



International Biotechnology Trust

Investment companies | Annual overview | 11 November 2020

Healthy returns

International Biotechnology Trust (IBT) has delivered strong returns over the past year; its net asset value (NAV) is up 30% over the year to date, well ahead of its benchmark, and wider national and global indices.

The COVID-19 pandemic has focused attention on the sector as a number of companies search for effective treatments and vaccines. The sector has recovered some ground relative to wider indices but – as is typical – the US election has been weighing on valuations. IBT's managers highlight that the real drivers of the sector's fortunes are not politics but factors such as the pace of drug discovery and approval, demographics and mergers and acquisitions (M&A) activity. They see further upside from here.

This year, the managers have demonstrated the effectiveness of their risk mitigation strategy by tilting IBT's portfolio away from high-risk names and re-investing cash at the bottom of the market. This helped drive significant outperformance of the benchmark.

Access to the fast-growing biotech sector

IBT is the longest-established of the London-listed funds specialising in the biotech/healthcare sector. It aims to achieve long-term capital growth by investing in biotechnology and other life sciences companies, and offers investors the highest dividend yield in the sector. The portfolio is invested primarily in quoted companies, but IBT also has exposure to unquoted companies through a well-diversified investment fund.

Sector	Biotechnology and healthcare
Ticker	IBT LN
Base currency	GBP
Price	814.0p
NAV	806.5p
Premium/(discount)	0.9%
Yield	3.0%



IBT has delivered outperformance of its benchmark over the past five years, and this been particularly marked over the past six months.



IBT's strong performance has helped attract sufficient investors for it to be able to issue shares at a premium to asset value.



For IBT, the bid for Immunomedics has far outweighed the effect of election jitters.





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Domicile	England & Wales
Inception date	31 March 1994
Manager	SV Health Managers LLP
Market cap	323.3m
Shares outstanding	39.718m
Daily vol. (1-yr. avg.)	84,430 shares
Net gearing	2%

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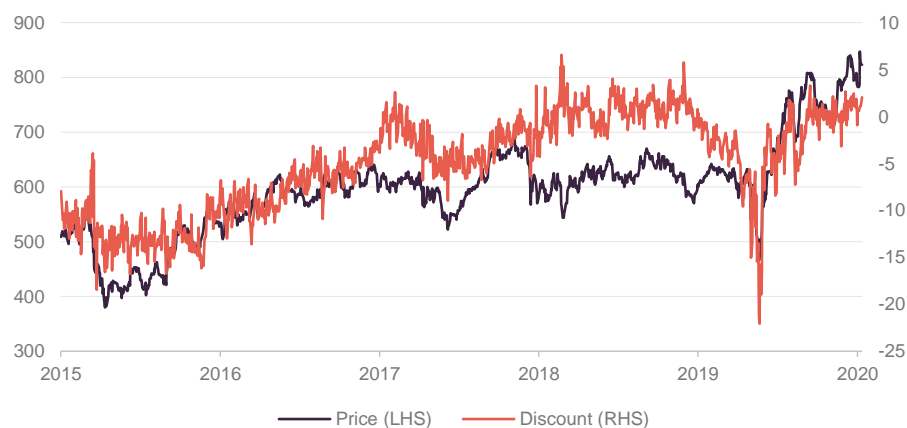


At a glance

Share price and discount

IBT's shares appeared to shrug off the general covid-19 related panic in markets in February and March relatively quickly. IBT's board used IBT's share buyback powers at the time, buying back about 200,000 shares into treasury but, by the summer, IBT's strong performance had helped attract sufficient investors for it to be able to reissue these and more shares at a premium to asset value.

Time period 31/10/2015 to 09/11/2020

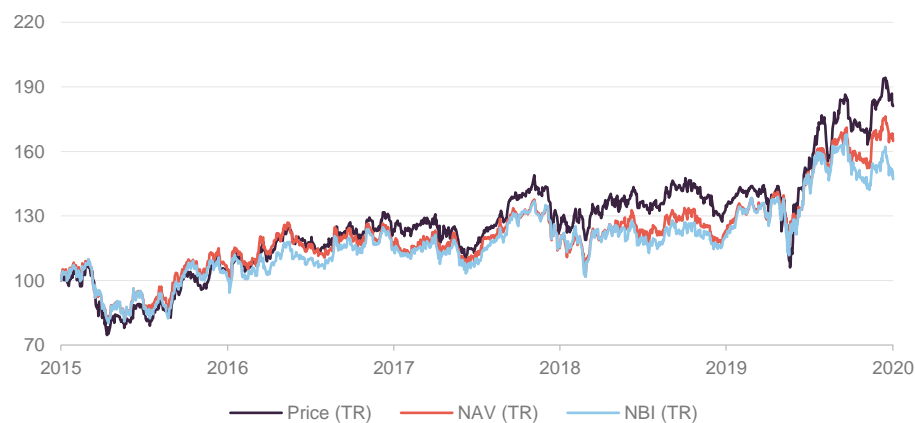


Source: Morningstar, Marten & Co

Performance over five years

IBT has delivered outperformance of the NBI over the past five years, and this has been particularly marked over the past six months. Over the long term, the elimination of IBT's discount has amplified the returns to shareholders. In the short term, election jitters have weighed on the sector, but for IBT, the bid for Immunomedics (see page 13) has far outweighed that.

Time period 31/10/2015 to 31/10/2020



Source: Morningstar, Marten & Co

Year ended	Share price total return (%)	NAV total return (%)	Nasdaq Biotech Index (NBI) TR (%)	MSCI UK TR (%)	MSCI World TR (%)
31/10/2016	5.0	3.7	(0.1)	13.5	28.0
31/10/2017	16.8	11.2	13.3	11.8	12.9
31/10/2018	2.6	1.9	4.0	(0.9)	5.1
31/10/2019	6.8	4.6	2.2	5.7	11.3
31/10/2020	34.7	34.2	22.4	(22.2)	4.4

Source: Morningstar, Marten & Co

Fund profile

IBT aims to offer long-term capital growth and a dividend equivalent to 4% of NAV

IBT aims to achieve long-term capital growth by investing in biotechnology and other life sciences companies. Notably, it also provides a dividend equivalent to 4% of NAV, making it the fund with the highest dividend yield in its peer group. This is despite it investing exclusively in a sector where companies tend to be capital growth-focused and do not usually provide income in the form of dividends. A small portion of IBT's portfolio is invested in a venture fund holding mostly unquoted biotech and healthcare companies, as well as a few small directly held unquoted holdings.

