

# ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2023



The Biotech Growth Trust PLC Annual Report for the year ended 31 March 2023



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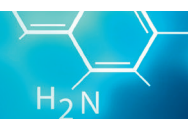
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## THE BIOTECH GROWTH TRUST PLC



# 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 26 and 27.

### 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.

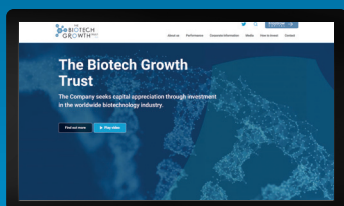
Beginning with its first public equity fund in 1989, OrbiMed expanded to include long/short equity and private equity investments in 1993. On 19 May 2005 OrbiMed was appointed as the Company's Portfolio Manager. In 2007 OrbiMed expanded to Asia, opening offices in Mumbai and Shanghai, and launching a 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. In May 2023, OrbiMed opened an office in London to provide local support for its network of European portfolio companies and to seek private and public equity investments.

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. \$17 billion under management, OrbiMed ranks as one of the world's largest healthcare-dedicated investment firms.

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

### HOW TO INVEST

The Company's shares are traded 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. Further details can be found on page 100.



For more information about The Biotech Growth Trust PLC visit the website at

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



Follow us on Twitter @biotechgt



**FINANCIAL HIGHLIGHTS**

as at 31 March 2023

**852.6p**

Net asset value per share\*\*

2022: 957.8p

**783.0p**

Share price

2022: 898.0p

**£330.3m**

Shareholders' funds\*\*

2022: £394.2m

**-11.0%**

Net asset value per share (total return)\*\*^

2022: -33.8%

**-12.8%**

Share price (total return)\*\*^

2022: -37.0%

**+5.4%**

Benchmark\*\*†

2022: -7.4%

**8.2%**

Discount of share price to net asset value per share^

2022: 6.2%

**1.1%**

Ongoing Charges^

2022: 1.1%

**76.6%**

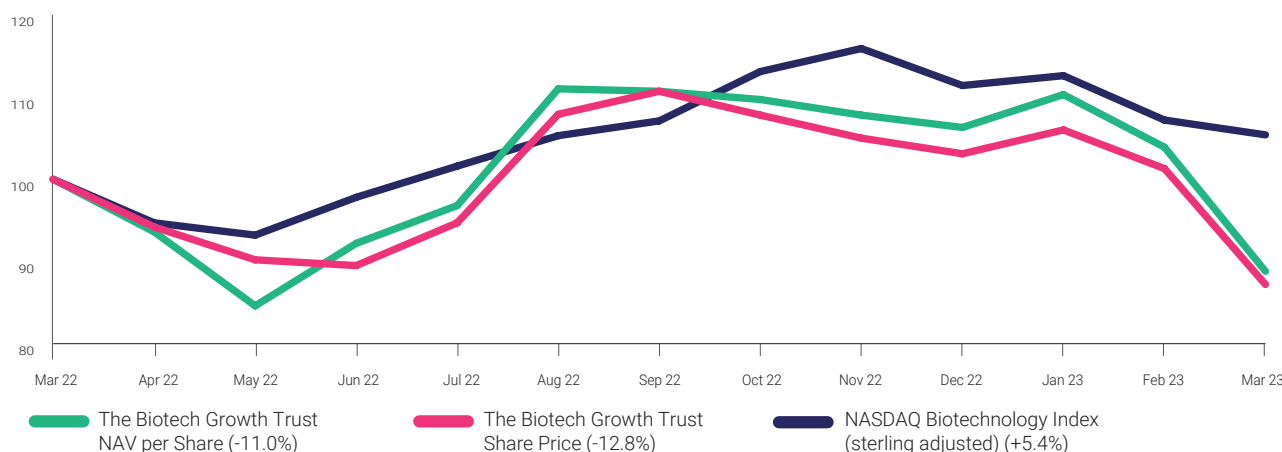
Active Share\*\*

2022: 77.3%

\* Source: Morningstar; ^Alternative Performance Measure (see glossary beginning on page 96); † NASDAQ Biotechnology Index (sterling adjusted)  
 \*\* UK GAAP Measure

**TOTAL RETURN PERFORMANCE**

for the year to 31 March 2023



Figures have been rebased to 100 as at 31 March 2022.  
 Source: Morningstar

# CHAIRMAN'S STATEMENT

**ROGER YATES**



## INTRODUCTION AND RESULTS

This has been another difficult year for the Company. The challenging economic conditions of the previous year carried over to the year under review, leading to disappointing absolute and relative performance; the Company's NAV per share total return was -11.0% (2022: -33.8%), and the share price total return was -12.8% (2022: -37.0%), both underperforming the Company's benchmark, the NASDAQ Biotechnology Index (sterling adjusted), which over the year rose 5.4% (2022: -7.4%). The disparity between the performance of the Company's NAV per share and its share price reflected a widening of the share price discount to the NAV per share from 6.2% at the start of the Company's financial year to 8.2% at the year end.

The majority of the Company's assets are denominated in U.S. dollars with the result that the Company's performance was positively affected by the tailwind of sterling weakness during the year, particularly against the U.S. dollar, with the average exchange over the period being \$1.204, some 11.7% weaker than the previous year's average of \$1.363.

The Company's gearing, which decreased to 7.8% at the year-end from 8.4% at the beginning of the year, detracted 0.8% from the Company's overall NAV return during the year.

The factors that contributed to the Company's performance are analysed in detail in the Portfolio Manager's report beginning on page 9. In general, rather than reflecting disappointing underlying performance or a lack of innovation from the sector, the price of biotechnology stocks has continued to suffer as investors' appetite for growth stocks – those companies offering fast growing earnings or revenues – has remained muted. Alongside this, there continues to be a very significant divergence in performance between large and small capitalisation (cap)

stocks in the biotechnology sector. Both factors reflect investors' current levels of risk aversion which sees them favour larger companies with well-established business models and earnings over the potentially more exciting opportunities offered by faster growing and smaller companies.

In addition, the selective exposure to Chinese biotechnology companies was a headwind to performance. The Portfolio Manager continues to believe that the high levels of innovation that can be found in China represent a promising investment opportunity, however the companies in question have been affected by difficult macroeconomic and geopolitical environments. Accordingly, the Portfolio Manager has reduced our exposure to Chinese biotech and has not made any new crossover investments (investments in a Company's last private funding round prior to an IPO) during the year. Chinese net investments represented 9% (2022: 13%) of the portfolio at the year end.

While performance this year has been disappointing, our Portfolio Manager expects that the overweighting of small and mid cap companies will deliver positive results to shareholders. In particular, they expect that the divergence in the valuations of large and small/mid cap companies will close. In addition, they anticipate that we can expect to see continued consolidation in the biotechnology industry, as larger companies seek to acquire smaller companies with promising pipelines of drugs and therapies to address gaps in their own portfolios and, in many cases, impending patent expirations which threaten their future earnings. This consolidation is likely to create both opportunities and challenges for small biotechnology companies, as they navigate the changing landscape of the industry. Above all, if breakthroughs can be made in the next generation technologies in which the Company is invested, this will be transformational for the sector and, we hope, for the Company's performance.



## CAPITAL STRUCTURE

The Company's shares traded at a discount throughout the year, leading to the repurchase of 2,421,263 shares, at an average discount of 8.0% to the Company's cum income NAV per share at the time, at a total cost of £22.6 million.

Shareholders will be aware that the Company pursues an active discount management policy, buying back shares when the discount of the Company's share price to its NAV per share is higher than 6% (under normal market conditions).

At the period end there were 38,737,419 shares in issue and the share price traded at an 8.2% discount to the cum income NAV per share. As we have previously commented, while it remains possible for the shares to trade at a discount wider than 6% on any one day, the Company remains committed to protecting a 6% share price discount over the longer term. Since the year end, a further 1,057,959 shares have been bought back for cancellation and at the time of writing the share price discount stands at 7.6%.

## RETURN AND DIVIDEND

The revenue return per share was (1.6)p (2022: 0.0p). No dividend is recommended in respect of the year ended 31 March 2023 (2022: nil).

## BOARD AND MANAGEMENT CHANGES

During the year, Andrew Joy retired from the Board and I succeeded him as Chairman. There will be other retirements in the coming years and we are focused on successfully managing transitions with the right individuals and mix of people. Improving the diversity of the Board will be a key consideration in future recruitment processes and more information on the Board's diversity policy can be found on page 45 of this report.

The Board also welcomes OrbiMed's announcement that Josh Golomb has been appointed as co-portfolio manager of the Company's portfolio. Further details can be found in

their report but the Board believes that Josh's knowledge and expertise add significant value to an already well-resourced portfolio management team.

## PERFORMANCE FEE

There is currently no provision within the Company's NAV for any performance fee payable at a future calculation date. The arrangements for performance fees are described in detail on pages 48 and 49 of this Annual Report but I would highlight that it is dependent on the long-term outperformance of the Company: any outperformance has to be maintained for 12 months after the relevant calculation date and only becomes payable to the extent that the outperformance gives rise to a total fee greater than the total of all performance fees paid to date.

## INVESTMENT POLICY

The Board reviews the Company's investment policy at every Board meeting to ensure the limits and restrictions remain appropriate and must recommend any material changes to shareholders for approval.

This year, following consultation with our advisers, the Board is proposing a number of small changes to the investment policy in order to clarify the scope of the use of swaps and derivatives for efficient portfolio management. The proposed changes will:

- Enable derivative instruments (other than equity swaps) to be used to mitigate risk and/or enhance return subject to an aggregate net exposure of 5% of the value of the Company's gross assets measured at the time of the relevant transaction; and
- Remove the current limit for equity swaps but impose a limit on aggregate net counterparty exposure, through a combination of derivatives and equity swap transactions, of 12% of the value of the gross assets of the Company at the time of the transaction.

## CHAIRMAN'S STATEMENT CONTINUED

The proposed amendments have been approved in principle by the Financial Conduct Authority.

**ANNUAL GENERAL MEETING**

The Company's AGM will be held at the Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR on Thursday, 27 July 2023 at 12 noon. As well as the formal proceedings, there will be an opportunity for shareholders to meet the Board and the Portfolio Manager, and to receive an update on the Company's strategy and its key investments.

Last year the heatwave in July may have prevented some shareholders from attending the AGM, so I very much look forward to seeing as many shareholders as possible this year, weather permitting. For those investors who are not able to attend the meeting in person, a video recording of the Portfolio Manager's presentation will be uploaded to the website after the meeting. Shareholders can submit questions in advance by writing to the Company Secretary at [info@frostrow.com](mailto:info@frostrow.com).

I encourage all shareholders to exercise their right to vote at the AGM and to register their votes online in advance. Registering your vote in advance will not restrict you from attending and voting at the meeting in person should you wish to do so, but as the past few years have shown, unforeseen extraordinary events can make attendance difficult or impossible. Details of the proxy votes received will be published as soon as practicable following the conclusion of the AGM by way of a stock exchange announcement and on the Company's website: [www.biotechgt.com](http://www.biotechgt.com).

**OUTLOOK**

The biotechnology sector has been a critical area of innovation and growth in recent years with the rate of underlying scientific discovery and its translation into effective treatments continuing apace. With a focus on precision medicine, cell and gene therapy, digital health, and rare diseases, small biotechnology companies are at the forefront of this innovation. Additionally, advances in technology, the availability of big data and the use of artificial intelligence are enabling healthcare solutions which have the potential to revolutionise the industry.

However, the challenges facing the sector will persist, including regulatory hurdles and uncertainty around funding. Drug development will remain a long-term and costly pursuit. The broader economic environment also remains challenging: global economic growth has slowed, the cost of capital has risen, and geopolitical instability and ongoing supply chain disruptions continue to challenge the post-pandemic recovery. More broadly, elevated energy prices and surprisingly persistent inflation will continue to impact business investment.

Although the impact of these factors will continue to weigh on financial markets, our Portfolio Manager remains confident that there are a number of potential catalysts that could elicit a recovery in the biotechnology sector and so their overall investment strategy remains unchanged. Their highly skilled team will continue to seek out the most innovative and promising opportunities in the biotech sector.

The Board shares their view that the fundamental investment themes for the biotechnology sector remain intact and with a continued focus on the selection of stocks with strong prospects for capital enhancement, long-term investors will be rewarded.

**Roger Yates**

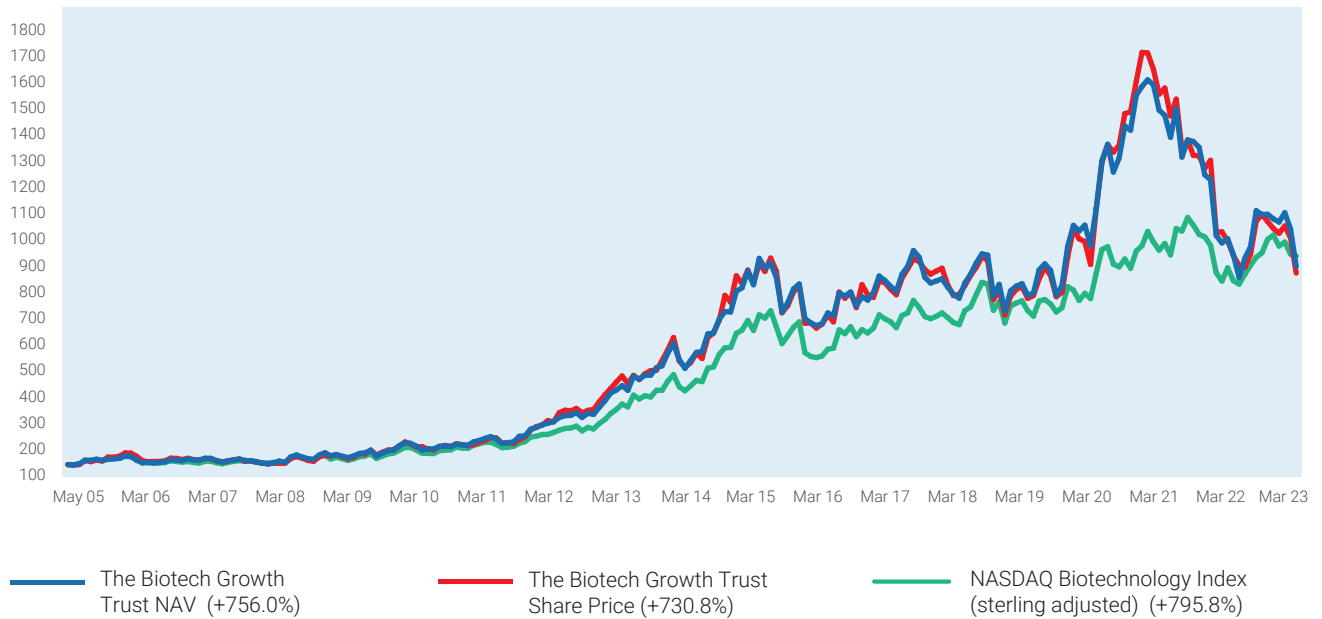
Chairman

14 June 2023

# COMPANY PERFORMANCE

## PERFORMANCE SINCE THE DATE OF APPOINTMENT OF ORBIMED CAPITAL LLC AS PORTFOLIO MANAGER

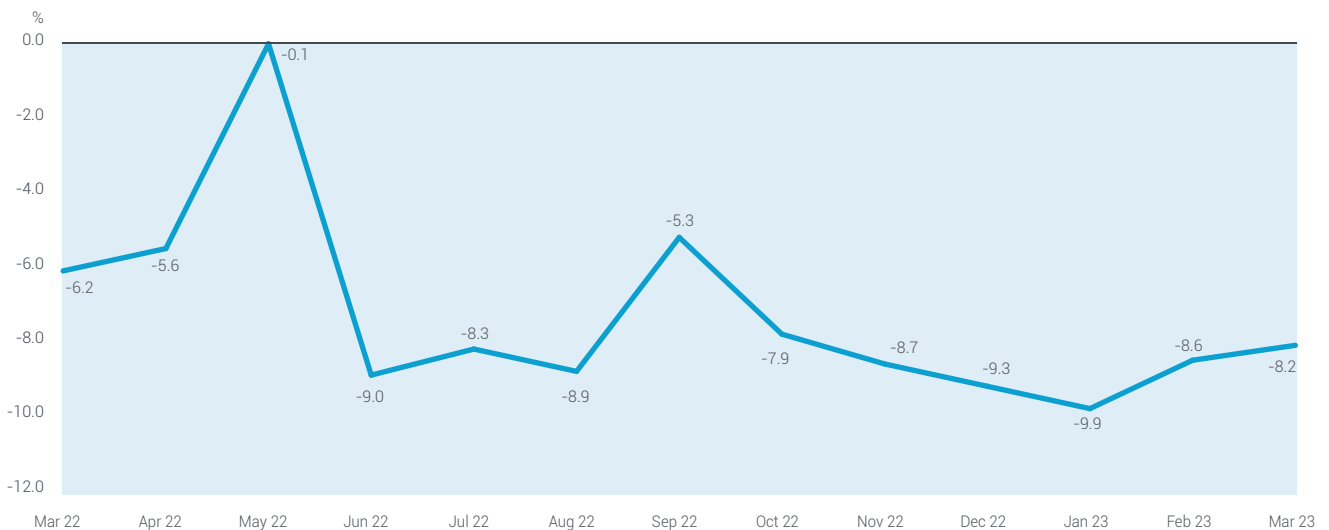
to 31 March 2023



Figures have been rebased to 100 as at 19 May 2005.  
Source: Bloomberg.

## SHARE PRICE DISCOUNT TO THE NAV PER SHARE

to 31 March 2023



The discount of the Company's share price to the net asset value per share at 31 March 2023 stood at 8.2% (2022: 6.2%).  
Source: Frostrow Capital LLP.

## COMPANY PERFORMANCE CONTINUED

## HISTORIC PERFORMANCE FOR THE YEARS ENDED 31 MARCH

	2018	2019	2020	2021	2022	2023
Net asset value per share total return*^	(6.7%)	5.3%	18.5%	55.1%	(33.8%)	(11.0%)
Share price total return*^	(6.1%)	4.6%	10.9%	75.2%	(37.0%)	(12.8%)
Benchmark return*	(2.2%)	13.0%	1.2%	25.1%	(7.4%)	5.4%
Net asset value per share	747.5p	786.8p	932.4p	1,446.4p	957.8p	852.6p
Share price	702.0p	734.0p	814.0p	1,426.0p	898.0p	783.0p
Discount of share price to net asset value per share*^	6.1%	6.7%	12.7%	1.4%	6.2%	8.2%
Ongoing charges (excluding performance fees)^	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Gearing^	6.8%	5.5%	9.0%	6.8%	8.4%	7.8%

\* Source: Morningstar

^ Alternative Performance Measure (see glossary beginning on page 96).

## FIVE YEAR PERFORMANCE

to 31 March 2023



Figures have been rebased to 100 as at 31 March 2018  
Source: Morningstar



# INVESTMENT PORTFOLIO

## INVESTMENTS HELD AS AT 31 MARCH 2023

Security	Country/Region #	Fair value £'000	% of investments
Biogen	United States	22,710	6.4
Sarepta Therapeutics	United States	19,727	5.5
BioMarin Pharmaceutical	United States	19,508	5.5
Regeneron Pharmaceuticals	United States	15,940	4.4
Amgen	United States	14,993	4.2
Keros Therapeutics	United States	14,183	4.0
Traverse Therapeutics	United States	13,712	3.9
Ionis Pharmaceuticals	United States	13,474	3.8
Argenx	Netherlands	13,409	3.8
XtalPi*	China	12,899	3.6
<b>Ten largest investments</b>		<b>160,555</b>	<b>45.1</b>
Syndax Pharmaceuticals	United States	12,897	3.6
Xenon Pharmaceuticals	Canada	12,707	3.6
Chinook Therapeutics	United States	11,440	3.2
uniQure	Netherlands	10,075	2.8
Mersana Therapeutics	United States	9,549	2.7
Compass Therapeutics	United States	9,388	2.6
Amylyx Pharmaceuticals	United States	9,284	2.6
2seventy bio	United States	9,205	2.6
BELLUS Health	Canada	9,158	2.6
GH Research	Ireland	9,061	2.6
<b>Twenty largest investments</b>		<b>263,319</b>	<b>74.0</b>
Vertex Pharmaceuticals	United States	8,807	2.5
Aerovate Therapeutics	United States	8,751	2.4
RAPT Therapeutics	United States	6,362	1.8
Innovent Biologics	China	5,783	1.6
StemiRNA Therapeutics*	China	5,204	1.5
Kezar Life Sciences	United States	4,862	1.4
Vera Therapeutics	United States	4,640	1.3
Amicus Therapeutics	United States	4,615	1.3
Janux Therapeutics	United States	3,387	0.9
Vaxcyte	United States	3,319	0.9
<b>Thirty largest investments</b>		<b>319,049</b>	<b>89.6</b>
ALX Oncology Holdings	United States	3,319	0.9
Crinetics Pharmaceuticals	United States	3,302	0.9
Ventyx Biosciences	United States	2,974	0.8
Immatics NV	Germany	2,852	0.8
Apellis Pharmaceuticals	United States	2,761	0.8
YS Biopharma	China	2,723	0.8
Remegen	China	2,428	0.7
BioAtla	United States	2,315	0.7
OrbiMed Asia Partners*†	Asia	2,164	0.6
Intellia Therapeutics	United States	1,950	0.5
<b>Forty largest investments</b>		<b>345,837</b>	<b>97.1</b>
Prelude Therapeutics	United States	1,597	0.5
Essa Pharma	Canada	1,558	0.4
Edgewise Therapeutics	United States	1,426	0.4
Wuxi Biologics Cayman	China	1,371	0.4
Gracell Biotechnologies**	China	1,224	0.4
Suzhou Basecare Medical	China	1,022	0.3
Heron Therapeutics	United States	980	0.3
Enliven Therapeutics	United States	824	0.2
Galecto	Denmark	454	0.1
Repare Therapeutics	Canada	390	0.1
<b>Fifty largest investments</b>		<b>356,683</b>	<b>100.2</b>

# Primary listing

† Partnership interest

\* Unquoted investment

\*\* Gracell Biotechnologies (0.4% of the Company's investments) is held through a variable interest entity ("VIE"). See glossary beginning on page 96 for further details.

