EDISON

International Biotechnology Trust

Unquoted performance continues to improve

Investment trusts

The biotechnology sector has performed strongly during the last five years and particularly during the last 18 months, when the sector has experienced a re-rating. Recent price gains have moved ahead of earnings growth. However, the manager remains comfortable with valuations arguing that, despite the recent uplift, they remain below longer-term averages and do not look stretched in a historical context. More importantly, the longer-term story of increasing demand from growing and ageing populations, particularly in the western world, and from growth in emerging markets, remain intact. Recent results show that IBT's quoted portfolio underperformed the NASDAQ Biotechnology Index (NASBIOT) during the 12 months to 28 February 2013, while the valuation of the unquoted portfolio has outperformed. This partly reflects the inclusion of contingent earnout payments (milestone payments) in IBT's NAV. This has added £3.6m (6.5p per share) to NAV as at 28 February 2013 and brings IBT in line with its venture peers.

12 months ending	Total share price return* (%)	Total NAV return* (%)	Total return NASBIOT Index* (%)	Total return MSCI World Healthcare* (%)	Total return FTSE All-Share* (%)
31/05/10	26.2	22.3	33.3	24.1	22.9
31/05/11	10.5	6.7	17.4	15.9	20.4
31/05/12	20.6	22.0	21.3	5.0	(8.0)
31/05/13	40.3	35.7	49.0	39.2	30.1

Note: *Twelve-month rolling discrete performance.

Investment strategy: Development-stage biotech

IBT invests in development-stage biotechnology companies and maintains a quoted portfolio (30-40 stocks) and an unquoted portfolio (20-25 stocks). The investment process employs extensive fundamental research with investments held for the longer term. Positions are actively monitored, particularly for trial events with a binary outcome. IBT can borrow on a short-term basis and debt is unlikely to exceed 10% of the quoted NAV. IBT does not have any structural gearing.

Sector outlook: Valuation uplift

The biotech sector has performed strongly during the last five years and particularly during the last 18 months, when the sector has experienced a significant re-rating. Price gains were initially matched by earnings increases but recently valuations have expanded, making a correction more likely on any setback. IBT's manager is comfortable with valuations and, in the event of a setback, would look to gear IBT's portfolio to benefit from any subsequent recovery.

Valuation: Discount below longer-term averages

The cum-income discount, currently at 8.4%, is below its three- and five-year averages of 14.1% and 15.8% respectively. The discount has widened, and subsequently narrowed, during the last six months. This reflected a stock overhang, which has now been removed. The discount remains underpinned by a selective share repurchase programme and we believe IBT offers an attractive means of gaining a diversified exposure to quoted and unquoted biotechnology companies.

7 June 2013

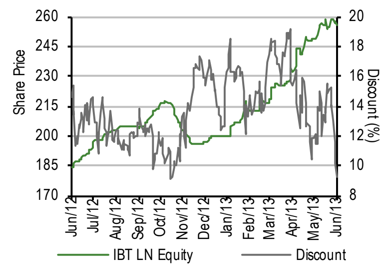
Price	**255.75p**
Market cap	**£141m**
AUM	**£153m**

NAV*	281.74p
Discount to NAV	9.2%
NAV**	279.35p
Discount to NAV	8.4%
Yield	0.0%

**Adjusted for debt at par value and excluding income, as at 5 June 2013. **Adjusted for debt at market value and including income, as at 5 June 2013.*

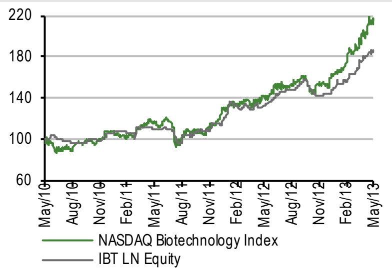
Ordinary shares in issue	55.5m
Code	IBT
Primary exchange	LSE
AIC sector	SS: Biotech/Life sciences

Share price/discount performance



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

Three-year cumulative perf. graph



52-week high/low	258.50p	184.25p
NAV* high/low	304.83p	211.23p

**Adjusted for debt at market value, including income.*

Gearing

Gross	0.0%
Net	(3.0%)

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Edison profile page

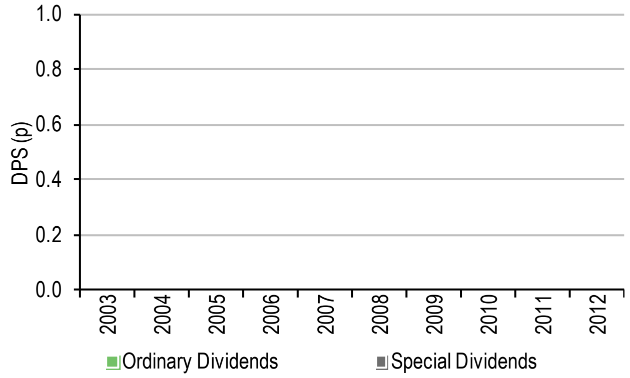
International Biotechnology Trust is a research client of Edison Investment Research Limited

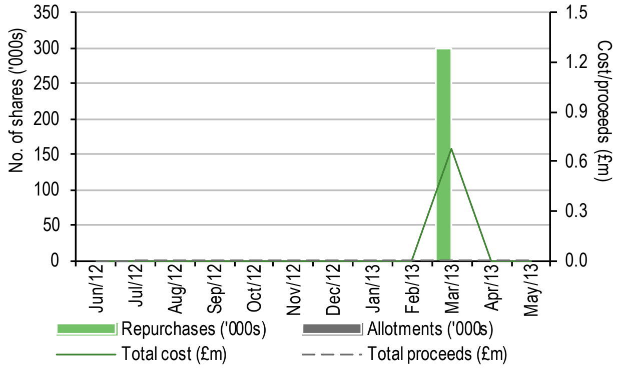
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
IBT aims to achieve long-term capital growth by investing in development-stage biotechnology and other life sciences companies, both quoted and unquoted, that have high growth potential. IBT invests in companies considered to have good prospects, experienced management and strong upside potential through the development and/or commercialisation of a product, device or enabling technology.	12 April 2013: Interim report for the six months ended 28 February 2013 released. 16 January 2013: Jim Hornsburgh appointed as a non-executive director with effect from 1 February 2013.

