

Unquoted performance improving

The biotechnology sector has performed strongly during the last 12 months reflecting increased investor confidence that profitable biotech companies offer stable and predictable earnings growth, and above average cash flow generation, as well as a wave of well publicised and highly valuable new drugs and technologies emerging. IBT's quoted portfolio's NAV (c 77% of the total) has outperformed the NASBIOT during the year to 31 August 2012 (47.8% vs 45.3%), while IBT's unquoted portfolio's NAV (c 16%) has increased by 21.7%. During the last three years the unquoted portfolio's performance has lagged that of the quoted because realisations have been light and considerable unquoted investments were made using the 2007 c-share issue proceeds, which take time to mature. The managers believe realisation activity is picking up. Evidence comes from the sale of EUSA Pharma in H2, which returned £4.8m cash to IBT, adding £2.4m to NAV and providing a 2.0x return on invested capital. This bodes well for the development of the unquoted portfolio's NAV.

12 months ending	Total share price return* (%)	Total NAV return* (%)	Total return NASBIOT index* (%)	Total return MSCI World H'Care* (%)	Total return FTSE All-Share * (%)
24/10/2009	8.1	4.1	13.4	14.6	44.0
24/10/2010	9.4	14.2	18.6	13.9	14.0
24/10/2011	8.1	3.4	10.4	6.1	(0.4)
24/10/2012	40.4	35.4	38.4	20.2	10.1

Note: *Twelve-month rolling discrete performance.

Investment strategy: Development-stage biotech

IBT invests in development-stage biotechnology companies and maintains a quoted portfolio (30-35 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, unlikely to exceed 10% of the quoted NAV, but avoids structural gearing.

Sector outlook: Positive for biotechnology companies

A number of factors provide support to the biotechnology sector. Pharmaceutical companies have struggled to generate returns from internal R&D investment and there is a clear trend towards outsourcing the process to biotechnology companies. In addition, the sector benefits from a 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.

Valuation: Discount below longer-term averages

The cum-income discount, currently at 9.9%, is below its three- and five-year averages of 15.1% and 15.0% respectively, and has moved closer to 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.

Investment trusts

25 October 2012

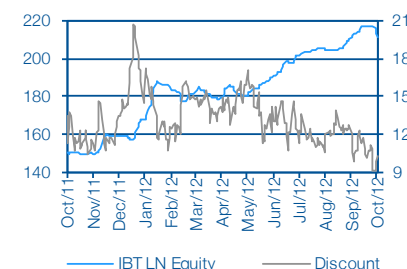
Price	213.25p
Market cap	£118m
AUM	£131m
NAV*	237.26p
Discount to NAV	10.1%
NAV**	236.64p
Discount to NAV	9.9%
Yield	0.0%

* Adjusted for debt at par value and excluding income, as at 23 October 2012.

** Adjusted for debt at market value, excluding income, as at 23 October 2012.

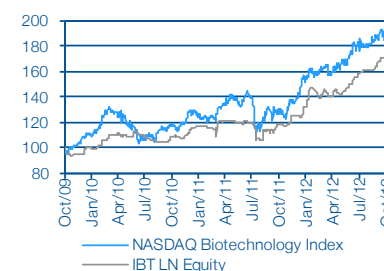
Ordinary shares in issue	55.5m
Code	IBT
Primary exchange	LSE
AIC sector	SS:Biotech/Life Sciences

Share price/discount performance



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

Three-year cumulative perf. graph



52-week high/low	217.25p	149.38p
NAV* high/low	245.76p	166.73

* Adjusted for debt at market value, including income.

Gearing

Gross	0.0%
Net	(7.0%)

Analysts

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Exhibit 1: Trust at a glance

Investment objective and fund background

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.

