

25 October 2011

## International Biotechnology Trust

12 Months Ending	Total Share Return* (%)	Total NAV Return* (%)	Total Return NASBIOT Index* (%)	Total Return FT All-Share Index* (%)
19/10/08	(19.8)	(6.0)	(9.0)	(36.5)
19/10/09	9.8	9.1	25.1	38.2
19/10/10	5.2	9.3	12.7	12.2
19/10/11	10.3	0.8	7.8	(1.5)

Note: \* 12-month rolling discrete performance

### Investment summary: Improved fee structure

With the recent results announcement, International Biotechnology Trust (IBT) confirmed a reduction in the annual management fee by 20bps to 1.15% of NAV with the aim of reducing the overall TER to below 2.0%. The quoted portfolio performance fee is also being adjusted, to 10% of any outperformance above the NASDAQ (sterling adjusted) Biotechnology Index plus 0.5%. The maximum total performance fee payable in a year falls from 5% of NAV to 3%. For now, the unquoted portfolio continues to act as a break on overall performance. However, IBT has recently successfully exited Cadent with a sale to Align Technologies, at 3.1x book value. While recent market conditions have arguably delayed further exits the manager, SV Life Sciences, believes many of the unquoted names are reaching maturity and will provide strong exits, which will give a significant uplift to the unquoted performance.

### Investment strategy: Development-stage biotech

IBT invests in development-stage biotechnology companies and maintains a quoted portfolio (30-35 stocks) and an unquoted portfolio (20-25 stocks). The investment process employs extensive fundamental research and has a longer-term horizon. Positions are actively monitored particularly for binary trial events. IBT can borrow on a short term basis, unlikely to exceed 10% of the quoted NAV, but avoids structural gearing.

### Sector outlook: Positive for biotechnology companies

The manager believes there has never been a better time to invest in the biotechnology sector. The sector, which has long been out of favour with investors, trades close to 15-year lows against a demographic backdrop of increasing demand from ageing populations. The August market correction gave IBT the opportunity to invest in multiple small-cap names, at compelling valuations, using short term borrowing to bridge the gap until receipt of the Cadent sale proceeds.

### Valuation: Discount below three- and five-year averages

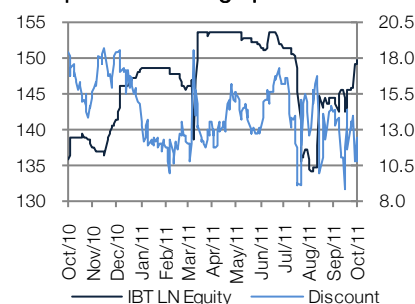
The cum-income discount, currently at 13.5%, is below its three- and five-year averages of 17.1% and 12.5% respectively, but is above its broad target of 8%. The discount remains underpinned by a selective share repurchase programme, and we believe IBT offers an attractive means of gaining a diversified exposure to quoted and unquoted biotechnology companies.

Price	150.25p
Market Cap	£83.8m
AUM	£95.0m
NAV*	174.31p
Discount to NAV*	13.8%
NAV**	173.67p
Discount to NAV**	13.5%
Yield	0.0%

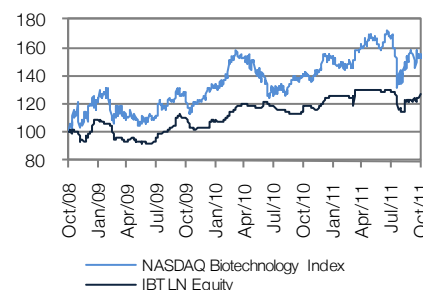
\*Adjusted for debt at market value and excluding income. At 24 October 2011.

\*\* Adjusted for debt at market value and including income. At 24 October 2011.

