

Further strong performance

The Biotech Growth Trust (BIOG) has continued its strong track record of performance over the past 12 months, with share price and NAV total returns of 44.8% and 36.9% respectively. It has outperformed the NASDAQ Biotechnology Index (sterling adjusted) over the same period, and this has outperformed the broader market, returning 30.3% vs a fall of 3.8% for the FTSE All-Share Index. Despite share price gains, earnings growth leaves P/E valuations near 15-year lows. M&A support is likely to continue with 2012 marking a peak in patent expirations for large pharma companies who remain eager to re-fill their product pipelines.

12 months ending	Total share price return* (%)	Total NAV return* (%)	Total return NASBIOT Index * (%)	Total return RGHUSBTG Index * (%)	Total return DS Wid Phm & Bio * (%)
25/07/2009	15.2	17.6	8.4	13.0	10.3
25/07/2010	12.8	13.1	7.3	0.9	10.7
25/07/2011	34.3	29.7	28.6	22.4	19.7
25/07/2012	44.8	36.9	30.3	17.4	12.3

Note: *Twelve-month rolling discrete performance.

Investment strategy: Major and emerging biotech

Biotechnology investments in companies at the early stage of development can provide the highest returns over time but also carry substantial risk if drug developments prove unsuccessful. BIOG focuses on these early stage, emerging biotech companies (around two-thirds of the portfolio, with the balance invested in generally larger, established, and profitable companies). For the emerging part of the portfolio, OrbiMed will typically invest during the development process, two to three years before development success (product approval or launch) is likely to produce sales and sustainable profitability. The key to success in early-stage investments is to be able to manage the risk of development failure and in this respect OrbiMed is well resourced with a good track record. It is the largest independent specialist investor in the biotechnology and pharmaceutical sectors. It has over \$6bn AUM and over 62 investment professionals with strong scientific and financial backgrounds.

Sector outlook: Positive on M&A and new developments

Despite share price gains, earnings growth means that sector valuations remain near 15-year lows. The sector benefits from a supportive demographic backdrop of generally ageing populations and increasing income, particularly in emerging markets. M&A continues to be a significant feature as large-cap pharma companies look to replenish dwindling product pipelines. The manager sees particular opportunities from successful drug developments directed at major diseases (cancer, obesity, multiple sclerosis) where current treatment options are weak.

Valuation: Discount marginally below long-term averages

The current low discount of 0.3% (three- and five-year averages are 6.1% and 6.4% respectively) is supported by sector fundamentals and, when compared with peers, BIOG's performance record and clear discount maintenance policy.

Investment trusts

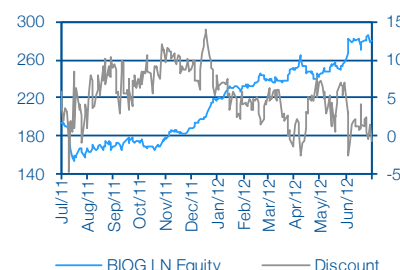
26 July 2012

Price	282.0p
Market cap	£176m
AUM	£182m
NAV	282.97p
Discount to NAV	0.3%
Yield	0.0%

* Including and excluding income, as at 25 July 2012.

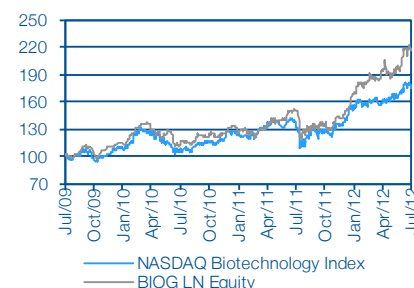
Ordinary shares in issue	62.5m
Code	BIOG
Primary exchange	LSE
AIC sector	SS: Biotech/Life Sciences

Share price/discount performance



* Positive values indicate a discount; negative values indicate a premium.

Three-year cumulative perf. graph



52-week high/low	285.50p	154.00p
NAV* high/low	287.45p	158.27p

* Including and excluding income.

