Quarterly Update: Q3 2020

Atypical Market Circumstances: -11% over Q3

We would like to see our NAV going up nicely every month, but history shows that is not how it works.
While achieving a +71% net outperformance against the market (NBI), fluctuation is inevitable. This is further illustrated by the graph below.

The decline of 11% over Q3 is partially due to the weakening of the $ versus the € (over 4% decline with 68% exposure to the $), a setback for portfolio company Galapagos and delays of some clinical studies due to Covid-19. The continued focus of the media and speculation of investors on Covid-19 vaccine companies also had a negative influence on the NAV.

Though the value creation across our portfolio, based on the progress presented by our portfolio companies, should have increased our NAV despite the events described above. But the stock market, especially now, is far from rational.

Did the value of our portfolio company Ionis go down 20% because they announced to pay $500 million for the remaining 24% of Akcea shares it did not already own? This following Akcea's great clinical results of a potential blockbuster cardiovascular medicine and with Akcea's cash position being $390 million.

Did the value of Dicerna go down 29% over the last quarter while delivering good progress on all four existing license deals and presenting strong clinical data from a clinical trial in patients chronically infected by the hepatitis B virus?

The answer to the two questions above is obviously no. We are of the opinion that it is due to atypical market circumstances.

Investing in a Covid-19 vaccine company

Aescap 2.0 so far has not come across an undervalued company developing a Covid-19 vaccine that at the time of analysis had sufficient clinical data to get conviction on efficacy nor safety over competition. Instead of gambling on one or more winners in the Covid-19 vaccine race, we have invested in a vaccine manufacturer that has recently closed supply agreements to vaccine developers at very favorable terms, taking advantage of current shortage in production capacity. These contracts came with fixed upfront payments to reserve a production slot independent of whether the vaccine will be approved.

This company has a hybrid business model, they do third party manufacturing for vaccines and gene therapy medicines (two serious growth markets) and they also develop tens of gene therapy products for diseases with a high unmet medical need. The company's R&D business model is to bring gene therapy medicines through successful proof of concept in animals and then out-license them before the expensive clinical trials must be performed. One of these gene therapy products that is already out-licensed caught our eye. This medicine candidate has shown highly promising clinical data in the treatment of Parkinson's disease. In a recent call with management they stated to expect to close another licensing deal on a medicine they have developed later this year, in addition to 22 gene therapy (enabling) products already have been out-licensed.

Important

It is important to note that currently the development of our NAV has lost efficiency in reacting to the performance of our portfolio companies. As one of our portfolio advisors rightfully stated: investors in biotech lately have acted very emotionally and for a fund that is investing rationally based on fundamentals that does not always correlate favorably.

Independent of the market circumstances and dynamics we keep investing on the same basis as we have done for so many years. We keep on looking for well managed high-growth companies with proven technologies and products that are well financed but seriously undervalued.

The recent irrational behavior of investors also had a positive side: we were able to add 8 high-growth undervalued companies to our portfolio over the last quarter. We divested 3 positions given they reached our target price, or we deemed an investment in other companies more favorable.

Net Performance (from inception at March 28, 2016)

Unit Value per September 30, 2020:
€ 1.929,2364

Since Inception	2020	1 month	1 year	2 years	3 years
+ 92,9%	- 14,0%	- 1,5%	+ 7,2%	- 1,4%	+ 48,8%

Fund Breakdown per September 30th

Assets under Management:
€ 185.098.909

Location (based on value):
Europe: 43%
US: 50%

Invested per Currency:
USD: 68%
EUR: 20%

Asia:	**7%**	**DKK:**	**8%**
		SEK:	**2%**
		GBP:	**2%**

Top-5 Performers

1.	**Myokardia**	**+ 41%**
2.	**Hansa Biopharma**	**+ 37%**
3.	**Axovant Gene Therapies**	**+ 24%**
4.	**Arrowhead Pharmaceuticals**	**+ 20%**
5.	**Argenx**	**+ 13%**

Portfolio Highlights

Akcea (+32%) / Ionis (-20%)

Akcea was acquired by Ionis with a premium of 60%. Ionis already owned 76% of Akcea before the acquisition. Akcea was originally spun out from Ionis in 2014 to become its commercial "arm".