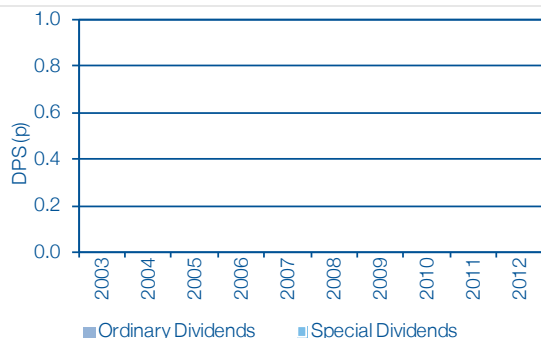
Developments last quarter

19 October 2012: Annual report for the year ended 31 August 2012 released.
 10 August 2012: Portfolio update released detailing changes to the values of unquoted companies which have added £0.9m to NAV.

Forthcoming		Capital structure		Fund details	
AGM	December 2012	Ongoing charges	1.85%	Group	SV Life Sciences Managers LLP
Preliminary results	October 2012	Net gearing	(7.0%)	Manager	David Pinniger, Kate Bingham
Year end	31 August	Annual mgmt fee	1.15% of net assets	Address	71 Kingsway, London WC2B 6ST
Dividend paid	N/A	Performance fee	See Page 7	Phone	+44 (0)20 7421 7070
Launch date	May 1994	Trust life	Indefinite	Website	www.ibtplc.com
Wind-up date	Vote every two yrs	Loan facilities	See Page 7		

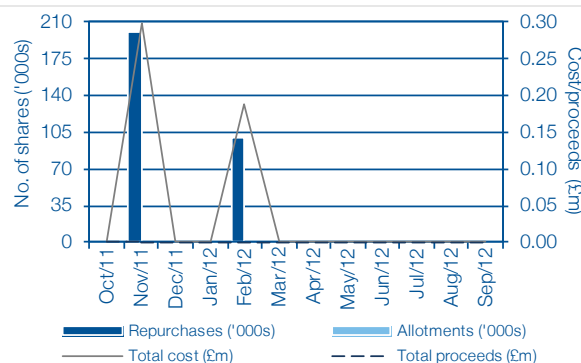
Dividend policy and history

Reflecting its capital appreciation objective, IBT's current policy is to not pay dividends.

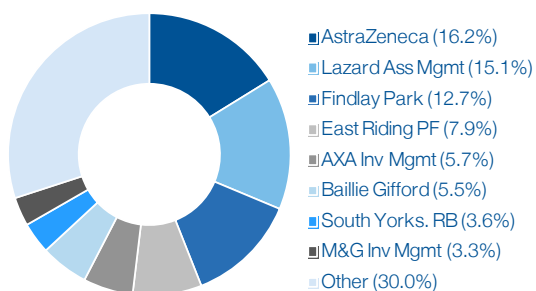


Share buy-back policy and history

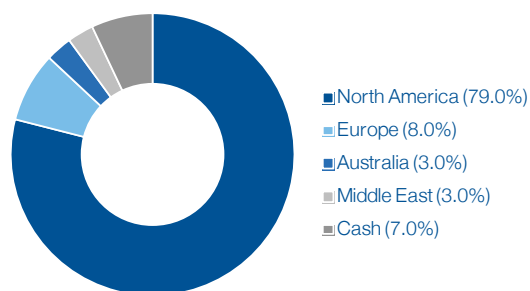
Renewed annually, the trust has authority to purchase up to 14.99%, and allot up to 5.0% of issued share capital.