Gearing

Gross	4.1%
Net	4.1%

Analysts

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Exhibit 1: Trust at a glance

Investment objective and fund background

The Biotech Growth Trust seeks capital appreciation through investing in the worldwide biotechnology industry, mainly in emerging biotechnology companies. Performance is measured against its benchmark index, the NASDAQ Biotechnology Index (sterling adjusted).

Developments last quarter

12 July 2012: AGM – all resolutions passed. Lord Waldegrave of North Hill appointed as Chairman. John Sclater, retired from board.
21 June 2012: Sam Isaly (OrbiMed Partner) disposed of 300k shares.

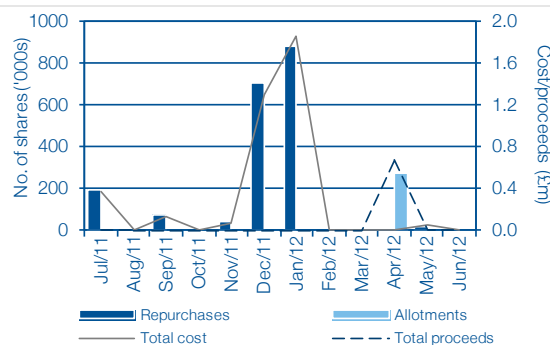
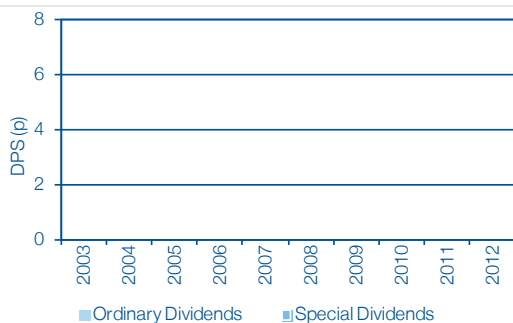
Forthcoming		Capital structure		Fund details	
AGM	July 2013	Ongoing charges	1.2%	Group	Frostrow Capital LLP
Preliminary results	June 2013	Net Gearing	4.1%	Manager	OrbiMed Capital
Year end	31 March	Annual mgmt fee	See Page 7	Address	25 Southampton Buildings, London, WC2A 1AL
Dividend paid	N/A	Performance fee	See Page 7	Phone	+44 (0)20 3008 4910
Launch date	June 1997	Trust life	Indefinite	Website	www.biotechgt.com
Wind-up date	Vote every 5 yrs	Loan facilities	See Page 7		

Dividend policy and history

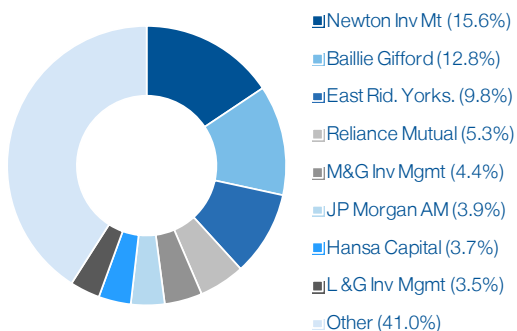
Reflecting the capital appreciation objective, dividends are paid only as required to maintain BIOG's investment trust status. Dividends, if any, are expected to be small (last dividend of 0.2p paid in 2001).

Share buyback policy and history

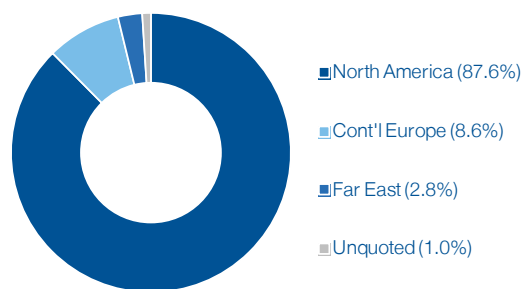
Renewed annually, the trust has authority to purchase up to 14.99%, and allot up to 10% of issued share capital.



