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# Biotech investing: Is there a doctor in the house?

## 60 seconds with the portfolio manager

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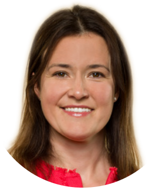

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# 60 SECONDS WITH THE FUND MANAGER

**Servaas Michielssens and Linden Thomson answer investors' questions about a sector where deep specialist knowledge is essential for consistent stock selection success.**

## What are the key drivers to the performance of the biotech sector?

Biotech can be considered the innovation engine of the biopharma and drug sector, often sitting at the cutting edge of the next medical breakthrough. Over time, the distinction between pharmaceuticals and biotechnology has blurred, as pharmaceutical companies have acquired traditional biotech firms and their technologies. Today, most of the top 10 best-selling drugs globally are biotech-derived.

The biotech sector is characterized by high growth, innovation-driven developments, and structural support from demographic shifts. It also offers defensive commercial business investment opportunities, making it a compelling sector for long-term investors.

## What does this mean for investors?

Despite its crucial role in healthcare innovation, biotech remains underrepresented in broad market indices. Traditional biotech companies make up less than 10% of the MSCI World Healthcare index and an even smaller proportion of the MSCI World index[1]. As a result, investors do not gain significant exposure to this sector through broader generalist US strategies.

This underrepresentation, combined with the unique characteristics of the biotech industry, creates a compelling case for active stock selection. The sector's reliance on Research & Development ("R&D") pipelines leads to significant dispersion in share prices, making biotech a stockpickers' market. Over time, biotech share prices tend to correlate with revenue and sales growth. As such, we continue to focus on material commercial opportunities.

Beyond individual stock opportunities, the broader biopharma sector has demonstrated its value over the last 5-10 years, transforming the outlook for patients with various cancers and bringing Covid-19 vaccines to market in record time.

(1) Source: Candriam

**PRE-CLINICAL / TOXICITY**

- Needs to be positive for a drug to be authorized for human testing
- At this stage, failure risk is still high (80-90%)

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**PHASE I**

- The safety of the product is assessed on healthy volunteers or in uncontrolled patient groups
- Failure risk still very high, even after promising data

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**PHASE II**

- Optimal dosing is determined, providing a first indication of efficacy (20-400 patients)

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**PHASE III**

- Well-controlled studies of established dose in thousands of patients.
- The failure risk of an individual drug is greatly reduced after a successful Phase III.

Looking ahead, we remain focused on breakthrough medical innovations that will impact patients across the multiple disease areas, including neurology and CNS (Central Nervous System), oncology, rare diseases, cardiometabolic conditions and more. At the same time, M&A activity continues to be a tailwind for equity performance in the biotechnology sector as large cap biotherapeutic companies continue to use this as a way to bolster R&D pipelines with quality innovation.

## When is the right stage of drug development to invest in biotechs?

The ideal timing for investing in biotech varies with each investment opportunity. Early-stage drug development investments may offer yield significant returns but come with higher risk. Later-stage of development have a higher probability of success but often come with lower potential returns. Additionally, strong investment opportunities exist in companies with already-approved drugs where clinical launches are expected to exceed commercial expectations.

Moreover, how these companies preform within the macroeconomic environment varies, requiring careful consideration in portfolio composition. We aim to build a balanced portfolio of high-conviction, quality biotech companies.

## What does successful stock picking in the biotechnology sector involve?

To be a successful biotech investor, one must evaluate three critical factors: science, company management team, and valuation:

- Understanding the science: it's essential. Investors must think like doctors – analyzing clinical data in the context of patient impact, and the competitive landscape.

- Assessing management teams: drug development is rarely straightforward. A driven, transparent, and experienced management team significantly enhances the likelihood of success.

- Valuation and market dynamics: it is vital to accurately value the opportunity and make investments at the right price. To truly excel, an investor must also understand market dynamics. While valuations are largely objective, the recognition of value depends on market cycles. The convergence between intrinsic value and stock market price can sometimes take a long time. In risk-off environments, early-stage assets may be undervalued, while cash-generative biotech may gain favor. Navigating these cycles is key to long-term success.

### What differentiates Candriam in mastering the inherent scientific complexity of this sector?

Mastering biotech investing requires deep scientific knowledge, financial expertise, and industry experience. At Candriam, our team brings nearly a century of combined expertise across scientific research, industry, and finance. Contrary to common intuition, the results of clinical trials are rarely straightforward or binary—they often require nuanced shades of interpretation. Analyzing this data demands a profound understanding of disease contexts, which our healthcare team has developed over many years.

Additionally, translating this knowledge into valuation is a craft that requires extensive experience. Our team comprises six professionals, including four PhD holders, five with scientific degrees, and two Chartered Financial Analysts (CFAs). This multidisciplinary expertise allows us to navigate the complexities of biotech investing with confidence, positioning us to capture the transformative potential of medical innovation.

# The main risks of the strategy are:

- **Risk of capital loss:**

There is no guarantee for investors relating to the capital invested in the strategy in question, and investors may not receive back the full amount invested.

- **Equity risk:**

Some strategies may be exposed to equity market risk through direct investment (through transferable securities and/or derivative products). These investments, which generate long or short exposure, may entail a risk of substantial losses. A variation in the equity market in the reverse direction to the positions can lead to the risk of losses and may cause the performance to fall.

The risks listed are not exhaustive, and further details on risks are available in regulatory documents.