For the quoted portion of the portfolio, the manager seeks to provide returns to shareholders ahead of the NASDAQ Biotech Index (NBI). The NBI is a market-cap weighted index where the four largest positions are capped at 8%.

The manager

More information is available at the trust's website: www.ibtplc.com

IBT is managed by SV Health Managers LLP, which is part of the wider SV group, advising and managing seven healthcare/life sciences venture capital funds with over \$2bn in capital under management. It is also the manager of the £250m **Dementia Discovery Fund** and has offices in Boston and London.

The lead manager is Carl Harald Janson, who joined SV Health in September 2013. He is assisted by Ailsa Craig (investment manager) and Marek Poszepczynski (investment manager). Kate Bingham (one of SV Health's managing partners) manages the trust's unquoted portfolio.

Market background

Figure 1: NBI



Source: Morningstar, Marten & Co

Figure 2: NBI relative to MSCI World Index



Source: Morningstar, Marten & Co

Biotech has not yet made up the ground it lost relative to the MSCI World Index over the previous four years

Bipartisan support for pegging US drug prices to those of international peers

Less focus on drug pricing this time

In any case, IBT is focused on companies with pricing power

IBT's managers decided not to chase stocks linked to the fight against COVID (but did hold some already)

As was the case when QuotedData published its last note in April, the pandemic and the US election have been dominating headlines. The NBI has shrugged off the market panic triggered by COVID-19 and made progress over the past year both absolutely and relative to global equity markets. However, biotech has not yet made up the ground it lost relative to the MSCI World Index over the previous four years, suggesting that the sector is yet to achieve full valuation for its potential.

US election fever

After a strong rally from mid-March to mid-July, in recent months, the sector has lagged wider equity indices; this is a common pattern in advance of US Presidential elections, where drug pricing and access to healthcare are perennial talking points.

President Trump did not make many changes to the healthcare sector in his first term, and has not said much about his plans going forward other than his wish for US drug prices to be linked to prices paid in other countries.

On the other hand, Biden, as one of Obama's team on the implementation of the Affordable Care Act, is most likely to focus on tweaking and improving the Affordable Care Act, rather than any more wholesale reforms as had been proposed by his Democratic candidacy rivals, Warner and Sanders. Biden may aim to lower the qualifying age for Medicaid from 65 to 60, which the managers feel would result in increased sales volume which could counter any proposed price reductions.

In the event of the President being from a different party from the majority of the Senate, it is less likely that any significant changes will have the necessary Senate support for implementation. Of course, uncertainty arising from a prolonged recount or legal challenge may weigh on the US market as a whole.

Drug pricing was not headline news in the election race, as voters' focus has been on the fight against COVID, the economy and racial inequality. There is still pressure on companies considered to be price gouging, such as Celgene (now owned by Bristol Myers Squibb) with respect to its multiple myeloma drug Revlimid. A congressional probe noted that the drug was launched at \$215 per pill in 2005 and now costs \$763 per pill. Bristol Myers Squibb is not held by IBT.

IBT's managers make the point that they choose to invest in companies with pricing power – companies with innovative therapies and not much competition, for example. Companies whose revenues are driven by generics and biosimilars tend to have less pricing power. These stocks and the companies that they are competing with are more sensitive to curbs on drug pricing.

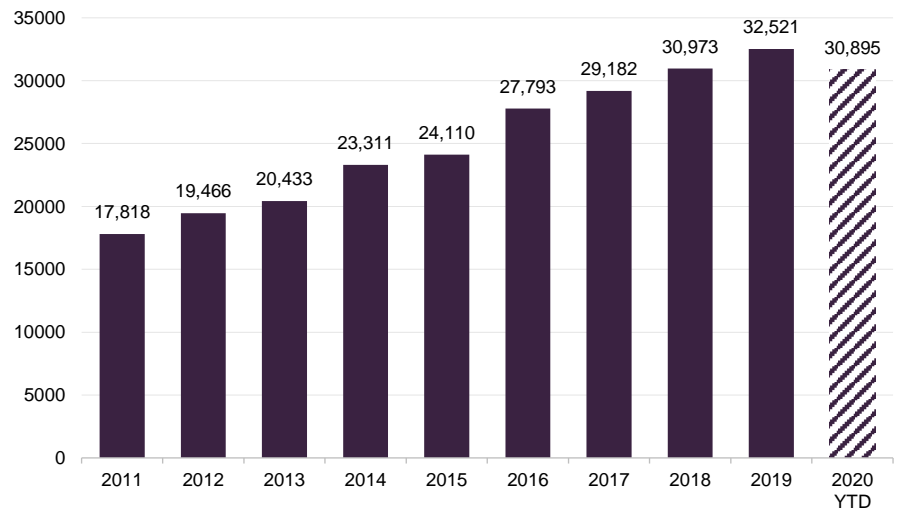
Fighting COVID

When QuotedData published its last note on IBT in April, companies linked to coronavirus vaccines and therapies were soaring in value. Gilead, which makes remdesivir and is held in IBT's portfolio, was one of these.

The managers felt that it did not make sense to chase these stocks specifically for their COVID drugs, reasoning that there were too many unknowns about the efficacy and likely revenues available to these companies.

The number of new clinical trials (used to test the effectiveness of new drugs) continues to climb, encouraged this year by the need to tackle COVID-19. As at 4 November 2020, 3,826 studies on the US National Library of Medicine's clinical trials database related to COVID-19.

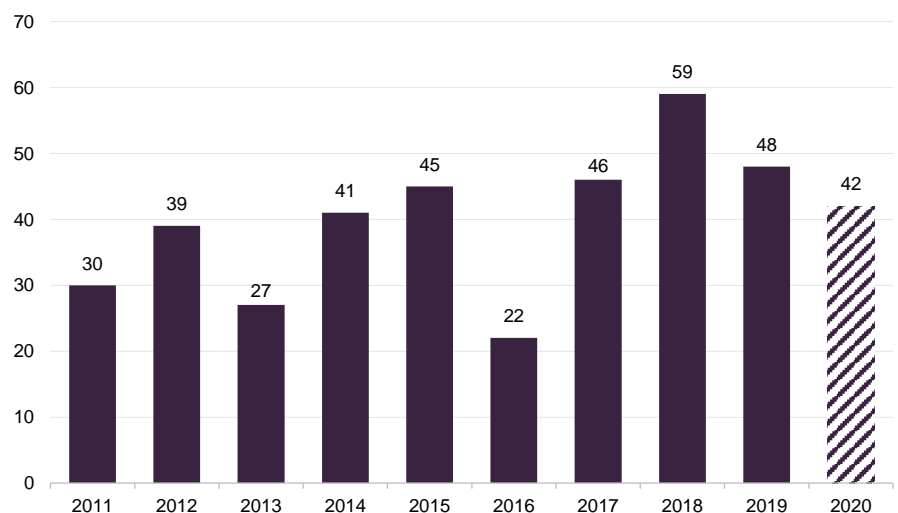
Figure 3: Ongoing clinical trials



Source: clinicaltrials.gov, as at 4 November 2020

The pace of new drug approvals is still high, as is illustrated in Figure 4.

