



Biotech Growth (BIOG)

BIOG has soared as biotechnology has come back into favour.

Update

11 March 2026

Overview

The **Biotech Growth Trust's (BIOG)** small- and mid-cap tilt, gearing and focus on potential M&A candidates all make it well set up to maximise the returns in the biotechnology sector as it comes back into fashion after years in the doldrums. Since last July, BIOG has soared as the industry has seen a sharp rally (see **Performance**). Reducing political risk and a cutting cycle in interest rates have contributed, while we think growth investors have started to recognise the potential in this under-owned sector as they look to diversify from the mega-cap AI trade.

BIOG is managed by industry specialist OrbiMed, with Geoff Hsu and Josh Golomb the portfolio managers. OrbiMed has a huge presence in the biotech space, both in the US and in Asia, the two main sources of innovation. Its investments in pre-IPO, private businesses, contacts from on-the-ground presence in the key cities on both continents, and deep analyst team are all advantages when it comes to picking the best ideas in a space with wide disparities in single stock outcomes.

BIOG has a good track record of delivering substantial outperformance when the industry rallies, but has struggled in a weak market since 2022, which punished exposure to small caps and to China. These factors have worked in its favour in recent months, reflected in a NAV total return of 50.3% over one year and a share price return of 51.3%, as the **Discount** has narrowed slightly to 8.9%. Geoff and Josh have leaned further into the small-cap exposure, where they still see very low valuations by historic standards and growing interest by large-caps desperate to replace drugs rapidly going off patent in the next four years.

Analyst's View

Biotechnology has historically been a great long-term growth market, albeit with volatility along the way. We think it is emerging from a brutal period from 2021–2025, having been weighed down by high interest rates and political concerns in the US. Geoff and Josh stress that valuations are still exceptionally low, even after the recent rally. This, along with the exciting progress being made in various therapeutic areas and the need for large-cap pharma to acquire new drugs, means we think all is set up for the recovery to continue.

BIOG is unabashedly return-seeking, with the tilt to small-caps and the use of gearing indicative of a strategy that seeks to find the best growth opportunities and accept some volatility along the way. We therefore think it is a good option for investors believing in the biotech recovery story, and wanting to maximise their exposure to it. Looking long term, the allocation to China, supported by a locally based team of analysts, has the potential to offer something other funds can't, bringing exposure to one of the main sources of innovation, which is only growing in potential. In general, the depth of the resources at OrbiMed and the great connections that come from the extensive private investments look like an advantage when it comes to stock picking, as do Geoff and Josh's long personal experience in the sector.

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BULL

Deep resources, connections via private investments and experience of the management team

Good track record of outperformance in rising markets

Sector set to benefit from rate cuts and subsiding political risk

BEAR

Volatility has to be accepted, magnified by the gearing and small-cap tilt

Discount no longer looks cheap versus peers' or own history

US politics remains volatile, and rate outlook could change

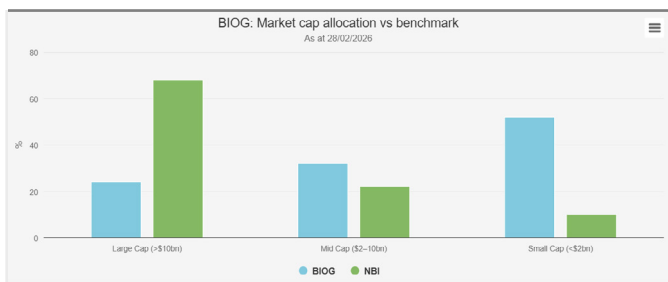


Portfolio

Biotech Growth Trust (BIOG) is managed to maximise the return potential from the exciting biotechnology sector, with an aggressive approach, which has delivered outstanding performance in past bull cycles for the industry. BIOG is run by a team of sector specialists at OrbiMed with deep resources, operating globally and across private and public markets. The managers Geoffrey Hsu and Josh Golomb run a portfolio with a structural tilt towards small- and mid-caps and towards pre-profit companies, with 35% in the latter as of the end of January. In this sector, pre-profit companies are those with new drugs or new treatments, which are showing promise in trials or awaiting regulatory approval. Geoff and Josh look for treatments with the potential to have a major impact on areas of unmet medical need, which draws them to companies with the greatest financial return potential too.

