

# The Biotech Growth Trust PLC

Annual Report for the year ended 31 March 2016



## About The Biotech Growth Trust PLC

The Biotech Growth Trust PLC seeks capital appreciation through investment in the worldwide biotechnology industry. In order to achieve its investment objective, the Company invests in a diversified portfolio of shares and related securities in biotechnology companies on a worldwide basis.

Further details of the Company's investment policy are set out on pages 12 and 13 of this annual report.

## OrbiMed Capital LLC – Portfolio Manager

OrbiMed's investment business was founded in 1989 with a vision to invest across the spectrum of healthcare companies: from venture capital start-ups to large multinational companies.

Beginning with its first public equity fund in 1989, OrbiMed expanded to include long/short equity and private equity investments in 1993. In 2007 OrbiMed expanded to Asia, opening offices in Mumbai and Shanghai, and launching a fund focused on private equity healthcare opportunities in China and India. In 2010 OrbiMed expanded to the Middle East, opening an office in Israel to seek innovative life sciences venture capital opportunities across the region.

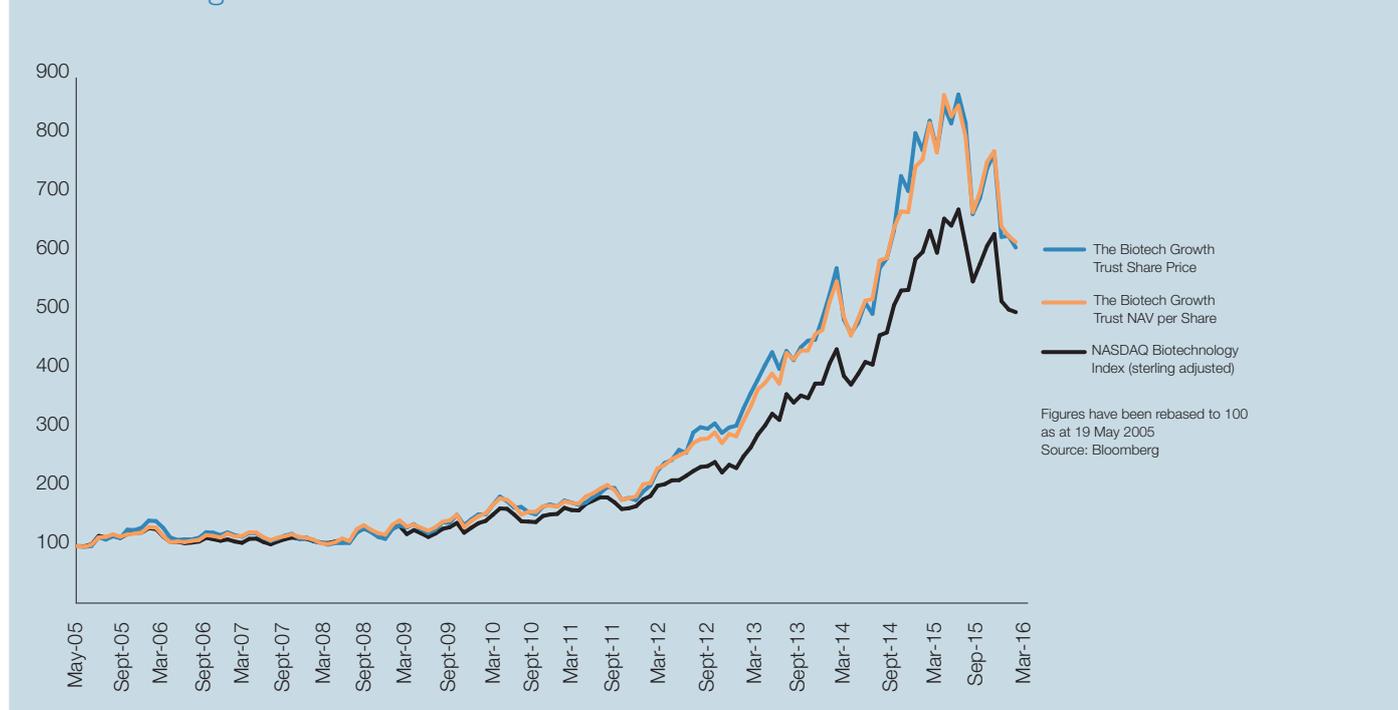
Today, OrbiMed has a singular focus on seeking successful investments on a worldwide basis across the entire spectrum of private and publicly-traded life sciences companies. With approximately U.S. \$15 billion under management, OrbiMed ranks as the world's largest healthcare-dedicated investment firm.

OrbiMed's investment professionals possess a combination of extensive scientific, medical, and financial expertise.

## How to invest

The Company's shares are traded openly on the London Stock Exchange and can be purchased through a stock broker or other financial intermediary. The shares are available through savings plans (including investment dealing accounts, ISAs, Junior ISAs and SIPP) which facilitate both regular monthly investments and lump sum investments in the Company's shares. There are number of investment platforms that offer these facilities. Further details can be found on pages 73 and 74.

## Performance since 19 May 2005, the date of appointment of OrbiMed Capital LLC as Portfolio Manager to 31 March 2016



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For more information about  
The Biotech Growth Trust PLC  
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[www.biotechgt.com](http://www.biotechgt.com)

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@biotechgt



## Winner:

Money Observer Awards, best large Trust 2014 and 2015  
Investment Week, Investment Company of the year,  
Specialist Category 2012, 2013 and 2014

UKtech awards Fund Manager of the year 2013 and 2014  
(OrbiMed Capital LLC)

Investment Trusts Magazine, Best Specialist Trust 2011, 2012 and 2013

Investment Adviser 100 club, specialist sectors and Assets category 2015



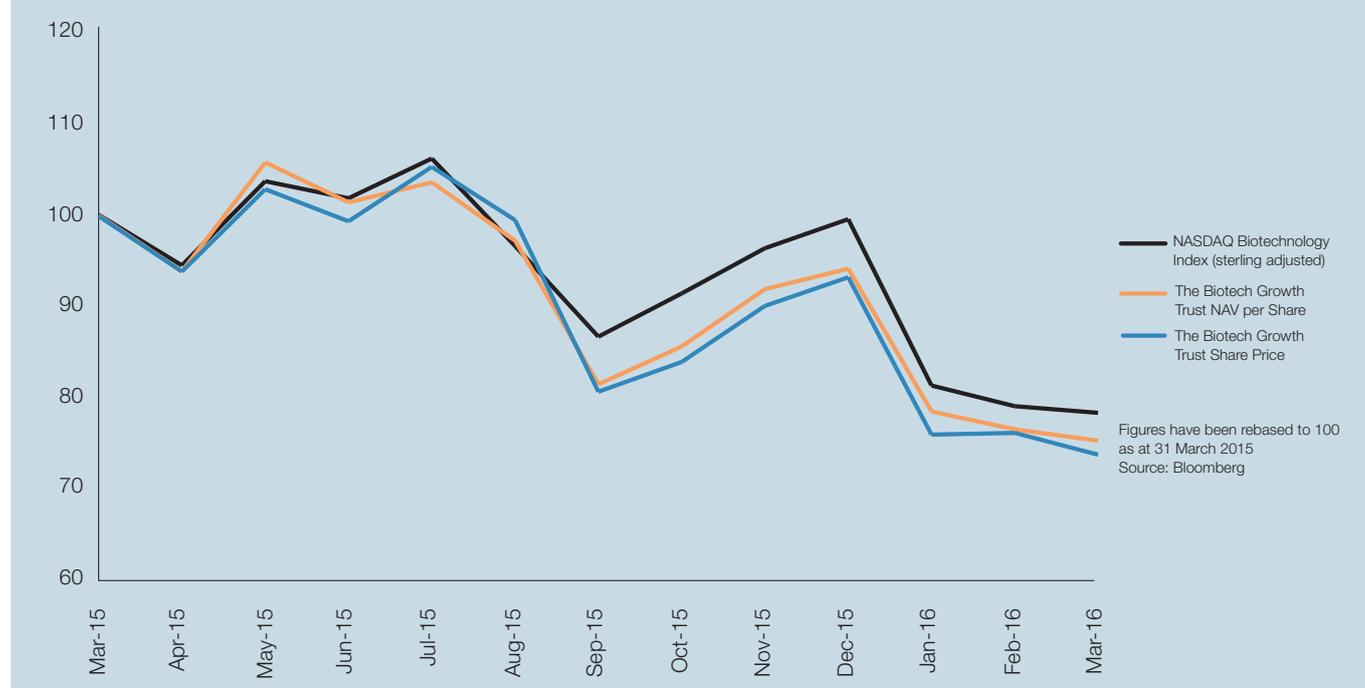
# Strategic Report / Company Performance

## Financial Highlights

	As at 31 March 2016	As at 31 March 2015	% Change
Net asset value per share	627.9p	834.7p	(24.8)
Share price	585.0p	793.5p	(26.3)
Discount of share price to net asset value per share	6.8%	4.9%	–
NASDAQ Biotechnology Index (sterling adjusted) (Benchmark)	1,894.6	2,423.5	(21.8)
Ongoing charges*	1.0%	1.2%	–
Gearing*	11.1%	9.4%	–

\*See glossary on page 72 of the Annual Report.

## Performance for the year to 31 March 2016



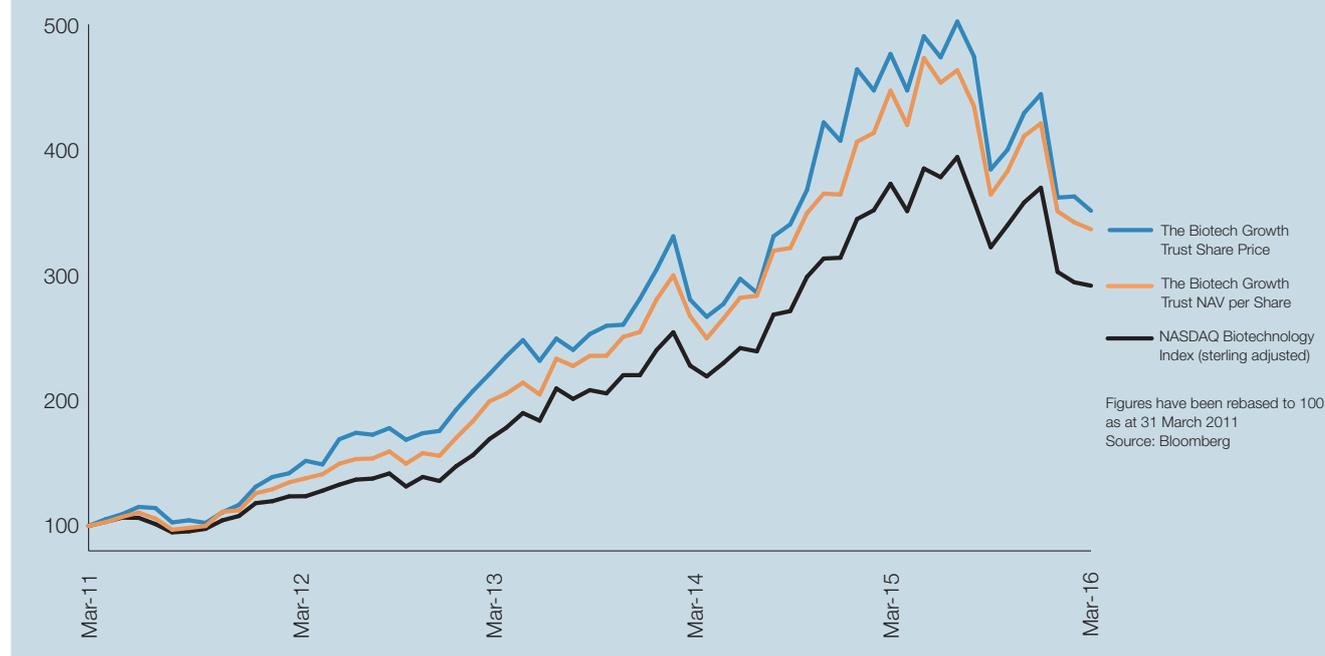
# Strategic Report / Company Performance

## Five Year Performance Record

	2011	2012	2013	2014	2015	2016
Net asset value per share	186.0p	250.9p	371.7p	498.7p	834.7p	627.9p
Share price	166.0p	236.0p	368.0p	467.0p	793.5p	585.0p
Discount of share price to net asset value per share	10.8%	5.9%	1.0%	6.4%	4.9%	6.8%
NASDAQ Biotechnology Index (sterling adjusted)	647.9	801.1	1,099.0	1,480.1	2,423.5	1,894.6
Ongoing charges*	1.2%	1.3%	1.3%	1.2%	1.2%	1.0%
Gearing*	Nil	Nil	Nil	8.3%	9.4%	11.1%

\*See glossary on page 72 of the Annual Report.

## Performance for the five years to 31 March 2016



# Strategic Report / Chairman's Statement

## Investment Performance

The biotechnology sector's run of strong performance suffered a setback during the year; the sector having lost about one-third of its value since its high point in July 2015. This was due, in part, to some negative news flow and also investor concerns regarding the potential for regulatory policy changes that could affect drug pricing in the U.S. market. In addition, there were also concerns over the prospects for the global economy. The Company's net asset value per share fell by 24.8% during the year, underperforming the Company's benchmark, the NASDAQ Biotechnology Index, measured in sterling terms, which fell by 21.8%. The Company's share price fell further, by 26.3%, as the discount of the Company's share price to the net asset value per share widened from 4.9% at the beginning of the year to 6.8% as at 31 March 2016. Over the longer term the Company's performance remains strong both on an absolute and relative basis. In the five year period to 31 March 2016 the Company's net asset value per share rose by 237.6% and the share price by 252.4%, both outperforming the Company's benchmark which rose by 192.4%.



The Rt Hon Lord Waldegrave  
of North Hill

The Company's negative performance during the year was due in part to the performance of holdings in biotechnology company **Biogen** and biopharmaceutical companies **Esperion Therapeutic** and **GW Pharmaceuticals**. Our modest level of gearing of 11.1% also had a negative effect on performance. Positive performance came, in part, from holdings in biopharmaceutical companies **Ono Pharmaceutical**, **Synageva BioPharma** and **Anacor Pharmaceuticals**. Further information on the Company's investments can be found in the Portfolio Manager's Review and Portfolio Focus beginning on page 7.

## Capital Structure

The Board has continued to implement its policy of active discount management and to buy back shares when the discount of the share price against the net asset value per share is greater than 6%. During the year a total of 3,593,042 shares were repurchased by the Company at an average discount of 6.2% and at a cost of £25.8m (including expenses). As mentioned at the half-year stage, the Board took the decision in July 2015 to cancel all of the 6,311,088 shares then held in treasury (this included shares repurchased by the Company during the period 7 March 2014 to 26 June 2015) and also to cancel any further shares repurchased by the Company. Since the year-end, to the date of this report, a further 790,966 shares have been repurchased for cancellation by the Company at an average discount of 7.8% and at a cost of £4.8m (including expenses).

## Return and Dividend

The total loss per share amounted to 208.1p for the year (2015: gain of 328.0p), comprising a revenue gain of 1.3p per share (2015: 0.2p) and a capital loss of 209.4p (2015: gain of 327.8p). No dividend is recommended in respect of the year ended 31 March 2016 (2015: nil).

## Board Composition

I will be retiring from the Board at the conclusion of this year's Annual General Meeting having been a Director since 1998 and Chairman since 2012. I am delighted that Andrew Joy is to succeed me as Chairman. His extensive experience in the investment community will undoubtedly serve shareholders well in the future. Professor Dame Kay Davies will succeed Andrew as the Senior Independent Director and Chairman of the Remuneration Committee.

The process of refreshment of the Board continues. As reported at the half year stage two additions were made during the year. Steven Bates was appointed on 8 July 2015 and The Rt Hon Lord Willetts on 11 November 2015.

Steven has a wealth of experience in the investment trust sector both as a non-executive director and also as an investment manager. Lord Willetts is a former minister for Universities and Science and a Visiting Professor at King's College London. He brings wide experience of public service and in particular of issues concerning research and development to the Board.

Peter Keen has confirmed his intention to retire from the Board at the conclusion of the Annual General Meeting to be held in 2017. Peter has been a Director since the launch of the Company in 1997 and Chairman of the Audit & Management Engagement Committee since 2005. His extensive knowledge of the Biotechnology sector and his wise counsel will be greatly missed.

The Board has begun the process of recruiting a new Director to replace Peter and an announcement will be made in due course.

# Strategic Report / Chairman's Statement

## Outlook

Despite a challenging year and uncertainties surrounding the upcoming U.S. Presidential election, our Portfolio Manager is firmly of the view that the long-term prospects for the biotechnology sector are good. Innovation, mergers & acquisitions activity and an efficient regulatory environment will continue to be key drivers.

Our Portfolio Manager's focus remains on the selection of stocks with strong prospects for capital enhancement and your Board strongly believes that the long-term investor will be well rewarded.

## Annual General Meeting

The Annual General Meeting of the Company this year will be held at the Barber-Surgeons' Hall, Monkwell Square, Wood Street, London EC2Y 5BL on Tuesday, 12 July 2016 at 12 noon and we hope as many shareholders as possible will attend. This will be an opportunity to meet the Board and to receive a presentation from our Portfolio Manager. Shareholders who are unable to attend are encouraged to return their forms of proxy to ensure their votes are represented.

**The Rt Hon Lord Waldegrave of North Hill**  
Chairman

25 May 2016

# Strategic Report / Investment Portfolio

## Investments held as at 31 March 2016

Security	Country /Region	Fair value £'000	% of investments
Amgen	United States	53,468	12.7
Biogen	United States	49,823	11.8
Celgene	United States	41,525	9.9
Gilead Sciences	United States	34,750	8.3
Ono Pharmaceutical	Japan	30,809	7.3
Alexion Pharmaceuticals	United States	30,512	7.3
Incyte	United States	28,759	6.8
Vertex Pharmaceuticals	United States	23,164	5.5
Illumina	United States	16,124	3.8
Regeneron Pharmaceuticals	United States	13,743	3.3
<b>Ten largest investments</b>		<b>322,677</b>	<b>76.7</b>
BioMarin Pharmaceutical	United States	13,428	3.2
Impax Laboratories	United States	13,367	3.2
GW Pharmaceuticals	United Kingdom	9,568	2.3
Jazz Pharmaceuticals	Ireland	8,167	1.9
Dynavax Technologies	United States	7,177	1.7
Ironwood Pharmaceuticals	United States	6,657	1.6
Insys Therapeutics	United States	4,827	1.1
Xencor	United States	4,407	1.1
Neurocrine Biosciences	United States	4,238	1.0
OrbiMed Asia Partners L.P. (unquoted)*	Far East	4,014	1.0
<b>Twenty largest investments</b>		<b>398,527</b>	<b>94.8</b>
Qiagen	Netherlands	3,990	0.9
Advaxis	United States	3,986	0.9
Puma Biotechnology	United States	2,526	0.6
Infinity Pharmaceuticals	United States	2,340	0.6
Actelion	Switzerland	2,088	0.5
Anacor Pharmaceuticals	United States	1,981	0.5
Fluidigm	United States	1,938	0.5
UniQure	Netherlands	1,527	0.4
Forward Pharma	Denmark	773	0.2
Medivation	United States	588	0.1
<b>Thirty largest investments</b>		<b>420,264</b>	<b>100.0</b>
Innate Pharma	France	163	–
<b>Total investments</b>		<b>420,427</b>	<b>100.0</b>

All of the above investments are equities unless otherwise stated.

\* Partnership interest

## Portfolio Breakdown

Investments	Fair value £'000	% of investments
Equities	416,413	99.0
Partnership interest (unquoted)	4,014	1.0
<b>Total investments</b>	<b>420,427</b>	<b>100.0</b>

# Strategic Report / Portfolio Manager's Review

## Performance review

The Company's net asset value per share decreased 24.8% during the fiscal year. This compares to a 21.8% decline in the company's benchmark, the NASDAQ Biotechnology Index (measured on a sterling adjusted basis).

**Ono Pharmaceutical, Synageva BioPharma, Anacor Pharmaceuticals, Receptos, and Innate Pharma** were the leading positive contributors to performance in the portfolio during the year.

- Shares of Japanese company **Ono Pharmaceutical** appreciated due to the continued clinical and commercial success of Opdivo, a novel immunotherapy for cancer. The launch of Opdivo has been robust since its initial approval for melanoma in 2014. In 2015, Opdivo received regulatory approvals in four additional cancer indications in the U.S. and two in Japan, which have further expanded the drug's sales potential. Bristol-Myers Squibb, Ono's U.S. partner, has also reported positive data from multiple clinical trials of Opdivo, providing the opportunity for further label expansion.
- **Synageva BioPharma**, a rare disease company developing a late-stage drug for LAL deficiency, was acquired at a 140% premium by **Alexion Pharmaceuticals** for U.S.\$8.4 billion.
- **Anacor Pharmaceuticals** shares rose due to the announcement of favourable data from its phase III trials of crisaborole for atopic dermatitis.
- **Receptos**, a biotechnology company developing a drug for ulcerative colitis and multiple sclerosis, was acquired by Celgene for U.S.\$7.2 billion.
- **Innate Pharma** shares appreciated following the licensing of its novel immune-oncology drug candidate IPH2201 to AstraZeneca for up to U.S. \$1.25 billion in potential payments plus royalties.

**Biogen, Esperion Therapeutics, GW Pharmaceuticals, Puma Biotechnology, and Bluebird Bio** were the principal detractors from performance in the portfolio during the year.

- **Biogen** shares declined due to slowing commercial performance of its multiple sclerosis drug Tecfidera, after a rare side effect was discovered with the drug.
- **Esperion Therapeutics** shares declined due to investor concerns that the U.S. Food & Drug Administration (FDA) would not approve the company's cholesterol-lowering drug unless they first conducted a lengthy and expensive cardiovascular outcomes trial.
- **GW Pharmaceuticals** shares declined due to investor risk aversion ahead of results of a Phase III trial testing Epidiolex, a derivative of marijuana, for paediatric epilepsy.
- **Puma Biotechnology** shares declined due to mixed data from its phase III study of neratinib for the treatment of breast cancer in the extended adjuvant setting.
- **Bluebird Bio** shares declined as investors became more cautious about the company's lead product candidate, LentiGlobin.

## Sector review

Following a strong four-year run, biotechnology stocks experienced a substantial sell-off during the year under review. The initial catalyst for this was concerns about the sustainability of high drug pricing in the U.S. and the potential for new regulation. Additionally, poor earnings performance by several large capitalisation biotechnology firms and negative pipeline readouts from a few emerging biotechnology firms contributed to the negative sentiment within the sector. In early 2016 the broader market declined due to macro concerns about oil prices and China's economy, which compounded the losses within the biotechnology sector. Although the broader market has largely recovered since February, biotechnology stocks have shown continued weakness. In fact, the first quarter of 2016 has been the worst quarter for biotechnology in nearly 14 years, with the NASDAQ Biotechnology Index down 23% vs. the S&P500 index up 0.8% (both in U.S. dollar terms). However, we believe that the fundamentals of the sector are little changed, and we believe that the sector will recover as concerns about drug pricing dissipate.



