

10 November 2011

The Biotech Growth Trust

12 Months Ending	Total Share Price Return* (%)	Total NAV Return* (%)	Total Return NASBIOT Index* (%)	Total Return RGUHSBTG Index * (%)	Total return DS Wld Phm & Bio* (%)
08/11/08	(5.3)	9.8	7.4	(4.6)	9.9
08/11/09	13.5	12.1	4.8	10.5	9.4
08/11/10	23.0	19.7	15.7	9.8	13.2
08/11/11	5.9	10.8	9.7	6.0	6.2

Note: * 12-month rolling discrete performance.

Investment summary: Outperformance over the long term

During the past 12 months The Biotech Growth Trust's (BIOG) share price and NAV have risen by 5.9% and 10.8% respectively. It has outperformed its benchmark, the NASDAQ Biotechnology Index (sterling adjusted), by 1.1% in terms of NAV total return and underperformed by 3.8% in terms of share price total return during the past year. BIOG has a long-term record of outperformance against both broader biotech benchmarks and the FTSE All-Share. Over the next six months, there are a number of significant regulatory decisions and pivotal trial results that the manager believes will create value and drive momentum. Healthcare and large-cap pharma companies still seek to replenish their product pipelines and, with valuations at 15-year lows, the outlook for M&A is positive.

Investment process: Extensive fundamental research

The investment process of OrbiMed Capital (BIOG's investment manager) is driven by extensive fundamental research. OrbiMed looks for companies that are well managed and, in emerging biotech, companies with innovative products and the resources to develop them. Within major biotech, OrbiMed looks for companies with healthy growth from existing products and strong pipelines to provide future growth. Once companies are identified, analysts continue to monitor them, running valuation screens and meeting management at least yearly.

Sector outlook: Significant positive newsflow and catalysts

Valuations remain close to 15-year lows and, with large-cap pharma looking to replenish product pipelines, the outlook for M&A remains positive. There are a number of significant regulatory decisions and pivotal data events, such as AVEO's Tivozanib (renal cell cancer) and Biogen Idec's BG-12 (multiple sclerosis), which, if positive, will create value and drive momentum in the sector in the next six months.

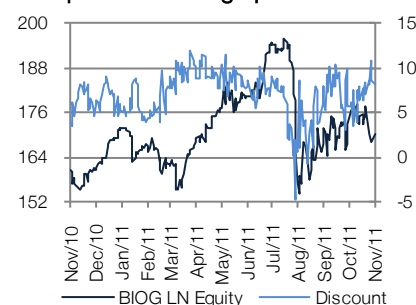
Valuation: Discount in line with long-term averages

The board's policy of using buybacks to maintain the discount at around 6% has been effective (the one-year discount average is 7.0%) and offers investors confidence that they will be able to enter and exit the trust at valuations around this level. We believe BIOG continues to offers investors an attractive means of gaining diversified exposure to both emerging and major biotech.

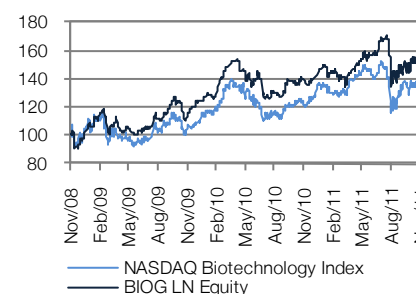
Price	170.0p
Market Cap	£108.6m
AUM	£117.6m
NAV*	184.58p
Discount to NAV*	7.9%
Yield	0.0%

* Adjusted for debt at market value, excluding and including income. At 8 November 2011.

