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Possible breakthrough in gene technology driving biotechnology share prices

Dieter Kerschbaum



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Biotech shares are regarded as highly promising due to the innovative strength of the sector, but they also tend to be subject to drastic price fluctuations both ways.

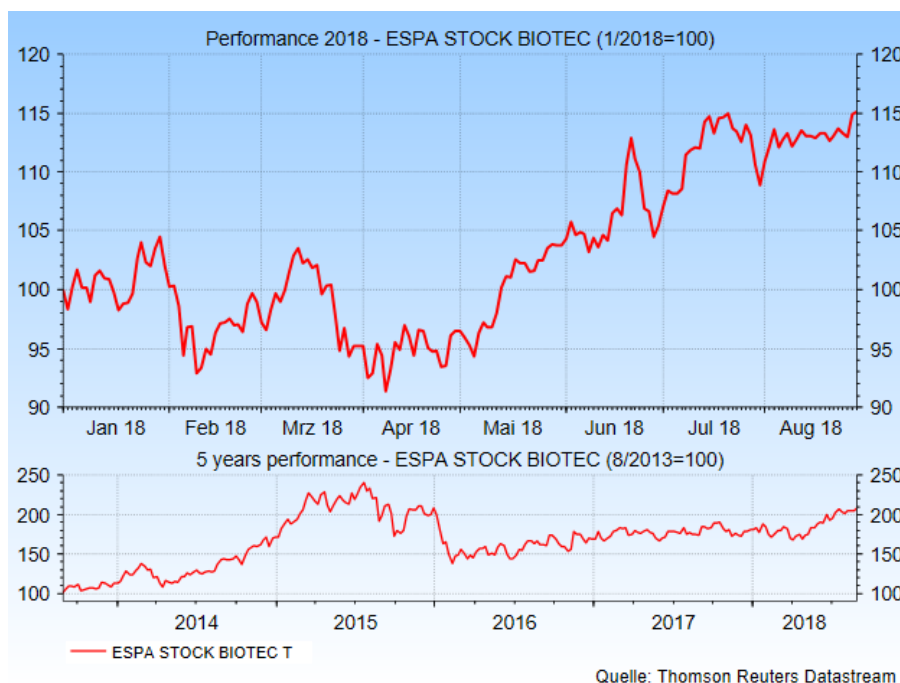
After a long period of consolidation, biotech shares have embarked on a clear upward trend since May 2018. Harald Kober, Senior Fund Manager of the equity fund ESPA STOCK BIOTEC, explains the reasons for the investors' optimism.



*Harald Kober, fund manager of
ESPA STOCK BIOTEC since 2010*

What sort of performance have the listed biotech companies seen in recent months and years?

Biotech shares had been on a steady upward path for more than six years to their all-time-high in mid-2015. This was followed by a sharp correction, when Hillary Clinton, the later US presidency runner-up, announced a healthcare reform in her election campaign that would have had a negative impact on the sector in the event of her victory. Things turned out differently, as we know: while the incumbent president, Donald Trump, has let the sector know that he does not appreciate higher drug prices either, a statutory regulation is currently not up for debate.



Note: Past performance is not indicative of future development.

Biotech share prices have picked up by a substantial degree recently. What are the driving factors?

In comparison with other sectors, the entire technology sector has performed well in the year to date; the reasons are not the least internal ones: biotechnology shares currently command attractive valuations on the stock exchange, especially the Big Ten. And the sales and profit estimates for 2018-2020 suggest an increase in the double digits – the low double-digits, but the double digits all the same. In addition, we have seen numerous new studies, some of which with promising research results that boost investor confidence and have caused an inflow of capital since the beginning of June.

What kinds of innovation and research results can boost the sector? Can you give us examples?

According to an announcement by the US biotech giant *Biogen*, a drug against Alzheimer's has made it through phase II of the FDA drug development process. This drug disposes of deposits in the brain, as a result of which symptoms recede. Investors reacted positively to this bit of news, and now the hope is for the drug (BAN2401) to be approved for commercial use at the end of phase III in about two years. I am a bit sceptical, as the results were not 100% unequivocal.

Apart from Alzheimer's, what area of application seems promising from today's perspective?

Definitely genetic research and gene technology. The so-called genome editing is a big issue at the moment. In simple terms, this refers to the method of genetic engineering by which defective genes are repaired or removed. This has recently worked on a patient for the first time. The US biotech companies *Sangamo Therapeutics* and *Crispr Therapeutics* have been pioneering this field. We are only at the outset of a broad area of applications. Perhaps many diseases can be treated at the root in some years rather than on the basis of their symptoms.

Onpatro is the first drug based on RNAi technology and approved for a small group of patients with a rare heritable disease.

All that sounds highly interesting, but what are possible stumbling blocks for the biotech sector?

An increase in sales prices above the rate of inflation should become more difficult to achieve in the future. President Trump has threatened to intervene in case the pharma- and biotech sector failed to bend to the government's wishes. I do believe, however, that such statements have been expected, and the pharma- and biotech sector is open to compromise so as not to put new markets with large potential at risk. Governmentally regulated drug prices would definitely constitute the worse alternative.

You addressed potential mergers and investors speculating on such transactions. Are mergers still part of the narrative?

Yes, they are. Large pharmaceutical companies are still looking for small innovative biotechnology enterprises. For example, the Swiss pharmaceutical giant *Novartis* acquired the US company *Avexis* by \$ 8.7 billion this year to expand its position as a leading gene therapy and neuroscience company. And *Sanofi* has swallowed € 3.9 billion for the Belgian company *Ablynx*, which is working on medicines for rare diseases of the blood system. The merger of the US company *Shire* with the Japanese pharmaceutical company *Takeda*, a deal worth \$ 62 billion, is still in progress.

Investing in biotechnology shares

Investors willing to broadly diversify the high risk associated with an investment in biotechnology shares can do so by investing in [ESPA STOCK BIOTEC](#) by Erste Asset Management. The fund is invested in the most important listed biotechnology companies. Those are mainly companies based in the USA. Equities from the Pacific region and Europe carry significantly less weight, but are added in selectively. Currencies are not hedged against the euro.

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Due to the composition of its portfolio, ESPA STOCK BIOTEC may be subject to elevated levels of volatility, i.e. the shares of the fund may fluctuate significantly both ways within short periods of time.

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