Sven Borho

# Strategic Report / Portfolio Manager's Review

## Biotechnology is fundamentally driven by innovation, not price increases

The initial weakness in biotechnology stocks was precipitated by negative news reports in the summer of 2015 about a small specialty pharmaceutical company suddenly increasing the price of an old drug for parasitic infections by 5,000%. U.S. presidential candidate Hillary Clinton responded to this "price gouging" by proposing new regulation that would lower drug prices. Subsequently, several other presidential candidates have suggested legislation to contain drug costs, and the U.S. Congress has held hearings to discuss drug pricing. The drug pricing headlines negatively impacted investor sentiment about biotechnology and the drug sector generally.

While we acknowledge that strong pricing power is an important factor for biotechnology business performance, we believe the sector's growth is fundamentally driven by innovation and the approval of novel drugs. Most of the biotechnology drugs on the market or in development target severe diseases with high unmet medical need, and are differentiated from existing treatments by higher efficacy or better safety. Although biological drugs are expensive, the cost is typically justified by significant downstream savings to the healthcare system or by significant improvement of patient lives. In contrast, many specialty pharmaceutical companies tend to forgo significant research and development and instead purchase existing drugs that they market aggressively to patients and physicians. We believe that this specialty pharmaceutical business model is less sustainable in the current political environment compared to the traditional biotechnology model focused on innovation. Over the long term, we expect innovative drugs that provide a meaningful clinical benefit over standard of care will continue to command premium prices.

Moreover, we continue to believe efforts to control drug pricing and reimbursement by government will not pass into law in the near or medium term, regardless of who is elected President. Nevertheless, in a U.S. election year, we expect drug prices to remain a topic during the presidential campaign, and this issue may be an overhang on the sector through November. As long-term investors, we remain focused on the sector's strong fundamentals.

## Outlook

### Mergers & acquisitions (M&A) activity will continue

As we have mentioned previously, M&A is a common occurrence in biotechnology and is a major investment theme for the sector. Now that valuations have come down with the recent biotechnology sector correction, we believe emerging biotechnology companies have become more attractive targets for potential acquirers. In general, the emerging biotechnology stocks have declined further than the major biotechnology companies. Due to this gap, we think that we may see the major biotechnology companies take advantage of this weakness to bolster their pipelines through acquisition. We believe the midsize biotechnology companies with existing commercial stage products and robust pipelines are the most attractive targets. However, years of deal-making have left high-quality, late-stage, biotechnology assets in fairly short supply. Within the NASDAQ Biotechnology Index there are only a handful of companies that meet these criteria, suggesting additional scarcity value. Within the portfolio, we believe **Incyte**, **Alexion Pharmaceuticals**, and **Vertex Pharmaceuticals** are prime examples of potential take-over targets.

There are 31 holdings in the portfolio. Currently approximately 50% of the Company's assets are invested in emerging biotechnology companies, and 50% are invested in major biotechnology companies. With attractive valuation and abundant clinical and regulatory catalysts, we believe that the sector is well positioned to rebound in the second half of 2016.

**Sven Borho**

OrbiMed Capital LLC, Portfolio Manager

25 May 2016

## Strategic Report / Portfolio Manager's Review

### Principal contributors to and detractors from net asset value performance

	Contribution for the year ended 31 March 2016 £'000	Contribution per share (pence)*
<b>Top five contributors</b>		
Ono Pharmaceutical	14,185	22.9
Synageva BioPharma†	9,889	16.0
Anacor Pharmaceuticals	6,829	11.0
Receptos†	5,528	8.9
Innate Pharma	3,888	6.3
	<b>40,319</b>	<b>65.1</b>
<b>Top five detractors</b>		
Biogen	(26,130)	(42.2)
Esperion Therapeutics†	(15,041)	(24.3)
GW Pharmaceuticals	(14,841)	(23.9)
Puma Biotechnology	(14,830)	(23.9)
Bluebird Bio†	(11,725)	(18.9)
	<b>(82,567)</b>	<b>(133.2)</b>

† not held in the portfolio as at 31 March 2016

\* based on 61,972,355 ordinary shares being the weighted average number of shares in issue during the year ended 31 March 2016

## Strategic Report / Portfolio Focus

### Orphan disease is a therapeutic focus

We would like to highlight the orphan disease sector as an area that has historically been very successful and continues to have strong potential in the future (a timeline of historical orphan drug approvals is shown on the following page). Orphan diseases are serious, often hereditary disorders that affect very small populations, perhaps only a few thousand patients worldwide. Despite the small number of patients, these drugs can be very successful commercially due to high prices – annual treatment costs of several hundred thousand dollars are not uncommon. Moreover, due to smaller salesforce and promotional requirements, margins can be quite favourable for these drugs. Since these therapeutics typically address serious diseases with few effective alternative treatments, they frequently benefit from accelerated regulatory pathways that reduce the time and cost required for approval.

Although the current environment has increased scrutiny of highly-priced drugs, we believe orphan diseases are still a good area of investment. Paradoxically, we believe these expensive drugs to treat orphan disorders are more resistant to price controls because they usually show dramatic benefit, treat very serious diseases without adequate alternatives, and are used in a sufficiently small number of patients so as not to attract scrutiny from any individual healthcare payer. Furthermore, given the social and economic costs of the disease and active patient advocacy groups, it would be politically difficult for payers to limit access to treatment. Therefore, we believe companies that focus on orphan drug development are ultimately less vulnerable to price regulation.

Within the portfolio, we note that one of the top contributors during the fiscal year was **Synageva BioPharma**, which was acquired for U.S.\$8.4 billion by **Alexion Pharmaceuticals** for its treatment for Liposomal Acid Lipase Deficiency. The 140% acquisition premium to the share price paid by Alexion highlights the attractiveness of the orphan business model. We expect M&A activity in the orphan disease sector space to continue with interest from both major biotechnology and major pharmaceutical companies.

Another favourable trend in the orphan disease sector is the earlier and better diagnosis of many of these rare diseases. More patients are being identified worldwide and treated earlier. This not only increases the patient base but also extends duration of treatment, since patients whose diseases are treated earlier tend to stay on treatment longer. As a result, we have seen drugs, such as Soliris, continue to deliver strong sales growth years after initial launch as new patients continue to be identified. The advent of multiple new treatment modalities has also greatly enriched the pipeline of companies developing orphan drugs. Traditionally, enzyme replacement therapies have been the cornerstone of treatment for many orphan indications, particularly lysosomal storage disorders such as Fabry's disease and Gaucher's disease. Now with the renaissance of gene therapy (as highlighted in our report last year), companies are increasingly interested in applying this approach to orphan indications, 80% of which have a genetic basis. We expect early proof of concept data from gene therapy approaches for haemophilia, lysosomal storage diseases, and congenital myopathy to be reported in the near future.

Among our portfolio companies, we anticipate significant progress in advancing new orphan disease therapies this year, which provides multiple catalysts for share appreciation. **Vertex Pharmaceuticals** will likely demonstrate important progress in the treatment of cystic fibrosis. We think its novel triple combination therapy in development is well supported scientifically and will show better efficacy than current regimens. Another portfolio company, **UniQure**, is developing a gene therapy for haemophilia. We think its early data is promising and the product is well differentiated. Portfolio company **BioMarin Pharmaceutical** showed compelling proof of principle that enzyme replacement therapy administered directly to the brain ventricles can be an effective treatment for Batten's disease patients. We expect that this drug could be approved in early 2017.

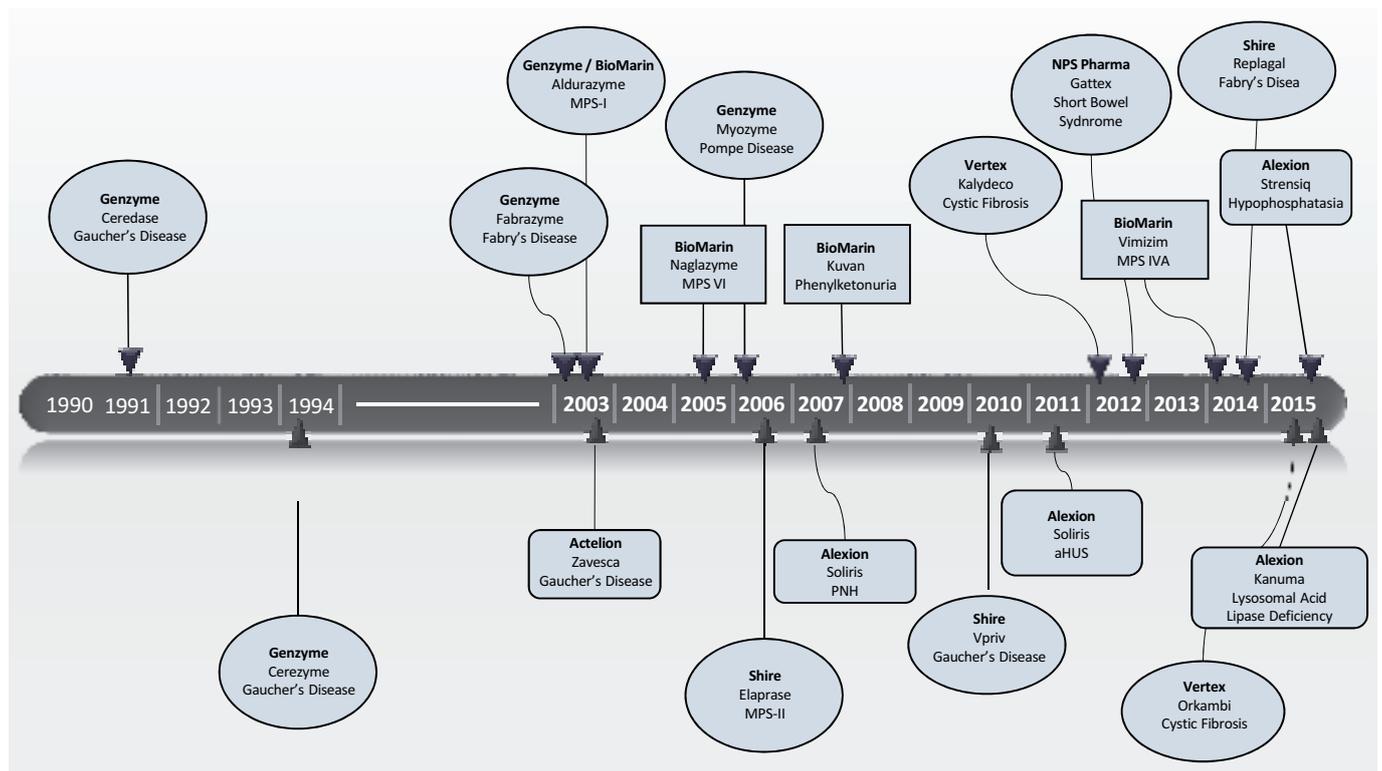
# Strategic Report / Portfolio Focus

## We continue to monitor developments in immuno-oncology

Since we highlighted the investment opportunities in immuno-oncology two years ago, the sector has seen significant advancement clinically and tremendous growth commercially. In particular, monoclonal antibodies targeting the PD-1 pathway have shown impressive data in a wide array of cancer types, including melanoma, kidney cancer and lung cancer. Opdivo, a leading PD-1 inhibitor developed by Bristol-Myers Squibb, has been approved in the U.S., EU, and Japan. **Ono Pharmaceutical**, currently one of the largest investments in the fund, owns a roughly 20% economic interest in Opdivo, providing exposure to one of the strongest drug launches in history.

The next phase for immuno-oncology is the development of combination approaches that will further enhance immune response against tumours. Within the portfolio, **Incyte** will report additional data for their IDO (Indoleamine 2, 3-dioxygenase) inhibitor in combination with PD-1 therapy for lung cancer and other cancers later this year. Additionally, Incyte is developing antibody therapies targeting GTR and OX40 which have promise as additional agents to augment anti-tumour immunity. We believe that immuno-oncology combinations will continue to be a major focus area for investors over the next several years and that our portfolio is well positioned to benefit from advances in the field.

## A timeline of biotechnology orphan drug approvals



Sven Borho  
OrbiMed Capital LLC, Portfolio Manager

25 May 2016

# Strategic Report / Business Review

The aim of the Strategic Report is to provide shareholders with the ability to assess how the Directors have performed their duty to promote the success of the Company during the year under review.

## Structure and objective of the Company

The Biotech Growth Trust PLC is an investment trust and has a premium listing on the London Stock Exchange. Its investment objective is set out below. In seeking to achieve this objective, the Company employs Frostrow Capital LLP (Frostrow) as its Alternative Investment Fund Manager (AIFM), OrbiMed Capital LLC (OrbiMed) as its Portfolio Manager, J.P. Morgan Europe Limited as its Depositary and J.P. Morgan Clearing Corp. as its Prime Broker and Custodian. Further details about their appointments can be found in the Report of the Directors on pages 35 and 36. The Board has determined an investment policy and related guidelines and limits, as described below.

The Company is subject to UK and European legislation and regulations including UK company law, International Financial Reporting Standards, the UK Listing, Prospectus, Disclosure and Transparency Rules, taxation law and the Company's own Articles of Association.

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and has been approved by HM Revenue & Customs as an investment trust (for the purposes of Sections 1158 and 1159 of the Corporation Tax Act 2010). As a result the Company is not liable for taxation on capital gains. The Directors have no reason to believe that approval will not continue to be retained. The Company is not a close company for taxation purposes.

## Investment objective and policy

To seek capital appreciation through investment in the worldwide biotechnology industry. In order to achieve its investment objective, the Company invests in a diversified portfolio of shares and related securities in biotechnology companies on a worldwide basis. Performance is measured against the NASDAQ Biotechnology Index (sterling adjusted).

## Investment strategy

The implementation of the Company's Investment Objective has been delegated to OrbiMed by Frostrow (as AIFM) under the Board's and Frostrow's supervision and guidance.

Details of OrbiMed's investment strategy and approach are set out in the Portfolio Manager's review on pages 7 to 9. While performance is measured against the Company's Benchmark, Frostrow and OrbiMed have been given the ability to manage the portfolio without regard to the Benchmark and its make-up.

While the Board's strategy is to allow flexibility in managing the investments, in order to manage investment risk it has imposed various investment, gearing and derivative guidelines and limits, within which Frostrow and OrbiMed are required to manage the investments, as set out below.

Any material changes to the investment Objective, Policy and Benchmark or the investment and gearing guidelines and limits require approval from shareholders.

## Investment limits and guidelines

The Board seeks to manage the Company's risk by imposing various investment limits and restrictions as follows:

- The Company will not invest more than 10%, in aggregate, of the value of its gross assets in other closed ended investment companies (including investment trusts) listed on the London Stock Exchange, except where the investment companies themselves have stated investment policies to invest no more than 15% of their gross assets in other closed ended investment companies (including investment trusts) listed on the London Stock Exchange.
- The Company will not invest more than 15%, in aggregate, of the value of its gross assets in other closed ended investment companies (including investment trusts) listed on the London Stock Exchange.
- The Company will not invest more than 15% of the value of its gross assets in any one individual stock at the time of acquisition.
- The Company will not invest more than 10% of the value of its gross assets in direct unquoted investments at the time of acquisition. This limit does not include any investment in private equity funds managed by the Portfolio Manager or any affiliates of such entity.

## Strategic Report / Business Review

- The Company may invest or commit for investment a maximum of US\$15 million, after the deduction of proceeds of disposal and other returns of capital, in private equity funds managed by OrbiMed, the Company's Portfolio Manager, or an affiliate thereof.
- The Company's borrowing policy is that borrowing will not exceed 20% of the Company's net assets. The Company's borrowing requirements are met through the utilisation of an overdraft facility, repayable on demand and provided by J.P. Morgan Clearing Corp. This facility can be drawn at the discretion of the AIFM.
- The Company may be unable to invest directly in certain countries. In these circumstances, the Company may gain exposure to companies in such countries by investing indirectly through swaps. Where the Company invests in swaps, exposure to underlying assets will not exceed 5% of the gross assets of the Company at the time of entering into the contract.

In accordance with the requirements of the UK Listing Authority, any material change to the investment policy will only be made with the approval of shareholders by ordinary resolution.

### Dividend policy

The Company invests with the objective of achieving capital growth and it is expected that dividends, if any, are likely to be small. The Board intends only to pay dividends on the Company's shares to the extent required in order to maintain the Company's investment trust status.

### Continuation of the Company

An opportunity to vote on the continuation of the Company is given to shareholders every five years. The next such continuation vote will be held at the Annual General Meeting in 2020.

### Company promotion

The Company has appointed Frostrow Capital LLP to provide marketing and investor relations services, in the belief that a well-marketed investment company is more likely to grow over time, have a more diverse, stable list of shareholders and its shares will trade at close to net asset value per share over the long run. Frostrow actively promotes the Company in the following ways:

**Engaging regularly with institutional investors, discretionary wealth managers and a range of execution-only platforms:**

Frostrow regularly meets with institutional investors, discretionary wealth managers and execution-only platform providers to discuss the Company's strategy and to understand any issues and concerns, covering both investment and corporate governance matters;

**Making Company information more accessible:** Frostrow works to raise the profile of the Company by targeting key groups within the investment community, holding annual investment seminars, overseeing PR output and managing the Company's website and wider digital offering, including Portfolio Manager videos and social media;

**Disseminating key Company information:** Frostrow performs the Investor Relations function on behalf of the Company and manages the investor database. Frostrow produces all key corporate documents, distributes Monthly Factsheets, Annual Reports and updates from OrbiMed on the portfolio and market developments; and

**Monitoring market activity, acting as a link between the Company, shareholders and other stakeholders:** Frostrow maintains regular contact with sector Broker Analysts and other research and data providers, and conducts periodic investor perception surveys, liaising with the Board to provide up-to-date and accurate information on the latest shareholder and market developments.

# Strategic Report / Business Review

## Key performance indicators

The Board assesses its performance in meeting the Company's objective against the following Key Performance Indicators ("KPI's"):

### Net asset value return

The Directors regard the Company's net asset value total return as being the overall measure of value delivered to shareholders over the long term. Total return reflects the net asset value growth of the Company. OrbiMed's investment style is such that performance is likely to deviate from that of the benchmark index. The Board considers the most important comparator to be the NASDAQ Biotechnology Index (sterling adjusted).

During the year under review the Company's net asset value per share return was (24.8)% underperforming the benchmark by 3.0%.

A full description of performance during the year under review and the investment portfolio is contained in the Portfolio Manager's Review beginning on page 7 of this Annual Report.

### Share price return

The Directors also regard the Company's share price return to be a key indicator of performance. This is monitored closely by the Board.

During the year under review the Company's share price return was (26.3)%. Please see pages 2 and 3 of this Annual Report for further information.

### Share price (discount)/premium to net asset value per share

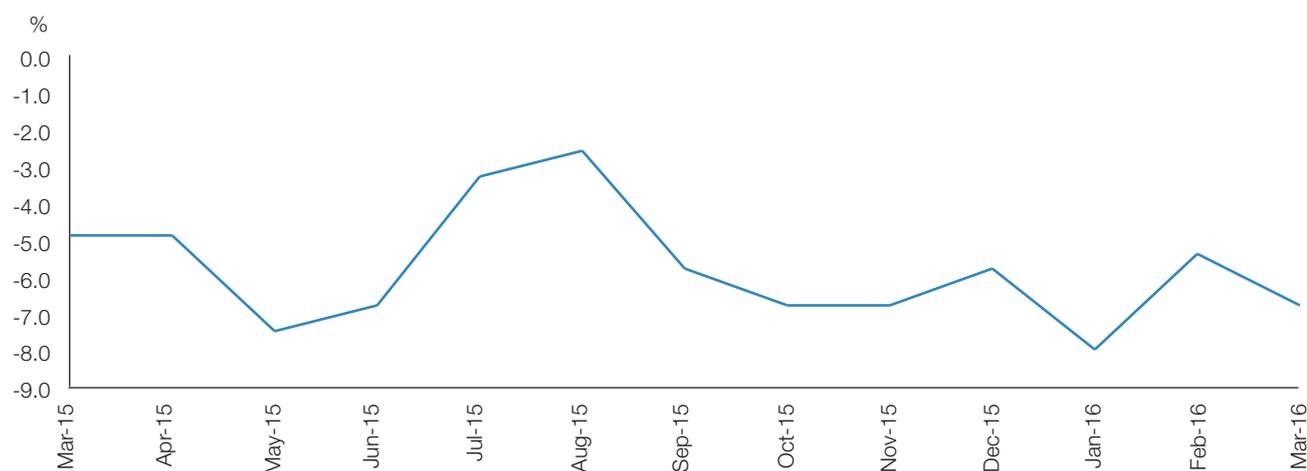
The Board undertakes a regular review of the level of discount/premium and consideration is given to ways in which share price performance may be enhanced, including the effectiveness of marketing and share issuance and buy-backs, where appropriate. The Board has a discount control mechanism in place intended to establish a target level of no more than a 6% discount of share price to the net asset value per share. Shareholders should note, however, that it remains possible for the share price discount to net asset value per share to be greater than 6% on any one day due to the fact that the share price continues to be influenced by overall supply and demand for the Company's shares in the secondary market. The volatility of the net asset value per share in an asset class such as biotechnology is another factor over which the Board has no control. The making and timing of any share buy-backs or share issuance is at the absolute discretion of the Board.

As at 13 July 2015, the Company held a total of 6,311,088 shares in treasury. This figure included shares repurchased by the Company between 7 March 2014 and 26 June 2015. In July 2015 the Board made the decision to cancel all of the shares held in treasury and to cancel any further shares repurchased by the Company. 6,311,088 shares held in treasury were cancelled on 13 July 2015.

During the year under review a total of 3,593,042 shares were repurchased by the Company. Of this total, 1,313,257 were repurchased into treasury and 2,279,785 were repurchased for cancellation. The shares repurchased into treasury were cancelled on 13 July 2015 as mentioned above. (Please see note 11 on page 64 for further information). As at 31 March 2016 there are no shares held in treasury.

## Strategic Report / Business Review

### (Discount)/premium level



The discount of the Company's share price to the net asset value per share at 31 March 2016 stood at 6.8% (2015: 4.9%).

### Ongoing charges ratio

The Board continues to be conscious of expenses and works hard to maintain a sensible balance between strong service and costs.

As at 31 March 2016 the ongoing charges ratio was 1.0% (2015: 1.2%).

### Board diversity

When recruiting a new Director, the Board's policy is to appoint individuals on merit. Diversity is important as it helps to bring a range of skills and experience to the Board. The Board feels that it is equipped with the necessary skills and experience required for the sound stewardship of the Company and to enable the Directors to hold meaningful debates at their meetings. There are currently six male Directors and one female Director on the Board. Full details of the skills and experience of the Directors can be found on pages 20 and 21.

### Social, economic and environmental matters

The Directors, through the Company's Portfolio Manager, encourage companies in which investments are made to adhere to best practice with regard to corporate governance. In light of the nature of the Company's business there are no relevant human rights issues and the Company does not have a human rights policy.

The Company recognises that social and environmental issues can have an effect on some of its investee companies.