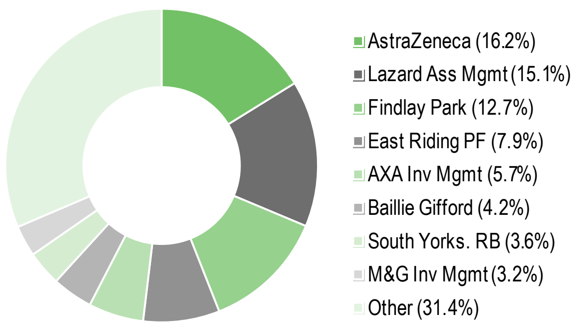
Forthcoming		Capital structure		Fund details	
AGM	December 2013	Ongoing charges	1.85%	Group	SV Life Sciences Managers
Preliminary results	October 2013	Net gearing	(3.0%)	Manager	David Pinniger, Kate Bingham
Year end	31 August	Annual mgmt fee	1.15% of net assets	Address	71 Kingsway, London, WC2B 6ST, UK
Dividend paid	N/A	Performance fee	See page 7		
Launch date	May 1994	Trust life	Indefinite	Phone	+44 (0)20 7421 7070
Continuation vote	Vote every two years	Loan facilities	£15m overdraft facility	Website	www.ibtplc.com

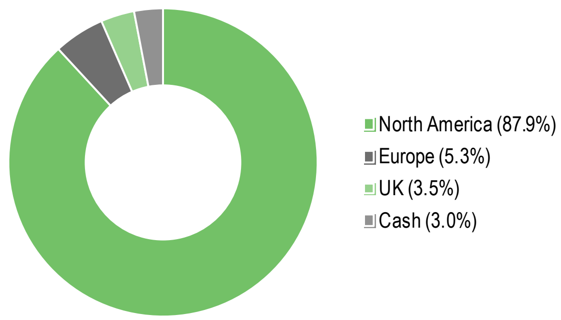
Dividend policy and history	Share buyback policy and history
Reflecting its capital appreciation objective, IBT's current policy is not to pay dividends.	Renewed annually, the trust has authority to purchase up to 14.99%, and allot up to 5.0% of issued share capital.



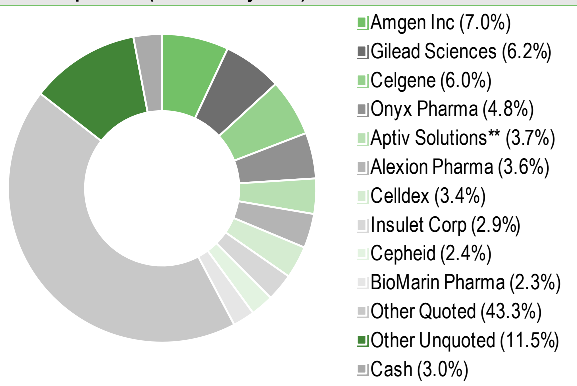


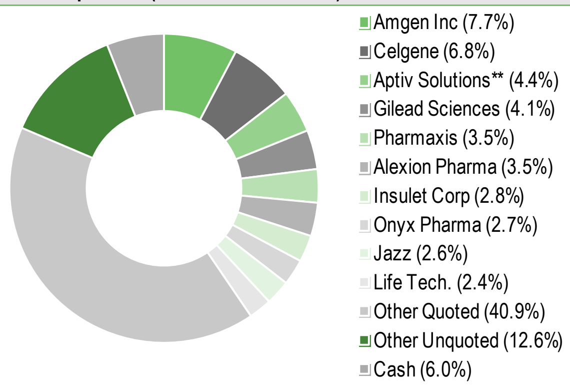
Shareholder base (as at 31 March 2013)	Geographic distribution of portfolio (as at 31 May 2013)*





Portfolio composition (as at 31 May 2013)*	Portfolio composition (as at 31 October 2012)*

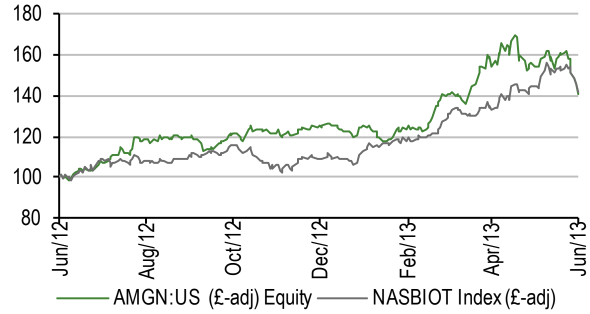




Source: International Biotechnology Trust, Edison Investment Research, Note: *Geographic distribution and portfolio composition are as a proportion of total assets. As at 31 March 2013 and 30 September 2012, IBT had nil borrowings. **Unquoted holding.

