

Pharmaceuticals

September 2025



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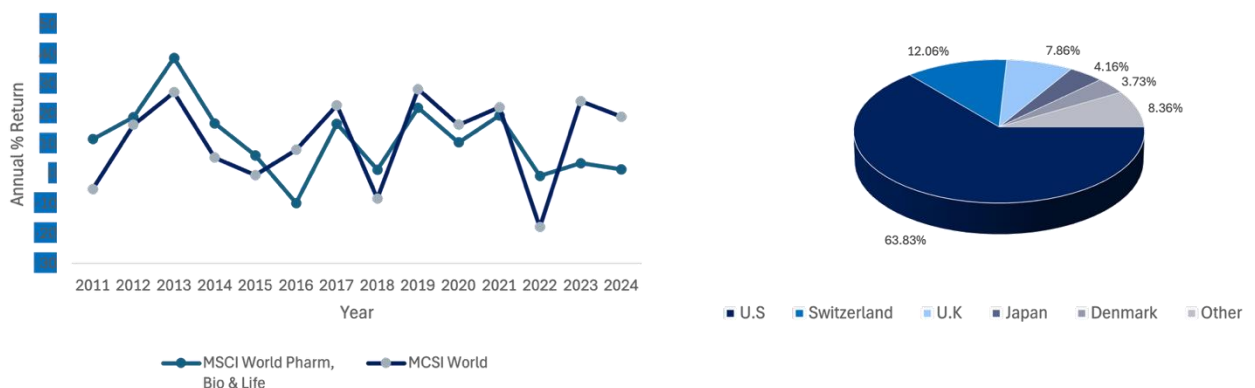
Sector Overview

Representing 8.8% of the S&P 500 and accounting for 10.7% of global GDP expenditures in 2024, The Healthcare Sector is one of the most significant and wide-ranging industries worldwide. The sector includes a variety of businesses involved in the creation and provision of products and services related to healthcare, including healthcare providers, manufacturing and distribution, and technology companies. It also includes companies involved in R&D, and the production and marketing of pharmaceuticals and biotechnology products. The Global Industry Classification Standard (GICS) breaks the sector into two main industry groups : Pharmaceuticals and Non-Pharmaceuticals, with this report focusing on the Pharmaceutical Sector.

The Pharmaceutical Sector comprises companies involved in the research, development, manufacturing and distribution of pharmaceutical products. Their operations span from early-stage drug discovery, clinical trials, production of active ingredients and final products and distribution. The overall process from discovery of a compound to market approval of a drug takes an average of 10-15 years.

The Pharmaceutical Sector is the largest healthcare sub sector by revenue, and has experienced significant growth, valued at around \$1.7tn in 2024, with a CAGR of 5.79%, and is projected to surpass \$2.8tn by 2033 (1). The total market capitalisation of the top 20 firms in the sector rose by 1.7% in 2024, from \$3.6tn in December 2023 to \$3.7tn in December 2024, with Eli Lilly achieving the largest market cap growth of 32.4% to \$733bn in 2024, driven by GLP-1 trend driving demand for Mounjaro and Zepbound (2). Nearly two-thirds of the MSCI World Pharma, Biotech & Life Sciences Index is made up of U.S. based companies, followed by Switzerland (12.06%), the U.K, Japan and Denmark. However, despite robust sector revenue growth of 61% since 2020, the Healthcare S&P has underperformed the main index (3).

The Pharmaceutical industry is regarded as noncyclical and therefore a defensive sector, meaning it is far less sensitive to macroeconomic factors than other industries. Pharmaceutical goods and services benefit from inherently inelastic demand because their consumption is driven by medical necessity. Consumers still require medical care and drugs to treat acute and chronic conditions irrespective of economic conditions, making the sector more resilient during downturns.



