Excerpted from Investment Trust Newsletter, July 2023, by Andrew McHattie

RTW BIOTECH OPPORTUNITIES (RTW, US$1.225)

If you didn't recognise the name, this is the freshly rechristened RTW Venture Fund, which felt the growing maturity of its portfolio merited a change. Although we definitely classify RTW as an earlystage US biotech investor, the majority of its investments are publicly listed now, and the trust's management has been trying to raise its profile as a leading investor deserving of a higher rating. The trust's shares are on a discount to net asset value of 28.8% and this looks anomalous to us in view of the recent portfolio successes.

Rod Wong, the managing director of the managers, spoke in a webinar in early June to explain the case, which we find compelling. His firm, first of all, was founded in 2009 and has grown to a team of 75 people across three continents with US$6bn of assets under management. They adopt a detailed scientific approach to their research and aim to invest over the lifecycle of companies, not just at an early stage. This is relevant in terms of the re-branding of the trust, which is not a typical private equity style investor seeking to get in and out within a five-year timeframe. RTW is more focused on building long-term value, investing early but without any imperative to exit once companies go public or reach a certain point in their development. Rod says "over 80% to 90% of the value of what ultimately becomes a blockbuster product is actually created after a company IPOs." He sees the managers as true business builders and believes they are more attractive partners as a result, much as we reported for **Literacy Capital** (BOOK, 485p) last month.

In terms of the opportunities for the trust, Rod explains that biotech has been critical to the significant gains in health in society over the last 20 years. Biotech companies are responsible for more than 50% of the roughly 40 to 50 new drugs that are approved by regulatory agencies each year, and they have been the ones to really add new modalities, things like antibodies and protein based drugs to the armamentarium that we have to fight disease. He continues “on top of this legacy for biotech, in the past five to 10 years, the industry has really entered a new phase, a new productivity boom. And I think that we’re only in the early to maybe mid innings of the biggest innovation boom that our sector has ever seen.” Access to cheap information has increased the odds of discovering new medicines, as have the newer antibodies and proteins now being used in development.

Yet against this backdrop the Russell 2000 Biotech Index is just starting to recover from its second largest drop ever, meaning that prices are not exactly stretched after the growth sell-off. Rod says “valuations are very, very attractive after the correction, only modestly above financial crisis lows.” He says there are a record number of companies trading below cash, and he sees a positive tailwind from continuing M&A as the large cap pharmaceuticals need to replace revenues from older drugs now reaching patent expiry. The trust recently benefited from an offer at a big premium for its largest holding, Prometheus Biosciences, and Rod says the company actually received three bids and had discussions with six potential buyers, so there are plenty of buyers around. So far this year, the trust has had three company holdings going public, adding 30% to their prior holding values, validating their private valuations. It’s been a busy year for the portfolio, with two takeouts, two successful IPOs, one SPAC merger, participation in a handful of bespoke strategic financing packages, plus three new private investments. The trust is also expecting an FDA update for Rocket Pharmaceuticals, has moved to monthly factsheets, and will be holding its first Capital Markets Day in November, so there are plenty of potential triggers ahead to attract more investors.

RTW is still a relatively young trust without a long track record, having floated in 2019, and it has already experienced its ups and downs in that time. It takes a brave investor now to buy into a growth area paying no dividends, but we do think RTW merits a place in balanced portfolios as a riskier bet with exceptional potential. The trust’s NAV is up 37.6% over the last year and we think the

shares merit a higher rating.

It might make sense to balance a holding in RTW by pairing it with Worldwide Healthcare Trust (WWH, 3097.5p), the mainstream choice at the other end of the healthcare spectrum. WWH invests across the sector and has big holdings in some of the sector's well-known names such as AstraZeneca, Bristol-Myers Squibb, Novo Nordisk, Roche, and Sanofi. Holders should note the shares are about to go through a 10-for-1 subdivision at the end of July that will make them easier to trade in small quantities.