## INVESTMENT PORTFOLIO CONTINUED

Security	Country/Region #	Fair value £'000	% of investments
AWAKN Life Sciences	Canada	373	0.1
Nektar Therapeutics	United States	173	–
AWAKN Life Sciences warrant 16/06/2023*	Canada	–	–
AWAKN Life Sciences warrant 21/03/2024*	Canada	–	–
Imara	United States	–	–
<b>Total equities and fixed interest investments</b>		<b>357,229</b>	<b>100.3</b>
OTC equity swaps – Financed			
BeiGene	China	5,022	1.4
Less: Gross exposure on financed swaps		(6,224)	(1.7)
<b>Total OTC equity swaps</b>		<b>(1,202)</b>	<b>(0.3)</b>
<b>Total investments including OTC equity swaps</b>		<b>356,027</b>	<b>100.0</b>

All of the above investments are equities unless otherwise stated.

# Primary listing

† Partnership interest

\* Unquoted

## PORTFOLIO BREAKDOWN

Investments	Fair value £'000	% of investments
<b>Quoted</b>		
Equities	336,962	94.6
	336,962	94.6
<b>Unquoted</b>		
Equities	18,103	5.1
Partnership interest	2,164	0.6
	20,267	5.7
<b>Derivatives</b>		
OTC equity swaps	(1,202)	(0.3)
<b>Total investments</b>	<b>356,027</b>	<b>100.0</b>

# PORTFOLIO MANAGER'S REVIEW

GEOFF HSU



JOSH GOLOMB



## PERFORMANCE REVIEW

Following a difficult fiscal year ended 31 March 2022, the Company posted another challenging year of performance for the year ended 31 March 2023. The Company's net asset value per share total return was down 11.0% during the fiscal year, compared to a 5.4% increase for the Company's benchmark, the NASDAQ Biotechnology Index, measured on a sterling adjusted basis (the Benchmark).

Macroeconomic factors rather than industry fundamentals continued to dominate portfolio performance during the fiscal year. The fiscal year began with weakness in the biotech sector in April and May 2022, driven by continued investor concerns about rising interest rates. Continued rate hikes by the U.S. Federal Reserve (the Fed) to combat inflation drove down share prices for unprofitable technology stocks broadly, including emerging biotech. Valuations for emerging biotech, which had reached 20-year lows, appeared to bottom out in May and June. In August, drug pricing legislation in the U.S. was passed as part of the Democrats' "Inflation Reduction Act". While the bill allows for limited drug price negotiation by Medicare starting in 2026, the provisions appear manageable for the industry and passage of the bill cleared a longstanding political overhang for the sector. By the end of September, the biotech sector had begun staging a recovery from depressed levels. In October, a disappointing round of earnings from large capitalization (cap) technology stocks like Amazon and Meta and growing recession concerns appeared to draw generalist inflows into the defensive pharmaceutical sector and large cap biotech. Large cap biotech outperformance continued in November, but small cap biotech began outperforming in December, and January 2023. Unfortunately, interest rate expectations became more hawkish in February when the U.S. announced a lower-than-expected unemployment rate and higher-than-expected inflation, sending small cap shares back down. In March, the unexpected failure of Silicon Valley Bank (SVB) had a particularly negative impact on small cap biotech, many of which were SVB clients. Even though absolute cash exposure to SVB for most biotech companies was minimal, renewed risk aversion due to the concerns over

the banking system caused large cap biotech to significantly outperform small cap biotech. This trading dynamic had a particularly detrimental impact on the Company's relative performance versus the Benchmark, given that the Company is significantly overweight small cap names and underweight large cap names. The drawdown in March accounted for virtually all of the underperformance of the Company's NAV versus the Benchmark for the fiscal year. Encouragingly, the Company has seen a rebound in relative performance in April and May 2023, which we hope signals a more sustained recovery.

Our positioning at the beginning of the fiscal year was premised on overweighting smaller cap emerging biotech names for three reasons:

- 1) Emerging biotech was trading at 20-year valuation lows, with almost 20% of the industry at the start of the fiscal year trading at negative enterprise values (market capitalisation below the net cash on the companies' balance sheets). Small and mid cap biotech companies had significantly underperformed large cap biotech and the S&P 500 since early 2021 and a reversion in performance based on historical patterns seemed likely.
- 2) We expected an increase in M&A activity due to the compelling valuations of smaller biotech targets.
- 3) Emerging biotech, rather than large cap biotech, was still contributing about two-thirds of the total biopharmaceutical industry pipeline. Fundamental innovation was strong.

All of these elements of our investment thesis remain intact. Indeed, we think emerging biotech was showing good signs of a recovery from the lows of summer 2022, but the banking crisis in March 2023 temporarily derailed that rerating. We believe biotech companies have largely eliminated their direct exposure to bank failure risk by diversifying their banking relationships, holding cash at banks that are deemed "too big to fail" (e.g. J.P. Morgan, Bank of America), and moving their cash into alternate liquid securities. Most emerging biotech companies rely on equity financings rather than

## PORTFOLIO MANAGER'S REVIEW CONTINUED

debt financings to fund their operations, so we think they are better insulated than other industries from any pullback in bank lending activity.

We are also encouraged by current market expectations that the Fed's recent cycle of rate hikes may be coming to an end. Fed comments following their recent May 2023 meeting were widely interpreted as signaling that a pause in interest rate hikes could occur as early as June. As a result, we think the macro factors that have weighed on the sector so heavily over the past two years should soon abate, allowing the sector to recover.

Similarly to the prior fiscal year, the underperformance of the Company versus the Benchmark can be principally attributed to the portfolio's heavier weighting in small cap biotech. As shown in Figure 1 below, if one looks at the market cap distribution of the Company's portfolio at

the beginning of the fiscal year, the Company was 41% overweight small caps and 33% underweight large caps relative to the Benchmark. If one plots the average stock price performance of the Benchmark constituents in each of those market capitalization categories, one observes that small cap biotech underperformed large cap biotech by about 27% during the review period. Notably, the prior fiscal year showed a similar 30% underperformance of small caps versus large caps, a trend that we had hoped would reverse in the review period. Figure 2 (on page 11) shows that the small cap underperformance during the fiscal year is simply an extension of a longer trend of underperformance since 31 March 2021. We are surprised that the underperformance of small caps has persisted for so long but remain convinced that the segment is overdue a recovery.

## SMALL AND MID CAP BIOTECH UNDERPERFORMED LARGE CAP BIOTECH

## During the Year Ended 31 March 2023

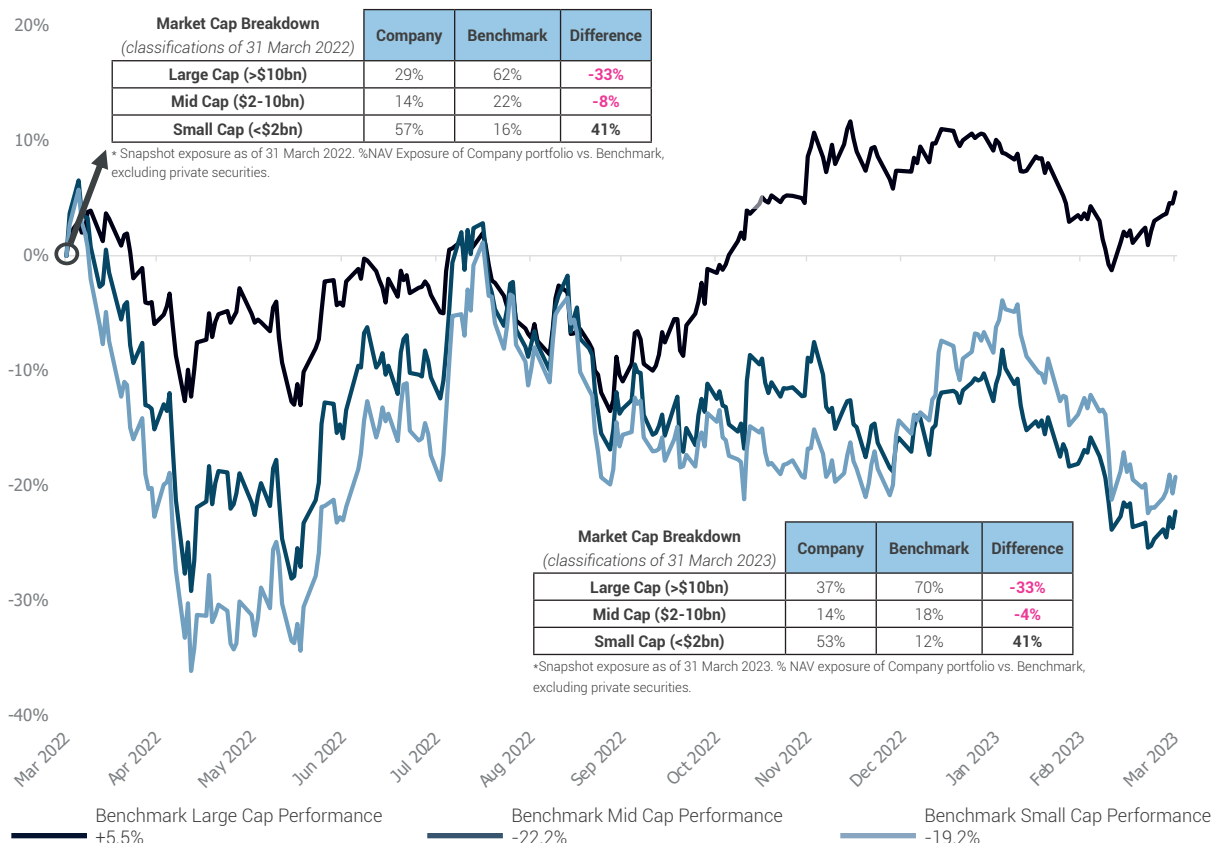


Figure 1

Note: Chart shows equal-weighted performance of Benchmark stocks in their respective market cap buckets, using market cap classifications as of 31 March 2022. Updated as of 31 March 2023, performance calculated in USD.

Source: Bloomberg

PORTFOLIO MANAGER'S REVIEW CONTINUED

SMALL AND MID CAP BIOTECH HAVE UNDERPERFORMED LARGE CAP BIOTECH SINCE 31 MARCH 2021

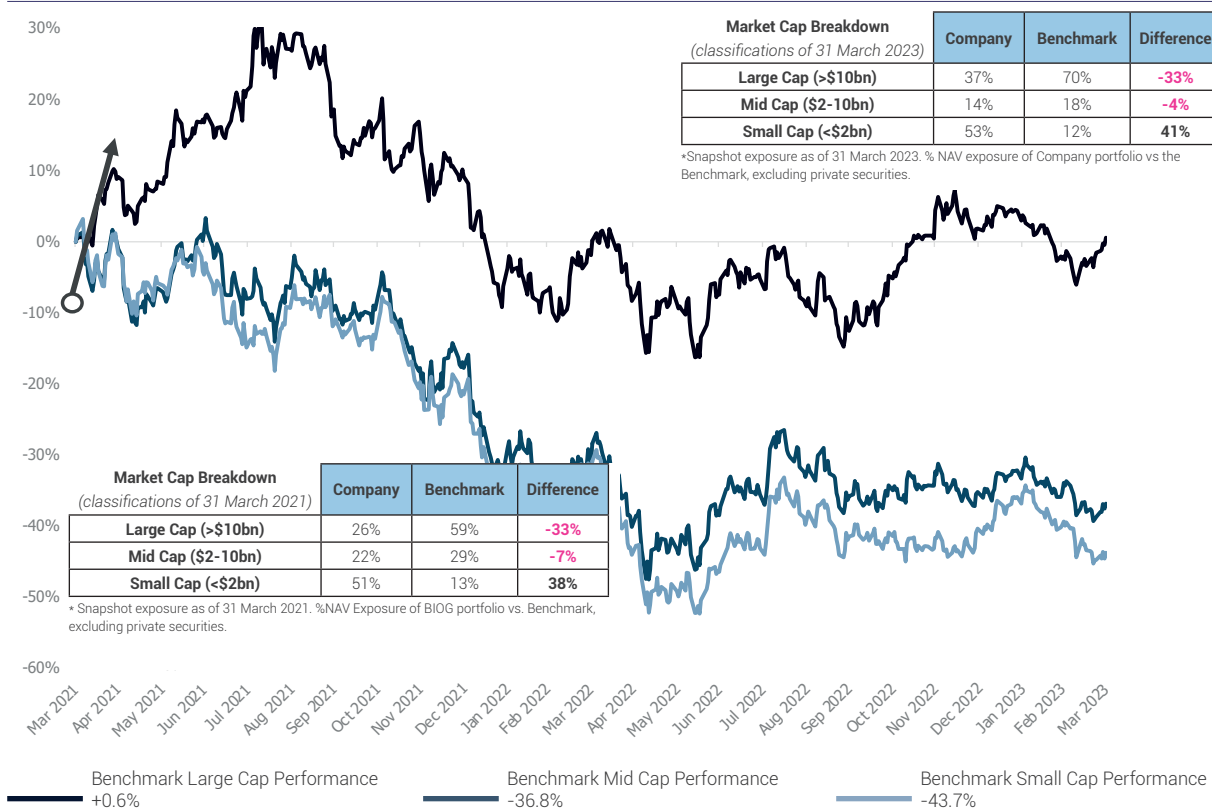


Figure 2

Note: Chart shows equal-weighted performance of Benchmark stocks in their respective market cap buckets, using market cap classifications as of 31 March 2021. Updated as of 31 March 2023, performance calculated in USD.

Source: Bloomberg

We believe large cap biotech outperformance is principally driven by generalist investors seeking defensive investments during a time of macro volatility. Large cap names are better insulated from interest rate hikes and have lower beta – a measure of their sensitivity to broader market moves – during market downturns. At a time when investors are focused on maintaining liquidity in their portfolios, large cap names offer greater liquidity than their small cap counterparts. Additionally, drug sales are less economically sensitive than other sectors during a recession, making large pharma and large biotech companies with marketed drugs natural places to hide

for generalist investors concerned about recession risk. We would caution that investors may be temporarily parking money in large cap biotech primarily as a means of managing macro risk rather than investing based on enthusiasm for those companies' individual fundamentals. When the macro picture improves, that capital may quickly reallocate to other sectors of the economy. While large cap biotech does have some defensive qualities during a recession, recent analysis from Goldman Sachs shows that small and mid cap biotech (as reflected by the SPDR S&P Biotech ETF or XBI) have also outperformed the S&P 500 during the last four recessions.

## PORTFOLIO MANAGER'S REVIEW CONTINUED

## MEDIAN EXCESS RETURN VS. S&amp;P 500 DURING THE LAST FOUR RECESSIONS

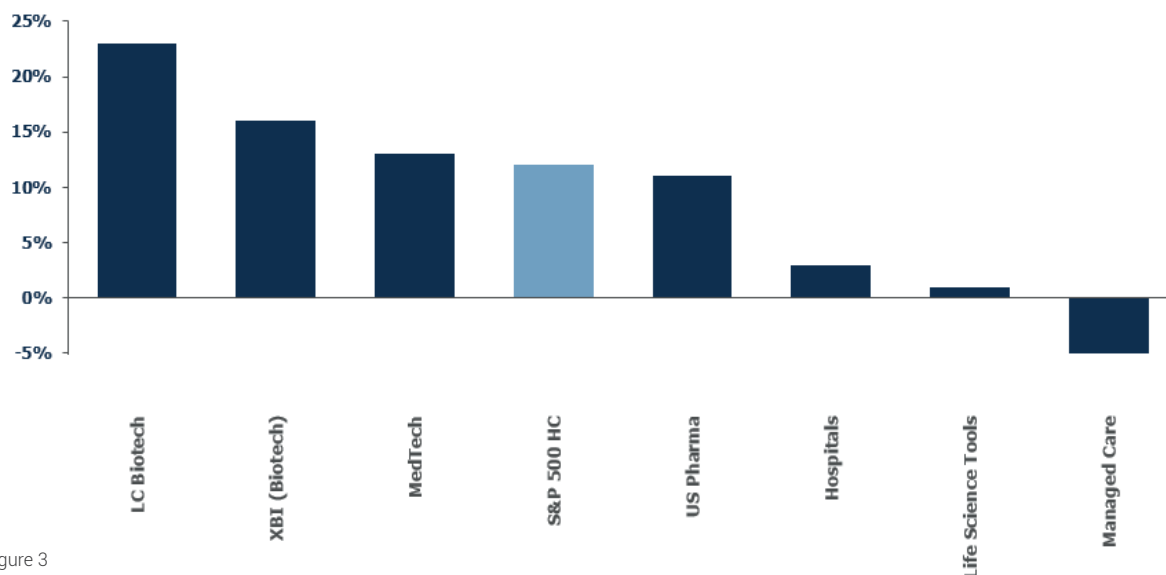


Figure 3

Source: Goldman Sachs. Assessing Recession Impact Across Subsectors, 20 July 2022

We have noted in the past the increasing biotech innovation we are now observing in China. The Chinese central government made developing a domestic, innovative biotech industry a priority in 2015, and we believe the COVID pandemic has only strengthened that commitment. According to IQVIA (a provider of biopharmaceutical development and data analytics services), about 15% of the drug industry's early-stage development pipeline is now being developed by Chinese companies, a dramatic increase from the 4% level in 2012. We have therefore allocated a portion of the portfolio to investments in Chinese biotech (about 9% of NAV as of 31 March 2023).

In 2021, significant macro headwinds in China led to a general decline in the Chinese markets, which caused Chinese biotech stocks to decline. Headwinds included regulatory tightening by the Chinese government, slowing economic growth due to China's "zero COVID" lockdowns, and potential delisting of Chinese American Depositary Receipts (ADRs) from the U.S. stock market. Encouragingly, most of those headwinds have now abated. In late 2022, China lifted its COVID restrictions, allowing the economy to fully reopen. The U.S. and China agreed on a compromise solution regarding inspection of Chinese companies' accounting records, removing the potential delisting risk of Chinese ADRs. The Chinese central government also

softened its tone with regards to regulatory restrictions on private businesses. Unlike the U.S., where the Federal Reserve is raising interest rates to slow down the economy, China is intently focused on stimulating economic growth in 2023. During the latter half of the review period, we saw some stabilization of the Chinese healthcare indexes to reflect the more favorable macro backdrop. Our expectation is that Chinese biotech shares should rise from current levels now that the macro headwinds have abated. While the state of U.S./China relations remains difficult, we think U.S. trade restrictions will continue to be focused on industries directly relevant to security and national defense rather than healthcare. Additionally, the primary market for our Chinese biotech positions is the Chinese domestic market, not the U.S. market.

### EMERGING BIOTECH VALUATIONS STILL AT 20-YEAR LOWS

Our confidence in a recovery of small and mid cap biotech really stems from the observation that absolute and relative valuations in that segment remain at 20-year lows.

As we have noted in the past, one proxy commonly used to track performance of small and mid cap biotech is the XBI, an equal weighted index of biotech companies created

PORTFOLIO MANAGER'S REVIEW CONTINUED

in 2006. About 50% of this index consists of small cap names. If one plots the relative performance of the XBI versus the S&P 500 (shown in Figure 4, below), one can see that since inception, the XBI has outperformed the S&P 500, indicating that emerging biotech has historically been a sector offering better returns than the broader market. Over the past 15 years however, there have been short periods when the XBI has underperformed the S&P 500, shown by the red circles. Typically, these drawdown periods result in underperformance versus the S&P 500 of 30-45%. The most recent relative drawdown was 73%,

making it the longest and largest drawdown of the XBI on both an absolute and relative basis. Prior drawdowns have been followed by periods of significant outperformance of the XBI versus the S&P 500, denoted by the green arrows on the graph, which usually results in the biotech index reclaiming prior outperformance highs. Encouragingly, a recovery from the recent relative drawdown started to take place in the second half of 2022, only to be cut short by the banking crisis in March. Our view is that the bank-related retracement is just a temporary setback in an eventual recovery over the next several months.

**XBI VS. S&P 500 (SPX) SPREAD SINCE XBI INCEPTION**

Drawdowns in spread followed by historically strong recoveries

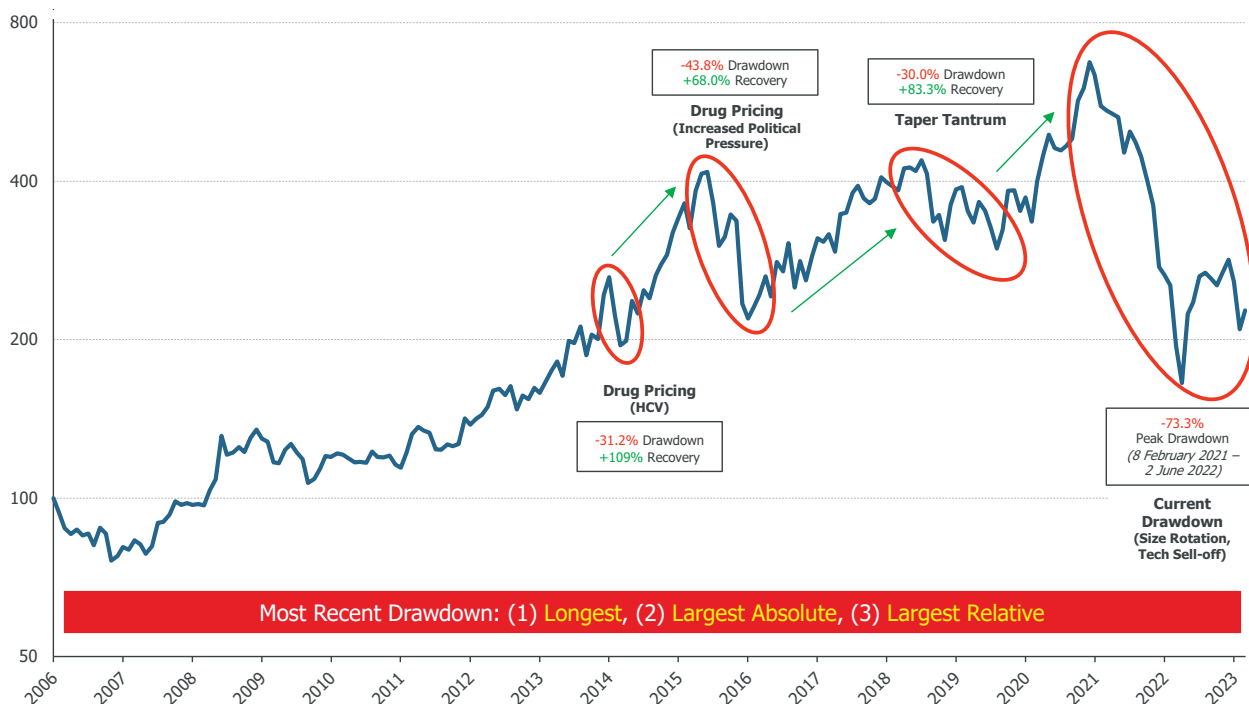


Figure 4

Note: Drawdowns are calculated using daily closing prices, while chart is shown using monthly data for smoothing purposes. Updated as of 30 April 2023. Source: JPM (Drawdowns and Recoveries) / Orbimed (XBI – SPX Spread Chart since XBI Inception)

On an absolute valuation basis, a significant number of biotech companies are now trading at market caps below the net cash on their balance sheets. In other words, the market has assigned a negative value to these listed enterprises when the value of their cash holdings is excluded. As shown in Figures 5 and 6 overleaf, we estimate about 25% of the biotech universe, representing

approximately 120 companies, is now trading at negative enterprise values as of 31 March 2023. The graphs show how unprecedented these valuations are in historical context. We have never seen valuations remotely approaching these levels in over 20 years, even in previous major market drawdowns like the Great Financial Crisis or the Dot Com Bust.