Sector Overview

Key Performance Indicators

Much of a company in The Pharmaceutical Sector's value lies in its pipeline, and therefore significant investment in Research and Development is critical. An important KPI in this sector is R&D Intensity, the % of revenue reinvested into R&D, which monitors how much a company invests in innovation relative to its revenue generation. Tracking this KPI helps to ensure that investment in R&D is proportionate to revenue, reinforcing long term innovation. Other significant KPIs which help assess R&D activity include number of new drug applications submitted, cost per approved drug or R&D Efficiency and success rate of clinical trials, which measures the proportion of trials that achieve their primary endpoints, indicating clinical effectiveness and approval potential. The industry benchmark for clinical trial success rate is around 10% but ranging from 7-25%, with Phase 1 and 2 being the most critical stages for drug success, as costly failures here often have a large impact on R&D Efficiency. Time to Market (TTM) is another KPI that indicates efficiency in this area, measuring the time required to bring a drug from discovery to market. A shorter TTM can reflect higher operational efficiency and also allows companies to start generating revenue earlier and benefit from first mover advantages, while a longer period may signal bottlenecks in R&D or regulatory approval.

Time until patent expiry is paramount to the value of a pharmaceutical firm. The patent cliff approaching in coming years, with drugs bringing in around \$180bn of revenue a year, around 12% of the global market losing exclusivity in 2027 and 2028 illustrates the risk to a company of reliance on one blockbuster drug to support revenues (4). A KPI that highlights this risk is Revenue Concentration, which measures the percentage of total revenue derived from a company's top products and is used in risk assessment. A high value for this indicates that a company is highly reliant on one or few products, increasing risk. It is important for a company to have a strong and diversified pipeline to replace lost revenues when patents expire. Supply chain disruption is another risk to pharma companies, which can be hedged against by diversifying the geographies and suppliers from which they source their APIs. The greater the value for this KPI (API sourcing diversification), the lower the risk of disruption.

It is paramount that the drugs a pharmaceutical company produces are safe for patients, and one metric used to measure the quality of products is the Adverse Effects Rate, which is the ratio of adverse effects in patients after taking the drug to the number of patients treated with it. This helps identify potential safety issues associated with the drug and is important to track for regulatory compliance and to gauge approval probability in clinical trials. Lower rates show a stronger drug safety profile and high levels of pharmacovigilance, which relates to detection, monitoring and prevention of adverse effects in pharmaceutical products.

Sector Overview

Sub-Sectors

The Global Industry Classification Standard (GICS) divides the pharmaceutical industry into 3 further categories - Biotechnology, Life Sciences Tools and Services, and Pharmaceuticals (5).

Biotechnology

Firms in the biotech industry use living organisms and their derivatives to produce products such as vaccines, diagnostic tools, treatment for genetic diseases and biologic therapies, which are large molecule drugs like proteins/hormones. Companies that use biotechnology to produce products without a healthcare application are not included in this sub sector. Investing in biotech can involve more risk than other sectors since firms often spend huge amounts of time and money developing drugs that might never get to the market. This also means that companies generally have high operating costs due to R&D and testing which takes years to complete. A valuation of a biotech firm is based on the size and predicted value of its pipeline. Notable firms in this sector include Vertex Pharmaceuticals, Regeneron and Novo Nordisk.

Life Sciences Tools and Services

The life sciences tools and services sector supports the research, development, and commercialisation of biotech and pharmaceutical products. These companies produce tools like lab supplies and consumables and testing equipment as well as providing data analytics platforms and clinical trial and research services. This sector includes companies such as Contract Research Organisations (CRO's) , which pharma and biotech companies use to outsource R&D and clinical trials, helping reduce the time it takes to get a product to market, and Contract Development and Manufacturing Organisations (CDMO's) which provide external drug development and manufacturing services. Companies in this sector can be reliant on pharma and biotech companies R&D budgets.

