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# PATIENT CAPITAL TRUST UPDATE, SEPTEMBER 2015

Mitchell Fraser-Jones, 13 October 2015



The trust's net asset value declined in September, in another weak and volatile month for equity markets.

As had been the case in August, the portfolio's US stocks were amongst the weakest performers, as sentiment towards US biotech remained sour. Given the way that the sector has traded this year, with very strong performance in the first half, the sell-off is perhaps unsurprising. We have, however, been disappointed that stocks such as Prothena and Northwest Biotherapeutics, have become so embroiled in it – the valuation attached to their shares is very far from the bubble-like levels that some of its peers have reached. Although sentiment towards the US biotech sector clearly remains fragile, we have seen no fundamental developments to disturb our confidence in the long-term investment case for either business. We have had management meetings with both of these companies in recent weeks.

Another disappointing performer during the month was Allied Minds. The stock's sharp underperformance was due in large part to an opportunistic attack from a short-seller using a self-generated piece of research, which the FT described as 'strangely shallow'. Although this has been unsettling for market sentiment in recent days, we see nothing fundamental to concern us. Indeed, our confidence has increased in both the long-term potential of its existing portfolio of maturing technology businesses and in the management team's ability to identify new value-creating opportunities from its relationships with the best research institutions in the US.

Elsewhere, ReNeuron and Circassia both declined after their recent equity offerings but, in both cases, we remain very attracted to the long-term opportunity. Meanwhile, RM2 International, the disruptive international pallet business, weakened towards the end of the period after announcing that minor modifications are required to the coating applied to its pallets. This has resulted in delays to its production upswing. The company also announced a share placing to raise additional capital.

More positively, polymer technology business Revolymer performed well with interim results released during the month highlighting the good progress made in the last few months. The company has recently announced deals with major global chemical businesses, Solvay and OCI Chemical. We believe these deals represent significant endorsements for Revolymer's encapsulation technology in laundry, dishwashing and other cleaning agent applications.

Other notable positive contributions came from Benchmark following its acquisition of a Norwegian business which strengthens its position in aquaculture genetics, and water-purification technology company Halosource, following positive interim results.

There was no portfolio activity during the month but we continue to expect to be fully invested by the end of 2015.

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Although September was a disappointing month in performance terms, we retain absolute conviction in the long-term outlook for the trust and wish to remind investors of the long-term nature of this investment vehicle. We have invested in some incredible businesses with massively disruptive technologies and high growth potential. Some of these businesses may take a long time to fulfil their potential but the stock market is not well endowed with patience, particularly in volatile conditions. Periodically, this manifests itself in share price weakness, especially in businesses with no earnings or dividends and relatively limited market liquidity.

Share price weakness in listed early-stage businesses tends, therefore, to reflect this lack of patience from investors, not a lack of fundamental progress by the companies. Therein lies the opportunity for patient capital to exploit. The portfolio is in excellent shape and we continue to 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

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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