The Company is an investment trust and so its own direct environmental impact is minimal. The Board of Directors consists of seven Directors, six of whom are resident in the UK and one resident in the United States. The Board holds the majority of its regular meetings in the United Kingdom and has a policy that travel, as far as possible, is minimal, thereby minimising the Company's greenhouse gas emissions. Further details concerning greenhouse gas emissions can be found within the Report of the Directors on page 38 of this annual report.

# Strategic Report / Business Review

## Principal risks

The Directors confirm that they have carried out a thorough assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The risks identified and the ways in which they are managed or mitigated are summarised below.

With the assistance of Frostrow, the Audit and Management Engagement Committee has drawn up a risk matrix, which identifies the key risks to the Company. These are reviewed and noted on a regular basis. These key risks fall broadly under the following categories:

Principal Risks and Uncertainties	Management/Mitigation
<p><b>Objective and strategy</b></p> <p>The Company becomes unattractive to investors.</p>	<p>The Board reviews regularly the Company's investment objective and investment guidelines in the light of investor sentiment monitoring closely whether the Company should continue in its present form. The Board also considers the size of the Company to ensure that it is at an optimum level. The Board, through the AIFM and the Portfolio Manager, holds regular discussions with major shareholders. Each month the Board receives a report which monitors the investments held in the portfolio compared against the benchmark index and the investment guidelines. Additional reports and presentations are regularly presented to investors by the Company's AIFM and Portfolio Manager.</p>
<p><b>Level of discount/premium</b></p> <p>The risk of the Company's share price not being representative of its underlying net assets.</p>	<p>The Board undertakes a regular review of the level of discount/premium and consideration is given to ways in which share price performance may be enhanced, including the effectiveness of marketing and share issuance and buy-backs, if considered appropriate. The Board has an active discount management policy in place, buying back the Company's shares to hold in treasury or for cancellation if the market price is at a discount greater than 6% to the net asset value per share. The making and timing of any share issuance or buy-backs is at the absolute discretion of the Board.</p> <p>Shareholders should note, however, that it remains possible for the share price discount to the net asset value per share to be greater than 6% on any one day. This is due to the fact that the share price continues to be influenced by overall supply and demand for the Company's shares in the secondary market. The volatility of the net asset value per share in an asset class such as healthcare is another factor over which the Board has no control.</p>
<p><b>Portfolio performance</b></p> <p>Investment performance may not be meeting shareholder requirements.</p>	<p>The Board reviews regularly investment performance against the benchmark and against the Company's peer group. The Board also receives regular reports that show an analysis of performance compared to other relevant indices. The Portfolio Manager provides an explanation of significant stock selection decisions and an overall rationale for the make-up of the portfolio. The Portfolio Manager discusses current and potential investment holdings with the Board on a regular basis.</p>

# Strategic Report / Business Review

## Principal Risks and Uncertainties

## Management/Mitigation

### Investment management key person risk

The risk that the individual(s) responsible for managing the Company's portfolio may leave their employment or may be prevented from undertaking their duties.

The Board manage this risk by:

- appointing OrbiMed, who operate a team environment such that the loss of any individual should not impact on service levels;
- receiving reports from OrbiMed at each Board meeting, such report includes any significant changes in the make-up of the team supporting the Company;
- meeting the wider team, outside the designated lead manager, at OrbiMed's offices and encouraging the participation of the wider OrbiMed team in investor updates; and
- delegating to the Audit and Management Engagement Committee, responsibility to perform an annual review of the service received from OrbiMed, including, *inter alia*, the team supporting the lead manager and succession planning.

### Operational and regulatory

A breach of Sections 1158 and 1159 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on capital gains, whilst a serious breach of other regulatory rules (including those associated with the Alternative Investment Fund Managers Directive) may lead to suspension from the Stock Exchange or to a qualified Audit Report. Other control failures, including cyber crime, relating to the AIFM, the Portfolio Manager or any other of the Company's service providers, may result in operational and/or reputational problems, erroneous disclosures or loss of assets through fraud, as well as breaches of regulations.

All transactions and income and expenditure forecasts are reviewed by the Board at each Board Meeting. The Board considers regularly all major risks, the measures in place to control them and the possibility of any other risks that could arise. The Board also ensures that satisfactory assurances are received from service providers.

The Audit and Management Committee has reviewed the cyber security policies for the Company's principal services providers.

The Compliance Officer of the AIFM and of the Portfolio Manager produce regular reports for review at the Company's Audit and Management Engagement Committee meetings and are available to attend such meetings in person if required.

### Market price risk

Uncertainty about future prices of financial instruments held.

The Board meets on a quarterly basis during the year and on an *ad hoc* basis if necessary. At each meeting the Directors consider the asset allocation of the portfolio in order to minimise the risk associated with particular countries, sectors, or instruments. The Portfolio Manager has responsibility for selecting investments in accordance with the Company's investment objective and seeks to ensure that investment in individual stocks falls within acceptable risk levels.

### Liquidity risk

Ability to meet funding requirements when they arise.

The Portfolio Manager has constructed the portfolio so that funds can be raised at short notice if required. Please see page 6 for further information on the make-up of the portfolio.

# Strategic Report / Business Review

Principal Risks and Uncertainties	Management/Mitigation
<p><b>Shareholder profile</b></p> <p>Activist shareholders whose interests are not consistent with the long-term objectives of the Company may be attracted onto the shareholder register.</p>	<p>The AIFM provides a shareholder analysis at every Board meeting so that the Board can give consideration as to any action required; this is in addition to regular reporting by the Company's Stockbroker. The Board has implemented an active discount management policy as mentioned on page 14 of this Annual Report.</p>
<p><b>Currency risk</b></p> <p>Movements in exchange rates could adversely affect the sterling performance of the portfolio.</p>	<p>A significant proportion of the Company's assets is, and will continue to be, invested in securities denominated in foreign currencies, in particular U.S. dollars. As the Company's shares are denominated and traded in sterling, the return to shareholders will be affected by changes in the value of sterling relative to those foreign currencies. The Board has made clear the Company's position with regard to currency fluctuations which is that it does not currently hedge against currency exposure.</p>
<p><b>Overdraft facility</b></p> <p>The provider of the Company's overdraft facility may no longer be prepared to lend to the Company.</p>	<p>The Board, the AIFM and the Portfolio Manager are kept fully informed of any likelihood of the withdrawal of the overdraft facility so that repayment can be effected in an orderly fashion.</p> <p>The Company's borrowing requirements are met through the utilisation of an overdraft facility, repayable on demand, provided by J.P. Morgan Clearing Corp.</p>
<p><b>Credit risk</b></p>	<p>The Company's assets can be held by J.P. Morgan Clearing Corp. as collateral for the overdraft provided by them to the Company. Such assets taken as collateral may be used, loaned, sold, rehypothecated or transferred by J.P. Morgan Clearing Corp., although the Company maintains the economic benefits from ownership of those assets. J.P. Morgan Clearing Corp may take up to 140% of the value of the outstanding overdraft as collateral.</p> <p>Assets held by J.P. Morgan Clearing Corp, as Prime Broker, that are not used as collateral, are held in segregated client accounts.</p> <p>Further information on financial instruments and risk, as required by IFRS 7, can be found in note 13 to the financial statements beginning on page 64 of this annual report.</p>

# Strategic Report / Business Review

## Long term viability

The Board has carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity. The Board has drawn up a matrix of risks facing the Company and has put in place a schedule of investment limits and restrictions, appropriate to the Company's investment objective and policy, in order to mitigate these risks as far as practicable. The principal risks which have been identified, and the steps taken by the Board to mitigate these as far as possible, are shown on page 16 to 18 of this annual report.

The Board believes it is appropriate to assess the Company's viability over a rolling three year time horizon. This basis is also deemed appropriate due to our Portfolio Manager's long-term investment horizon and also what we believe to be investors' horizons, taking account of the Company's current position and the potential impact of the principal risks and uncertainties.

The Directors also took into account the liquidity of the portfolio when considering the viability of the Company over a rolling three year period and its ability to meet liabilities as they fall due.

The Directors do not expect there to be any significant change in the principal risks that have been identified and the adequacy of the mitigating controls in place. Also the Directors do not envisage any change in strategy or objectives or any events that would prevent the Company from continuing to operate over that period as the Company's assets are liquid, its commitments are limited and the Company intends to continue to operate as an investment trust. The Directors believe that only a substantial financial crisis affecting the global economy and causing substantial falls in share prices could have an impact on this assessment.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next three year period.

## Looking to the future

The Board concentrates its attention on the Company's investment performance and OrbiMed's investment approach and on factors that may have an effect on this approach. Marketing reports are given to the Board at each Board meeting by the AIFM which include how the Company will be promoted and details of planned communications with existing and potential shareholders. The Board is regularly updated by the AIFM on wider investment trust industry issues and discussions are held at each Board meeting concerning the Company's future development and strategy.

A review of the Company's year, its performance since the year-end and the outlook for the Company can be found in the Chairman's Statement on pages 4 and 5 and in the Portfolio Manager's Review on pages 7 to 9.

By order of the Board

**Frostrow Capital LLP**  
Company Secretary

25 May 2016

## Governance / Board of Directors



### The Rt Hon Lord Waldegrave Of North Hill (Chairman of the Board and the Nominations Committee)

A Director since 1998  
Last reappointed to the Board: 2015  
Remuneration: £35,500

Lord Waldegrave of North Hill is Provost of Eton College, Chairman of Coutts and Co Limited and Chairman of the Royal Mint Advisory Committee. He was formerly Vice-Chairman of the Investment Banking Department at UBS, Chairman of the Global Financial Institutions Group at Dresdner Kleinwort Wasserstein and a Director of Fleming Family Partners. From 1979 to 1997, he was MP for Bristol West holding a number of Cabinet posts including Secretary of State for Health.

Shareholding in the Company: 58,716



### Steven Bates

A Director since 2015  
Last reappointed to the Board: N/A  
Remuneration: £25,000

Steven is chairman of F&C Capital and Income Investment Trust plc, Baring Emerging Europe plc and the Vinacapital Vietnam Opportunity Fund Limited. He is a non-executive director of British Empire Trust plc and is also a director of Guard Cap Asset Management Limited. He sits on, or is advisor to, various committees in the wealth management and pension fund areas. He was head of global emerging markets at J.P. Morgan Asset Management until 2002.

Shareholding in the Company: Nil



### Sven Borho

A Director since 2006  
Last reappointed to the Board: 2015  
Remuneration: £25,000

Sven is a founding Partner of OrbiMed, the Company's Portfolio Manager. He heads the public equity team and is the portfolio manager for OrbiMed's public equity and hedge funds. Sven has played an integral role in the growth of OrbiMed's asset management activities. In 1991 he joined OrbiMed's predecessor and was promoted to portfolio manager in 1993. He studied business administration at Bayreuth University in Germany and received a M.Sc. (Econs.), Accounting and Finance, from The London School of Economics.

Shareholding in the Company: 236,218



### Professor Dame Kay Davies, CBE

A Director since 2012  
Last reappointed to the Board: 2015  
Remuneration: £25,000

Professor Dame Kay Davies is the Dr. Lee's Professor of Anatomy and Associate Head of the Medical Sciences Division at the University of Oxford and a fellow of Hertford College. She is also a Director of the MRC Functional Genomics Unit at Oxford, an Independent Director of UCB Pharma S.A, Deputy Chairman of the Wellcome Trust and a member of the Scientific Advisory Board of biopharmaceutical company UCB Pharma S.A. As part of her role as Deputy Chairman of the Wellcome Trust she serves on the GRL Board (Sanger Institute) and the Genome England Board (NHS).

Shareholding in the Company: Nil



### Andrew Joy (Senior Independent Director and Chairman of the Remuneration Committee)

A Director since 2012  
Last reappointed to the Board: 2015  
Remuneration: £27,000

Andrew was one of the founding Partners of Cinven where he continues as a Senior Advisor. He is a Senior Advisor of Stonehage Fleming Family & Partners Group and Chairman of the investment committee of FPE Capital. He has been Chairman or Director of numerous growing companies over the past 30 years. He is a former Chairman of the BVCA (British Venture Capital and Private Equity Association) and Director of the EVCA.

Shareholding in the Company: 55,000

## Governance / Board of Directors



### Peter Keen (Chairman of the Audit and Management Engagement Committee)

A Director since 1997  
Last reappointed to the Board: 2015  
Remuneration: £27,000

A Chartered Accountant, Peter has over 30 years' experience in the management and financing of life science businesses and has served on the boards of many private and public companies. Peter is a Director of MRC Technology Ltd and Congenica Ltd and was, until February 2016, Chief Executive of the technology investment firm Cambridge Innovation Capital plc. For nine years he was the Senior Independent Director of Abcam plc and was a co-founder of Chiroscience Group plc.

Shareholding in the Company: 55,000



### The Rt Hon Lord Willetts

A Director since 2015  
Last reappointed to the Board: N/A  
Remuneration: £25,000

Lord Willetts is Executive Chairman of the Resolution Foundation and a Visiting Professor at King's College London. He is also a Governor of the Ditchley Foundation, a member of the Council of the Institute for Fiscal Studies and Board member of the Francis Crick Institute.

He was Minister for Universities and Science, attending Cabinet, from 2010-2014. He was the Member of Parliament for Havant from 1992-2015. Before that, Lord Willetts worked at HM Treasury and the Number 10 Policy Unit. He also served as Paymaster General in the last Conservative Government.

Shareholding in the Company: Nil

## Scheduled meetings

The table below sets out the number of scheduled Board and Committee meetings held during the year ended 31 March 2016 and the number of meetings attended by each Director.

	Board	Audit and Management Engagement Committee	Nominations Committee	Remuneration Committee
Number of meetings held in 2015/16:	4	3	2	1
The Rt Hon Lord Waldegrave of North Hill	4	3	2	1
Steven Bates*	2	2	2	1
Sven Borho^	4	–	–	–
Professor Dame Kay Davies, CBE	4	3	2	1
Paul Gaunt**	2	1	–	–
Andrew Joy	4	3	2	1
Peter Keen	4	3	2	1
The Rt Hon Lord Willetts†	1	1	1	1

All of the serving Directors attended the Annual General Meeting held on 8 July 2015.

\* Appointed on 8 July 2015.

^ Sven Borho is not a member of any of the Company's committees.

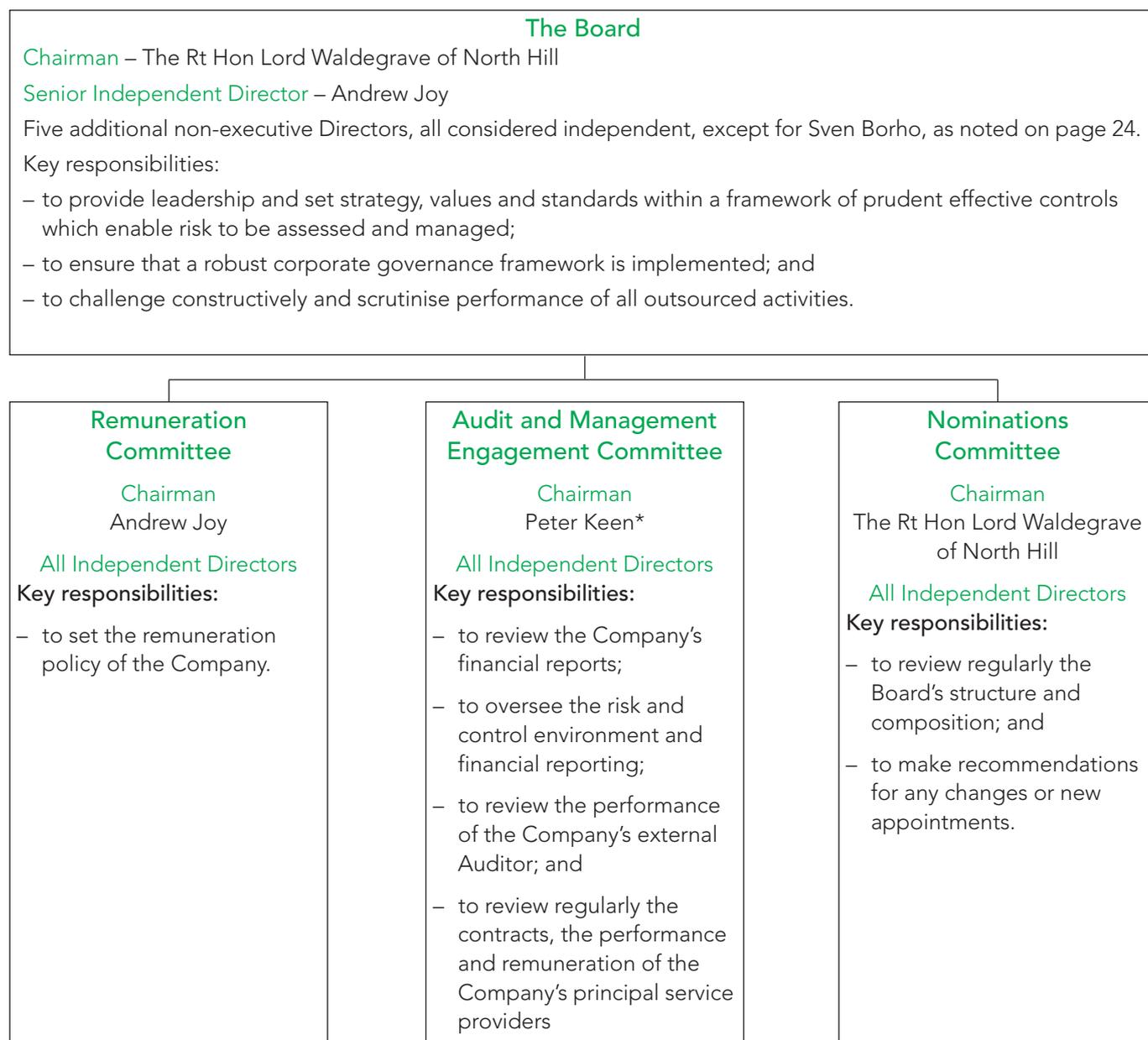
\*\* Retired 8 July 2015.

† Appointed on 11 November 2015.

# Governance / Corporate Governance

## The Board and Committees

Responsibility for effective governance lies with the Board. The governance framework of the Company reflects the fact that as an investment company it has no employees. Portfolio management is outsourced to OrbiMed and risk management, company management, company secretarial, administrative and marketing services are outsourced to Frostrow.



\*The Directors believe that Peter Keen has the necessary recent and relevant financial experience to Chair the Company's Audit and Management Engagement Committee.

Copies of the full terms of reference, which clearly define the responsibilities of each Committee, can be obtained from the Company Secretary, will be available for inspection at the Annual General Meeting, and can be found on the Company's website at [www.biotechgt.com](http://www.biotechgt.com)

## Governance / Corporate Governance

The Directors are accountable to shareholders for the governance of the Company's affairs. The UK Listing Rules require all listed companies to disclose how they have applied the principles and complied with the provisions of the UK Corporate Governance Code (the 'UK Code') issued by the Financial Reporting Council (the 'FRC'). The UK Code can be viewed at [www.frc.org.uk](http://www.frc.org.uk).

The Association of Investment Companies ('AIC') publishes a Code of Corporate Governance ('AIC Code') and a Corporate Governance Guide for Investment Companies ('AIC Guide'). In March 2015 the AIC published a revised AIC Code and AIC Guide to reflect changes made to the UK Code in September 2014.

The Financial Reporting Council has confirmed that by following the AIC Code and the AIC Guide, boards of investment companies will meet their obligations in relation to the UK Code and paragraph 9.8.6 of the UK Listing Rules.

The AIC Code and AIC Guide address the principles set out in the UK Code as well as additional principles and recommendations on issues that are specific to investment trusts. The AIC Code can be viewed at [www.theaic.co.uk](http://www.theaic.co.uk).

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as follows:

The UK Corporate Governance Code includes certain provisions relating to:

- directors' tenure
- the roles of the chief executive
- executive directors' remuneration
- the need for an internal audit function

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. Therefore with the exception of Director tenure, which is addressed further on page 24, and the need for an internal audit function which is addressed further on page 40, the Company has not reported further in respect of these provisions.

The Board attaches great importance to the matters contained in the AIC Code and observed the relevant requirements throughout the year under review.

The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Guide and the Board believes that the Company's current practices are consistent in all material respects with the principles of the AIC Code. Where non-compliance occurs, an explanation has been provided. The Board will continue to observe the principles and recommendations set out in the AIC Code in future.

### The principles of the AIC Code

The AIC Code is made up of twenty-one principles split into three sections covering:

- The Board
- Board Meetings and relations with AIFM and Portfolio Manager
- Shareholder Communications

#### AIC Code Principle

#### Compliance Statement

### The Board

#### I. The Chairman should be independent.

The Chairman, The Rt Hon Lord Waldegrave of North Hill is responsible for the leadership of the Board and for ensuring its effectiveness.

The Chairman continues to be independent of the AIFM and the Portfolio Manager. There is a clear division of responsibility between the Chairman, the Directors, the AIFM, the Portfolio Manager and the Company's other third party service providers. The Chairman is responsible for the leadership of the Board and for ensuring its effectiveness in all aspects of its role. There are no relationships that may create a conflict of interest between the Chairman's interests and those of Shareholders.