Pharmaceuticals

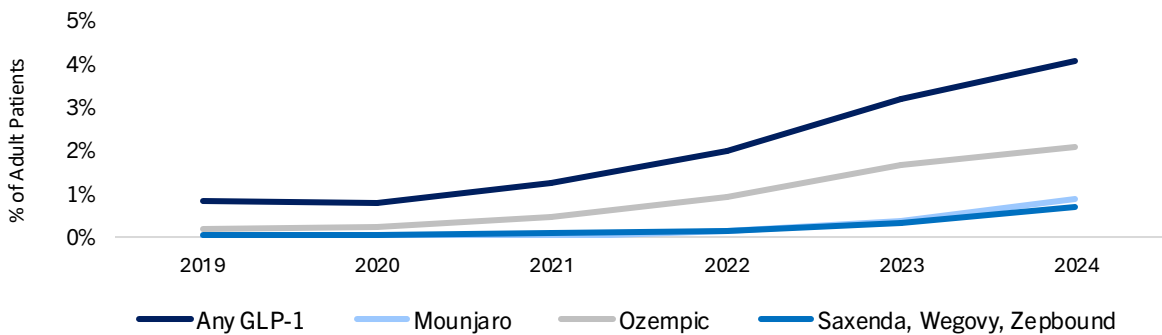
The Pharmaceutical subsector of the pharmaceutical industry includes companies that specialise in the research and development of mainly small molecule drugs. A key component of this subsector is the production of Active Pharmaceutical Ingredients (APIs) , which are the substances in drugs that produce the intended therapeutic effect. Firms in this sector are also involved in manufacturing veterinary drugs. This subsector is characterized by high R&D costs, regulatory standards and significant market value. Key players in the pharmaceutical subsector include Eli Lilly, Johnson & Johnson and Pfizer.

Investment Themes

Obesity & GLP-1 Drugs

Last year, we highlighted the immense potential of the weight-loss market driven by rising obesity rates and rapid adoption of GLP-1 therapies. At the time, Novo Nordisk’s Wegovy and Ozempic, and Eli Lilly’s Zepbound and Mounjaro dominated a market that was predicted to reach \$130bn by 2030. However, market size expectations have been revised, and Goldman Sachs now forecasts the market to reach \$95bn by 2030, due to higher price erosion and more stringent insurance cover (6).

Nevertheless, GLP-1’s remain a key investment theme for the sector, with significant growth opportunity for existing and new players. As of May 2025, 2% of U.S. adults were taking GLP-1’s despite the sizeable cost, ranging from \$1000-\$1400 for a month’s supply (7). In most cases Medicare is still barred from covering anti-obesity drugs, however positive side-effects such as Wegovy’s new cardiovascular risk-reduction label open a pathway to greater coverage. If access broadens, the addressable base could rise towards the mid-teens by 2030, with upside from new indications (Asthma, Sleep apnea, Psoriasis, etc.) (8).



The landscape has evolved significantly over the past year with a higher market saturation, as companies such as AstraZeneca, Pfizer, Roche and Zealand Pharma all developing competitor obesity treatments. Eli Lilly and Novo Nordisk remain the market leaders and are expected to maintain dominance.

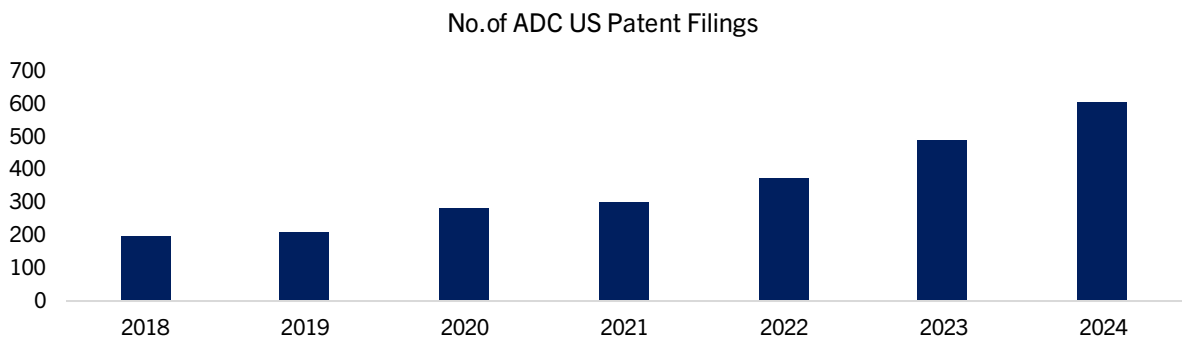
There has also been a greater focus towards oral weight-loss drugs reflecting both patient preference (many are needle-averse) and manufacturing economics. Oral GLP-1’s are easier to manufacture at scale and are forecasted to capture 24% of the market by 2030. (6). Novo Nordisk have the first-to-market advantage, with semaglutide set to win approval in the U.S. later this year (9), however this may be insignificant given Eli Lilly’s Orforglipron being easier to manufacture at scale, which is crucial given the constrained supply-demand dynamic.

