



Fund Bites

AXA Framlington Biotech Fund

The AXA Framlington Biotech Fund is an addition to the portfolios from July 2013. This “fund bites” is a summary of the recent meeting we had with the deputy fund manager, Gemma Game.

Introduction



There are two sectors where we believe there are interesting opportunities over the coming years. One of these areas is Biotech.

It is an interesting sector because of the changing dynamics within the world we now live in. It is sector which has innovation driven growth.

There has been significant advancements in science drive innovation i.e. genomic sequencing and molecular biology enhance understanding of disease and targets. Many diseases still have a high degree of unmet medical needed i.e. Alzheimer's disease, many cancers including pancreatic cancer, cystic fibrosis, antibiotic resistant infections. And drugs that can safely and effectively treat these conditions can still attract premium pricing and will be used.

There are a limited number of ways to invest in this market and after researching the market we believe that the AXA Framlington Biotech Fund is an excellent fund to benefit from this opportunity.

The lead manager is Linden Thomson who has a degree in Medical Microbiology and the deputy fund manager is Gemma Game who has a degree in Natural Sciences.

The team took over the management of the fund in 2011.

The Fund



The fund which Linden and Gemma took on was a concentrated portfolio of 30 to 40 holdings with little reference to the benchmark. They have re-engineered the portfolio to be a more diversified portfolio of 60 to 65 stocks focusing on innovative biotech companies.

There is risk within the industry but the argument that the companies are much more mature and also they have greater opportunities.

On the maturity side one of the holdings, Amgen, is now paying a healthy dividend and some of the companies are now mega caps.

Focusing on where scientific advancement is needed there is a wave of innovation coming through and we will cover this further down but this is important when considering the difference between big pharmaceuticals and biotech.

Pharmaceuticals had a wave of innovation in the 1990's and the patents are all coming to an end at the same time and this is patent cliff that many people are talking about. Pharmaceuticals saw this happening and started to invest in *Human Genome* but it was too late and therefore they have missed the initial opportunities i.e. they didn't take the risk.

The business models are also very different. Biotech is about drugs being supplied to a small number of people at a premium whereas pharmaceuticals are about mass drugs to a greater audience at a much lower cost.

We have heard about buyouts but this seems less of an outcome, it seems more and more it

is the intellectual property that pharmaceuticals want and this is leading to licencing and ties between groups.

Pharmaceuticals are starting to get products into the pipeline and have a significant number of products in phase 3 development. If they come through then this could provide significant upside.



If we consider innovation one of the biggest areas of development is Hepatitis C (HCV). This is now responsible for more deaths in the US than HIV.

Innovation has led to a paradigm shift in HCV therapy. Cure rates have increased from 40% to 65% with new oral therapies. It is expected this will increase to 90% plus within the next two years.

Of course there is risk associated with both the companies and the fund. As Gemma said there is the potential for a black swan event. That is a drug can take seven years to come through and it can pass phase 1 and 2 testing and then fail at phase 3.

However, Gemma believes that to some extent you can identify the winners by comparing products and looking at the data coming through from testing. They have also looked to create a portfolio which is less risky and less volatile. The top holdings are Gilead, Celgene and Amgen which are mega cap stocks and provide a strong foundation for the portfolio.

Gemma admits the sector is news flow dominated so it can reduce values quickly and the reverse. If a stock becomes overvalued they will look to sell and invest in other opportunities.

When investing in new companies the holding is often low and then will grow as confidence grows. This is a fundamental stock picking fund but it plays of their area of expertise. Both managers will attend medical conferences to identify opportunities and this is a crucial part of the investment story.

In summary we believe the biotech story is an exciting opportunity but of course this carries risk.

Conclusion

This is certainly not a low risk investment but clearly there are opportunities and the style of management blends the manager's skills with fund management to create a portfolio which can take advantage of these opportunities.

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