Exhibit 2: Top five holdings at a glance, as at 30 April 2103

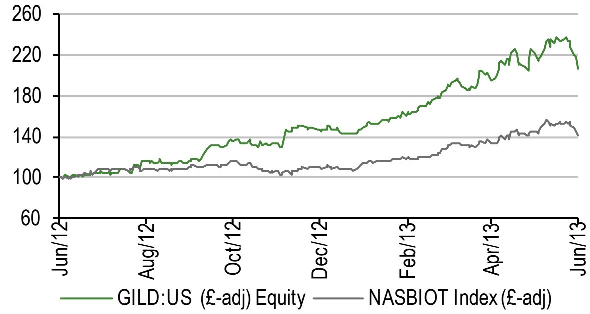
Amgen	Code: AMGN US	Market cap: US$70,948m (£46,097m)



Div yield (trail. 12 months)	1.99%
Industry/Sector	Medical-Biomedical/Gene
Listing	NASDAQ – GS, Frankfurt
Website	www.amgen.com

Amgen (AMGN) is a biotechnology company that pioneered the development of novel products based on advances in molecular biology. It markets eight principal products: Aranesp, Enbrel, Epogen, Neulasta, Neupogen, Nplate, Sensipar and Vectibix. Its products are used to treat anaemia, rheumatoid arthritis and other autoimmune diseases. The manager considers that Amgen's Prolia, launched in 2012 for treating osteoporosis, could be the next biotechnology blockbuster. Amgen employs 18,000 people worldwide. Total revenues were $17.3bn in 2012 (up from $15.6bn in 2011.

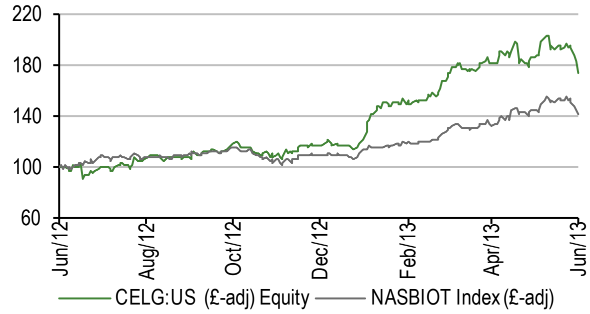
Gilead Sciences	Code: GILD US	Market cap: US$76,451m (£49,672m)



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

Gilead (GILD) is a global top-five biotechnology company with operations in the US, Europe and Australia. It focuses its research on anti-infectives, antivirals, antifungals and antibacterials, and its key areas of interest are HIV/AIDS, liver disease and serious cardiovascular and respiratory conditions. Gilead has 12 marketed products and employs around 4,000 people globally. In May 2012, the FDA's Anitiviral Drug Advisory Committee voted to support GILD's 'Quad' pill for treating HIV in treatment-naive adults. Its manager expects further valuation uplift as the company continues to launch new agents, particularly Sofosbuvir for the treatment of Hepatitis C.

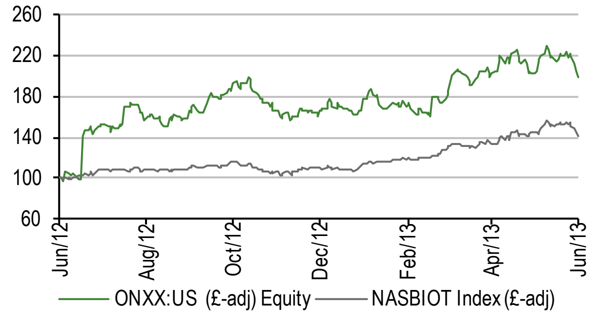
Celgene	Code: CELG US	Market cap: US$46,801m (£30,408m)



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

Based in the US, CELG is a biotechnology company engaged in the discovery, development and commercialisation of innovative therapies designed to treat cancer and immunological diseases. It has six marketed products (Revlimid, Thalomid, Vidaza, Abraxane, Istodax and Pomalyst) and a full pipeline of drug candidates in clinical development. It also provides placental and cord blood-banking services via its LifebankUSA division. Its manager considers current guidance (to 2017) is very positive, reflecting both its dominant cancer franchise and promising development programmes. Total revenues were $5.5bn in 2012 (up from $4.8bn in 2011).

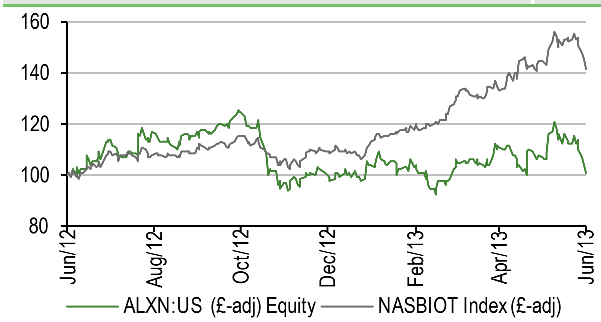
Onyx Pharmaceuticals	Code: ONXX US	Market cap: US$6,378m (£4,144m)



Div yield (trail. 12 months)	N/A
Industry/Sector	Pharmaceuticals/Therapeuts
Listing	NASDAQ – GS, Frankfurt
Website	www.onyx.com

Onyx Pharmaceuticals (ONXX) is a biopharmaceutical company engaged in the development of new drugs for the treatment of cancer. Lead product Nexavar was jointly developed, and is now jointly marketed, with Bayer Pharmaceuticals. Nexavar inhibits the growth of blood vessels to tumours as well as their multiplication and is used in the treatment of kidney and liver cancers. The company's latest product Kyprolis, launched in 2012, is used for the treatment of multiple myeloma. Total revenues were $362m in 2012 (down from $447m in 2011) but the manager expects sales to more than double between 2012 and 2014, following the Kyprolis launch.