Investment Themes

Oncology & Antibody Drug Conjugates

Antibody drug conjugates (ADC's) have emerged as one of the most important innovations in oncology, combining the targeting ability of antibodies with the potency of chemotherapy. The concept is not new, but over the past two years clinical data and regulatory approvals have pushed ADC's from niche products into mainstream oncology, with use in breast, lung and bladder cancers driving rapid uptake (10).

Big Pharma has moved aggressively in the space over the past year. Bristol Myers Squibb's \$11bn deal with BioNTech, AstraZeneca's multi-billion partnership with Daiichi Sankyo, and GSK's third ADC deal in 18 months indicate the breadth of capital flowing into the area. Similarly, smaller Biotechs are developing next-generation treatments with novel payloads and improved safety profiles. The focus currently is on expanding beyond traditional solid tumors, with hopes that ADC's can play a role in treating a broad variety of cancers.



The commercial potential looks favorable. As labels move earlier in the treatment cycle and combinations with checkpoint inhibitors expand, the patient population can grow significantly. Analysts expect the ADC market to surpass \$50 billion by 2030, driven by approval of innovative therapies and their increasing application in cancer treatment, with sales of \approx \$11bn in 2024. (11).

Challenges do remain, particularly around safety and manufacturing. Toxicity issues such as interstitial lung disease have slowed uptake in some settings (12), while the complexity of producing and filling ADCs at scale has led to capacity constraints. Nevertheless, with clinical data validating their efficacy, strong investment from industry leaders, and a rapidly expanding development pipeline, ADCs have established themselves as a key investment theme in the pharmaceutical sector.

Current Holdings



Eli Lilly & Company (NASDAQ: LLY)

Entry Price*: \$720.91 Performance to date: +1.66%

PT: \$763.14 (+4%)



Eli Lilly and Company is an American pharmaceutical company headquartered in Indianapolis, Indiana. The company discovers, develops, manufactures, and markets products in the human pharmaceutical products segment. The company has a vast portfolio of treatments, with products across segments such as diabetes, oncology and immunology.

Hold at \$732 for the following reasons:

- Maintaining leadership in expanding GLP-1 market:** Uptake of GLP-1 therapies has grown more than fourfold since 2019, with around 12% of U.S. adults having tried a GLP-1 drug (10). LLY has been the primary beneficiary with tirzepatide posting one of the fastest launches in pharma history and expected to be worth \$62bn annually by 2030 (11). Furthermore, the FDA's recent crackdown on compounding versions solidifies LLY's moat, with the estimated 1 million users forced to switch to branded versions (12).
- Orforglipron benefits mitigate Novo's first-mover advantage:** While phase 3 data of LLY's obesity pill underwhelmed investors, Orforglipron is expected to conquer 60% of the obesity pill market by 2030 (13). Compared to Novo's oral semaglutide, LLY's pill requires no dietary restrictions, is expected to have a more competitive price point and is easier to manufacture at scale (14).
- Diversified growth beyond obesity:** LLY's pipeline reduces reliance on obesity drugs with Alzheimer's drug Donanemab, Oncology's Pirtobrutinib, and Immunology treatment Omvoh expected to each deliver low-to-mid single digit revenue (\$bn). Higher diversification than competitors provides resilience against downside risks in the GLP-1 space, while also supporting long-term earnings growth.