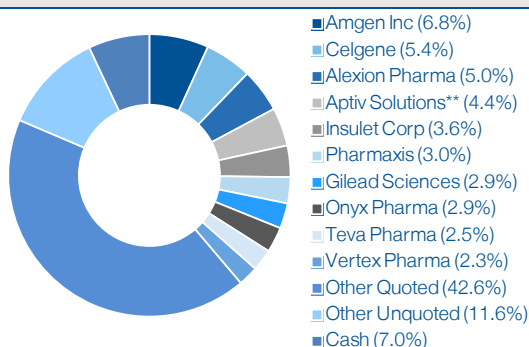
Shareholder base (as at 31 August 2012)



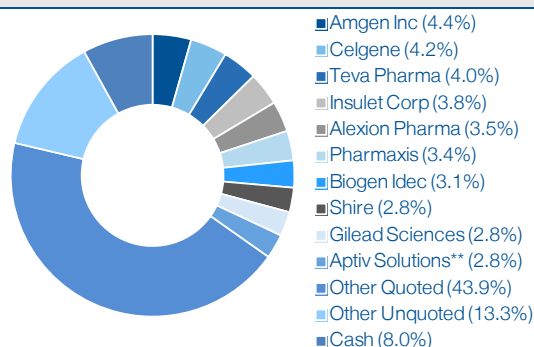
Geographic distribution of portfolio (as at 31 August 2012)*



Portfolio composition (as at 31 August 2012)*



Portfolio composition (as at 29 February 2012)*



Source: International Biotechnology Trust, Edison Investment Research, Note: *Geographic distribution and portfolio composition are as a proportion of total assets. As at 31 August 2012 and 29 February 2012, IBT had nil borrowings. ** Unquoted holding.

Exhibit 2: Top five quoted holdings at a glance

Amgen	Code: AMGN US	Market cap: US\$67,200m (£41,923m)
<p>— AMGN (£-adj) Equity — NASBIOT Index (£-adj)</p>	<div data-bbox="762 353 1436 459"> <p>Div yield (trail. 12 months) 1.65%</p> <p>Industry/Sector Biotech/Medical-Biomedical/Gene</p> <p>Listing NASDAQ – GS, Frankfurt</p> <p>Website www.amgen.com</p> </div> <div data-bbox="762 465 1436 638"> <p>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 \$15.6bn in 2011 (up from \$15.1bn in 2010).</p> </div>	
Celgene	Code: CELG US	Market cap: US\$31,951m (£19,933m)
<p>— CELG (£-adj) Equity — NASBIOT Index (£-adj)</p>	<div data-bbox="762 696 1436 801"> <p>Div yield (trail. 12 months) N/A</p> <p>Industry/Sector Biotech/Medical-Biomedical/Gene</p> <p>Listing NASDAQ – GS, Frankfurt</p> <p>Website www.celgene.com</p> </div> <div data-bbox="762 808 1436 958"> <p>Based in the US, Celgene is a biotechnology company engaged in the discovery, development and commercialisation of innovative therapies designed to treat cancer and immunological diseases. It has five marketed products (Revlimid, Thalomid, Vidaza, Abraxane and Istodax) and a full pipeline of drug candidates in clinical development. Total revenues were \$4.8bn in 2011 (up from \$3.6bn in 2010).</p> </div>	
Alexion Pharmaceuticals	Code: ALXN US	Market cap: US\$18,063m (£11,268m)
<p>— ALXN (£-adj) Equity — NASBIOT Index (£-adj)</p>	<div data-bbox="762 1039 1436 1144"> <p>Div yield (trail. 12 months) N/A</p> <p>Industry/Sector Biotech/Medical-Biomedical/Gene</p> <p>Listing NASDAQ – GS, Frankfurt</p> <p>Website www.alexionpharm.com</p> </div> <div data-bbox="762 1151 1436 1323"> <p>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 \$783m in 2011 (up from \$541m in 2010).</p> </div>	
Insulet	Code: PODD US	Market cap: US\$1,012m (£631m)
<p>— PODD (£-adj) Equity — NASBIOT Index (£-adj)</p>	<div data-bbox="762 1382 1436 1487"> <p>Div yield (trail. 12 months) N/A</p> <p>Industry/Sector Patient Monitoring Equipment</p> <p>Listing NASDAQ – GS, Berlin</p> <p>Website www.myomnipod.com</p> </div> <div data-bbox="762 1494 1436 1666"> <p>Based in the US, 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, in January 2010 to distribute the OmniPod in 11 countries. Insulet acquired Neighbourhood Diabetes in June 2011.</p> </div>	
Pharmaxis	Code: PXS AU	Market cap: A\$386m (£249m)
<p>— PSX (£-adj) Equity — NASBIOT Index (£-adj)</p>	<div data-bbox="762 1724 1436 1830"> <p>Div yield (trail. 12 months) N/A</p> <p>Industry/Sector Pharmaceuticals/Therapeutics</p> <p>Listing Australia – ASE, Frankfurt</p> <p>Website www.pharmaxis.com.au</p> </div> <div data-bbox="762 1836 1436 2009"> <p>Located in Australia, Pharmaxis (PSX) is engaged in the research, development and commercialisation of products to treat and manage respiratory diseases. PSX's first commercial product, Aridol, is a lung function test for active airway inflammation. PSX's key development product is Bronchitol, designed to reduce mucus build up in the lungs of those suffering respiratory conditions. Total revenues were A\$1,331m for year ended 30 June 2012 (up from A\$910m in 2011).</p> </div>	