The new CEO of Ionis, its former COO, early this year announced that he wanted to bring Ionis from an R&D company to a fully integrated one: from discovery to commercialization of its products, allowing for full retention of the value of each medicine. So far, the company has out-licensed over 20 products of which 5 to Akcea, that built its own commercial infrastructure to sell two approved medicines so far. In late August, Akcea announced positive results from two late stage clinical studies investigating two medicines for the treatment of cardiovascular disorders. Two days after the release of these results, Ionis announced that it would fully acquire Akcea including its operations in sales, marketing and distribution.

Ionis now has three products on the market, of which one is marketed by Biogen. It has 50 candidate medicines in development of which five are in the final stage of clinical testing. The company expects to have 10 products or more in the market in 4-5 years.

Arrowhead Pharmaceuticals (+20%)

We have been working on and off on Arrowhead Pharmaceuticals for over a year and recently finalized our due diligence and valuation. We decided to start building up a position in the company directly after our final meeting with management that concluded our due diligence. Already the next day the company announced very positive data from a clinical study in a rare genetic disorder affecting lungs and liver. On the news the share price went up 45%, however by then we had only managed to invest 1% of our assets under management in the company. We will closely monitor the share price movements in this stock, and we will only further grow our stake if it reaches our maximum entry price once again. Time and time again, RNA medicine company Arrowhead shows best-in-class clinical data across several disease areas and we are looking forward to the next milestones for this company. The company currently has eight products being tested in clinical trials, each of them in a different disease.

Dicerna Pharmaceuticals (-29%)

The third quarter of 2020 was rich in important news for Dicerna. During their R&D day in August, the company presented strong results from their clinical pipeline. Positive results were presented from a clinical trial in patients chronically infected by the hepatitis B virus (HBV) treated with Dicerna's RNA-based medicine candidate. Patients affected by this disease currently receive a chronic treatment their whole life, however in many cases that does not avoid the increased risk of liver complications, including liver cancer and cirrhosis. Dicerna's medicine aims at providing a functional cure for these patients and the results presented are very encouraging. As previously reported, this medicine was part of a large deal struck in October 2019 with top-3 pharmaceutical company Roche that brought in $200 million in an upfront payment as well as $1.5 billion in potential milestones plus royalties for Dicerna. On top of this, Dicerna retains the opt-in rights to co-commercialize this medicine in the US, possibly retaining even more value.

In the same event, Dicerna also presented further positive results from its lead medicine candidate that is being tested for the treatment of a group of rare genetic metabolic disorders. A larger, registrational clinical study for this disease is on its way to publish results in 2021, as the company intends to file for approval in the US in the third quarter of 2021. While all the clinical medicine candidates brought forward so far target the liver, Dicerna has also announced to expand its proprietary clinical pipeline towards other tissues, starting with a focus on central nervous system disorders. We are eager to see in which diseases Dicerna will decide to expand, since so far the company has strongly delivered on each of its programs.

Based on its strong R&D engine Dicerna has five license deals with top tier biopharma companies Alexion, Boehringer Ingelheim, Eli Lilly, Novo Nordisk and Roche.

Dicerna has also strengthened its management team with the appointment of a new CMO (chief medical officer), Dr. Aradhye, as successor to the current CMO who will soon retire. Dr. Aradhye brings substantial experience having been at Novartis for 20 years in different roles including that of CMO.

Galapagos (-31%)

As described in a separate newsletter earlier in the quarter, Galapagos experienced an unforeseen setback due to the FDA requesting more clinical data before potentially approving Jyseleca (filgotinib) in the US. The delay of such a potential approval by around 1-1,5 years significantly decreased the value of this asset, a downside that would be even greater if the product is not approved in the US at all. However, last week Jyseleca was approved in Japan and in Europe. In both territories two dosages were approved, where competitors only got their low dosage approved. The approvals mark an important milestone for the transition of Galapagos to a commercial-stage biotech company generating its own sales in parts of Europe and receiving further milestone and royalty payments from Gilead from sales in the remaining European countries and rest of world.

