

Saku Saha, 29 April 2015

The views expressed in this article are those of the author at the date of publication and not necessarily those of Woodford Investment Management Ltd.



Yesterday, we attended Allied Minds' first capital markets day since its IPO last June, which accompanied the release of its maiden full-year results. As this is a large holding for the fund in a relatively unknown company, we wanted to share some of the details with you.

Indeed, outgoing chairman Mark Pritchard mentioned in his opening remarks that someone had recently termed the business "the London market's best kept secret". Given the performance of the shares and the size of the audience yesterday, a mixture of analysts, existing shareholders and potential institutional investors, we suspect that may no longer be the case.

Allied Minds is an intellectual property development company that focuses exclusively on the US. Its mission is to "form, fund, manage and build" technology businesses using its unparalleled access to the best intellectual property emanating from US universities and other government-sponsored research institutions. In the US, it has few peers, which is one of the reasons it decided to list in the UK where other similar companies are listed (e.g. IP Group, Imperial Innovations) and where the business model is already better understood.

This lack of competition in the US has allowed Allied Minds to develop a valuable network in American academia and in other fields of research. This network gives it access to a phenomenal pipeline of uncommercialised intellectual property and future investment opportunities. Allied Minds is able to cherry-pick what it considers to be the very best of these ideas through its rigorous screening process and then nurtures them along the long road towards commercial realisation. Subsidiary companies have to "earn the next round of funding through performance" by hitting milestones and through positive operational progress. Not all companies make it, of course, but Allied Minds has a policy of "terminating early" before significant capital has been deployed. This, coupled with the long-term potential in its subsidiary businesses, affords the company great confidence in its ability to deliver outsized long-term returns from its collective portfolio.

A key purpose of the day was to introduce the wider investment community to some of these underlying businesses, and five of the subsidiary chief executives presented on their progress and potential.

Spin Transfer Technologies

Founded in 2007, based on patented New York University research, Spin Transfer Technologies (STT), is developing a fundamentally new type of computer memory technology called 'orthogonal spin transfer magneto-resistive random access memory' or OST-MRAM for short.

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Historically, memory systems have been constrained by a trade-off between cost, speed, power, non-volatility (the ability to offer performance stability and to not lose data) and endurance. STT's technology sits broadly across the sweet-spot of this trade-off, offering significant speed advantages and better performance characteristics than existing technologies such as DRAM (dynamic random access memory).

Like Allied Minds, STT is a business we have known for some time, having co-invested with it in previous funding rounds (it is held as an unquoted position in the CF Woodford Equity Income Fund). It is the largest and most advanced of Allied Minds' subsidiary businesses. After five years of incubation, it was launched as a subsidiary business in 2012. It is coming to the end of its first phase of development but remains a couple of years away from market entry. It has made great progress with its technology, however, and we are confident that it can fulfil its aim of "establishing a pervasive technology across a wide range of high volume applications".

SciFluor

Based on technology emanating from Harvard University, SciFluor aims to optimise existing drugs through "strategic fluorination". Adding fluorine to chemical compounds can materially change the characteristics of a molecule, thereby potentially improving potency, selectivity and reducing harmful side-effects.

SciFluor has two patent-protected lead compounds entering the clinic in the next 12 months, focusing on retinal disease and neurological disease such as epilepsy. By way of example, its retinal disease treatment, SF0166, is targeting problems in the back of the eye which are currently treated through invasive monthly injections into the eye. By strategically adding fluorine to the compound, SciFluor's potential treatment can reach the back of the eye without causing inflammation and can therefore be administered topically via daily eye-drops.

Behind the two lead candidates, SciFluor is also developing potential treatments in areas such as pain, fibrosis and lung disease.

Federated Wireless

Federated Wireless was founded in 2012 to develop a suite of technologies to allow the sharing of highly valuable and scarce mobile telecommunications spectrum. Due to the rapid development of subsequent generations of mobile network technologies, there isn't much spectrum left. It is widely acknowledged within the mobile industry that the next generation of technologies will therefore require spectrum sharing rather than the hitherto deployed process of expensive spectrum auctions which is less efficient and acts as a huge barrier to entry for the incumbent carriers.