Figure 4: FDA new drug approvals by year (2020 to end October)



Source: US Food and Drug Administration

These include Tepezza (teprotumumab-trbw) from Horizon Therapeutics to treat thyroid eye disease (see page 11), Trodelvy (sacituzumab govitecan-hziy) from Immunomedics, for patients with metastatic triple-negative breast cancer, Ongentys (opicapone) from Neurocrine for Parkinson's patients, and Evrysdi (risdiplam), developed by PTC Therapeutics and marketed by Roche to treat spinal muscular

atrophy. The Trodelvy approval was a significant factor in Gilead's decision to bid for Immunomedics (see page 13). In October, Gilead secured approval for the use of Veklury (remdesivir) as a treatment for COVID-19.

One of the most anticipated potential new therapies is Biogen's aducanumab for the treatment of Alzheimer's disease. Biogen, which is currently one of IBT's 10 largest holdings, ran two **Phase 3 clinical trials** – EMERGE and ENGAGE – on this drug, and whilst ENGAGE did not produce the results that had been hoped for, EMERGE suggested that using the drug could slow the progression of the disease. A Biologics License Application was approved by the US regulator, the Food and Drug Administration (FDA) in August and the FDA is now deciding whether to approve the drug.

Investment process

Selecting chiefly from the about 200 stocks in the NBI

Although the trust has an investment universe of some 700 listed companies in the US and EU, in practice it is invested mostly in the about 200 constituents of the NBI.

Within the quoted portion of IBT's portfolio, the manager operates as a bottom-up stock picker, with a bias towards subsectors where it believes companies tend to enjoy pricing power or at least are not subject to pricing pressure. The strategy is designed to identify potentially successful drugs, via attractively priced equities, while, if possible, reducing/minimising exposure to binary events (see below).

Like other biotech specialist investors, SV Health Managers attends healthcare conferences and meets potential investee companies' managements on investor roadshows. The manager has access to sell-side research and data aggregators (Bloomberg etc), and can obtain expertise from key opinion leaders (doctors considered to have in-depth experience in specific fields). It can also draw upon its own in-house expertise, with the wider team at SV having many specialisms including neurology, cardiology, immunology, oncology etc. SV Health also organises a large number of one-to-one meetings with management teams via video conference calls.

These interactions allow the managers to examine the investment proposition and compare each company against others in the same space. SV Health's significant investment of time and effort in building and maintaining its database represents a significant competitive advantage.

Actively monitor the news flow of c250 companies

As part of this, a comprehensive news-flow analysis, led by Ailsa Craig, helps the team to assess the likely timing of key data events. To add substance to their analysis, Marek Poszepczynski, whose background is in biotech business development (specifically M&A and licensing), runs various valuation analyses on companies whose market values seem out of kilter with their underlying assets. This helps to drive portfolio decisions and tends to identify likely M&A candidates.

Finally, the management team is headed up by Carl Harald Janson, a trained medical doctor with a PhD in immuno-oncology. His CV includes a host of biotechnology companies, as well as a six-year stint as the head of Carnegie's biotechnology fund, where he was rated as the world's top-performing biotech manager.

Strong sell discipline based on valuation and deterioration of investment case

Portfolio companies should meet a series of criteria, including:

- addressing areas of unmet medical need;
- having strong intellectual property and/or commercial exclusivity;
- competitive advantage (with market pricing power); and
- adequate financing to deliver scientific and commercial goals.

The team's investment process also includes a qualitative judgement based on the expertise of the managers, including assessing the quality of management and the perceived views of the sell-side/buy-side (i.e. analysts and investors).

In the same way as identifying companies that are attractively priced, the team has to monitor stocks within the portfolio to establish where profits can or should be taken, or where, perhaps after a setback, the investment proposition has changed. Investors in the sector have a habit of shifting from over-pessimism to over-optimism, and when a stock hits the team's valuation targets it will usually be sold. This sell discipline is extremely important for maintaining outperformance.

IBT mostly buys stocks in the secondary market but also invests in initial public offerings (IPOs). It does not, as a policy, make use of financial derivatives to hedge individual stock or currency risk, adopt a market-neutral position or otherwise seek to boost investment returns.

Managing binary events

As a deliberate risk-mitigation strategy, the managers try to minimise the trust's exposure to binary events, typically the results of clinical trials, which can trigger large positive or negative changes in the share price (rises of up to 100% or falls of 80% are not uncommon).

This recognises the difficulty for even the most experienced medics, scientists or investment managers to predict the outcome of these events, and the approach has considerable merit.

IBT's manager says that the market is often optimistic in the run-up to a significant clinical milestone. Its strategy allows IBT to benefit from the anticipatory price rise but, by selling ahead of the actual announcement, the managers say that:

- IBT can buy the de-risked asset back after a positive announcement (usually at a better risk-adjusted valuation), or
- IBT avoids the sharp losses that tend to occur where an announcement is negative.

IBT's manager says that this is an attractive and surprisingly low-risk strategy. They find that share price momentum often can continue for several weeks following the initial surge on a positive announcement and say that this can sometimes exceed 100% over the longer term, aided by index-tracking and other effects. This is in contrast to the permanent loss of capital that typically accompanies the catastrophic falls that occur on day one of a negative announcement.

It should be noted, however, that, in practice, binary events are difficult to eliminate entirely. The timing of announcements cannot always be accurately predicted, especially in the case of an unsuccessful trial being halted early for example, and sharp moves can also occur from other situations such as results from competitor

trials. Furthermore, in the case of a significant event affecting a very large index constituent, the trust may opt to hold a stock through a key trial readout.

Investment restrictions

IBT's managers operate within the following investment restrictions:

- the company will not invest more than 15% in aggregate, of the value of its gross assets in any one individual company at the time of acquisition;
- the great majority of the company's assets will be invested in the quoted biotechnology sector with a global mandate across the entire spectrum of quoted companies;
- gearing (borrowing) is restricted to 30% of NAV; and
- the company will not invest more than 15% in aggregate of the value of its gross assets in other closed-ended investment companies quoted on the London Stock Exchange or any other stock exchanges.

