

# LSP Life Sciences Fund Returned +25% Net in 2020

## A year like no other



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**Our concentrated portfolio of conviction investments in innovative healthcare companies has generated 22% annualized return p.a. since 2008 – 13 years – for a total return over 1,100% since inception. Despite the headwinds in 2020, the Fund made a 25% Net Return for its investors.**

Annual reviews usually start with a declaration such as ‘what a year it has been’, ‘like no other’, ‘one to remember’, ‘dramatic’, ‘memorable’ etc. – it couldn’t be more true for 2020. We all have our particular memories of this ‘special year’ and we truly hope that you and your families have not been excessively impacted by the pandemic. To be an investor in early stage life sciences companies, you have to be an optimist and so we prefer to focus on the positives, such as they are from the past year. There was a certain new sense of global unity in 2020. When speaking to people from around the world – conversations inevitably started with the questions of ‘what is it like where you are?’. As is usual in times of crisis – technology makes a leap forward and we have adapted to working from home and using Zoom, Microsoft Teams and several other video conferencing systems. Even the most reluctant among us has embraced this new way of working and, to tell the truth, it is efficient. More than that, it allow us to transcend our location and participate in many more global conferences than ever before.

Equity Markets, along with our lives, were in turmoil in 2020. At the time of the dramatic and swift market sell off in March and April – it seemed impossible that the healthcare sector would recover and yet it has. The main impact on the companies in which we invest, were delays to clinical trials. The lockdown and the general overwhelming of the healthcare system and hospitals proved challenging to both enrolling new patients in clinical studies and maintaining per protocol treatment and monitoring of patients. The industry proved resilient and within a matter of months, most clinical trials were back up and running, although perhaps at a slower pace. It was feared that the FDA would grind to a halt during the pandemic or that all its resources would be diverted towards vaccines and treatment for COVID-19. What we have seen instead is that the FDA approved 53 new drug entities in 2020 – the second highest level after 2018. New drug approvals, of course, mean new drug launches and strong revenue momentum for the sector.

So what of the LSP Life Sciences Fund? The Fund was established with the strategy of finding small to mid-sized, interesting and innovative healthcare companies in Europe and the US – with a particular focus on drug/therapeutic development companies. Despite the market turmoil, our strategy of investing based on extensive due diligence of fundamental assets and technology has not changed. We avoided the hype and chose not to invest in companies which saw their valuations jump because the word COVID was in the title of the press release. Perhaps we could have made a return on some of these investments, but that is not how we operate. 2020 was a year to stick to fundamental analysis, where we could see long term value in the drug candidates and pipeline.

The Fund holds 15 - 20 conviction buys in the portfolio at any one time. In total, the Fund invested in 34 companies in 2020, spread across a range of different therapeutic areas and strategies. There was

considerable news flow from the portfolio throughout the year, but we will take this opportunity to highlight a few of the investment cases which made the most impact on the Fund and drove its excellent performance in 2020.

With the worst of the market turmoil over with in April/May – the Fund made a steady climb back by focusing on its core investment strategy. In April, we made an investment in **Kiadis** which would turn into the best investment of the year. **Kiadis** has long been an important holding for the LSP venture funds but had never been included in the LSP Life Sciences Fund. The company had a complete restart in 2019 with the failure of its lead program ATIR for transplant patients and the acquisition of a cell therapy company Cytosin. It was the Cytosin technology which attracted us to take a closer look at **Kiadis**. We invested alongside a US institutional investor in a private placement with warrant coverage. The more we learnt about the **Kiadis** NK-cell technology, the more excited we were about our investment. Sanofi signed a deal with **Kiadis** in July for pre-clinical programs, in a deal with a potential value of \$875m but moved to acquire the company in November. The return on the **Kiadis** investment was +460% in just 7 months. The second notable acquisition in our portfolio last year was **Aimmune** whose lead asset, PALFORZIA, was approved as the first treatment for peanut allergy in January 2020. Despite the good news – the stock sold off as investors worried about launching the product during a pandemic. We invested in the company in June, with the view that the market was not appreciating the long term value of the PALFORZIA. Less than 3 months later, Nestle acquired **Aimmune** on August 31st for a total consideration of \$2.6bn, a 174% premium to the previous day closing price.

Rather than going through each investment case – lets look at the numbers. Over the course of 2020, we made 18 new investments, this is up from 11 new investments in 2019. Across the portfolio, there were 6 drugs/therapies which received FDA approval and 12 pivotal clinical studies were completed, with a gratifying 11 of the 12 studies presenting positive data. There were also several companies which presented important validating Phase 2 data, with 9 critical Phase 2 read outs and only one program was discontinued based on the results. 2020 also proved to be a good year for transactions, with 11 licensing agreements signed within the portfolio, for a total deal value of approximately \$12bn. Furthermore, our portfolio companies raised a combined \$4.2bn in capital markets transactions, thus ensuring that they are well financed into the future. The fund participated in 4 capital market transactions last year; **Kiadis** which was already mentioned but also Swedish oncology company, **Oncopeptides**, Swedish kidney disease company, **Calliditas** and French inflammation company, **Abivax**.

This is a relatively high risk sector and not without its setbacks. As is to be expected, not all companies in the portfolio were successful. There were two notable negative events in 2020; **Amarin Corporation** suffered an unexpected setback when a district court ruled a patent held by **Amarin** to be invalid, thus opening the door to generic competition and **Galapagos's** partner Gilead received push back from the FDA for lead drug candidate filgotinib, which means at best a delay to approval of 12-18 months and at worst the drug would never be approved.

But it is not just about the numbers. The LSP Life Sciences Fund continues to invest in and support really exciting medical innovations. Our strategy is to always invest in treatments which can truly make a difference to patients. Some examples from our current portfolio include; **Albireo** which has filed for approval of the first treatment for a rare pediatric liver disease. This breakthrough treatment is life altering for these children and their families. **Rhythm Pharmaceuticals** just received FDA approval for

Imcivree, the first treatment for genetic obesity – a huge burden for patients and their families as these patients have uncontrollable hunger. They continue to investigate the potential of this drug in a broader range of genetic obesity disorders. **uniQure**'s lead program has demonstrate in a pivotal trial that it can effectively cure patients of a rare genetic bleeding disorders, hemophilia B, with a single treatment of its gene therapy, EtranaDaz. Recent addition to the portfolio, **Otonomy**, is focused on hearing and ear related disorders – an area of medicine with little or no progress in recent years – **Otonomy** has the potential to significantly advance this field of medicine. In 2020 we invested in several companies focused on novel cancer treatments such as **Allogene**, which is advancing its novel cell therapy technology and Blueprint Medicine a leading precision medicine company. We also invested in neurological indications such as migraine, **Biohaven Pharmaceuticals**, schizophrenia, **Intra-Cellular** and childhood epilepsy, **GW Pharmaceuticals**. Despite the turmoil, it was a busy and productive year for the LSP Life Sciences Fund. We maintained our focus and our strategy and continue to find exciting new investment opportunities and will maintain this focus into 2021.

Due to the pandemic, health and healthcare have never been more important to our lives and to the global economy – it is also part of the DNA of LSP. We are 100% focused on finding those companies which have the potential to develop groundbreaking treatments which can truly change the course of disease and change people's lives. We support and nurture companies in whatever way we can to help ensure these medicines reach patients. There has never been a more exciting time to invest in healthcare.

Do not hesitate to contact us if you would like to hear more about the LSP Life Sciences Fund.

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