*Performance to Date as of 31/08/2025, from 10/04/2025. Price target from internal models

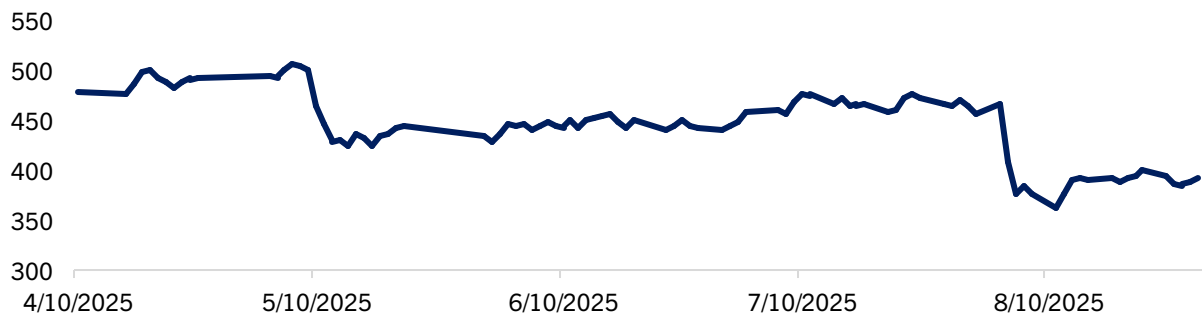


Current Holdings

Vertex Pharmaceuticals (NASDAQ: VRTX)

Entry Price*: \$313.54 Performance to date: -18.13%

PT: \$494 (+23%)



Vertex Pharmaceuticals is an American biotechnology company focused on specialty markets. The company is the market leader in treatments for Cystic Fibrosis (CF), treating nearly 75% of CF patients with its franchise protected into the late 2030s. (15)

Addressing recent setbacks

On August 4, 2025, Vertex shares fell 14.4% on news that experimental acute pain candidate VX-993 was discontinued, failing to meet the primary endpoint in a Phase 2 trial. Management announced it would not pursue indication expansion for its non-opioid pain therapy, Journavx, which has recorded just \$12m in sales since its January launch.

Hold at \$391 for the following reasons:

- A guarded franchise:** Vertex dominates CF care, generating >\$11bn in 2024 revenue and continued growth expected as patients migrate from Trikafta to once-daily Alyftrek. The new therapy lowers royalties and extends patent protection to 2039 in the U.S. At Vertex, patents are managed, not feared. While Pharma faces a patent cliff, **Vertex has shown an unusual ability to push the cliff further down the road**, building creative patent thickets (and migrating patients to next-generation therapies). (16)
- Resilient valuation, even under conservative assumptions.** Our base case values each asset to 2040. Even assuming Journavx peaks at \$200m annually, and reflecting the pain programme setback, we derive a Net Present Value of \$127bn, or \$494/share, implying a 23% upside. The sensitivity analysis highlights the margin of safety provided by Vertex’s CF franchise, offering downside protection and attractive risk-adjusted upside.

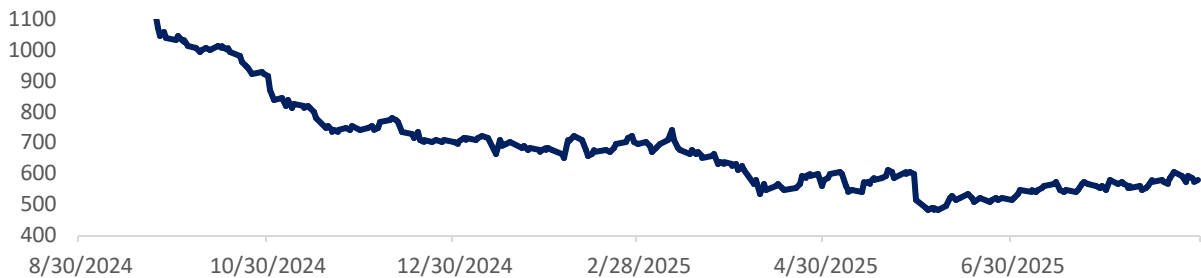
*Performance to Date as of 31/08/2025, from 10/04/2025. Price target from internal models