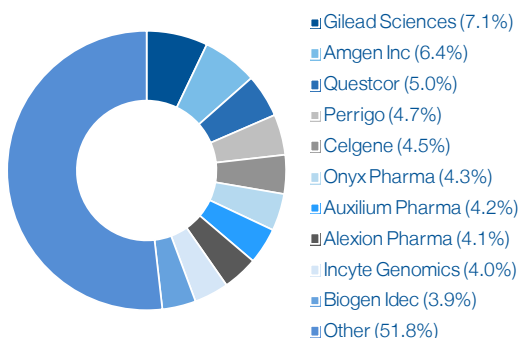
Shareholder base (as at 30 June 2012)



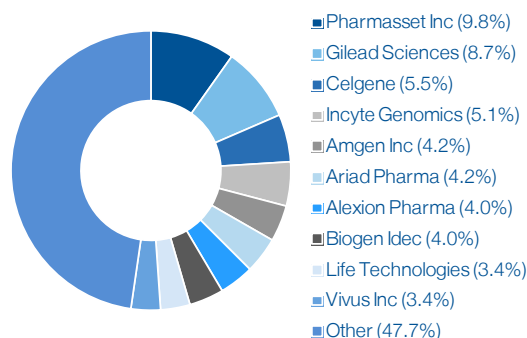
Geographic distribution of portfolio (as at 30 June 2012)



Portfolio composition (as at 30 June 2012)



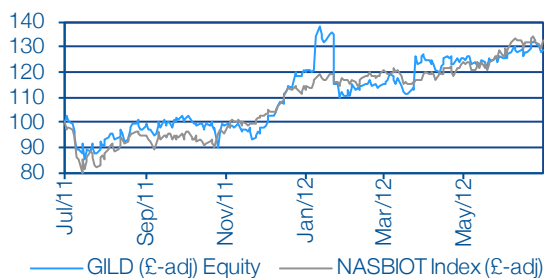
Portfolio composition (as at 31 December 2011)



Source: The Biotech Growth Trust, Edison Investment Research

Exhibit 2: Top five holdings at a glance

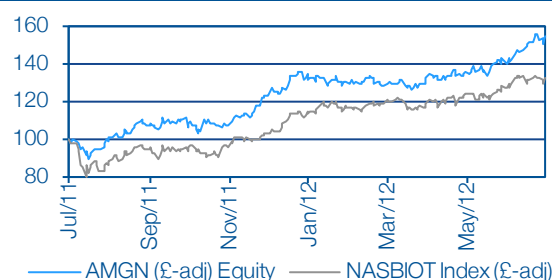
Gilead Sciences Code: GILD US Market cap: US\$38,767m (£25,054m)



Div yield (trail. 12 months) N/A
 Industry/sector Medical-Biomedical/Gene
 Listing NASDAQ, Frankfurt
 Website www.gilead.com

Gilead (GILD) is a global top five biotechnology company that focuses research on anti-infectives, antivirals, antifungals and antibacterials. Its key areas of interest are HIV/AIDS, liver disease and serious cardiovascular and respiratory conditions. In May the Antiviral Drug Committee of the FDA voted to support GILD's 'Quad' pill for treating HIV in treatment-naive adults. The manager expects GILD's currently low P/E multiple to expand with the launch of this and other new agents.

