

Neil Woodford, 11 August 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.



Today marks the release of the maiden set of financial results for Woodford Patient Capital Trust. Please find below our Manager’s Report covering the period from the Trust’s launch to 30 June 2015.

We are also pleased to disclose the contents of Woodford Patient Capital Trust’s portfolio for the first time. [The full portfolio, as at 30 June, is available here](#) and we commit to fully disclosing the portfolio at each month end from now on.

[The full set of interim results is available here.](#)

Since April’s launch, we have been actively building the portfolio for the Woodford Patient Capital Trust and it is already taking shape. By the end of the period, more than 75% of the funds raised had been deployed.

Initially, our activity was focused towards building exposure to the mid and large capitalisation businesses that account for about a quarter of the portfolio. The larger and more liquid of these, such as AstraZeneca, GlaxoSmithKline, Legal & General and Rolls-Royce, we were able to build quickly and we were assisted by placings in mid-cap stocks such as Allied Minds and IP Group. Placings in Circassia and Oxford Pharmascience also allowed us to quickly scale up our exposure to these other exciting businesses. Positions in smaller, less liquid securities, such as Vernalis, 4D Pharma and Xeros, took longer to build but, by being patient and disciplined, we have been able to build the positions that we sought.

At launch, we mentioned that we also had a number of unquoted opportunities in the pipeline and many of these are already represented in the portfolio. These include Proton Partners International, which is bringing the first proton beam cancer therapy centres to the UK and Oxford Sciences Innovation, which represents a critical new link in Oxford’s science innovation infrastructure and an important part of the UK’s burgeoning technology commercialisation industry. There are several more unquoted businesses in the pipeline which we would expect to enter the portfolio over the remainder of the year. We now anticipate that the portfolio will be fully invested by the end of this year.

Although it is very early days, we are pleased that the Company’s net asset value has moved forward modestly. Much of the positive performance to date has been delivered by holdings we would classify as early-stage. Indeed, our blue-chip holdings have typically detracted from performance thus far, with GlaxoSmithKline and AstraZeneca in particular showing short-term share price weakness.

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More positively, within the UK biotech sector, Vernalis also contributed positively, following FDA approval of its first cough cold product Tuzistra at the end of April. Investors continue to significantly undervalue the potential of Vernalis’ cough cold franchise, in our view. 4D Pharma, which is making good progress with two new biotherapeutic treatments: Blautix, for irritable bowel syndrome, and Thetanix, for Crohn’s disease, also performed well. During May, the company announced that both drugs are moving towards first-in-man clinical studies, whilst it is also making good progress in other areas such as asthma and rheumatoid arthritis.

Our US biotech exposure, principally Prothena and Northwest Biotherapeutics, has contributed positively to performance. Again, we would caution that it is a very short time period over which to be commenting on performance in what is clearly a very long-term strategy. Nevertheless, the market does seem to be warming to the positive investment cases for these exciting businesses. There is a great deal of enthusiasm in the US biotech sector about new potential treatments for cancer and in other areas of high unmet clinical need, as well as hopes of acquisitions by cash-rich pharmaceutical majors. Although this has led to several US biotech stocks trading on bubble-like valuations, we have focused our exposure on stocks where future potential is, in our view, significantly undervalued by the market – Prothena, Northwest Biotherapeutics and Alkermes, all trade on valuations more in line with those we see on this side of the Atlantic. Hence, each of them represents significant positions in the portfolio.

Outside of the health care industry, RM2 International performed well. The business is still at an early-stage of its development but has tremendous potential to disrupt the pallet industry. Although it has suffered setbacks over the past few years, its recent contract win with PPG International is very positive news, in our view, and could herald the broader adoption of its composite pallets, which are superior to wooden pallets in almost every way: lighter, more durable and more cost-effective, as well as more environmentally friendly. Norwegian technology business Idex, which is developing a unique and very promising in-glass fingerprint sensor solution which has enormous potential in the tablet & smartphone industry, also contributed positively.

There follows below a brief introduction to the top 10 holdings in the Woodford Patient Capital Trust. The full portfolio, as at the end of the interim period is [available here](#) and we commit to fully disclosing the portfolio at each month end from now on. We also intend to provide more information on other holdings as we move through the remainder of the year and will provide a monthly roundup of portfolio news. We recommend that investors [subscribe/register](#) to be notified of these regular updates.