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

Fund profile

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 15.9% of total assets, IBT now primarily evaluates its performance against the NASDAQ Biotechnology Index (NASBIOT).

The case for global biotech companies

Biotech companies benefit from supportive fundamentals from 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. A benefit of biotech compared to traditional big pharma is that 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. IBT offers a mixture of stages of development. Looking specifically at earlier-stage unquoted investments, these typically have greater upside potential but outcomes tend to be more binary.

The fund managers: David Pinniger and Kate Bingham

The manager's view

During the last 12 months the biotechnology sector has provided a very strong performance relative to the broader market, which the managers continue to ascribe to two key factors:

- an increased recognition that profitable biotech companies offer stable and predictable earnings growth and above average cash flow generation; and
- biotech's strong focus on R&D has finally led to a wave of innovative and highly valuable new drugs and technologies that are having a significant and high-profile impact on treatments.

Despite the strong uplift, the managers believe these trends will continue and that, 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. Pharmaceutical companies have struggled to generate returns from internal R&D investment and there is a clear trend towards outsourcing the process to biotechnology companies. Sentiment has improved substantially. Not least because healthcare and large-cap pharma companies need to replenish product pipelines, but also in the manager's view, because of a more general recognition that the biotech sector has matured significantly. In addition, there is a broad recognition that biotech drugs tend to address diseases where desperate clinical need allows for robust pricing and that emerging markets have very strong growth potential. Looking at the broader biotech sector, P/E multiples remain below longer-term averages. However, the manager considers that mid-cap valuations look quite full and has tilted the portfolio towards small- and large-cap companies where they see better value. With a portfolio of listed and venture capital investments, the managers believe IBT enables investors to access returns from medical innovation in a diversified, risk-managed way with less volatility than is available 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. 4) Position management: once included in the portfolio, positions are subject to continuous evaluation and risk management. Unquoted holding valuations are re-valued on a daily basis.

Overview

As at 31 August 2012, IBT had 70 investments: 45 quoted and 25 unquoted. The number of quoted holdings was unusually high and has since reduced because IBT was in the process of selling down stocks that had reached their targets while replacement positions were already being built. As illustrated in Exhibit 1, the top 10 holdings account for 38.8% of total assets while other quoted, other unquoted and cash account for 42.6%, 11.6% and 7.0%, respectively. The majority of the portfolio (79%) is invested in US stocks, so 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, medical devices and specialty pharma account for 65%, 11%, 8% and 9% respectively.