#### Share price/discount graph



#### 3-year cumulative performance graph



#### Share details

Code	IBT
Listing	FULL
AIC Sector	Sector Spec: Biotech/Life Sciences
Shares in issue	55.8m

#### Price

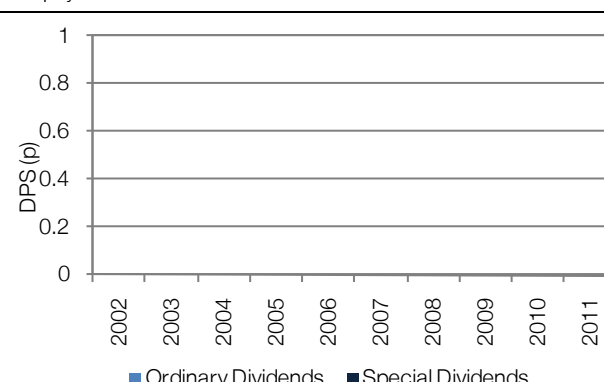
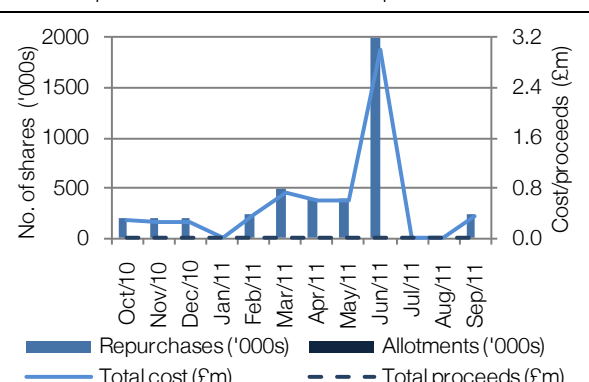
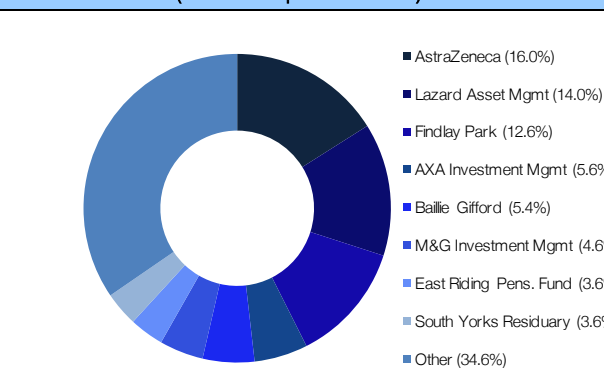
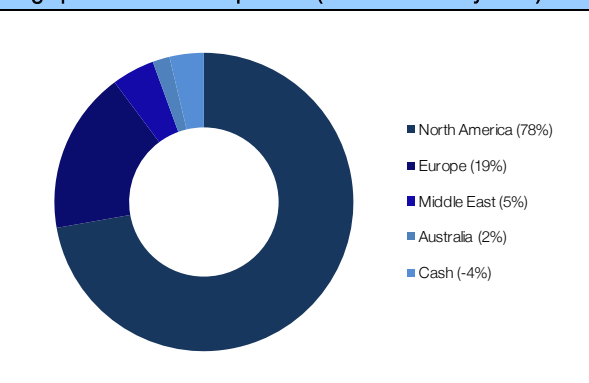
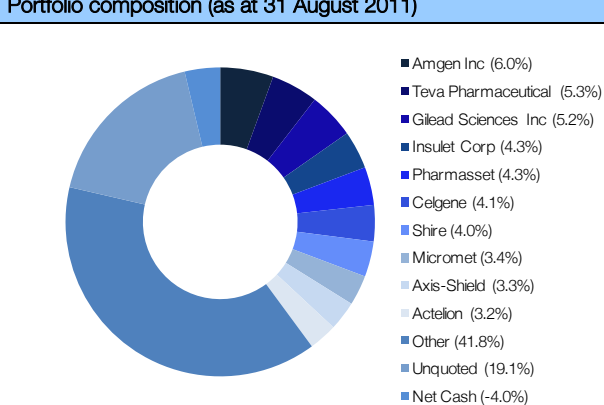
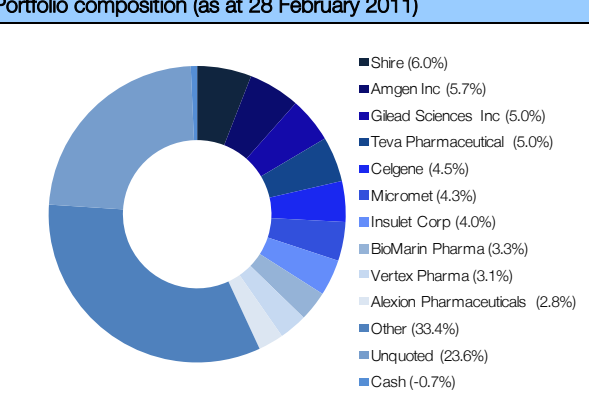
52 week	High	Low
Price	153.50p	134.25p
NAV*	184.28p	153.95p