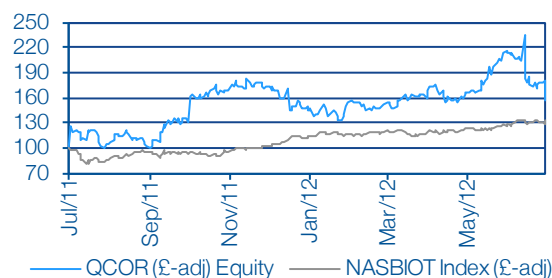
Amgen Code: AMGN US Market cap: US\$60,630m (£39,183m)



Div yield (trail. 12 months) 1.85%
 Industry/sector Medical-Biomedical/Gene
 Listing NASDAQ, Frankfurt
 Website www.amgen.com

Amgen is a biotechnology company that discovers, develops and commercialises human therapeutics. It markets eight principal products: Aranesp, Enbrel, Epogen, Neulasta, Neupogen, Nplate, Sensipar and Vectibix. The manager believes that Amgen's base business has been under pressure but management is addressing this and that it is generating considerable cash that is not fully valued by the market so, despite the recent uplift, the valuation remains compelling.

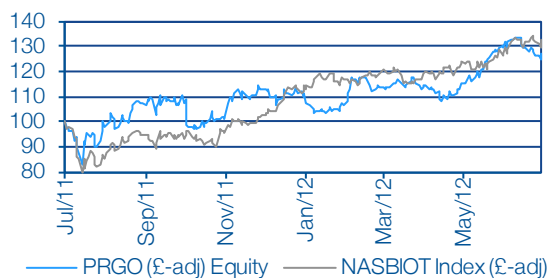
Questcor Pharmaceutical Code: QCOR US Market cap: US\$ 2,317m (£1,498m)



Div yield (trail. 12 months) N/A
 Industry/sector Pharmaceuticals/Therapeutics
 Listing NASDAQ, Frankfurt
 Website www.questcor.com

Questcor (QCOR) is a biopharmaceutical company focused on treatments for serious autoimmune and inflammatory disorders. Its main product is H.P Acthar Gel, a naturally-derived formulation of adrenocorticotrophic hormones, used to treat a variety of disorders with an inflammatory component. Acthar sales disappointed in Q1 but recovered in April and May. The manager believes that Acthar's sales are developing well and there is significant growth potential.

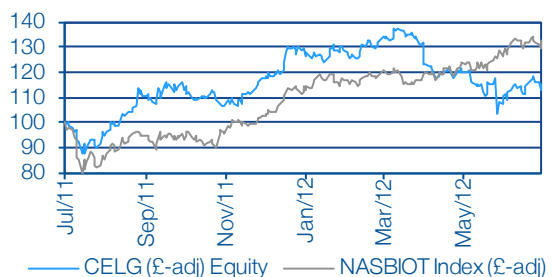
Perrigo Code: PRGO US Market cap: US\$10,470m (£6,766m)



Div Yield (trail. 12 months) 0.29%
 Industry/Sector Medical-Generic Drugs
 Listing NASDAQ, Frankfurt, Tel Aviv
 Website www.perrigo.com

Headquartered in the US, Perrigo (PRGO) develops, manufactures and distributes over-the-counter (OTC) and prescription pharmaceuticals, nutritional products, active pharmaceutical ingredients and consumer products. PRGO is the world's largest manufacturer of store branded (OTC) pharmaceutical products. The manager considers that PRGO is cash generative, has room to expand the dividend, offers good growth prospects and was acquired at a compelling valuation.

Celgene Code: CELG US Market cap: US\$28,756m (£18,584m)



Div yield (trail. 12 months) N/A
 Industry/sector Medical-Biomedical/Gene
 Listing NASDAQ, Frankfurt
 Website www.celgene.com

Celgene (CELG) is a biopharmaceutical company that discovers, develops and commercialises therapies designed to treat cancer and immune-inflammatory related diseases. It markets three products, Evlimid, Thalomid and Vidaza, and provides placental and cord blood banking services via its LifebankUSA division. The manager considers CELG has the fastest growth of the large biotechs, a dominant cancer franchise and a range of promising development programmes.

