

Pictet - Biotech - P EUR

Risk Considerations

All forms of investment involve risk. The value of investments and the income derived from them is not guaranteed and it can fall as well as rise and you may not get back the original amount invested. Please refer to the prospectus for further information.

MARKET REVIEW

The Biotech sector took a breather in March post a strong performance since late October lows. Small to mid-cap companies underperformed their larger peers and the broader market. The XBI has retraced its valuation gap and now sits at a more normalised multiple. However, fundamentals for the group remain very healthy and overall positioning is still skewed to the upside. Overall, the first quarter brought many tailwinds for the sector, including macro, fundamentals, decent M&A activity and strong funding. The latter factor was welcomed as the secondaries hit a record high and the IPO window had a small resurgence. SMID companies have been diligent on spending and now have well over two years' worth of cash on their balance sheets. We expect the IPO market to open substantially in H2 of this year.

PERFORMANCE ANALYSIS

The Pictet Biotech fund underperformed the general markets in the first quarter of 2024. After a very strong January and February, the fund experienced a consolidation in March.

The best performer was Viking Therapeutics: Post a doubling of the stock at the end of February with its ph2 subcutaneous data in obesity and an equity raise, the stock gave back half its gains in the first half of March as people fretted over the upcoming ph2 oral data in obesity. The data was outstanding, and the stock recovered its losses. Vera Therapeutics was a strong outperformer too: The company presented long-term data for its molecule in IgAN, with properties that are at first sight disease-modifying. In addition, Merus continued its strong positive momentum in anticipation of key data readouts for its drug candidate Peto in combination with Pembrolizumab in 1L head and neck cancer.

In terms of negative impact, Alnylam was the biggest underperformer as the company informed the market that their Helios B phase 3 trial would be prolonged to collect more events and that the endpoints would be modified. This obviously made investors nervous, and the stock corrected sharply. We still think that the trial has a good chance of working. Biogen weighed on performance as well, driven by financial results below consensus and on slow pickup for Leqembi, the newly launched Alzheimer's therapy.

PORTFOLIO ACTIVITY - OVERWEIGHTINGS & UNDERWEIGHTINGS

We increased our position in Moderna once more as we believe that the short thesis on C19 is now passed and well reflected in the valuation. We believe that the company has several ways to provide an upside to the numbers, including with low-expectation franchises in RSV and flu. We also increased our position in Biomarin, which has been an underperformer for years as prior management underdelivered and spent too much money on R&D projects that were not worth the investments. We believe that a rationalisation of these projects will provide better profitability. We also expanded our position in Cytokinetics post a reset on expectations of an exit strategy. We believe that at these levels, the company can create value over time with an asset that will turn out to be a best-in-class drug in a multi-billion-dollar market. We also re-added to Viking Therapeutics prior to the oral data as the expectations and valuations were just too attractive. We built a new position in Longboard Therapeutics. The company has positive data in rare epilepsies, which stacks up well against names like GW Pharma and Zogenix.

We further sold our position in Biogen shares as the company isn't executing to the standards that the newly appointed CEO had promised a year ago. We sold our entire positions in Alkermes, Incyte and Acadia Pharma.

MARKET OUTLOOK

M&A continues to drive the narrative alongside the macro outlook. We feel strongly that this trend will continue as many of these deals remain competitive. Pharma is still looking for assets which are de-risked by strong ph2 data or well-understood therapeutic markets. We feel comfortable that if the macro picture holds up, we should see a decent year for Biotech as expectations have reset, positioning is at an all-time low, M&A continues, and the number of companies has shrunk considerably. One thing to watch will be the 2024 presidential election in the USA.

In the longer term, we are seeing a considerable shift in the conversation on healthcare costs relating to drugs. Value-based reimbursement is used in some countries and more and more voices in the United States are now asking for a similar system. The government, regulators, insurers as well as the industry need to find a middle ground that allows for effective management of drug costs while not running the risk of stifling innovation. The most important stakeholders, patients, should have access to high-quality care without having to risk personal bankruptcy. We view this as a prime opportunity for innovators not just on the science, but also on business models and forward-thinking, value-based contracting.

PORTFOLIO STRATEGY

We remain focused on the long-term innovation of many of our SMID cap companies. While the style of our exposure continues to fluctuate with other long-duration assets, we remain steadfast on the fundamentals of these companies. We believe that the valuation discrepancy versus the rest of the market is still wide and, while sentiment has improved, positioning remains underweight. Our core holdings continue to focus on de-risked assets, which can bring billion-dollar assets in the second half of this decade.

We think selecting companies with a deep innovation capacity as well as a strong strategic view is key to delivering superior value to all stakeholders, including investors. Paired with rigorous fundamental analysis of financials based on DCF models and assessment of scientific and clinical data, we need to consider other factors such as the severity of the unmet need a company addresses, reasonable pricing and patient access to a drug. On top of this bottom-up, fundamental analysis, we apply a systematic approach to portfolio construction and diversification/risk budgeting.