\*Including income

#### Analyst

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## Exhibit 1: Trust at a glance

Investment objective and fund background				Developments last quarter	
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.				<p>21 October 2011: Interim results for the six months ended 31 August 2011 released.</p> <p>18 October 2011: Announcement that IBT had received \$8.6m (£5.5m) in cash from the exit of Cadent to Align Technologies.</p>	
Forthcoming		Capital structure		Fund details	
AGM	December 2011	Total expense ratio	2.19%	Group	SV Life Sciences Managers LLP
Preliminary	October 2012	Net gearing	4%	Manager	D. Pinniger, K. Bingham
Year end	31 August	Annual mgmt fee	See pg 7	Address	71 Kingsway London, WC2B 6ST
Dividend paid	N/A	Performance fee	See pg 7		
Launch date	May 1994	Trust life	Indefinite	Phone	+44 (0)20 7421 7070
Wind-up date	Vote every 2 yrs	Loan facilities	See pg 7	Website	www.ibtplc.com
Dividend policy and history				Share buyback policy and history	
Reflecting its capital appreciation objective, IBT current policy is to not pay dividends.				Renewed annually, the trust has authority to allot up to 5.0% and purchase up to 14.99% of issued share capital.	
 <p>DPS (p)</p> <p>■ Ordinary Dividends ■ Special Dividends</p>				 <p>No. of shares ('000s)</p> <p>Cost/proceeds (£m)</p> <p>■ Repurchases ('000s) ■ Allotments ('000s)</p> <p>— Total cost (£m) - - - Total proceeds (£m)</p>	
Shareholder base (as at 30 September 2011)				Geographic distribution of portfolio (as at 28 February 2011)	
 <p>■ AstraZeneca (16.0%)</p> <p>■ Lazard Asset Mgmt (14.0%)</p> <p>■ Findlay Park (12.6%)</p> <p>■ AXA Investment Mgmt (5.6%)</p> <p>■ Baillie Gifford (5.4%)</p> <p>■ M&amp;G Investment Mgmt (4.6%)</p> <p>■ East Riding Pens. Fund (3.6%)</p> <p>■ South Yorks Residuary (3.6%)</p> <p>■ Other (34.6%)</p>				 <p>■ North America (78%)</p> <p>■ Europe (19%)</p> <p>■ Middle East (5%)</p> <p>■ Australia (2%)</p> <p>■ Cash (-4%)</p>	
Portfolio composition (as at 31 August 2011)				Portfolio composition (as at 28 February 2011)	
 <p>■ Amgen Inc (6.0%)</p> <p>■ Teva Pharmaceutical (5.3%)</p> <p>■ Gilead Sciences Inc (5.2%)</p> <p>■ Insulet Corp (4.3%)</p> <p>■ Pharmasset (4.3%)</p> <p>■ Celgene (4.1%)</p> <p>■ Shire (4.0%)</p> <p>■ Micromet (3.4%)</p> <p>■ Axis-Shield (3.3%)</p> <p>■ Actelion (3.2%)</p> <p>■ Other (41.8%)</p> <p>■ Unquoted (19.1%)</p> <p>■ Net Cash (-4.0%)</p>				 <p>■ Shire (6.0%)</p> <p>■ Amgen Inc (5.7%)</p> <p>■ Gilead Sciences Inc (5.0%)</p> <p>■ Teva Pharmaceutical (5.0%)</p> <p>■ Celgene (4.5%)</p> <p>■ Micromet (4.3%)</p> <p>■ Insulet Corp (4.0%)</p> <p>■ BioMarin Pharma (3.3%)</p> <p>■ Vertex Pharma (3.1%)</p> <p>■ Alexion Pharmaceuticals (2.8%)</p> <p>■ Other (33.4%)</p> <p>■ Unquoted (23.6%)</p> <p>■ Cash (-0.7%)</p>	