Spectrum sharing aims to create a balance between the low cost and versatility of unlicensed spectrum (wifi, for example) and the quality and predictability of licensed spectrum. Federated Wireless has been developing the technology to access, share and profit from spectrum sharing, whilst leading the lobbying campaign to allow spectrum previously earmarked purely for military use to be made accessible for shared commercial use. Earlier this month, the US Federal Communications Commission effectively provided authority for the sharing of the 3550-3700 MHz band of spectrum, putting Federated Wireless on the cusp of an exciting and disruptive revolution in the US mobile broadband industry.

Optio Labs

Optio Labs was founded in 2012 to commercialise mobile security technology developed organically and at Virginia Tech. It has three core products launching later this year, focused on protecting mobile devices from malware and cyber-attack, particularly for businesses.

This is a huge market, with over 1.8bn mobile devices under enterprise management and the threats to these devices is increasing exponentially. It is also a very competitive market, however, which is why Optio Labs is developing differentiated solutions. Most solutions, for example, detect threats and malicious acts after the event, whereas Optio Lab's technology is capable of detecting them and alerting users in real time. It also has a product called Private Eye, capable of detecting 'eavesdroppers' where if someone is reading your screen over your shoulder, the screen will blur and capture an image of the eavesdropper, and Kodomo, a family-oriented mobile application which allows parents to monitor their child's mobile usage.

Saku Saha, 29 April 2015

Allied-Bristol Life Sciences

Founded last year, Allied-Bristol Life Sciences (ABLS) is a joint venture with Bristol Myers-Squibb which aims to bridge the gap between university research and clinical trials for biotechnological breakthroughs. Focusing on areas of high unmet clinical need, it evaluates the research of Allied Minds' academic partners and selects the ideas with the most potential.

It aims to launch ten subsidiaries to develop the most attractive targets using a formal development process and has been specifically designed with an early take-out model. On completion of the lower risk and lower cost pre-clinical development phase, Bristol Myers-Squibb have the option to take the candidates back in-house for the next stage of development, with ABLS rewarded through upfront fees, ongoing milestone payments and future royalties.

ABLS has already evaluated over 500 individual opportunities and filtered them down to about 20 which are under ongoing due diligence. It hopes to finalise its first two deals very soon, with a likely focus on oncology and fibrotic diseases, both from Ivy League institutions.

All five of these subsidiary presentations gave a very interesting insight into the exciting technologies being developed by Allied Minds and provided evidence of the company's unique and disciplined approach to unearthing and nurturing its subsidiaries towards commercial success. As chief executive, Chris Silva, summarised, "We're looking for disruptive technologies – you've only seen a smattering of them today. We have 22 subsidiaries in total and their momentum and diversification gives us tremendous confidence for an exciting future."

Hear, hear! We share that confidence and excitement.

What are the risks?

- The value of the fund and any income from it may go down as well as up, so you may get back less than you invested
- Past performance cannot be relied upon as a guide to future performance
- The annual management charge is charged to capital, so the income of the fund may be higher but capital growth may be restricted or capital may be eroded
- The fund may invest in other transferable securities, money market instruments, warrants, collective investment schemes and deposits – some of these security types could increase the fund's volatility and increase the level of indirect charges to which the fund is exposed
- The fund may invest in overseas securities and be exposed to currencies other than pound sterling – as a result, exchange rate movements may cause the sterling value of investments to decrease or increase
- The fund may invest in unquoted securities, which may be less liquid and more difficult to value, because they are generally not publicly traded – the lack of an open market may also make it more difficult to establish fair value

Important information

Before investing, you should read the Key Investor Information Document (KIID) for the fund, and the Prospectus which, along with our terms and conditions, can be obtained from the [downloads page](#) or from our registered office. If you have a financial adviser, you should seek their advice before investing. Woodford Investment Management Ltd is not authorised to provide investment advice.

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Saku Saha, 29 April 2015

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