Venture and unquoted investments

While historically it made direct investments in unquoted companies, IBT made a \$30m commitment to SV Fund VI in September 2016. As the drawdown of the commitment to SV Fund VI has evolved, the portfolio of direct investments has continued to run-off, returning value to shareholders as it does so. As a result, the unquoted exposure is now mostly through the diversified fund. The board guides that the unquoted portfolio will account for between 5% and 15% of total investments.

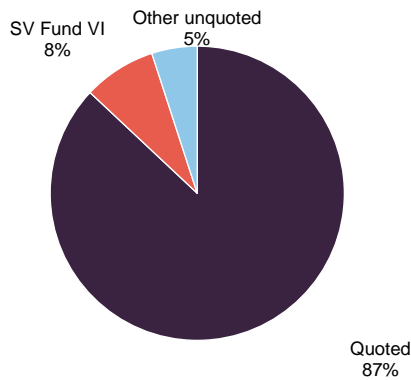
Tactical use of gearing

IBT is permitted to borrow. However, rather than having a strategy of being permanently geared, IBT's manager uses gearing tactically, when valuations fall and/or volatility spikes, to take advantage of specific opportunities. The manager says that gearing is unlikely to ever exceed 15%.

Asset allocation

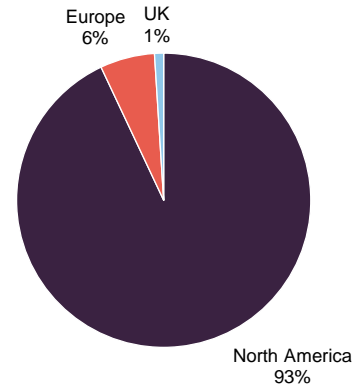
As at the end of September 2020, IBT had 69 direct investments in companies and exposure to a further 25 companies through its investment in SV Fund VI. IBT's unquoted portfolio accounted for 13% of its gross assets at the end of September. The portfolio had a strong bias to North American stocks at this date.

Figure 5: IBT portfolio unquoted/quoted split at 30 September 2020



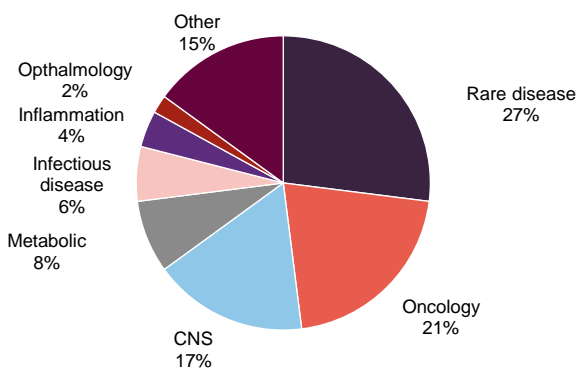
Source: International Biotechnology Trust, Marten & Co

Figure 6: IBT portfolio split by geography at 30 September 2020



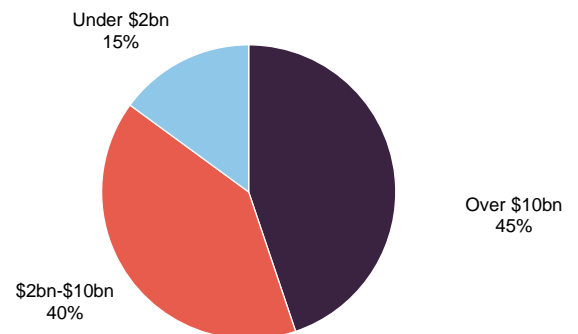
Source: International Biotechnology Trust, Marten & Co

Figure 7: IBT portfolio split by therapeutic area at 30 September 2020



Source: International Biotechnology Trust, Marten & Co

Figure 8: IBT listed portfolio split by market cap at 30 September 2020



Source: International Biotechnology Trust, Marten & Co

Following a few disposals in February, IBT entered the pandemic-crisis with cash. The managers took advantage of weak prices, mainly to top up existing positions. They were expecting to see more M&A activity, and this has materialised. Bids were made for the likes of Principia and Momenta, but for IBT the big news was Gilead's bid for Immunomedics. In September, IBT's cash balance rose, eliminating its gearing, as the trust realised its Immunomedics stake (see page 13).

10 largest quoted holdings

Figure 9: Profile of top 10 holdings at 30 September 2020

Company	Mkt cap (\$bn) ¹	% of NAV 30/09/20	% of NAV 29/02/20	Change (%)	Focus
Horizon	16.89	7.7	4.3	3.4	Rare disease
Neurocrine	8.95	5.5	3.3	2.2	Neuroscience
Gilead	73.73	5.2	5.3	(0.1)	Antiviral, including HIV and Hepatitis therapies, haematology/oncology, cardiovascular, inflammation/respiratory and remdesivir, an anti-viral used in the treatment of COVID-19
Acadia	7.85	5.1	4.8	0.3	Central nervous system
Biomarin	14.01	4.8	4.9	(0.1)	Haemophilia A, other genetic disease
Vertex	57.08	4.5	6.3	(1.8)	Cystic fibrosis, inflammation and oncology
PTC	11.0	3.6	4.9	(1.3)	Rare disease
Exelixis	6.36	3.3	0.6	2.7	Oncology
Seattle Genetics	31.13	3.3	2.1	1.2	Oncology
Biogen	50.61	3.2	4.5	(1.3)	CNS including Alzheimer's
Total		46.2			

Source: International Biotechnology Trust, Marten & Co. Note 1) as at 6 November 2020

Figure 10: Horizon



Source: Bloomberg

Looking at some of these in more detail:

Horizon Therapeutics

Horizon (ir.horizontherapeutics.com) targets therapies for rare and rheumatic diseases. In January this year, it received approval for Tepezza (teprotumumab-trbw) for the treatment of thyroid eye disease (TED). TED, which is fortunately rare, causes bulging eyes and deteriorating vision. It was untreatable before the launch of Tepezza. Horizon achieved \$166m of Tepezza sales in Q2 and is forecasting \$650m net sales for 2020 and peak annual sales of \$3bn. IBT's managers say that this was the second-fastest drug launch in history. Horizon's share price has more than doubled this year as a result.