Source: International Biotechnology Trust/Edison Investment Research

## Exhibit 2: Top five quoted holdings at a glance

Amgen		Code: AMGN US	Market cap: US\$52,969m
 — AMGN (£-adj) — NASBIOT Index (£-adj)	Div yield (trailing 12 months)		0.49%
	Industry/Sector		Medical-Biomedical/Gene
	Website		www.amgen.com
	Amgen is a biotechnology company that pioneered the development of novel products based on advances in molecular biology. It markets products that are used to treat anaemia, rheumatoid arthritis and other autoimmune diseases. The manager considers that Amgen's newly launched drug Prolia, for treating osteoporosis, could be the next biotechnology blockbuster. Amgen employs 17,000 people worldwide. Total revenues were \$15.1bn in 2010.		
Teva Pharmaceutical		Code: TEVA US	Market cap: US\$36,804m
 — TEVA (£-adj) — NASBIOT Index (£-adj)	Div yield (trailing 12 months)		2.22%
	Industry/Sector		Medical-Generic Drugs
	Website		www.tevapharm.com
	Based in Israel and listed on the NASDAQ, Teva Pharmaceuticals is a leading biopharmaceutical and generics company marketing products which range from branded injectables such as Copaxone to generic small molecules such as Adderall XR. Teva has adopted an aggressive acquisition strategy to sustain their growth rate. Total revenues were \$16.1bn in 2010. Teva has production facilities in Israel, North America, Europe and Latin America and has just completed its acquisition of US based Cephalon Inc.		
Gilead Sciences		Code: GILD US	Market cap: US\$33,274m
 — GILD (£-adj) — NASBIOT Index (£-adj)	Div yield (trailing 12 months)		N/A
	Industry/Sector		Medical-Biomedical/Gene
	Website		www.gilead.com
	Based in the US and listed on the NASDAQ, Gilead Sciences is a biopharmaceutical company with an industry-leading franchise in HIV drug development and commercialisation. In recent years the company has diversified its portfolio into new diseases, including hypertension and cystic fibrosis. Gilead has 13 marketed products, employs around 4,000 people worldwide and has operations in the US, Europe and Australia. The company recorded revenues of \$7.9bn in 2010.		
Insulet		Code: PODD US	Market cap: US\$741m
 — PODD (£-adj) — NASBIOT Index (£-adj)	Div yield (trailing 12 months)		N/A
	Industry/Sector		Patient Monitoring Equipment
	Website		www.myomnipod.com
	Based in the US and listed on the NASDAQ, Insulet is a medical device company that develops, manufactures and markets an insulin infusion system for people with insulin-dependent diabetes. The Omnipod is a handheld, tube-free, insulin management system with integral glucose meter and diabetes management software. Insulet signed a distribution agreement with Ypsomed Distribution AG (Ypsomed), in January 2010 to distribute the OmniPod in 11 countries. Insulet acquired Neighbourhood Diabetes in June 2011.		
Pharmasset		Code: VRUS US	Market cap: US\$5,922m
 — VRUS (£-adj) — NASBIOT Index (£-adj)	Div yield (trailing 12 months)		N/A
	Industry/Sector		Medical-Drugs
	Website		www.pharmasset.com
	Based in the US and listed on the NASDAQ, Pharmasset is a clinical-stage pharmaceutical company engaged in developing and commercialising novel drugs designed to treat viral infections. Pharmasset's primary focus is the development of oral therapeutics for the treatment of Hepatitis C. Pharmasset currently has three product candidates, including RG7128 (Mericitabine), which it is developing in partnership with Roche. Pharmasset also has a number preclinical candidates approaching clinical development.		

Source: Bloomberg/Thomson Datastream/Edison Investment Research

## Fund profile

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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 been responsible for the management of 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 a significant unquoted element, there is no unique benchmark against which to adequately assess its NAV performance. Reflecting this IBT evaluates its performance against the NASDAQ Biotechnology Index (NASBIOT).