The mid- and small-cap tilt is clear in the chart below. While Geoff and Josh don't have official restrictions or policies on where they have to invest by market cap, they tell us they would expect to almost always be overweight SMIDs. This structural tilt explains a lot of recent **Performance**, with BIOG doing particularly well in risk-on markets and underperforming when investors reward the relative safety of large-caps. Looking in these segments is essential to uncovering the best opportunities, as small-caps with just one idea are the real engine of innovation.

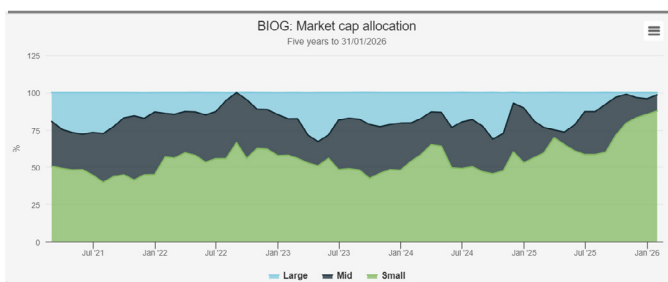
Fig.1: Market-Cap Breakdown



Source: Biotech Growth Trust

The chart below shows how the market-cap allocation has changed over time, using Morningstar classifications for segments, which differ from OrbiMed's but show the trend. There has been a consistent tilt to the smaller end of the

Fig.2: Market-Cap Exposure Over Time



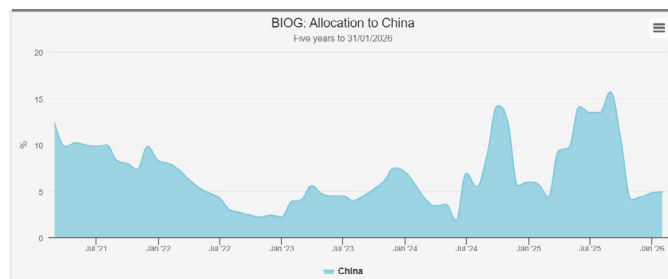
Source: Morningstar

biotechnology sector, and this has increased over the past year as the managers lean into the companies with the greatest return potential as the sector starts to recover.

Currently, large-cap pharma's need to replace drugs with expiring patents means there is renewed focus on M&A, with the small-caps being where the large-caps are looking to replace their expiring product lines. Around \$250bn in sales of branded pharmaceuticals will go ex-patent by 2030, with 2028 a particularly significant year. Last year saw M&A surge after a weak 2024, with an average of around eight takeovers each quarter. BIOG benefitted from the acquisition of SpringWorks Therapeutics by Merck at a c. 26% premium to the pre-announcement price. Geoff and Josh estimate that c. 77% of the portfolio is invested in a potential takeover target, and this could be a material driver of returns as the patent cliff draws near.

Beyond the structural tilt to small- and mid-caps, another distinguishing feature of BIOG versus most other options for investors in the space is the significant exposure to China. As of 31/12/2025, 11% of the portfolio was invested in China. Geoff and Josh describe China and the US as the two engines of innovation in the global industry. China has made immense strides in this regard, and is now generating a steady stream of products, which are typically licensed by American companies for commercialisation. China has been a tough place to invest since 2021, and this has weighed on returns. But in our view BIOG is investing for the future geometry of the industry, and the significant resources OrbiMed has devoted to it – with three analysts in Hong Kong and Shanghai and a large book of private investments in Asia – holds promise on a multi-year view. The chart below shows the historical allocation to China over the past five years using Morningstar data, which is based purely on listing location and excludes any unquoted holdings; it is clear that while the allocation has waxed and waned due to price movements and stock-specific decisions, Geoff and Josh have stuck to their conviction about the potential in the country throughout the bear market.

Fig.3: Exposure To China



Source: Morningstar

Stock selection is fundamentally bottom-up, with Geoff and Josh looking for companies with products that are meeting unmet clinical needs, as this is where the greatest financial



opportunities lie. There is therefore good diversification across clinical areas, with the exposure being determined by where the best stock-specific opportunities are. Medical science is making huge strides, with a number of novel technologies being developed and applied to long-standing diseases, which makes the opportunity in this out-of-favour sector all the greater.