Unquoted companies

Exhibit 3: Top five unquoted holdings at a glance

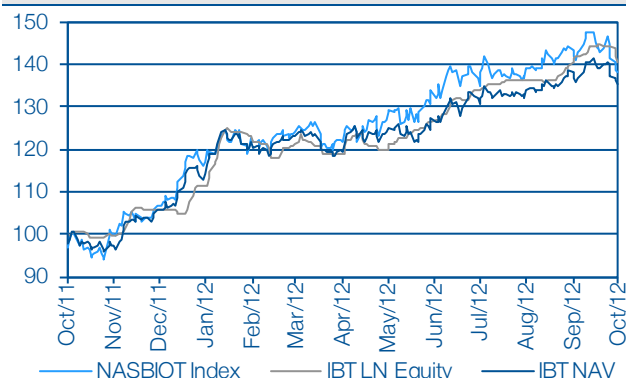
Aptiv Solutions	Investment date: March 2007	Investment: £4.8m	Current valuation: £5.7m
Aptiv Solutions provides facilities and expertise for pharma and biotech companies looking to outsource early-stage R&D. Aptiv has acquired and integrated a number of businesses. Earnings growth has been strong, which the manager expects to continue.		Total IRR	N/A
		Industry/Sector	Life Sciences, Tools, Diagnostics & Svcs.
		Website	www.apativsolutions.com
Ophthotech	Investment date: December 2009	Investment: £0.6m	Current valuation: £1.6m
June saw Ophthotech release of positive data from a Phase 2b clinical trial of its Fovista anti-PDGF therapy, in combination with an anti-VEGF compound for wet AMD. The manager expects an event during the next 12 months and has written up its valuation.		Total IRR	N/A
		Industry/Sector	Biotechnology
		Website	www.opthotech.com
Entellus	Investment date: July 2008	Investment: £1.6m	Current valuation: £1.4m
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. The manager is expecting an exit during the next six-months.		Total IRR	N/A
		Industry/Sector	Medical Devices
		Website	www.entellusmedical.com
Lux Biosciences	Investment date: July 2006	Investment: £1.4m	Current valuation: £1.4m
Lux Biosciences is a biotech company specialising in ophthalmic diseases. July saw it complete enrolment for its Phase 3 study of Luveniq for non-infectious uveitis. Results are expected Q1 2013. These will be a binary event for the company.		Total IRR	N/A
		Industry/Sector	Biotechnology
		Website	www.luxbio.com
Oxagen	Investment date: May 2005	Investment: £3.7m	Current valuation: £1.2m
Oxagen is focused on the treatment of inflammatory diseases. Its OC000459 drug candidate has completed Phase 2 proof of concept studies but requires a full prospective study. Funding has now been secured for a Russian study with data expected at the end of 2014.		Total IRR	N/A
		Industry/Sector	Biotechnology
		Website	www.oxagen.co.uk

Source: International Biotechnology Trust, Edison Investment Research

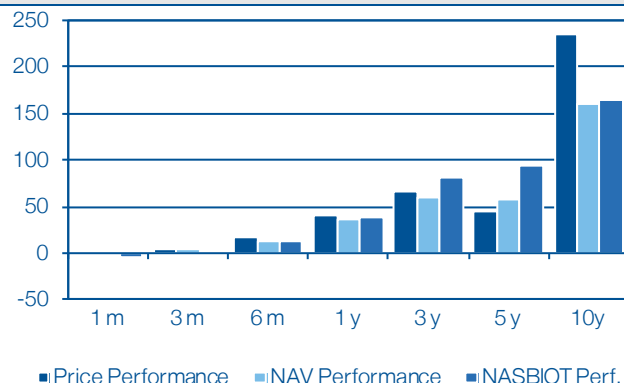
Recent performance

Exhibit 4: Investment trust performance

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 5: 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	3.5	2.3	4.2	2.1	(15.0)	(48.8)	71.1
NAV relative to NASBIOT	1.6	1.2	(0.4)	(2.9)	(21.2)	(36.3)	(3.9)
Price relative to MSCI World Healthcare	(0.4)	(0.5)	7.8	20.3	20.9	(14.6)	140.1
NAV relative to MSCI World Healthcare	(2.3)	(1.7)	3.2	15.3	14.7	(2.1)	65.2
Price relative to FTSE All-Share	0.3	(2.5)	13.5	30.4	41.1	36.2	116.2
NAV relative to FTSE All-Share	(1.6)	(3.7)	8.9	25.4	34.9	48.7	41.3