## The fund managers: David Pinniger and Kate Bingham

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### Manager's view

The manager believes there has never been a better time to invest in the biotechnology sector. With growing and ageing populations, the need for innovative new drugs, diagnostics and medical devices to prevent and treat complex diseases has never been higher. While pharmaceutical companies are struggling to generate returns from internal R&D investment, biotechnology companies are demonstrating higher success in providing the medical innovation required, yet the sector has long been out of favour with investors. The manager believes sentiment is changing, not least because of the requirement healthcare and large-cap pharma companies have, to replenish their product pipelines. While initially a concern, the consensus opinion is that the sector will be a net beneficiary of healthcare reform in the United States and that emerging markets offer a very significant opportunity. Compared with the expected growth, the sector is currently trading at very low absolute and relative rating versus the broader equity market, creating an immediate opportunity for investors. With a portfolio of listed and venture capital investments, the manager believes that the unique construction of IBT's portfolio enables investors to access returns from medical innovation in a diversified, risk-managed way.

## Asset allocation

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### Investment process

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 portfolios 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. 4) Position management. Once included in the portfolio, positions are subject to continuous evaluation and risk management.

### Overview

IBT's has 65 investments: 40 quoted and 25 unquoted. As illustrated in Exhibit 1, the top 10 quoted holdings account for 43.1%, the unquoteds account for 19.1 %, net cash accounts for -4.0% and the remaining 30 quoted holdings account for 41.8% of the portfolio. Most of the portfolio (78%) is

invested in US stocks, so IBT has a significant exposure to the dollar. It is not IBT's policy to hedge its foreign currency exposures. Europe (including the UK) accounts for 19.0% of the portfolio, Israel (shown as M. East) 5.0% and Australia 2.0%.

## Top holdings

As Exhibit 3 shows, five out of IBT's top 10 quoted holdings outperformed the NASBIOT during the last 12 months.

### Exhibit 3: 10 largest quoted equity holdings as at 31 August 2011

Note: NASDAQ Biotechnology Index one-year total return performance to 19 October 2011 (sterling adjusted) = 7.8%.

Holding	%	One year total return price performance, sterling adjusted (%)	Performance relative to NASDAQ Biotechnology Index (%)
Amgen	6.0	(0.1)	(7.9)
Teva Pharmaceutical	5.3	(25.8)	(33.5)
Gilead Sciences	5.2	10.3	2.6
Insulet	4.3	(1.0)	(8.7)
Pharmasset	4.3	386.1	378.3
Celgene	4.1	10.5	2.7
Shire	4.0	34.9	27.1
Micromet	3.4	(18.0)	(25.8)
Axis-Shield	3.3	59.9	52.1
Actelion	3.2	(28.4)	(36.2)
<b>Total</b>	<b>43.1</b>		

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

## Unquoted companies

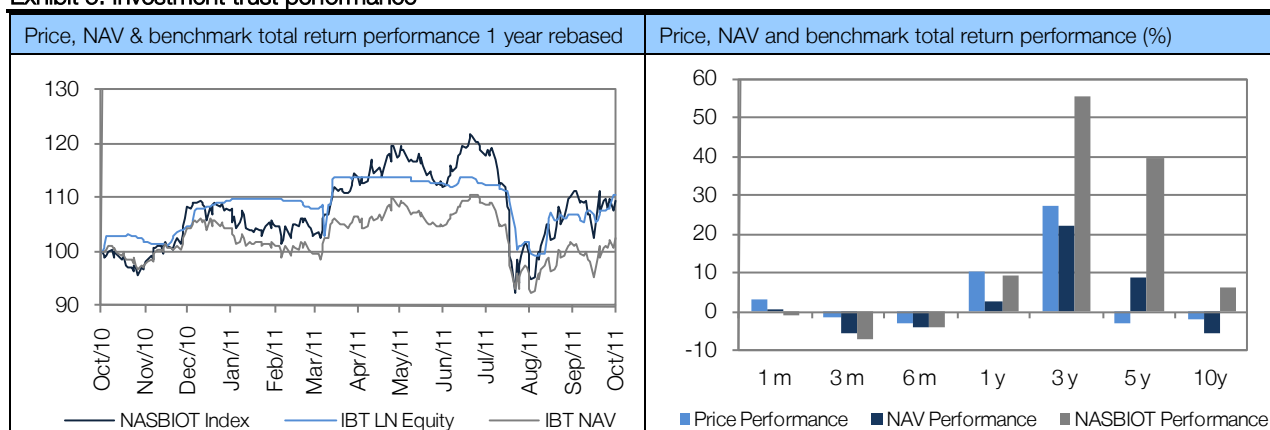
### Exhibit 4: Top five unquoted holdings at a glance