BIOG has significant exposure to companies generating gene therapies, or editing genetic sequences, like Krystal or uniQure. It has companies developing antibody-drug conjugants, so-called ‘biological missiles’, which target cancer cells specifically, such as ADC Therapeutics or Corbus Pharmaceuticals, as well as those developing multi-specific antibodies, which are improving the treatment of cancers as well as other conditions, examples being Janux or Vir Biotechnology. Oncology is a major area of innovation in the sector at the moment, reflecting the high disease burden as well as the number of promising modalities. But BIOG has companies producing treatments for many other areas, including central nervous system (CNS) disease, which cuts across physical and psychological lines and is another major area of industry focus. Last year saw a number of acquisitions by large-cap pharma in this space, reflecting promising treatments as well as the increasing disease burden of conditions like Alzheimer’s and dementia. The managers highlight successful trials from Abivax of a new treatment for ulcerative colitis as an example of the promising innovation in their portfolio, with Abivax’s drug making it a potential takeover target for large-cap pharma.

The US remains the core of the portfolio, with 75% invested there as of the end of December. US regulation and US politics are therefore highly material. Trump’s choice of RFK Jr. as head of the Department of Health and Human Services caused some concern in 2024, as did a change of leadership at the FDA and a reduction in headcount at that organisation. However, these fears have subsided, and Geoff and Josh highlight that FDA approvals have remained

consistently high. The FDA Commissioner Marty Makary has shown himself to be reasonable and science-based, and has pushed for quicker approvals of new drugs. There has been some concern over tariffs, but the managers note that these would have a minimal impact on the costs of drug producers, while a lot of the value in the small- and mid-cap biotechs is the IP, not the manufacturing. While Trump has said he wants to drive down drug costs, the deals made so far have not had a major impact on the profitability of the large-cap pharmaceutical companies. Geoff and Josh argue the Trump administration is going to be a net positive for the biotech industry.

Biotechnology is a volatile sector, and focussing on small-caps brings greater volatility, with binary outcome events common in the sector, such as trial results or regulatory decisions. Risk management is therefore important. Geoff and Josh will own companies entering such binary events, but aim to size positions so that they aren’t exposed to a loss of more than 100 bps on any single catalyst. Position sizes may get up to 5–10% for the large-caps, when they own them, but are more typically in the 1–3% range for small- or mid-caps.

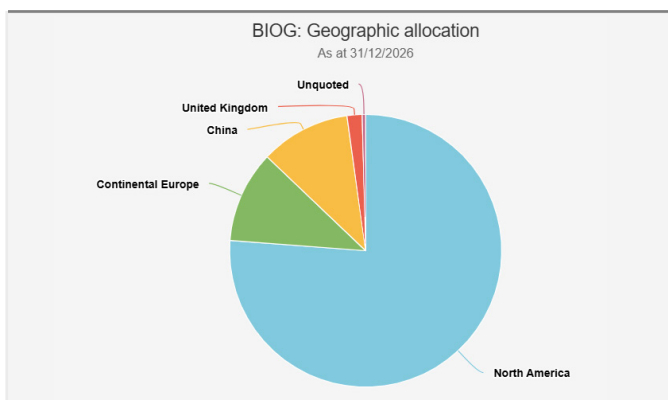
The table below illustrates the diversified nature of the portfolio at the end of December, reflecting a strong small-cap tilt. The top ten positions account for just 31% of the portfolio with only six worth more than 3% of the whole and no position worth more than 4%. There were 71 positions in total as of that month. The largest position was in Forte Biosciences, which illustrates the value in OrbiMed’s large footprint within the sector and long history of investing in it. Geoff and Josh were approached directly by a management team they had worked with in the past, along with a small group of other professional investors, and offered the chance to provide financing to a company with an exciting drug with potential to treat

Top Ten Holdings

Name	Total (%)
Forte Biosciences	3.6
EyePoint Pharmaceuticals	3.4
Praxis Precision Medicines	3.4
Krystal Biotech	3.1
C4 Therapeutics	3.1
UroGen Pharma	3.1
Cybin	3
Trevi Therapeutics	2.7
Argenx	2.7
Structure Therapeutics	2.7
Total	30.8