Galapagos also released clinical data from a study in people affected by diffuse cutaneous systemic sclerosis, a devastating disease for which there is no approved therapy available. The same product is being tested in a potentially registrational study in idiopathic pulmonary fibrosis (IPF), another deadly, though more common, disease. The full readout of that study is expected in 2022, though the outcome of a futility analysis will be reported in the first half of 2021. For the remainder of 2020 the company has reiterated it will present clinical trial data from another medicine candidate being tested in osteoarthritis as well as for another product that is being tested in IPF as well.

Furthermore, extensive data will be released on a new class of anti-inflammatory products, under the code-name Toledo, developed by the company’s established research engine. Galapagos is very convinced of the potential of the Toledo franchise, and will start 5 clinical phase II studies with these products later this year.

Zai Lab (+1%)

The past three months were another example of how Zai Lab consistently delivers on all fronts.

In July, Zai Lab in-licensed another medicine, this time with Turning Point for the development and commercialization rights of Repotrectinib in Greater China. This product is a next-generation medicine aiming to treat patients with advanced non-small cell lung cancer. This most recent deal broadens their oncology pipeline and further establishes Zai Lab as a major oncology player providing the latest medicines to the Greater China market.

Also, the Chinese National Medicinal Products Agency (NMPA) accepted Zai Lab's application of Ripretinib for the treatment of Advanced Gastrointestinal Stromal tumors. Shortly after accepting the application, the NMPA granted Fast Track Designation to the application, which should significantly reduce timeline to approval, probably to around 6 months.

An additional approval by the NMPA was granted for Zai Lab's Zejula (Niraparib) for first line maintenance treatment of Ovarian Cancer. This approval was granted only 6 months after filing, which is a testament to the unmet medical need in this indication, moreover, Zai Lab concurrently released data from a Phase 3 study on Chinese Patients showing that no genetic testing was required prior to prescription of the medicine. Zejula is the only PARP inhibitor approved as monotherapy for all-comer patients in the first line and recurrent maintenance treatment settings regardless of biomarker status. Since not all hospitals in China are equipped with genetic testing, we expect these less stringent prescription conditions to drive sales numbers.

Zai Lab ended the quarter by conducting a secondary Hong Kong listing, in addition to their listing on Nasdaq, raising $766 million. This successful fundraising brings Zai Lab's total money raised this year above $1 billion. The Hong Kong listing allows more (professional) investors from China to invest in the company which typically has a positive effect on the share price and liquidity.

Outlook

The biotech sector is growing rapidly due to an ageing population and a fast uptake of innovative medicine in almost all territories. What is even more important to the fund is the earning power of ground-breaking technologies such as RNA and gene therapies, which enable the

development of better and often curative therapies for a very large number of serious diseases.

The value creation within our portfolio on a daily basis acts as a spring that is put under more and more pressure. Sooner or later this value will become apparent and share prices will move towards their intrinsic value.

With many milestones across our portfolio coming up we look forward to seeing investors responding to them accordingly, which should close the valuation gap that is visible in our portfolio companies.

We look forward to reporting to you again next month.

Best regards on behalf of the Aescap 2.0 team,

Patrick J. H. Krol
Portfolio Manager Aescap 2.0

About Aescap 2.0

Aescap 2.0 is an open-end fund investing in public biotech companies that develop and market next generation medical treatments. Within its focused portfolio of around 18 companies it diversifies over different diseases, development phases and geographies. Companies are selected for their growth potential ('earning power') and limited risk (technological and financial). Investors can enter and exit the fund twice per month.

The selection of companies in our portfolio is based on 'high conviction' - extensive fundamental analyses combined with intense interaction with management and relevant experts. The fund's performance is fueled by stock picking and an active buy and sell discipline. Biotech stocks are known for their very low correlation and high volatility, caused by media, macro-events and short-term speculative investors. This creates an ideal setting for a high conviction fund manager to invest in undervalued companies with a great mid- and long-term earning power. The fund has an average annual net performance target of 20%+ over the mid-term (4-5 years)

5-star Morningstar rating:

Morningstar has rated Aescap 2.0 as a 5-star investment fund, the highest possible rating given. Morningstar's rating has become the industry's leading standard for determining a fund's performance (risk/reward) relative to other funds. To rate a fund, Morningstar takes into account the long-term performance (3+ years) and only the top 10% best performing funds will receive a 5-star rating.

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