Neurocrine Biosciences

The managers have added to the position in Neurocrine (neurocrine.com). The company has four approved drugs and a range of therapeutic candidates for people with serious, challenging and under-addressed neurological, endocrine and psychiatric disorders. The company recently began the commercialisation of its Parkinson's disease drug Ongentys (opicapone) and should also benefit as its partner Abbvie markets ORIAHNN for the treatment of uterine fibroids. Neurocrine's share price has been weak recently. The managers note that its third-quarter sales have historically been weak, which may affect investor sentiment.

Vertex

Vertex Pharmaceuticals (vrtx.com) has been a successful investment for IBT. The stock price has soared on strong sales of its Trikafta combination therapy for cystic fibrosis. The managers have been taking profits on the position.

Figure 11: PTC



Source: Bloomberg

PTC

PTC Therapeutics (ptcbio.com) is focused on developing therapies for rare diseases. It received a boost this year with the FDA's approval of its Evrysdi (risdiplam) drug for paediatric and adult patients with spinal muscular atrophy. The drug is marketed by Roche, which has applied to the European Medicines Agency (EMA) for permission to market the drug in Europe. Applications have also been made to market the drug in several other territories. Evrysdi is easier to take than its major competitor, Biogen's Spinraza, and is expected to capture significant market share.

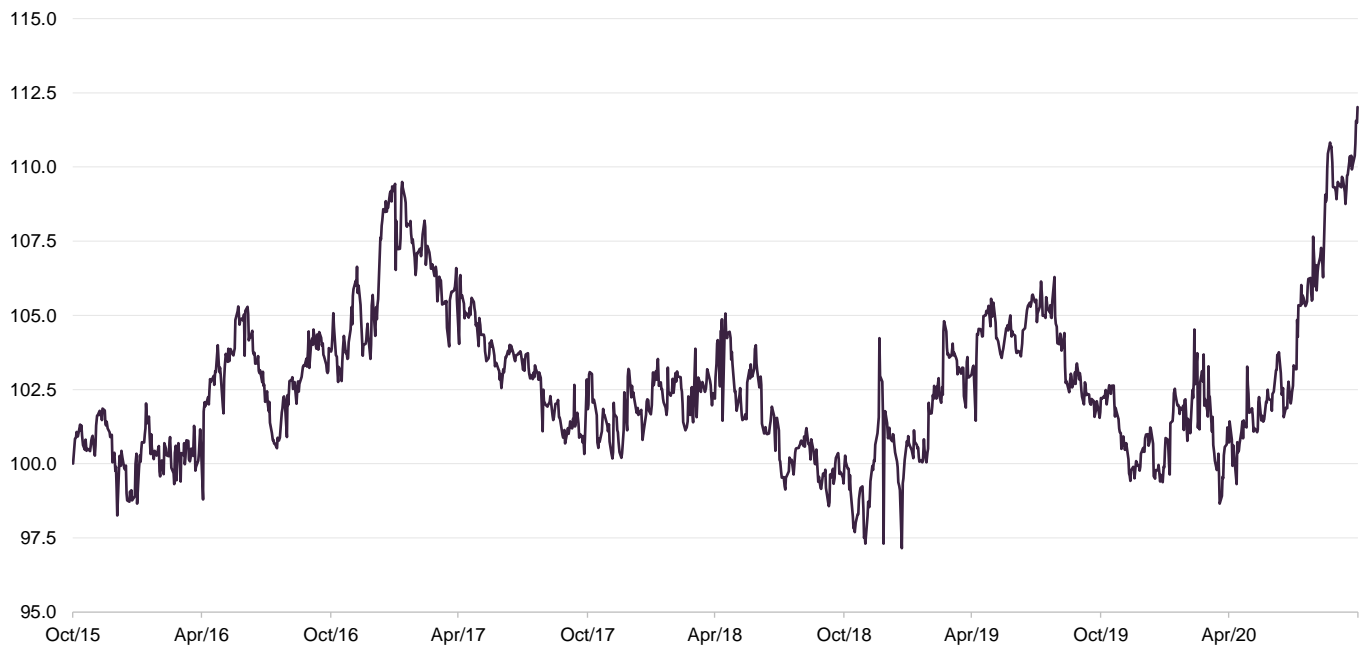
Exelixis

Exelixis (ir.exelixis.com) is an oncology-focused biotechnology company. It has an existing drug, CABOMETYX (cabozantinib) which has potential to treat a wide variety of cancers. Around 75 trials are underway, including nine in Phase 3.

Performance

IBT has delivered outperformance of the NBI over the past five years, and this been particularly marked over the past six months.

Figure 12: IBT relative to the NBI over five years ended 31 October 2020



Source: Morningstar, Marten & Co

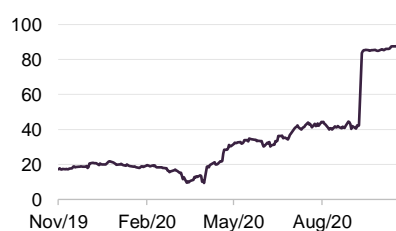
Figure 13: Cumulative total return performance to 31 October 2020

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
International Biotechnology NAV	(1.0)	6.9	14.3	34.2	43.0	64.9
International Biotechnology Price	(1.6)	7.0	18.0	34.7	47.6	81.1
Nasdaq Biotech	(3.7)	(1.4)	2.8	22.4	30.0	47.2
MSCI World	(3.1)	1.3	9.8	4.4	22.2	76.5

Source: Morningstar, Marten & Co

Over the long term, the elimination of IBT's discount has amplified the returns to shareholders. In the short term, election jitters have weighed on the sector, but for IBT, the bid for Immunomedics has far outweighed that.

Figure 14: Immunomedics



Source: Bloomberg

Immunomedics

IBT's holding in Immunomedics (immunomedics.com) was a significant driver of returns, as the stock leapt in price following a knock-out \$21bn bid from Gilead. As we noted on page 6, Immunomedics' lead drug, Trodelvy, was approved by the FDA as a treatment for adult patients with metastatic triple-negative breast cancer (mTNBC) who have received at least two prior therapies for metastatic disease (in metastasis, cancer cells break away from the point where they first formed, travel through the blood or lymph system, and form new tumours (metastatic tumours) in other parts of the body). Trials are also ongoing looking at Trodelvy's effectiveness in treating other forms of breast cancer, bladder cancer, non-small cell lung cancer and other solid tumour types. Some of these are at an advanced stage. Gilead offered \$88 per share, triggering a doubling of the share price.

