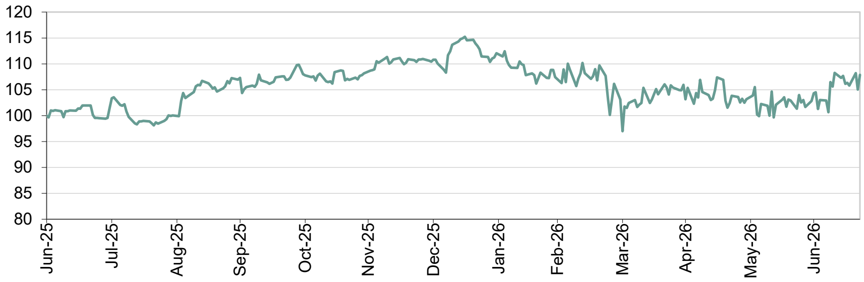
EDISON

BB Biotech

Stock selection drives Q2 NAV outperformance

BB Biotech (BION) delivered strong Q226 results, with NAV increasing 17.2% (in Swiss franc terms), 3.5pp ahead of the benchmark. The share price rose by a more modest 9.7% and the discount widened to 12.9%. Performance was supported by broad clinical execution and continued M&A activity. The portfolio evolved materially, with 12 additions increasing the total to 39 investments, while three portfolio companies were involved in announced acquisitions in 2026 to-date. BION also revised its annual payout policy, introducing a target yield of 3–5% from FY26. The managers remain constructive on the medium-term outlook, supported by scientific innovation, structural demand for external assets and a broad pipeline of catalysts, although regulatory, macroeconomic and geopolitical uncertainty remains relevant. Collectively, these dynamics support a constructive longer-term perspective for active biotechnology investing.

Exhibit 1: BION's relative performance versus the Nasdaq Biotech Index (CHF), one year



Source: LSEG Data & Analytics, Edison Investment Research. Note: Total returns in CHF.

The analyst's view

- The Q226 outperformance supports BION's stock selection credentials. While broader sector gains were influenced by macroeconomic conditions and capital flows, BION's relative performance was driven mainly by deliberate portfolio positioning and company-specific clinical execution, led by Revolution Medicines, Relay Therapeutics and Oruka Therapeutics.
- The 12 additions represent a material evolution in portfolio construction, increasing the portfolio to 37 listed holdings and 39 investments overall. The broader mix of established companies, mid-cap innovators and selected private companies should reduce reliance on individual clinical events, while c 7% of NAV in cash provides capacity for further deployment.
- M&A continues to provide external validation. Terns Pharmaceuticals, Nuvalent and Crinetics Pharmaceuticals were involved in recent transactions. This reflects sustained demand for external innovation as large pharmaceutical companies address substantial patent expiries.
- The widening of the discount from 6.9% at end-Q126 to 12.9% at end-Q226 is notable given the strength of the underlying NAV performance. The revised 3–5% payout framework and the existing share buyback authority provide additional capital allocation flexibility.

Investment companies
Biotechnology equities

27 July 2026

Price		**CHF49.75**
Market cap		**CHF2,744m**
Total assets		**CHF3,090m**
NAV		CHF56.0
Discount to NAV		12.9%

[1]Dicount to NAV as of 30 June 2026.

Current yield		4.6%
Shares in issue		55.1m
Code/ISIN		BION/CH0038389992
Primary exchange		SWX
AIC sector		N/A
Financial year end		31 December
52-week high/low	CHF52.0	CHF30.8
NAV high/low	CHF56.0	CHF36.0
Gross gearing		0.0%

Fund objective

BB Biotech, a Swiss-based investment company (traded as a stock), targets long-term capital growth from biotech companies developing new drugs. At least 90% of the portfolio is held in listed companies, mainly those with marketed products or in advanced stages of development. BION is benchmarked against the Nasdaq Biotech Index (in Swiss francs) but is managed on a bottom-up basis, with a focused c 20–50 stock portfolio.

Bull points

- BB Biotech has 30 years' experience backing innovative companies, such as Moderna (bought pre-IPO).
- The long-term outlook for the biotech sector remains positive.
- BION makes unique use of AI to support the investment process.

Bear points

- Biotech stocks can be volatile, as the development process for new drugs and therapies is very uncertain.
- Recent political developments have raised concerns with some investors regarding tariffs and regulatory logjams.
- BION invests in foreign currencies, which brings a degree of currency risk.

