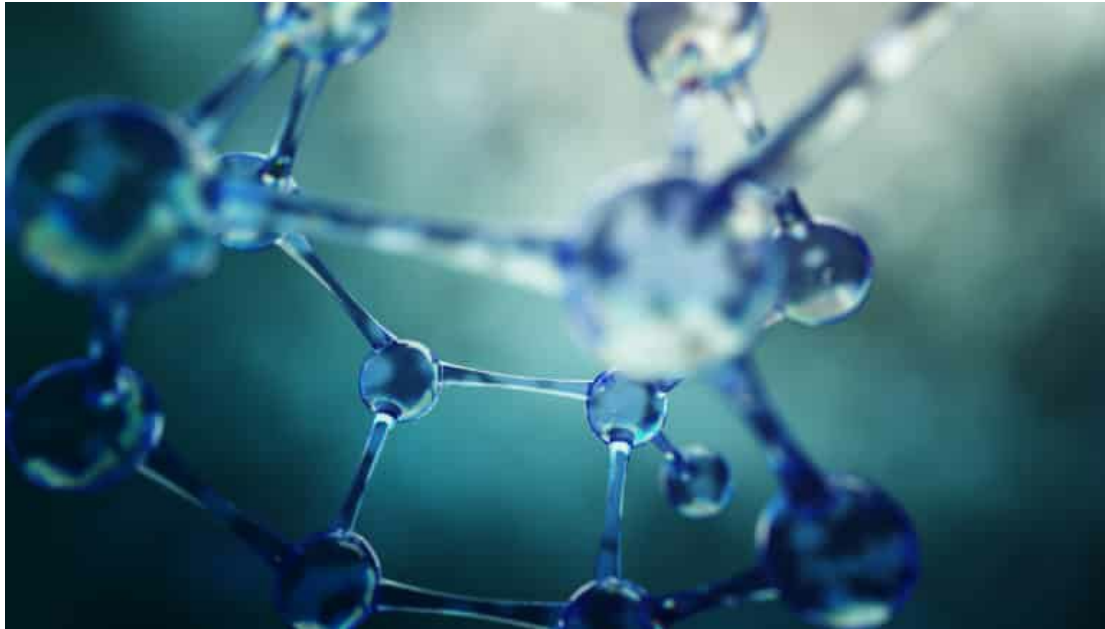


<https://blog.en.erste-am.com/tailwind-for-biotechnology-companies/>

Tailwind for biotechnology companies

Gast-AutorIn / Guest Author



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Author: Harald Kober, Senior Fundmanager

“Breather” coming to an end

Biotechnology shares have been among the top performers in the past ten years. After the above-average performance from 2010 to the beginning of 2015, hedge funds set off a consolidation that is now coming to an end. The NASDAQ biotechnology index, the most important barometer for biotech shares, has gained 25% in the year to date (source: Reuters Datastream, as of 31 August 2017). Issue activity increased drastically in Q2. The biotechnology sector will benefit from new, innovative, and successful drug developments: We expect listed biotechnology companies to post double-digit growth rates on average for sales and earnings in the coming years.

Source: Bloomberg; EAM own calculations

Best performing sector over 10 years

Source: Bloomberg; EAM own calculations

Source: Bloomberg; EAM own calculations

Source: Bloomberg; EAM own calculations

Old age and drug innovations as growth drivers

The healthcare sector is regarded as one of the leading industries of the 21st century. As a result of global population growth to 9.2bn people and the predicted doubling of the above-60 demographic by 2050, healthcare spending in the OECD countries will rise from currently 6% of GDP to 9.5% (source: OECD).

The sequencing of the human genome has revolutionised the development of drugs. In spite of many innovations and successful research, however, there are only few drugs on the market for the 1,200 rare diseases. Even in the USA, which has been in the news since President Trump took office due to political debates around changes in the healthcare system (“Obamacare”), the healthcare sector will be the biggest employer in the coming decade.

Many illnesses have not been fully investigated yet, and there are certainly no effective drugs available. This might soon change. For 2017, a whole range of new drugs is expected to be approved, for example the skin disease drug *Dupixent* from Sanofi, the active ingredient *Ocrevus* from Roche against Multiple Sclerosis, and *Durvalumab*, a drug used in oncology against bladder cancer from AstraZeneca.

Source: Evaluate Pharma

Source: Evaluate Pharma

Stock exchange valuations half the level of two years ago

In 2016, 60% of all drugs approved had been created in biotech labs, with reference to data from Evaluate Pharma. We expect the success rate of biotech companies to rise rapidly. This is one of the reasons why takeover activities have picked up again. The big pharmaceutical companies are keeping liquidity for takeover moves. We can see that the issue activity in Q2 2017 more than doubled in comparison with the two previous quarters. This could mean the long-awaited trend reversal of biotech shares has started. Jüngster Paukenschlag: The most recent hit in the industry: Gilead, the US pharmaceutical company, will acquire the biotech company Kite Pharma for 11.9 billion US dollars and is thus to secure a place in the highly lucrative

market of cancer treatment. (quote Handelsblatt vom 28.8.2017)

While we cannot foresee the stock market performance, we definitely think there have been worse times to invest. In terms of MarketCap/Sales, the entire listed sector commands valuations only half as high as those at the most recent pinnacle in March 2015.

ESPA STOCK BIOTEC: Portfolio mit den Top-Biotech-Unternehmen

Investors who want to broadly cover the global biotechnology sector could for example invest in ESPA STOCK BIOTEC. The equity fund launched by Erste Asset Management in 2000 invests in a portfolio that consists of 92 listed companies mainly from the USA, which is regarded as the centre of biotechnology. Since its launch, ESPA STOCK BIOTEC has achieved an annual performance of 9.04% (as of 31 July 2017; source: www.erste-am.at)*. The fund covers all essential fields of biotechnology e.g. cancer research, personalised medicine, Alzheimer's, cell therapy, rare diseases, and genetic research. Among the positions with the highest allocations are leading biotech companies such as *Gilead*, *Biogen*, *Sarepta*, *Celgene*, *Vertex*, *Regeneron*, and *Alexion*, to name but a few. Investors taking a chance on ESPA STOCK BIOTEC may enjoy significant gains, but also have to assume commensurate risks and be able to absorb high fluctuations in value. Regular investments on the basis of a fund savings plan can hold the timing risk at bay.

*) Calculated according to the OeKB method. The performance data take into account the management fee, but do not take into account the one-off load of up to 4.00% due at the time of issue nor other costs that diminish performance such as account and depositary fees. Past performance is not indicative of the future development of the fund.

For legal documents and more information on the aforementioned fund, please visit www.erste-am.at.

ESPA STOCK BIOTEC – (ISIN AT0000746755 T, ISIN AT0000746748 A)

Benefits for investors:

- Participation in the most important global biotechnology companies
- Chance of substantial gains
- Optimal diversification across global biotechnology companies also for small investment amounts
- Suitable for regular investments (s Fond savings plan)

Risks to be aware of:

- The fund price may be subject to significant fluctuations (high volatility)
- The investor assumes the sector risk of the biotechnology sector
- Due to the investment in foreign currency, exchange rate fluctuations may burden the value of the fund
- Capital loss is possible.

Legal note :

Prognoses are no reliable indicator for future performance.

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