Peer group

In Figures 15 and 16 overleaf, we compare IBT to the larger constituents of the listed biotech and healthcare sector (excluding Adams, which has a market cap of just £5m). The sector includes funds focused on the broader healthcare sector (BB Healthcare, Polar Capital Global Healthcare and Worldwide Healthcare) and funds focused on early-stage and mostly unquoted biotech (RTW Venture and Syncona). Biotech Growth is IBT's closest comparator, but it has adopted a higher-risk approach than IBT, as is evidenced by the volatility of its returns.

Visit QuotedData.com for up-to-date information on IBT and its peer group

Figure 15: Peer group comparison as at 9 November 2020

	Market cap £m	Premium/ (discount) %	Yield %	Ongoing charges ratio %	One-year standard deviation of NAV returns
International Biotechnology	323	0.9	3.0	1.29	29.2
Biotech Growth	583	1.1	-	1.10	39.7
BB Healthcare	850	1.9	-	1.16	34.4
Polar Capital Global Healthcare	297	(11.3)	0.9	1.13	29.8
RTW Venture	233	19.0	-	0.74	n/a ¹
Syncona	1,764	26.0	-	1.82	n/a ¹
Worldwide Healthcare	2,222	0.7	0.7	0.88	29.6

Source: Morningstar, Marten & Co. Note 1) RTW and Syncona have been excluded – RTW is less than a year old but both publish NAVs relatively infrequently.

Most of the sector is trading close to asset value, except for Polar Capital Global Healthcare, where returns have been disappointing, and the two early-stage funds, where investors may believe the NAVs are understated. IBT's dividend yield stands out, as does the low volatility of its NAV returns. IBT's ongoing charges ratio is towards the top end of those in the sector, but not excessively so.

Figure 16: Cumulative NAV total return performance to 31 October 2020

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
International Biotechnology	(1.0)	6.9	14.3	34.2	43.0	64.9
Biotech Growth	0.1	13.1	27.8	75.7	68.9	91.9
BB Healthcare	(1.4)	5.1	15.0	31.6	59.6	n/a
Polar Capital Global Healthcare	(2.9)	(1.4)	2.7	12.7	32.1	55.5
RTW Venture	(0.0)	2.3	22.6	38.5	n/a	n/a
Syncona	0.0	0.0	13.3	5.8	33.2	n/a
Worldwide Healthcare	(2.7)	1.2	6.7	26.4	39.9	89.0

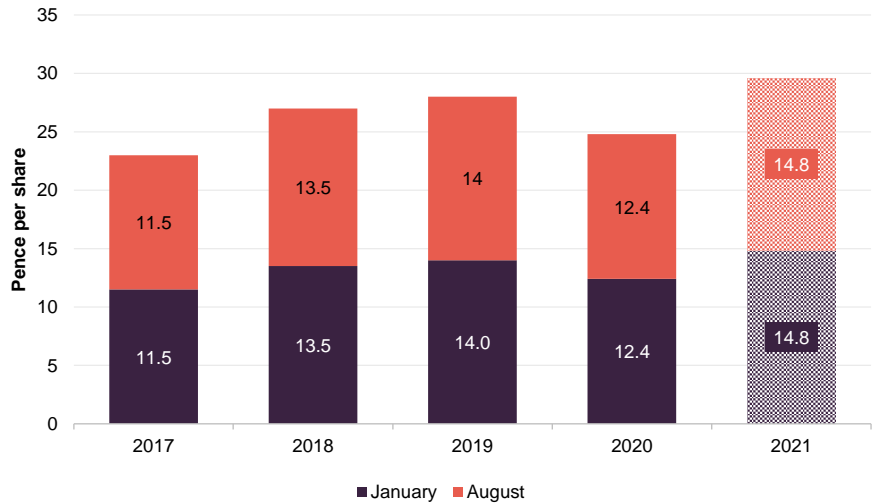
Source: Morningstar, Marten & Co

Dividend

Two equal distributions each year totalling 4% of NAV

IBT pays a dividend equivalent to 4% of its preceding year-end NAV in two equal instalments in January and August each year. The dividend is largely paid from capital reserves. The payments made in 2020, totalling 24.8p, were based on an NAV of 31 August 2019 of 622.6p. The NAV at the end of August 2020 was 738.4p, implying dividends totalling 29.6p in 2020.