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

Exhibit 6: Quoted and unquoted NAV total return performance and benchmark performance (sterling adjusted), to 31 August 2012 (%)

	3 months	6 months	1 year	2 years	3 years
Quoted portfolio NAV	7.5	11.6	47.8	67.7	73.7
Unquoted portfolio NAV	3.2	19.6	21.7	8.8	13.1
NASBIOT	7.5	14.9	45.3	68.8	80.0

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

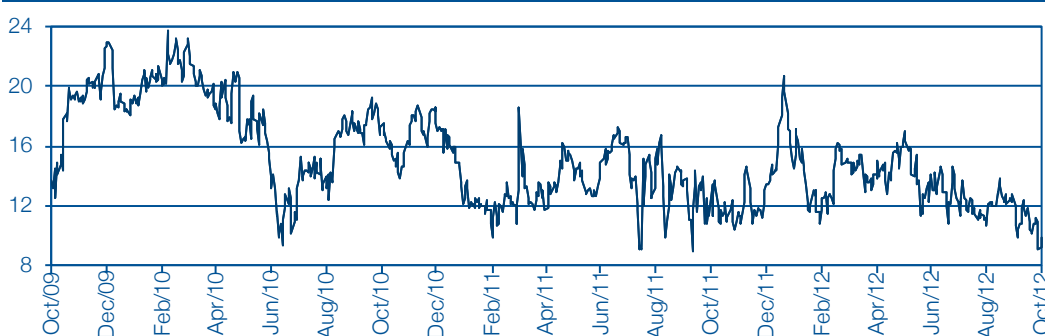
As Exhibits 4 and 5 illustrate, IBT has underperformed the NASBIOT in terms of both price and NAV total return (sterling adjusted) over the three and five years. However, separating the NAV performance of the quoted and unquoted parts of the portfolio (as shown in Exhibit 6) reveals that the quoted parts have outperformed the NASBIOT over one year (to 31 August 2012) and underperformed over two and three years, although not substantially. Over the same periods, the unquoted parts have not generated meaningful returns. Exhibit 6 illustrates a substantial improvement in unquoted performance, over the last six months, which has been largely driven by the sale of EUSA Pharma. 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 the recent quoted underperformance has been driven by being underweight mid-cap names, which have performed more strongly than expected, as well as being overweight cash following the Micromet sale.

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 four years. However, a recurring issue was that the instruction automatically expires at each AGM and cannot be renewed immediately if the manager is 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 current discount of 9.9% is below its three- and five-year averages of 15.1% and 15.0% and above the broad target of 8%.

Exhibit 7: 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. As at 31 August 2012, IBT had gross gearing of 0.0% and net gearing of -7.0%. 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. 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 the 2013 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 8 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 and three years and third over five years when considering share price total return.

Exhibit 8: Global growth sector, as at 24 October 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	135.6	173.8	198.1	1.32	(5.1)	102	N/A	N/A
International Biotechnology	140.4	166.1	145.5	1.86	(10.6)	97	N/A	N/A
Biotech Growth	165.5	215.6	257.2	1.29	0.7	96	N/A	N/A
Polar Capital Global Healthcare	116.5	N/A	N/A	1.25	(0.7)	100	N/A	2.7
Worldwide Healthcare	126.0	156.4	186.2	1.08	(7.6)	107	42.3	2.1

Source: The Association of Investment Companies

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 Alex Hammond-Chambers (directors). The average length of board member service is 6.1 years.

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