Source: BIOG, as at 31/12/2025

Fig.4: Geographical Exposure



Source: Biotech Growth Trust, as at 31/12/2025



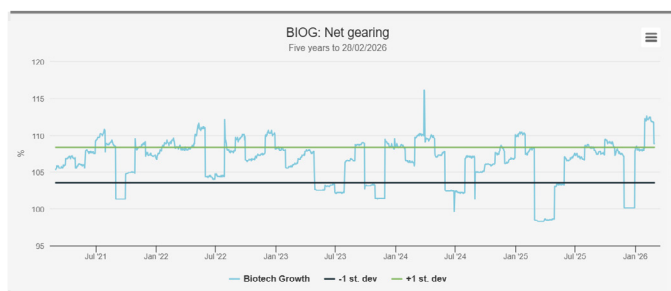
coeliac disease and vitiligo. Given the low valuations in the sector, this was a particularly attractive opportunity, and the position has returned more than four times the invested capital. The managers note this opportunity wouldn't have been available to investors in funds run by other managers.

EyePoint Pharmaceuticals, meanwhile, has phase 3 data due this year for a drug to treat age-related macular degeneration. Geoff and Josh are confident the results will be good, and so want to have a decently sized position, but they are aware of the binary nature of this outcome, so will manage this position appropriately. The volatile nature of small-caps and adjusting positions around these high-risk events contributes to a lot of trading to manage risks, and so turnover can be as high as 90%. This goes along with a very high active share, which was 85% at the end of December 2025, illustrating that this is a very active approach aimed at maximising the return potential by identifying the very best opportunities in terms of medical and financial impact.

Gearing

Geoff and Josh have access to a short-term loan facility, which allows them to swiftly adjust their geared position tactically, to take advantage of opportunities as they arise and to adjust their exposure when their sector looks cheap or expensive. Officially, there is a limit of 20% to the net gearing they can take on, but as the chart below shows, gearing has tended to be in the 3.5–8.3% range. While they do take tactical positions, the managers tell us they would expect to be geared c. 95% of the time, which is in keeping with the general proposition of the trust to be aimed at maximising growth. The facility costs a modest 45 basis points over the US overnight bank funding rate.

Fig.5: Net Gearing



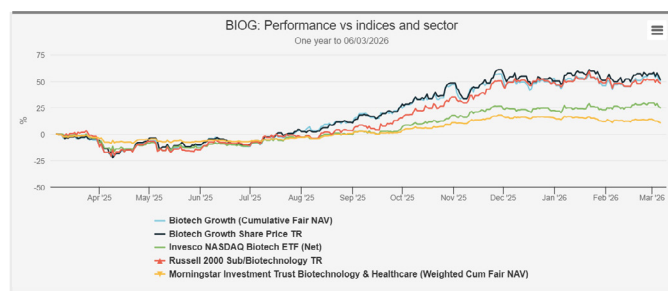
Source: Morningstar

Performance

BIOG has rallied sharply since last summer as animal spirits have started to return to the biotechnology sector. After roughly five years of being out of favour, a combination of factors we discuss below have led to strong

returns since July. Over the past 12 months, BIOG's NAV is now up 50.3%, having started the period losing c. 20%. Share price returns of 51.3% are a little higher thanks to a narrowing discount. BIOG has handsomely outperformed its benchmark, the NASDAQ Biotechnology Index, which has made 24.7%. The trust's structural tilt towards small- and mid-caps has helped it outperform, but BIOG has also slightly outperformed the small-caps; the chart below shows returns of 48.1% to the Russell 2000 Biotechnology Index.

Fig.6: One-Year Performance

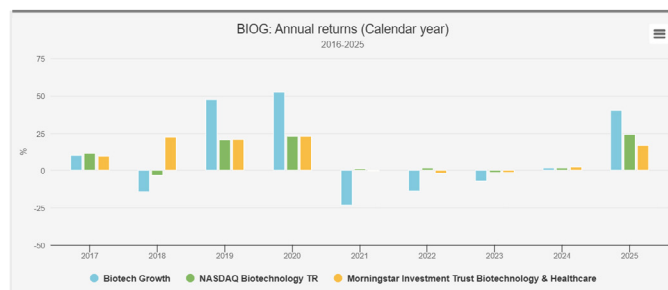


Source: Morningstar

Past performance is not a reliable indicator of future results.