Analysts

Arron Aatkar, PhD	+44 (0)20 3077 5700
Milosz Papst	+44 (0)20 3077 5700

investmenttrusts@edisongroup.com

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Strong Q226 performance reflects disciplined stock selection

NAV outperforms as the portfolio evolves

BION delivered a strong Q226, with NAV increasing 17.2% in Swiss franc terms, supported by positive clinical developments and continued M&A activity across the portfolio. This was comfortably ahead of the benchmark, the Nasdaq Biotechnology Index (NBI), which delivered a 13.7% return, representing 3.5pp of relative outperformance. NAV gains were 17.2% in euros and 15.9% in US dollars, compared with benchmark returns of 13.9% and 12.6%, respectively. The share price rose by a more modest 9.7% in Swiss francs, 8.7% in euros and 8.5% in US dollars.

On a half-year basis, over H126 BION's NAV returned 16.4% in Swiss francs, compared with 17.6% for the NBI, while the share price gained 14.1%. Management attributes the modest first half shortfall principally to timing, as improving fundamentals at several holdings may take longer to be reflected in share prices. The appreciation of the US dollar during Q226 provided a modest currency benefit for Swiss franc investors. However, the share price captured only part of the underlying portfolio gain, with the discount to NAV widening from 6.9% at the end-March 2026 to 12.9% at end-June 2026, despite a robust underlying portfolio performance.

The market environment was shaped as much by macroeconomic conditions and capital flows as by biotechnology fundamentals. Geopolitical tensions influenced oil prices, inflation expectations and the outlook for US interest rates, while quarter-end index rebalancing at end-Q226 more broadly supported healthcare stocks. Concerns around technology sector capital expenditure encouraged some generalist investors to rotate into more defensive areas. According to management, improving risk appetite contributed to a short squeeze across parts of biotechnology, with smaller and more speculative companies benefiting particularly strongly. BION's managers distinguish this broader market rally from the company's own outperformance, which they attribute primarily to deliberate portfolio positioning and company-specific clinical execution.

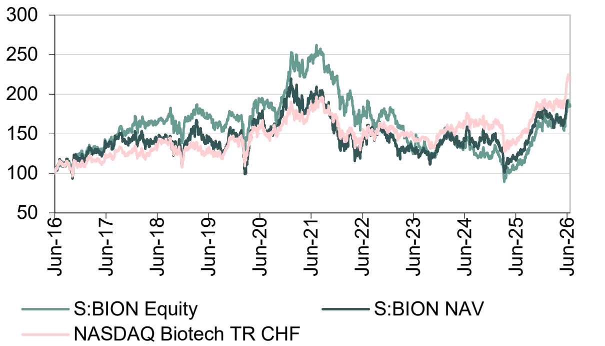
Looking at the broader picture, the one-year figures to 30 June 2026 show share price and NAV returns ahead of the NBI. Longer-term performance remains more mixed, reflecting the sustained pressure on biotechnology valuations during the earlier part of the decade. Nevertheless, BION's Q226 results suggest that disciplined stock selection and the evolving portfolio are beginning to translate into stronger relative returns.

Exhibit 2: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	NASDAQ Biotech TR CHF (%)	SCI World Health Care TR CHF (%)	CBOE UK All Cos (%)
30/06/2022	(31)	(32)	(24)	2	(7)
30/06/2023	(27)	(4)	2	(0)	6
30/06/2024	7	10	13	12	13
30/06/2025	(20)	(19)	(17)	(16)	7
30/06/2026	70	65	58	18	19

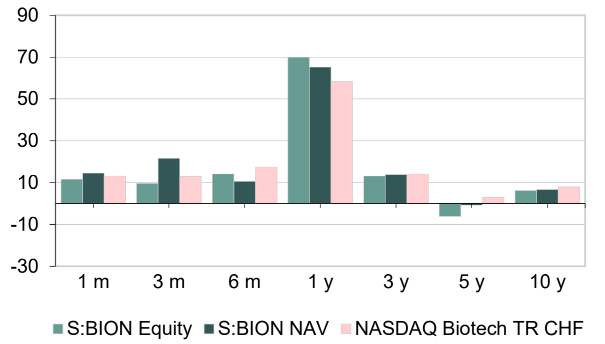
Source: LSEG Data & Analytics, Bloomberg. Note: All % on a total return basis in Swiss francs.

