

Mitchell Fraser-Jones, 14 August 2015

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The process of building the portfolio continued in July, with almost 90% of assets now invested. Performance also continued to progress positively, with the trust's net asset value increasing modestly during the month.

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Our overseas holdings contributed very positively in July, with US biotech in particular, providing a stand-out performance. Although concerns remain about bubble-like valuations, it is worth noting that, of the 145 stocks in the Nasdaq biotech index, we hold just two where valuations appear much more reasonable (Alkermes & Prothena – we are invested in a third US biotech, Northwest Biotherapeutics which isn't in the Nasdaq index). Each of these businesses delivered strong contributions during the month and we continue to view their long-term potential very positively.

Meanwhile, Norwegian technology business, IDEX, also performed well. It announced an agreement with a major global mobile phone company for its in-glass fingerprint sensor technology. Although commercial details of the deal have not been disclosed, we view this as a further strong endorsement of IDEX's technology and a significant step forward in the commercialisation process for this exciting young business. Its shares rose almost +40% during July.

By contrast, Oxford Pharmascience lost ground, despite announcing encouraging results in a study of OXPzero Naproxen, a reduced gastrointestinal irritation (GI) version of the anti-inflammatory drug. Although the trial demonstrated that OXPzero Naproxen did significantly reduce the number of gastrointestinal erosions, it did not meet a clinical endpoint due to the study design. The company now intends to further optimise the tablet and rerun the study later this year or early next. We view this as a delay rather than a fundamental concern and the company still intends to commence partnering discussions later this year. Elsewhere, Allied Minds weakened as the stock continued to unwind some of its very strong performance earlier in the year.

Several new unquoted positions entered the portfolio during the month, on completion of the often lengthy due diligence process. The largest of these is Immunocore, a clinical stage biotechnology company which is the culmination of decades of research and development around technology originally developed at Oxford University. The company operates in the fast evolving field of immuno-oncology and is developing drugs that target cancer cells and redirect the immune system to kill them. It has already demonstrated proof of concept with good clinical data in melanoma patients and with funding now in place to develop its lead candidates through the clinic, the company has the potential to become a prominent force in this exciting and fast evolving new field of medicine.

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Oxford Nanopore is another new position for the trust portfolio. This is a business that we have known for a long time, which is developing next generation technology for molecular diagnostics, with DNA sequencing being the first application. The company continues to make great progress with its technology, with its "London Calling" conference in May marking the commercial launch of its portable MinION DNA sequencing device. We took part in the company's latest fundraising, to support further product development and innovation as it moves into the "early growth" phase of its maturity.

Kind Consumer, which has developed the UK's first medically approved e-cigarette, also joined the portfolio. The product, named Voke, will address the nicotine replacement therapy market as the only medically approved smoking cessation e-cigarette device available. Voke is expected to be launched in the UK towards the end of this year.

We also invested in Purplebricks, the hybrid estate agency, which combines the best of online and offline services to fundamentally change the way in which we buy and sell houses in the UK. We participated in the company's recent funding round which will allow the company to roll out a full national marketing campaign as it aims to maintain its number one position in the online / hybrid estate agency market – it already sells more properties than all the leading online agents put together.

Mereo Biopharma, meanwhile, is another new position. The company has been formed by a highly experienced team to spin out and develop mid-stage assets from major pharmaceutical companies. It has recently acquired an initial portfolio of three programmes, all with proof of concept, from Novartis.

Elsewhere, amongst our quoted holdings, we added to existing positions in Halosource (a water purification technology company), Horizon Discovery (a life sciences services business, specialising in personalised medicine and genomics) and 4D Pharma (a drug development company focusing on live biotherapeutics). We also added to the holding in Rolls-Royce, following the share price weakness that greeted the company's first trading statement since the arrival of new chief executive, Warren East.

We continue to expect the portfolio to be fully invested by the end of this year. We remain very positive about the portfolio's ability to deliver outsized long-term returns to investors and view the future with great confidence.

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 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

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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.

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