Source: The Biotech Growth Trust, Thomson Datastream, Edison Investment Research

Fund profile

BIOG was launched in June 1997. However, from May 2005 a new mandate was adopted, shifting the focus to global emerging biotechnology companies, and OrbiMed Capital was appointed as investment adviser. OrbiMed Capital, established in 1989 and based in New York, is the largest independent specialist investor in the biotechnology and pharmaceutical sectors. It employs over 62 experienced investment professionals globally and has assets under management of c \$6bn.

The fund manager: Richard Klemm and Geoffrey Hsu

The manager's view

Healthcare and biotech benefit from supportive fundamentals from a demographic backdrop of increasing demand from growing and ageing populations, particularly in the western world, and from growth in emerging markets, with the sector typically being a disproportionate beneficiary of such income growth. When compared to traditional big pharma, the greater complexity of biotech drugs often provides a longer commercial life as they are more difficult to copy even when patents expire, and the copies often need additional licensing. Despite recent price gains, earnings growth leaves pharma and biotech valuations near historic lows, in relative terms. The manager believes the sector still offers attractive potential and has identified some themes that it considers will be important over the next 12 months and beyond. First, cash-rich big pharma companies are expected to look to biotech's innovations to replenish their product pipelines, keeping M&A firmly on the agenda. Over the last three years we estimate, using OrbiMed data, an average acquisition premium of c 115%. Second, innovation in the biotechnology sector is leading the creation of new markets for diseases that have previously been untreatable and successful clinical data is being rewarded with significant price appreciation. For example, when Vivus received a positive vote from an FDA advisory panel in February for its weight loss drug Qnexa, its share price doubled. The manager sees substantial opportunities from developments in the following areas, which are expected to both create value and drive momentum in the sector:

- Cancer immunotherapy (eg BMY's Anti-PD1) – cancer is the fourth leading cause of death globally and oncology drugs are amongst the global best sellers. Cancer immunotherapy stimulates a patient's own immune system and OrbiMed considers that current research suggests superior efficacy and lower toxicity than traditional chemotherapy.
- Multiple sclerosis (eg Biogen Idec's BG-12 oral therapy) – before 2010 all MS treatments were injectable. However, a new generation of oral treatments are in development. The managers believe these will lead to a paradigm shift that will increase the market from c \$9bn in 2008 to between \$10bn and \$12bn per year based on greater efficacy and easier application.
- Obesity (eg Vivus's Qnexa) – obesity is increasingly prevalent and expensive. Obesity related costs are estimated at \$150bn and \$160bn per year for the US and Europe (Source: OrbiMed Advisors). Obesity drugs have a controversial regulatory history, with the US regulator the FDA becoming cautious on new approvals. However, it announced last year that higher risk will be tolerated if the benefits extend beyond weight loss, which suggests an improved approvals climate for what the manager believes will be a very substantial market.

Asset allocation

Investment process – Extensive fundamental research

Overall, OrbiMed has a preference for emerging biotech reflecting its view that for biotech companies attaining profitability acts as a significant catalyst for share price improvement. Such early stage investment often provides the highest returns over time but also carries substantial risk if drug developments prove unsuccessful. Successful investment requires the ability to manage this risk of development failure and, in this respect, OrbiMed is well resourced with a good track record. It has a team of 62 investment professionals with strong backgrounds in science, medicine, life sciences, finance and law, and its investment process is driven by extensive fundamental research that includes a detailed look at a company's fundamentals and the science underpinning a company's investment thesis. Team members are specialists in either public or private equity investing. Within these broad areas, analysts further specialise in disease areas, industry sub-sectors and geographic regions. OrbiMed seeks to apply its scientific expertise to predicting a favourable balance of outcomes with respect to clinical studies, drug trial results and the commercial success of product introductions.

For the emerging part of the portfolio (34.3%), OrbiMed will typically invest during the development process, two to three years before development success (product approval or launch) is likely to produce sales and sustainable profitability. Profitability usually coincides with product approval and launch. Exits often occur once the market starts to become more confident of the future prospects for investee companies, and begins to value them accordingly. Within the major biotech part of the portfolio, OrbiMed looks for companies with healthy growth from existing products and strong pipelines to provide future growth.