## Governance / Corporate Governance

AIC Code Principle	Compliance Statement
<p>2. A majority of the Board should be independent of the Manager.</p>	<p>Mr. Sven Borho is a Founding General Partner of OrbiMed, the Company's Portfolio Manager and is not considered to be an Independent Director. Mr Borho submits himself for annual re-election by shareholders.</p> <p>The Board consists of six other non-executive Directors, each of whom is independent of the AIFM and the Portfolio Manager. None of the Board members have been an employee of the Company.</p>
<p>3. Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance.</p>	<p>All Directors will submit themselves for annual re-election by shareholders.</p> <p>The individual performance of each Director standing for re-election is evaluated annually by the remaining members of the Board and, if considered appropriate, a recommendation is made that shareholders vote in favour of their re-election at the Company's Annual General Meeting to be held in July 2016.</p> <p>The Rt Hon Lord Waldegrave of North Hill will be retiring from the Board and will therefore not be seeking re-election at this year's Annual General Meeting.</p> <p>Steven Bates joined the Board on 8 July 2015 and the Rt Hon Lord Willetts on 11 November 2015. Accordingly, their appointment will be proposed to shareholders for ratification at the Annual General Meeting to be held in July 2016.</p>
<p>4. The Board should have a policy on tenure, which is disclosed in the annual report.</p>	<p>The Board, meeting as the Nominations Committee, considers the structure of the Board and recognises the need for progressive refreshing of its members.</p> <p>The Board subscribes to the view expressed within the AIC Code that long-serving Directors should not be prevented from forming part of an independent majority. It does not consider that a Director's tenure necessarily reduces his or her ability to act independently and, following formal performance evaluations, believes that each of those Directors is independent in character and judgment and that there are no relationships or circumstances which are likely to affect their judgment. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed. In view of its non-executive nature, the Board considers that it is not appropriate for the Directors to be appointed for a specified term, although new Directors are appointed with the expectation that they will serve for a minimum period of three years subject to shareholder approval.</p> <p>The Company's Articles of Association provide that all Directors are required to submit themselves for re-election at least once every three years or annually if they have served for more than eight years. The Board has implemented the provisions of the UK Governance Code whereby all Directors of the Company stand for re-election on an annual basis.</p> <p>The terms and conditions of the Directors' appointments are set out in letters of engagement which are available for inspection on request at the office of Frostrow, the Company's AIFM and from the Company Secretary at the Company's Annual General Meeting to be held in July 2016.</p>

## Governance / Corporate Governance

AIC Code Principle	Compliance Statement
5. There should be full disclosure of information about the Board.	<p>The Directors' biographical details, set out on pages 20 and 21 of this annual report, demonstrate the wide range of skills and experience that they bring to the Board together with details of their other directorships and employment.</p> <p>Further details of Board composition and succession planning can be found within the Chairman's Statement set out on pages 4 and 5 of this Annual Report.</p> <p>Details of the Board's Committees and their composition are set out on page 22 of this Annual Report.</p>
6. The Board should aim to have a balance of skills, experience, length of service and knowledge of the company.	<p>The Nominations Committee considers annually the skills possessed by the Board and identifies any skill shortages to be filled by new Directors.</p> <p>When considering new appointments, the Board reviews the skills of the Directors and seeks to add persons with complementary skills or who possess the skills and experience which fill any gaps in the Board's knowledge or experience and who can devote sufficient time to the Company to carry out their duties effectively.</p> <p>The experience of the current Directors is detailed in their biographies set out on pages 20 and 21 of this Annual Report.</p> <p>The Company is committed to ensuring that any vacancies arising are filled by the most qualified candidates and recognises the value of diversity in the composition of the Board. When Board positions become available as a result of retirement or resignation, the Company will ensure that a diverse group of candidates is considered.</p>
7. The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	<p>During the year the performance of the Board, its committees and individual Directors (including each Director's independence) was evaluated through a formal assessment process led by the Senior Independent Director. This involved the circulation of a Board effectiveness checklist, tailored to suit the nature of the Company, followed by discussions between the Senior Independent Director and each of the Directors where necessary. The performance of the Chairman was evaluated by the other Directors under the leadership of the Senior Independent Director. The review concluded that the Board was working well.</p> <p>The Board is satisfied that the structure of skills, mix, experience, independence, knowledge, diversity and operation of the Board continue to be effective and relevant for the Company.</p>

## Governance / Corporate Governance

AIC Code Principle	Compliance Statement
<p>8. Directors' remuneration should reflect their duties, responsibilities and the value of their time spent.</p>	<p>The Remuneration Committee annually reviews the fees paid to the Directors and compares these with the fees paid by the Company's peer group and the investment trust industry generally, taking into account the level of commitment and responsibility of each Board member. Details on the remuneration arrangements for the Directors of the Company can be found in the Directors' Remuneration Policy Report and Directors' Remuneration Report on pages 43 to 46 of this Annual Report.</p> <p>As all of the Directors are non-executive, the Board considers that it is acceptable for the Senior Independent Director of the Company to chair meetings when discussing Directors' fees. The Senior Independent Director takes no part in discussions regarding his own remuneration.</p>
<p>9. The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the annual report.</p>	<p>The Nominations Committee is comprised of all directors who are independent and chaired by the Chairman of the Board. Subject to there being no conflicts of interest, all members of the Committee are entitled to vote on candidates for the appointment of new directors and on recommending for shareholders' approval the directors seeking re-election at the Annual General Meeting.</p> <p>The Chairman does not Chair the meeting when the committee is dealing with matters concerning the appointment of a successor to the Chairmanship. Details of the Board's commitment to diversity is set out within the Business Review on page 15 of this annual report.</p> <p>As part of the process to appoint Steven Bates the Board engaged the services of a specialist recruitment consultant, Trust Associates. Trust Associates prepared a list of potential candidates for consideration by a sub-committee appointed by the Nominations Committee. A short list was then arrived at, the candidates were interviewed and Steven Bates was subsequently appointed. Trust Associates has no other connection with the Company.</p> <p>The appointment of the Rt Hon Lord Willetts to the Board was considered by the Nominations Committee who made a recommendation to the Board. A specialist recruitment consultant was not engaged as part of this process.</p>
<p>10. Directors should be offered relevant training and induction.</p>	<p>New appointees to the Board are provided with a full induction programme. The programme covers the Company's investment strategy, policies and practices. The Directors are also given key information on the Company's regulatory and statutory requirements as they arise including information on the role of the Board, matters reserved for its decision, the terms of reference for the Board Committees, the Company's corporate governance practices and procedures and the latest financial information. It is the Chairman's responsibility to ensure that the Directors have sufficient knowledge to fulfil their role and Directors are encouraged to participate in training courses where appropriate.</p> <p>The Directors have access to the advice and services of a Company Secretary through its appointed representative which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible for ensuring good information flows between all parties.</p>

## Governance / Corporate Governance

AIC Code Principle	Compliance Statement
I 1. The Chairman (and the Board) should be brought into the process of structuring a new launch at an early stage.	Principle 11 applies to the launch of new investment companies and is therefore not applicable to the Company.
<b>Board Meetings and relations with Frostrow and OrbiMed</b>	
I 2. Boards and managers should operate in a supportive, co-operative and open environment.	The Board meets regularly throughout the year and a representative of the AIFM and Portfolio Manager is in attendance at each meeting and Committee meetings. The Chairman encourages open debate to foster a supportive and co-operative approach for all participants.
I 3. The primary focus at regular Board meetings should be a review of investment performance and associated matters, such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues.	<p>The Board has agreed a schedule of matters specifically reserved for decision by the Board. This includes establishing the investment objectives, strategy and benchmarks, the level of borrowing, the permitted types or categories of investments, the markets in which transactions may be undertaken, the amount or proportion of the assets that may be invested in any category of investment or in any one investment, and the Company's share issuance, share buy-back and treasury share policies.</p> <p>The Board, at its regular meetings, undertakes reviews of key investment and financial data, revenue projections and expenses, analysis of asset allocation, transactions and performance comparisons, share price and net asset value performance, marketing and shareholder communication strategies, the risks associated with pursuing the investment strategy, peer group information and industry issues.</p> <p>The Chairman is responsible for ensuring that the Board receive accurate, timely and clear information. Where appropriate representatives of the AIFM report on issues affecting the company.</p> <p>All Directors have access to independent professional advice where they judge it necessary to discharge their responsibility properly.</p> <p>The Audit and Management Engagement Committee reviews the Company's risk matrix and the performance and cost of the Company's third party service providers.</p>
I 4. Boards should give sufficient attention to overall strategy.	The Board is responsible for strategy and has established an annual programme of agenda items under which it reviews the objectives and strategy for the Company at each meeting.

## Governance / Corporate Governance

AIC Code Principle	Compliance Statement
<p>I 5. The Board should regularly review both the performance of, and contractual arrangements with, the AIFM and the Portfolio manager (or executives of a self-managed company).</p>	<p>The Audit and Management Engagement Committee reviews annually the performance of the AIFM and Portfolio Manager. The Committee considers the quality, cost and remuneration method (including the performance fee) of the service provided by the AIFM and the Portfolio Manager against their contractual obligations and the Board receives monthly reports on compliance with the investment restrictions which it has set. It also considers the performance analysis provided by the AIFM and the Portfolio Manager.</p> <p>The Audit and Management Engagement Committee reviews the compliance and control systems of both the AIFM and the Portfolio Manager in operation insofar as they relate to the affairs of the Company and the Board undertakes periodic reviews of the arrangements with and the services provided by the Depositary, to ensure that the safeguarding of the Company's assets and security of the shareholders' investment is being maintained. Further details concerning the monitoring of the Company's internal controls and risk management can be found on pages 41 and 42 and 16 to 18 of this Annual Report.</p> <p>All Directors act in what they consider to be in the best interests of the Company, consistent with their statutory duties set out in the Companies Act 2006.</p>
<p>I 6. The Board should agree policies with the AIFM and the Portfolio Manager covering key operational issues.</p>	<p>The Portfolio Management Agreement between the Company, the AIFM and Portfolio Manager sets out the limits of Portfolio Manager's authority, beyond which Board approval is required. The Board has also agreed detailed investment guidelines with the AIFM and the Portfolio Manager, which are considered at each Board meeting.</p> <p>A representative of the AIFM and Portfolio Manager attends each meeting of the Board to address questions on specific matters and to seek approval for specific transactions which the Portfolio Manager is required to refer to the Board.</p> <p>Frostrow in their capacity as the Company's AIFM have delegated the management of the portfolio and subsequent proxy voting to OrbiMed as Portfolio Manager, who retain the services of Broadridge and Glass Lewis to undertake operational and administrative duties relating to proxy voting. The Portfolio Manager notifies the Board of any contentious issues that require voting upon.</p> <p>The Board has reviewed the Portfolio Manager's Proxy Voting &amp; Class Action Policy. Reports on commissions paid by the Portfolio Manager are submitted to the Board regularly.</p>

## Governance / Corporate Governance

AIC Code Principle	Compliance Statement
<p>I 7. Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.</p>	<p>The Board considers any imbalances in the supply of and the demand for the Company's shares in the market and takes appropriate action when considered necessary.</p> <p>The Board considers the discount or premium to net asset value of the Company's share price at each Board meeting and reviews the changes in the level of discount or premium and in the share price since the previous Board meeting and over the previous twelve months.</p> <p>At each meeting the Board reviews reports from the AIFM on marketing and shareholder communication strategies. It also considers their effectiveness as well as measures of investor sentiment and any recommendations on issuance and share buy-backs.</p> <p>The Board does not consider that any conflicts arose from the AIFM and Portfolio Manager promoting the Company alongside their other clients.</p>
<p>I 8. The Board should monitor and evaluate other service providers.</p>	<p>The Audit and Management Engagement Committee reviews, at least annually, the performance of all the Company's third party service providers, including the level and structure of fees payable and the length of the notice period, to ensure that they remain competitive and in the best interests of shareholders.</p> <p>The Committee also reviews reports from the principal service providers on compliance and the internal and financial control systems in operation and relevant independent audit reports thereon, as well as reviewing service providers' anti-bribery and corruption policies to address the provisions of the Bribery Act 2010.</p> <p>The Board is satisfied that the Company's Auditor does not carry out any work for the AIFM and therefore no potential conflict will arise.</p>

## Governance / Corporate Governance

### AIC Code Principle

### Compliance Statement

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#### Shareholder Communications

19. The Board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the Board's views to shareholders.

A detailed analysis of the substantial shareholders of the Company is provided to the directors at each Board meeting. Representatives of the AIFM and the Portfolio Manager regularly meet with institutional shareholders and private client asset managers to discuss strategy and to understand their issues and concerns and, if applicable, to discuss corporate governance issues. The results of such meetings are reported at the following Board meeting.

Regular reports from the Company's broker are submitted to the Board on investor sentiment and industry issues.

Shareholders wishing to communicate with the Chairman, the Senior Independent Director or any other member of the Board, may do so by writing to the Company, for the attention of the Company Secretary at the offices of the AIFM. All shareholders are encouraged to attend the Annual General Meeting, where they are given the opportunity to question the Chairman, the Board and representatives of the Portfolio Manager. The Portfolio Manager will make a presentation to shareholders covering the investment performance and strategy of the Company at the forthcoming Annual General Meeting to be held in July 2016.

The Directors welcome the views of all shareholders and place considerable importance on communications with them. The Chairman will ensure that all members of the Board are made aware of the issues and concerns raised by shareholders and that the appropriate steps are taken so that the Board has an adequate understanding of these views, through communication with the Company's AIFM and advisors.

20. The Board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman.

All substantive communications regarding any major corporate issues are discussed by the Board taking into account representations from the AIFM, the Portfolio Manager, the Auditor, legal advisers and stockbroker.

## Governance / Corporate Governance

### AIC Code Principle

21. The Board should ensure that shareholders are provided with sufficient information for them to understand the risk/reward balance to which they are exposed by holding the shares.

### Compliance Statement

The Company places great importance on communication with shareholders and aims to provide them with a full understanding of the Company's investment objective, policy and activities, its performance and the principal investment risks by means of informative annual and half-year reports. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value per share of the Company's shares.

The Board is responsible for the overall management of the Company, approval of the Company's long-term objectives and commercial strategy and the review of the Company's Investment Policy. The Board continues to review the setting of maximum borrowing limits under which the AIFM and Portfolio Manager operates within.

The annual report provides information on Portfolio Manager's investment performance, portfolio risk and operational and compliance issues. Further details on the risk/reward balance are set out in note 13 to the Financial Statements.

The Investment Portfolio is listed on page 6 of this annual report.

The Company's website, [www.biotechgt.com](http://www.biotechgt.com), is regularly updated with monthly fact sheets and provides useful information about the Company including the Company's financial reports and announcements.

## Governance / Corporate Governance

The Board has considered the position of all of the Directors as part of the evaluation process, and believes that it would be in the Company's best interests to propose them, with the exception of Chairman the Rt Hon Lord Waldegrave who is retiring at the conclusion of the forthcoming Annual General Meeting, for election or re-election at the forthcoming Annual General Meeting for the following reasons:

Professor Dame Kay Davies, CBE, who has been a Director since March 2012, has extensive knowledge of the biopharmaceutical sector and is the Dr Lee's Professor of Anatomy and Associate Head of the Medical Science Division at the University of Oxford.

Mr Andrew Joy, who has been a Director since March 2012 is Senior Independent Director and Chairman of the Remuneration Committee. He has extensive knowledge of the financial sector and was one of the founding Partners of Cinven where he continues as a Senior Advisor. He has been Chairman or Director of numerous growing companies over the past 30 years.

Mr Sven Borho, who has been a Director since March 2006 is one of the founding partners of OrbiMed the Company's Portfolio Manager. He heads public equity and hedge funds and has played an integral role in the growth of OrbiMed's asset management activities.

Mr Peter Keen, who has been a Director since June 1997 and is Chairman of the Audit and Management Engagement Committee. A Chartered Accountant he has nearly 30 years experience in the management and financing of life science businesses; his contribution to the Company's Audit and Management Engagement Committee is particularly respected by his colleagues.

Mr Steven Bates joined the Board in July 2015. He has a wealth of experience as an investment manager.

The Rt Hon Lord Willetts joined the Board in November 2015. A former government minister, he has extensive and relevant experience and a strong interest in the biotechnology sector.

The Chairman is pleased to report that following a formal performance evaluation, the Directors' performance continues to be effective and they continue to demonstrate commitment to the role.

### The Board's responsibilities

The Board meets regularly and four Board meetings were held during the year to deal with the stewardship of the Company and other matters. There is a formal schedule of matters specifically reserved for decision by the Board; it is responsible for all aspects of the Company's affairs, including the setting of parameters for and the monitoring of the investment strategy and the review of investment performance and investment policy which is set out on pages 12 and 13 of this Annual Report. It also has responsibility for all corporate strategy issues, dividend policy, share buy-back and issuance policy, borrowing, share price and discount/premium monitoring and corporate governance matters.

### Conflicts of interest

Directors have a duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests (a "situational conflict").

It is the responsibility of each individual Director to avoid an unauthorised conflict situation arising. He or she must request authorisation from the Board as soon as he or she becomes aware of the possibility of a situational conflict arising.

The Board is responsible for considering Directors' requests for authorisation of situational conflicts and for deciding whether they should be authorised. The factors to be considered will include whether the situational conflict could prevent the Director from performing his or her duties, whether it has, or could have, any impact on the Company and whether it could be regarded as likely to affect the judgment and/or actions of the Director in question. When the Board is deciding whether to authorise a conflict or potential conflict, only Directors who have no interest in the matter being considered are able to take the relevant decision, and in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate in the circumstances.

## Governance / Corporate Governance

A register of conflicts is maintained by the Company Secretary and is reviewed at each Board meeting, to ensure that any authorised conflicts remain appropriate. Directors are required to confirm at these meetings whether there has been any change to their position.

The Directors must also comply with the statutory rules requiring company directors to declare any interest in an actual or proposed transaction or arrangement with the Company.

### Anti-Bribery and corruption policy

The Board has adopted a zero tolerance approach to instances of bribery and corruption. Accordingly it expressly prohibits any Director or associated persons when acting on behalf of the Company, from accepting, soliciting, paying, offering or promising to pay or authorise any payment, public or private, in the United Kingdom or abroad to secure any improper benefit for themselves or for the Company.

A copy of the Company's anti-bribery and corruption policy can be found on its website at [www.biotechgt.com](http://www.biotechgt.com). The policy is reviewed regularly by the Audit and Management Engagement Committee.

### Relationship with shareholders

The Board, the AIFM and the Portfolio Manager consider maintaining good communications with shareholders and engaging with larger shareholders through meetings and presentations a key priority. Shareholders are being informed by the publication of annual and half year reports which include financial statements. These reports are supplemented by the daily release of the net asset value per share to the London Stock Exchange and the publication of monthly fact sheets. All this information including interviews with the Portfolio Manager is available on the Company's website at [www.biotechgt.com](http://www.biotechgt.com).

The Board is also keen that the Annual General Meeting ("AGM") be a participative event for all shareholders. The Portfolio Manager makes a presentation and shareholders are encouraged to attend. The Chairmen of the Board and of the Committees attend the AGM and are available to respond to queries and concerns from shareholders. Twenty working days notice of the AGM has been given to shareholders and separate resolutions are proposed in relation to each substantive issue. Shareholders may submit questions for the AGM in advance of the meeting or make general enquiries of the Company via the Company Secretary at the registered office of the Company. The Directors make themselves available after the AGM to meet shareholders.

Where the vote is decided on a show of hands, the proxy votes received are relayed to the meeting and subsequently published on the Company's website. Proxy forms have a 'vote withheld' option. The Notice of Meeting sets out the business of the AGM together with the full text of any special resolutions and begins on page 75 of this Annual Report.

The Board monitors the share register of the Company; it also reviews correspondence from shareholders at each meeting and maintains regular contact with major shareholders. Shareholders who wish to raise matters with a Director may do so by writing to them at the registered office of the Company.

### Exercise of voting powers

The Board has delegated authority to the Portfolio Manager to vote the shares owned by the Company. The Board has instructed that the Portfolio Manager submit votes for such shares wherever possible. (See AIC Code Principle 21 on page 31 for further details). This accords with current best practice whilst maintaining a primary focus on financial returns. The Portfolio Manager may refer to the Board on any matters of a contentious nature. The Company does not retain voting rights on any shares that are subject to rehypothecation in connection with the overdraft facility provided by J.P. Morgan Clearing Corp.

## Governance / Corporate Governance

### Nominee share code

Where shares are held in a nominee company name and where the beneficial owner of the shares is unable to vote in person, the Company nevertheless undertakes:

- to provide the nominee company with multiple copies of shareholder communications, so long as an indication of quantities has been provided in advance; and
- to allow investors holding shares through a nominee company to attend general meetings, provided the correct authority from the nominee company is available.

Nominee companies are encouraged to provide the necessary authority to underlying shareholders to attend the Company's general meetings.

### Beneficial owners of shares – information rights

Beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's registrar, Capita Asset Services, or to the Company directly.

By order of the Board

**Frostrow Capital LLP**  
Company Secretary

25 May 2016

# Governance / Report of the Directors

The Directors present their Annual Report and the Audited Financial Statements for the year ended 31 March 2016.

## Company management

### *Alternative Investment Fund Manager*

Frostrow under the terms of its AIFM agreement with the Company provides, *inter alia*, the following services: delegation (subject to the oversight of Frostrow and the Board) of the portfolio management function to OrbiMed; investment portfolio administration and valuation; risk management services; marketing and shareholder services; share price discount and premium management; administrative and secretarial services; advice and guidance in respect of corporate governance requirements; maintenance of the Company's accounting records; preparation and dispatch of annual and half year reports and monthly fact sheets; ensuring compliance with applicable legal and regulatory requirements; and maintenance of the Company's website.

Frostrow receives a periodic fee equal to 0.30% per annum of the Company's market capitalisation, plus a fixed amount equal to £60,000 per annum. Either party may terminate the AIFM Agreement on not less than 12 months' notice.

### *Portfolio Manager*

OrbiMed under the terms of its portfolio management agreement with the AIFM and the Company provides, *inter alia*, the following services: the seeking out and evaluating of investment opportunities; recommending the manner by which monies should be invested, disinvested, retained or realised; advising on how rights conferred by the investments should be exercised; analysing the performance of investments made; and advising the Company in relation to trends, market movements and other matters which may affect the investment objective and policy of the Company. OrbiMed, receives a periodic fee equal to 0.65% per annum of the Company's net asset value. The proportion of the Company's assets committed for investment in OrbiMed Asia Partners L.P., a limited partnership managed by OrbiMed Asia G.P., L.P., an affiliate of the Portfolio Manager, is excluded from the fee calculation. The Portfolio Management Agreement may be terminated by either Frostrow or the Portfolio Manager giving notice of not less than 12 months.

### *Performance fee*

Dependent on the level of long-term outperformance of the Company, the AIFM and Portfolio Manager are entitled to the payment of a performance fee. The performance fee is calculated by reference to the amount by which the Company's net asset value ('NAV') performance has outperformed the NASDAQ Biotechnology Index (sterling adjusted), the Company's benchmark index.

The fee is calculated quarterly by comparing the cumulative performance of the Company's NAV with the cumulative performance of the benchmark since the commencement of the performance fee arrangement on 30 June 2005. The performance fee amounts to 16.5% of any outperformance over the benchmark, the AIFM receiving 1.5% and the Portfolio Manager receiving 15% respectively. Provision is also made within the daily NAV per share calculation as required and in accordance with generally accepted accounting standards.

In order to ensure that only sustained outperformance is rewarded, at each quarterly calculation date any performance fee is based on the lower of:

- (i) The cumulative outperformance of the portfolio over the benchmark as at the quarter end date; and
- (ii) The cumulative outperformance of the portfolio over the benchmark as at the corresponding quarter end date in the previous year.

In addition, a performance fee only becomes payable to the extent that the cumulative outperformance gives rise to a total fee greater than the total of all performance fees paid to date.

The proportion of the Company's assets invested in OrbiMed Asia Partners L.P. is excluded from the Portfolio Manager's performance fee calculation.

### *Depositary and Prime Broker*

The Company appointed J.P. Morgan Europe Limited (the "Depositary") as its depositary. Under the terms of the Depositary Agreement the Company has agreed to pay the Depositary a fee calculated at 1.75 bps on net assets up to £150 million, 1.50 bps on net assets between £150 million and £300 million, 1.00 bps on net assets between £300 million and £500 million and 0.50 bps on net assets above £500 million.

## Governance / Report of the Directors

The Depositary has delegated the custody and safekeeping of the Company's assets to J.P. Morgan Clearing Corp (the "Prime Broker").

Under the terms of a Delegation Agreement, liability has been transferred under Article 21(12) of the AIFMD for the loss of the Company's financial instruments held in custody by the Prime Broker to the Prime Broker in accordance with Article 21(13) of the AIFMD. While the Depositary Agreement prohibits the re-use of the Company's assets by the Depositary or the Prime Broker without the prior consent of the Company or Frostrow, the Company has consented to the transfer and reuse of its assets by the Prime Broker (known as "rehypothecation") in accordance with the terms of an institutional account agreement between the Company, the Prime Broker and certain other J.P. Morgan Entities (as defined therein) (the "Institutional Account Agreement").