Share price/discount graph



3-year cumulative performance graph



Share details

Code	BIOG
Listing	FULL
AIC Sector	Sector Spec: Biotech/Life Sciences
Shares in issue	63.9m

Price

52 week	High	Low
Price	196.00p	154.0p
NAV	213.13p	158.27p

Analyst

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Exhibit 1: Trust at a glance

Investment objective and fund background				Developments last quarter	
The Biotech Growth Trust seeks capital appreciation through investing in the worldwide biotechnology industry, mainly in emerging biotechnology companies. Performance is measured against its benchmark index, the NASDAQ Biotechnology Index (sterling adjusted).				30 September 2011: Monthly factsheet released. 2 August 2011: Interim management statement released. 14 July 2011: AGM – all resolutions passed.	
Forthcoming		Capital structure		Fund details	
AGM	July 2012	Total expense ratio	1.2%	Group	Frostrow Capital LLP
Preliminary	June 2012	Net Gearing	(3.3%)	Manager	OrbiMed Capital
Year end	31 March	Annual mgmt fee	See pg 7	Address	25 Southampton Buildings London, WC2A 1AL
Dividend paid	N/A	Performance fee	See pg 7		
Launch date	June 1997	Trust life	Indefinite	Phone	+44 (0)20 3008 4910
Wind-up date	Vote every 5 yrs	Loan facilities	See pg 7	Website	www.biotechgt.com
Dividend policy and history				Share buyback policy and history	
Reflecting the capital appreciation objective, dividends are paid only as required to maintain BIOG's investment trust status. Dividends, if any, are expected to be small.				Renewed annually, the trust has authority to allot up to 10.0% and purchase up to 14.99% of issued share capital.	
Shareholder base (as at 30 September 2011)				Geographic distribution of portfolio (as at 30 September 2011)	
<ul style="list-style-type: none"> Newton Inv Mgmt (15.5%) Baillie Gifford (12.9%) East Riding of Yorks. (9.8%) M&G Inv Mgmt (7.1%) Reliance Mutual (5.8%) JP Morgan AM (5.2%) Hansa Capital Partners (3.7%) L & G Inv Mgmt (3.5%) Other (36.7%) 				<ul style="list-style-type: none"> North America (87.4%) Continental Europe (8.5%) Far East (2.8%) Unquoted (1.3%) 	
Portfolio composition (as at 30 September 2011)				Portfolio composition (as at 31 March 2011)	
<ul style="list-style-type: none"> Pharmasset Inc (10.2%) Gilead Sciences Inc (10.0%) Pharmacycics (4.7%) Incyte Genomics (4.7%) Alexion Pharmaceuticals (4.4%) Amgen Inc (4.4%) Affymetix Inc (4.1%) Life Technologies Corp (4.1%) Thermo Fisher (3.5%) Perrigo (3.4%) Other (43.2%) Cash (3.3%) 				<ul style="list-style-type: none"> Gilead Sciences Inc (8.3%) Shire (6.2%) Life Technologies Corp (4.7%) Illumina (4.5%) Amgen Inc (4.0%) Incyte Genomics (4.0%) Pharmasset Inc (3.6%) Celgene (3.4%) Biogen Idec (3.4%) Teva Pharmaceutical (3.4%) Other (49.8%) Cash (4.7%) 	