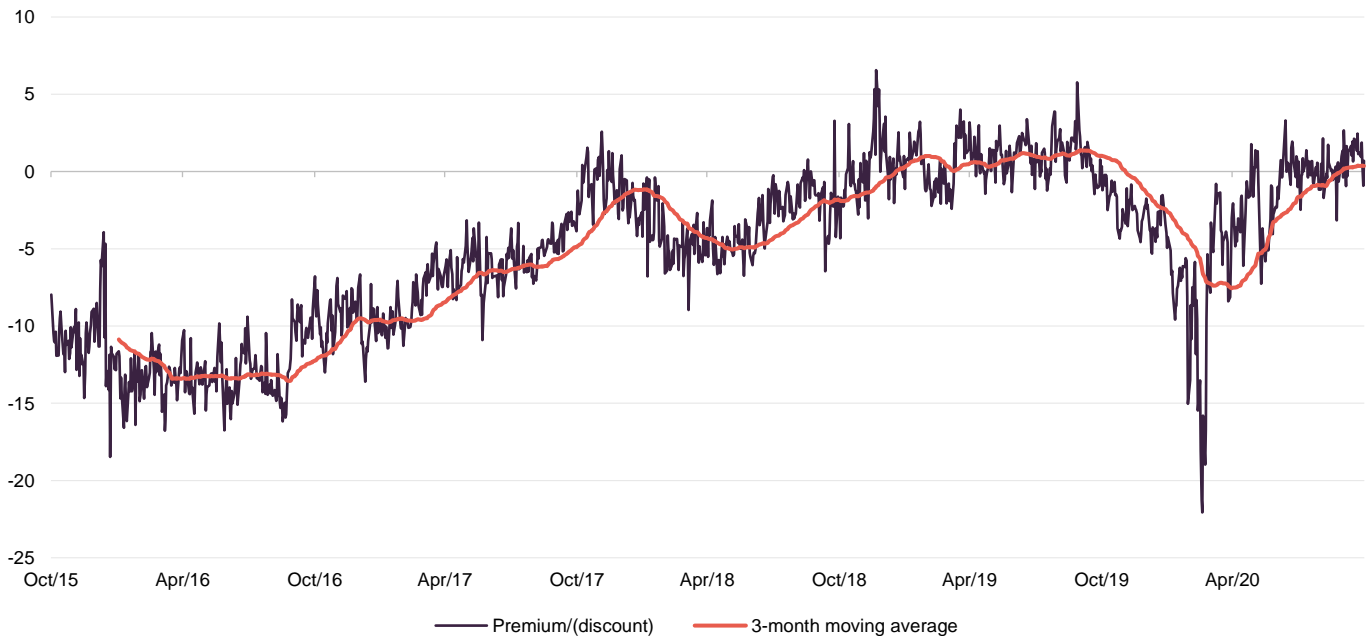
Figure 17: IBT dividends



Source: Morningstar, Marten & Co

Premium/discount

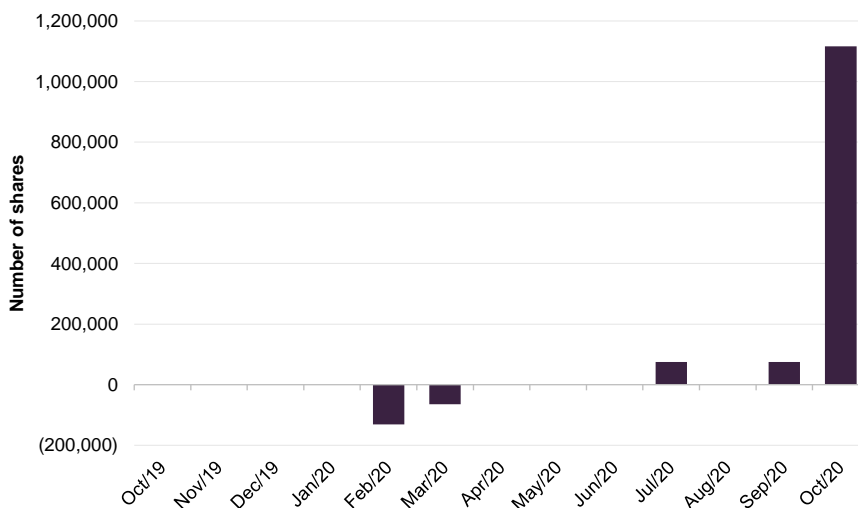
Figure 18: Premium/(discount) over five years to end October 2020



Source: Morningstar, Marten & Co

During the 12 months to 30 September 2020, IBT traded between a discount of 25.4% and a premium of 6.3%. The average discount over this period was 2.7%.

Figure 19: IBT buybacks and share issuance to 31 October 2020



Source: International Biotechnology Trust

Bought back shares when markets were panicky

The shares appeared to shrug off the general panic in markets in February and March relatively quickly. The board used IBT's share buyback powers at the time, buying back about 200,000 shares into treasury, and this may have helped to steady nerves. By the summer, IBT's impressive performance had helped attract sufficient investors for it to be able to reissue these and more shares at a premium to asset value.

At each annual general meeting (AGM), the board asks shareholders to grant it powers to issue new shares and to issue these without first offering them to existing shareholders. These powers expire at the next AGM (or after 15 months, whichever is earlier). The powers cover up to 10% of IBT's then-issued share capital and the shares cannot be issued at a price that is less than the last published NAV. At the AGM in December 2019, the board asked for permission to disapply pre-emption rights on the issuance of a further 10% of the issued share capital. Whilst the resolution was carried by a substantial majority, 18.7% of those voting opposed this move. The rationale for this opposition is not clear to us, since shareholders benefit from the issuance of shares at a premium by virtue of an enhanced NAV, increased liquidity and – all other things being equal – a lower ongoing charges ratio.

The board also has the power to buy back up to 14.99% of IBT's issued share capital which, once again, expires at the next AGM. Shares bought back can be held in treasury. The board has said that no treasury shares will be reissued at a price less than the prevailing NAV.

Fees and costs

The manager is entitled to a management fee payable monthly at the rate of 0.9% per annum of the NAV. In addition, the manager is entitled to an annual performance fee.

The portfolio consists of two pools: quoted and unquoted. The performance fee on the quoted pool is 10% of relative outperformance above the NBI in sterling, plus a 0.5% hurdle.

The performance fee on the unquoted pool is 20% of net realised gains, taking into account any unrealised losses but not unrealised gains. There is no double charging of investment management fees in relation to IBT's commitment to SV Fund VI. The performance fee is calculated as 20% of realised gains once all committed capital has been repaid.

The payment of the performance fee is subject to the following limits:

- the maximum performance fee in any one year is 2% of average net assets;
- any underperformance of the quoted portfolio against the benchmark is carried forward for the current financial period plus two succeeding periods; and
- performance fees in excess of the performance fee cap are carried forward for the current financial period plus two succeeding periods and are offset against any subsequent underperformance before being paid out.

Under normal circumstances, IBT's contract with the manager is terminable by either side on 12 months' written notice.

Fund accounting administration, depositary and custody services are provided by HSBC Bank Plc. Company secretarial services are provided by BNP Paribas Securities Services S.C.A., who delegate this activity to their wholly-owned subsidiary, BNP Paribas Secretarial Services Limited. The auditor is PricewaterhouseCoopers LLC (PWC), which has been in place since 2007. A minority (10.7%) of shareholders voting at the December 2019 AGM voted against PWC's reappointment, presumably on the grounds that the auditors had been in place since 2007, but the board considers that the auditors remain independent.

IBT's ongoing charges ratio at the end of February 2020 was 1.3%, unchanged from the level at 31 August 2019.

Capital structure and life

IBT had 39,627,817 ordinary shares outstanding at the date of the publication of this report and 1,714,846 ordinary shares in treasury. There are no other classes of share capital. IBT's financial year-end is 31 August and its AGMs are usually held in December.

Gearing

There is a £55m overdraft facility in place with HSBC Bank Plc. Gearing is limited to 30% of NAV, but in practice, IBT operates with much lower gearing levels than this (typically between +10% to -10%). At 30 September 2020, IBT had net cash of 2%.

Life

Shareholders are asked to vote on the continuation of the company at two-yearly intervals. The last such vote was held at the AGM in December 2019 and continuation was approved unanimously. The next vote is scheduled for the December 2021 AGM.

The management team

The team at SV Health Managers LLP has over 60 years' experience between them.

Dr. Carl Harald Janson

Carl Harald joined SV Health in 2013 as the lead investment manager for IBT. He qualified as a medical doctor in 1988, completed his PhD in 1990 at the Karolinska Institutet in Sweden, and qualified as Certified European Financial Analyst from the Stockholm School of Economics in 1999. During his more than six years as principal fund manager of Carnegie Biotechnology Fund, Carl Harald was the top-performing biotech fund manager worldwide. During this time, the Carnegie Biotechnology Fund achieved a total return of 54% (US dollars), while the NBI returned minus 26% (US dollars), a relative outperformance of approximately 80% (US dollars).