Exhibit 3: Price, NAV and benchmark total return performance, 10 years rebased



Source: LSEG Data & Analytics, Bloomberg, Edison Investment Research

Exhibit 4: Price, NAV and benchmark total return performance (%)



Source: LSEG Data & Analytics, Bloomberg, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. As at 30 June 2026.

Portfolio developments

Clinical execution drives relative performance

Clinical execution across the portfolio was the principal driver of BION's relative outperformance during Q226, with positive developments spanning oncology, immunology and rare diseases. This was important because performance was not dependent on a single therapeutic area or company. The managers also highlight that portfolio construction contributed to the result, as BION's focus on higher-quality businesses allowed it to outperform the NBI while maintaining a more balanced risk profile than a portfolio concentrated solely in smaller, higher-beta biotechs.

Revolution Medicines delivered one of the quarter's most significant clinical milestones, reporting positive Phase III data for daraxonrasib in metastatic pancreatic cancer. Daraxonrasib is part of the company's portfolio of targeted treatments for RAS-driven cancers, where genetic mutations can cause signals that promote tumour growth. The result represents an important progression from encouraging earlier-stage data towards late-stage clinical validation in a highly difficult-to-treat cancer. Revolution Medicines was BION's fifth-largest holding at 30 June 2026, representing 5.5% of the securities in the portfolio, hence, the positive readout had a meaningful effect on quarterly performance (Revolution Medicines' share price rose c 90% across Q226) and further supported the investment team's conviction in the company's broader oncology platform.

Relay Therapeutics and Oruka Therapeutics also contributed strongly following encouraging clinical updates during the quarter. Management views both developments as further evidence of the value of investing in businesses with focused therapeutic platforms and differentiated science. At 30 June, Oruka and Relay represented 4.4% and 3.3% of the securities in the portfolio, respectively, making both meaningful positions rather than peripheral holdings.

These contributions all reinforce the breadth of the Q226 outcome. Revolution Medicines provided the most prominent late-stage milestone, while progress elsewhere in the portfolio demonstrated that returns were supported by a wider group of holdings. This reduces reliance on any single clinical event and is consistent with management's stated aim of balancing individual conviction with broader portfolio resilience.

M&A continues to validate portfolio relevance

Importantly, M&A activity provided further external validation of BION's stock selection. Merck announced its acquisition of portfolio company Terns Pharmaceuticals for c US$6.7bn on 25 March 2026 and completed the transaction in May 2026. The deal reflected strategic interest in a new generation of oncology mechanisms for chronic myeloid leukaemia. GSK announced its c US$10.6bn acquisition of portfolio company Nuvalent on 9 June 2026, with the transaction completing after the reporting period on 15 July 2026. The acquisition of Nuvalent's precision oncology pipeline illustrates the value that larger pharmaceutical companies continue to assign to differentiated assets supported by compelling clinical data. Post-period, Vertex Pharmaceuticals announced a definitive agreement to acquire Crinetics Pharmaceuticals on 6 July 2026 for c US$10.0bn (both of which were portfolio companies). Vertex is one of BION's largest holdings, and the transaction demonstrates how established companies are using acquisitions to broaden their commercial and development platforms.

Eight BION portfolio companies have now been successful acquisition targets over the past six quarters, representing close to one-fifth of all acquisitions in which BION has benefited from over more than three decades. While M&A is not an explicit investment objective, it remains a natural consequence of owning businesses with differentiated science, strong clinical evidence and material commercial potential, reinforcing BION's approach to investing.

Exhibit 5: BION's portfolio continues to benefit from M&A activity during 2026

Three announced portfolio transactions in 2026 reinforce structural demand for differentiated biotechnology innovation

Terns Pharmaceuticals	→	Merck	Validates our early investment in differentiated oncology innovation.
Nuvalent	→	GSK	Highlights the strategic value of differentiated precision oncology assets.
Crinetics Pharmaceuticals	→	Vertex Pharmaceuticals	Demonstrates continued demand for innovative commercial-stage biotechnology companies.

Eight BB Biotech portfolio companies have been subject to announced acquisitions over the past six quarters.

Source: BB Biotech Q226 investor presentation

Portfolio evolution broadens the opportunity set

BION initiated 12 investments during Q226, increasing the portfolio to 37 listed holdings and 39 investments overall. Management states that this does not represent a lower-quality threshold or a change in investment philosophy. Instead, the broader portfolio reflects expanded research capabilities, which allow the team to evaluate a larger number of companies more systematically while retaining its focus on scientific differentiation and patient need.