Alexion Pharmaceuticals	Code: ALXN US	Market cap: US$17,721m (£11,514m)



Div yield (trail. 12 months)	N/A
Industry/Sector	Medical-Biomedical/Gene
Listing	NASDAQ – GS, Frankfurt
Website	www.alexionpharm.com

Based in the US, Alexion Pharmaceuticals (ALXN) is a biopharmaceutical company engaged in developing and commercialising treatments for severe, life threatening and usually very rare diseases. ALXN has one marketed product, Soliris, a 'complement inhibitor' approved in 35 countries for treating paroxysmal nocturnal hemoglobinuria, and in the EU and US, for treating atypical hemolytic uremic syndrome. Total revenues were $1.1bn in 2012 (up from $783m in 2011). ALXN is investigating the efficacy of Soliris in other related diseases, which the managers consider could potentially transforming it into a multi-billion dollar "blockbuster" drug.

Source: International Biotechnology Trust, Thomson Datastream, Edison Investment Research

Fund profile: Quoted and unquoted biotech companies

Launched in May 1994, SV Life Sciences (SVLS) took over as adviser to IBT in November 2000 and became manager in January 2005. Kate Bingham has managed IBT's unquoted portfolio during SVLS's tenure. During this time the quoted portfolio has had three managers. Sarah Young managed a focused portfolio of about 15 larger, long-term holdings from 2000 to 2005. Andrew Smith's tenure saw the portfolio hold more positions in a smaller size. Under David Pinniger, who became responsible in February 2008, the quoted portfolio now has c 40 holdings that are traded more frequently, reflecting more active risk management. Because IBT has traditionally had a significant, unquoted element, there has been no unique benchmark against which to adequately assess its NAV performance. However, with unquoted holdings accounting for 16.3% of total assets, IBT now primarily evaluates its performance against the NASBIOT.

Revaluation of contingent earnout (milestone) payments

Recent years have seen a trend towards more structured M&A transactions within the unquoted biotech space. That is, rather than receiving a one-off payment, sellers will now typically receive less cash upfront but receive payments as operational and clinical milestones are reached. This shifts some of the developmental risk from the buyer to the seller, but allows sellers to participate more fully in subsequent developmental success.

Historically, IBT has not included these milestone payments in the calculation of its assets, and thus its NAV, as these were considered to be beyond the company's control. The exception being where milestones have been met and payments are being held in escrow. The benefit of such an approach is that the NAV calculation is conservative; the downside is that the NAV may not fairly reflect the value inherent in the unquoted portfolio, as the potential value of contingent payments is ignored until they are actually paid. It is also likely to lead to a more 'lumpy' evolution of IBT's NAV.

This matter has been the subject of ongoing debate between IBT and its auditors, the latter reportedly being in favour of developing a methodology to assign a fair value estimate to these contingent earnout payments. These payments are not hypothetical. A 2012 study, produced by Shareholder Representative Services (SRS), analysing the deals for 47 private target acquisitions where SRS served as a representative between Q308 and Q212, found that by the close of the study, 36% of milestones that had fallen due had been paid and 16% were delayed but still expected to reach the milestone. In dollar terms, 30% had been paid while 21% had been delayed but were still expected to be reached.

Reflecting these developments, the decision has been taken to change IBT's accounting policy, with regard to the valuation of milestone payments, for the current financial year. The change is reflected in its recent interim accounts and is reflected in IBT's daily NAV announcements from 22 March 2013. The value of the milestone payments is calculated as the NPV of the future milestone payments. These are probability weighted and the assumptions used are subject to third-party scrutiny. This brings IBT in line with SVLS's venture funds, and many of its venture capital peers, and has led to a £3.6m uplift to NAV from the revaluation of four escrow- and milestone-based earn-out receipts, as follows:

- ESBATech – Exited in September 2009. The new value of contingent receipts is £864k (previously £9k) and represents 15% of the total possible contingent receipts for ESBATech of £5.8m.
- EUSA Pharma – Exited in June 2012. The new value of contingent receipts and payments held in Escrow is £680k (previously £200k) and represents 74% of the total possible escrow and contingent receipts for EUSA Pharma of £913k.

- Ikano Therapeutics – Exited in June 2010. The new value of contingent receipts is £1.6m (previously £0k) and represents 10% of the total possible contingent receipts for Ikano Therapeutics of £16.0m.
- Itero – Exited in June 201. The new value of contingent receipts is £841k (previously £9k) and represents18% of the total possible contingent receipts for Itero of £4.5m.

The £3.6m uplift to NAV is equivalent to 6.5p per share (2.3% of the cum-income discount as at 30 April 2013).