EUSA Pharma	Investment date: March 2007	Investment: £2.4m	Current Valuation: £2.9m
Eusa Pharma is a speciality pharma company focused on oncology, pain control and critical care. It has been built through the acquisition of Talisker Pharmaceuticals, Opi and most recently Cytogen in May 2008. 2010 total revenues were \$80m.	Total IRR	N/A	
	Industry/Sector	Speciality Pharmaceuticals	
	Website	www.eusapharma.com	
Aptiv Solutions	Investment date: March 2007	Investment: £2.4m	Current Valuation: £2.9m
Aptiv Solutions provides facilities and expertise for pharmaceutical and biotechnology companies looking to outsource early-stage R&D projects. Aptiv has acquired a number of businesses and is integrating these to achieve scale and breadth of ability.	Total IRR	N/A	
	Industry/Sector	Life Sciences, Tools, Diagnostics & Svcs.	
	Website	www.apativsolutions.com	
Entellus	Investment date: July 2008	Investment: £2.9m	Current Valuation: £2.9m
Entellus is developing a minimally invasive treatment for chronic sinusitis. Their system uses a balloon that is inserted into the ostium of the targeted sinus, then inflated to dilate it by crushing bone around the opening.	Total IRR	N/A	
	Industry/Sector	Medical Devices	
	Website	www.averionintl.com	
Oxagen	Investment date: May 2005	Investment: £3.7m	Current Valuation: £2.7m
A biotechnology company developing a pipeline of novel drugs to treat inflammatory diseases. Its portfolio includes a lead drug candidate with the potential to treat asthma and other serious respiratory and inflammatory conditions as a once daily pill.	Total IRR	N/A	
	Industry/Sector	Biotechnology	
	Website	www.oxagen.co.uk	
Lux Biosciences	Investment date: July 2006	Investment: £1.3m	Current Valuation: £1.4m
A biotechnology company specialised in the field of ophthalmic diseases developing medications to treat the underlying causes of these diseases and alleviate their symptoms, ultimately striving to improve or preserve the eyesight of patients with these diseases.	Total IRR	N/A	
	Industry/Sector	Biotechnology	
	Website	www.luxbio.com	

Source: International Biotechnology Trust/Edison Investment Research

## Recent performance

**Exhibit 5: Investment trust performance**



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

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

	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Price relative to NASBIOT Index	1.6	4.5	(5.0)	(9.6)	(21.4)	(35.6)	(14.6)
NAV relative to NASBIOT Index	1.2	2.7	(2.8)	(10.3)	(22.3)	(29.7)	(14.6)
Price rel. to FTSE All-Share	0.5	4.8	4.1	11.8	(25.4)	(9.4)	(63.9)
NAV rel. to FTSE All-Share	(3.6)	(1.4)	2.1	2.3	(32.6)	0.6	(72.5)

Source: International Biotechnology Trust/Bloomberg/Thomson Datastream/Edison Investment Research

**Exhibit 7: Quoted and unquoted NAV total return performance, and benchmark performance, (sterling adjusted), to 31 August 2011**

	3 months	6 months	1 year	2 years	3 years
Quoted portfolio NAV	(8.1)	0.5	13.5	17.5	12.6
Unquoted portfolio NAV	(10.8)	(7.8)	(10.6)	(7.1)	(16.7)
NASBIOT	(10.9)	(1.8)	16.6	21.9	24.8