PORTFOLIO MANAGER'S REVIEW CONTINUED

BIOTECH VALUATIONS AT 20-YEAR LOWS

PERCENT OF BIOTECH COMPANIES TRADING BELOW NET CASH ON BALANCE SHEET

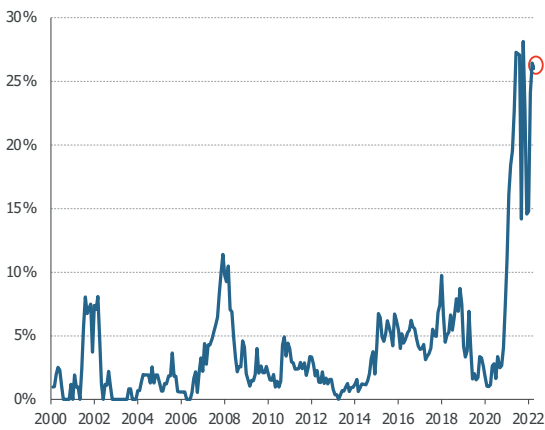


Figure 5  
Source: Bloomberg

NUMBER OF BIOTECH COMPANIES TRADING BELOW NET CASH ON BALANCE SHEET

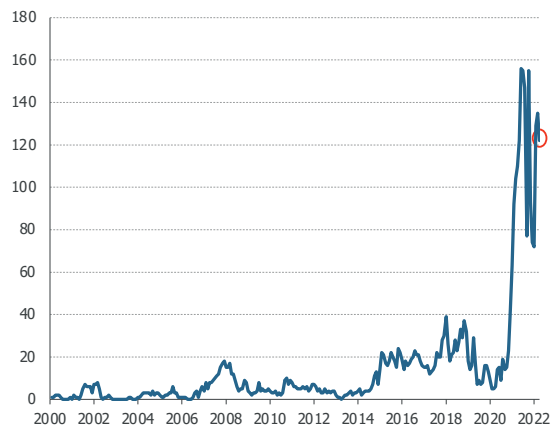


Figure 6  
Source: Bloomberg

RATIO OF MARKET CAP TO NET CASH ON BALANCE SHEET (MEDIAN)

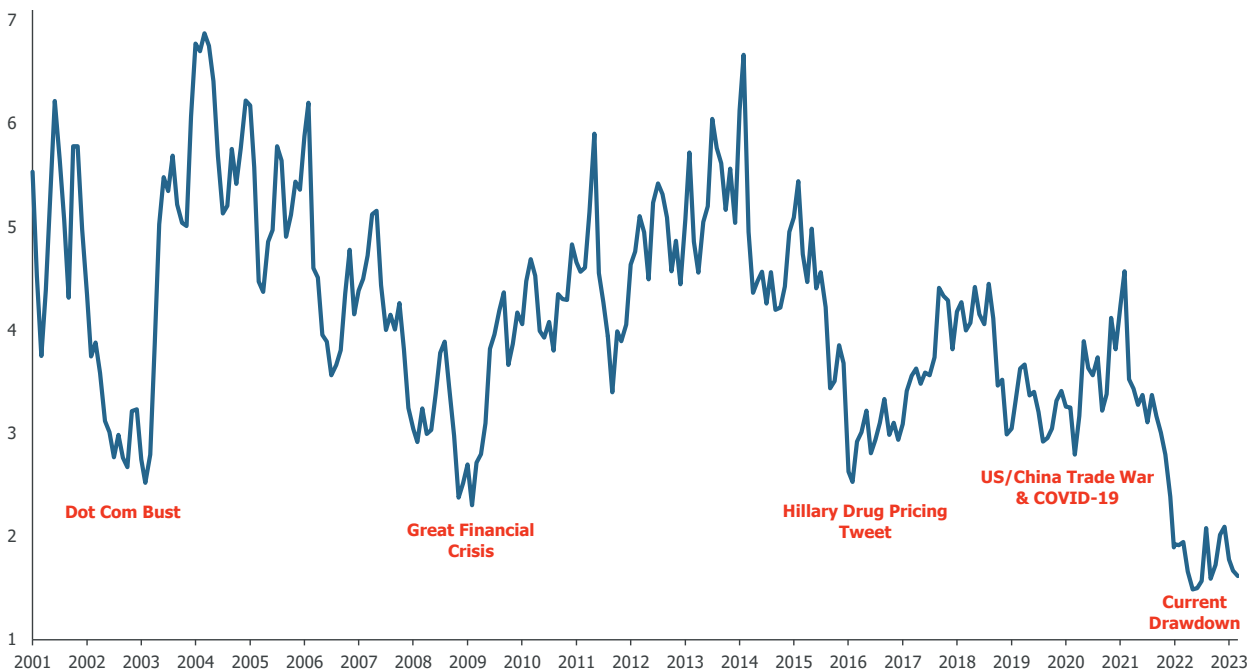


Figure 7  
Note: Monthly chart of all GICs defined biotechnology greater than \$10mm, using historical cash and debt sourced from Bloomberg, with annual GICS biotechnology universe refreshes. Updated through 31 March 2023.



## PORTFOLIO MANAGER'S REVIEW CONTINUED

## PRINCIPAL CONTRIBUTORS TO AND DETRACTORS FROM NET ASSET VALUE PERFORMANCE

Top Five Contributors	£'000	Contribution per share (pence)*
Sarepta Therapeutics	9,607	23.8
Verona Pharma	8,916	22.1
Forma Therapeutics	7,406	18.4
Syndax Pharmaceuticals	6,276	15.6
Seagen	5,783	14.4
	37,988	94.3
<b>Top Five Detractors</b>		
YS Biopharma	(11,596)	(28.8)
GH Research	(9,729)	(24.1)
Jounce Therapeutics	(7,748)	(19.2)
Mirati Therapeutics	(7,628)	(18.9)
Kezar Life Sciences	(7,120)	(17.7)
	(43,821)	(108.7)

\* based on 40,287,724 shares being the weighted average number of shares in issue during the year ended 31 March 2023.

The compelling absolute and relative valuations of emerging biotech have led us to continue maintaining our small cap biotech overweighting in the portfolio. While a recovery has taken longer to materialize than we had anticipated, we think that it is just a matter of time before the sector rerates to historical norms. Possible catalysts to trigger such a revaluation include a possible pause in interest rate hikes by the Fed as early as mid-2023, with some investors now anticipating interest rate cuts in the second half of 2023. M&A activity and positive clinical developments should also help aid a recovery.

## CONTRIBUTORS AND DETRACTORS

Sarepta Therapeutics, Verona Pharma, Forma Therapeutics, Syndax Pharmaceuticals and Seagen were the leading positive contributors to performance in the portfolio during the year.

- **Sarepta Therapeutics** is a commercial biotechnology company focused on rare neuromuscular diseases. It markets three approved therapies for Duchenne muscular dystrophy but is also developing a gene therapy for the condition. The company's share price rose on the increased investor expectation that the

company would be able to obtain accelerated approval for its gene therapy in 2023.

- **Verona Pharma** is a biopharmaceutical company focused on developing therapies for the treatment of chronic respiratory diseases. Verona Pharma's product candidate, ensifentrine, combines bronchodilator and anti-inflammatory activities in one compound for the treatment of chronic obstructive pulmonary disease (COPD). In August 2022, shares appreciated on the announcement of a positive Phase 3 trial for ensifentrine in COPD, showing the drug yielded improvements in lung function, symptoms, and quality of life. In December 2022, the stock rose significantly on the announcement of a second positive Phase 3 trial of ensifentrine in COPD, confirming the benefits demonstrated in the first trial.
- **Forma Therapeutics** was a development stage biopharmaceutical company focused on developing new therapies for patients with sickle cell disease and rare blood disorders. Its lead asset, etavopivat, works by activating an enzyme that is thought to improve anemia and red blood cell health, thereby reducing the painful episodes experienced by sickle cell patients. In

## PORTFOLIO MANAGER'S REVIEW CONTINUED

early September, Novo Nordisk announced that it was acquiring Forma for \$1.1 billion in cash, representing a 49% premium to Forma's closing price the previous day.

- **Seagen** is a pioneer in antibody-drug conjugate (ADC) technology, marketing four ADC therapeutics for the treatment of cancer. Seagen's stock appreciated in March after Pfizer announced its plans to acquire the company for \$43 billion.
- **Syndax Pharmaceuticals** is an emerging biotechnology company with two drugs in pivotal trials: revumenib for leukemia and axatilimab for chronic graft versus host disease. The stock appreciated in anticipation of pivotal data readouts for both of those programs in 2023.

YS Biopharma, GH Research, Jounce Therapeutics, Mirati Therapeutics, and Kezar Life Sciences were the principal detractors for the year.

- **YS Biopharma** is a Chinese vaccine company which markets a rabies vaccine and is developing a novel vaccine adjuvant that could have applications for developing superior versions of vaccines for COVID, rabies, and hepatitis B. The company went public in the U.S. in March via a special purpose acquisition company

(SPAC) merger but subsequently saw a substantial decline in share price that we attribute to SPAC-related trading dynamics rather than fundamentals. Given that the company generates over \$100 million of revenues, we think the shares are extremely oversold and will recover once the fundamentals are properly recognized by investors.

- **GH Research** is a biopharmaceutical company focused on the treatment of psychiatric and neurological disorders. The company is developing a proprietary 5-MeO-DMT inhaled therapy for the treatment of patients with treatment-resistant depression (TRD), now in Phase 2 clinical trials. Shares declined during the fiscal year due to overall sector weakness and a lack of near-term catalysts.
- **Jounce Therapeutics** is a clinical stage biotech company focused on developing targeted immuno-oncology therapies. Shares of Jounce underperformed after disclosing its drug vopratelimab failed in a Phase 2 trial in lung cancer. Its second asset JTX-8064 also failed to demonstrate sufficient efficacy in a variety of tumor types in a Phase 1/2 proof of concept trial. The Company exited the position.

## FDA NEW MOLECULAR ENTITY APPROVALS

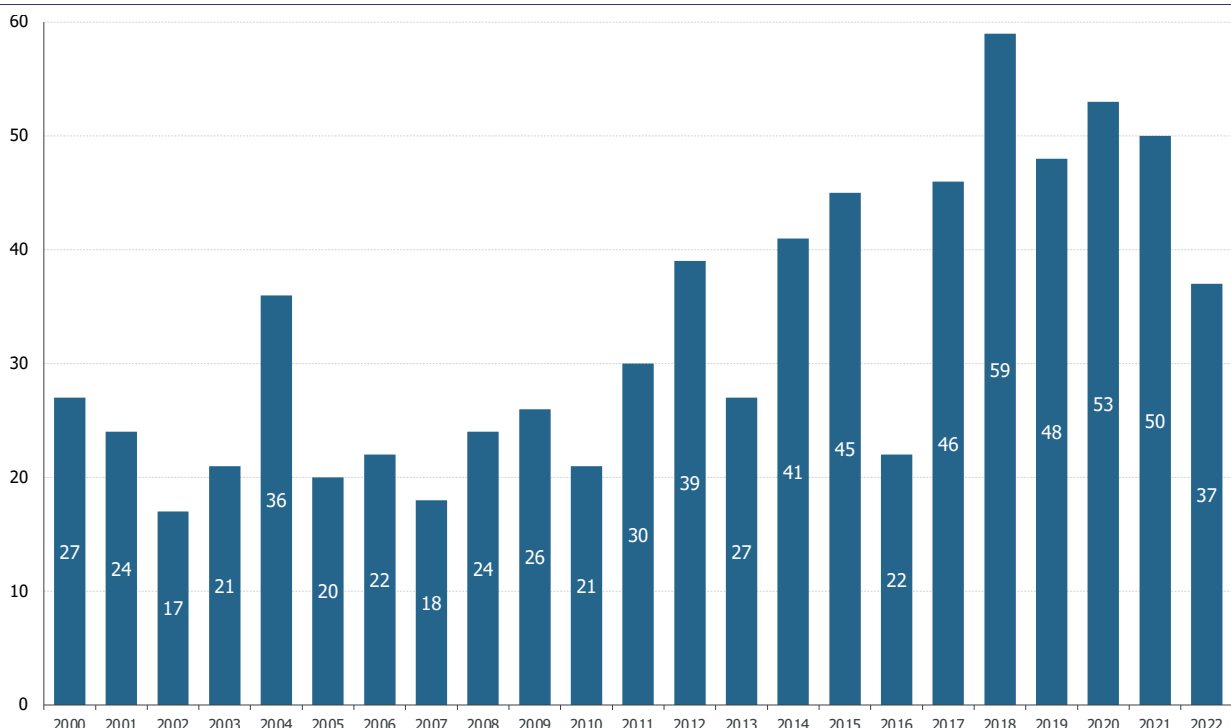


Figure 8

Source: U.S. Food and Drug Administration

## PORTFOLIO MANAGER'S REVIEW CONTINUED

- **Mirati Therapeutics** is a biotechnology company developing novel small molecule drugs to treat cancer. Its lead product, adagrasib, is a precision oncology medicine that targets cancers with a specific gene mutation. Shares fell in December 2022 following the presentation of disappointing clinical trial data suggesting adagrasib might not be superior to standard-of-care treatment in first-line lung cancer. The drug may still be used in later-stage lung cancer and colorectal cancer.
- **Kezar Life Sciences** is an emerging biotech company developing zetomipzomib, a first-in-class immunoproteasome inhibitor, for the treatment of lupus nephritis. The drug has shown promising results in a Phase 2 trial for lupus nephritis. However, shares declined in March 2023 when the company announced a lengthy delay in the completion of its first pivotal trial for zetomipzomib.

## REGULATORY CLIMATE CONTINUES TO BE CONSTRUCTIVE

We continue to believe that the U.S. Food and Drug Administration (the FDA), under the leadership of commissioner Robert Califf, remains constructive towards the approval of new drugs. Having said that, in 2022, the FDA approved 37 new drugs, which is lower than recent years. We believe this reflects the residual impact of COVID-related delays on clinical trial progress and delays in manufacturing inspections. It could also reflect normal year to year variability in drug approval timing. Notably, the agency received a similar number of new drug applications in 2022 as the past few years, reflecting continued strong innovation in the industry. We suspect many of those applications will be approved in 2023.

Importantly, we do not believe the reduced number of approvals in 2022 means the FDA has become less constructive on approving drugs. On the contrary, about 65% of drug approvals in 2022 used an expedited means of approval, whether it be Fast Track, Breakthrough Designation, Priority Review, or Accelerated Approval. Other recent examples of FDA flexibility include the following:

- approval of Biogen's Aduhelm for Alzheimer's disease, despite the company stopping both of its pivotal trials for futility and a negative FDA advisory committee vote;
- approval of Apellis Pharmaceuticals' Syfovre, a first-in-class treatment for geographic atrophy, despite one of two pivotal trials failing to meet its primary endpoint;
- approval of Amylyx Pharmaceuticals' Relyvrio to treat amyotrophic lateral sclerosis, despite significant doubts about the statistical rigor of the primary endpoint of their pivotal trial; and
- approval of Biogen's Qalsody for amyotrophic lateral sclerosis, despite its sole pivotal trial missing the primary endpoint.

The FDA has continued to demonstrate flexibility on approval requirements when drugs are submitted to the agency that address an unmet medical need.

## DRUG PRICING REFORM CLEARS LONGSTANDING POLITICAL OVERHANG

For many years, the prospect of drug price controls in the U.S. served as an overhang on the biopharmaceutical sector. Politicians like Hillary Clinton and Bernie Sanders would criticize the pharmaceutical industry in their election campaigns and vow to lower pharmaceutical prices via government legislation. Whenever the prospect of drug pricing reform was in the news, pharmaceutical and biotech stocks in the U.S. would come under pressure.

In July 2022, congressional Democrats finally succeeded in passing some drug pricing provisions as part of the "Inflation Reduction Act", which President Biden signed into law in August 2022. The new law includes three elements of drug pricing reform:

- 1) a redesign of Medicare Part D to cap out-of-pocket costs that seniors pay for prescription drugs (a positive for the industry);
- 2) an inflation cap on annual drug price increases; and
- 3) the ability for the federal government to negotiate Medicare drug prices for a limited number of drugs starting in 2026. Biologic drugs will enjoy 13 years of market exclusivity before becoming eligible for Medicare price negotiation while small molecule drugs will enjoy nine years of exclusivity.

We do not think the bill will have an impact on biotech in the near term, though in the long run it may incentivize

## PORTFOLIO MANAGER'S REVIEW CONTINUED

companies to pursue biologic drugs rather than small molecule drugs due to biologics' longer exclusivity period.

Now that the legislation has passed, we don't expect any further adverse drug pricing legislation for the next several years, especially now that the Republicans have retaken a majority in the House of Representatives. The removal of this persistent political overhang should help the biotech sector recover.

### IPO AND CROSSOVER ACTIVITY SLOWS DOWN, BUT FINANCING ENVIRONMENT REMAINS STRONG FOR GOOD COMPANIES

Initial Public Offerings (IPOs) and crossover financing activity slowed considerably during the review period as valuations contracted in the sector. The Company did not make any new IPO or crossover investments during the fiscal year. The only private position that went public during the fiscal year was YS Biopharma, a Chinese vaccine

company which listed on the NASDAQ in March via a SPAC merger.

As of 31 March 2023, the Company had two directly held private investments totaling approximately 5.5% of NAV. Both of the positions are Chinese biotech companies: XtalPi, an artificial intelligence-based drug discovery company, and StemiRNA, a Chinese mRNA vaccine company. Given the IPO delays in China, we may seek to sell some of these positions to other private investors prior to an IPO. As the IPO markets open up in the U.S. and China, we will reinitiate crossover investing as opportunities arise, being mindful of valuation in the current market environment.

We would emphasize that, despite reduced IPO activity, the follow-on financing environment for high quality emerging biotech companies remains very strong. Companies with strong fundamentals have had no problems raising capital from equity investors. Companies that are at an earlier stage of development have had more difficulty in raising capital, but this can present an opportunity for us to invest in these companies at a compelling price.

### MERGERS AND ACQUISITIONS (M&A) ACTIVITY ACCELERATING

Biotech M&A has been a historical driver of returns in the sector. Emerging biotech companies that show successful proof-of-concept for their lead drug are usually acquired at some point. We had predicted an acceleration in biotech M&A activity given the depressed valuations of potential biotech targets with the recent drawdown. If one looks at the number of announced acquisitions of public biotech companies shown in Figure 9 below, the number of transactions did appear to increase over the course of the fiscal year relative to the prior 12 months. Initial results for the first month of the second quarter of 2023 show a run-rate of M&A activity that appears to be continuing to increase.

### ANNOUNCED ACQUISITIONS OF PUBLIC BIOTECH COMPANIES SHOW SIGNS OF ACCELERATION

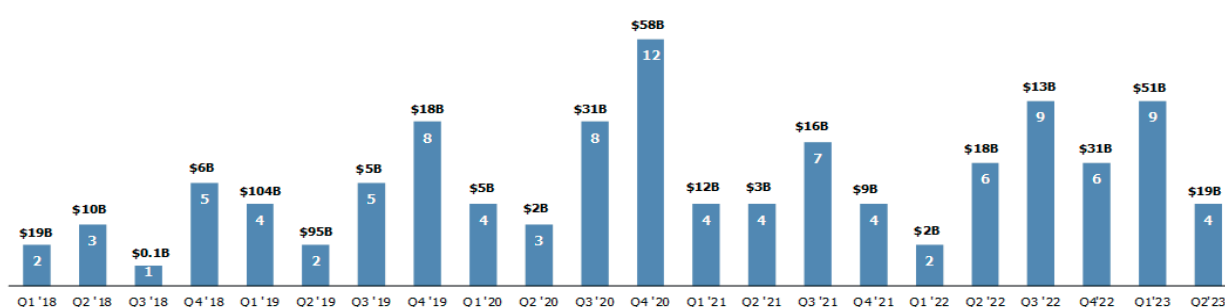


Figure 9

\*Q2 2023 column only represents the month of April 2023.

Source: FactSet

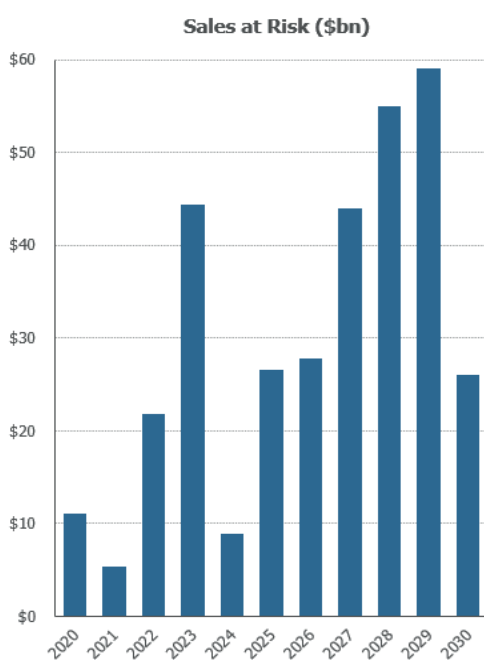
## PORTFOLIO MANAGER'S REVIEW CONTINUED

The Company benefited directly from five M&A transactions during the fiscal year because of holdings in the target companies:

- Pfizer's acquisition of Seagen for \$43 billion;
- Novo Nordisk's acquisition of Forma Therapeutics for \$1.1 billion;
- Pfizer's acquisition of Global Blood Therapeutics for \$5.4 billion;
- AstraZeneca's acquisition of CinCor Pharma for \$1.3 billion;
- AstraZeneca's acquisition of LogicBio Therapeutics for \$68 million; and
- GlaxoSmithKline's acquisition of BELLUS Health for \$2 billion (announced in April 2023, after the Company's fiscal year end).