Overview

BIOG has 44 equity investments, with the top 10 holdings accounting for 48.2% of the portfolio. Most of the portfolio (87.6%) is invested in US stocks and BIOG therefore has a significant exposure to the dollar. Its policy is to invest in emerging biotech companies. These are expected to have a market cap less than \$3bn, to have undergone an IPO but not yet be profitable, and to be focused on drug research and development. They typically offer superior growth prospects, but with a higher degree of risk. Valuations are expected to be driven by developments in the company's drug pipelines, results of clinical trials and partnership agreements. The biotech sector contains a significant proportion of unquoted companies and, to allow shareholders to benefit from these, BIOG is permitted to invest in up to 10% of the portfolio at the time of investment in pre-IPO unquoted companies. Additional risk controls include: limiting investments in other UK-listed investment companies to not more than 15% of gross assets; limiting investment in any one stock to 15% of the portfolio at the time of investment; and requiring the largest 30 quoted stocks to represent at least 50% of the quoted portfolio. In addition, BIOG is permitted to invest up to \$15m in private equity funds managed by OrbiMed or an affiliate.

Current portfolio positioning

While the manager looks to employ geographical diversification as part of BIOG's risk control strategies, the dominance of the US biotech industry ensures that US biotech stocks are the largest element of BIOG's portfolio at 87.6%, with Continental Europe, the Far East and unquoted holdings accounting for 8.6%, 2.8% and 1.0% respectively. The split between major and emerging biotech, currently 34.3% vs 65.7%, is also used to manage risk within the portfolio. It should be noted that while BIOG's dollar exposure is understandably high, this has seen a small uptick during the past 12 months. The allocation to US stocks at 30 June 2011 was 85.9%. BIOG's portfolio concentration

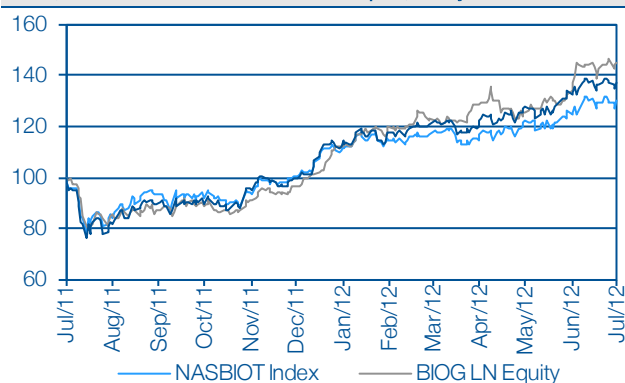
increased between June 2011 and December 2011 but has since reversed. The top four stocks, at 30 June 2012, accounted for 23.2% of the portfolio (31 December 2011: 29.1%; 30 June 2011: 23.6%).

Recent performance

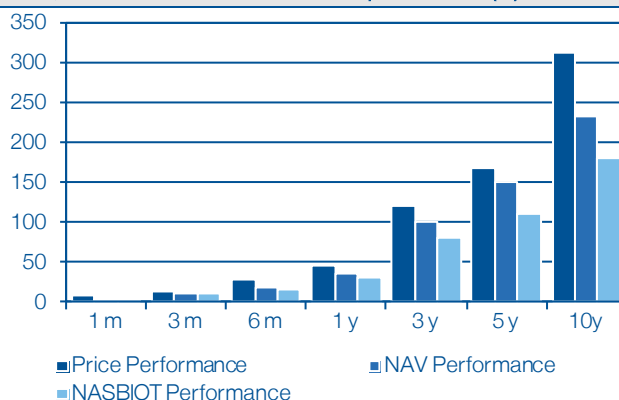
As Exhibits 3 and 4 illustrate, BIOG has provided a significant long-term outperformance against the NASBIOT, other biotech benchmarks provided and the FTSE All-Share.