The additions span a broad range of development stages. United Therapeutics and Insmed provide exposure to established or near-commercial franchises with more visible growth profiles. Hemab Therapeutics, Avalyn Pharma, CG Oncology and Spyre Therapeutics add clinical-stage opportunities in areas of significant unmet need. Seaport Therapeutics, BridgeBio Pharma, Palvella Therapeutics, Aura Biosciences and Parabilis Medicines broaden exposure across neurology, rare diseases and precision oncology. Niroda Therapeutics is a selective private investment, providing access to innovation outside public markets within a limited private allocation.

Portfolio activity also included several exits. Terns was sold following completion of the Merck acquisition, while BION exited Alnylam Pharmaceuticals, Edgewise Therapeutics and Atrium Therapeutics, where management considered that fair value had been reached or that capital could be deployed more productively elsewhere. These disposals demonstrate that the increase in holdings was accompanied by continued capital recycling, rather than an indiscriminate expansion of the portfolio.

The portfolio also now has greater exposure to established biotechnology companies. Amgen, Argenx, Vertex Pharmaceuticals and Gilead Sciences occupied the four largest positions at 30 June 2026. Management describes this as a response to the available opportunity set rather than a defensive change in strategy. These companies provide established commercial franchises and broader pipelines, complementing the portfolio's mid-cap and emerging holdings.

The increase to 37 holdings in the portfolio represents a material change from the portfolio at end-2025, when there were 24 holdings, and even the end of Q126 when there were 30 holdings. Based on the reported end-June 2026 weights, the top 10 represented c 53% (the top 10 holdings represent c 57% of the portfolio, adjusted for the portion of NAV held as cash), compared to the top 10 holdings accounting for c 75% of NAV at end-2025 . The broader structure should reduce dependence on individual clinical events and give the managers greater flexibility in position sizing. The corresponding trade-off is that success at any single smaller holding will have a less pronounced effect on NAV than under the previous, more concentrated structure.

H226 and beyond

BION enters H226 with a broad pipeline of potential clinical, regulatory and transaction related catalysts. Management highlights upcoming Phase III readouts, regulatory decisions and further possible M&A as potential sources of value creation over the coming quarters. The pending acquisition of Crinetics by Vertex should provide additional capital for redeployment once completed, and the Nuvalent transaction closed shortly after the period end.

The wider portfolio and reduced concentration mean that BION should be less dependent on single binary results than it was at the beginning of the year. However, clinical outcomes will remain important drivers of individual holdings' performance. The combination of multiple milestones, pending corporate activity and available capital for redeployment provides several potential routes to NAV growth, while preserving the need for disciplined position sizing.

Sector outlook: Structural demand supports active stock selection

Scientific and strategic demand

BION's managers remain constructive on the long-term outlook for biotechnology, supported by continued scientific progress across oncology, immunology, rare diseases and metabolic medicine. Innovation is increasingly originating outside large pharmaceutical groups, which face an estimated >US$250bn of revenue at risk from patent expiries through 2030. This creates sustained demand for externally developed products and platforms that can replenish pipelines and support future growth. The eight announced acquisitions involving BION holdings over the past six quarters provide recent evidence of this structural trend, although M&A remains an outcome of successful stock selection rather than an explicit investment objective.

Market and regulatory conditions

The near-term backdrop remains less predictable. The regulatory environment appeared to improve in late Q226 following the departure of FDA commissioner Marty Makary and the appointment of Kyle Diamantas as the acting commissioner, alongside new acting leadership at the agency's drug and biologics divisions. Industry sentiment was supported by the FDA's decision to reconsider or reverse several contentious regulatory decisions affecting rare disease and cell and gene therapy programmes. The agency also issued guidance offering greater flexibility in areas such as manufacturing requirements and the use of prior evidence in gene therapy development.

However, it is too early to conclude that regulatory conditions have fully stabilised. Several senior posts remain occupied on an acting basis, the agency has experienced material staff turnover and the future direction of initiatives introduced under prior leadership remains unclear. Permanent appointments and the extent to which the FDA re-establishes consistent, science-led review processes will therefore remain key considerations for biotechnology investors. The 2026 US midterm elections, inflation, interest rate expectations and broader geopolitical developments may also influence capital flows and valuation levels throughout H226.