Aside from low valuations, another principal driver of recent M&A activity is the upcoming wave of patent expirations of key, blockbuster biopharma products in the second half of the decade. With large multi-billion-dollar blockbusters like Merck's Keytruda and Bristol Myers Squibb's Eliquis facing biosimilar competition before 2030, large pharmaceutical companies are eagerly looking for late-stage biotech companies to replace that lost revenue.

### BILLIONS OF DOLLARS OF SALES AT RISK FROM BIG PHARMA BLOCKBUSTER DRUGS LOSING EXCLUSIVITY IN SECOND HALF OF THE DECADE



Company	Drug Name	US Loss of Exclusivity (Projected)	2021 Global Sales (\$bn)
Abbvie	Humira	2023	20.7
Merck	Keytruda	2028	17.2
Bristol Myers Squibb*	Eliquis	2026	16.8
Abbvie	Imbruvica	2027	9.8
Johnson & Johnson	Stelara	2023	9.1
Bristol Myers Squibb*	Opdivo	2028	7.5
Pfizer	Ibrance	2027	5.4
Merck	Januvia	2023	5.3

Figure 10

Source: Evaluate Vantage (chart)

Source: S&P Global (table)

## PORTFOLIO MANAGER'S REVIEW CONTINUED

## RECORD INNOVATION CONTINUES TO DRIVE INDUSTRY VALUE

## NUMBER OF PIPELINE PRODUCTS PHASE I TO REGULATORY SUBMISSION BY THERAPEUTIC DRUG CLASS, 2012-2022

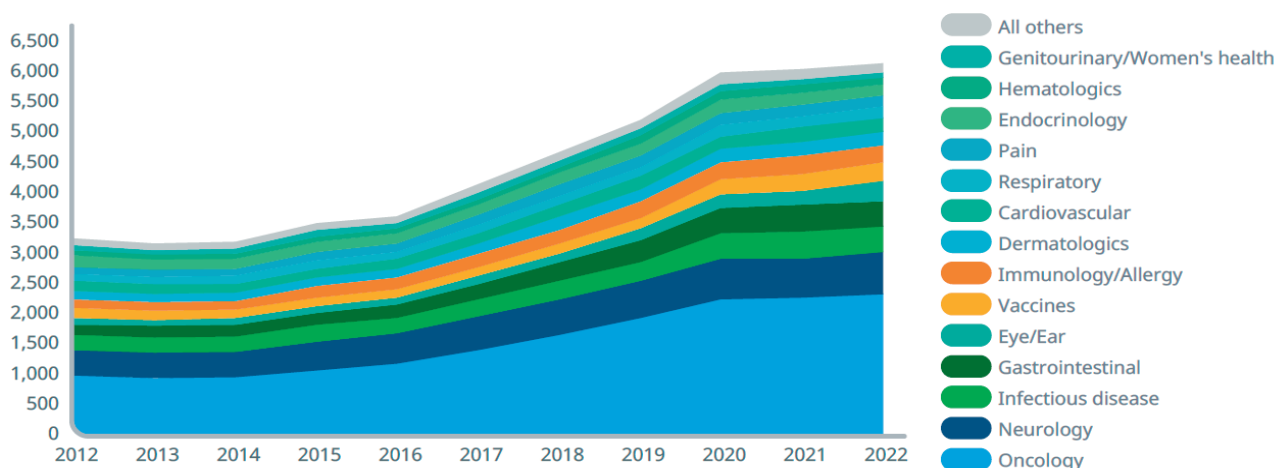


Figure 11

Source: IQVIA Pipeline Intelligence, December 2022; IQVIA Institute, January 2023.

As seen in Figure 11 above, innovation in the biopharmaceutical sector remains strong, with the global drug pipeline continuing to grow to record levels. We attribute the flattening of the number of drugs in development over the past two years to delays in clinical trial starts due to COVID.

Of the 37 drug approvals by the FDA in 2022, 54% of them were first-in-class drugs with mechanisms of action different from those of existing therapies. Below are just some examples of first-in-class novel drug approvals originated by biotech companies in 2022 (some of the biotech companies have been acquired by larger pharmaceutical companies):

- Camzyos, first cardiac myosin inhibitor for obstructive hypertrophic cardiomyopathy;
- Elahere, first FOLR1-targeting antibody-drug conjugate for ovarian cancer;
- Enjaymo, first C1s inhibitor for hemolysis in cold agglutinin disease;

- Kimmtrak, first bispecific gp100xCD3 T cell engager for uveal melanoma;
- Pluvicto, first PSMA-targeting radioligand for metastatic castration-resistant prostate cancer;
- Pyrukynd, first pyruvate kinase activator for pyruvate kinase deficiency;
- Sunlenca, first long-acting HIV capsid inhibitor for HIV-1 infection;
- Tzield, first CD3-targeting antibody for type 1 diabetes;
- Vtama, first aryl hydrocarbon receptor agonist for the topical treatment of plaque psoriasis; and
- Ztalmy, first neuroactive steroid GABA-A receptor positive modulator for CDKL5 deficiency disorder.

The number of next generation biotherapeutics entering development based on novel development technologies like cell therapy and gene therapy continues to rise as shown in Figure 12 on page 21.

## PORTFOLIO MANAGER'S REVIEW CONTINUED

## NEXT-GENERATION BIOTHERAPEUTICS PHASE I TO REGULATORY SUBMISSION PIPELINE BY MECHANISM, 2012-2022

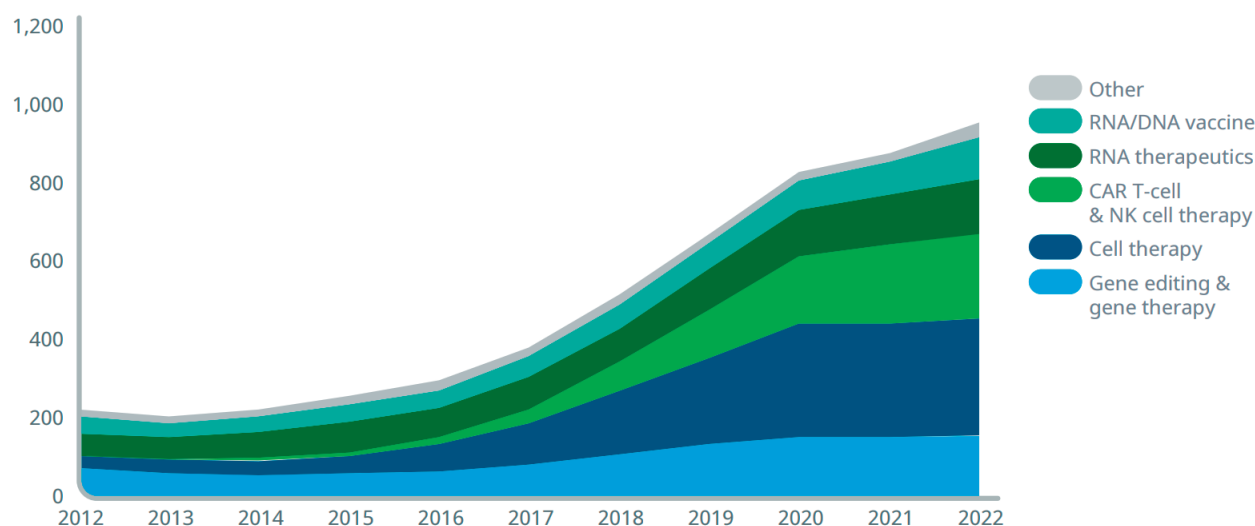


Figure 12

Source: IQVIA Pipeline Intelligence, December 2022; IQVIA Institute, January 2023.

The Company has exposure across a wide swath of these new technologies, as shown in Figure 13 overleaf.

Other seminal events in the biotech sector during the review period include:

- Leqembi, a beta-amyloid antibody for Alzheimer's disease developed by Biogen and Eisai, became the first beta-amyloid antibody for Alzheimer's to have a conclusively positive Phase 3 trial;
- Madrigal Pharmaceuticals announced positive Phase 3 results of its drug for non-alcoholic steatohepatitis (NASH) and liver fibrosis;
- Vaxcyte announced positive Phase 1/2 results of its novel 24-valent pneumococcal vaccine;
- Moderna announced positive Phase 2 results of its mRNA cancer vaccine in melanoma;
- Alnylam Pharmaceuticals announced positive Phase 3 results of its RNA interference drug in amyloidosis with cardiomyopathy;
- Prometheus Biosciences announced positive Phase 2 results for its first-in-class anti-TL1A antibody for ulcerative colitis;
- Iveric Bio announced positive Phase 3 results for its drug for geographic atrophy; and
- Verona Pharma announced positive Phase 3 results for its drug for chronic obstructive pulmonary disease.

## PORTFOLIO MANAGER'S REVIEW CONTINUED

## INNOVATION WELL REFLECTED IN BIOG

Portfolio has exposure to a wide swath of novel technologies, as shown below:

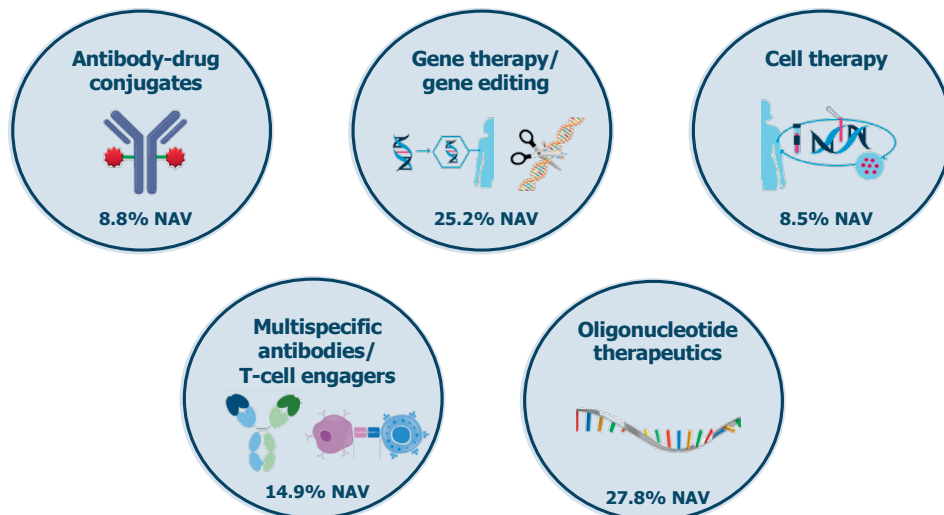


Figure 13

% of Company NAV as of 31 March 2023. Some positions are double counted because they use more than one technology.

Source: OrbiMed

Importantly, all of the clinical events listed above resulted in substantial positive stock reactions for the sponsors involved, indicating that investors in the current market environment do get paid for taking on the risk of holding through clinical events.

The expected sales potential for many of these innovative drugs is also substantial. The top 15 new product opportunities in biotechnology today could create over \$60 billion in cumulative sales by the next decade (source: Jefferies).

While innovation is taking place across all therapeutic areas, particular areas of focus for the Company now include the following:

- **Gene therapy** – The first gene therapies for hemophilia and Duchenne muscular dystrophy will likely be approved this year in the U.S. Expected peak sales potential for these one-time treatments are both in excess of \$1 billion.
- **Immunology & Inflammation** – Significant new mechanisms of action have been validated recently in this space, which address large markets like ulcerative colitis and psoriasis. This is also an area of significant

strategic interest by larger pharmaceutical companies, so we expect continued M&A activity in this area.

- **Oncology** – According to IQVIA, drugs in development for cancer now make up 38% of the global pharmaceutical development pipeline, making it by far the leading therapeutic area of research focus for the industry. Multiple different approaches, including antibody-drug conjugates, radiopharmaceuticals, mRNA vaccines, and cell therapy, have shown positive proof of concept in this area.
- **Kidney disease** – We have seen increased innovation lately in this area for conditions like lupus nephritis and IgA nephropathy.

## OUTLOOK AND ORBIMED UPDATE

This was a challenging fiscal year for the Company given that small and mid cap biotech failed to recover as we had expected. The recent drawdown in biotech has been unprecedented in both length and severity. Macro factors outside of company fundamentals continue to dominate stock price action, which has made it particularly challenging for fundamental-based investors such as us. We remain optimistic that once the macro backdrop becomes



PORTFOLIO MANAGER'S REVIEW CONTINUED

15 NOVEL BIOTECH-SOURCED LAUNCHES WITH >\$60 BILLION IN POTENTIAL CUMULATIVE REVENUES

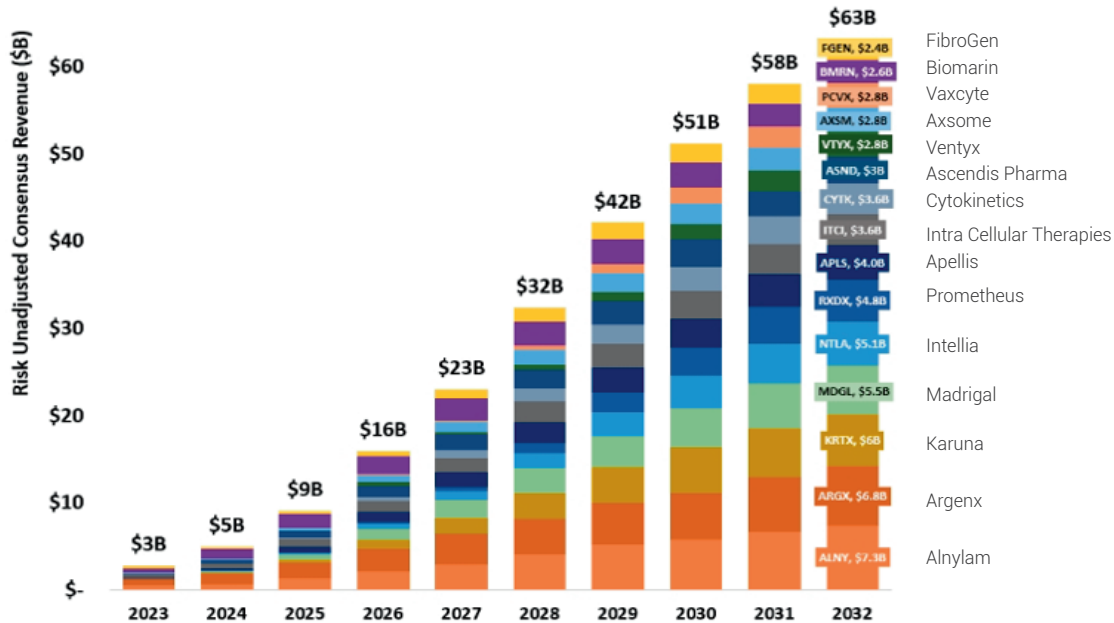


Figure 14  
Source: Jefferies

more stable, valuations will recover to historical norms and the industry's strong fundamentals will be properly reflected in share prices. Already, we are seeing a pickup in M&A activity and the Federal Reserve signaling a potential pause in interest rate hikes, which could catalyze a recovery. Our strategic positioning remains unchanged, with an emphasis on smaller, emerging biotech names that should have the most upside potential when a broad sector recovery materializes. Gearing will remain in the 5-10% range.

OrbiMed continues to invest in its research team to improve investment performance. We are happy to announce the promotion of Josh Golomb, a Partner at OrbiMed, to be a co-portfolio manager of The Biotech Growth Trust. Josh has close to 20 years of experience investing in biotech and brings substantial expertise to our research effort. Including Josh and Geoff, we now have seven analysts on the biotech research team, supplemented by one specialty pharma analyst, two tools/diagnostics analysts, and four analysts in China. Now that the COVID pandemic has subsided, we have resumed in-person travel to medical and investor conferences. We have also recently opened a London office, initially for professionals in our venture capital and structured debt businesses. While our public equity investing efforts will continue to be headquartered in

New York, our new London presence gives us a foothold to further expand our organization in the UK and other parts of Europe in the future.

In conclusion, while we are disappointed with the investment performance of the Company during the fiscal year, we remain confident that a biotech recovery will occur soon and do not see much further downside from current levels. We have never seen such a large disconnect between valuations and industry fundamentals and continue to believe this is an excellent entry point for long-term investors seeking exposure to this exciting and innovative area of healthcare.

**Geoff Hsu & Josh Golomb**

OrbiMed Capital LLC, Portfolio Manager  
14 June 2023

## PORTFOLIO MANAGER'S REVIEW CONTINUED

## PERFORMANCE ATTRIBUTION FOR THE YEAR ENDED 31 MARCH 2023

	%	%
<b>Contribution to total returns</b>		
Benchmark return		5.4
Portfolio Manager's contribution		(15.0)
<b>Portfolio total return</b>		<b>(9.6)</b>
Gearing	(0.8)	
Management fee and other expenses	(1.1)	
Share buyback	0.5	
Other effects		(1.4)
<b>Return on net assets</b>		<b>(11.0)</b>

Source: Frostrow Capital LLP.

## ORBIMED'S APPROACH TO ESG

The Portfolio Manager, OrbiMed, is guided by its Responsible Investing Policy in its approach to ESG. The Portfolio Manager seeks to invest in innovative healthcare companies that are working towards addressing significant unmet medical needs, across biopharmaceuticals, medical devices, diagnostics, and healthcare services sectors, globally.

OrbiMed believes that there is a high congruence between companies that seek to act responsibly and those that succeed in building long-term shareholder value. The Portfolio Manager seeks to integrate ESG into the overall investment process, with the objective of maximizing investment returns. Investment decisions are based on a variety of financial and non-financial company factors, including ESG information. The Portfolio Manager has appointed full-time personnel to the role of Vice President – ESG in order to oversee the integration of ESG.

As a responsible investor, OrbiMed negatively screens potential investments and business sectors that may objectively lead to negative impacts on public health or well-being. The Portfolio Manager considers healthcare sector-specific guidance from the Sustainability Accounting Standards Board (SASB) to determine material ESG factors as part of its investment research. Social factors such as affordability, pricing, access, and safety dominate the financially material ESG issues for the pharmaceutical, biotechnology, and medical devices sub-sectors, followed by governance factors. Environmental factors such as greenhouse gas (GHG) emissions are not featured as material. Healthcare and life sciences sectors are highly regulated, globally. Environmental regulation, along with quality-related regulation is well-established across developed markets and emerging markets. To that end, OrbiMed considers compliance with local laws

and regulations as one of the factors in its investment evaluation. Depending on the investment, all or a subset of the ESG factors that are financially material and relevant are considered in OrbiMed's research.

## MONITORING AND ENGAGEMENT

OrbiMed utilizes ESG scores for public equity holdings from third-party service providers. To supplement the information from the third-party service providers, OrbiMed also conducts proprietary analysis on ESG performance. The scores from the third-party service providers are integrated with OrbiMed's analysis onto a business intelligence platform via programming interface, for regular monitoring.

The Portfolio Manager also generally engages on a regular basis with its portfolio companies through meetings with management, proxy voting, and in some cases, through board representation.

OrbiMed's analysts regularly track ESG information on safety of clinical trials, drug safety, ethical marketing, call-backs and other materially relevant factors. In addition, OrbiMed is taking the initiative in leading meaningful ESG engagement in the healthcare sector. As part of these efforts, OrbiMed engages with companies directly or through brokers, and facilitates dialogues and exchange of leading practices among investors, companies, and other relevant experts on ESG in the healthcare sector. Some examples of engagement include:

- Engaged with large capitalization pharmaceutical companies on reporting, environmental sustainability, access, product pricing, supplier engagement and targets on ESG through investor conference and broker-led ESG road shows;

## PORTFOLIO MANAGER'S REVIEW CONTINUED

Proposed by	Total number of proposals	Voted for	Voted against	Votes abstained	Votes withheld	Number of votes against management proposed response
Management	602	504	96	1	1	94
Shareholder	6	2	4	0	0	2

- Engaged with large capitalization biotechnology company on leading ESG practices and provided feedback and recommendations on specific ESG topics such as timely disclosures, access, benchmarks;
- Participated in an ESG conference where a mid cap biotechnology company disclosed its ESG Governance, and key programs including increasing diversity in clinical trials, diversity and talent-building initiatives, and other community initiatives; and
- As part of the ESG Industry Investor connect, OrbiMed participated in a roundtable discussion with a large capitalization medical devices company and pharmaceutical company alongside ten other investors on ESG. Topics discussed include drugs and product safety, litigation, and access to medicine.

OrbiMed also participated in the Goldman Sachs Sustainability Conference in September 2022 and at the Jefferies London Healthcare Conference in November 2022, alongside several healthcare companies and investors, to further dissemination and discussion on leading ESG practices in the healthcare sector.

Between 1 April 2022 and 31 March 2023, a total of 608 proposals came to vote within the Company's portfolio. Of these, 602 were management proposals and 6 were shareholder proposals.

There were no management or shareholder proposals on any material ESG topics, as listed in the Sustainability Accounting Standards Board guidance for the Biotechnology and Pharmaceuticals sub-sector.

The Portfolio Manager provides an annual update on ESG to the Board of the Company.

## CLIMATE CHANGE

As per the guidance from SASB, climate change is not a material ESG consideration for the biotechnology and pharmaceutical, medical equipment and supplies, and managed care sectors. However, energy management is noted as a material ESG concern for the healthcare delivery sector. To that end, OrbiMed includes the scores on energy management for the relevant sectors in its overall ESG monitoring.

## REGULATORY UPDATE ON ESG

In October 2022, the UK Financial Conduct Authority (FCA) published a Consultation Paper on UK-specific Sustainability Disclosure Requirements (SDR). The proposed SDR is focused on asset managers and their UK-based fund products and portfolio management services. The Consultation Paper's core elements are labelling and classification; disclosure; and naming and marketing rules. The FCA has concluded the Consultation on the draft Rules. The final Rules which were expected to be published in June 2023, are now expected to be published in Q3 2023. Upon the release of the final Rules, anti-greenwashing rules take effect immediately and are applicable to all regulated firms in the UK. Labelling and classification rules come into effect a year later, and the disclosure rules come into force 24 months thereafter.

In May 2022, the U.S. Securities and Exchange Commission (SEC) proposed amendments to rules and reporting forms to promote disclosures for investors concerning funds' and advisers' incorporation of ESG. Following this, in 2023, the Division of Examinations of the SEC announced the publication of its 2023 examination priorities, which include a focus on ESG-related advisory services and fund offerings, to evaluate labelling and practices with respect to stated policies and processes, in the United States.

OrbiMed's full Responsible Investing Policy is available on the Company's website: [www.biotechgt.com](http://www.biotechgt.com).