Exhibit 3: Investment trust performance

Price, NAV and benchmark total return perf, one year rebased



Price, NAV and benchmark total return performance (%)



Source: The Biotech Growth Trust, Datastream, Edison Investment Research

Exhibit 4: Share price and NAV total return performance (sterling adjusted), relative to benchmarks as at 18 July 2012

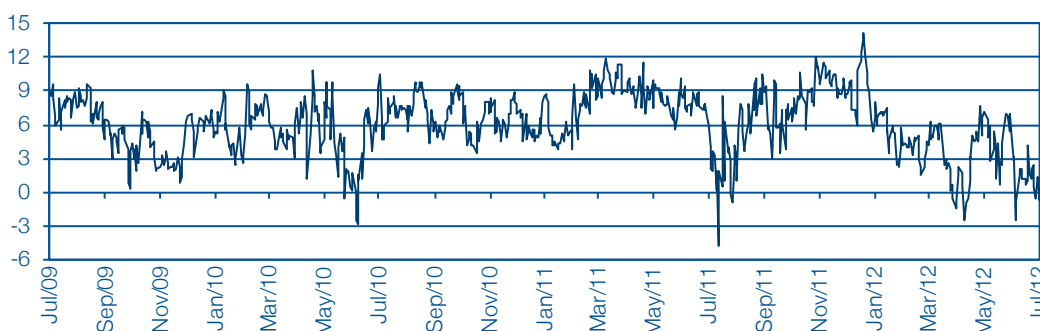
	1 month	3 months	6 months	1 year	3 years	5 years	OrbiMed*
Price relative to NASBIOT	3.3	1.8	14.1	14.5	39.8	57.4	74.3
NAV relative to NASBIOT	(1.3)	0.6	4.3	6.7	21.1	41.5	59.9
Price relative to Russell 2000 Biotech Growth	6.9	(1.6)	15.6	27.4	74.5	95.1	150.3
NAV relative to Russell 2000 Biotech Growth	2.4	(2.8)	5.9	19.5	55.8	79.3	135.8
Price relative to DS World Pharma & Bio	3.7	6.5	21.1	32.5	70.8	102.3	118.1
NAV relative to DS World Pharma & Bio	(0.9)	5.3	11.4	24.7	52.0	86.4	103.6
Price relative to FTSE All-Share	6.7	15.9	30.5	48.6	84.0	164.4	150.9
NAV relative to FTSE All-Share	2.2	14.8	20.7	40.7	65.3	148.5	136.4

Source: The Biotech Growth Trust, Thomson Datastream, Edison Investment Research. Note: * OrbiMed measurement period is from 19 May 2005 when OrbiMed Capital was appointed as BIOG's manager.

Discount

BIOG has the authority, renewed yearly, to allot up to 10% or make market purchases of up to 14.99% of issued share capital, which gives the manager a mechanism to influence the discount. With a view to making the company's shares more attractive to new investors and generating a sustained improvement in the rating of its shares, a policy of actively managing the discount to broadly maintain it within 6.0% of the NAV was introduced in 2005. As such, BIOG has historically been active in the market for its own shares and, as illustrated in Exhibit 1, it has repurchased 1.7m shares at a cost of £3.4m during the past 12 months. The policy remains effective, as illustrated in Exhibit 5, with BIOG maintaining an average discount of 5.4% during the period.

Exhibit 5: Discount over three years*



Source: Thomson Datastream, Edison Investment Research; *Note: Positive values indicate a discount; negative values indicate a premium.

Capital structure

BIOG is a conventional trust, having only one class of share in issue – 25p ords. BIOG's gearing policy allows it to borrow up to a maximum of £15m and it has a loan facility with Goldman Sachs & Co, repayable on demand, which is drawn down at the discretion of the investment manager. As at 30 June 2011 BIOG had borrowings of £7.1m and a zero cash balance. As such, it had gross and net gearing of 4.1%.