Equity outlook: Growing market

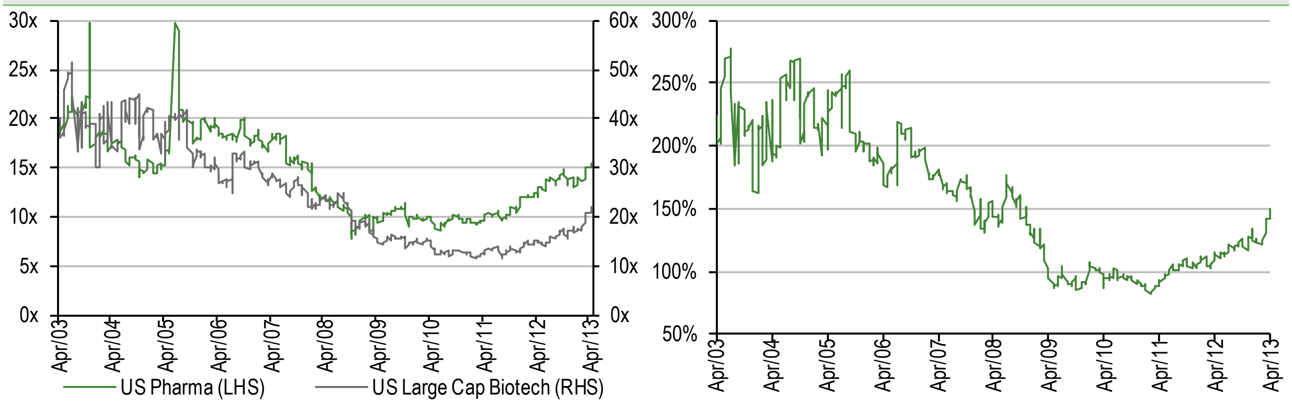
Healthcare and biotech benefit from supportive fundamentals from a demographic backdrop of increasing demand from growing and ageing populations, particularly in the western world and from growth in emerging markets, with the sector typically a disproportionate beneficiary from income growth in developing markets. While big pharma excels at sales and marketing, it has frequently struggled to replace revenue as drugs have gone off-patent, despite spending large sums on R&D. Biotech companies are frequently smaller, nimbler, more focused and so successfully attracted R&D talent. The rewards for discovering effective treatments are high, making the biotech sector an attractive place to invest, but the associated risks also remain high. Biotechs have often struggled to finance themselves through to profitability, and while increasing numbers are reaching maturity, many fail to reach that point. The high risk and the need to understand the complex science that will often determine the success or failure of these companies are strong arguments for investing in the sector via a portfolio managed by an expert or experts.

The fund managers: David Pinniger and Kate Bingham

The manager's view: Biotech is not in a bubble

Exhibit 3: Biotech sector long-term valuation profile

US large-cap biotech and US Pharma P/Es – 10 years | **US large-cap biotech P/E relative to S&P P/E over 10 years**



Source: ISI Group

The manager's view

The biotech sector has performed strongly during the last five years (the NASBIOT is up 176% in Sterling adjusted total return terms) and particularly during the last 18 months, when the sector has experienced a rerating (up 37%). Price gains were initially matched by earnings increases, so valuations remained near historic lows, but recently valuations have expanded. This makes the sector more vulnerable to corrections in the event of a setback. Our analysis shows there have been five broad corrections during the past five years, which on average have seen the NASBIOT fall 19%. However, in each case the sector has recovered well. Recent performance has led to talk of a bubble in the biotech sector. The manager's view is that, while the sector could be vulnerable to a near-term correction, biotech is not in a bubble and has fundamentally changed since the biotech boom of 1999/2000. As such, the manager would look to gear IBT's portfolio, in the event of a sufficient setback, to benefit from any subsequent recovery. Borrowing would be on a short-term basis and unlikely to exceed 10% of the quoted NAV.

Significant investment has been made in R&D which, along with a proliferation of new technologies, has driven the delivery of a strong new product cycle. This has led to strong sales and EPS growth, as well as some self-sustaining mid-cap companies, which in turn has led to the return of the generalist investor. However, as Exhibit 3 illustrates, while valuations for large-cap biotech companies have expanded, they remain below longer-term averages and do not look unduly stretched in a historical context. In addition, the longer-term story remains intact. With growing and ageing populations, the need for innovative new drugs, diagnostics and medical devices to prevent and treat complex diseases remains high. Pharmaceutical companies have struggled to generate returns from internal R&D investment and the trend towards outsourcing the process to biotechnology companies continues.

The managers continue to believe that while mid-cap valuations look relatively full, the portfolio remains tilted towards small- and large-cap companies where they see better value. Small caps typically have little or no revenue or profit and there is more reliance on estimation of future cash flows. The managers believe the exit environment remains tough, but that several investments are maturing very positively. They expect to see exit momentum build through 2013 and peak in 2014/2015, which they believe will validate the unquoted strategy. Ultimately, managers consider that, with a portfolio of listed and venture capital investments, IBT enables investors to access returns from medical innovation in a diversified, risk-managed way with less volatility than would arise from investing in quoted securities alone.

Asset allocation

Investment process: Research driven with top-down overlay

The investment manager uses four stages to manage IBT's investments: 1) Asset allocation: the top-down part of the process, which determines the sectors favoured by the manager. This sets the portfolio's target structure, weightings and exposures; 2) Idea generation: investment ideas are generated from a range of internal and external sources. These include the SVLS team, strategic partners, medical investor conferences and recommendations from specialist brokers and analysts; 3) Review: investment ideas are reviewed and detailed analysis is undertaken. This uses SVLS's specialist knowledge and experience, which ultimately leads to an investment committee decision; and 4) Position management: once included in the portfolio, positions are subject to continuous evaluation and risk management. Unquoted holding valuations are revalued on a daily basis.