Source: The Biotech Growth Trust/Edison Investment Research

Exhibit 2: Trust holdings at a glance

Pharmasset		Code: VRUS US	Market cap: £5,107m
<p>— VRUS (£-adj) — NASBIOT Index (£-adj)</p>	Div yield (trailing 12 months)	N/A	
	Industry/Sector	Medical-Biomedical/Gene	
	Website	www.pharmasset.com	
	<p>Based in the US and listed on the NASDAQ, Pharmasset is a clinical-stage pharmaceutical company developing nucleotide polymerase inhibitors for treating Hepatitis C. The Phase II data presented so far has shown strong potency and low potential for resistance. Because of these attributes, the manager considers that Pharmasset's drugs are the leading candidates to replace interferon-based regimens over the longer term.</p>		
Gilead Sciences		Code: GILD US	Market cap: US\$30,136m
<p>— GILD (£-adj) — NASBIOT Index (£-adj)</p>	Div yield (trailing 12 months)	N/A	
	Industry/Sector	Medical-Biomedical/Gene	
	Website	www.gilead.com	
	<p>Gilead (GILD) is a global top five biotechnology company that focuses research on anti-infectives, antivirals, antifungals and antibacterials. Its key areas of interest are HIV/AIDS, liver disease and serious cardiovascular and respiratory conditions. GILD has just reported positive data for its new Quad pill for HIV and is launching another HIV pill called Complera. GILD has a low P/E multiple, which the manager believes will expand with the launch of these new agents.</p>		
Pharmacyclics		Code: PCYC US	Market cap: US\$829m
<p>— PCYC (£-adj) — NASBIOT Index (£-adj)</p>	Div yield (trailing 12 months)	N/A	
	Industry/Sector	Therapeutics	
	Website	www.pharmacyclics.com	
	<p>Based in the US and listed on the NASDAQ, Pharmacyclics (PCYC) is a clinical-stage biopharmaceutical company that is developing a Btk inhibitor, PCI-32765, for treating haematological cancers. The compound has shown very significant activity against mantle cell lymphoma and chronic lymphocytic leukaemia. The manager believes that PCYC's PCI-32765 compound is one of the most promising cancer drugs in mid-stage development. PCYC also has three other product candidates in clinical development.</p>		
Incyte Genomics		Code: INCY US	Market cap: US\$1,676m
<p>— INCY (£-adj) — NASBIOT Index (£-adj)</p>	Div yield (trailing 12 months)	N/A	
	Industry/Sector	Medical-Biomedical/Gene	
	Website	www.incyte.com	
	<p>Based in the US and listed on the NASDAQ, Incyte Genomics is a biotechnology company focused on the discovery and development of oral drugs for the treatment of serious unmet medical needs in the areas of oncology and inflammation. Incyte is expected to receive FDA approval for its lead drug Ruxolitinib later this year for treating myelofibrosis. The manager believes that the drug will experience a robust launch based on the strength of the clinical benefit shown in trials.</p>		
Alexion Pharmaceutical		Code: ALXN US	Market cap: US\$11,901m
<p>— ALXN (£-adj) Equity — NASBIOT Index (£-adj)</p>	Div yield (trailing 12 months)	N/A	
	Industry/Sector	Medical-Biomedical/Gene	
	Website	www.alexionpharm.com	
	<p>Based in the US and listed on the NASDAQ, Alexion Pharmaceuticals (ALXN) is a biopharmaceutical company engaged in discovering, developing and commercialising therapies designed to treat diseases in hematology, nephrology, neurology, ophthalmology and cancer. ALXN strengthened after FDA approval of Soliris for atypical hemolytic uremic syndrome. Soliris is already approved in more than 35 countries, for treating paroxysmal nocturnal hemoglobinuria.</p>		