Fees

OrbiMed receives an investment management fee of 0.65% of net assets per year. Frostrow's management fee is equal to a fixed amount of £50,000 per year plus 0.30% per year of the company's market capitalisation. The trust also pays a performance fee of 16.5% of any outperformance of the NAV over the benchmark index, the NASDAQ Biotechnology Index (sterling adjusted). The performance fee, calculated quarterly, is based on the lower of the cumulative outperformance of the investment portfolio against the benchmark since June 2005, or the cumulative outperformance of the investment portfolio against the benchmark over the previous 12 months. Where a performance fee is payable, OrbiMed receives 15.0% and Frostrow Capital receives 1.5% of the outperformance. BIOG's ongoing charges were 1.2% for the year ending 31 March 2012 (1.2% for the year ending 31 March 2011). These fees are not unreasonable given BIOG's specialist nature and, as Exhibit 6 shows, BIOG's ongoing charges are comparable to those of its peers. The management contract can be terminated at one year's notice by either party.

Continuation vote

The life of the trust is indefinite. However, from July 2010 and then every fifth AGM, a continuation vote will be put to shareholders. If the resolution is not passed, proposals for the voluntary liquidation, unitisation or other reorganisation of the company will be put before shareholders at an EGM, not more than three months after the previous AGM. If these proposals are rejected, the company will continue as an investment trust. The next vote is due at the 2015 AGM.

Dividend policy and record

BIOG's investment objective is to achieve capital growth by investing in the global biotechnology industry and primarily in emerging biotechnology companies. Such companies will, if successful, be at

a growth stage in their development and will typically retain earnings in full for reinvestment. As such, BIOG's dividend income is small in relation to movements in the capital reserve and is more than offset by expenses that are charged against it. BIOG only declares dividends to the extent required to maintain its investment trust status and BIOG has not paid a dividend during the last 10 years.

Peer group comparison

As Exhibit 6 illustrates, the AIC biotechnology/life sciences specialist sector is a relatively small peer group. There are four constituents and, while they all invest in biotechnology companies, their investment objectives are markedly different. BIOG invests primarily in emerging biotechnology companies, Worldwide Healthcare invests in biotechnology and pharmaceutical companies, with a minimum of 60% of the portfolio being large-cap stocks (ie those with market caps in excess of \$5bn), the International Biotechnology Trust invests in high growth development stage biotechnology companies, many of which are unquoted and the Polar Capital Global Healthcare Growth and Income Trust is a fixed life vehicle that pays quarterly dividends. Within this peer group BIOG ranks first over one, three and five years when considering share price total return.

Exhibit 6: Global growth and income sector as at 18 July 2012

Company	Share price total return on £100			Ongoing charges (%)	(Disc)/ prem.	Net gearing (100=no gearing)	Five-year dividend growth (%)	Div. yield
	One year	Three years	Five years					
Sector average	121.6	178.0	200.7	1.3	(5.8)	112	N/A	N/A
Biotech Growth	144.8	219.5	267.3	1.3	0.8	107	N/A	N/A
International Biotechnology	133.0	173.7	137.5	2.2	(12.7)	94	N/A	N/A
Polar Capital Global Healthcare	111.4	N/A	N/A	1.3	1.9	100	N/A	2.7
Worldwide Healthcare	109.8	158.5	187.4	1.1	(9.6)	123	42.3	2.2

Source: The Association of Investment Companies

The board

All directors are non-executive and all, excluding Sven Borho, are independent of the investment manager. Sven Borho is a founding partner of OrbiMed. Board members are The Rt Hon Lord Waldegrave of North Hill (independent non-exec chairman), Dr John Gordon (senior independent non-exec director), Professor Dame Kay Davies, Andrew Joy, Peter Keen, (independent non-exec directors), Paul Gaunt and Sven Borho (non-exec directors). Average length of service is 8.1 years.

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