Investment implications for BION

Following the sector's strong recovery since April 2025, BION's managers believe that attractive risk-reward opportunities are now less broad-based. Valuations have recovered unevenly, increasing the importance of distinguishing between companies with differentiated science, credible clinical execution, sufficient funding and meaningful commercial potential. This places greater emphasis on disciplined stock selection, position sizing and portfolio construction, rather than relying on broad sector exposure. The team is seeking to balance established healthcare leaders with innovative mid-cap biotechs, selective private investments and available cash, creating resilience while retaining exposure to clinical and regulatory upside. As a closed-ended investment company, BION has a relatively stable pool of capital. This allows the managers to maintain positions through periods of volatility, avoid forced selling and deploy capital when market weakness creates attractive opportunities. These conditions should favour experienced active investors, though outcomes remain dependent on successful execution by individual portfolio companies.

Building an integrated investment platform

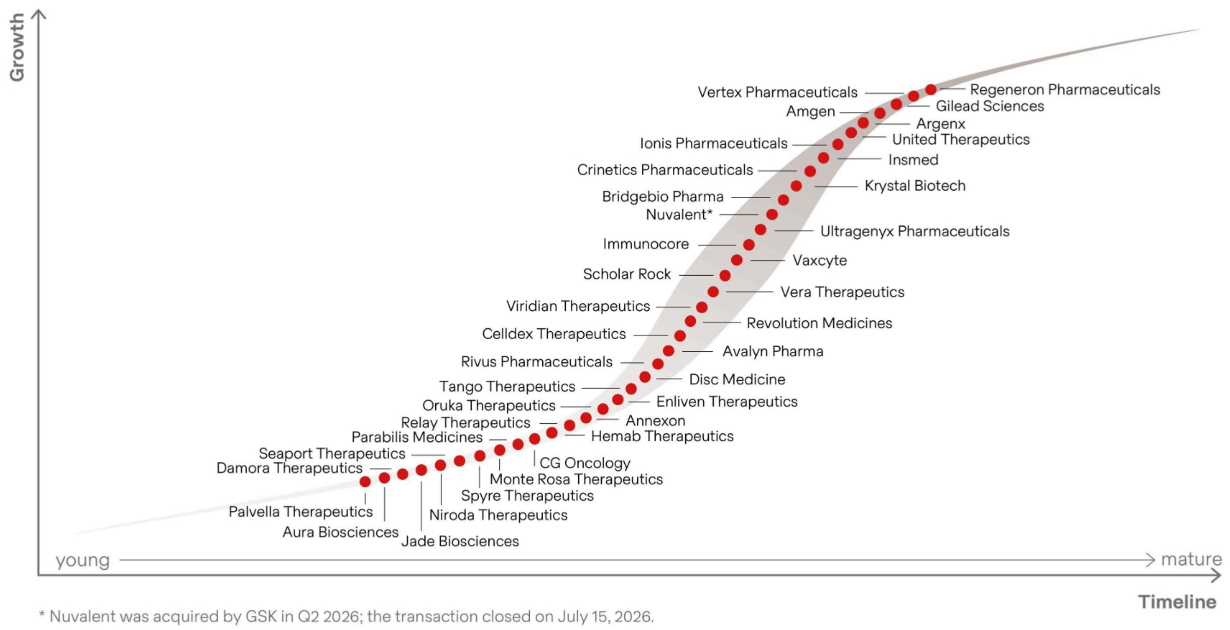
BION's investment approach continues to evolve, with the management team developing what it describes as a proprietary operating system for biotechnology investing. This represents a progression from the use of individual AI-assisted research tools towards a single environment that supports company research, risk assessment, investment decisions and overall portfolio management. Scientific evidence, clinical data, valuation assumptions, investment decisions and subsequent outcomes are integrated within the platform, allowing them to be assessed consistently and retained as part of the firm's institutional knowledge.

The system operates across two distinct time horizons. The research engine assesses the longer-term scientific, clinical, regulatory and commercial case for a company, with the aim of estimating the probability that a therapy will succeed and the value that success could create. Rather than relying on a single point estimate, it considers a range of possible outcomes to provide a fuller view of prospective returns and downside risk. The market engine considers shorter-term factors, including valuation, investor positioning, liquidity and market sentiment. A portfolio construction layer then brings these perspectives together, translating the team's research conclusions into decisions on investment timing and position size.

Management stresses that the platform is intended to strengthen investment judgement rather than replace it. By providing a common framework for testing assumptions, comparing opportunities and reviewing earlier decisions against subsequent outcomes, the system is expected to support greater rigour and consistency while reducing the influence of behavioural bias. Capturing these inputs and outcomes also allows each investment to contribute to the team's institutional knowledge, creating scope for the process to improve over time.