The annual returns chart below illustrates how tough the previous few years had been for the sector. Having delivered exceptional returns in 2019 and 2020, the years of 2021 and 2022 saw a dramatic sell-off, which drove valuations down to depressed levels. Geoff and Josh point out that the percentage of biotechs that saw their equity valued as less than the cash on the balance sheet rocketed to over 25% in 2022: unprecedented levels, which were far away from the typical range of 0–10%. Indeed, 10% would have been seen as extreme beforehand, having been reached only in the aftermath of the global financial crisis (GFC).

Fig.7: Annual Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

The rally of the past eight months has only begun to correct these extreme undervaluations, with the corresponding figure remaining elevated. Notably, the small-caps have been starting to outperform the large-caps in the sector, which is helpful for BIOG. Additionally, pre-commercial

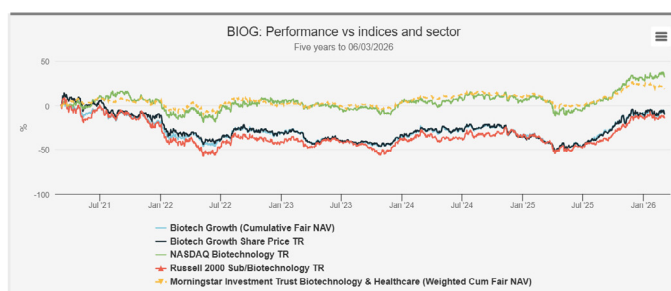


companies, i.e. those with a drug in trials or regulatory approval, have also started to outperform in recent months. BIOG tends to be overweight here, looking for the companies that have new solutions to large unmet medical needs.

Biotech’s lost five years seem to be essentially due to the changing interest rate environment. The unprecedentedly quick and drastic hiking cycle in 2021 and 2022 saw capital withdrawing from riskier areas as higher returns were available on lower-risk assets. Geoff and Josh highlight that biotechnology indices never displayed high correlation to rates or to inflation before this crisis. However, we do think that the pace and scale of portfolio rebalancing by global investors led to some radical effects, including biotechnology falling out of favour. Additionally, political risk has been high. Drug pricing has been a live issue in American politics for the past decade, and President Trump has himself shown some concern for reducing drug prices. The beginning of his second term saw political concerns ramp up, thanks to the appointment of vaccine sceptic RFK Jr. to the administration, the culling of staff at the FDA and then uncertainty about potential tariffs or other trade restrictions. While the rate-cutting cycle got underway in 2024, we think these political tensions held biotech back, with growth investors pouring capital into AI being another factor. As the mega-cap AI trade seems to have run its course, biotech has been freed from another inhibiting factor. In our view, the environment looks helpful for biotech to continue its run and re-establish itself as a key place to look for high growth investors, and BIOG’s focus on small-caps, gearing and good track record of stock selection mean it looks likely to do very well if this is the case.

The chart below shows five-year returns for completeness’s sake. By chance, it covers a period that almost to the day picks out the beginning of the slump. We think it is meaningful that biotech remains well below all-time highs, especially considering the exciting progress being made in medical science over the past few years and the fact the market still looks substantially undervalued.

Fig.8: Five-Year Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

Dividend

Biotechnology is a low-yielding sector, and income is not an objective for the trust. BIOG has not paid a dividend since 2001 and absent a major change in policy is unlikely to do so in future.

Management

BIOG is managed by Geoffrey Hsu and Josh Golomb, partners at OrbiMed, a specialist healthcare investor with a global footprint. The wide reach of OrbiMed gives Geoff and Josh an advantage when it comes to identifying opportunities. They work in a team of seven biotech analysts located in the US, while OrbiMed has three analysts located in Hong Kong and Shanghai, providing access to the rapidly innovating Chinese industry. Over 75% of OrbiMed’s more than \$17bn in AUM is in private investments. This gives Geoff and Josh access to early-stage businesses yet to hit the public markets. They can invest in companies at the crossover round – the final round of financing before IPO – but perhaps a greater advantage is the knowledge of the research and product development going on in the various therapeutic areas, both in the US and in China, the two main sources of biotech innovation. OrbiMed also manages the Worldwide Healthcare Trust (WWH) and has a team focussed on the healthcare sector, providing valuable insight into broader dynamics and the businesses of potential acquirers of biotech companies.