The Prime Broker is authorised to borrow, lend or otherwise use all cash and any security carried by the Prime Broker in the Company's accounts for a greater sum than, and for period longer than, the Company's obligations to the J.P. Morgan Entities and the Prime Broker will have no obligation to maintain a like amount of similar property in possession or control. In the event of the Prime Broker's insolvency, the Company may be unable to recover such assets in full. The Prime Broker is a registered broker-dealer and is accordingly subject to certain limitations on rehypothecation. Specifically, the Prime Broker is subject to and has acknowledged in the Institutional Account Agreement the limitations contemplated by the United States Securities and Exchange Commission Rule 15c3-3, requiring a broker-dealer to maintain possession and control of all excess margin securities (i.e. margin securities carried for the account of a customer having a market value in excess of 140% of the net debit balances, taking into account the mark to market on the short market value in respect of a short position, in the customer's account with such broker-dealer).

### AIFM and Portfolio Manager evaluation and re-appointment

The performance of the AIFM and the Portfolio Manager is reviewed continuously by the Company's Audit and Management Engagement Committee (the "Committee") with a formal evaluation being undertaken each year. As part of this process, the Committee monitors the services provided by the AIFM and the Portfolio Manager and receives regular reports and views from them. The Committee also receives comprehensive performance measurement reports to enable it to determine whether or not the performance objectives set by the Board have been met. The Committee reviewed the appropriateness of the appointment of the AIFM and the Portfolio Manager in February 2016 with a recommendation being made to the Board.

The Board believes the continuing appointment of the AIFM and the Portfolio Manager, under the terms described above and on the previous page, is in the interests of shareholders as a whole. In coming to this decision, it also took into consideration the following additional reasons:

- the quality and depth of experience allocated by the Portfolio Manager to the management of the portfolio and the level of performance of the portfolio in absolute terms and also by reference to the benchmark index; and
- the quality and depth of experience of the company management, company secretarial, administrative and marketing team that the AIFM allocates to the management of the Company.

### Overdraft facility

The Company's borrowing requirements are met through the utilisation of an overdraft facility, repayable on demand, provided by J.P. Morgan Clearing Corp. (Further details can be found in note 1 and note 13 beginning on page 57).

### Share capital

As part of the package of measures adopted in 2005 by the Board to improve the attraction of the Company's shares to new investors and also to provide the prospect of a sustained improvement in the rating of the Company's shares, an active discount management policy was implemented to buy-back shares to either hold in treasury or for cancellation if the market price is at a discount greater than 6% to net asset value per share. As at 31 March 2016, the discount was 6.8%. The making and timing of any share buy-back remains at the absolute discretion of the Board. Authority to buy-back up to 14.99% of the Company's issued share capital is sought at each Annual General Meeting.

# Governance / Report of the Directors

During the year a total of 3,593,042 shares were bought back representing 5.6% of the issued share capital at the beginning of the year. The purchases were made at a total cost of £25.8 million (including expenses).

Subsequent to the year end to 25 May 2016 a further 790,966 shares were bought back for cancellation. As at 25 May 2016 there were 59,504,508 shares in issue.

## Directors

### *Directors' fees*

A report on Directors' Remuneration and also the Directors' Remuneration Policy Report are set out on pages 43 to 46 of this Annual Report.

### *Directors' & Officers' liability insurance cover*

Directors' & Officers' liability insurance cover was maintained by the Board during the year ended 31 March 2016. It is intended that this policy will continue for the year ended 31 March 2017 and subsequent years.

### *Directors' indemnities*

As at the date of this report, indemnities are in force between the Company and each of its Directors under which the Company has agreed to indemnify each Director, to the extent permitted by law, in respect of certain liabilities incurred as a result of carrying out his/her role as a Director of the Company. The Directors are also indemnified against the costs of defending any criminal or civil proceedings or any claim by the Company or a regulator as they are incurred provided that where the defence is unsuccessful the Director must repay those defence costs to the Company. The indemnities are qualifying third party indemnity provisions for the purposes of the Companies Act 2006.

A copy of each deed of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Annual General Meeting.

## Substantial shareholdings

The Company was aware of the following substantial interests in the voting rights of the Company as at 30 April 2016, the latest practicable date before publication of the annual report.

	30 April 2016		31 March 2016	
	No. of shares	% of Issued share capital	No. of shares	% of Issued share capital
Shareholders				
Hargreaves Lansdown	6,027,647	10.1	6,116,384	10.1
East Riding of Yorkshire	4,698,000	7.9	4,698,000	7.8
Alliance Trust Savings	2,716,393	4.5	2,764,373	4.6
Standard Life Wealth	2,126,566	3.6	2,096,360	3.5
Hansa Capital Partners	2,073,415	3.5	2,073,415	3.4
Schroder Investment Management	1,500,000	2.5	1,995,000	3.3

As at 31 March 2016 the Company had 60,295,474, shares in issue. As at 30 April 2016 the Company had 59,739,515 shares in issue.

## Financial instruments

The Company's financial instruments comprise its portfolio, cash balances, debtors and creditors that arise directly from its operations, such as sales and purchases awaiting settlement and accrued income. The financial risk management and policies arising from its financial instruments are disclosed in note 13 to the Financial Statements.

## Results and dividend

The results attributable to shareholders for the year and the transfer from reserves are shown on page 53 of this Annual Report. No dividend is proposed in respect of the year ended 31 March 2016 (2015: nil).

# Governance / Report of the Directors

## Awareness and disclosure of relevant audit information

So far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act) of which the Company's auditors are unaware.

Each of the Directors has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

The above confirmation is given and should be interpreted in accordance with the provision of Section 418(2) of the Companies Act 2006.

## S.1 2007/1093 C.49 Commencement No2. Order 2007

The following disclosures are made in accordance with S.1 2007/1093 C.49 Commencement No2. Order 2007

### *Capital structure*

The Company's capital structure is composed solely of Ordinary Shares. Details are given in note 11 to the Financial Statements on page 64 of this annual report.

### *Voting rights in the Company's shares*

Details of the voting rights in the Company's shares at the date of this annual report are given in note 9 to the Notice of Annual General Meeting on page 78 of this annual report.

## Going concern

The Directors believe that it is appropriate to adopt the going concern basis in preparing the Financial Statements as the assets of the Company consist mainly of securities that are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

## Political and charitable donations

The Company has not in the past and does not intend in the future to make political or charitable donations.

## Global greenhouse gas emissions

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), (including those within our underlying investment portfolio).

## Corporate governance

The Corporate Governance Statement set out on pages 22 to 34 forms part of the Report of the Directors.

## Listing Rule 9.8.4

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this regard.

By order of the Board

**Frostrow Capital LLP**  
Company Secretary

25 May 2016

## Governance / Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law, the Directors are required to prepare Financial Statements under International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under Company Law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

### Statement under DTR 4.1.12

Each of the Directors, who are listed on page 82, confirms that, to the best of his or her knowledge:

- the Company's financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union on a going concern basis, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

**The Rt Hon Lord Waldegrave of North Hill**  
Chairman

25 May 2016

# Governance / Audit and Management Engagement Committee Report

for the year ended 31 March 2016

The Audit and Management Engagement Committee met three times during the year. Attendance by each Director is shown in the table on page 21 of this annual report.

## Responsibilities

The Committee's main responsibilities during the year were:

1. **To review the Company's half year and annual financial statements** together with announcements and other filings relating to the financial performance of the Company and issues of the Company's shares. In particular, the Committee considered whether the annual financial statements are fair, balanced and understandable, allowing shareholders to more easily assess the Company's strategy, investment policy, business model and financial performance.
2. **To review the risk management and internal control processes** of the Company and its key service providers. As part of this review the Committee again reviewed the appropriateness of the Company's anti-bribery and corruption policy. During the year the Committee reviewed the Internal Controls in place at the Company's AIFM, Frostrow, its Portfolio Manager, OrbiMed, its Registrar, Capita Asset Services and its custodian J.P. Morgan Clearing Corp. Further information concerning risk management can be found within the Strategic Report on pages 2 to 19 of this annual report.
3. **To recommend the appointment of an external auditor**, and agreeing the scope of its work and its remuneration, reviewing its independence and the effectiveness and objectivity of the audit process.
4. **To consider any non-audit work to be carried out by the auditor.** The Committee reviews the need for non-audit services and authorises such fees on a case by case basis, having consideration to the cost effectiveness of the services and the independence and objectivity of the Auditors. Non-audit fees of £6,500 were paid to Ernst & Young LLP for their review of the Company's half-year accounts. In addition fees totaling £3,000 were earned in relation to taxation services. The external auditor carried out no other non-audit work during the year.
5. **To consider the need for an internal audit function.** Since the Company delegates its day-to-day operations to third parties and has no employees, the Committee has determined there is no requirement for such a function.
6. **To review the contracts, the performance and remuneration of the Company's principal service providers.** During the year the Committee carried out such a review. Further information on the evaluation and the re-appointment of the Company's AIFM and Portfolio Manager can be found on page 36.

The Committee's terms of reference are available for review on the Company's website at [www.biotechgt.com](http://www.biotechgt.com).

## Financial statements

The financial statements, and the annual report as a whole, are the responsibility of the Board. The Directors' Responsibility Statement is contained on page 39 of the annual report. The Board looks to the Audit and Management Engagement Committee to advise them in relation to the Financial Statements both as regards their form and content, issues which might arise and on any specific areas requiring judgment.

## Significant reporting matters

During the year the Committee considered key accounting issues, matters and judgments in relation to the Company's financial statements and disclosures relating to:

### *Company's Investments – valuation and ownership of the Company's investments*

The Committee approached and dealt with this area of risk by:

- reconfirming its understanding of the processes in place to record investment transactions and to value the investment portfolio;
- gaining an overall understanding of the performance of the investment portfolio both in capital and revenue terms through comparison to a suitable benchmark; and
- ensuring that all investment holdings and cash/deposit balances have been agreed to confirmation from the custodian or relevant bank.

# Governance / Audit and Management Engagement Committee Report

## *Performance fee – to ensure the correct calculation of any performance fee*

The Committee approached and dealt with the area of risk by:

- Seeking confirmation from the AIFM that the performance fee is calculated in accordance with the Alternative Investment Fund Manager and the Portfolio Management agreements. (Further details can be found in the Report of Directors on page 35 of this annual report);
- Seeking confirmation from the Company's auditor that the fees accrued and payable are in accordance with the above mentioned agreements. As part of the audit process all inputs are agreed to audited source data and the performance fee is re-calculated; and
- Prior to the payment of any performance fee, the Company's auditor is engaged to audit the amounts payable which includes a re-calculation of the fees payable.

## *Taxation – ensuring that the regulations for the Company to maintain its investment trust status have been observed*

The Committee approached and dealt with the area of risk, surrounding compliance with section 1158 of the Corporation Tax Act 2010, by:

- seeking confirmation from the AIFM that the Company continues to meet the eligibility conditions as outlined in section 1158 through reports received at each Board meeting and also as part of the monthly Compliance Monitoring Report sent to the Board;
- by obtaining written confirmation from HMRC, evidencing the approval of the Company as an investment trust under the regime; and
- understanding the risks and consequences if the Company breaches this approval in future years.

## Internal controls

The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company. The process accords with advice issued by the FRC and is subject to regular review by the Board. The Board has overall responsibility for the Company's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 March 2016. During the course of its review the Board has not identified or been advised of any failings or weaknesses that have been determined as significant. All business risks faced by the Company are recorded in a detailed risk map which is reviewed periodically. In arriving at its judgement of what constitutes a sound system of internal control, the Directors considered the following factors:

- the nature and extent of risks which it regards as acceptable for the Company to bear within its overall business objective;
- the threat of such risks becoming a reality; and
- the Company's ability to reduce the incidence and impact of risk on its performance.

Against this background, the Board has split the review of risk and associated controls into five sections reflecting the nature of the risks being addressed. These sections are as follows:

- corporate strategy;
- investment activity;
- published information, compliance with laws and regulations;
- service providers; and
- financial activity.

The Company has obtained from its various service providers assurances and information relating to their internal systems and controls to enable the Board to make an appropriate risk and control assessment, including the following:

- details of the control environment in operation;
- identification and evaluation of risks and control objectives;

## Governance / Audit and Management Engagement Committee Report

- review of communication methods and procedures; and
- assessment of the control procedures.

All of the Company's management functions are performed by third parties whose internal controls are reviewed by the Board or on its behalf by Frostrow.

In accordance with guidance issued to directors of listed companies, the Directors confirm that they have carried out a review of the effectiveness of the system of internal financial control and risk management during the year, as set out above and that the ongoing process for identifying, evaluating and managing significant risks faced by the Company, has been in place for the year under review and up to 25 May 2016.

### Policy on non-audit services

The provision of non-audit services by the Company's auditor is considered and approved by the Audit and Management Engagement Committee on a case by case basis. The policy set by the Audit and Management Engagement Committee, which is kept under review, ensures that consideration is given to the following factors when considering the provision of non-audit services by the auditor:

- the level of non-audit fees paid to the audit firm in relation to the statutory audit fee;
- whether the audit firm is the most suitable supplier of non-audit services;
- the impact on the auditor's independence and objectivity and what safeguards can be put in place to eliminate or reduce any threat in this regard; and
- the cost-effectiveness of the services.

The Board has determined that the auditor will not be considered for the provision of services related to accounting and preparation of the financial statements; the design, implementation and operation of information systems; actuarial and internal control functions; and legal, broker, investment adviser or investment banking services. With effect from 1 April 2016, the cost of non-audit services provided by the Company's auditor is subject to a cap of 70% of the average statutory audit fees over the previous three years.

### Financial Reporting Council ("FRC") review of Ernst & Young LLP's audit of the Company's financial statements for the year ended 31 March 2015

In November 2015 the FRC's Audit Quality Review (AQR) team undertook a review of Ernst & Young LLP's audit of the Company's financial statements for the year ended 31 March 2015. The Chairman of the Audit and Management Engagement Committee was interviewed as part of this review. No significant issues were raised in respect of the audit.

### Auditor

Following a tender process undertaken by the Audit and Management Engagement Committee, Ernst & Young LLP were appointed as auditor of the Company commencing with the 2014/15 financial year (date of appointment 10 July 2014). In accordance with EU regulation on auditor rotation and FRC guidance on audit tendering the Company will be required to put its audit contract out to tender at least every 10 years.

Ernst & Young LLP has carried out the audit for the year ended 31 March 2016 and were considered to be independent by the Board. Ernst & Young LLP have indicated their willingness to continue to act as Auditor to the Company for the forthcoming year and a resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.

**Peter Keen**  
Chairman of the Audit and  
Management Engagement Committee

25 May 2016

# Governance / Directors' Remuneration Report

for the year ended 31 March 2016

## Statement from the Chairman of the Remuneration Committee

I am pleased to present the Directors' Remuneration Report to shareholders.

This report has been prepared in accordance with the requirements of Section 421 of the Companies Act 2006 and the Enterprise and Regulatory Reform Act 2013. A non-binding Ordinary Resolution for the approval of this report was last put to the shareholders at the 2015 Annual General Meeting. The Directors Remuneration Policy Report, which is separate to this report can be found on page 46 of this annual report.

The law requires the Company's Auditor to audit certain of the disclosures provided in this report. Where disclosures have been audited, they are indicated as such and the Auditor's opinion is included in their report to shareholders beginning on page 47. The Remuneration Policy Report on page 46 forms part of this report.

The Remuneration Committee considers the framework for the remuneration of the Directors on an annual basis. It reviews the ongoing appropriateness of the Company's remuneration policy and the individual remuneration of Directors by reference to the activities of the Company and comparison with other companies of a similar structure and size. This is in line with the AIC Code.

At the most recent review held on 23 February 2016, it was agreed that there should be no increase to the fees paid to the Directors for the forthcoming year. The last increase took effect from 1 April 2015.

In the year to 31 March 2016, the Directors' fees were paid at the following annual rates: the Chairman of the Company £35,500, Peter Keen as Chairman of the Audit and Management Engagement Committee and myself as the Senior Independent Director received an annual fee of £27,000 and £25,000 for each other Director.

All levels of remuneration reflect both the time commitment and responsibility of the role.

## Directors' Fees

The Directors, as at the date of this report, and who all served throughout the year (unless where stated), received the fees listed in the table below. These exclude any employers' national insurance contributions, if applicable.

As noted in the Strategic Report, all of the Directors are non-executive and therefore there is no Chief Executive Officer. The Company does not have any employees. There is therefore no CEO or employee information to disclose.

## Directors' emoluments for the year (audited)

The Directors who served in the year received the following emoluments in the form of fees:

	Year ended 31 March 2016			Year ended 31 March 2015		
	Base Salary £	Taxable Benefits+ £	Total £	Base Salary £	Taxable Benefits+ £	Total £
The Rt Hon Lord Waldegrave of North Hill (Chairman)	35,500	–	35,500	34,000	–	34,000
Steven Bates (appointed 8 July 2015)	18,397	–	18,397	–	–	–
Sven Borho	25,000	–	25,000	24,000	–	24,000
Professor Dame Kay Davies, CBE	25,000	231	25,231	24,000	165	24,165
Paul Gaunt (retired on 8 July 2015)	4,744	506	5,250	24,000	1,783	25,783
Andrew Joy (Senior Independent Director & Chairman of the Remuneration Committee)*	27,000	–	27,000	25,449	–	25,449
Dr John Gordon (retired on 8 July 2014)	–	–	–	7,300	–	7,300
Peter Keen (Chairman of the Audit and Management Engagement Committee)	27,000	561	27,561	26,000	765	26,765
The Rt Hon Lord Willetts (appointed 11 November 2015)	9,679	–	9,679	–	–	–
	172,320	1,298	173,618	164,749	2,713	167,462

\* Appointed as Senior Independent Director and Chairman of the Remuneration Committee on 10 July 2014.

+ Taxable benefits primarily comprise travel and associated expenses incurred by the Directors in attending Board and Committee meetings in London. These are re-imbursed by the Company and, under a new interpretation of HMRC Rules, are subject to tax and National Insurance and therefore are treated as a Benefit in Kind with this table.

## Governance / Directors' Remuneration Report

The Directors are entitled to be re-imbursed for reasonable expenses incurred by them in connection with the performance of their duties and attendance at Board and General Meetings.

In certain circumstances, under HMRC rules, travel and other out of pocket expenses reimbursed to the Directors may be considered as taxable benefits. Where expenses are classed as taxable under HMRC guidance they are shown in the Taxable Benefits column of the table on the previous page.

### Relative cost of directors' remuneration for the year ended 31 March 2016

To enable Shareholders to assess the relative cost of directors' remuneration, this has been shown in the table below compared with the Company's AIFM, Portfolio Management and other expenses.

	2016 £000	2015 £000	Difference £000
Fees of non-executive directors (base salary)	172	165	7
AIFM, Portfolio management fees and other expenses (excluding performance fee provisions)	4,943	4,750	193
Performance fee provisions*	(1,854)	1,854	–

\* During the year ended 31 March 2016 no performance fees were paid (2015: £nil).

At the Annual General Meeting held in July 2015 the results in respect of the non-binding resolution to approve the Directors' Remuneration Report were as follows:

### Directors' remuneration report

	Percentage of votes cast For	Percentage of votes cast Against	Number of votes withheld
	99.20%	0.80%	53,991

At the Annual General Meeting held in July 2014 the results in respect of the binding resolution to approve the Directors' Remuneration Policy were as follows:

### Directors' remuneration policy

	Percentage of votes cast For	Percentage of votes cast Against	Number of votes withheld
	77.15	22.85	68,430

Further details concerning Director Remuneration can be found in the Corporate Governance section on page 26 of this Annual Report. A copy of the Directors' Remuneration Policy may be inspected by shareholders by either contacting the Company Secretary or visiting the Company's website at [www.biogtechgt.com](http://www.biogtechgt.com).

### Loss of office

Directors do not have service contracts with the Company but are engaged under Letters of Appointment. These specifically exclude any entitlement to compensation upon leaving office for whatever reason.

### Share price return

Share price versus the NASDAQ Biotechnology Index (sterling adjusted). The chart overleaf illustrates the shareholder return for a holding in the Company's shares as compared to the NASDAQ Biotechnology Index (sterling adjusted), which the Board has adopted as the measure for both the Company's performance and that of the Portfolio Manager for the period.

## Governance / Directors' Remuneration Report

### Shareholder total return for the seven years to 31 March 2016



### Directors' interests in ordinary shares

The Directors interests in the share capital of the Company are shown in the table below:

	Number of shares held as at		
	25 May 2016	31 March 2016	31 March 2015
The Rt Hon Lord Waldegrave of North Hill (Chairman)	58,716	58,716	58,716
Steven Bates (appointed 8 July 2015)	nil	nil	n/a
Sven Borho	236,218	236,218	236,218
Professor Dame Kay Davies, CBE	nil	nil	–
Paul Gaunt (retired 8 July 2015)	n/a	n/a	–
Andrew Joy	55,000	55,000	25,000
Peter Keen	55,000	55,000	55,000
The Rt Hon Lord Willetts (appointed 11 November 2015)	nil	nil	n/a

None of the Directors was granted or exercised rights over shares during the year. Sven Borho is a Partner at OrbiMed, the Company's Portfolio Manager, which is party to the Portfolio Management Agreement with the Company and receives fees as described on page 35 of this Annual Report.

### Annual statement

On behalf of the Board I confirm that the Remuneration Policy, set out on page 46 of this Annual Report, and Remuneration Report summarise, as applicable, for the year to 31 March 2016:

- the major decisions on Directors' remuneration;
- any substantial changes relating to Directors' remuneration made during the year; and
- the context in which the changes occurred and decisions have been taken.

### Andrew Joy

Senior Independent Director and Chairman of the Remuneration Committee

25 May 2016

## Governance / Directors' Remuneration Policy

The Company follows the recommendations of the AIC Code that Directors' remuneration should reflect their duties, responsibilities and the value of their time spent. The Board's policy is that the remuneration of the Directors should reflect the experience of the Board as a whole, and is determined with reference to comparable organisations and appointments. There are no performance conditions attaching to the remuneration of the Directors as the Board does not believe that this is appropriate for non-executive Directors. This policy is reviewed annually and it is intended that it will continue for the year ending 31 March 2017 and for subsequent financial years.

The fees for the Directors are determined within the limits set out in the Company's Articles of Association, the maximum aggregate limit currently being £250,000 per annum, and they are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. The current and projected Directors' fees are shown in the following table. The Company does not have any employees.

### Directors' fees current and projected

	Date of Appointment to the Board	Year to 31 March 2017 £	Year to 31 March 2016 £
The Rt Hon Lord Waldegrave of North Hill (Chairman)	6 June 1998	9,967	35,500
Steven Bates	8 July 2015	25,000	18,397
Sven Borho	23 March 2006	25,000	25,000
Professor Dame Kay Davies, CBE	15 March 2012	26,377	25,000
Paul Gaunt*	5 June 1997	–	4,744
Andrew Joy (Senior Independent Director and Chairman of the Remuneration Committee)	15 March 2012	33,055	27,000
Peter Keen (Chairman of the Audit & Management Engagement Committee)	23 June 1997	27,000	27,000
The Rt Hon Lord Willetts	11 November 2015	25,000	9,679
		171,399	172,320

\* Retired on 8 July 2015.