General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	14.06.2006
Launch date	05.12.2006
Share class currency	EUR
Compartment currency	USD
ISIN	LU0255977455
Reference index	MSCI AC World (EUR)
Min. investment horizon (year(s))	5

INVESTMENT OVERVIEW

OBJECTIVE

To increase the value of your investment while seeking to achieve a positive social impact.

REFERENCE INDEX

MSCI AC World (USD), an index that does not take into account environmental, social and governance (ESG) factors. Used for risk monitoring, performance objective and performance measurement.

PORTFOLIO ASSETS

The Compartment mainly invests in equities of companies operating in the medical biotechnology sector. The Compartment may invest worldwide, including in emerging markets and Mainland China, although most of investments are concentrated in the United States of America and Western Europe.

DERIVATIVES AND STRUCTURED PRODUCTS

The Compartment may use derivatives to reduce various risks (hedging) and for efficient portfolio management, and may use structured products to gain exposure to portfolio assets.

COMPARTMENT CURRENCY

USD

INVESTMENT PROCESS

In actively managing the Compartment, the investment manager uses a combination of market and fundamental company analysis to select securities that it believes offer favourable growth prospects at a reasonable price. The investment manager considers ESG factors a core element of its strategy by seeking to invest mainly in economic activities that contribute to a social objective whilst avoiding activities that adversely affect society or the environment. Voting rights are methodically exercised and there may be engagement with companies to positively influence ESG practices. For further information, please refer to our exclusion framework in the Responsible Investment policy*, SFDR product category Article 9. The portfolio composition is not constrained relative to the benchmark, so the similarity of the Compartment's performance to that of the benchmark may vary.

Fees

Ongoing charges (OCR)	1.99%
Performance fee (excluded from OCR)	0% of the outperformance against the Index since the last performance fee payment
Entry and exit Costs ¹	-

1. We do not charge an entry or exit fee, however the person selling you the product may charge you up to a maximum of 5% for entry fee, up to 1% as an exit fee and up to 2% as a conversion fee.

Management team

Pictet Asset Management

For Professional Investors only

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Pictet Asset Management
Manager Comments



Further information can be found in the prospectus.



Pictet Asset Management

For further information, please visit our
website
assetmanagement.pictet

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Before making any investment decision, investors are recommended to ascertain if this investment is suitable for them in light of their financial knowledge and experience, investment goals and financial situation, or to obtain specific advice from an industry professional. Top 10 holdings do not represent the full portfolio. There is no guarantee that these securities will be held in the future and you should not assume that investment in the securities listed was, or will be profitable. Any reference to a ranking, a rating or an award provides no guarantee for future performance results and is not constant over time. For hedged share classes, only the compartment's consolidation currency is hedged into the share class currency. Foreign exchange exposure, resulting from assets in the portfolio which are not denominated in the consolidation currency, can remain. NAVs relating to dates on which shares are not issued or redeemed ("non-trading NAVs") in your country may be published here. They can only be used for statistical performance measurements and calculations or commission calculations and cannot under any circumstances be used as a basis for subscription or redemption orders. Performance is shown based on the share class NAV per share (in the share class currency) with dividends reinvested (for distributing share classes), including actual ongoing charges, and excluding subscription/redemption fees and taxes borne by the investor. Inflation was not taken into account. As a subscription fee calculation example, if an investor invests EUR 1000 in a fund with a subscription fee of 5%, he will pay to his financial intermediary EUR 47.62 on his investment amount, resulting with a subscribed amount of EUR 952.38 in fund shares. In addition, potential account keeping costs (by your custodian) may reduce the performance. Indices do not include fees or operating expenses and you cannot invest in them. The decision to invest in the promoted fund should take into account all the characteristics or objectives of the promoted fund as described in its prospectus, or in the information which is to be disclosed to investors. Pictet Asset Management retains full discretion over the implementation of exclusion criteria and reserves the right to deviate from third-party information on a case-by-case basis. For more information, please refer to the Pictet Asset Management Responsible Investment Policy. For passive strategies exclusions are implemented to the extent portfolio structure, weight deviations, volatility and performance are not materially affected.

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They can only be used for statistical performance measurements and calculations or commission calculations and cannot under any circumstances be used as a basis for subscription or redemption orders. Performance is shown based on the share class NAV per share (in the share class currency) with dividends reinvested (for distributing share classes), including actual ongoing charges, and excluding subscription/redemption fees and taxes borne by the investor. Inflation was not taken into account. As a subscription fee calculation example, if an investor invests EUR 1000 in a fund with a subscription fee of 5%, he will pay to his financial intermediary EUR 47.62 on his investment amount, resulting with a subscribed amount of EUR 952.38 in fund shares. In addition, potential account keeping costs (by your custodian) may reduce the performance. Indices do not include fees or operating expenses and you cannot invest in them. 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