The 12 investments initiated during Q226 provide an early indication of how the enhanced capabilities may broaden the team's research coverage without lowering its investment threshold. Management states that the additions reflect an improved ability to evaluate companies more quickly, deeply and systematically, rather than a change in philosophy or quality requirements. The portfolio's expansion to 39 investments suggests the platform may support broader reach while preserving scientific depth; subsequent periods will show whether this will translate into a sustained performance advantage.

Exhibit 6: BION's updated S-curve



Source: BB Biotech Q226 interim report

Capital flexibility supports selective deployment

At 30 June 2026, BION held c 7% of NAV in cash and other net assets, alongside a modest allocation to private investments. Capital available for redeployment is expected to increase further following the announced acquisitions of Nuvalent and Crinetics Pharmaceuticals. This provides the investment team with additional flexibility as biotechnology valuations become more differentiated following the sector's recovery since 2025.

Portfolio construction is intended to balance resilience with long-term growth. Established large-cap companies, including Amgen, Argenx, Vertex Pharmaceuticals and Gilead Sciences, provide commercial scale and stronger cash generation, while mid-cap and emerging holdings offer greater exposure to clinical and regulatory upside. Retaining available capital allows BION to respond selectively as opportunities arise, without relying on short-term market forecasts or compromising its focus on differentiated innovation.

Capital returns and discount

Refined payout policy links distribution to performance

BION has refined its annual payout policy for 2026, with the first dividend under the new framework expected in spring 2027. The company will target an annual dividend yield of 3% to 5% of its share price, replacing the previous policy of distributing 5% of the volume weighted average share price during December. Under the revised approach, the reference price will be calculated over 20 trading days spanning late January and early February of the payment year, bringing the calculation closer to the AGM and subsequent distribution. The board will determine the precise yield at its February meeting, taking account of full-year investment performance, NAV development and prevailing market conditions.

The revised framework should allow distributions to reflect investment outcomes more closely. In stronger years, the board may select a yield towards the upper end of the range, while retaining more capital during periods of market stress or when attractive investment opportunities arise. However, the lower end represents a potential reduction from BION's previous 5% policy, although 5% remains the upper limit, following a relatively high distribution policy that has been paid consistently since 2013. The framework complements the share buyback programme announced in February 2026, which permits the repurchase of up to 10% of BION's shares over three years. Collectively, these initiatives reflect the board's commitment to a disciplined, performance-aligned approach to capital allocation, balancing long-term investment in biotechnology innovation with returns for shareholders.

Discount

BION's shares have historically traded at a premium to NAV, averaging c 5% over the past 10 years. This was supported by strong investor interest in biotechnology, buying by passive investors following index inclusion and the company's historically high distribution policy. The premium reached a record c 40% in January 2022, before the shares moved into discount territory during 2023 as higher interest rates and weaker sentiment weighed particularly heavily on small- and mid-cap biotechnology companies. The discount narrowed from 15.2% at end-2024 to 10.8% at end-2025 and stood at 6.9% at the end of Q126. However, it widened to 12.9% at 30 June 2026, despite BION delivering a strong Q226 NAV total return of 17.2%. The share price rose by a more modest 9.7% over the quarter, meaning that investors captured only part of the underlying portfolio gain.

More broadly, BION's current rating should be considered against a backdrop of continued pressure on listed closed-ended investment vehicles, as investors have become more sensitive to costs and have access to an expanding range of low-cost passive products. BION charges an all-in management fee of 1.1% per year on average market capitalisation, with no performance fee. This places greater emphasis on management delivering sustained net-of-fee outperformance to support a premium rating. However, fees are unlikely to explain the recent discount movement in isolation, which also reflects the share price lagging NAV during Q226, broader biotechnology sentiment and uncertainty around the revised distribution framework.

Management views sustained NAV outperformance as the most durable means of narrowing the discount over time. The revised payout framework and the share buyback programme provide additional capital allocation tools, although neither guarantees a re-rating. With BION's shares currently trading at a larger discount compared to the historical average, investors may see value at current levels if portfolio performance remains strong and demand for biotechnology exposure improves. However, the discount may remain sensitive to sector sentiment and shareholder expectations regarding future distributions.

Exhibit 7: Premium/discount over 10 years (%)

Source: LSEG Data & Analytics, Bloomberg, Edison Investment Research

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London | New York | Frankfurt
20 Red Lion Street
London, WC1R 4PS
United Kingdom