## BUSINESS REVIEW

The Strategic Report on pages 1 to 37 contains a review of the Company's business model and strategy, an analysis of its performance during the financial year and its future developments, as well as details of the principal risks and challenges it faces.

Its purpose is to inform shareholders in the Company and help them to assess how the Directors have performed their duty to promote the success of the Company. The Strategic Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the date of this report. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking information.

### BUSINESS MODEL

The Biotech Growth Trust PLC is an externally managed investment trust and its shares are listed on the premium segment of the Official List and traded on the main market of the London Stock Exchange.

The purpose of the Company is to achieve long-term growth in its shareholders' wealth by providing a vehicle for investors to gain exposure to a portfolio of worldwide biotechnology companies, through a single investment.

The Company's strategy is to create value for shareholders by addressing its investment objective.

As an externally managed investment trust, all of the Company's day-to-day management and administrative functions are outsourced to service providers. As a result, the Company has no executive directors, employees or internal operations.

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 Securities LLC as its Custodian and Prime Broker. Further details about their appointments can be found in the Report of the Directors on pages 48 and 49.

The Board is responsible for all aspects of the Company's affairs, including setting the parameters for and monitoring the investment strategy as well as the review of investment performance and policy.

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 Section 1158 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

The Company 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.

In connection with the investment policy, the following guidelines apply:

- 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 unquoted investments at the time of acquisition. This limit includes any investment in private equity funds managed by the Portfolio Manager or any affiliates of such entity.

**BUSINESS REVIEW CONTINUED**

- The Company may invest or commit for investment a maximum of U.S.\$15 million, after the deduction of proceeds of disposal and other returns of capital, in private equity funds managed by the 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 a loan facility, repayable on demand and provided by J.P. Morgan Securities LLC. This facility can be drawn by the Portfolio Manager overseen by 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 Financial Conduct Authority, any material change to the investment policy will only be made with the approval of shareholders by ordinary resolution.

**PROPOSED CHANGES TO THE INVESTMENT POLICY**

As explained in the Chairman's Statement on page 3, the Board is proposing some changes to the investment policy in order to clarify the scope of the use of swaps and derivatives for efficient portfolio management. The proposed changes will:

- Enable derivative instruments (other than equity swaps) to be used to mitigate risk and/or enhance return subject to an aggregate net exposure of 5% of the value of the Company's gross assets measured at the time of the relevant transaction; and
- Remove the current limit on equity swaps but impose a limit on aggregate net counterparty exposure, through a combination of derivatives and equity swap transactions, of 12% of the value of the gross assets of the Company at the time of the transaction.

Accordingly, an ordinary resolution to approve the amended investment policy is included in the Notice of AGM, beginning on page 101, and a blacklined statement of the investment policy showing the proposed changes is set out on page 106. The proposed amendments have been approved in principle

by the Financial Conduct Authority in accordance with the requirements of the Listing Rules.

**INVESTMENT STRATEGY**

The implementation of the 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 9 to 25. While performance is measured against the Benchmark, the Board encourages OrbiMed 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 in the Investment Policy.

**PERFORMANCE MEASUREMENT**

The Board measures OrbiMed's performance against the NASDAQ Biotechnology Index (sterling adjusted). The Board also monitors the Company's performance against its peer group.

**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.

No dividends were paid or declared during the year (2022: None).

**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 proposed at the Annual General Meeting to be held in 2025.

**COMPANY PROMOTION**

The Company has appointed Frostrow 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 closer to the net asset value per share over

## BUSINESS REVIEW CONTINUED

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 periodic investment seminars, commissioning and 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 and half yearly 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.

## KEY PERFORMANCE INDICATORS (KPIs)

The Board assesses the Company's performance in meeting its objective against the following key performance indicators:

- net asset value total return;
- share price total return;
- share price discount to net asset value per share; and
- ongoing charges.

Information on the Company's performance is provided in the Chairman's Statement and the Portfolio Manager's Review and a record of these measures is shown on pages 1, 5 and 6. The KPIs have not changed from the prior year.

## NET ASSET VALUE PER SHARE TOTAL RETURN<sup>^</sup>

The Directors regard the Company's net asset value per share total return as being the overall measure of value generated by the Portfolio Manager over the long term. The Board considers the principal comparator to be the NASDAQ Biotechnology Index (sterling adjusted) (the Benchmark). OrbiMed's investment style is such that performance is likely to deviate from that of the Benchmark.

During the year under review, the Company's net asset value per total share return was -11.0%, underperforming the Benchmark by 16.4% (2022: -33.8%, underperforming the Benchmark by 26.4%). Since OrbiMed's date of appointment (19 May 2005) to 31 March 2023, the Company's net asset value per share total return is 756.0% compared with 795.8% for the Benchmark. Please refer to the Chairman's Statement (beginning on page 2) and the Portfolio Manager's Review (beginning on page 9) for further information.

## SHARE PRICE TOTAL RETURN<sup>^</sup>

The Directors also regard the Company's share price total return to be a key indicator of performance. This reflects the Company's share price growth which the Board recognises is important to investors.

During the year under review the Company's share price total return was -12.8% (2022: -37.0%). Since OrbiMed's date of appointment (19 May 2005) to 31 March 2023, the Company's share price total return is 730.8% compared with Benchmark performance of 795.8%. Please refer to the Chairman's Statement beginning on page 2 for further information.

## SHARE PRICE (DISCOUNT)/PREMIUM TO NET ASSET VALUE PER SHARE<sup>^</sup>

The Board regularly reviews the level of the discount/premium of the Company's share price to the net asset value per share and considers ways in which share price performance may be enhanced, including the effectiveness of marketing, share issuance and buybacks, where appropriate. The Board has a discount control mechanism in place, the aim of which is to prevent the level of the share price discount to the net asset value per share exceeding 6%. Shareholders should note, however, that it remains possible for the discount to be greater than 6% on any one day due to sector volatility and the fact that the share price

<sup>^</sup> Alternative Performance Measure (See Glossary beginning on page 96).

**BUSINESS REVIEW** CONTINUED

continues to be influenced by the overall supply of and demand for the Company's shares in the secondary market. Any decision to repurchase shares is at the discretion of the Board. 2,421,263 shares were repurchased by the Company during the year (2022: 576,087).

When the Company's shares trade at a premium to the net asset value per share, new shares can be issued at a premium to the net asset value per share.

The Board believes that the benefits of issuing new shares in such conditions are as follows:

- to fulfil excess demand in the market in order to help manage the premium at which the Company's shares trade to net asset value per share;
- to provide a small enhancement to the net asset value per share of existing shares through new share issuance at a premium to the estimated net asset value per share;
- to grow the Company, thereby spreading operating costs over a larger capital base, which should reduce the ongoing charges ratio; and
- to improve liquidity in the market for the Company's shares.

As the Company's shares traded at a discount to the net asset value per share throughout the year, no new shares were issued during the year (2022: 150,000).

The volatility of the net asset value per share in an asset class such as biotechnology is a 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. Please see the Chairman's Statement beginning on page 2 for further information.

**ONGOING CHARGES<sup>^</sup>**

Ongoing charges represent the costs that the Company can reasonably expect to pay from one year to the next, under normal conditions. The Board continues to be conscious of expenses and seeks to maintain a sensible balance between high quality service and costs. The Board therefore considers the ongoing charges ratio to be a KPI and reviews the figure on a regular basis.

As at 31 March 2023 the ongoing charges figure was 1.1% (2022: 1.1%).

<sup>^</sup> Alternative Performance Measure (see Glossary beginning on page 96).

**RISK MANAGEMENT**

The Board is responsible for managing the risks faced by the Company. Through delegation to the Audit Committee, the Board has established procedures to manage risk, to review the Company's internal control framework and to establish the level and nature of the principal risks the Company is prepared to accept in order to achieve its long-term strategic objective. At least twice during a year the Audit Committee carries out a robust assessment of the principal and emerging risks with the assistance of Frostrow Capital (the AIFM). A risk management process has been established to identify and assess risks, their likelihood and the possible severity of impact. Further information is provided in the Audit Committee Report beginning on page 55. These principal risks and the ways they are managed or mitigated are set out on the following pages.

## BUSINESS REVIEW CONTINUED

## PRINCIPAL RISKS AND UNCERTAINTIES

## MANAGEMENT/MITIGATION

## MARKET RISK



The Company's portfolio is exposed to fluctuations in market prices (changes in broad market measures, individual security prices and foreign exchange rates) in the biotechnology sector and the regions in which it invests, which may result in a reduction in assets due to market falls and higher volatility.

The biotechnology sector has historically been more volatile than other equity sectors, reflecting factors inherent in biotech companies, including emerging technologies, uncertainty of drug approval outcomes, regulatory and pricing policy.

More generally, geopolitical and economic uncertainties have affected markets globally and are likely to continue to do so. These include the continued impact of the war in Ukraine and the effect of sanctions against Russia, resulting in elevated energy prices. More broadly, inflation may prove more persistent than had been hoped. This has driven interest rates higher, increasing the cost of capital for companies in our investment universe and leading to concerns about the resilience of elements of the US banking system, in turn reducing investors' risk appetites. Globally, political, military and commercial tensions between the US/West and China have put the pace of global economic growth at risk.

The Portfolio Manager has responsibility for selecting investments in accordance with the Company's investment objective and policy and seeks to ensure that investment in individual stocks falls within acceptable risk levels. Compliance with the limits and guidelines contained in the Company's investment policy is monitored daily by Frostrow and OrbiMed and reported monthly to the Board.

The investment restrictions ensure that the portfolio is diversified, reducing the risks associated with individual stocks and markets. OrbiMed report at each Board meeting on the Company's performance and the macro factors affecting it.

The Portfolio Manager spreads investment risk over a wide portfolio of investments. At the year end the Company's portfolio comprised investments in 54 companies.

As part of its review of the going concern and long-term viability of the Company, the Board also considers the sensitivity of the portfolio to changes in market prices and foreign exchange rates (see note 14 beginning on page 87) and the ability of the Company to liquidate its portfolio if the need arose. Further details are included in the Going Concern and Viability Statements beginning on page 34.

## PORTFOLIO PERFORMANCE



Investment performance may not achieve the Investment Objective and the value of the investments held in the portfolio may fall materially out of line with the sector.

The Portfolio Manager's approach is expected to lead to performance that will deviate from comparators, including both market indices and other investment companies investing in the biotechnology sector.

The Board reviews regularly investment performance against the Benchmark and against the Company's peer group. The Board also receives regular reports that analyse performance against 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.



## BUSINESS REVIEW CONTINUED

## PRINCIPAL RISKS AND UNCERTAINTIES

## MANAGEMENT/MITIGATION

## SHARE PRICE PERFORMANCE



The risk that the Company's share price is not representative of its underlying net assets.

To manage this risk, the Board:

- regularly reviews the level of the share price discount/premium to the net asset value per share and considers ways in which share price performance may be enhanced, including the effectiveness of marketing and investor relations services, new share issuance and share buybacks, as appropriate;
- has implemented a discount management policy, buying back the Company's shares when the level of the share price discount to the net asset value per share exceeds 6% (in normal market conditions). Further information on this policy is set out on pages 28 to 29.
- may issue shares at a premium to the net asset value per share to help prevent a share price premium reaching too high a level;
- reviews an analysis of the shareholder register at each Board meeting and is kept informed of shareholder sentiment; and
- regularly discusses the Company's future development and strategy with the Portfolio Manager and the AIFM.

## CYBER RISK



Cyber crime may lead to the disruption or failure of systems covering dealing, trade processing, administrative services, financial and other operational functions.

The Board relies on controls in place at OrbiMed, Frostrow, J.P. Morgan, Link and other third-party service providers.

The Audit Committee reviews the internal controls reports of the principal service providers, as well as their data storage and information security arrangements.

## 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 manages this risk by:

- appointing OrbiMed, who in turn have appointed Geoff Hsu and, in the course of the year, Josh Golomb to manage the Company's portfolio. Mr Hsu and Mr Golomb are supported by a team of researchers and analysts dedicated to the biotechnology sector;
- receiving reports from OrbiMed at each Board meeting, such reports include any significant changes in the make-up of the team supporting the Company;
- meeting the wider team at OrbiMed's offices and encouraging the participation of the wider OrbiMed team in investor updates; and
- delegating to the Management Engagement Committee, the responsibility to perform an annual review of the service received from OrbiMed, including, *inter alia*, the team supporting the lead managers and their succession plans.

## VALUATION RISK



Pursuant to the Investment Policy, the Company may invest up to 10% of its gross assets in unquoted investments at the time of acquisition. The valuation of unquoted assets involves a degree of subjectivity and there is a risk that proceeds received on the disposal of unquoted holdings may prove to be significantly lower than the value at which the investment is held in the Company's portfolio.

Unquoted investments comprised 5.7% of the Company's portfolio at the year end. The Company's directly held unquoted investments are valued by an independent, third-party valuation agent. The Board has established a Valuation Committee to review the valuations of the unquoted investments and the methodologies used in the valuations. The valuations are recommended to the Committee by Frostrow, the Company's AIFM, following review by its own valuations committee. The Valuation Committee makes recommendations to the Board, as appropriate. Further information can be found in the Audit Committee Report beginning on page 55 and note 1 to the financial statements on page 77.

## BUSINESS REVIEW CONTINUED

## PRINCIPAL RISKS AND UNCERTAINTIES

## MANAGEMENT/MITIGATION

CLIMATE CHANGE 

Climate change events, as well as the introduction of new regulations designed to combat climate change, could have an impact on portfolio companies and their operations, as well as on the Company's service providers, potentially affecting their operating models, supply chains, physical locations and energy costs.

Although the effects of climate change have yet to be fully determined, the Board and the Portfolio Manager keep the subject under review.

The Board is conscious that climate change poses a general risk to the investment environment and, through discussions with the Portfolio Manager, has noted that the biotechnology industry is not a major contributor to greenhouse gas emissions. For this reason, the Portfolio Manager does not consider climate change to be a material ESG consideration when engaging with investee companies. However energy management is noted as a material concern in the wider healthcare and pharmaceutical sectors, and this forms part of OrbiMed's ESG monitoring. Please refer to pages 24 and 25 for further information.

COUNTERPARTY RISK 

The Company is exposed to credit risk arising from the use of counterparties. If a counterparty were to fail, the Company could be adversely affected through either a delay in settlement or a loss of assets.

The most significant counterparty to which the Company is exposed is J.P. Morgan Securities LLC (the Company's Custodian and Prime Broker) which is responsible for the safekeeping of the Company's assets and provides the loan facility to the Company. As part of the arrangements with J.P. Morgan Securities LLC (J.P. Morgan) they may take assets as collateral up to 140% of the value of the loan drawn down. The assets taken as collateral by J.P. Morgan may be used, loaned, sold, rehypothecated\* or transferred. The level of the Company's gearing is at the discretion of the AIFM and the Board and the loan can be repaid at any time, at which point the assets taken as collateral will be released back to the Company. Any of the Company's assets taken as collateral are not covered by the custody arrangements provided by J.P. Morgan.

J.P. Morgan is a registered broker-dealer and is accordingly subject to limits on rehypothecation\* imposed by the U.S. Securities and Exchange Commission (SEC). In the event of J.P. Morgan's insolvency, the Company may be unable to recover in full assets held by it as Custodian or held as collateral.

The risk is managed through the selection of a financially stable counterparty, limitations on the use of gearing and reliance on the SEC's robust regulatory regime. In addition, the Board monitors the credit rating of J.P. Morgan.

J.P. Morgan is also subject to regular monitoring by J.P. Morgan Europe Limited, the Depositary, and the Board receives regular reports from the Depositary.

During the year the Company entered into swap transactions with Goldman Sachs International.

Further information can be found in note 14 to the financial statements beginning on page 87.

\* See glossary beginning on page 96.

## BUSINESS REVIEW CONTINUED

## PRINCIPAL RISKS AND UNCERTAINTIES

## MANAGEMENT/MITIGATION

## OPERATIONAL DISRUPTION



As an externally managed investment trust, the Company is reliant on the systems of its service providers for dealing, trade processing, administration, financial and other functions. If such systems were to fail or be disrupted (including, for example, as a result of a pandemic, war, network disruption or simply poor performance/controls) this could prevent accurate reporting of the Company's financial position or lead to a failure to comply with applicable laws, regulations and governance requirements and/or to a financial loss.

To manage these risks, the Board (in some cases meeting as the Audit Committee):

- periodically meets representatives from the Company's key service providers to gain a better understanding of their control environment, and the processes in place to mitigate any disruptive events (including the COVID-19 pandemic);
- receives a monthly report from Frostrow, which includes, *inter alia*, confirmation of compliance with applicable laws and regulations;
- reviews the internal control reports and key policies (including disaster recovery procedures and business continuity plans) of its service providers;
- maintains a risk matrix with details of risks to which the Company is exposed, the approach to managing those risks, the key controls relied on and the frequency of the controls operation;
- receives updates on pending changes to the regulatory and legal environment and progress towards the Company's compliance with such changes; and
- has considered the increased risk of cyber-attacks and received reports and assurance from its service providers regarding the information security controls in place.

## EMERGING RISKS

The Company has carried out a robust assessment of the Company's emerging risks and the procedures in place to identify emerging risks are described below. The International Risk Governance Council definition of an 'emerging' risk is one that is new, or is a familiar risk in a new or unfamiliar context or under new context conditions (re-emerging).

The Audit Committee reviews a risk map at its half-yearly meetings. Emerging risks are discussed in detail as part of this process and also throughout the year to try to ensure that emerging (as well as established) risks are identified and, so far as practicable, mitigated.

Current identified emerging risks are:

1. Demographic trends in China and Europe, including the effects of an ageing workforce, may have an impact on global markets.
2. Threats to research funding and the effects of increased costs in the biotech sector may affect the Company's investee companies.

**BUSINESS REVIEW CONTINUED****GOING CONCERN**

The financial statements have been prepared on a going concern basis. The Directors consider this is the appropriate basis as the Company has adequate resources to continue in operational existence for at least the next 12 months from the date of approval of this report. The Company's portfolio, trading activity, cash balances, revenue and expense forecasts, and the trends and factors likely to affect the Company's performance are reviewed and discussed at each Board meeting. The Board has considered a detailed assessment of the Company's ability to meet its liabilities as they fall due, including stress tests which modelled the effects of substantial falls in portfolio valuations and liquidity constraints on the Company's financial position. Further information is provided in the Audit Committee report beginning on page 55.

Based on the information available to the Directors at the date of this report, including the results of these stress tests, the conclusions drawn in the Viability Statement below, the Company's current cash balances, and the liquidity of the Company's investments, the Directors are satisfied that the Company has adequate financial resources to continue in operation for at least the next 12 months and that, accordingly, it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

**VIABILITY STATEMENT**

In accordance with the UK Corporate Governance Code and the Listing Rules, the Directors have carefully assessed the Company's position and prospects as well as the principal risks and have formed a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five financial years. The Board has chosen a five-year horizon in view of the long-term nature and outlook adopted by the Portfolio Manager when making investment decisions.

To make this assessment and in reaching this conclusion, the Audit Committee has considered the Company's financial position, its ability to liquidate its portfolio and meet its liabilities as they fall due and, in particular, notes the following:

- The portfolio is principally comprised of investments traded on major international stock exchanges. Based on recent market volumes 94.5% of the current portfolio could be liquidated within 30 trading days with 88.3% in

seven days. There is no expectation that the nature of the investments held within the portfolio will be materially different in future.

- The Board has considered the viability of the Company under various scenarios, including periods of acute stock market and economic volatility, and concluded that it would expect to be able to ensure the financial stability of the Company through the benefits of having a diversified portfolio of (mostly) listed and realisable assets. As illustrated in note 14 to the financial statements, the Board has considered other price risk (the sensitivity of the value of shareholders' funds to changes in the fair value of the Company's investments), foreign currency sensitivity (the sensitivity to changes in key exchange rates to which the portfolio is exposed) and interest rate sensitivity (the sensitivity to changes in the interest rate charged on the Company's loan facility).
- With an ongoing charges ratio of 1.1%, the expenses of the Company are predictable and modest in comparison with the assets and there are no capital commitments foreseen which would alter that position.
- The Company has a short-term bank facility which can be used to meet its liabilities. Details of the Company's current liabilities are set out in note 11 to the financial statements.
- The Company has no employees. Consequently it does not have redundancy or other employment related liabilities or responsibilities.

The Audit Committee, as well as considering the potential impact of the Company's principal risks and various severe but plausible downside scenarios, has made the following assumptions in considering the Company's longer-term viability:

- There will continue to be demand for investment trusts;
- The Portfolio Manager will continue to adopt a long-term view when making investments, and anticipated holding periods will be at least five years;
- The Company invests principally in the securities of listed companies traded on international stock exchanges to which investors will wish to continue to have exposure;
- Shareholders will vote for the continuation of the Company at the Annual General Meeting to be held in 2025. The Company's shareholders are asked every five years to vote for the continuation of the Company. At the current time, the Directors believe they have a reasonable expectation that the next vote will be passed.

**BUSINESS REVIEW** CONTINUED

- The closed-ended nature of the Company means that, unlike open-ended funds, it does not need to realise investments when shareholders wish to sell their shares;
- The Company will continue to be able to fund share buybacks when required. The Company bought back 2,421,263 ordinary shares in the year under review at a total cost of £22.6 million and experienced no problem with liquidity in doing so. It had shareholders' funds in excess of £330.2 million at the year end; and
- The long-term performance of the Company will continue to be satisfactory.

**ENVIRONMENTAL, SOCIAL, COMMUNITY AND HUMAN RIGHTS MATTERS**

As an externally managed investment trust, the Company does not have any employees or maintain any premises, nor does it undertake any manufacturing or other physical operations itself. All its operational functions are outsourced to third party service providers. Therefore, the Company has no material, direct impact on the environment or any particular community and, as a result, the Company itself has no environmental, human rights, social or community policies.

Under the Listing Rules, the Company is also exempt from reporting against the Taskforce for Climate-Related Financial Disclosures (TCFD) framework. However, the Board recognises that climate change poses a general risk to the investment environment and has discussed with the Portfolio Manager the potential impact of climate change risk on the Company's investments.

The Board believes that consideration of environmental, social and governance ("ESG") factors is important to shareholders and other stakeholders, and has the potential to protect and enhance investment returns. The Portfolio Manager's investment criteria ensure that ESG factors are integrated into their investment process and best practice in this area is encouraged by the Board. The Portfolio Manager engages with the Company's underlying investee companies in relation to their corporate governance practices and the development of their policies on social, community and environmental matters. Further information on OrbiMed's responsible investing policy, including their approach to the consideration of climate change in their investment process, can be found on pages 24 and 25.