The Rt Hon Lord Waldegrave of North Hill be retiring from the Board on the conclusion of the Annual General Meeting to be held on 12 July 2016 and Andrew Joy will succeed him as Chairman. Professor Dame Kay Davies will also succeed Mr Joy as the Senior Independent Director and Chairman of the Remuneration Committee with effect from this date.

No change is expected to the current level of Directors' fees until at least February 2017. Any new Director being appointed to the Board that has not been appointed as either Chairman of a Committee or as the Senior Independent Director will under the current level of fees receive £25,000 per annum.

### Directors' remuneration year ended 31 March 2016

None of the Directors has a service contract. The terms of their appointment provide that Directors shall retire and be subject to election at the first Annual General Meeting after their appointment and to re-election annually thereafter. The terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office.

No communications have been received from shareholders regarding Directors' remuneration.

In accordance with best practice recommendations the Board will put the Remuneration Policy to shareholders at the Annual General Meeting at least once every three years.

Approval of this policy was granted by shareholders at the Annual General Meeting held in July 2014.

# Governance / Independent Auditor's Report to the Members of The Biotech Growth Trust PLC

## Opinion on financial statements

### In our opinion:

- The financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## What we have audited

The Biotech Growth Trust PLC financial statements comprise:

- Income Statement for the year ended 31 March 2016
- Statement of Financial Position as at 31 March 2016
- Statement of Changes in Equity as at 31 March 2016
- Statement of Cash Flows as at 31 March 2016
- Related notes 1 to 16 to the financial statements

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

## Overview of our audit approach

### Risks of material misstatement

- Incorrect valuation of the investment portfolio
- Incomplete recognition of gains/(losses) on investment

### Audit scope

- We performed an audit of the complete financial information of The Biotech Growth Trust PLC

### Materiality

- Materiality of £3.8 m which represents 1% of total equity (2015: £5.3 m) as at 31 March 2016.

# Governance / Independent Auditor's Report to the Members of The Biotech Growth Trust PLC

## Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit Committee
<p><b>Incorrect valuation and existence of the investment portfolio, including incorrect application of exchange rate movements</b></p> <p>The valuation of the assets held in the investment portfolio is the key driver of the Company's investment return. The portfolio is 99% comprised of listed investments. Incorrect asset pricing or failure to hold appropriate legal title could have a significant impact on the portfolio valuation and, therefore, the return generated for members.</p>	<p><b>We performed the following procedures:</b></p> <p>We understood and assessed the design and implementation of key controls surrounding the valuation and existence of portfolio investments. For quoted investments, we agreed 100% of the year end prices to independent pricing sources.</p> <p>For the unquoted investment, we have assessed the Company's valuation technique and confirmed the inputs used by checking to independent sources and obtaining confirmation from an independent source to confirm the fair value as at the year end date is in accordance with the Company's valuation policy.</p> <p>We agreed the number of shares held for each security to independent confirmation of legal title received from the Company's depository, J.P. Morgan Europe Limited.</p> <p>We have also assessed the reasonableness of the FX used to an independent source. No issues noted.</p>	<ul style="list-style-type: none"> <li>• From our work on quoted investments, no misstatements were identified which required reporting to the Audit and Management Engagement Committee</li> <li>• From our work on unquoted investments, no misstatements were identified which required reporting to the Audit and Management Engagement Committee.</li> <li>• From our work on the existence of investments, no misstatements were identified which required reporting to the Audit and Management Engagement Committee.</li> <li>• From our work on the application of the exchange rate, no misstatements were identified which required reporting to the Audit and Management Engagement Committee.</li> </ul>

# Governance / Independent Auditor's Report to the Members of The Biotech Growth Trust PLC

Risk	Our response to the risk	What we concluded to the Audit Committee
<p>Incomplete recognition of gains/(losses) on investment</p>	<p><b>We performed the following procedures:</b></p> <p>We understood and assessed the design and implementation of key controls surrounding revenue recognition.</p> <p>For realised gains/(losses), on a sample basis, we have agreed the disposal made to the contract notes and traced the sale proceeds to bank statements. We have also ensured that the cost of the investment being disposed of has been correctly calculated and have recalculated the realised gains/(losses) with no issues noted.</p> <p>For the unrealised gain, we have performed a recalculation at year end.</p>	<p>From our work on gains/(losses) on investments, no misstatements were identified which required reporting to the Audit and Management Engagement Committee.</p>

- In the prior year, our auditor's report included a risk of material misstatement in relation to performance fees and investment trust status.
- In the current year, no performance fee was paid to the portfolio manager or the AIFM as prior year performance was not maintained in the current year as described in note 3 in the financial statements and therefore, we consider risk of material misstatement to be low in this area.
- We consider risk of material misstatement with regards to investment trust status to be low due to appropriate controls in place with respect to robust compliance procedures in place.

## The scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company and this enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls at Frostrow Capital LLP and J.P. Morgan Chase Bank, changes in the business environment and other factors such as recent Service Organisation Control report when assessing the level of work to be performed at Company level.

## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

# Governance / Independent Auditor's Report to the Members of The Biotech Growth Trust PLC

## Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined planning materiality for the Company to be £3.8m (2015: £5.3m), which is 1% of total equity as at 31 March 2016. We derived our materiality calculation from a proportion of total equity as we consider that to be the most important financial metric on which shareholders judge the performance of the Company.

## Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgment was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Company should be 75% (2015: 50%) of planning materiality, being £2.8m (2015: £2.6m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected and last year 50% threshold was used as it was our first year of audit.

## Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the audit committee that we would report all audit differences in excess of £189,000 (2015: £266,000) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 39, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

# Governance / Independent Auditor's Report to the Members of The Biotech Growth Trust PLC

## Opinion on other matters prescribed by the Companies Act 2006

### In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

<p><b>ISAs (International Standard on Auditing) (UK and Ireland) reporting</b></p>	<p>We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:</p> <ul style="list-style-type: none"> <li>• materially inconsistent with the information in the audited financial statements; or</li> <li>• apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or</li> <li>• otherwise misleading.</li> </ul> <p>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.</p>	<p>We have no exceptions to report.</p>
<p><b>Companies Act 2006 reporting</b></p>	<p>We are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> <li>• adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or</li> <li>• the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or</li> <li>• certain disclosures of Directors' remuneration specified by law are not made; or</li> <li>• we have not received all the information and explanations we require for our audit.</li> </ul>	<p>We have no exceptions to report.</p>
<p><b>Listing Rules review requirements</b></p>	<p>We are required to review:</p> <ul style="list-style-type: none"> <li>• the Directors' statement in relation to going concern set out on page 38 and longer-term viability, set out on page 19; and</li> <li>• the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.</li> </ul>	<p>We have no exceptions to report.</p>

# Governance / Independent Auditor's Report to the Members of The Biotech Growth Trust PLC

## Statement on the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

<p>ISAs (UK and Ireland) reporting</p>	<p>We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:</p> <ul style="list-style-type: none"> <li>the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;</li> <li>the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;</li> <li>the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and</li> <li>the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.</li> </ul>	<p>We have nothing material to add or draw attention to.</p>
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**AMARJIT SINGH**  
 SENIOR STATUTORY AUDITOR  
 FOR AND ON BEHALF OF ERNST & YOUNG LLP  
 STATUTORY AUDITOR  
 LONDON  
 25 May 2016

# Financial Statements / Income Statement

for the year ended 31 March 2016

	Notes	Revenue £'000	2016 Capital £'000	Total £'000	Revenue £'000	2015 Capital £'000	Total £'000
<b>Investment Income</b>							
Investment income	2	1,820	–	1,820	988	–	988
<b>Total income</b>		1,820	–	1,820	988	–	988
<b>(Losses)/gains on investments</b>							
(Losses)/gains on investments held at fair value through profit or loss	8	–	(125,284)	(125,284)	–	225,023	225,023
Exchange losses on currency balances		–	(1,802)	(1,802)	–	(4,858)	(4,858)
<b>Expenses</b>							
AIFM, Portfolio management and performance fees	3	–	(2,353)	(2,353)	–	(5,869)	(5,869)
Other expenses	4	(736)	–	(736)	(735)	–	(735)
<b>Profit/(loss) before finance costs and taxation</b>		1,084	(129,439)	(128,355)	253	214,296	214,549
Finance costs	5	–	(340)	(340)	–	(157)	(157)
<b>Profit/(loss) before taxation</b>		1,084	(129,779)	(128,695)	253	214,139	214,392
Taxation	6	(254)	–	(254)	(132)	–	(132)
<b>Profit/(loss) for the year</b>		830	(129,779)	(128,949)	121	214,139	214,260
<b>Basic and diluted earnings/(loss) per share</b>	7	1.3p	(209.4)p	(208.1)p	0.2p	327.8p	328.0p

The Company does not have any income or expenses which are not included in the loss for the year. Accordingly the “loss for the year” is also the “total comprehensive loss for the year”, as defined in IAS 1 (revised) and no separate Statement of Comprehensive Income has been presented.

All of the loss for the year is attributable to the owners of the Company.

The “Total” column of this statement represents the Company’s Income Statement, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The “Revenue” and “Capital” columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

The accompanying notes from page 57 to page 69 are an integral part of this statement.

# Financial Statements / Statement of Financial Position

as at 31 March 2016

	Notes	2016 £'000	2015 £'000
<b>Non current assets</b>			
Investments held at fair value through profit or loss	8	420,427	583,209
<b>Current assets</b>			
Other receivables	9	4,718	3,325
		4,718	3,325
<b>Total assets</b>		425,145	586,534
<b>Current liabilities</b>			
Other payables	10	10,389	4,849
Bank overdraft		36,189	48,383
		46,578	53,232
<b>Net assets</b>		378,567	533,302
<b>Equity attributable to equity holders</b>			
Ordinary share capital	11	15,074	17,222
Share premium account		43,021	43,021
Special reserve		–	252
Capital redemption reserve		7,725	5,577
Capital reserve	16	315,594	470,907
Revenue reserve		(2,847)	(3,677)
<b>Total equity</b>		378,567	533,302
<b>Net asset value per share</b>	12	627.9p	834.7p

The financial statements on pages 53 to 69 were approved by the Board on 25 May 2016 and were signed on its behalf by:

**The Rt Hon Lord Waldegrave of North Hill**  
Chairman

The accompanying notes from page 57 to page 69 are an integral part of this statement.

The Biotech Growth Trust PLC – Company Registration Number 3376377 (Registered in England)

## Financial Statements / Statement of Changes in Equity

for the year ended 31 March 2016

	Ordinary share capital £'000	Share premium account £'000	Special reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 31 March 2015	17,222	43,021	252	5,577	470,907	(3,677)	533,302
Net (loss)/profit for the year	–	–	–	–	(129,779)	830	(128,949)
Repurchase of own shares to be held in treasury*	–	–	(252)	–	(10,241)	–	(10,493)
Repurchase of own shares for cancellation*	(570)	–	–	570	(15,293)	–	(15,293)
Cancellation of own shares held in treasury*	(1,578)	–	–	1,578	–	–	–
<b>At 31 March 2016</b>	<b>15,074</b>	<b>43,021</b>	<b>–</b>	<b>7,725</b>	<b>315,594</b>	<b>(2,847)</b>	<b>378,567</b>

\* Further details can be found in note 11 on page 64.

for the year ended 31 March 2015

	Ordinary share capital £'000	Share premium account £'000	Special reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 31 March 2014	17,222	42,732	21,747	5,577	256,768	(3,798)	340,248
Net profit for the year	–	–	–	–	214,139	121	214,260
Repurchase of own shares to be held in treasury	–	–	(22,043)	–	–	–	(22,043)
Shares issued from treasury	–	289	548	–	–	–	837
<b>At 31 March 2015</b>	<b>17,222</b>	<b>43,021</b>	<b>252</b>	<b>5,577</b>	<b>470,907</b>	<b>(3,677)</b>	<b>533,302</b>

The accompanying notes from page 57 to page 69 are an integral part of this statement.

## Financial Statements / Statement of Cash Flows

for the year ended 31 March 2016

	2016 £'000	2015 £'000
<b>Operating activities</b>		
(Loss)/profit before taxation*	(128,695)	214,392
Finance costs	340	157
Losses/(gains) on investments held at fair value through profit or loss	125,284	(225,023)
(Increase)/decrease in other receivables	(24)	139
(Decrease)/increase in other payables	(2,218)	1,388
<b>Net cash outflow from operating activities before interest and taxation</b>	<b>(5,313)</b>	<b>(8,947)</b>
Finance costs	(340)	(157)
Taxation paid	(254)	(132)
<b>Net cash outflow from operating activities</b>	<b>(5,907)</b>	<b>(9,236)</b>
<b>Investing Activities</b>		
Purchases of investments held at fair value through profit or loss	(378,906)	(358,924)
Sales of investments held at fair value through profit or loss	422,793	368,863
<b>Net cash inflow from investing activities</b>	<b>43,887</b>	<b>9,939</b>
<b>Financing activities</b>		
Proceeds from sale of treasury shares	–	837
Repurchase of own shares to be held in treasury	(10,493)	(22,043)
Repurchase of own shares for cancellation	(15,293)	–
<b>Net cash outflow from financing</b>	<b>(25,786)</b>	<b>(21,206)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>12,194</b>	<b>(20,503)</b>
Cash and cash equivalents at start of year	(48,383)	(27,880)
<b>Cash and cash equivalents at end of year</b>	<b>(36,189)</b>	<b>(48,383)</b>

\* Includes dividends received during the year of £1,817,000 (2015: £1,036,000).

The accompanying notes from page 57 to page 69 are an integral part of this statement.

# Financial Statements / Notes to the Financial Statements

## I. Accounting policies

### (a) Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ("IASC") that remain in effect, to the extent that IFRS have been adopted by the European Union. The principal accounting policies adopted are set out below.

The financial statements have been prepared under the historical cost convention, except for the measurement at fair value of investments. Where presentational guidance set out in the Statement of Recommended Practice ("the SORP") for Investment Trust Companies and Venture Capital Trusts produced by the Association of Investment Companies ("AIC") revised November 2014 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

The Company's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. The accounts have been prepared on a going concern basis as the Directors consider that in the foreseeable future (at least 12 months from the date of approval of the financial statements) the Company will continue to be able to meet its liabilities as they fall due.

The accounting policies adopted are consistent with those of the previous financial year.

### Judgements and key sources of estimation and uncertainty

The preparation of the financial statements requires the Directors to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. In the process of applying the Company's accounting policies, the Directors have made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

### Fair value of the unquoted investments

The unquoted investment has been valued using the NAV as at 31 December 2015. The Directors believe that the NAV as at 31 March 2016 is not materially different.

### (b) Investments

Investments are recognised and de-recognised on the trade date.

As the entity's business is investing in financial assets with a view to profiting from their total return in the form of dividends or increases in fair value, investments are designated as fair value through profit or loss and are initially recognised at fair value. The entity manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the investments is provided internally on this basis to the Board.

Investments designated as at fair value through profit or loss, which are quoted investments, are measured at subsequent reporting dates at fair value which is either the bid or the last trade price, depending on the convention of the exchange on which it is quoted.

In respect of unquoted investments, or where the market for a financial instrument is not active, fair value is established by using valuation techniques which may include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is utilised.

Gains and losses on disposal and fair value changes are also recognised in the Income Statement.

# Financial Statements / Notes to the Financial Statements

## I. Accounting policies continued

### (c) Presentation of Income Statement

In order to better reflect the activities of an investment trust company, and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. Net revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in section 1158 of the Corporation Tax Act 2010.

### (d) Income

Dividends receivable on equity shares are recognised on the ex-dividend date. Where no ex-dividend date is quoted, dividends are recognised when the Company's right to receive payment is established.

Dividends from investments in unquoted shares and securities are recognised when they become receivable.

### (e) Expenses and finance costs

All expenses are accounted for on an accruals basis. Expenses are charged through the Income Statement as follows:

- expenses which are incidental to the acquisition or disposal of an investment are charged to the capital column of the Income Statement;
- expenses are charged to the capital column of the Income Statement where a connection with the maintenance or enhancement of the value of the investment can be demonstrated, and accordingly;
- AIFM and Portfolio management fees are charged to the capital column of the Income Statement as the Directors expect that in the long term virtually all of the Company's returns will come from capital; and
- bank overdraft interest is charged through the Income Statement on an effective rate basis and allocated to the capital column, as the Directors expect that in the long-term virtually all of the Company's returns will come from capital.

### (f) Taxation

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Income Statement is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue column of the Income Statement, then no tax relief is transferred to the capital column.

Investment trusts which have approval under Section 1158 Corporation Tax Act 2010 are not liable for taxation on capital gains.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the Balance Sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, or Other Comprehensive Income (OCI), in which case the deferred tax is also dealt with in equity or OCI respectively.

### (g) Foreign currencies

The currency of the primary economic environment in which the Company operates (the functional currency) is pounds sterling ("sterling"), which is also the presentational currency of the Company. Transactions involving currencies other than sterling are recorded at the exchange rate ruling on the transaction date. At each Statement of Financial Position date, monetary items and non-monetary assets and liabilities that are fair valued, which are denominated in foreign currencies, are retranslated at the closing rates of exchange.

# Financial Statements / Notes to the Financial Statements

## 1. Accounting policies continued

Exchange differences arising on settlements of monetary items and from retranslating at the Statement of Financial Position date including investments and other financial instruments measured as fair value through profit or loss and other monetary items are included in the Income Statement and allocated as capital if they are of a capital nature, or as revenue if they are of a revenue nature.

### (h) Functional and presentational currency

The financial information is shown in sterling, being the Company's presentational currency. In arriving at the functional currency the Directors have considered the following:

- (i) the primary economic environment of the Company;
- (ii) the currency in which the original capital was raised;
- (iii) the currency in which distributions are made;
- (iv) the currency in which performance is evaluated; and
- (v) the currency in which the capital would be returned to shareholders on a break up basis.

The Directors have also considered the currency to which the underlying investments are exposed and liquidity is managed. The Directors are of the opinion that sterling best represents the functional currency.

### (i) Reserves

#### Capital reserves

The following are credited or charged to the capital column of the Income Statement and then transferred to the Capital Reserve:

- gains or losses on disposal of investments
- exchange differences of a capital nature
- expenses allocated to this reserve in accordance with the above referred policies
- increases and decreases in the valuation of investments held at year end

#### Capital redemption reserve

- a transfer will be made to this reserve on cancellation of the Company's own shares purchased, equal to the nominal value of the Shares

#### Special reserve

During the financial year ended 31 March 2004, a Special Reserve was created, following the cancellation of the Share Premium account, in order to provide an increased distributable reserve out of which to purchase the Company's own shares.

- a transfer will be made from this reserve on cancellation of the Company's own shares purchased or when the Company repurchases its own shares to be held in treasury.

### (j) Cash and cash equivalents

Cash in hand and in banks and short-term deposits with an original maturity of three months or less. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts that are repayable on demand, which form an integral part of the Company's cash management, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### (k) Bank overdraft

The Company has an overdraft facility repayable on demand, provided by J.P. Morgan Clearing Corp. Interest on the facility is charged at the Federal Funds open rate plus 45 basis points. Finance costs are apportioned 100% to capital in accordance with the policy set out under note 1(e) Expenses and finance costs on page 58.

# Financial Statements / Notes to the Financial Statements

## 1. Accounting policies continued

### (l) Operating segments

IFRS 8 requires entities to define operating segments and segment performance in the financial statements based on information used by the Board of Directors. The Directors are of the opinion that the Company is engaged in a single segment of business, being the investments business. The results published in this report therefore correspond to this sole operating segment.

In line with IFRS 8, additional disclosure by geographical segment has been provided in note 14 on page 68 of this Annual Report.

### (m) Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Company's contractual right to the cash flows from the asset expires or substantially all the risks and rewards of ownership are transferred. Financial liabilities are derecognised when the contractual obligation is discharged, with gains and losses recognised in the income statement.

### (n) Standards, amendments and interpretations to existing standards become effective in future accounting periods and have not been adopted by the Company:

- IFRS 9 Financial Instruments – In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required but comparative information is not compulsory. The adoption of IFRS 9 is unlikely to have a material effect on the classification and measurement of the Company's financial assets or financial liabilities.

## 2. Income

	2016 £'000	2015 £'000
Investment income		
Overseas dividend income	1,820	988
Total income	1,820	988

## 3. AIFM, portfolio management and performance fees

	Revenue £'000	Capital £'000	2016 Total £'000	Revenue £'000	Capital £'000	2015 Total £'000
AIFM fee	–	1,266	1,266	–	1,249	1,249
Portfolio management fee	–	2,941	2,941	–	2,766	2,766
Performance fee	–	(1,854)	(1,854)	–	1,854	1,854
	–	2,353	2,353	–	5,869	5,869

The performance fee amount of £1,854,000 which was written back during the year represents outperformance generated as at 31 March 2015 which was not maintained for the twelve month period. In accordance with the performance fee arrangements this amount was written back as at 31 March 2016.

Further details of the AIFM, portfolio management fee and the performance fee basis can be found in the Report of the Directors on page 35 of this Annual Report.

## Financial Statements / Notes to the Financial Statements

### 4. Other expenses

	Revenue £'000	Capital £'000	2016 Total £'000	Revenue £'000	Capital £'000	2015 Total £'000
Directors' emoluments	172	–	172	165	–	165
AIFM fixed fee	60	–	60	60	–	60
Auditor's remuneration for the audit of the Company's financial statements	26	–	26	25	–	25
Auditor's remuneration for independent review of the half year accounts and performance fee calculations	7	–	7	6	–	6
Auditor's remuneration for tax compliance services	3	–	3	3	–	3
Legal and professional fees	25	–	25	84	–	84
Registrar fees	61	–	61	49	–	49
Depositary fees	66	–	66	50	–	50
Listing fees	26	–	26	23	–	23
Other including irrecoverable VAT	290	–	290	270	–	270
<b>Total expenses</b>	<b>736</b>	<b>–</b>	<b>736</b>	<b>735</b>	<b>–</b>	<b>735</b>

Details of the amounts paid to Directors are included in the Directors' Remuneration Report and the Directors' Remuneration Policy Report on pages 43 to 46 of this Annual Report.

### 5. Finance costs

	Revenue £'000	Capital £'000	2016 Total £'000	Revenue £'000	Capital £'000	2015 Total £'000
Bank overdraft interest	–	340	340	–	157	157
	–	340	340	–	157	157

### 6. Taxation

#### (a) Analysis of charge in the year:

	Revenue £'000	Capital £'000	2016 Total £'000	Revenue £'000	Capital £'000	2015 Total £'000
Overseas tax suffered	254	–	254	132	–	132
Total current taxation for the year (see note 6(b))	254	–	254	132	–	132

# Financial Statements / Notes to the Financial Statements

## 6. Taxation continued

### (b) Factors affecting total tax charge for year

Approved investment trusts are exempt from tax on capital gains made within the Company.