In conclusion, we are delighted with the shape of the portfolio and by the positive, albeit early, net asset value progression. More importantly, we are pleased with the operational progress being made by our investee companies and very excited by the long-term potential that they collectively represent. We are very positive about the portfolio’s ability to deliver outsized long-term returns to investors and view the future with great confidence.

## Top Ten Holdings

### **Prothena (4.5% of total portfolio assets)**

US clinical-stage biotech company focused on developing immune therapies in haematology and central nervous system disorders. Its lead program NEOD001 is in phase III for AL amyloidosis, while PRX002 is being developed with Roche in Parkinson’s disease. It also has a third program in pre-clinical development across a wide range of therapeutic areas.

### **Verseon (4.2%)**

US-based but UK-listed platform drug development business. Verseon’s proprietary platform uses computerised molecular modelling techniques to engineer novel drugs consistently, reliably, and cost-effectively. It already has an anticoagulation treatment in pre-clinical development with therapies for diabetic macular oedema and solid tumours not far behind.

### **Northwest Biotherapeutics (4.0%)**

US biotech company developing personalised cancer vaccines using dendritic cells utilising its DCVax platform technology. Its lead program is a Phase III trial in an aggressive form of brain cancer and it also progressing a Phase I/II trial for all inoperable solid tumour cancers.

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#### Proton Partners (3.7%)

A new company, formed to bring Proton Beam Therapy centres to the UK. The company is opening three centres, in Cardiff, London and Northumberland, by 2017. The centres will be available to NHS patients and private patients, in what represents a significant breakthrough to the UK's provision of cancer treatment.

#### Circassia (3.7%)

Allergy and asthma specialist, with its novel asthma diagnosis and management products sold direct in the US and Germany, and its lead immunotherapy targeting cat allergy in phase III. House dust mite, grass and ragweed allergy therapies have also completed phase IIb proof-of-concept trials. Its broader pipeline includes direct substitutes for major asthma brands, plus longer-term novel products.

#### Vernalis (3.2%)

A UK biotechnology business with a rapidly maturing extended release cough cold franchise. Its lead product Tuzistra was approved by the FDA in April 2015 and it has another four cough cold products in development. It also has a portfolio of central nervous system and oncology programmes in clinical trials.

#### Oxford Science Innovations (2.8%)

A new company formed earlier this year as Oxford University's preferred partner for the provision of capital for spinout companies based on research from its science and medical divisions. The company represents a critical new link in Oxford's science innovation infrastructure and an important part of the UK's burgeoning technology commercialisation industry.

#### Alkermes (2.8%)

US-listed biotech company with a diversified on-market portfolio and substantial clinical pipeline of product candidates for chronic diseases such as schizophrenia, depression, addiction and multiple sclerosis. In particular, treatments for clinical depression and schizophrenia have recently produced positive results in clinical trials.

#### Allied Minds (2.6%)

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.

#### Imperial Innovations (2.4%)

An intellectual property development company, founded as the technology transfer office for Imperial College London, but with strong links to other leading UK universities. Imperial Innovations aims to commercialise the UK's best academic research with a particular focus on therapeutics, medical technology, engineering & materials and information communication technology.

[View the full portfolio](#)

#### What are the risks?

- Long-term outcomes are more binary – extremely attractive rewards for success but some businesses will inevitably fail to fulfil their potential and this may expose investors to the risk of capital losses
- As it can take years for young businesses to fulfil their potential, this investment requires patience
- The value of the trust as well as any income it pays will fluctuate which may partly be the result of exchange rate changes
- The price of shares in the trust is determined by market supply and demand, and this may be different to the net asset value of the trust. This means the price may be volatile in response to changes in demand
- The trust may invest in overseas securities and be exposed to currencies other than

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pound sterling – as a result, exchange rate movements may cause the sterling value of investments to decrease or increase

- The trust 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
- Young businesses have a different risk profile to mature blue-chip companies – risks are much more stock-specific, which implies a lower correlation with equity markets and the wider economy

#### Important information

We do not give investment advice so you need to decide if an investment is suitable for you. If you are unsure whether to invest, you should contact a financial adviser. The trust currently intends to conduct its affairs so that its securities can be recommended by IFAs to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The securities are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

Woodford Investment Management Ltd is authorised and regulated by the Financial Conduct Authority (firm reference number 745433). Incorporated in England and Wales, company number 10118169. Registered address 9400 Garsington Road, Oxford OX4 2HN.

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