The Board is committed to carrying out the Company's business in an honest and fair manner with a zero-tolerance approach to bribery, corruption, and tax evasion. As such, policies and procedures are in place to prevent this. In carrying out the Company's activities, the Board aims to conduct itself responsibly, ethically and fairly. The Board's expectations are that the Company's principal service providers have appropriate governance policies in place.

**PERFORMANCE AND FUTURE DEVELOPMENTS**

A review of the Company's year, its performance and the outlook for the Company can be found in the Chairman's Statement beginning on page 2 and in the Portfolio Manager's Review beginning on page 9.

The Company's overall strategy remains unchanged.

## BUSINESS REVIEW CONTINUED

**STAKEHOLDER INTERESTS AND BOARD DECISION-MAKING (SECTION 172 OF THE COMPANIES ACT 2006)**

The following disclosure, which is required by the Companies Act 2006 and the AIC Code of Corporate Governance, describes how the Directors have had regard to the views of the Company's stakeholders in their decision-making.

STAKEHOLDER GROUP	HOW THE BOARD HAS ENGAGED WITH THE COMPANY'S STAKEHOLDERS
<p><b>Investors</b></p>	<p>The Board's key mechanisms of engagement with investors include:</p> <ul style="list-style-type: none"> <li>• The Annual and Half-yearly Reports</li> <li>• The Annual General Meeting</li> <li>• The Company's website which hosts reports, articles and insights, monthly factsheets and video interviews with the Portfolio Manager</li> <li>• The Company's distribution list which is maintained by Frostrow and is used to communicate with shareholders on a regular basis</li> <li>• Online seminars with presentations from the Portfolio Manager</li> <li>• One-to-one investor meetings</li> </ul> <p>The AIFM and the Portfolio Manager, on behalf of the Board, completed a programme of investor relations throughout the year, reporting to the Board on the feedback received. In addition, the Chairman has been and remains available to engage with the Company's shareholders where required.</p>
<p><b>Portfolio Manager</b></p>	<p>The Board met regularly with the Portfolio Manager throughout the year, both formally at quarterly Board meetings and informally, as required. The Board engaged primarily with key members of the portfolio management team, discussing the Company's overall performance as well as developments at individual portfolio companies and wider macroeconomic developments.</p> <p>The Directors also met with members of the Portfolio Manager's risk management and compliance teams to better understand their internal controls, as well as their ESG Officer to discuss the integration of ESG considerations into the investment process.</p> <p>The Management Engagement Committee reviewed the performance of the Portfolio Manager and the terms and conditions on which they are engaged. The Board carried out an overall review of the Portfolio Management Agreement, which was subsequently restated.</p>
<p><b>Other Service Providers</b></p>	<p>The Board met regularly with the AIFM, representatives of which attend every quarterly Board meeting to provide updates on risk management, accounting, administration, corporate governance and marketing matters.</p> <p>The Management Engagement Committee reviewed the performance of all the Company's service providers, receiving feedback from Frostrow in their capacity as AIFM and Company Secretary. The AIFM, which is responsible for the day-to-day operational management of the Company, meets and interacts with the other service providers including the Depositary, Custodian and Registrar, on behalf of the Board, on a daily basis. This can be through email, one-to-one meetings and/or regular written reporting.</p> <p>The Audit Committee reviewed the quality and effectiveness of the audit and recommended to the Board that it be proposed to shareholders that BDO LLP ("BDO") be re-appointed as Auditor. The Audit Committee also met with BDO to review the audit plan and set their remuneration for the year.</p>

**BUSINESS REVIEW** CONTINUED

As an externally managed investment trust, the Company has no employees, customers, operations or premises. Therefore, the Company's key stakeholders (other than its shareholders) are considered to be its service providers. The need to foster good business relationships with the service providers and maintain a reputation for high standards of business conduct are central to the Directors' decision-making as the Board of an externally managed investment trust.

KEY AREAS OF ENGAGEMENT	MAIN DECISIONS AND ACTIONS TAKEN
<ul style="list-style-type: none"> <li>Ongoing dialogue with shareholders concerning the strategy of the Company, performance and the portfolio.</li> <li>The impact of market volatility caused by, <i>inter alia</i>, the COVID-19 pandemic and certain geopolitical events, on the portfolio.</li> <li>Share price performance.</li> </ul>	<p>The Board and the Portfolio Manager provided updates via RNS, the Company's website, the distribution list and the usual financial reports and monthly fact sheets.</p> <p>The Board continued to monitor share price movements closely. When the discount of the share price to the net asset value per share exceeded 6%, the Company sought to buy back shares in the market. As a result, 2,421,263 shares were bought back during the year. No shares were issued at a premium to the net asset value per share during the year. Please refer to pages 28 and 29 for further information.</p>
<ul style="list-style-type: none"> <li>Portfolio composition, performance, outlook and business updates.</li> <li>The ongoing impact of the COVID-19 pandemic on the Portfolio Manager's business and the businesses of the portfolio companies.</li> <li>The integration of sustainability and ESG factors to the Portfolio Manager's investment process.</li> <li>The Portfolio Manager's system of internal controls and investment risk management including their cyber security arrangements.</li> <li>The terms and conditions of the Portfolio Management Agreement.</li> </ul>	<p>While the Board was confident that OrbiMed had been able to successfully implement remote working, the Directors were pleased to be able to visit OrbiMed's offices in New York during the year, to meet with the OrbiMed team in person.</p> <p>The Board concluded that it was in the interests of shareholders for OrbiMed to continue in their role as Portfolio Manager. A number of minor updates were made to the terms and conditions of the Portfolio Management Agreement, which was restated. Please refer to page 49 and 50 for further details.</p> <p>The Audit Committee concluded that the Portfolio Manager's internal controls were satisfactory. Please refer to the Audit Committee Report, beginning on page 55, for further information.</p>
<ul style="list-style-type: none"> <li>The promotion and marketing strategy of the Company.</li> <li>Service providers' internal controls, business continuity plans and cyber security provisions.</li> <li>The effectiveness of the audit and the Auditor's reappointment.</li> <li>The terms and conditions under which the Auditor is engaged.</li> </ul>	<p>The Board concluded that it was in the interests of shareholders for Frostrow to continue in their role as AIFM. A number of minor updates were made to the terms and conditions of the AIFM Agreement, which was restated. See pages 49 and 50 for further details.</p> <p>The Board approved the Audit Committee's recommendation that it would be in the interests of shareholders for BDO to be re-appointed as the Company's auditor for a further year. Please refer to the Audit Committee Report beginning on page 55 and the Notice of AGM beginning on page 101 for further information.</p>

By order of the Board

**Frostrow Capital LLP**

Company Secretary

14 June 2023

## BOARD OF DIRECTORS



**ROGER YATES**  
Independent Non-Executive Chairman

Joined the Board in December 2021

Remuneration: £40,000 pa\*

#### Committees

Roger is Chairman of the Nominations Committee. See page 40 for further information.

#### Shareholding in the Company

10,000

#### Skills and Experience

Roger started his career in investment management at GT Management in 1981 and subsequently held positions at Morgan Grenfell and Invesco as Chief Investment Officer. He was appointed Chief Executive Officer of Henderson Group plc in 1999 and led the company for a decade. More recently, Roger was the Senior Independent Director and Remuneration Committee Chairman at IG Group Holdings plc, Chairman of Electra Private Equity PLC and Chairman of Pioneer Global Asset Management S.p.A. He was also a Non-Executive Director of J.P. Morgan Elect PLC from 2008 until 2018.

#### Other Appointments

Roger is a non-executive director, senior independent director and remuneration committee chair at Jupiter Fund Management plc. He is also a non-executive director and senior independent director at Mitie Group plc.

**Standing for re-election:** Yes



**STEVE BATES**  
Senior Independent Non-Executive Director

Joined the Board in July 2015

Remuneration: £30,000 pa\*

#### Committees

Steve is Chairman of the Management Engagement Committee. See page 40 for further information.

#### Shareholding in the Company

10,000

#### Skills and Experience

Steve has extensive experience as an Investment Manager and was head of global emerging markets at J.P. Morgan Asset Management until 2002. Since then, he has been an Executive Director of GuardCap Asset Management Limited (and its predecessor company).

#### Other Appointments

Steve is a Director of GuardCap Asset Management Ltd (where he is also a non-executive Director of GuardCap UCITS Funds PLC (an investment company with variable capital, incorporated in Ireland)). He also sits on, or is advisor to, various committees in the wealth management and pension fund areas.

**Standing for re-election:** Yes



**JULIA LE BLAN**  
Independent Non-Executive Director

Joined the Board in July 2016

Remuneration: £ 32,000 pa\*

#### Committees

Julia is Chair of the Audit Committee and the Valuation Committee. See page 40 for further information.

#### Shareholding in the Company

7,000

#### Skills and Experience

A Chartered Accountant, Julia has worked in the financial services industry for over 30 years. Julia was formerly a non-executive Director of Impax Environmental Markets plc, JPMorgan US Smaller Companies Investment Trust plc and Aberforth Smaller Companies Trust PLC. She was a tax partner at Deloitte and sat for two terms on the AIC's technical committee.

#### Other Appointments

Julia is a non-executive Director of British & American Investment Trust PLC.

**Standing for re-election:** Yes

\* Information as at 31 March 2023



## BOARD OF DIRECTORS CONTINUED



**GEOFF HSU**  
Non-Executive Director

Joined the Board in May 2018

Remuneration: Nil

#### Committees

Geoff does not sit on any of the Board's Committees.

#### Shareholding in the Company

Nil

#### Skills and Experience

Geoff is a General Partner of OrbiMed, having joined in 2002 as a biotechnology analyst. Prior to joining OrbiMed, he worked as an analyst in the healthcare investment banking group at Lehman Brothers. Mr Hsu received his A.B. degree summa cum laude from Harvard University and holds an M.B.A. from Harvard Business School. Prior to business school, he spent two years studying medicine at Harvard Medical School.

#### Other Appointments

Geoff is a General Partner of OrbiMed and does not have any other appointments.

**Standing for re-election:** Yes



**THE RT HON LORD WILLETTS FRS**  
Independent Non-Executive Director

Joined the Board in November 2015

Remuneration: £27,500 pa\*

#### Committees

See page 40 for further information.

#### Shareholding in the Company

Nil

#### Skills and Experience

A former Board member of the Francis Crick Institute and of the Biotech Industry Association, Lord Willetts was the Member of Parliament for Havant from 1992-2015 and was Minister for Universities and Science from 2010-2014. Before that, he worked at HM Treasury and the Number 10 Policy Unit. He also served as Paymaster General in John Major's Government.

#### Other Appointments

Lord Willetts is a Board member of Darktrace plc, Verditek plc, Satify Communications Ltd and of Tekcapital. He is Co-chair of Synbioven, a company which invests in synthetic biology. He serves on the board of UK Research and Innovation. He is also an Honorary Fellow of the Royal Society and of Nuffield College, Oxford.

**Standing for re-election:** Yes



**DR NICKI SHEPHERD**  
Independent Non-Executive Director

Joined the Board in January 2021

Remuneration: £27,500 pa\*

#### Committees

See page 40 for further information.

#### Shareholding in the Company

Nil

#### Skills and Experience

Nicki is the Founder and Director of Bellows Consulting focused on supporting translational research in the biomedical space. She was previously at the Wellcome Trust where she was responsible for the establishment, management and oversight of the Translation Fund, a £30m a year investment into new product development covering therapeutics, vaccines, diagnostics, medical devices and regenerative medicine over a range of clinical indications. Nicki has also held positions at AstraZeneca in Late-Stage Development and Manufacturing.

#### Other Appointments

Nicki is a Member of the CARB-X Advisory Board.

**Standing for re-election:** Yes

\* Information as at 31 March 2023

# 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 delegated to OrbiMed and risk management, company management, company secretarial, administrative and marketing services are delegated to Frostrow. The Board generates value for shareholders through its oversight of the service providers and management of costs associated with running the Company.

### THE BOARD

**Chairman** – Roger Yates

**Senior Independent Director** – Steve Bates

Four additional non-executive Directors, three of whom are considered independent.

**Key responsibilities:**

- to provide leadership and set the strategy, values and standards of the Company within a framework of effective controls which enable risk to be assessed and managed;
- to ensure that a robust corporate governance framework is implemented; and
- to challenge constructively and scrutinise the performance of all third-party service providers.

Audit Committee	Nominations Committee	Management Engagement Committee	Valuation Committee
<p><b>Chair</b> Julia Le Blan</p> <p>All Independent Directors</p> <p><b>Key responsibilities:</b></p> <ul style="list-style-type: none"> <li>• to review the Company's financial reports;</li> <li>• to oversee the risk and control environment and financial reporting; and</li> <li>• to have primary responsibility for the relationship with the Company's external auditor, to review their independence and performance, and to determine their remuneration.</li> </ul>	<p><b>Chairman</b> Roger Yates</p> <p>All Independent Directors</p> <p><b>Key responsibilities:</b></p> <ul style="list-style-type: none"> <li>• to review regularly the Board's structure and composition; and</li> <li>• to make recommendations for any changes or new appointments.</li> </ul>	<p><b>Chairman</b> Steve Bates</p> <p>All Independent Directors</p> <p><b>Key responsibilities:</b></p> <ul style="list-style-type: none"> <li>• to review regularly the contracts, the performance and remuneration of the Company's principal service providers.</li> </ul>	<p><b>Chair</b> Julia Le Blan</p> <p>Steve Bates, Roger Yates</p> <p><b>Key responsibilities:</b></p> <ul style="list-style-type: none"> <li>• to consider the valuations of the Company's unquoted investments; and</li> <li>• to consider the appropriateness of the Company's valuation policies and methodologies.</li> </ul>

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)

CORPORATE GOVERNANCE CONTINUED

INTERNAL CONTROLS STRUCTURE

The Board has a responsibility for establishing and assessing internal controls to ensure the Company operates effectively, efficiently and within the risk appetites set by the Board. As the Company relies on third-party service providers for all of its operations, it obtains regular reports from these counterparties on the nature and effectiveness of controls within these organisations.

The Company's principal service providers are the Portfolio Manager, OrbiMed, the AIFM, Company Secretary and administrator, Frostrow Capital, the custodian and depositary, J.P. Morgan and the registrar, Link Group. The Board receives regular reporting on compliance with the control environment and assesses the effectiveness of the internal controls through review of the assurance reports from each of these organisations.

In addition, the Company retains a number of secondary providers who report regularly to the Board. These include the Company's legal adviser and the corporate stockbroker.

The Management Engagement Committee formally evaluates the performance and service delivery of all third-party service providers at least annually and the Audit Committee evaluates the performance of the Company's external auditor annually, following the completion of the annual audit process.



## CORPORATE GOVERNANCE CONTINUED

**CORPORATE GOVERNANCE STATEMENT**

The Board is committed to maintaining and demonstrating high standards of corporate governance. The Board has considered the principles and recommendations of the AIC Code of Corporate Governance published in February 2019 (the AIC Code). The AIC Code addresses all the principles set out in the UK Corporate Governance Code (the UK Code), as well as setting out additional provisions on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and provisions of the AIC Code (which has been endorsed by the Financial Reporting Council) will provide better information to shareholders. By reporting against the AIC Code, the Company meets its obligations under the UK Code (and associated disclosure requirements under paragraph 9.8.6 of the Listing Rules) and as such does not need to report further on issues contained in the UK Code which are irrelevant to the Company as an externally managed investment company, including the provisions relating to the role of the chief executive, executive directors' remuneration and the internal audit function.

The AIC Code is available on the AIC's website [www.theaic.co.uk](http://www.theaic.co.uk) and the UK Code can be viewed on the Financial Reporting Council website [www.frc.org.uk](http://www.frc.org.uk). The AIC Code includes an explanation of how the AIC Code adapts the principles and provisions set out in the UK Code to make them relevant for investment companies.

The Company has complied with the principles and provisions of the AIC Code. The Corporate Governance Report on pages 40 to 47, forms part of the Report of the Directors on pages 48 to 53.

**BOARD LEADERSHIP AND PURPOSE****PURPOSE AND STRATEGY**

The purpose and strategy of the Company are described in the Strategic Report.

**BOARD CULTURE**

The Board aims to consider and discuss fully differences of opinion, unique vantage points and to exploit fully areas of expertise. The Chairman encourages open debate to foster a supportive and cooperative approach for all participants. Strategic decisions are discussed openly and constructively. The Board aims to be open and transparent with shareholders and other stakeholders and for the

Company to conduct itself responsibly, ethically and fairly in its relationships with service providers.

The Board has gained assurance on whistleblowing procedures at the Company's principal service providers to ensure employees at those companies are supported in speaking up and raising concerns. No concerns relating to the Company were raised during the year.

**SHAREHOLDER RELATIONS**

The Company has appointed Frostrow 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 closer to the net asset value per share over the long run. Frostrow actively promotes the Company as set out on pages 27 and 28.

**SHAREHOLDER COMMUNICATIONS**

The Board, the AIFM and the Portfolio Manager consider maintaining good communications with shareholders to be a priority. They engage with larger shareholders through meetings and presentations. Shareholders are informed by the publication of annual and half-yearly 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 monitors changes to the share register of the Company; it also reviews correspondence from shareholders (if any) 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.

The Board supports the principle that the Annual General Meeting (AGM) be used to communicate with private investors in particular. Shareholders are encouraged to attend the AGM, where they are given the opportunity to question the Chairman, the Board and representatives of the Portfolio Manager. In addition, the Portfolio Manager makes a presentation to shareholders covering the investment performance and strategy of the Company at the AGM. Details of the proxy votes received in respect of each resolution are made available on the Company's website following the AGM.

## CORPORATE GOVERNANCE CONTINUED

**SIGNIFICANT HOLDINGS AND VOTING RIGHTS**

Details of the shareholders with substantial interests in the Company's shares, the Directors' authorities to issue and repurchase the Company's shares, and the voting rights of the shares are set out in the Report of the Directors on pages 48 to 53.

**CONFLICTS OF INTEREST**

In line with the Companies Act 2006, the Board has the power to authorise any potential conflicts of interest that may arise and impose such limits or conditions as it thinks fit. A register of interests and potential conflicts is maintained and is reviewed at every Board meeting. No conflicts of interest arose during the year.

**DIVISION OF RESPONSIBILITIES****THE CHAIRMAN AND THE SID**

The Chairman's primary role is to provide leadership to the Board, assuming responsibility for its overall effectiveness in directing the Company.

The Senior Independent Director ("SID") serves as a sounding board for the Chairman and acts as an intermediary for the other Directors and the shareholders.

A full description of the responsibilities of the Chairman and the SID can be found on the Company's website: [www.biotechgt.com](http://www.biotechgt.com)

**MEETING ATTENDANCE**

The table below sets out the number of scheduled Board and committee meetings held during the year ended 31 March 2023 and the number of meetings attended by each Director.

	Board	Management Engagement Committee	Audit Committee	Nominations Committee	Valuation Committee
Number of meetings held in 2022/23:	4	1	2	1	4
Steve Bates	4	1	2	1	3
Geoff Hsu <sup>1</sup>	4	N/A	N/A	N/A	N/A
Julia Le Blan	4	1	2	1	4
Dr Nicki Shepherd	4	1	2	1	N/A
The Rt Hon Lord Willetts	3	–	2	–	N/A
Roger Yates <sup>2</sup>	4	1	1	1	2
Andrew Joy <sup>3</sup>	1	–	1	–	1

All of the serving Directors attended the Annual General Meeting held on 19 July 2022.

<sup>1</sup> Geoff Hsu is not a member of any Board committees.

<sup>2</sup> Roger Yates was appointed to the Board with effect from 1 December 2021 and to the Board committees with effect from 19 July 2022.

<sup>3</sup> Andrew Joy retired from the Board on 19 July 2022.

**DIRECTOR INDEPENDENCE**

The Board consists of six non-executive Directors. All of the Directors except for Geoff Hsu are independent of OrbiMed and the Company's other service providers. No member of the Board is a Director of another investment company managed by OrbiMed, nor has any Board member (with the exception of Geoff Hsu) been an employee of OrbiMed or any of the Company's service providers. Further details regarding the Directors can be found on pages 38 to 39.

The Board carefully considers the various guidelines for determining the independence of non-executive Directors, placing particular weight on the view that independence is evidenced by an individual being independent of mind, character and judgement. All Directors, with the exception of Geoff Hsu, are presently considered to be independent. Directors obtain approval from the Chairman prior to accepting any new appointments.

**BOARD MEETINGS**

The Board is responsible for the effective stewardship of the Company's affairs. Strategy issues and all material operational matters are considered at its meetings.

The Board meets formally at least four times each year. The primary focus at regular Board meetings is the review of investment performance and associated matters, including asset allocation, marketing/investor relations, peer group information and industry issues.

**CORPORATE GOVERNANCE CONTINUED**

The Board reviews key investment and financial data, revenue and expense projections, analyses of transactions, performance metrics and performance comparisons, share price and net asset value performance.

The Board is responsible for setting the Company's corporate strategy and reviews the continued appropriateness of the Company's investment objective, investment strategy and investment restrictions at each meeting.

**MATTERS RESERVED FOR DECISION BY THE BOARD**

The Board has adopted a schedule of matters reserved for its decision. This includes:

- decisions relating to the strategic objectives and overall management of the Company, including the appointment or removal of the Portfolio Manager and other service providers, establishing the investment objectives, restrictions, strategy and performance comparators;
- approval of the annual and half yearly financial statements, recommendation or declaration of any dividends, determining the policy on share issuance and buybacks;
- the Company's internal controls, corporate governance structure, policies and procedures; and
- matters relating to the Board and its committees, including the appointment of directors.

Day-to-day portfolio management is delegated to OrbiMed and operational management is delegated to Frostrow.

The Board takes responsibility for the content of communications regarding major corporate issues, even if OrbiMed or Frostrow acts as spokesman. The Board is kept informed of relevant promotional material that is issued by Frostrow.

**RELATIONSHIP WITH SERVICE PROVIDERS**

Representatives of the Portfolio Manager and the AIFM are in attendance at each Board meeting. The Management Engagement Committee evaluates the performance of all the Company's service providers as well as the terms and conditions on which they are engaged. At the most recent review in February 2023, the Committee concluded that all the service providers were performing well and

recommended to the Board that they should be retained on the existing terms and conditions. Please refer to page 49 for further information on the Committee's assessment of the AIFM and the Portfolio Manager.

**EXERCISE OF VOTING POWERS**

The Board and the AIFM have delegated authority to the Portfolio Manager to vote the shares owned by the Company. The Portfolio Manager has been instructed to submit votes in respect of such shares wherever possible. The Portfolio Manager may refer to the Board or the AIFM on any matters of a contentious nature. The Board has reviewed OrbiMed's Voting Guidelines and is satisfied with their approach.