Source: Bloomberg/Thomson Datastream/Edison Investment Research

Fund profile

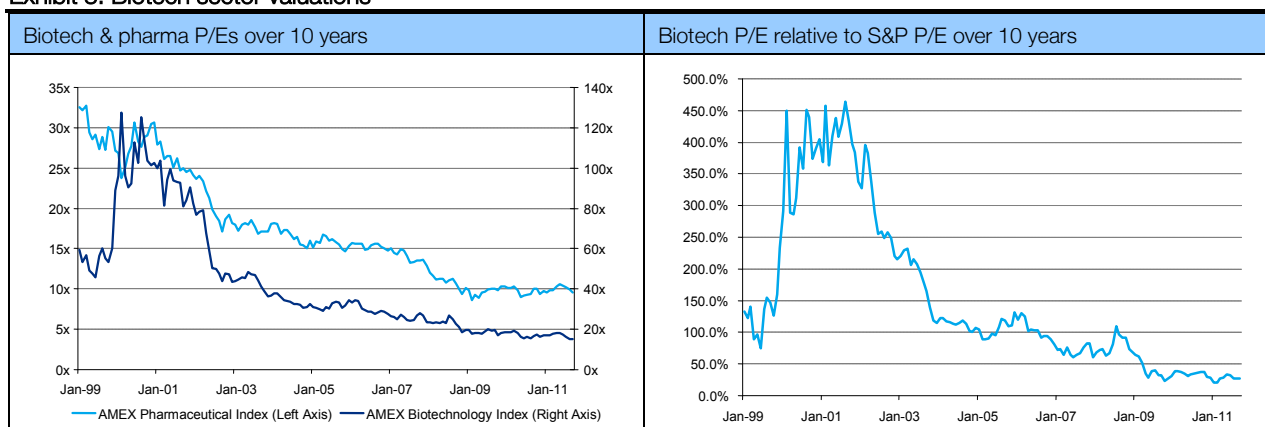
BIOG was launched in June 1997. However, from May 2005 a new mandate was adopted, shifting the focus to global emerging biotechnology companies, and OrbiMed Capital was appointed as investment adviser. OrbiMed Capital, established in 1989 and based in New York, is the largest independent specialist investor in the biotechnology and pharmaceutical sectors. It employs over 40 experienced investment professionals globally and has assets under management of c \$5bn.

The fund managers: Richard Klemm and Geoffrey Hsu

Manager's view

The ability to identify innovative therapies and the next product cycle can generate significant alpha. The manager believes that, within the healthcare sector, biotech has been better able to exploit newer technologies than the big pharmaceuticals and that the predominantly protein-based nature of biotech drugs means they have a longer effective commercial exclusivity than traditional small molecule pharmaceutical drugs. When patents expire, biotech is expected to see relatively slower generic penetration with a smaller number of new entrants, while dominant brands should be able to maintain good market positions in the long term.

Exhibit 3: Biotech sector valuations



Source: Orbimed Advisors, LLC.

As illustrated in Exhibit 3, pharma and biotech valuations are at historic lows in absolute and relative terms. This potentially creates an attractive entry point to invest in the sector. The manager believes that biotech has now matured as an industry and that innovation in the biotechnology sector is leading the creation of new markets for diseases that were previously untreatable. Successful clinical data is being rewarded with significant price appreciation (eg 200-300%) and, over the next six months, there are a number of significant regulatory decisions, and pivotal data events, which the manager believes will create value and drive momentum in the sector. These include Alexion's Soliris (hemolytic uremic syndrome), Regeneron's Eylea (AMD), Incyte's Ruxolitinib (myelofibrosis) and Optimer's Dific (C. difficile). In addition, as cash-rich big pharma companies seek to replenish their product pipelines they are looking to biotech's innovations, which has created a very positive environment for M&A. A supreme court ruling in 2012 will ultimately decide the fate of Obamacare but, either way, general market commentary suggests that this is no longer a significant overhang.

Asset allocation

Overview

BIOG has 42 equity investments, with the top 10 holdings accounting for 53.5% of the portfolio. Most of the portfolio (85.4%) is invested in US stocks and BIOG therefore has a significant exposure to the dollar. BIOG's policy is to invest in emerging biotech companies. These are expected to have a market cap less than \$3bn, to have undergone an IPO but not yet be profitable, and to be focused on drug research and development. They typically offer superior growth prospects, but with a higher degree of risk and valuations are expected to be driven by developments in the company's drug pipelines and results of clinical trials, as well as partnership agreements. The biotech sector contains a significant proportion of unquoted companies and, to allow shareholders to benefit from these, BIOG is permitted to invest in up to 10% of the portfolio at the time of investment in pre-IPO unquoted companies. Additional risk controls include limiting investments in other UK-listed investment companies to not more than 15% of gross assets; limiting investment in any one stock to 15% of the portfolio at the time of investment; and requiring the largest 30 quoted stocks to represent at least 50% of the quoted portfolio. In addition, BIOG is permitted to invest up to \$15m in private equity funds managed by OrbiMed or an affiliate.

