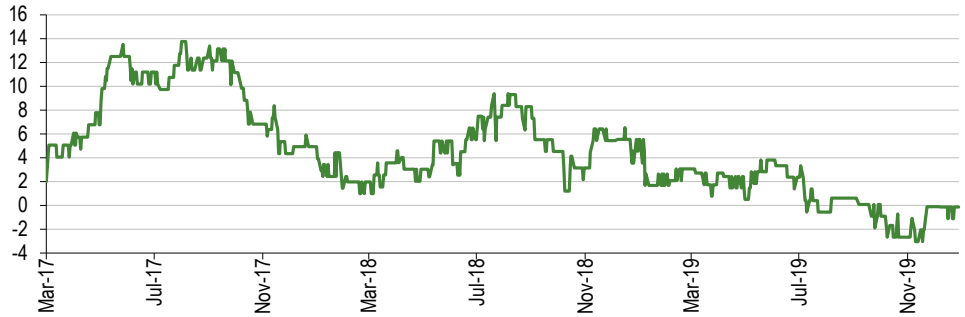


Source: Refinitiv, Edison Investment Research. Note: Since IPO and two-year performance figures annualised. Inception date is 24 October 2016. BPCR equity performance measured based on ordinary shares.

Trading at a modest discount recently

Since its IPO in March 2017, BPCR has traded at a single-digit premium to NAV. It occasionally moved into double-digit territory, assisted by positive market sentiment and new loan investments. Since August 2019, BPCR has traded at a low single-digit discount to its last reported NAV, which may have been associated with its high uncommitted cash level as well as concerns related to the dispute between Sanofi and Lexicon (one of BPCR's borrowers). At present, BPCR's shares trade broadly in line with last reported NAV.

Exhibit 9: Share price discount to NAV (diluted at par) since admission in March 2017 (%)



Source: Refinitiv, Edison Investment Research

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. We calculate the last 12-month (LTM) ongoing charges at 30 June 2019 at 1.2% of NAV, down from 1.6% at end-December 2018 due to the reversal of an accrual for legal work carried out in relation to a potential revolving credit facility.

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 of 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 pays quarterly dividends in US dollars. It aims to deliver a 7% annualised dividend yield (in relation to the issue price of US$1.00 per share). BPCR may designate a part or the 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'). In Q218, BPCR reached its dividend target and since then has paid out an annualised ordinary dividend at US$0.07. The LTM dividend stands at $0.0718 (translating into a c 7.1% dividend yield) and includes a special dividend of $0.00177 per share paid out in March 2019.

We estimate the weighted average coupon rate on BPCR's drawn senior secured loan tranches at c 9% (post December deals and accounting for the Libor floors embedded in the loan agreements). On full drawdown of outstanding commitments, this should provide full annual dividend cover. Additional income may come from arrangement fees (in H219 they amounted to US$5.2m according to our estimates), and the return on the investment in the BMS royalty stream. Potential loan prepayments (such as the early repayment of the Tesaro loan in January 2019) present further possible upside.

Peer group comparison

BPCR is part of the AIC Specialist: Debt sector, which contains funds with a wide variety of investment strategies, although none invests in the life sciences credit market. Nevertheless, we have compiled 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. BPCR's NAV total return in sterling terms was broadly in line with the peer average over a six-month and one-year period at -1.3% (vs the peer average of -0.2%) and 4.9% (4.0%), respectively (see Exhibit 10). The trust trades broadly in line with last reported NAV, compared to an average discount of 10% for its peer group. BPCR has no gearing at present, as opposed to its peers (except for NB Global Floating Rate Income). Interestingly, apart from BPCR, only Chenavari Toro Income Fund charges a performance fee within the analysed trusts group. BPCR's LTM dividend yield stands at c 7.0%, broadly in line with peer group.

Exhibit 10: Selected peer group as at 22 January 2020* in sterling terms

% 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	1,061.3	(1.3)	4.9	N/A	N/A	(0.2)	1.5	Yes	100	7.0
Chenavari Toro Income Fund	205.9	0.5	7.0	29.5		(21.7)	1.4	Yes	94.0	10.2
CVC Credit Partners Euro Opps GBP	336.0	0.5	2.8	14.3	32.0	(2.3)	1.1	No	94.6	5.3
Hadrian's Wall Secured Investments	79.6	(10.3)	(10.4)	(2.1)		(31.1)	1.9	No	75.2	10.8
NB Global Floating Rate Income GBP	386.8	6.2	13.7	14.8	25.0	(7.5)	1.0	No	100.0	5.2
TwentyFour Income	577.9	2.0	6.9	22.1	27.0	1.3	1.0	No	96.5	5.6
Average	**441.3**	**(0.2)**	**4.0**	**15.7**	**28.0**	**(10.3)**	**1.3**		**92.0**	**7.4**
Trust rank in sector	**1**	**5**	**4**	**N/A**	**N/A**	**2**	**2**	**-**	**1**	**3**

Source: Morningstar, Edison Investment Research. Note: *Performance to 31 December 2019. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets. BPCR performance measured based on ordinary shares.

The board

BPCR's board comprises five directors, all of whom are non-executive and independent. 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. They all joined on incorporation of the investment trust. In December 2018, Stephanie Léouzon joined the board as the fifth non-executive director. She has been a partner and head at Torreya Europe since 2011 and was previously a managing director and senior advisor at Credit Suisse, a director of healthcare investment banking at Salomon Brothers, and a vice president of the investment banking divisions at JP Morgan and Lehman Brothers. She was also a non-executive director of Endotis Pharma and Immunovaccine.

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