Potential Buy:

Regeneron Pharmaceuticals (NASDAQ: REGN)



Current Price: \$582.11 Performance YTD: -18.48% PT: \$836 (+44%)



Regeneron is a U.S. biotech company, founded in 1988. Its key franchises are Eylea (AMD), Dupixent (Atopic Dermatitis), and Libtayo (Oncology). REGN is -18.48% YTD since the Eylea LOE – leaving Eylea exposed to Amgen’s Pavblu and biosimilars.

Sentiment

- Cash engine in Dupixent.** Dupixent (with Sanofi) generated \$4.3bn in Q2 2025 revenue. Its new COPD and CSU indications provides a durable path to increased earnings growth with patent expiry not until 2031. (17)
- Asymmetry with a margin of safety:** While the market fixates on the erosion of the Eylea franchise, market share loss has been slower than feared. Eylea sales increased quarter on quarter 10% in Q2 2025. In scenario analysis, even assuming zero future Eylea revenue, the stock still shows modest upside on Libtayo and Dupixent royalties. This creates downside protection.
- Cautious Optimism:** Questions persist on management and capital allocation. An almost \$7bn spend on financial engineering amid share buybacks raised questions considering the weak pipeline and LOE issues. Management must provide a pathway for longer-term growth and hit near-term execution goals with quarterly earnings before earning a larger weight.
- Data-driven AI edge:** The Regeneron Genetics Centre, combined with the \$256m 23andme acquisition in May 2025 pairs a large human-genetics dataset with AI to raise R&D success rates. If management can convert into tangible pipeline developments, this will rebuild long-term confidence.

Summary

Regeneron is a deep-value opportunity with strong risk-adjusted upside. We will wait for price to close the gap to fundamentals. Eylea stabilisation or pipeline progress is additional upside, not the thesis.

Risks

Most Favoured Nation

The MFN (Most Favored Nation) policy proposed in the U.S. was created to link the prices Medicare pays for certain prescription drugs to the lowest price available in any OECD country with a GDP per capita of at least 60% of the U.S. GDP per capita, aiming to lower costs for Americans. This would align U.S. drug prices with international reference pricing, reducing the current U.S. premium which is often 2–3x higher. The policy either levies a 15% tariff or the Most Favored Nation (MFN) pricing, whichever is higher, on drugs manufactured in the EU, however most branded drugs sold in the US are also produced in the US.

As of Sep. 1st, APIs and brand drugs will be subject to a 15% tariff, as well as generic drugs manufactured with APIs from countries outside the EU. MFN would cut drug reimbursement rates in the largest and most profitable Pharma market, directly reducing revenues and margins for these companies.

This could reduce incentives to invest in R&D, leading to fewer drug development programmes in the future, slowing innovation. The MFN policy could also impact patient access to drugs, as companies pull out of other countries where their products are sold more cheaply, delay launches in emerging markets to avoid setting a low reference price or raise prices in traditionally lower cost countries in order to protect revenues.

GLP-1 Dependence and Market Saturation

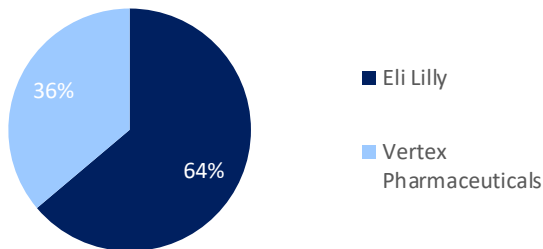
Eli Lilly's rapid growth can be attributed to its GLP-1 franchise, with Zepbound and Mounjaro reporting revenue increases of 41% in the first half of 2025, and total prescriptions up 41% YoY in Q2. Since 2018 the five biggest diabetes and obesity medications including Novo's Ozempic, Wegovy and Rybelsus, and Lilly's Zepbound and Mounjaro have collectively earned \$71 billion in U.S. revenue with cumulative revenues projected to reach \$470bn by 2030.