Current portfolio positioning

While the manager looks to employ geographical diversification as part of BIOG's risk control strategies, the dominance of the US biotech industry ensures that US biotech stocks are the largest element of BIOG's portfolio at 85.4%, with Continental Europe, Israel, the Far East and unquoted holdings accounting for 8.0%, 2.7%, 2.5% and 1.4% respectively. The split between major and emerging biotech, currently 38.4% vs 61.6%, is also used to manage risk within the portfolio. The preference for emerging biotech reflects OrbiMed's view that, for biotech companies, attaining profitability acts as a significant catalyst for share price improvement. As such, OrbiMed looks to invest two to three years before achieving sustainable profitability, as it believes this leads to superior returns. Profitability usually coincides with product approval and launch. OrbiMed will look to exit investments once the market starts to value companies in excess of anticipated future growth. It should be noted that while BIOG's dollar exposure is understandably high, at 85.4%, this has seen a small uptick during the past 12 months. The allocation to US stocks at 30 September 2010 was 82.2%. BIOG's portfolio concentration has also increased during the past 12 months. The top four stocks at 30 September 2011 account for 29.6% of the portfolio (25.8% at 30 September 2010).

Top holdings

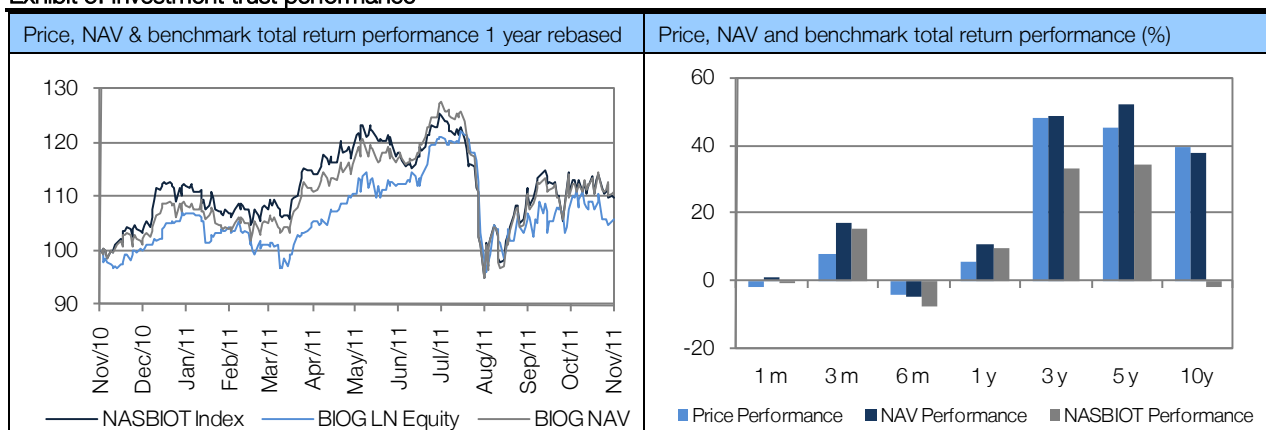
During the past 12 months the NASBIOT, sterling adjusted, has risen by 11.1% on a total-return basis. As Exhibit 4 shows, five out of BIOG's top 10 holdings have outperformed the NASBIOT index during this period. By comparison, six out of BIOG's top 10 holdings have outperformed the Russell 2000 Biotechnology Growth Index during the same period.

Exhibit 4: 10 largest equity holdings at 30 September 2011

Note: NASDAQ Biotechnology Index one-year total return performance to 8 November 2011 (sterling adjusted) is +9.7%.