Overview and current portfolio positioning

As at 30 April 2013, IBT had 70 investments: 43 quoted and 26 unquoted. As illustrated in Exhibit 1, the top 10 holdings account for 42.3% of total assets while other quoted, other unquoted holdings and cash account for 42.2%, 12.6% and 3.0%, respectively. The majority of the portfolio (87.9%) is invested in US stocks, therefore IBT has a significant dollar exposure (it is not policy to hedge foreign currency exposures). In terms of sector allocations, therapeutics, life science tools and diagnostics, specialty pharma and medical devices account for 73%, 11.4%, 6.5% and 6.0% respectively.

Unquoted companies

Exhibit 4: Top five unquoted holdings at a glance, as at 30 April 2013

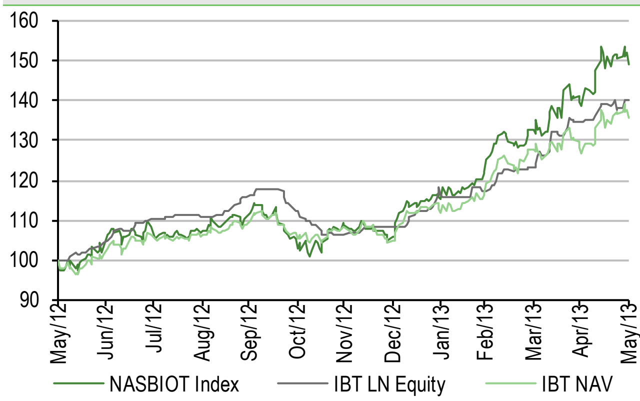
Aptiv Solutions	Investment date: July 2008	Investment: £4.8m	Current valuation: £5.7m
Aptiv Solutions provides facilities and expertise for pharma and biotech companies looking to outsource early-stage R&D. Aptiv has acquired and integrated a number of businesses. Earnings growth has been strong, which the manager expects to continue.		Total IRR Industry/Sector Website	N/A Life Sciences, Tools, Diagnostics & services www.aptivsolutions.com
Celerion	**Investment date: March 2010**	**Investment: £0.2m**	**Current valuation: £1.7m**
A provider of innovative early clinical drug-testing facilities for pharmaceutical and biotechnology companies. It has sales and profits and continues to expand strongly, which has been the basis of regular increases in valuation based on an EBITDA model.		Total IRR Industry/Sector Website	N/A Life Sciences, Tools, Diagnostics & services www.celerion.com
Entellus	**Investment date: May 2008**	**Investment: £2.0m**	**Current valuation: £1.6m**
Entellus is developing a minimally invasive treatment for chronic sinusitis. Its system uses a balloon that is inserted into the ostium of the targeted sinus. This is inflated to dilate it by crushing surrounding bone. Business development discussions are ongoing, with exit in 2014 planned to allow sales to expand for the best price.		Total IRR Industry/Sector Website	N/A Medical devices www.entellusmedical.com
Ophthotech	**Investment date: December 2009**	**Investment: £0.6m**	**Current valuation: £1.6m**
The company is pursuing funding for a Phase III programme of its Fovista anti-PDGF therapy, in combination with an anti-VEGF compound for wet AMD. The manager believes the current funding round will be consistent with the existing valuation.		Total IRR Industry/Sector Website	N/A Biotechnology www.ophthotech.com
Ikano	**Investment date: October 2012, Exited May 2013**	**Investment: £1.9m**	**Current valuation: £1.6m, cash of £164k received**
In June 2010, the company entered into an exclusive worldwide licensing agreement with Upsher Smith Laboratories (USL) for NS Midazolam. USL is a privately held, family-owned pharmaceutical company based in Minneapolis. The firm is the original developer of Diastat (rectal diazepam gel), the only currently approved product for medically unsupervised treatment of acute seizure in an outpatient setting. Valuation is based on an NPV of discounted contingent cashflows arising from milestone-based exit payments.		Total IRR Industry/Sector Website	N/A Biotechnology N/A

Source: International Biotechnology Trust, Edison Investment Research

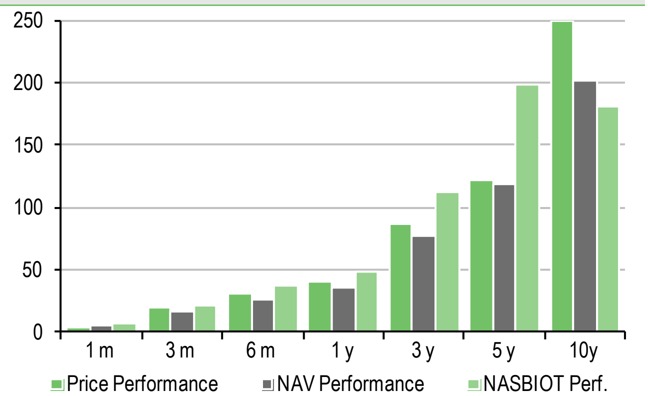
Performance: Unquoted performance improvements

Exhibit 5: Investment trust performance to 31 March 2013

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



Price, NAV and benchmark total return performance (%)



Source: International Biotechnology Trust, Thomson Datastream, Edison Investment Research

Exhibit 6: Share price and NAV total return performance (sterling adjusted), relative to benchmarks, to 31 May 2013

	One month	Three months	Six months	One year	Three years	Five years	Ten years
Price relative to NASBIOT	-2.7	-2.3	-5.4	-8.7	-25.2	-76.9	68.1
NAV relative to NASBIOT	-1.0	-5.5	-11.6	-13.2	-35.6	-80.6	19.8
Price relative MSCI World Healthcare	1.6	9.3	5.2	1.1	17.5	11.6	103.6
NAV relative to MSCI World Healthcare	3.2	6.1	-0.9	-3.5	7.1	7.8	55.3
Price relative to FTSE All-Share	1.3	14.4	16.4	10.2	42.9	86.7	99.8
NAV relative to FTSE All-Share	3.0	11.3	10.2	5.6	32.5	82.9	51.5