The Company does not retain voting rights on any shares that are subject to rehypothecation\* in connection with the loan facility provided by J.P. Morgan Securities LLC.

**STEWARDSHIP AND ORBIMED'S RESPONSIBLE INVESTING POLICY**

The Board recognises that Environmental, Social and Governance ("ESG") issues can impact the performance of investments. The Board has delegated authority to OrbiMed to evaluate investee companies' performance and engage with their management teams on material ESG issues. These matters and any other ESG related issues are discussed regularly with the Board.

**INDEPENDENT PROFESSIONAL ADVICE**

The Directors have access to the advice and services of a specialist investment trust company secretary, who is responsible for advising the Board on all governance matters. The Company Secretary ensures governance procedures are followed and that the Company complies with applicable statutory and regulatory requirements.

The Board has formalised arrangements under which the Directors, in the furtherance of their duties, may seek independent professional advice at the Company's expense. No such advice was sought during the year.

\*See glossary beginning on page 96 for further information.

## CORPORATE GOVERNANCE CONTINUED

**BOARD COMPOSITION, SUCCESSION AND EVALUATION****SUCCESSION PLANNING**

The Board, meeting as the Nominations Committee, regularly considers its structure and recognises the need for progressive refreshment.

The Board has an approved succession planning policy to ensure that (i) there is a formal, rigorous and transparent procedure for the appointment of new directors; and (ii) the Board is comprised of members who collectively display the necessary balance of professional skills, experience, length of service and industry knowledge.

**POLICY ON THE TENURE OF THE CHAIRMAN AND OTHER NON-EXECUTIVE DIRECTORS**

The tenure of each independent, non-executive director, including the Chairman, is not ordinarily expected to exceed nine years. It should be noted that, in practice, the date for departure from the Board may be on the Annual General Meeting following this anniversary. However, the Board has agreed that the tenure of the Chairman may be extended for a limited time provided such an extension is conducive to the Board's overall orderly succession. The Board believes that this more flexible approach to the tenure of the Chairman is appropriate in the context of the regulatory rules that apply to investment companies, which ensure that the chair remains independent after appointment, while being consistent with the need for regular refreshment and diversity.

Notwithstanding this expectation, the Board considers that a Director's tenure does not necessarily reduce his or her ability to act independently and will continue to assess each Director's independence annually, through a formal performance evaluation.

**APPOINTMENTS TO THE BOARD**

The rules governing the appointment and replacement of Directors are set out in the Company's articles of association and the aforementioned succession planning policy.

Where the Board appoints a new Director during the year, that Director will stand for election by shareholders at the next AGM. Subject to there being no conflict of interest, all Directors are entitled to vote on candidates for appointment to the Board and on the recommendation for shareholders' approval for the Directors seeking re-election at the AGM. When considering new appointments, the Board endeavours to ensure that it has the capabilities required to be effective

and oversee the Company's strategic priorities. This will include an appropriate range, balance and diversity of skills, experience and knowledge. The Company is committed to ensuring that any vacancies arising are filled by the most qualified candidates.

The Nominations Committee considers annually the skills possessed by the Board and identifies any skill shortages to be filled by new Directors. No new directors were appointed during the year.

**INDUCTION AND TRAINING**

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 of 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.

**DIVERSITY POLICY**

The Board supports the principle of Boardroom diversity, of which gender and ethnicity are two important aspects. The Company's policy is that the Board and its committees should be comprised of directors with a diverse range of skills, knowledge and experience and that appointments should be made on merit against objective criteria, including diversity in its broadest sense.

The objective of the policy is to have a broad range of approaches, backgrounds, skills, knowledge and experience represented on the Board. To this end, achieving a diversity of perspectives and backgrounds on the Board will be a key consideration in any director search process. The Board encourages any recruitment agencies it engages to find a diverse range of candidates that meet the criteria agreed for each appointment and, from the shortlist, aims to ensure that a diverse range of candidates is brought forward for interview.

The Board will give due regard to the new diversity targets in the Listing Rules (set out overleaf), but will not discriminate unfairly on the grounds of gender, ethnicity, age, sexual orientation, disability or socio-economic

## CORPORATE GOVERNANCE CONTINUED

background when considering the appointment of new directors. Candidates' educational and professional backgrounds, their cognitive and personal strengths, are considered against the specification prepared for each appointment.

The Board has noted the FCA's new Listing Rules which require companies to report against the following diversity targets:

- (a) At least 40% of individuals on the board are women;
- (b) At least one of the senior board positions (Chair, CEO, CFO or SID) is held by a woman; and
- (c) At least one individual on the board is from a minority ethnic background.

As an externally managed investment company, the Company does not have the positions of CEO or CFO and therefore, as permitted by the Listing Rules, it has not reported against the second target as it is not applicable. In the absence of the aforementioned roles, the Board considers the Chair of the Audit Committee to be a senior position and notes that the role is currently held by a woman.

As shown in the tables below, the Company has met the third target but has not yet met the first target. While the Board will have regard to this target in future director recruitment processes, due to the Board's small size, vacancies and recruitment opportunities arise relatively infrequently and therefore the target may take some time to achieve.

In accordance with the Listing Rules, the Board has provided the following information in relation to its diversity as at the year end.

	Number of Board Members	Percentage of the Board	Number of Senior Positions on the Board
Men	4	67%	–
Women	2	33%	–
Not specified/prefer not to say	–	–	–

Directors were also given the opportunity to indicate if there was an 'other category' they wished to specify.

	Number of Board Members	Percentage of the Board	Number of Senior Positions on the Board
White British or other White (including minority–white groups)	5	83%	–
Mixed/Multiple Ethnic Groups	–	–	–
Asian/Asian British	1	17%	–
Black/African/Caribbean/Black British	–	–	–
Other ethnic group, including Arab	–	–	–
Not specified/ prefer not to say	–	–	–

The format of the above tables is prescribed in the Listing Rules. However, as an externally managed investment trust, the Company has no executive management functions, including the roles of CEO and CFO, and the Company has therefore excluded columns relating to executive management.

The information above was obtained by asking the Directors to indicate on an anonymous form how they should be categorised for the purposes of the Listing Rules disclosures.

## BOARD EVALUATION

During the year an internal review of the Board, its committees and individual Directors (including each Director's independence) was carried out by the Board, in the form of electronic performance evaluation questionnaires.

The review concluded that the Board worked in a collegiate, efficient and effective manner, and there were no material

weaknesses or concerns identified. The Board is satisfied that the structure, mix of skills and operation of the Board, its committees, and individual Directors continue to be effective.

As an independent external review of the Board was last undertaken in 2021, it is anticipated that the next such review will be in 2024.



**CORPORATE GOVERNANCE** CONTINUED

The Board pays close attention to the capacity of individual Directors to carry out their work on behalf of the Company. In recommending individual Directors to shareholders for re-election, it considered their other Board positions and their time commitments and is satisfied that each Director has the capacity to be fully engaged with the Company's business. 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 for re-election at the forthcoming AGM for the following reasons:

Roger Yates was appointed to the Board on 1 December 2021. He was appointed as the Chairman-elect and succeeded Andrew Joy as Chairman at the last AGM. He has extensive knowledge of the investment sector, having held CIO positions at Morgan Grenfell and Invesco, and having led Henderson Group as CEO for 10 years. More recently, he has chaired and served on the boards of numerous investment and asset management companies.

Julia Le Blan joined the Board in July 2016. A Chartered Accountant and a former tax partner at Deloitte, she has considerable knowledge of the financial services industry and the investment company sector. Julia became the Chair of the Audit Committee in July 2017.

Geoff Hsu, who has been a Director since May 2018, is a General Partner of OrbiMed, the Portfolio Manager. He has been a part of the team that manages the Company's portfolio since OrbiMed's appointment in 2005.

Steve Bates joined the Board in July 2015. He is an experienced investment manager with broad knowledge of the investment company sector. He is Chairman of the Management Engagement Committee.

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

Dr Nicki Shepherd joined the Board in January 2021. Dr Shepherd has been working in the biomedical sector for 25 years across academia, large pharma and global biomedical charities. She brings breadth of experience across technology and therapeutic areas and the full product development pipeline from 'bench to bedside'.

The Chairman is pleased to report that following the internal performance evaluation, the Directors' performance continues to be effective and they continue to demonstrate commitment to the role. Accordingly, the Board recommends that shareholders vote in favour of the Directors' re-election at the forthcoming AGM.

**AUDIT, RISK AND INTERNAL CONTROL**

The Statement of Directors' Responsibilities on page 54 describes the Directors' responsibility for preparing this report.

The Audit Committee Report, beginning on page 55, explains the work undertaken to allow the Directors to make this statement and to apply the going concern basis of accounting. It also sets out the main roles and responsibilities and the work of the Audit Committee throughout the year, and describes the Directors' review of the Company's risk management and internal control systems.

A description of the principal risks facing the Company and an explanation of how they are being managed is provided in the Strategic Report on pages 29 to 33.

The Board's assessment of the Company's longer-term viability is set out in the Strategic Report on pages 34 to 35.

**REMUNERATION**

The Directors' Remuneration Report, beginning on page 60, sets out the levels of remuneration for each Director and explains how Directors' remuneration is determined.

By order of the Board

**Frostrow Capital LLP**

Company Secretary

14 June 2023

## REPORT OF THE DIRECTORS

The Directors present this Annual Report on the affairs of the Company together with the audited financial statements and the Independent Auditor's Report for the year ended 31 March 2023. Disclosures relating to performance, future developments and risk management can be found in the Strategic Report on pages 1 to 37.

### COMPANY MANAGEMENT

#### ALTERNATIVE INVESTMENT FUND MANAGER

Frostrow, under the terms of its AIFM agreement with the Company (the "AIFM Agreement") 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 yearly reports and monthly fact sheets;
- ensuring compliance with applicable legal and regulatory requirements; and
- maintenance of the Company's website.

Under the terms of the AIFM Agreement, Frostrow is entitled to receive a periodic fee equal to 0.30% per annum on the Company's market capitalisation up to £500m, 0.20% on market capitalisation above £500m to £1bn and 0.10% on market capitalisation over £1bn.

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 (the "Portfolio Management Agreement") 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 the Company, Frostrow or the Portfolio Manager giving notice of not less than 12 months.

#### PERFORMANCE FEE

The Portfolio Manager is entitled to the payment of a performance fee which is dependent on the long-term performance of the Company. The performance fee is calculated by reference to the amount by which the Company's net asset value (NAV) 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 15% of any outperformance over the Benchmark. 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 NAV over the Benchmark as at the quarter end date; and
- (ii) the cumulative outperformance of the NAV over the Benchmark as at the corresponding quarter end date in the previous year.

**REPORT OF THE DIRECTORS CONTINUED**

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. No performance fees were paid during the year and as at the date of this report, there is no provision for future payments (see note 3 on page 82 for further details).

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

**DEPOSITARY AND CUSTODIAN AND PRIME BROKER**

The Company has 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.

The Depositary has delegated the custody and safekeeping of the Company's assets to J.P. Morgan Securities LLC which acts as the Company's Custodian and Prime Broker.

Under the terms of a Delegation Agreement, liability for the loss of the Company's financial instruments held in custody by J.P. Morgan Securities LLC has been transferred from the Depositary to J.P. Morgan Securities LLC in accordance with the AIFMD. While the Depositary Agreement prohibits the re-use of the Company's assets by the Depositary or the Custodian and Prime Broker without the prior consent of the Company or Frostrow, the Company has consented to the transfer and re-use of its assets by the Custodian and Prime Broker (known as "rehypothecation") in accordance with the terms of an institutional account agreement between the Company, J.P. Morgan Securities LLC and certain other J.P. Morgan entities (as defined therein) (the "Institutional Account Agreement"). This activity is undertaken in order to take advantage of lower financing costs on the Company's loan borrowings as well as lower custody charges.

J.P. Morgan Securities LLC is a registered broker-dealer and is accordingly subject to limits on rehypothecation, in accordance with SEC rules. In the event of J.P. Morgan's insolvency, the Company may be unable to recover in full all assets held by J.P. Morgan as collateral for the loan or

as Custodian (see note 14 beginning on page 87 for further details).

**AIFM AND PORTFOLIO MANAGER EVALUATION AND RE-APPOINTMENT**

The performance of the AIFM and the Portfolio Manager is reviewed by the Board with a formal evaluation being undertaken by the Management Engagement Committee (the MEC) each year. As part of this process, the Board monitors the services provided by the AIFM and the Portfolio Manager and receives regular reports and views from them. The Board 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 MEC reviewed the appointment of the AIFM and the Portfolio Manager in February 2023 with a recommendation being made to the Board.

The Board believes the continuing appointment of the AIFM and the Portfolio Manager is in the interests of shareholders as a whole. In coming to this decision, the Board took into consideration the following 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;
- 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; and
- the terms of the AIFM and Portfolio Management Agreements, in particular the level and method of remuneration and the notice period, and the comparable arrangements of a group of the Company's peers.

The Board resolved that the AIFM and the Portfolio Manager should continue to be appointed on the same terms and conditions set out above.

A number of minor updates to the AIFM and Portfolio Management Agreements were agreed with Frostrow and OrbiMed in order to:

- reflect changes in UK legislation following the UK's exit from the European Union;

## REPORT OF THE DIRECTORS CONTINUED

- reflect best practice in areas such as stewardship; and
- clarify and update provisions based on how the parties work in practice.

For the avoidance of doubt, no changes were made to the material terms and conditions of the agreements including the fee arrangements and the notice periods.

### LOAN FACILITY

The Company's borrowing requirements are met through the utilisation of a loan facility, repayable on demand, provided by J.P. Morgan Securities LLC. The potential draw down of the Company's loan facility with J.P. Morgan is limited to 50% of the Company's Marginable Securities\*; however under the Company's investment policy, the maximum amount of gearing permitted is 20% of net assets (further details can be found in note 1 beginning on page 77 and note 14 beginning on page 87).

\*see glossary beginning on page 96.

### SHARE CAPITAL

At 31 March 2023, there were 38,737,419 ordinary shares of 25p each ('shares') in issue (2022: 41,158,682). All shares rank equally for dividends and distributions. Each shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every share held.

At the start of the year under review, the Directors had shareholder authority to issue up to 4,173,476 shares on a non-pre-emptive basis and to buy back up to 5,679,954 shares in the market. At the Company's annual general meeting held on 19 July 2022, these authorities expired and new authorities to allot up to 4,092,172 shares (representing 10% of the Company's issued share capital at the time) on a non-pre-emptive basis and to buy back up to 6,134,167 shares (representing 14.99% of the Company's issued share capital at the time) were granted.

No new shares were issued during the year. 2,421,263 shares were repurchased during the year and cancelled; there are no shares held in Treasury. Further information on the Company's share issuance and buyback policies can be found on pages 28 and 29.

The giving of powers to issue or buy back the Company's shares requires the relevant resolution to be passed by shareholders. Proposals for the renewal of the Board's

authorities to issue and buy back shares are detailed in the Notice of AGM beginning on page 101.

There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to the securities; no restrictions on voting rights; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.

### ANNUAL GENERAL MEETING

**THE FOLLOWING INFORMATION TO BE CONSIDERED AT THE FORTHCOMING ANNUAL GENERAL MEETING IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

**If you are in any doubt about the action you should take, you should seek advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000 (as amended). If you have sold or transferred all of your ordinary shares in the Company, you should pass this document, together with any other accompanying documents, including the form of proxy, at once to the purchaser or transferee, or to the Stock broker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.**

The Company's Annual General Meeting will be held at the Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR on Thursday, 27 July 2023 at 12 noon.

In particular, resolutions relating to the following items of business will be proposed at the forthcoming Annual General Meeting.

Resolution 11 Authority to amend the Investment Policy

Resolution 12 Authority to allot shares

Resolution 13 Authority to disapply pre-emption rights

Resolution 14 Authority to buy back shares

Resolution 15 Authority to hold General Meetings (other than the AGM) on at least 14 clear days' notice

The full text of the resolutions can be found in the Notice of Annual General Meeting on pages 101 to 103. Explanatory notes regarding the resolutions can be found on pages 104 to 106.

## REPORT OF THE DIRECTORS CONTINUED

**DIRECTORS****DIRECTORS' FEES**

A report on Directors' Remuneration and the Directors' Remuneration Policy are set out on pages 60 to 64.

**DIRECTORS' & OFFICERS' LIABILITY INSURANCE COVER**

Directors' & Officers' liability insurance cover was maintained by the Board during the year ended 31 March 2023. It will continue in effect for the year ending 31 March 2024 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 INTERESTS IN SHARE CAPITAL**

As at 31 March 2023, the Company had been notified of the following substantial interests in the Company's voting rights and there have not been any new holdings notified between the year end and the date of this report.

	Number of shares held	% held
Rathbones	2,061,139	5.0%
Border to Coast Pensions Partnership	1,985,000	5.0%
Brewin Dolphin	1,779,234	4.6%

This table reflects those shareholders who have notified the Company of a substantial interest in its shares when they have crossed certain thresholds and may not reflect their current holding. The table does not reflect the full range

of investors in the Company. The shareholder register is principally comprised of private wealth managers and retail investors owning their shares through a variety of online platforms. A profile of the Company's ownership is shown on page 95.

**FINANCIAL INSTRUMENTS**

The Company's financial instruments comprise its portfolio, including derivative instruments, cash balances, debtors and creditors that arise directly from its operations, such as sales and purchases awaiting settlement, accrued income and the loan facility. The financial risk management and policies arising from its financial instruments are disclosed in note 14 to the financial statements beginning on page 87.

**RESULTS AND DIVIDEND**

The results attributable to shareholders for the year and the transfer from reserves are shown on pages 73 and 75. No dividend is proposed in respect of the year ended 31 March 2023 (2022: nil).

**ALTERNATIVE PERFORMANCE MEASURES**

The financial statements (on pages 73 to 94) set out the required statutory reporting measures of the Company's financial performance. In addition, the Board assesses the Company's performance against a range of criteria which are viewed as particularly relevant for investment trusts, which are summarised on page 1 and explained in greater detail in the Strategic Report, under the heading 'Key Performance Indicators' on pages 28 and 29. The Directors believe that these measures enhance the comparability of information between reporting periods and aid investors in understanding the Company's performance.

The measures used for the year under review are consistent with the prior year.

Definitions of the terms used and the basis of their calculation are set out in the Glossary beginning on page 96.

**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

**REPORT OF THE DIRECTORS CONTINUED**

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.

**POLITICAL AND CHARITABLE DONATIONS**

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

**MODERN SLAVERY ACT 2015**

The Company does not provide goods or services in the normal course of business, and as a financial investment vehicle, does not have customers. The Directors do not therefore consider that the Company is required to make a statement under the Modern Slavery Act 2015 in relation to slavery or human trafficking. The Company's suppliers are typically professional advisers and the Company's supply chains are considered to be low risk in this regard.

**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 annually by the Audit Committee.

**CRIMINAL FINANCES ACT 2017**

The Board has adopted a zero-tolerance approach to the criminal facilitation of tax evasion. A copy of the Company's policy on preventing the facilitation of tax evasion can be found on the Company's website [www.biotechgt.com](http://www.biotechgt.com). The policy is reviewed annually by the Audit Committee.

**GLOBAL GREENHOUSE GAS EMISSIONS**

The Company is an investment trust, with neither employees nor premises, nor has it any financial or operational control of the assets it owns. It has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Reports and Directors' Reports) Regulations 2013 or the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, including those within the Company's underlying investment portfolio. Consequently, the Company consumed less than 40,000 kWh of energy during the year in respect of which the Directors' Report is prepared and therefore is exempt from the disclosures required under the Streamlined Energy and Carbon Reporting criteria.

**COMMON REPORTING STANDARD (CRS)**

CRS is a global standard for the automatic exchange of information commissioned by the Organisation for Economic Cooperation and Development and incorporated into UK law by the International Tax Compliance Regulations 2015. CRS requires the Company to provide certain additional details to HMRC in relation to certain shareholders. The Registrars, Link Group, have been engaged to collate such information and file the reports with HMRC on behalf of the Company.

**CORPORATE GOVERNANCE**

The Corporate Governance Report set out on pages 40 to 47 forms part of the Report of the Directors.

**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.

**REPORT OF THE DIRECTORS** CONTINUED

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, Link Group, or to the Company directly.

**SECURITIES FINANCIAL TRANSACTIONS REGULATION (SFTR) DISCLOSURE**

Securities financing transactions (SFTs) include repurchase transactions, securities or commodities lending and securities or commodities borrowing, buy-sell back transactions or sell-buy back transactions and margin lending transactions. Whilst the Company does not engage in such SFTs it does engage in Total Return Swaps (TRS). The Company's exposure to TRS can be found on the Company's website [www.biotechgt.com](http://www.biotechgt.com).

**UK SANCTIONS**

The Board has made due diligence enquiries of the service providers that process the Company's shareholder data, to ensure the Company's compliance with the UK sanctions regime. The relevant service providers have confirmed that they check the Company's shareholder data against the UK sanctions list on a daily basis. At the date of this report, no sanctioned individuals had been identified on the Company's shareholder register. The Board notes that stockbrokers and execution-only platforms also carry out their own due diligence.

**ARTICLES OF ASSOCIATION**

Amendment of the Company's Articles of Association requires a special resolution to be passed by shareholders.

There are no changes proposed this year.

By order of the Board

**Frostrow Capital LLP**

Company Secretary

14 June 2023

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable 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 the financial statements in accordance with UK-adopted international accounting standards. 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 for 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 they have been prepared in accordance with UK-adopted international accounting standards, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a directors' report, a strategic report and directors' remuneration report which comply with the requirements of the Companies Act 2006.

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 enable them to ensure that the financial statements 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 are responsible for ensuring that the Annual Report and financial statements, taken as a whole, are fair, balanced, and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

### WEBSITE PUBLICATION

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT

We confirm that to the best of our knowledge:

- the financial statements have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and the return of the Company for the year ended 31 March 2023; and
- the Annual Report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks and uncertainties that they face.

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

On behalf of the Board

### Roger Yates

Chairman

14 June 2023



# AUDIT COMMITTEE REPORT

## COMPOSITION AND MEETINGS

The Audit Committee (the Committee) comprises all of the independent Directors whose biographies can be found on pages 38 to 39, Julia Le Blan, who has recent and relevant financial experience, was appointed Chair of the Committee in July 2017. In addition, the Board recognises the requirement for the Committee as a whole to have competence relevant to the sector in which the Company operates. The Committee members have a combination of financial, investment and business experience which is relevant to both the biotechnology and investment trust sectors.