Geoff joined OrbiMed in 2002, having previously worked as a biotech analyst in investment banking. He has an MBA from Harvard Business School and spent two years studying medicine. He was appointed portfolio manager of BIOG in May 2005, giving him over two decades’ experience managing the portfolio. Josh joined OrbiMed in 2021, having covered biotech firms at various investment firms since 2004. He was appointed portfolio manager to BIOG in 2023. Geoff has also sat on the board of BIOG since 2018 as the only director connected to OrbiMed.

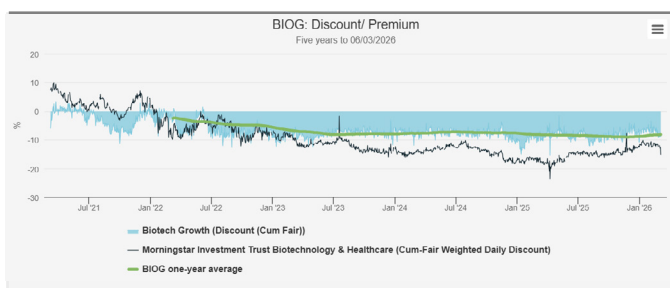
Discount

BIOG suffered a de-rating during 2022 when the biotechnology sector sold off sharply. As the chart below shows, the discount then found some support and the one-year average has been fairly stable around the mid-to-high single digits since mid-2023. A major intervention by the board will have played a role, as it has bought back shares in line with its policy of doing so when the discount is wider than 6%. Almost 20% of the share capital was bought back in the 2025 financial year and we estimate roughly the same percentage in FY 2026 so far. However, since July 2025, the discount has narrowed slightly,



although the outbreak of war in the Middle East has seen it widen slightly to 8.9% at the time of writing. Biotechnology has rallied hard over this period, with BIOG’s NAV up 50% over the calendar year, essentially all of the gains in the second half. We would note that BIOG often traded on a premium when the sector was last in favour, with its tilt to small-caps and use of gearing meaning it tends to be attractive in a risk-on market, and a narrowing discount is another potential source of return if the current recovery kicks on.

Fig.9: Discount



Source: Morningstar

Past performance is not a reliable indicator of future results.

The board holds a continuation vote every five years, with the next regularly scheduled one expected in 2030. However, last year it said it will hold a one-off continuation vote at the 2028 AGM in the light of the recent volatility, in order to provide an earlier opportunity for shareholders to assess the progress of the investment strategy and a potential recovery in the sector.

Charges

BIOG’s latest ongoing charges figure (OCF) of 1.1% is the lowest of the three biotechnology trusts. It includes a management fee paid to OrbiMed of 0.65% of NAV, plus a fee to the AIFM, Frostrow, of 0.3% on the first £500m of market cap and 0.2% on the next £500m, then falling to 0.1%. There is also a performance fee subject to what is effectively a high-water mark, so no fee has been charged in recent years. This is 15% of the outperformance of the benchmark, the NASDAQ Biotechnology Index. At the time of writing, the NAV is c. 20% below its peak. It’s worth stressing that OCFs and performance fees are included in reported NAV returns and not an extra charge paid by shareholders.

ESG

OrbiMed seeks to integrate ESG factors into the overall investment process, with the objective of maximising investment returns. Investment decisions are based on a variety of financial and non-financial company factors, including ESG information. The Portfolio Manager has

appointed a Director – ESG to oversee the integration of ESG analysis. OrbiMed’s analysts track financially material ESG information such as safety of clinical trials, drug safety, ethical marketing, call-backs and other materially relevant factors. As part of these efforts, OrbiMed engages with companies directly or through brokers, and facilitates dialogues and exchange of leading practices among investors, companies, and other relevant experts on ESG in the healthcare sector.

BIOG has one out of five globes for sustainability with Morningstar. However, we note that drug development can lead to low scores on formulaic ESG systems due to animal testing and involvement in ethically sensitive areas like stem cell research. In our view, investing in new medical treatments can in itself be considered to further some of the most important social goals surrounding health and wellbeing, so should appeal to investors inclined to value ESG.



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