Both Eli Lilly and Mounjaro are in late-stage trials for oral GLP-1s, with Novo Nordisk waiting on an FDA decision on its semaglutide pill late this year. However, this duopoly is threatened by pending patent expirations, as soon as 2031 for Novo Nordisk. This will have a sector wide impact, as it allows a space for generics to enter the market, increasing competition. Eli Lilly's main compound in tirzepatide runs to 2036, and the company have applied for 53 patents related to Zepbound and Mounjaro, with 16 granted so far. (18)

However, generic versions of tirzepatide, even if not necessarily as effective as the original, may cause market saturation, eroding Eli Lilly's market share and leading to price reduction and revenue slowdown. Many companies are currently developing dual agonists (drugs that work in the same way as tirzepatide) including Roche with CT-388, with a Phase 2 readout expected in early 2026, Altimmune have Pemvidutide in Phase 2b and Zealand with a dual agonist in Phase 3. Amgen is also advancing MariTide, an oral GLP-1 moving to Phase 3. Lilly's weak pipeline beyond diabetes and obesity make the company highly dependent on its GLP-1 drugs, increasing risk.

Ownership and Rationale

Our Holdings



KPIs	
Sector Weight	6.17%
YTD Return	-4.31%
Total Market Value	\$ 34,344.30
P&L	€ 11,422.91

Holdings								
Ticker	Name	Weight	Average Price	Market Value	FX Effects	P/L (%)	P/L (€)	YTD (%)
LLY	Eli Lilly	64%	\$ 388.59	\$ 21,928.10	-35.83%	54.6%	€ 10,068.79	-5.11%
VRTX	Vertex Pharmaceuticals	36%	\$ 313.54	\$ 12,416.20	-20.53%	9.0%	€ 1,354.12	-2.90%

On July 22, we trimmed LLY (10 shares for €6,534.87) and VRTX (10 shares for €3,922.51) to realign Pharma exposure with the MSCI benchmark and our broader portfolio strategy. The adjustment reduces Lilly more, reflecting our higher conviction in Vertex versus Lilly.

Why have we reduced LLY?

- **Generics to come:** Novo’s core GLP-1 patents expire 2031-32 (EU/US); even though early single-agonist generics will be less effective than tirzepatide, given pricing issues with GLP-1s, we expect they will anchor price and erode Lilly’s share and margins. (19)
- **New branded entrants:** Multiple credible entrants are closing in – Roche’s CT-388 (dual agonist) will see a Phase 2 readout in early 2026. Amgen’s MariTide (once-monthly injections) is recruiting for a Phase 3 trial, and AltImmune’s pemvidutide (stronger lean mass retention) has shown positive Phase 2 data.
- **Orals race tightening:** Novo’s oral semglutide has shown higher efficacy and lower discontinuations than Lilly’s Orforglipron in reported studies; Novo’s slower marketing is largely manufacturing capacity-driven, not efficacy (20)
- **Triple agonist won’t overcome saturation:** Lilly’s Retatrutide may be the first credible triple agonist to market, but we doubt it offsets generic pressures and branded saturation.

Bottom line: *Our conviction is that GLP-1s are a winner, however Eli Lilly may not be the only winner. This is due to generics, new entrants and market saturation to come. We see a disconnect in the market between category growth of GLP-1s and Eli Lilly’s terminal share. For this reason, our models show Eli Lilly is trading near but just below fair value. We will continue to analyse the situation but remain interested in opportunities with further upside*

Strategy For The Year Ahead

What We See in the Market

Our aim is to generate alpha through asymmetric trade ideas, placing fundamental analysis and fair value first, and market timing and catalysts second.