Ailsa Craig

Ailsa joined SV Health in 2006. She has a BSc (Hons) in Biology from the University of Manchester. Ailsa was awarded the IMC in 2002 and the Securities Institute Diploma in 2007.

Marek Poszepczynski

Marek joined SV Health in 2014. He has an MSc in Biochemistry and an MSc in Business Management from the Royal Institute of Technology, Stockholm.

Kate Bingham

Kate joined SV Health in 1991 and is one of its managing partners. She has a first-class degree in Biochemistry from Oxford University, and graduated from Harvard Business School with an MBA. Kate currently serves as the chair for the UK Vaccine Taskforce.

The board

IBT normally has four directors but there are currently six. All of these are independent of the manager and do not sit together on other boards. They stand for re-election every three years.

The board says that, in normal circumstances, directors will retire at the AGM in their 10th year of service. John Aston intends to retire after the December 2020 AGM and it is expected that Véronique Bouchet will retire shortly thereafter. Two new directors, Kate Cornish-Bowden and Patrick Magee, have been recruited in recent months.

IBT's articles of association limit the aggregate fees payable to directors to £250,000 per annum. The fees for the financial year ended 31 August 2020 were unchanged on the previous year.

Figure 20: Board member – length of service and shareholdings

Director	Role	Appointed	Length of service (years)	Annual director's fee (GBP)	Shareholding
John Aston OBE	Chairman	23 February 2011	9.7	42,500	10,000
Véronique Bouchet	Senior independent director	1 September 2009	11.1	30,000	8,478
Kate Cornish-Bowden	Director	20 May 2020	0.4	28,000	8,000
Caroline Gulliver	Chair of the audit committee	1 April 2015	5.6	32,500	7,500
Jim Horsburgh	Director	1 February 2013	7.7	28,000	15,000
Patrick Magee	Director	20 May 2020	0.4	28,000	3,500

Source: International Biotechnology Trust

John Aston OBE

John has been IBT's chairman since 12 December 2017. He was CFO of Astex Therapeutics Ltd between January 2007 and May 2010 and held the same position at Cambridge Antibody Technology for 10 years to 2006. Prior to this, he was a director in investment banking with Schrodgers in London and previously worked for British Technology Group and Price Waterhouse. He is a chartered accountant and has a degree in Mathematics from Cambridge University. John is also a director of a number of private biotech companies.

Dr Véronique Bouchet

Véronique is IBT's longest-serving director. She is the chief medical officer of RowAnalytics Ltd, an AI-enabled precision medicine company. She has previously held a variety of senior international roles in the healthcare industry across several therapeutic areas and functions. She is a non-executive director of Stevenage Bioscience Catalyst, a member of the Council and Finance and Investment Committee of Queen Mary, University of London and a member of the scientific committee of Breast Cancer Now. She has an MB BS from St Bartholomew's Hospital Medical School and holds a BSc in Psychology from University College London. Véronique has an MBA from INSEAD and has been awarded the Institute of Directors' Diploma in Company Direction (Distinction).

Kate Cornish-Bowden

Kate worked for Morgan Stanley Investment Management from 1992 to 2004 where she was a managing director, head of MSIM's global core equity business and head of the pharmaceuticals research team. Prior to joining Morgan Stanley, she worked for M&G Investment Management as a research analyst. Kate is currently a non-executive director of Finsbury Growth & Income Trust Plc, Schroder Oriental Income Fund Ltd and CC Japan Income & Growth Trust Plc, where she is also chair of the Audit Committee. She has previously held directorships at Calculus VCT Plc, Scancell Holdings Plc and Arcis Biotechnology Limited. Kate is a member of the Chartered Financial Analyst Institute (formerly AIIIMR), holds an MBA and has completed the Financial Times Non-Executive Director Diploma.

Caroline Gulliver

Caroline has been chair of the audit committee since 13 July 2016. She spent a 25-year career with Ernst & Young LLP, from where she retired in 2012 to pursue other interests including non-executive directorship positions. She is a chartered accountant with a background in the provision of audit and advisory services to the asset management industry, with a particular focus on investment trusts. She is also a non-executive director of JPMorgan Global Emerging Markets Income Trust Plc, Civitas Social Housing Plc and Aberdeen Standard European Logistics Income Plc.

Jim Horsburgh

Jim commenced his career in 1977, joining Hill Samuel Investment Management as a graduate trainee. He moved to the ICI Pension Fund in 1979 and Abbey Life Assurance Company in 1982, where he managed the company's flagship life and pension equity funds. In 1984 he joined Schroder Investment Management as a UK pension fund manager becoming an account director, a director and in 1998 UK managing director. He left Schroders in 2001 and, following a career break, was chief executive of Witan Investment Trust Plc from February 2004 to October 2008.

Patrick Magee

Patrick joined the British Business Bank as chief operating officer in September 2014, and became its chief commercial officer in June 2017. He had previously represented the Government's shareholder interests on its board. Before joining the Department for Business, Innovation and Skills' Shareholder Executive in June 2012, Patrick was a managing director of corporate finance at JP Morgan Cazenove, having worked at the predecessor firms for almost 18 years. He also spent two years on secondment to the Panel for Takeovers and Mergers. Patrick has an MBA from Georgetown University, Washington DC and an LLB from Queen's University Belfast.

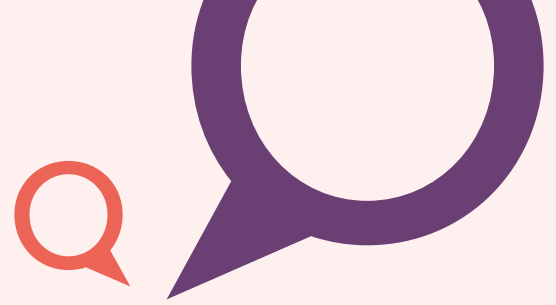
Previous publications

Readers interested in further information about IBT may wish to read our other notes. Click the links in the table or visit the QuotedData website.

Figure 21: QuotedData's other notes on IBT

Note	Date published	Note type
Outperformance and income	19 July 2018	Initiation
Beating the odds	8 March 2019	Update
Healthy yield attracts investors	19 September 2019	Annual overview
Trust in biotech	2 April 2020	Update

Source: Marten & Co



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