Source: International Biotechnology Trust/Bloomberg/Thomson Datastream

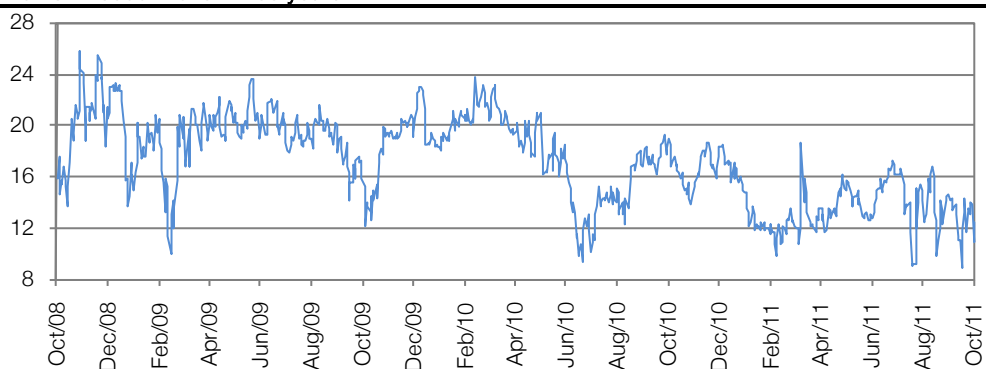
As Exhibit 5 illustrates, IBT has outperformed the NASBIOT in terms of price total return (sterling adjusted), over one and six months. IBT has not outperformed the NASBIOT, in terms of NAV total return, over one and six months. Separating the NAV performance of the quoted and unquoted parts of the portfolio (as shown in Exhibit 7) reveals that, the unquoted portfolio has not generated meaningful returns, and has acted as a drag on overall NAV performance. Since most of the unquoted portfolio investments have been made since the c-share issue in February 2007, this is unsurprising given the relatively long-cycle nature of venture capital investing. Following on from the recent Cadent exit, the manager expects a number of these investments to begin to mature over the next 12-24 months.

## Discount

IBT has the authority, renewed yearly, to allot up to 5% or make market purchases of up to 14.99% of issued share capital, which provides the manager with a mechanism to influence the discount. 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. Being inside prevents instruction being given to the company's broker to buy back shares. As a consequence, repurchases were not possible between March and October 2009. 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 three years. The current arrangement expires in December but it is expected to be renewed. The current discount of 13.5% is below its three- and five-year averages of 17.1%, but above its five-year average of 12.5% and the broad target of 8%.

**Exhibit 8: Discount over three years**



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

## Capital structure

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. The AIC calculates that, as at 31 August 2011, IBT had net borrowing of 4% on NAV.

## Fees

From 1 September 2011 SVLS will receive 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 is changing 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 remain 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 paid for the year ending 31 August 2011. The total expense ratio (TER) was 2.17% for the year ending 31 August 2010 (2.17% for the year ending 31 August 2010). As Exhibit 9 shows, IBT's TERs are higher than its peers. This difference is not unreasonable given the specialist resources required to manage the unquoted portfolio and we expect the management fee reduction will bring IBT's TER more into line. The management contract can be ended at one



year's notice by either party. The life of the trust is indefinite. However, a continuation vote is put to shareholders every two years. Given current market conditions and the performance of the trust to date, we expect shareholders to approve the vote at this year's AGM.

## Dividend policy and record

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 AIC biotechnology/life sciences specialist sector is a relatively small peer group. There are only four 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, 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. Within this group, IBT ranks second over one year, and third over three and five years when considering share price total return.

**Exhibit 9: Sector specialist: biotechnology/life sciences updated 18 October 2011**

Company	Share price total return on £100			Total expense ratio	(Disc)/ prem	Net gearing (100 = no gearing)	5 year dividend growth (%)	Div yield
	1 year	3 year	5 year					
<b>Sector average</b>	<b>105.7</b>	<b>154.7</b>	<b>135.2</b>	<b>1.27</b>	<b>(7.5)</b>	<b>108</b>	<b>N/A</b>	<b>N/A</b>
International Biotechnology	110.6	127.0	96.9	2.16	(12.6)	108	N/A	N/A
Biotech Growth	111.7	172.2	150.0	1.28	(7.1)	96	N/A	N/A
Polar Capital Global Healthcare	102.3	N/A	N/A	N/A	(1.2)	93	N/A	2.9
Worldwide Healthcare	103.3	155.9	140.3	1.01	(8.3)	116	38.0	2.2

Source: The Association of Investment Companies

## The board

All directors are non-executive and independent of the investment manager. They are Andrew Barker (chairman), John Aston, Dr Véronique Bouchet, Alan Clifton, Dr David Clough and Alex Hammond-Chambers (directors). The average length of board member service is 7.1 years.

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