Holding	%	One year total return price performance, sterling adjusted (%)	Performance relative to DS World Pharma & Biotech Index total (%)
Pharmasset	10.2	243.9	234.2
Gilead Sciences	10.0	6.5	(3.2)
Pharmacayclics	4.7	97.3	87.6
Incyte Genomics	4.7	(15.5)	(25.1)
Alexion Pharmaceuticals	4.4	78.9	69.2
Amgen	4.4	5.8	(3.8)
Affymetrix	4.1	9.9	0.2
Life Technologies	4.1	(18.8)	(28.5)
Thermos Fisher Scientific	3.5	(2.6)	(12.3)
Perrigo	3.4	44.5	34.8
Total	53.5		

Source: Biotech Growth Trust/Thomson Datastream/Edison Investment Research

Recent performance**Exhibit 5: Investment trust performance**

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

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

Note: *OrbiMed measurement period is from 19 May 2005 when OrbiMed Capital was appointed as BIOG's manager.

	1 month	3 months	6 months	1 year	3 years	5 years	OrbiMed *
Price relative to NASBIOT	(1.0)	(7.4)	3.6	(3.8)	14.8	10.8	23.6
NAV relative to NASBIOT	1.6	1.5	3.1	1.1	15.7	17.9	29.0
Price relative to Russell 2K Bio Growth	(4.8)	(11.6)	8.9	(0.1)	19.2	36.0	67.7
NAV relative to Russell 2K Bio Growth	(2.3)	(2.7)	8.4	4.7	20.2	43.0	73.0
Price relative to DS World Pharma & Bio	(1.4)	(1.1)	(2.4)	(0.3)	16.3	11.1	26.5
NAV relative to DS World Pharma & Bio	1.1	7.8	(2.9)	4.6	17.2	18.2	31.8
Price relative to FTSE All-Share	(6.9)	(2.0)	1.9	7.7	1.8	38.0	35.2
NAV relative to FTSE All-Share	(4.4)	6.9	1.5	12.6	2.8	45.1	40.5

Source: Henderson Global Trust, Thomson Datastream, Edison Investment Research

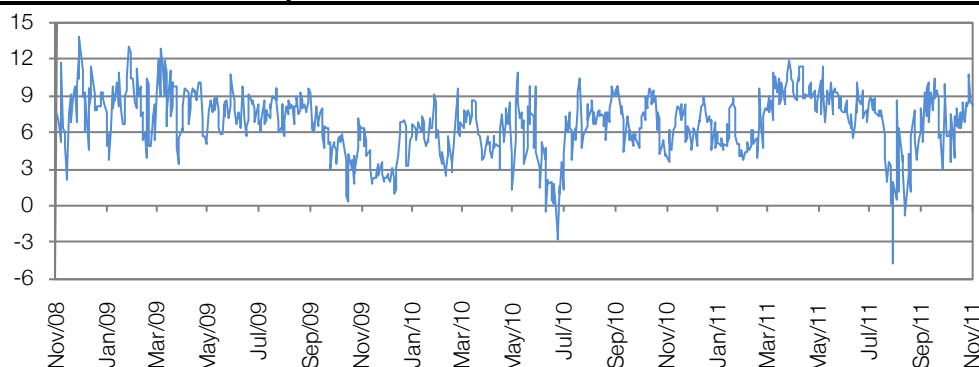
As Exhibits 5 and 6 illustrate, BIOG has provided a significant long-term outperformance against the NASBIOT, other biotech benchmarks provided and the FTSE All-Share.

Discount

BIOG has the authority, renewed yearly, to allot up to 10% or make market purchases of up to 14.99% of issued share capital, which gives the manager a mechanism to influence the discount. With a view to making the company's shares more attractive to new investors and generating a sustained

improvement in the rating of its shares, a policy of actively managing the discount to broadly maintain it within 6.0% of the NAV was introduced in 2005. As such, BIOG has historically been active in the market for its own shares and, as illustrated in Exhibit 1, it has repurchased 1.8m shares at a cost of £3.0m during the past 12 months. The policy remains effective, as illustrated in Exhibit 7, with BIOG maintaining an average discount of 7.0% during the period.