Source: International Biotechnology Trust, Thomson Datastream, Edison Investment Research

Exhibit 7: Quoted and unquoted NAV total return performance and benchmark performance (sterling adjusted), to 29 February 2013 (%)

	Three months(%)	Six months(%)	One year(%)	Two years(%)	Three years(%)
Quoted portfolio NAV	10.3	13.3	26.4	68.4	77.3
Unquoted portfolio NAV	13.1	13.3	35.5	27.1	23.9
NASBIOT	12.5	13.8	30.8	68.0	76.2

Source: International Biotechnology Trust, Thomson Datastream, Edison Investment Research

As Exhibits 5 and 6 illustrate, IBT has provided strong absolute returns during the last 10 years but has underperformed its benchmark index, the NASBIOT, in terms of both price and NAV total return (sterling adjusted) over one, three and five years to 31 May 2013. However, separating the NAV performance of the quoted and unquoted parts of the portfolio (as shown in Exhibit 7) shows that the quoted have outperformed the NASBIOT over two and three years (to 28 February 2013) but have underperformed over one year. Using the same end date (28 February 2013), the unquoted portfolios did not generate meaningful returns over the two and three year periods. However, unquoted performance has picked up over the one-year horizon, relative to the quoted portfolio, to such an extent that the unquoted have actually outperformed the NASBIOT, although this partly reflects the inclusion of £3.6m of contingent earnouts in the unquoted valuations. It also reflects the sale of EUSA Pharma in April 2012 to Jazz Pharmaceuticals, returning cash of £4.8m, adding £2.4m to NAV and earning a return of 2.0x invested capital over the five years (since March 2007) that IBT held this position. Five to six unquoted events (deals or exits) are expected over the next 12 months. The average IRR on unquoted investments, during SVLS's tenure, is 22%. The manager reports that quoted underperformance, over the one-year period, was largely driven by being underweight mid-cap names, which have performed more strongly than expected, as well as being overweight cash following the Micromet sale.

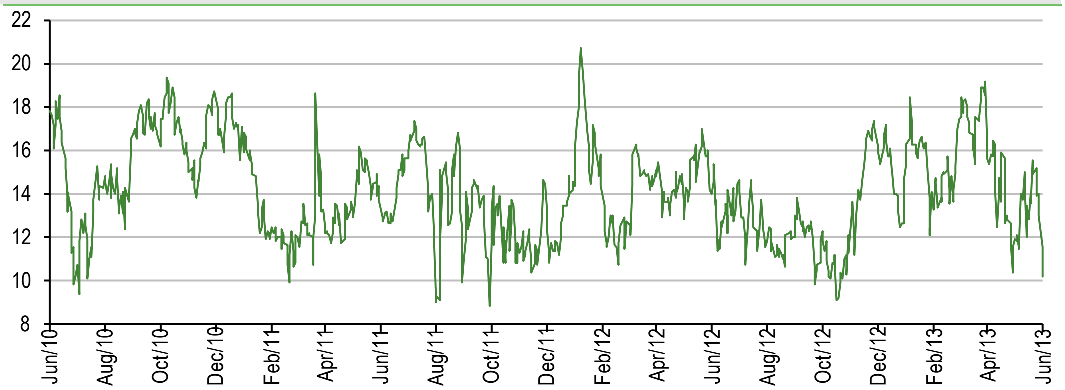
The top three positive contributors to performance during the six months to 28 February 2013 were quoted holdings Celgene (IBT's second largest holding), Gilead and Celldex Therapeutics. These were up 61%, 67% and 79% respectively, during the six months to 28 February 2013, adding £4.2m, £2.6m and £2.1m respectively to NAV. A series of positive clinical updates, on several pipeline assets, contributed to very strong price performance for Celgene. Gilead continued to announce positive clinical data for the treatment of HCV infection, which underpinned a strong earnings growth outlook over the coming years. Celldex Therapeutics announced positive data on a new drug candidate for the treatment of breast cancer.

The top three negative contributors were Pharmaxis (quoted), Lux Biosciences (unquoted) and Oncothyreon. These fell 46%, 100% and 56% respectively, during the six months to 28 February 2013, subtracting £1.8m, £1.4m and £950k respectively from NAV. Pharmaxis received a negative FDA panel approval recommendation for its cystic fibrosis drug, Bronchitol. Lux Biosciences was written off in its entirety after disappointing clinical newsflow. Oncothyreon's Stimuvax failed to show any benefit in the treatment of lung cancer.

Discount: Widened during the last six months

As part of the c-share issue in February 2007, a target discount of 8%, subject to market conditions, was introduced. Following this, a repurchase programme began in October 2008. However, IBT's board and manager are frequently inside on IBT's underlying unquoted investments. This is because part of the manager's strategy for the unquoted investments is to take a board position on most of these holdings. Historically, this prevented instruction being given to the company's broker to buy back shares. As a consequence, repurchases were not possible between March and October 2009, a period that saw the discount drift out. To address this, a scheme was put in place in January 2010, since renewed, authorising IBT's broker to repurchase shares selectively, with a view to managing the discount. This approach has been broadly effective, with the discount tightening over the last four years, although it has exhibited considerable volatility. A recurring issue was that the instruction to IBT's broker to repurchase shares automatically expired at each AGM, and could not be renewed immediately if the manager was inside on any of IBT's underlying holdings. The January 2012 spike occurred during this period as Cenkos could not provide liquidity on IBT's behalf. There is now a new arrangement in place to address this issue. The discount has experienced some widening during the last six months, which has subsequently reversed. This partly reflects an overhang on the stock as Baillie Gifford, previously a significant holder of IBT's stock, was looking to exit. The Baillie Gifford stock has since been placed and so, in the absence of this selling pressure, IBT's discount has tightened again. The current cum-income discount of 8.4% is below its three- and five-year averages of 14.1% and 15.8% but marginally above the broad target of 8%.