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below:

	Revenue £'000	Capital £'000	2016 Total £'000	Revenue £'000	Capital £'000	2015 Total £'000
Net profit on ordinary activities before taxation	1,084	(129,779)	(128,695)	253	214,139	214,392
Corporation tax at 20% (2015: 21%)	217	(25,956)	(25,739)	53	44,969	45,022
Effects of:						
Non-taxable losses/(gains) on investments	–	25,417	25,417	–	(46,235)	(46,235)
Non-taxable overseas dividends	(364)	–	(364)	(208)	–	(208)
Overseas taxes	254	–	254	132	–	132
Excess expenses unused	147	539	686	155	1,266	1,421
Total tax charge	254	–	254	132	–	132

### (c) Provision for deferred tax

No provision for deferred taxation has been made in the current or prior year.

The Company has not provided for deferred tax on capital gains or losses arising on the revaluation or disposal of investments, as it is exempt from tax on these items because of its status as an investment trust company.

The Company has not recognised a deferred tax asset of £6,876,000 (18% tax rate) (2015: £6,954,000 (20% tax rate)) arising as a result of excess management expenses and loan relationship deficits. These excess expenses will only be utilised if the Company generates sufficient taxable income in the future.

## 7. Basic and diluted earnings/(loss) per share

The Return/(loss) per Ordinary Share is as follows:

	Revenue pence	Capital pence	2016 Total pence	Revenue pence	Capital pence	2015 Total pence
Earnings/(loss) per share	1.3	(209.4)	(208.1)	0.2	327.8	328.0

The total loss per share of 208.1p (2015: gain 328.0p) is based on the total loss attributable to equity shareholders of £128,949,000 (2015: gain £214,260,000).

The revenue gain per share 1.3p (2015: gain 0.2p) is based on the revenue gain attributable to equity shareholders of £830,000 (2015: revenue gain of £121,000). The capital loss per share of 209.4p (2015: gain 327.8p) is based on the capital loss attributable to equity shareholders of £129,779,000 (2015: gain £214,139,000).

The total earnings per share are based on the weighted average number of shares in issue during the year of 61,972,355 (excluding shares held in treasury) (2015: 65,319,717 (excluding shares held in treasury)).

## Financial Statements / Notes to the Financial Statements

### 8. Investments held at fair value through profit and loss

All investments are designated as fair value through profit or loss on initial recognition, therefore all gains and losses arise on investments designated as fair value through profit or loss.

As at 31 March 2016, all investments with the exception of the unquoted investment in OrbiMed Asia Partners L.P. fund have been classified as level 1. OrbiMed Asia Partners L.P. fund has been classified as level 3. See note 13 beginning on page 64 for further details.

	2016			2015
	Listed Equity £'000	Unquoted £'000	Total £'000	Total £'000
Cost at 1 April 2015	344,013	2,827	346,840	268,805
Investment holding gains at 1 April 2015	235,757	612	236,369	99,557
Valuation at 1 April 2015	579,770	3,439	583,209	368,362
Movement in the year				
Purchases at cost	386,664	–	386,664	350,079
Sales – proceeds	(423,948)	(214)	(424,162)	(360,255)
– gains on disposal	69,922	1	69,923	88,211
Net movement in investment holding gains	(195,995)	788	(195,207)	136,812
Valuation at 31 March 2016	416,413	4,014	420,427	583,209
Closing book cost at 31 March 2016	376,651	2,614	379,265	346,840
Investment holding gains at 31 March 2016	39,762	1,400	41,162	236,369
Valuation at 31 March 2016	416,413	4,014	420,427	583,209

	2016 £'000	2015 £'000
(Losses)/gains on investments:		
Gains on disposal based on historical cost	69,923	88,211
Amounts recognised as investment holding loss in previous year	(105,360)	(43,024)
(Losses)/gains on disposal based on carrying value at previous financial position date	(35,437)	45,187
Net movement in investment holding gains in the year	(89,847)	179,836
(Losses)/gains on investments	(125,284)	225,023

The total transaction costs for the year were £453,000 (31 March 2015: £499,000) broken down as follows: purchase transaction costs for the year to 31 March 2016 were £187,000, (31 March 2015: £210,000), sale transaction costs were £266,000 (31 March 2015: £289,000). These costs consist mainly of commission.

The main contributor to the decrease in transaction costs during the year is the increased use of electronic trading, which carries lower commission rates.

### 9. Other receivables

	2016 £'000	2015 £'000
Future settlements – sales	4,556	3,187
Other debtors	26	15
Prepayments and accrued income	136	123
	4,718	3,325

### 10. Other payables

	2016 £'000	2015 £'000
Future settlements – purchases	9,340	1,582
Performance fee accrued	–	1,854
Other creditors and accruals	1,049	1,413
	10,389	4,849

# Financial Statements / Notes to the Financial Statements

## 11. Ordinary share capital

				2016 £'000	2015 £'000
<b>Allotted, issued and fully paid:</b>					
60,295,474 shares of 25p (2015: 63,888,516)				15,074	15,972
No shares were held in treasury at 31 March 2016 (2015: 4,997,831)				–	1,250
				15,074	17,222

	Issued & fully paid	2016 Treasury Shares	Outstanding Shares	Issued & fully paid	2015 Treasury Shares	Outstanding Shares
At 1 April	68,886,347	4,997,831	63,888,516	68,886,347	662,309	68,224,038
Repurchase of own shares to be held in treasury	–	1,313,257	(1,313,257)	–	4,445,522	(4,445,522)
Cancellation of own shares held in treasury	(6,311,088)	(6,311,088)	–	–	–	–
Repurchase of own shares for cancellation	(2,279,785)	–	(2,279,785)	–	–	–
Sale of treasury shares	–	–	–	–	(110,000)	110,000
At 31 March 2016	60,295,474	–	60,295,474	68,886,347	4,997,831	63,888,516

As at 31 March 2016 the Company had 60,295,474 shares of 25p in issue, no shares were held in treasury (2015: 68,886,347 shares including 4,997,831 shares held in treasury). As at 13 July 2015, the Company held a total of 6,311,088 shares in treasury. This figure included shares repurchased by the Company between 7 March 2014 and 26 June 2015. In July 2015 the Board made the decision to cancel all of the shares held in treasury and to cancel any further shares repurchased by the Company. On 13 July 2015 6,311,088 shares held in treasury were cancelled. During the year a total of 3,593,042 share were repurchased by the Company. Of this total 1,313,257 were repurchased into treasury at a cost of £10,493,000 and 2,279,785 were repurchased for cancellation at a cost of £15,293,000. Subsequent to the year end and to the date of this report a further 790,966 shares were repurchased for cancellation at a cost of £4,812,000 (including expenses).

## 12. Net asset value per share

	2016	2015
Net asset value per share	627.9p	834.7p

The net asset value per share is based on the net assets attributable to equity shareholders of £378,567,000 (2015: £533,302,000) and on 60,295,474 (2015: 63,888,516) shares in issue at 31 March 2016.

## 13. Risk management policies and procedures

As an investment trust, the Company invests in equities and other investments for the long term in order to achieve its investment objective as stated on page 12. In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction or increase in the Company's net assets or in profits.

The Company's financial instruments comprise securities and other investments, cash balances, debtors and creditors and an overdraft facility that arise directly from its operations (for example, in respect of sales and purchases awaiting settlement).

The main risks the Company faces from its financial instruments are (i) market price risk (comprising currency risk, interest rate risk and other price risk (i.e. changes in market prices other than those arising from interest rate or currency risk)), (ii) liquidity risk and (iii) credit risk.

The Board reviews and agrees policies regularly for managing and monitoring each of these risks.

### 1. Market price risk:

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk.

# Financial Statements / Notes to the Financial Statements

## 13. Risk management policies and procedures continued

The Company's portfolio is exposed to market price fluctuations which are monitored by the AIFM and the Portfolio Manager in pursuance of the investment objective. Further information on the composition of the portfolio is set out on page 6.

No derivatives or hedging instruments are utilised to manage market price risk.

### (a) Currency risk:

A significant proportion of the Company's portfolio is denominated in currencies other than sterling (the Company's functional currency, and in which it reports its results). As a result, movements in exchange rates can significantly affect the sterling value of those items.

### Management of risk

The AIFM and Portfolio Manager monitor the Company's exposure to foreign currencies on a continuous basis and report to the Board regularly. The Company does not hedge against foreign currency movements, but the Portfolio Manager takes account of the risk when making investment decisions.

Income denominated in foreign currencies is converted into sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that the income is included in the financial statements and its receipt.

### Foreign currency exposure

At the date of the Statement of Financial Position the Company held £387,367,000 (2015: £562,512,000) of investments denominated in U.S. dollars and £33,060,000 (2015: £20,697,000) in other non-sterling currencies.

### Currency sensitivity

The following table details the sensitivity of the Company's profit or loss after taxation for the year to a 10% increase and decrease in the value of sterling compared to the U.S. dollar (2015: 10% increase and decrease).

The above percentages have been determined based on market volatility in exchange rates over the previous twelve months. The analysis is based on the Company's foreign currency financial instruments held at each Statement of Financial Position date, after adjusting for an increase/decrease in management fees. Movements in the performance fee accruals have been excluded from the analysis below.

If sterling had weakened against the U.S. dollar, as stated above, this would have had the following effect:

	2016 USD £'000	2015 USD £'000
Impact on revenue return	–	–
Impact on capital return	42,761	62,095
Total return after tax/effect on shareholders' funds	42,761	62,095

If sterling had strengthened against the U.S. dollar, as stated above, this would have had the following effect:

	2016 USD £'000	2015 USD £'000
Impact on revenue return	–	–
Impact on capital return	(34,986)	(50,805)
Total return after tax/effect on shareholders' funds	(34,986)	(50,805)

### (b) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

# Financial Statements / Notes to the Financial Statements

## 13. Risk management policies and procedures continued

### Interest rate exposure

The Company's main exposure to interest rate risk is through its overdraft facility with J.P. Morgan Clearing Corp. which is repayable on demand.

At the year end financial liabilities subject to interest rate risk were as follows (there were no assets subject to interest rate risk).

	2016 £'000	2015 £'000
Financial liabilities: Overdraft facility	36,189	48,383

Interest is charged at the Federal Funds open rate plus 45 basis points.

### (c) Other price risk

Other price risk may affect the value of the quoted investments.

If market prices at the date of the Statement of Financial Position had been 20% higher or lower (2015: 20% higher or lower) while all other variables had remained constant, the return and net assets attributable to shareholders for the year ended 31 March 2016 would have increased/decreased by £83,287,000 (2015: £115,884,000), after adjusting for an increase or decrease in the AIFM and Portfolio management fees. The calculations are based on the portfolio valuations as at the respective Statement of Financial Position dates.

## 2. Liquidity risk:

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

### Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted equities that are readily realisable within one week, in normal market conditions.

The Board gives guidance to the Portfolio Manager as to the maximum amount of the Company's resources that should be invested in any one company.

### Liquidity exposure and maturity

Contractual maturities of the financial liabilities as at 31 March 2016, based on the earliest date on which payment can be required, are as follows:

	2016 3 months or less £'000	2015 3 months or less £'000
Overdraft facility	36,189	48,383
Amounts due to brokers and accruals	10,389	4,849
	46,578	53,232

## 3. Credit risk:

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

## Financial Statements / Notes to the Financial Statements

### 13. Risk management policies and procedures continued

Certain of the Company's Investments are held by J.P. Morgan Clearing Corp. as collateral for the loan provided by them to the Company. Such assets held by J.P. Morgan Clearing Corp. are available for rehypothecation†. As at 31 March 2016, assets with a total market value of £49.3 million (31 March 2015: £67.7 million) were available for rehypothecation.

† See glossary on page 72 of this Annual Report.

#### Management of the risk

The risk is not significant and is managed as follows:

- by only dealing with brokers which have been approved by OrbiMed Capital LLC and banks with high credit ratings; and
- by setting limits to the maximum exposure to any one counterparty at any time.
- all cash balances are held with approved counterparties. J.P. Morgan Clearing Corp. is the custodian of the Company's assets and all assets are segregated from J.P. Morgan's own assets.

At 31 March 2016 the Company's exposure to credit risk amounted to £4,718,000 and was in respect of amounts due from brokers in relation to future settlements and other receivables, such as amounts due from brokers and accrued income (2015: £3,325,000).

#### Hierarchy of investments

The Company has classified its financial assets designated at fair value through profit or loss using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements. The hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 March 2016 the investment in OrbiMed Asia Partners LP fund has been classified as Level 3. The fund has been valued at the net asset value as at 31 December 2015 and it is believed that the value of the fund as at 31 March 2016 will not be materially different. If the value of the fund was to increase or decrease by 10%, while all other variables had remained constant, the return and net assets attributable to Shareholders for the year ended 31 March 2016 would have increased/decreased by £401,000 (2015: £344,000).

As of 31 March 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Financial investments designated at fair value through profit or loss	416,413	–	4,014	420,427
As of 31 March 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Financial investments designated at fair value through profit or loss	579,770	–	3,439	583,209

#### Level 3 Reconciliation

Please see overleaf a reconciliation disclosing the changes during the year for the financial assets and liabilities designated at fair value through profit or loss classified as being Level 3. There has been no transfer between fair value hierarchy.

# Financial Statements / Notes to the Financial Statements

## 13. Risk management policies and procedures continued

	2016 £'000	2015 £'000
Assets		
As at 1 April	3,439	2,495
Net movement in investment holding gains during the year (Return of capital)/capital contribution	789 (214)	677 267
Assets as at 31 March 2016	4,014	3,439

### Fair value of financial assets and financial liabilities:

Financial assets and financial liabilities are either carried in the Statement of Financial Position at their fair value or at a reasonable approximation of fair value.

### Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to maximise the total return to its equity shareholders through an appropriate balance of equity capital and debt.

The Company's capital is disclosed in the Statement of Financial Position on page 54 and is managed on a basis consistent with its investment objective and policy as set out on pages 12 and 13. The Company currently has an overdraft facility with J.P. Morgan Clearing Corp. which is repayable on demand, which can be used to satisfy the Company's borrowing requirements.

The Board, with the assistance of the AIFM and the Portfolio Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Portfolio Manager's view of the market;
- the need to buy-back equity shares, for cancellation, or to be held in treasury which takes account of the difference between the net asset value per share and the share price (i.e. the level of share price discount or premium);
- the possible need for new issues of equity shares; and
- the extent to which revenue is in excess of that which is required to be distributed should be retained.

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

## 14. Segment reporting

### Geographical segments

Region	2016 Value of investments £'000	2015 Value of investments £'000
North America	359,328	494,236
Europe	26,276	74,870
Asia	34,823	14,103
Total	420,427	583,209

## Financial Statements / Notes to the Financial Statements

### 15. Related parties

The following are considered to be related parties:

- Frostrow Capital LLP (under the Listing Rules)
- OrbiMed Capital LLC
- The Directors of the Company

Details of the relationship between the Company and Frostrow Capital LLP, the Company's AIFM and OrbiMed Capital LLC, the Company's Portfolio Manager, are disclosed in the Report of Directors on pages 35 and 36. During the year ended 31 March 2016 Frostrow Capital LLP earned £1,266,000 in respect of AIFM fees of which £264,000 was outstanding at the year end; during the year ended 31 March 2016, OrbiMed Capital LLC earned £2,941,000 in respect of Portfolio Management fees, of which £609,000 was outstanding at the year end. Mr Sven Borho is a Director of the Company, as well as a Partner at OrbiMed Capital LLC. During the year no performance fees crystallised (2015: nil). The performance fee amount of £1,854,000 which was accrued at 31 March 2015, was written back during the year as the outperformance generated was not maintained for a twelve month period. All material related party transactions have been disclosed on pages 43, 44 and 46 and in notes 3 and 4 on pages 60 and 61. Details of the remuneration of all Directors can be found on pages 43 to 46.

### 16. Capital reserve

	Capital reserves – other £'000	2016 Capital reserve – investment holdings gains/(losses) £'000	Total £'000	Capital reserves – other £'000	2015 Capital reserve – investment holdings gains/(losses) £'000	Total £'000
At 1 April	234,538	236,369	470,907	157,211	99,557	256,768
Transfer on disposal of investments	105,360	(105,360)	–	43,024	(43,024)	–
Net (losses)/gains on investments	(35,437)	(89,847)	(125,284)	45,187	179,836	225,023
Exchange losses	(1,802)	–	(1,802)	(4,858)	–	(4,858)
Expenses charged to capital	(2,693)	–	(2,693)	(6,026)	–	(6,026)
Repurchase of own shares to be held in Treasury	(10,241)	–	(10,241)	–	–	–
Repurchase of own shares for cancellation	(15,293)	–	(15,293)	–	–	–
At 31 March 2016	274,432	41,162	315,594	234,538	236,369	470,907

Profits arising out of a change in fair value of assets, recognised in accordance with Accounting Standards, may be distributed provided the relevant assets can be readily convertible into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash. Under the terms of the revisions made to the Company's Articles of Association in 2013, sums within "Capital reserves – other" are also available for distribution.

## Further Information / AIFMD Related Disclosure

### Alternative Investments Fund Managers Directive (AIFMD) Disclosures (Unaudited)

#### Investment objective and leverage

A description of the investment strategy and objectives of the Company, the types of assets in which the Company may invest, the techniques it may employ, any applicable investment restrictions, the circumstances in which it may use leverage, the types and sources of leverage permitted and the associated risks, any restrictions on the use of leverage and the maximum level of leverage which the AIFM and Portfolio Manager are entitled to employ on behalf of the Company and the procedures by which the Company may change its investment strategy and/or the investment policy can be found on pages 12 and 13.

The table below sets out the current maximum permitted limit and actual level of leverages for the Company:

	As a percentage of net assets	
	Gross Method	Commitment Method
Maximum level of leverage	130%	130%
Actual level at 31 March 2016	111%	111%

#### Remuneration of AIFM staff

Following completion of an assessment of the application of the proportionality principle to the FCA's AIFM Remuneration Code, the AIFM has disapplied the pay-out process rules with respect to it and any of its delegates. This is because the AIFM considers that it carries out non-complex activities and is operating on a small scale.

Further disclosures required under the AIFM Rules can be found within the Investor Disclosure Document on the Company's website: [www.biotechgt.com](http://www.biotechgt.com).

## Further Information / Shareholder Information

### Financial calendar

31 March	Financial Year End
May	Final Results Announced
30 September	Half Year End
November	Half Year Results Announced
July	Annual General Meeting

### Annual General Meeting

The Annual General Meeting of The Biotech Growth Trust PLC will be held at the Barber Surgeons' Hall, Monkwell Square, Wood Street, London EC2Y 5BL on Tuesday, 12 July 2016 at 12 noon.

### Share prices

The Company's Ordinary Shares are listed on the London Stock Exchange under 'Investment Companies'. The price is given daily in the Financial Times and other newspapers.

### Change of address

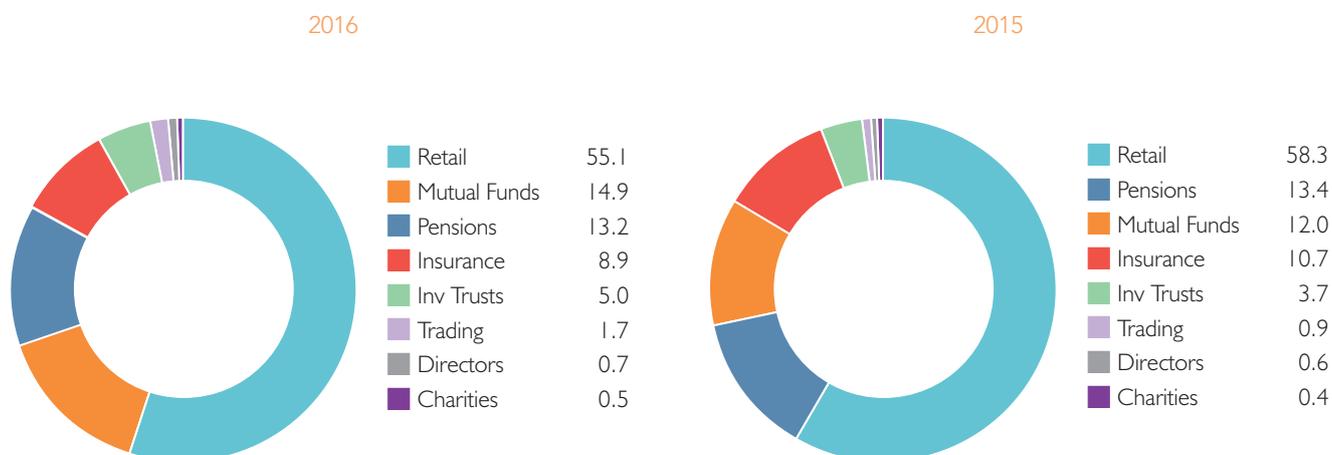
Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's Registrars, Capita Asset Services, under the signature of the registered holder.

### Daily Net Asset Value

The daily net asset value of the Company's shares can be obtained on the Company's website at [www.biotechgt.com](http://www.biotechgt.com) and is published daily via the London Stock Exchange.

### Profile of the Company's ownership

% of Ordinary Shares held at 31 March



## Further Information / Glossary of Terms

### AIC

Association of Investment Companies.

### Alternative Investment Fund Managers Directive (AIFMD)

Agreed by the European Parliament and the Council of the European Union and transported into UK legislation, the AIFMD classifies certain investment vehicles, including investment companies, as Alternative Investment Funds (AIFs) and requires them to appoint an Alternative Investment Fund Manager (AIFM) and depositary to manage and oversee the operations of the investment vehicle. The Board of the Company retains responsibility for strategy, operations and compliance and the Directors retain a fiduciary duty to shareholders.

### Discount or Premium

A description of the difference between the share price and the net asset value per share. The size of the discount or premium is calculated by subtracting the share price from the net asset value per share and is usually expressed as a percentage (%) of the net asset value per share. If the share price is higher than the net asset value per share the result is a premium. If the share price is lower than the net asset value per share, the shares are trading at a discount.

### Gearing

Calculated using the Association of Investment Companies definition.

Total assets, less current liabilities (before deducting any prior charges) minus cash/cash equivalents divided by Shareholders' Funds, expressed as a percentage.

### Leverage

The AIFM Directive (the "Directive") has introduced the obligation on the Company and its AIFM in relation to leverage as defined by the Directive. The Directive leverage definition is slightly different to the Association of Investment Companies method of calculating gearing and is as follows: any method by which the AIFM increases the exposure of an AIF it manages whether through borrowing of cash or securities, or leverage embedded in derivative positions.

There are two methods for calculating leverage under the Directive – the Gross Method and the Commitment Method. The process for calculating exposure under each methodology is largely the same, except, where certain conditions are met, the Commitment Method enables instruments to be netted off to reflect 'netting' or 'hedging' arrangements and the entity exposure is effectively reduced.

### Net Asset Value (NAV)

The value of the Company's assets, principally investments made in other companies and cash being held, less any liabilities. The NAV is also described as 'shareholders' funds'. The NAV is often expressed in pence per share after being divided by the number of shares which have been issued. The NAV per share is unlikely to be the same as the share price which is the price at which the Company's shares can be bought or sold by an investor. The share price is determined by the relationship between the demand and supply of the shares in the secondary market.

### Ongoing Charges

Ongoing charges are calculated by taking the Company's annualised ongoing charges, excluding finance costs, taxation, performance fees and exceptional items, and dividing by the average net asset value of the Company over the year.