Healthcare today trades near its cheapest P/E relative to the S&P 500 in over 3 decades. The sector has stagnated following decades of moving roughly in line with Technology returns. Now Healthcare faces a myriad of issues; political pressure, pricing issues and a patent cliff which threatens billions in revenues.

In the U.S., the policy pendulum has swung towards lower drug spend. Branded drug prices in 2022 were at least 3.22 times as high as prices in comparable nations. Public sentiment has not been kind – the December 2024 murder of UnitedHealthcare CEO Brian Thompson became a grim symbol of the anger around the healthcare system. Now, the administration has posited a Most-Favoured-Nation (MFN) framework to lower prices and has targeted the Life Sciences industry with a squeeze and slowdown in NIH grants under RFK’s HHS leadership. Against the policy and pricing backdrop, capital should be selectively deployed.

A large wave of loss-of-exclusivity (LOE) will hit the Pharmaceutical industry in the coming years. IQVIA estimates the impact to be ~\$145bn through 2028. Merck (MRK) is the poster child of this patent cliff. Its oncology drug Keytruda made \$29bn in 2024 sales, 45.9% of total sales, LOE coming in 2028 in the U.S. (21)

By contrast, Vertex is unusually insulated. Its CF engine is migrating patients from Trikafta to Alyftrek, both lowering royalties and extending the exclusivity period to 2039 in the U.S.

Valuation ≠ Value (yet)

Healthcare seems ‘cheap’ versus the S&P 500 on both forward and backward multiples, **but cheap is not the same as undervalued**. When we model the larger cap Pharma companies with realistic LOE, pricing, and trial success rates, most seem to be trading roughly around fair value. Few are glaring bargains. With crowded longs, valuations will not go up without better earnings and trial data. (22)

Big Pharma does not have the luxury of waiting out LOE, they will buy inorganic growth. This, combined with war chests amassed by Large-Cap Pharma and a better dealmaking environment from a macro perspective, means we expect M&A to fill holes left by LOE.

We expect buyers to focus on late-stage assets with clear paths to market. Abivax (ABVX) is a current example, with July readouts showing positive Phase 3 results for obefazimod in ulcerative colitis. This is the sort of profile acquirers will look for to backfill revenues.

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We continue to look for dislocations between price and fair value, providing us a margin of safety. We stay overweight businesses with strong patent lifecycles and cash engines, whilst remaining disciplined on the price we pay.

We see opportunity in The U.S., Europe and Japan. Europe offers a pool of global quality with a strong R&D commitment (€55bn in 2024) and Japan's governmental reform and lower relative valuations offer potential for increasing equity returns. (23)

Watchlist

Sarepta Therapeutics (NASDAQ: SRPT) – *A special situation with asymmetric risk/reward.* Shares are down 85% YTD amid ELEVIDYS safety controversy and investor lawsuits. ELEVIDYS retains unique value as the **only FDA-approved** gene therapy for DMD, a deadly disease affecting 1 in 5,000 male births, with a life expectancy of just 22 years. Asymmetric payoff potential (200%+) yields attractive expected value if management can ward off FDA scrutiny

Abivax (NASDAQ: ABVX) – *High-risk, high-reward immunology pipeline.* Abivax is developing obefamizod, a first-in-class oral small molecule in late-stage trials for ulcerative colitis (UC). The UC market has multibillion-dollar potential for Abivax, and is dominated by less effective injectables, leaving room for disruption by an effective oral. Phase 2b data showed durable efficacy, with Phase 3 underway, and top-line results expected in 2026. Backing from elite biotech Hedge Funds e.g., Baker Brothers, ADAR1, provides institutional validation. If Phase 3 data is strong, ABVX could emerge as a buyout candidate for a large-cap facing the patent cliff. With strong management, ABVX would also have great potential to execute on its own.

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