Exhibit 7: Discount over three years



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

Capital structure

BIOG is a conventional trust, having only one class of share in issue – 25p ords. BIOG's gearing policy allows it to borrow up to a maximum of £15m and it has a loan facility, repayable on demand, with Goldman Sachs & Co, which is drawn down at the discretion of the investment manager. However, as at 30 September 2011 the borrowing facility was undrawn and BIOG had zero borrowings. In addition, at the same time BIOG's cash balance was 3.4% of net assets and BIOG's had gross gearing of 0% and net gearing of (3.4%).

Fees

OrbiMed receives an investment management fee of 0.65% of net assets per year. Frostrow's management fee is equal to a fixed amount of £50,000 per year plus 0.30% per year of the company's market capitalisation. The trust also pays a performance fee of 16.5% of any outperformance of the NAV over the benchmark index, the NASDAQ Biotechnology Index (sterling adjusted). The performance fee, calculated quarterly, is based on the lower of the cumulative outperformance of the investment portfolio against the benchmark since June 2005, or the cumulative outperformance of the investment portfolio against the benchmark over the previous 12 months. Where a performance fee is payable, OrbiMed receives 15.0% and Frostrow Capital receives 1.5% of the outperformance. The total expense ratio (TER) was 1.2% for the year ending 31 March 2011 (1.2% for the year ending 31 March 2010). These fees are not unreasonable given BIOG's specialist nature and, as Exhibit 8 shows, BIOG's TERs are comparable to those of its peers. The management contract can be terminated at one year's notice by either party.

Continuation vote

The life of the trust is indefinite. However, from July 2010 then every fifth AGM, a continuation vote will be put to shareholders. If the resolution is not passed, proposals for the voluntary liquidation, unitisation or other reorganisation of the company will be put before shareholders at an EGM, not

more than three months after the previous AGM. If these proposals are rejected, the company will continue as an investment trust. The next vote is due at the 2015 AGM.

Dividend policy and record

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

Peer group comparison

As Exhibit 8 illustrates, the AIC biotechnology/life sciences specialist sector is a relatively small peer group. There are four constituents and, while they all invest in biotechnology companies, their investment objectives are markedly different. BIOG invests primarily in emerging biotechnology companies, Worldwide Healthcare invests in biotechnology and pharmaceutical companies, with a minimum of 60% of the portfolio being large-cap stocks (ie those with market caps in excess of \$5bn), the International Biotechnology Trust invests in high growth development stage biotechnology companies, many of which are unquoted and the Polar Capital Global Healthcare Growth and Income Trust is a fixed life vehicle that pays quarterly dividends. Within this peer group BIOG ranks third over one year, and first over three and five years when considering share price total return.

Exhibit 8: Listed private equity peer group comparison, updated 8 November 2011

Company	Share price total return on £100			Total Expense Ratio	(Disc)/ Net Prem	Gearing (100 = no gearing)	5 Year Dividend Growth (%)	Div yield
	1 year	3 year	5 year					
Sector average	104.1	140.4	133.2	1.3	(6.9)	108	N/A	N/A
Biotech Growth	105.9	147.8	145.3	1.3	(7.6)	96	N/A	N/A
International Biotechnology	107.5	126.6	95.8	2.2	(12.6)	108	N/A	N/A
Polar Capital Global Healthcare	109.5	N/A	N/A	N/A	6.0	93	N/A	2.8
Worldwide Healthcare	100.6	141.5	139.3	1.0	(9.8)	116	38	2.2

Source: Bloomberg/Thomson Datastream/Edison Investment Research

The board

All directors are non-executive, and excluding Sven Borho and Paul Gaunt, all are independent of the investment manager. Sven is a founding partner of OrbiMed and Paul is a director of Worldwide Healthcare Trust for which OrbiMed also acts as investment manager. Board members are John Sclater CVO (independent non-exec chairman), Dr John Gordon (senior independent non-exec director), Peter Keen, The Rt Hon Lord Waldegrave of North Hill (independent non-exec directors), Paul Gaunt and Sven Borho (non-exec directors). Average length of service is 11.1 years.

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