### Rehypothecation

The practice of using the assets held as collateral for one client in transactions for another.

### Total Assets

Total assets less current liabilities before deducting prior charges. Prior charges includes all loans for investment purposes.

### Treasury Shares

Shares previously issued by a company that have been bought back from Shareholders to be held by the Company for potential sale or cancellation at a later date. Such shares are not capable of being voted and carry no rights to dividends.

## Further Information / How to Invest

### Retail investors advised by IFAs

The Company currently conducts its affairs so that its shares can be recommended by Independent Financial Advisers (IFAs) in the UK to ordinary retail investors in accordance with the Financial Conduct Authority (FCA) rules in relationship to non-mainstream investment procedures and intends to continue to do so. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

### Investment platforms

The Company's shares are traded openly on the London Stock Exchange and can be purchased through a stock broker or other financial intermediary. The shares are available through savings plans (including Investment Dealing Accounts, ISAs, Junior ISAs and SIPPs) which facilitate both regular monthly investments and lump sum investments in the Company's shares. There are a number of investment platforms that offer these facilities. A list of some of them, that is not comprehensive nor constitutes any form of recommendation, can be found below:

AJ Bell Youinvest	<a href="http://www.youinvest.co.uk/">www.youinvest.co.uk/</a>
Alliance Trust Savings	<a href="http://www.alliancetrustsavings.co.uk/">www.alliancetrustsavings.co.uk/</a>
Barclays Stockbrokers	<a href="http://www.barclaysstockbrokers.co.uk/Pages/index.aspx">www.barclaysstockbrokers.co.uk/Pages/index.aspx</a>
Bestinvest	<a href="http://www.bestinvest.co.uk/">www.bestinvest.co.uk/</a>
Charles Stanley Direct	<a href="http://www.charles-stanley-direct.co.uk/">www.charles-stanley-direct.co.uk/</a>
Club Finance	<a href="http://www.clubfinance.co.uk/">www.clubfinance.co.uk/</a>
Fidelity	<a href="http://www.fidelity.co.uk/">www.fidelity.co.uk/</a>
Halifax Share Dealing	<a href="http://www.halifax.co.uk/Sharedealing/">www.halifax.co.uk/Sharedealing/</a>
Hargreave Hale	<a href="http://www.hargreave-hale.co.uk/">www.hargreave-hale.co.uk/</a>
Hargreaves Lansdown	<a href="http://www.hl.co.uk/">www.hl.co.uk/</a>
HSBC	<a href="http://investments.hsbc.co.uk/">investments.hsbc.co.uk/</a>
iDealing	<a href="http://www.idealing.com/">www.idealing.com/</a>
IG Index	<a href="http://www.igindex.co.uk/">www.igindex.co.uk/</a>
Interactive Investor	<a href="http://www.iii.co.uk/">www.iii.co.uk/</a>
IWEB	<a href="http://www.iweb-sharedealing.co.uk/share-dealing-home.asp">www.iweb-sharedealing.co.uk/share-dealing-home.asp</a>
James Brearley	<a href="http://www.jbrearley.co.uk/Marketing/index.aspx">www.jbrearley.co.uk/Marketing/index.aspx</a>
James Hay	<a href="http://www.jameshay.co.uk/">www.jameshay.co.uk/</a>
Saga Share Direct	<a href="http://www.sagasharedirect.co.uk/">www.sagasharedirect.co.uk/</a>
Selftrade	<a href="http://www.selftrade.co.uk/">www.selftrade.co.uk/</a>
The Share Centre	<a href="http://www.share.com/">www.share.com/</a>
Saxo Capital Markets	<a href="http://uk.saxomarkets.com/">uk.saxomarkets.com/</a>
TD Direct Investing	<a href="http://www.tddirectinvesting.co.uk/">www.tddirectinvesting.co.uk/</a>

### Capita Asset Services – share dealing service

A quick and easy share dealing service is available to existing shareholders through the Company's Registrar, Capita Asset Services, to either buy or sell shares. An online and telephone dealing facility provides an easy to access and simple to use service.

There is no need to pre-register and there are no complicated forms to fill in. The online and telephone dealing service allows you to trade 'real time' at a known price which will be given to you at the time you give your instruction.

To deal online or by telephone all you need is your surname, investor code, full postcode and your date of birth. Your investor code can be found on your tax voucher or certificate. Please have the appropriate documents to hand when you log on or call, as this information will be needed before you can buy or sell shares.

## Further Information / How to Invest

For further information on this service please contact:

[www.capitadeal.com](http://www.capitadeal.com) (online dealing)

Telephone: 0371 664 0445 (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom are charged at the applicable international rate. Lines are open between 8.00 am – 4.30 pm, Monday to Friday excluding public holidays in England and Wales).

### Risk warnings

- Past performance is no guarantee of future performance.
- The value of your investment and any income from it may go down as well as up and you may not get back the amount invested. This is because the share price is determined, in part, by the changing conditions in the relevant stockmarkets in which the Company invests and by the supply and demand for the Company's shares.
- As the shares in an investment trust are traded on a stockmarket, the share price will fluctuate in accordance with supply and demand and may not reflect the underlying net asset value of the shares; where the share price is less than the underlying value of the assets, the difference is known as the 'discount'. For these reasons, investors may not get back the original amount invested.
- Although the Company's financial statements are denominated in sterling, all of the holdings in the portfolio are currently denominated in currencies other than sterling and therefore they may be affected by movements in exchange rates. As a result, the value of your investment may rise or fall with movements in exchange rates.
- Investors should note that tax rates and reliefs may change at any time in the future.
- The value of ISA and Junior ISA tax advantages will depend on personal circumstances. The favourable tax treatment of ISAs and Junior ISAs may not be maintained.

## Further Information / Notice of the Annual General Meeting

Notice is hereby given that the Annual General Meeting of The Biotech Growth Trust PLC will be held at Barber-Surgeons' Hall, Monkwell Square, Wood Street, London EC2Y 5BL on Tuesday, 12 July 2016 at 12 noon, for the following purposes:

### Ordinary business

To consider and, if thought fit, pass the following as ordinary resolutions:

1. To receive and, if thought fit, to accept the Audited Financial Statements and the Report of the Directors for the year ended 31 March 2016
2. To approve the Directors' Remuneration Report for the year ended 31 March 2016
3. To re-elect Professor Dame Kay Davies, CBE as a Director of the Company
4. To re-elect Andrew Joy as a Director of the Company
5. To re-elect Sven Borho as a Director of the Company
6. To re-elect Peter Keen as a Director of the Company
7. To elect Steven Bates as a Director of the Company
8. To elect The Rt Hon Lord Willetts as a Director of the Company
9. To re-appoint Ernst & Young LLP as Auditor to the Company and to authorise the Audit and Management Engagement Committee to determine their remuneration

### Special business

To consider and, if thought fit, pass the following resolutions of which resolutions 11, 12 and 13 will be proposed as special resolutions:

### Authority to allot shares

10. THAT in substitution for all existing authorities the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all powers of the Company to allot relevant securities (within the meaning of Section 551 of the Act) up to a maximum aggregate nominal amount of £1,487,612 (being 10% of the issued share capital of the Company at the date of the notice convening the meeting at which this resolution is proposed) and representing 5,950,450 shares of 25 pence each (or, if less, the number representing 10% of the issued share capital of the Company at the date at which this resolution is passed), provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2017 or 15 months from the date of passing this resolution, whichever is the earlier, unless previously revoked, varied or renewed, by the Company in general meeting and provided that the Company shall be entitled to make, prior to the expiry of such authority, an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such offer or agreement as if the authority conferred hereby had not expired.

### Disapplication of pre-emption rights

11. THAT in substitution of all existing powers the Directors be and are hereby generally empowered pursuant to Sections 570 and 573 of the Companies Act 2006 (the "Act") to allot equity securities (within the meaning of section 560 of the Act) including if immediately before the allotment, such shares are held by the Company as treasury shares (as defined in Section 724 of the Act) for cash pursuant to the authority conferred on them by resolution 12 set out in the notice convening the Annual General Meeting at which this resolution is proposed or otherwise as if section 561(1) of the Act did not apply to any such allotment and to sell relevant shares (within the meaning of section 560 of the Act) for cash as if

## Further Information / Notice of the Annual General Meeting

section 561(1) of the Act did not apply to any such sale, provided that this power shall be limited to the allotment of equity securities pursuant to:

- (a) an offer of equity securities open for acceptance for a period fixed by the Directors where the equity securities respectively attributable to the interests of holders of shares of 25 pence each in the Company ("Shares") are proportionate (as nearly as may be) to the respective numbers of Shares held by them but subject to such exclusions or other arrangements in connection with the issue as the Directors may consider necessary, appropriate, or expedient to deal with equity securities representing fractional entitlements or to deal with legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange, or any other matter whatsoever; and
- (b) (otherwise than pursuant to sub-paragraph (a) above) up to an aggregate nominal value of £1,487,612 or, if less, the number representing 10% of the issued share capital of the Company at the date of the meeting at which this resolution is passed,

and expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or 15 months from the date of passing this resolution, whichever is the earlier, unless previously revoked, varied or renewed by the Company in general meeting and provided that the Company shall be entitled to make, prior to the expiry of such authority, an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such offer or agreement as if the power conferred hereby had not expired.

### Authority to repurchase ordinary shares

12. THAT the Company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 (the "Act") to make one or more market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 25 pence each in the capital of the Company ("Shares") either for retention as treasury shares for future reissue, resale, transfer or for cancellation provided that:

- (a) the maximum aggregate number of Shares authorised to be purchased is 8,919,725 (representing approximately 14.99% of the issued share capital of the Company at the date of the notice convening the meeting at which this resolution is proposed);
- (b) the minimum price (exclusive of expenses) which may be paid for a Share is 25 pence;
- (c) the maximum price (exclusive of expenses) which may be paid for a Share is an amount equal to the greater of (i) 105% of the average of the middle market quotations for a Share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which that Share is purchased and (ii) the higher of the price of the last independent trade in shares and the highest then current independent bid for shares on the London Stock Exchange as stipulated in Article 5(1) of Regulation No. 2233/2003 of the European Commission (Commission Regulation of 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buy-back programmes and stabilisation of financial instruments);
- (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2017 or, if earlier, on the expiry of 15 months from the date of the passing of this resolution unless such authority is renewed prior to such time; and
- (e) the Company may make a contract to purchase Shares under this authority before the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority, and may make a purchase of Shares in pursuance of any such contract.

## Further Information / Notice of the Annual General Meeting

### General meetings

13. THAT the Directors be authorised to call general meetings (other than Annual General Meetings) on not less than 14 working days' notice, such authority to expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, until expiry of 15 months from the date of the passing of this resolution.

By order of the Board

Frostrow Capital LLP  
Company Secretary  
25 May 2016

Registered office:  
One Wood Street  
London EC2V 7WS

## Further Information / Notice of the Annual General Meeting

### Notes

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.
2. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolutions. If no voting indication is given, a proxy may vote or abstain from voting at his/her discretion. A proxy may vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.
3. To be valid any proxy form or other instrument appointing a proxy must be completed and signed and received by post or (during normal business hours only) by hand at Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF no later than 12 noon on 8 July 2016.
4. In the case of a member which is a company, the instrument appointing a proxy must be executed under its seal or signed on its behalf by a duly authorised officer or attorney or other person authorised to sign. Any power of attorney or other authority under which the instrument is signed (or a certified copy of it) must be included with the instrument.
5. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described below) will not prevent a shareholder attending the meeting and voting in person if he/she wishes to do so.
6. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
7. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
8. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only shareholders registered on the register of members of the Company (the "Register of Members") at the close of business on 8 July 2016 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting) will be entitled to attend and vote or be represented at the meeting in respect of shares registered in their name at that time. Changes to the Register of Members after that time will be disregarded in determining the rights of any person to attend and vote at the meeting.
9. As at 25 May 2016 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 59,504,508 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 25 May 2016 are 59,504,508.
10. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
11. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with the specifications of Euroclear UK and Ireland Limited ("CRESTCo"), and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) no later than 48 hours before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
12. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

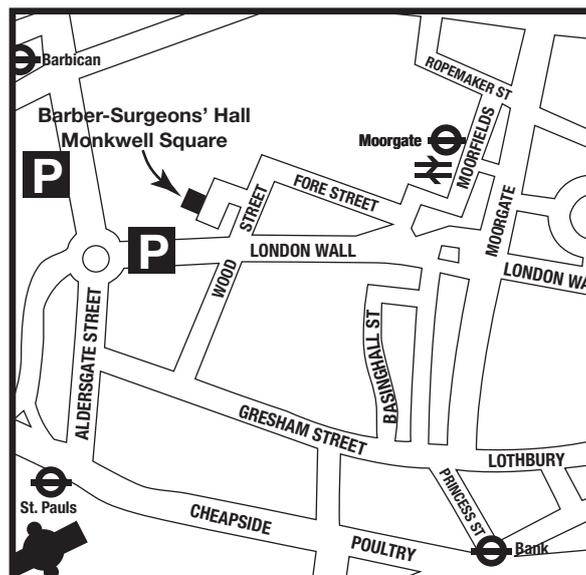
## Further Information / Notice of the Annual General Meeting

13. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
14. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Register of Members in respect of the joint holding (the first named being the most senior).
15. Members who wish to change their proxy instructions should submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.
16. Members who have appointed a proxy using the hard-copy proxy form and who wish to change the instructions using another hard-copy form, should contact Capita Asset Services on 0871 664 0300 or 0371 664 0300 if calling from outside the United Kingdom. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09.00-17.30, Monday to Friday excluding public holidays in England and Wales.
17. If a member submits more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
18. In order to revoke a proxy instruction, members will need to inform the Company. Members should send a signed hard copy notice clearly stating their intention to revoke a proxy appointment to Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF.

In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power of attorney) must be included with the revocation notice. If a member attempts to revoke their proxy appointment but the revocation is received after the time for receipt of proxy appointments (see above) then, subject to paragraph 4, the proxy appointment will remain valid.

### LOCATION OF THE ANNUAL GENERAL MEETING

Barber-Surgeons' Hall, Monkwell Square, Wood Street, London EC2Y 5BL



## Further Information / Explanatory Notes to the Resolutions

### *Resolution 1 – To receive the Annual Report and Accounts*

The Annual Report and Accounts for the year ended 31 March 2016 will be presented to the Annual General Meeting. These accounts accompanied this Notice of Meeting and shareholders will be given an opportunity at the meeting to ask questions.

### *Resolutions 2 – Remuneration Report*

It is now mandatory for all listed companies to put both their Report on Directors' Remuneration and their Remuneration Policy to a shareholder vote. The Report on Directors' Remuneration is set out in full in this Annual Report on pages 43 to 45. The Remuneration Policy Report is required to be put to a shareholder vote at least once every three years. The report was last voted upon at the 2014 Annual General Meeting.

### *Resolutions 3 to 8 – Re-election of Directors*

Resolutions 3 to 8 deal with the election and re-election of each Director. Biographies of each of the Directors can be found on pages 20 and 21 of this Annual Report.

The Board has confirmed, following a performance review, that the Directors standing for election and re-election continue to perform effectively.

### *Resolution 9 – Re-Appointment of Auditor and the determination of their remuneration*

Resolution 9 relates to the re-appointment of Ernst & Young LLP as the Company's independent auditor to hold office until the next Annual General Meeting of the Company and also authorises the Audit and Management Engagement Committee to set its remuneration.

### *Resolutions 10 and 11 – Issue of Shares*

Ordinary Resolution 10 in the Notice of Annual General Meeting will renew the authority to allot the unissued share capital up to an aggregate nominal amount of £1,487.612 (equivalent to 5,950,450 shares, or 10% of the Company's existing issued share capital on 25 May 2016, being the nearest practicable date prior to the signing of this Report). Such authority will expire on the date of the next Annual General Meeting or after a period of 15 months from the date of the passing of the resolution, whichever is earlier. This means that the authority will have to be renewed at the next Annual General Meeting.

When shares are to be allotted for cash, Section 551 of the Companies Act 2006 (the "Act") provides that existing shareholders have pre-emption rights and that the new shares must be offered first to such shareholders in proportion to their existing holding of shares. However, shareholders can, by special resolution, authorise the Directors to allot shares otherwise than by a pro rata issue to existing shareholders. Special Resolution 11 will, if passed, give the Directors power to allot for cash equity securities up to 10% of the Company's existing share capital on 25 May 2016, as if Section 551 of the Act does not apply. This is the same nominal amount of share capital which the Directors are seeking the authority to allot pursuant to Resolution 10. This authority will also expire on the date of the next Annual General Meeting or after a period of 15 months, whichever is earlier. This authority will not be used in connection with a rights issue by the Company.

The Directors intend to use the authority given by Resolutions 10 and 11 to allot shares and disapply pre-emption rights only in circumstances where this will be clearly beneficial to shareholders as a whole. The issue proceeds would be available for investment in line with the Company's investment policy. No issue of shares will be made which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

### *Resolution 12 – Share Repurchases*

The Directors wish to renew the authority given by shareholders at the previous Annual General Meeting. The principal aim of a share buy-back facility is to enhance shareholder value by acquiring shares at a discount to net asset value, as and when the Directors consider this to be appropriate. The purchase of shares, when they are trading at a discount to net asset value per share, should result in an increase in the net asset value per share for the remaining shareholders. This authority, if conferred, will only be exercised if to do so would result in an increase in the net asset value per share for the remaining shareholders and if it is in the best interests of shareholders generally. Any purchase of shares will be made within guidelines established from time to time by the Board. It is proposed to seek shareholder authority to renew this facility for another year at the Annual General Meeting.

## Further Information / Explanatory Notes to the Resolutions

Under the current Listing Rules, the maximum price that may be paid on the exercise of this authority must not exceed the higher of (i) 105% of the average of the middle market quotations for the shares over the five business days immediately preceding the date of purchase and (ii) the higher of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out. The minimum price which may be paid is 25p per share. Shares which are purchased under this authority will either be cancelled or held as treasury shares.

Special Resolution 12 in the Notice of Annual General Meeting will renew the authority to purchase in the market a maximum of 14.99% of shares in issue on 25 May 2016, being the nearest practicable date prior to the signing of this Report, (amounting to 8,919,725 shares). Such authority will expire on the date of the next Annual General Meeting or after a period of 15 months from the date of passing of the resolution, whichever is earlier. This means in effect that the authority will have to be renewed at the next Annual General Meeting or earlier if the authority has been exhausted.

### *Resolution 13 – General Meetings*

Special Resolution 13 seeks shareholder approval for the Company to hold General Meetings (other than the Annual General Meeting) on not less than at 14 working days' notice.

### *Recommendation*

The Board considers that the resolutions relating to the above items of special business, are in the best interests of shareholders as a whole. Accordingly, the Board unanimously recommends to the shareholders that they vote in favour of the above resolutions to be proposed at the forthcoming Annual General Meeting as the Directors intend to do in respect of their own beneficial holdings totaling 404,934 shares.

## Further Information / Company Information

### Directors

The Rt Hon Lord Waldegrave of North Hill (Chairman)  
Steven Bates  
Sven Borho  
Professor Dame Kay Davies, CBE  
Andrew Joy (Senior Independent Director and Chairman of the Remuneration Committee)  
Peter Keen (Chairman of the Audit and Management Engagement Committee)  
The Rt Hon Lord Willetts

### Registered Office

One Wood Street  
London EC2V 7WS

### Website

[www.biotechgt.com](http://www.biotechgt.com)

### Company Registration Number

03376377 (Registered in England)  
The Company is an investment company as defined under Section 833 of the Companies Act 2006.  
The Company was incorporated in England on 20 May 1997.  
The Company was incorporated as Reabourne Merlin Life Sciences Investment Trust PLC.

### Alternative Investment Fund Manager,

### Company Secretary and Administrator

Frostrow Capital LLP  
25 Southampton Buildings  
London WC2A 1AL  
Telephone: 0203 008 4910  
E-Mail: [info@frostrow.com](mailto:info@frostrow.com)  
Website: [www.frostrow.com](http://www.frostrow.com)  
Authorised and regulated by the Financial Conduct Authority.

### Portfolio Manager

OrbiMed Capital LLC  
601 Lexington Avenue, 54th Floor  
New York NY10022 USA  
Telephone: +1 212 739 6400  
Website: [www.orbimed.com](http://www.orbimed.com)  
*Registered under the U.S. Securities and Exchange Commission.*

If you have an enquiry about the Company or if you would like to receive a copy of the Company's monthly fact sheet by e-mail, please contact Frostrow Capital using the stated e-mail address.

### Independent Auditors

Ernst & Young LLP  
25 Churchill Place  
London E14 5EY

### Depositary

J.P. Morgan Europe Limited  
25 Bank Street  
London E14 5JP

### Prime Broker

J.P. Morgan Clearing Corp.  
Suite 1, Metro Tech Roadway  
Brooklyn, NY11201  
USA

### Registrars

Capita Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
Telephone (in UK): 0871 664 0300†  
Telephone (from overseas): +44 371 664 0300  
E-Mail: [shareholderenquiries@capita.co.uk](mailto:shareholderenquiries@capita.co.uk)  
Website: [www.capitaassetservices.com](http://www.capitaassetservices.com)  
Please contact the Registrars if you have a query about a certificated holding in the Company's shares.  
†calls cost 12p per minute plus your phone company's access charge and may be recorded for training purposes. Calls outside the UK will be charged at the applicable international rate. Lines are open from 9.00 a.m. to 5.30 p.m. Monday to Friday excluding public holidays in England and Wales .

### Stock Broker

Winterflood Securities Limited  
The Atrium Building  
Cannon Bridge  
25 Dow Gate Hill  
London EC4R 2GA

### Solicitors

Dechert LLP  
160 Queen Victoria Street  
London EC4V 4QQ

### Identification Codes

Shares:	SEDOL:	0038551
	ISIN:	GB0000385517
	BLOOMBERG:	BIOG LN
	EPIC:	BIOG

### Disability Act

Copies of this annual report and other documents issued by the Company are available from the Company Secretary. If needed, copies can be made available in a variety of formats, including braille, audio tape or larger type as appropriate. You can contact the Registrar to the Company, Capita Registrars, which has installed telephones to allow speech and hearing impaired people who have their own telephone to contact them directly, without the need for an intermediate operator, for this service please call 0800 731 1888. Specially trained operators are available during normal business hours to answer queries via this service. Alternatively, if you prefer to go through a 'typetalk' operator (provided by RNID) you should dial 18001 from your textphone followed by the number you wish to dial.

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The pulp is bleached using a totally chlorine free (TCF) process.



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The Association of  
Investment Companies

A member of the Association of Investment Companies

**Winner:**

Money Observer Awards, best large Trust 2014 and 2015

Investment Week, Investment Company of the year, Specialist Category 2012, 2013 and 2014

UKtech awards Fund Manager of the year 2013 and 2014

(OrbiMed Capital LLC)

Investment Trusts Magazine, Best Specialist Trust 2011, 2012 and 2013

Investment Adviser 100 club, specialist sectors and Assets category 2015

**The Biotech Growth Trust PLC**

25 Southampton Buildings, London WC2A 1AL

[www.biotechgt.com](http://www.biotechgt.com)



@biotechgt