

Candriam Equities L Biotechnology

Market Overview

The health care sector but more specifically the biotechnology sector underwent a correction during January and underperformed broader markets. Equity markets in general were volatile because of the Corona outbreak in China (and then spreading to other countries), and intuitively one could assume that the health care sector could somewhat profit from such a calamity. Unfortunately political news got the overhand and weighted a bit on the sector, together with the fact that biotechnology had a very good Q4 performance and investors also sometimes tend to sell the best performers in a subsequent correction. Biopharmaceutical companies like Merck profited from their defensive status.

Portfolio Highlights & Strategy Review

Bigger capitalization names did not escape the selling pressure, with especially Amgen and Regeneron down on the month. Not unsurprisingly, they were amongst the best performers in Q4.

What happened on the political front? Rumors that president Trump would propose an international pricing reference system in order to better calibrate drug prices for Medicare/Medicaid. Such proposals have been vented before, depending on the scope of the measures it would probably need Congressional approval and would probably be limited to Medicare part B. The rise of Bernie Sanders in the polls for the Democratic primaries is also unnerving investors.

Despite the weak markets there were some positive outliers. Acceleron delivered a positive phase 2 study, with sotatercept in pulmonary arterial hypertension (PAH). The drug's efficacy looked impressive and this made Acceleron a top performer over the month, with the share up over 70%. Another winner on clinical data was Apellis, up 34% over the month as their C3 inhibitor showed strong results in a study with PNH patients (paroxysmal nocturnal hemoglobinuria, an orphan disease). We stay involved in both companies. On the negative side, Portola lost 46% after weak Q4 sales of their lead drug but our exposure to this one was minimal.

January is also the start of the earnings season, which were as usual fine in this sector. Noteworthy is the launch of Vertex Pharmaceuticals' triple combination, Trikafta in Cystic Fibrosis. Vertex reported \$420M sales in the first quarter of launch beating consensus estimate of \$50M by a wide margin.

The FDA approved several drugs in January, many on the oncology front. The first is Avipritinib from Blueprint medicines, where approval came about 1 month ahead of the expected FDA action date. The second is Tazemetostat from Epizyme. Both drugs got their initial approvals for fairly small indication, but are expected to expand into indications with more meaningful sales potential.

Another bright point was our first M&A case of the year, with Dermira being acquired by Eli Lilly in a transaction north of 1 billion USD. The lead drug here is an IL-13 reformulated for topical use in a skin disease called atopic dermatitis.

Fund Outlook

Earnings season continues in February, and we expect earnings to be in general supportive for the biotechnology sector. After a more quiet month in January, February brings again plenty of medical conferences, such as the World Symposium in Orlando, the Genitourinary Cancers Symposium organized by the American society of Clinical Oncology in San Francisco and the Americans Committee for Treatment and Research in Multiple Sclerosis in Florida just the name a few. Also next month: the start of the voting for the democratic primaries in Iowa, so gradually we will start to get more clarity on the democratic nominee for the presidential election (although the race is still long). We confirm our positive stance on the sector given the strong fundamentals, but some volatility in the months ahead triggered by political debate is not impossible.

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