Exhibit 8: Discount over three years



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

Capital structure: Conventional, currently ungeared

IBT is a conventional trust, having only one class of share in issue – 25p ords. It is allowed to use gearing. There are no formal borrowing limits but, given the inherent leverage in IBT's portfolio, the manager and board do not expect borrowings to ordinarily exceed 10% of the quoted NAV on a short-term basis, avoiding longer-term structural gearing. Reflecting this, IBT has a £15m overdraft facility with HSBC, which is drawn down at the manager's discretion. As at 30 April 2013, IBT had gross gearing of 0.0% and net gearing of -3.0%. During 2011 the management and performance fee arrangements were changed to bring IBT in line with its peers. From 1 September 2011 SVLS receives a management fee of 1.15% of net assets per year paid monthly in advance (previously 1.35% for the first £100m of net assets, falling to 1.25% thereafter). The performance fee for the quoted portfolio was changed to 10% of any outperformance over the NASBIOT plus 0.5% (previously 10% of any outperformance of the quoted portfolio over a 7% hurdle rate reset each year). The performance fee for the unquoted portfolio and other clauses remained largely the same. That is, in line with SVLS's other funds, IBT pays an annual performance fee of 20% of any net gains made on the unquoted portfolio. In addition, there are three conditions for a performance fee to become payable. First, IBT must have experienced NAV appreciation during the year. Second, paying the performance fee cannot cause IBT's NAV to fall below its value at the start of the year (if this happens the fee is deferred and added to the next performance fee, as long as it is within 24 months). And third, the fee cannot exceed 3% (previously 5%) of IBT's closing NAV (any excess is placed in escrow and adjusted to reflect the share price performance over the next 12 months). No performance fee was accrued for the year ending 31 August 2012. A performance fee of £767k was accrued for the six months ended 29 February 2012. IBT's ongoing charges were 1.86% for the year ended 31 August 2012 (2011: 2.19%). Including performance fees, ongoing charges were 1.86% for the year ended 31 August 2012 (2011: 2.67%). IBT's ongoing charges remain above its peers, but the difference is not unreasonable given the specialist resources required to manage the unquoted portfolio. IBT has an indefinite life; however, a continuation vote is put to shareholders every two years (next vote due at its 2013 AGM).

Dividend policy and record: None; capital growth focus

IBT's investment objective is to achieve long-term capital growth by investing in development-stage biotechnology and other life sciences companies. Such companies will, if successful, be at a growth stage in their development and will typically retain earnings in full for reinvestment. As a result, IBT's dividend income is comparatively small in relation to movements in the capital reserve and is more than offset by expenses that are charged against it. As such, it is IBT's policy not to declare dividends.

Peer group comparison

As Exhibit 9 illustrates, the biotechnology/life sciences specialist sector is a relatively small peer group. There are five constituents and, while they all invest in biotechnology companies, their investment objectives are markedly different. IBT invests in high-growth development-stage quoted and unquoted biotechnology companies, while The Biotech Growth Trust invests primarily in emerging biotechnology companies. Worldwide Healthcare Trust invests in biotechnology and pharmaceutical companies, and the Polar Capital Global Healthcare Growth and Income Trust is a fixed-life vehicle that pays quarterly dividends. BB Biotech is a large Swiss domiciled fund-focused on mid-cap biotech companies. Within this group, IBT ranks fourth over one and five years and third over three years, when considering share price total return. IBT has the fourth largest one-year Sharpe ratios for both NAV and price, among this peer group.

Exhibit 9: Sector specialist: biotechnology/life sciences sector, as at 5 June 2013

Company	Share price total return on £100			Ongoing charges (%)	(Disc)/ prem.	Net gearing (100=no gearing)	Five-year dividend growth (%)	Div yield (%)	Sharpe ratio NAV one year	Sharpe ratio price one year
	One year	Three years	Five years							
Sector average	**148.6**	**221.0**	**246.8**	**1.3**	**(10.1)**	**99.6**	**27.0**	**1.7**	**2.2**	**1.9**
International Biotechnology Trust	**138.8**	**184.7**	**218.6**	**1.9**	**(8.3)**	**97.0**	**0.0**		**2.1**	**1.4**
Biotech Growth Trust (The)	152.2	234.9	359.9	1.3	(1.3)	103.0	0.0		2.5	2.3
Polar Capital Global Healthcare	131.8			1.1	3.0	96.0	0.0		2.3	1.3
Worldwide Healthcare Trust	143.2	173.8	248.4	1.1	(0.8)	118.0	27.0	1.6	2.0	2.2
BB Biotech AG	154.1	244.7	222.0	1.5	(18.8)	91.0	0.0	0.0	2.3	1.9

Source: Morningstar

The board

All directors are non-executive and independent of the investment manager. They are Alan Clifton (chairman), John Aston, Dr Véronique Bouchet, Dr David Clough and Jim Horsburgh (directors). The average length of board member service is 4.6 years.