MIT team proposes $30B cancer research 'megafund'

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Using debt securities to help create a $30 billion “megafund” for cancer research could speed treatments to market and also provide attractive investment returns. That's according to a research team led by MIT Sloan School of Management [1] Professor Andrew Lo [2].

Lo and two research associates from MIT’s Laboratory for Financial Engineering have proposed a new method of raising billions of dollars for biomedical research and drug development from the private sector, which has been published in the journal Nature Biotechnology.

The team suggests the “megafund” may need to be as large as $30 billion, given the cost of drug development. The study suggests by launching a large number of research projects simultaneously, risk can be reduced enough to attract institutional investors like pension funds, insurance companies and sovereign wealth funds.

One key feature of the proposal is to use structured debt securities as well as traditional sources like public and private equity.

“This new feature is critical because bond markets are much larger than equity markets and capable of providing the large amounts of capital needed to ‘de-risk’ the drug development process,” Lo said in a statement. “Fund size is especially important when investing in early-stage projects, which are so speculative that only sufficiently large and well-diversified portfolios of these projects can be funded by more-patient capital such as long-term bonds.”

Securitization could enable the megafund to include bonds of different credit quality, which could appeal to a broader set of investors than traditional biopharma investors, according to the team.

The study’s financial models showed that even a “megafund” of $5 billion to $15 billion could yield average investment returns of 8.9 percent to 11.4 percent for equity holders, and 5 percent to 8 percent for bondholders.

The authors’ used databases of hundreds of anti-cancer compounds assembled by Deloitte Recap LLC and the Center for the Study of Drug Development at Tufts University School of Medicine, in order to construct their models. The simulations indicated many new drugs could be successfully developed and brought to market, the authors said.

MIT plans to hold a conference next year, inviting major stakeholders to explore the possibility of creating such a fund.

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