The Committee met twice during the year. Attendance by each Director is shown in the table on page 43.

Role and Responsibilities of the Committee:

1. **To review the Company's half-yearly and annual financial statements.**
2. **To advise the Board on whether the Annual Report, taken as a whole, is fair, balanced and understandable.**
3. **To review the risk management and internal control processes of the Company and its key service providers.**
4. **To assess the effectiveness of the external audit as well as the independence and objectivity of the Auditor.**
5. **To be responsible for the selection/tender process for the external Auditor, to agree the scope of the external Auditor's work and set their remuneration.**
6. **To review and approve any non-audit work to be carried out by the Auditor.**
7. **To consider the need for an internal audit function.**
8. **To assess the going concern and longer-term viability of the Company.**
9. **To report its findings to the Board.**

A comprehensive description of the Committee's role, its duties and responsibilities, can be found in its terms of reference which are available for review on the Company's website at [www.biotechgt.com](http://www.biotechgt.com).

## SIGNIFICANT ISSUES CONSIDERED BY THE COMMITTEE DURING THE YEAR

### FINANCIAL STATEMENTS

The production of the Annual Report (including the external audit) is a thorough process involving input from a number of different organisations. In order to be able to confirm that the Annual Report is fair, balanced and understandable, the Board has requested that the Committee advise on whether it considers these criteria have been satisfied. As part of this process, the Committee has considered the following:

- the procedures followed in the production of the Annual Report, including the processes in place to ensure the accuracy of the factual content;
- the extensive levels of review that were undertaken in the production process by the AIFM and the Committee; and
- the internal control environment as operated by the Portfolio Manager, AIFM and other service providers.

As a result of the work undertaken by the Committee, it has confirmed that the Annual Report for the year ended 31 March 2023, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's financial position, performance, business model and strategy. The Committee has confirmed this to the Board.

### COMPANY'S INVESTMENTS – VALUATION AND OWNERSHIP

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

- seeking confirmation from the AIFM that all investment holdings and cash/deposit balances had been agreed to an independent confirmation from the Custodian and Prime Broker. In addition, the Committee reviewed details of the internal control procedures in place at the Portfolio Manager, the AIFM and the Custodian and Prime Broker and also received regular reports from both the Custodian and Prime Broker and the Depositary (whose role it is to safeguard the Company's assets and to verify their valuation);
- reconfirming its understanding of the processes in place to record investment transactions and income, and to value the portfolio;

**AUDIT COMMITTEE REPORT CONTINUED**

- reviewing and amending, where necessary, the Company's register of key risks in light of changes to the portfolio and the investment environment; and
- gaining an overall understanding of the performance of the portfolio both in capital and revenue terms through comparison to the Benchmark.

**VALUATION OF UNQUOTED INVESTMENTS**

The Company has the ability to make unquoted investments up to a limit of 10% of the portfolio at the time of acquisition. This does not include any holdings that are subject to an IPO lock-in (see glossary beginning on page 96). Both the Directors and the AIFM need to ensure that an appropriate value is placed on such investments within the Company's published net asset value. The Committee has worked with the Portfolio Manager and the AIFM to establish clear guidelines for the valuation of unquoted investments, including the use of valuations produced by independent external valuers, where appropriate.

Last year, the Board established a Valuation Committee which considers in detail the valuations and valuation methodologies employed in respect of the unquoted assets. The Valuation Committee also considers whether the third party valuer has followed appropriate standards and established valuation procedures, taking into account the views of the Company's external auditor. The Audit Committee reviewed the minutes of the Valuation Committee meetings held after the year end and the half year end and noted the recommendations it had made to the Board.

**RECOGNITION OF REVENUE FROM INVESTMENTS**

The Committee took steps to gain an understanding of the processes in place to record investment income and transactions. The Committee sought and received confirmation from the AIFM that all dividends both received and receivable had been accounted for correctly. The Committee noted and took comfort from the segregation of duties in place between the AIFM and the Custodian and Prime Broker.

**TAXATION – INVESTMENT TRUST STATUS**

The Committee ensured that the Company continued to comply with section 1158 of the Corporation Tax Act 2010, in order to maintain its investment trust status, 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; and

- understanding the risks and consequences if the Company breaches this approval in future years.

**CALCULATION OF AIFM, PORTFOLIO MANAGEMENT AND PERFORMANCE FEES**

The AIFM, portfolio management and performance fees are calculated in accordance with the AIFM and Portfolio Management Agreements. Both the Committee and the Auditor review and agree the calculation of any performance fee that becomes payable, however no performance fees became payable during the year under review.

**OTHER REPORTING MATTERS****AUDIT REGULATION**

The Committee has not had to consider any new audit regulations in the past year. It has, however, taken note of reporting guidance and thematic reviews published by the FRC and determined how to apply any relevant best practice to the Company's reporting.

The Committee also reviews the outcomes of the FRC's annual Audit Quality Reviews and discusses the findings with the Auditor.

The Committee has noted the government response to the consultation on strengthening the UK's audit, corporate reporting and corporate governance systems. We await confirmation of the schedule for implementing the reforms which will create a new Audit, Reporting and Governance Authority, amongst other changes.

**INVESTMENT PERFORMANCE**

The Committee gained an overall understanding of the performance of the investment portfolio, both in capital and revenue terms, through ongoing discussions with the Portfolio Manager and also with comparison to suitable key performance indicators.

**ACCOUNTING POLICIES**

During the year, the Committee ensured that the accounting policies, as set out on pages 77 to 81, were applied consistently throughout the year. In light of there being no unusual transactions during the year or other possible reasons, the Committee agreed that there was no reason to change the policies.

## AUDIT COMMITTEE REPORT CONTINUED

### GOING CONCERN

Having reviewed the Company's financial position and liabilities, the Committee is satisfied that it is appropriate for the Board to prepare the financial statements on the going concern basis. The Committee's review of the Company's financial position included consideration of the cash and cash equivalent position of the Company; the diversification of the portfolio; and an analysis of portfolio liquidity, which estimated a liquidation of c.88.3% of the portfolio within seven trading days (based on current market volumes). Stress testing was also conducted as described below. Further information is provided in the Strategic Report on page 34.

### VIABILITY STATEMENT

The Committee also considered the longer-term viability of the Company in connection with the Board's statement in the Strategic Report on pages 34 and 35. The Committee reviewed the Company's financial position (including its cash flows and liquidity position), the principal risks and uncertainties and the results of stress tests. The tests assumed falls in the Company's NAV and reductions in the liquidity of the portfolio and then examined the effect this would have on the Company's expenses and the Company's ability to meet its liabilities as they fell due.

In even the most stressed scenario, the Company was shown to have sufficient cash, or to be able to liquidate a sufficient portion of its listed holdings, in order to be able to meet its liabilities as they fall due. Based on the information available to the Directors at the time, the Committee therefore concluded it was reasonable for the Board to expect that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five financial years.

### RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibility for the Company's risk management and internal control systems and for reviewing their effectiveness. Operational responsibility is delegated to the Audit Committee. The Company's internal control structure is summarised on page 41. The Company applies the guidance published by the Financial Reporting Council on internal controls. Internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve the business objective and can provide only reasonable and not absolute assurance against material misstatement or loss. These controls aim

to ensure that the assets of the Company are safeguarded, that proper accounting records are maintained, and that the Company's financial information is reliable.

A description of the principal risks facing the Company (including emerging risks) and an explanation of how they are managed is provided in the Strategic Report on pages 29 to 33. The Directors have established an ongoing process for identifying, evaluating and managing the risks faced by the Company, including emerging risks, which are recorded in a risk register. The Committee reviewed the risk register during the year to ensure the risks facing the Company were correctly defined or articulated, and that the risk scores were appropriate. The Audit Committee, on behalf of the Board, assesses the likelihood of occurrence and the possible impact of each risk. The Committee then considers the Company's ability to reduce or mitigate the incidence and impact of these risks on its performance and records the controls in place.

The Committee reviewed the effectiveness of the Company's risk management and internal controls systems during the year. As an externally managed investment trust, the Company is reliant on the operational systems of its service providers. Therefore the Audit Committee examined the internal control reports of the Company's principal service providers. The Committee also reviewed the cyber security strategies adopted by each of the principal service providers and spoke with members of the Portfolio Manager's risk management and investment compliance teams to ensure their processes remain robust. There were no changes to the Company's risk management processes during the year and no significant failings or weaknesses were identified.

Following its review, the Committee concluded that there were no significant control weaknesses or other issues that were required to be brought to the attention of the Board. The Committee is satisfied that appropriate systems have been in place for the year under review and up to the date of approval of this report.

### HALF YEAR REPORT AND FINANCIAL STATEMENTS

The Committee reviewed the Half Year Report and financial statements, which are not audited or reviewed by the Auditor, to ensure that the accounting policies were consistent with those used in the annual financial

**AUDIT COMMITTEE REPORT CONTINUED**

statements and that they portrayed a fair, balanced and understandable picture of the period in question.

**INTERNAL AUDIT**

The Committee considered whether there was a need for the Company to have an internal audit function. As the Company delegates its day-to-day operations to third parties and has no employees, the Committee concluded that there was no such need.

**EXTERNAL AUDITOR****APPOINTMENT AND TENURE**

BDO LLP (BDO) was the Auditor for the financial year and this was their fourth audit of the Company.

Peter Smith was the audit partner for the financial year under review and he has been the audit partner since BDO's appointment.

**THE AUDIT**

The Committee reviewed BDO's audit plan on 8 November 2022. The review considered, *inter alia*, the scope of the audit, the level of materiality, the audit risks identified by BDO, the Auditor's approach to testing the portfolio, and pertinent regulatory developments. The Committee met with BDO on 23 May 2023 to discuss the progress of the audit and the draft Annual Report. The Committee then met BDO on 7 June to review formally the outcome of the audit.

The Auditor was provided with an opportunity to meet with the Committee without the AIFM or the Portfolio Manager being present. No concerns were raised by the Auditor or the Committee in relation to the service provided by the AIFM, the Portfolio Manager, or any other third-party service provider. There were no material or significant adverse matters brought to the Committee's attention in respect of the 2023 audit, which should be brought to shareholders' attention.

**INDEPENDENCE AND EFFECTIVENESS:**

The Committee evaluated the independence of the Auditor and the effectiveness of the external audit. In order to fulfil this responsibility, the Committee reviewed:

- the senior audit personnel in the audit plan for the year, in order to ensure that there were sufficient, suitably

experienced staff with knowledge of the investment trust sector working on the audit;

- the steps the Auditor takes to ensure its independence and objectivity including their arrangements concerning any conflicts of interest;
- the extent of any non-audit services provided by the Auditor during the year; and
- the statement by the Auditor that they remain independent within the meaning of the regulations and their professional standards.

In order to consider the effectiveness of the audit process, the Committee reviewed:

- the Auditor's fulfilment of the agreed audit plan, including their ability to communicate with management and to resolve any issues promptly and satisfactorily;
- the presentation of the audit findings; and
- feedback from BDO and Frostrow as the AIFM and Company Secretary.

The Committee is satisfied with the Auditor's independence and the effectiveness of the audit process.

**REMUNERATION**

The Committee approved a fee of £49,500 for the audit for the year ended 31 March 2023 (2022: £40,000). This represents an increase of 23.75% compared with the previous year's fee. Part of the increase was inflationary and part was attributed to the costs of additional work relating to the changes to ISA 315, 50% of which BDO have assured us will be a one-off. Although this is a large increase, the Committee believes that the fee is in line with audit fees payable in the investment trust sector and is reflective of the level of work required to carry out a robust audit of a listed company.

**NON-AUDIT SERVICES**

BDO did not undertake any non-audit services during the year (2022: BDO reviewed the calculation of a performance fee prior to payment by the Company).

Pursuant to the Company's non-audit services policy, the provision of any non-audit services by the Auditor must be approved by the Audit Committee. A copy of the Company's non-audit services policy can be found on the Company's website: [www.biotechgt.com](http://www.biotechgt.com)

**AUDIT COMMITTEE REPORT CONTINUED****AUDITOR'S REAPPOINTMENT**

BDO have indicated their willingness to continue to act as Auditor for the forthcoming year and a resolution for their re-appointment will be proposed at the Annual General Meeting.

As a public company listed on the London Stock Exchange, the Company is subject to mandatory auditor rotation requirements. Based on these requirements, another tender process will be conducted no later than 2029. The Committee will, however, continue to consider annually the need to go to tender for audit quality, remuneration or independence reasons.

**PERFORMANCE EVALUATION**

The Committee's performance over the past year was reviewed as part of the annual Board evaluation. The internal evaluation considered the composition of the Committee and the efficacy of Committee meetings, as well as assessing the Committee's role in monitoring and overseeing the Company's financial reporting and accounting, risk management and internal controls, compliance with corporate governance regulations and the assessment of the external audit.

I am pleased to confirm that the evaluation result was positive and no matters of concern or requirements for change were highlighted.

**Julia Le Blan**

Chair of the Audit Committee  
14 June 2023

## DIRECTORS' REMUNERATION REPORT

The Directors' Remuneration Report is subject to an annual advisory shareholder vote and therefore an ordinary resolution for the approval of this report will be put to shareholders at the Company's forthcoming Annual General Meeting (AGM).

The law requires the Auditor to audit certain 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 65. The Remuneration Policy on page 64 forms part of this report.

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

The simple fee structure reflects the non-executive nature of the Board, which itself reflects the Company's business model as an externally managed investment trust (please refer to the Business Review beginning on page 26 for more information). Accordingly, statutory reporting requirements relating to executive directors' and employees' pay do not apply.

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

During the year, having noted that the directors' base fee rate had remained unchanged for two years and that there has been a period of high inflation during that time, it was agreed that each Director's fees should be increased by 5.0% with effect from 1 April 2023.

The table below shows the level of fees paid to Directors and the percentage increase from the prior year:

	Forecasted Year Ending 31 March 2024 Fee Level (per annum)	2024 increase (%)	Year Ending 31 March 2023 Fee Level (per annum)	2023 increase (%)	Year Ended 31 March 2022 Fee Level (per annum)	2022 increase (%)	Year Ended 31 March 2021 Fee Level (per annum)
Chairman of the Board	£42,000	5.0	£40,000	–	£40,000	8.1	£37,000
Audit Committee Chair	£33,600	5.0	£32,000	6.7	£30,000	5.3	£28,500
Management Engagement Committee Chair	£31,500	5.0	£30,000	–	£30,000	5.3	£28,500
Director	£28,875	5.0	£27,500	–	£27,500	5.8	£26,000

The Board believes these levels of remuneration reflect both the time commitment and the level of responsibility of each role.

## DIRECTORS' REMUNERATION REPORT CONTINUED

## DIRECTORS' REMUNERATION FOR THE YEAR (AUDITED)

The Directors who served in the year received the following remuneration:

	Date of Appointment to the Board	Year ended 31 March 2023			Year ended 31 March 2022		
		Fees £	Taxable Benefits+ £	Total £	Fees £	Taxable Benefits+ £	Total £
Steve Bates	8 July 2015	30,000	–	30,000	30,000	–	30,000
Julia Le Blan	12 July 2016	32,000	–	32,000	30,000	–	30,000
The Rt Hon Lord Willetts	11 November 2015	27,500	–	27,500	27,500	–	27,500
Dr Nicki Shepherd	18 January 2021	27,500	–	27,500	27,500	–	27,500
Roger Yates	1 December 2021	35,696	–	35,696	9,667	–	9,667
Professor Dame Kay Davies CBE*	15 March 2012	–	–	–	8,654	–	8,654
Andrew Joy <sup>^</sup>	15 March 2012	12,000	–	12,000	40,000	–	40,000
		164,696	–	164,696	173,321	–	173,321

The amounts shown in the table above exclude any employers' national insurance contributions, if applicable.

+ Taxable benefits primarily comprise travel and associated expenses incurred by the Directors in attending Board and Committee meetings in London. Any amounts shown would be subject to tax and National Insurance as a benefit in kind.

\* Professor Davies retired from the Board on 14 July 2021.

<sup>^</sup> Andrew Joy retired from the Board on 19 July 2022.

Geoff Hsu joined the Board on 16 May 2018. Mr Hsu has waived his Director's fee as he is a General Partner at OrbiMed, the Portfolio Manager, which is party to the Portfolio Management Agreement and receives fees as described on page 48 of this Annual Report.

The Directors are entitled to be reimbursed 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 would be shown in the Taxable Benefits column of the table above.

## RELATIVE COST OF DIRECTORS' REMUNERATION

To enable shareholders to assess the relative cost of Directors' remuneration, the table below shows the amount spent on Directors' fees compared with AIFM and portfolio management fees and the Company's other expenses, and the amount spent on share buybacks during the year.

	2023 £'000	2022 £'000	Difference £'000
Fees payable to non-executive Directors	165	173	(8)
AIFM, portfolio management fees and other re-occurring expenses	4,223	5,412	(1,189)
Repurchase of Company's own shares for cancellation	22,619	6,933	15,686

## DIRECTORS' REMUNERATION REPORT CONTINUED

### DIRECTORS' REMUNERATION REPORT

At the Annual General Meeting held in July 2022, the results in respect of the non-binding resolution to approve the Directors' Remuneration Report were as follows:

	Percentage of votes cast For	Percentage of votes cast Against	Number of votes withheld
	99.76%	0.24%	7,729

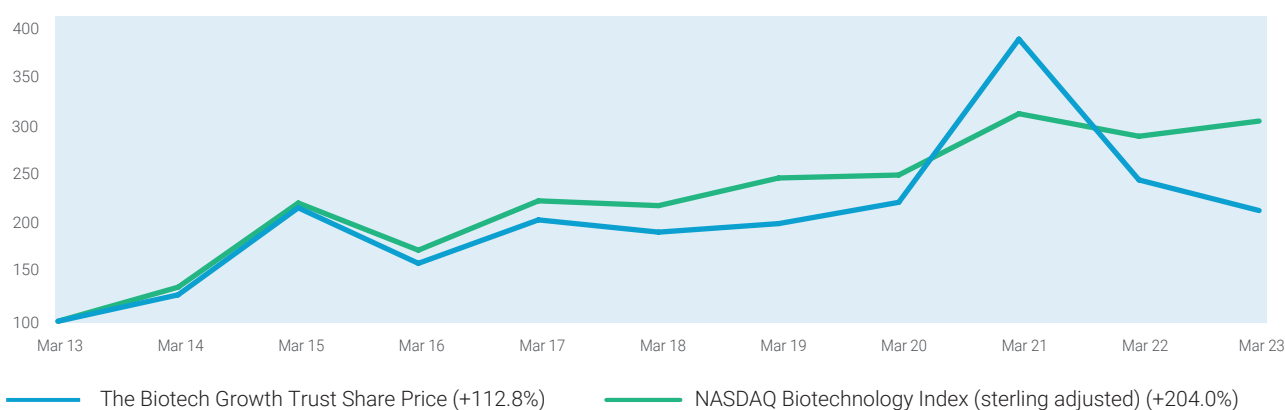
### LOSS OF OFFICE

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

The chart below compares the Company's share price total return with the NASDAQ Biotechnology Index (sterling adjusted), which the Board has adopted as the principal comparator for both the Company's performance and that of the Portfolio Manager.

### SHAREHOLDER TOTAL RETURN FOR TEN YEARS TO 31 MARCH 2023



Rebased to 100 as at 31 March 2013  
Source: Bloomberg



## DIRECTORS' REMUNERATION REPORT CONTINUED

**DIRECTORS' INTERESTS IN SHARES (AUDITED)**

The table below shows the interests in the Company's share capital of the Directors serving at the year end:

	Number of shares held as at		
	30 May 2023	31 March 2023	31 March 2022
Roger Yates (Chairman)	10,000	10,000	nil
Steve Bates	10,000	10,000	10,000
Julia Le Blan	7,000	7,000	7,000
Geoff Hsu	nil	nil	nil
Dr Nicki Shepherd	nil	nil	nil
The Rt Hon Lord Willetts	nil	nil	nil

None of the Directors were granted or exercised rights over shares during the year. None of the Directors is required to own shares in the Company.

**Roger Yates**

Chairman

14 June 2023

## DIRECTORS' REMUNERATION POLICY

### DIRECTORS' REMUNERATION POLICY

The Board's policy is that fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors. Remuneration should be sufficient to enable candidates of a high calibre to be recruited. Directors are remunerated in the form of fees payable monthly in arrears, paid to the Director personally. There are no long-term incentive schemes, bonuses, share option schemes or pension arrangements and the fees are not specifically related to the Directors' performance, either individually or collectively. The Company does not have any employees.

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.

The fees for the Directors are determined within the limits set out in the Company's Articles of Association. The present aggregate limit is £350,000 per annum.

The Directors' Remuneration Policy is subject to a binding shareholder vote every three years. It was last approved at the AGM held in 2020 and it has therefore been recommended to shareholders for approval at the forthcoming AGM (please refer to the Notice of AGM beginning on page 101 for further information). Of the votes cast at the 2020 AGM, 99.95% were in favour and 0.05% were against.

This policy is reviewed annually and it is intended that it will continue for the year ending 31 March 2024 and for subsequent financial years.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BIOTECH GROWTH TRUST PLC

## OPINION ON THE 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 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Biotech Growth Trust plc (the Company) for the year ended 31 March 2023 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

### Independence

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 20 February 2020 to audit the financial statements for the year ended 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is four years, covering the years ended 31 March 2020 to 31 March 2023. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied

to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

## CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the appropriateness of the Directors' method of assessing the going concern in light of market volatility and by reviewing the information used by the Directors in completing their assessment;
- Recalculating the liquidity of the investment portfolio, using our own independently obtained trading data, to verify the liquidity assumptions which underpinned the going concern assessment and comparing it to the liabilities and expenditure;
- Calculating and considering financial ratios, namely comparison of the investments balance to the current liabilities and expenditure, to ascertain the financial health of the Company; and
- Considering any other factors which could impact on going concern such as non-compliance with laws and regulation, legal matters and the presence of contingencies and commitments.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BIOTECH GROWTH TRUST PLC CONTINUED

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

## OVERVIEW

		2023	2022
<b>Key audit matters</b>	Valuation and ownership of investments	✓	✓
<b>Materiality</b>	Company financial statements as a whole £3,290,000 (2022: £3,940,000) based on 1% (2022: 1%) of net assets		

## AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BIOTECH GROWTH TRUST PLC CONTINUED

Key audit matter	How the scope of our audit addressed the key audit matter
<b>Valuation and ownership of investments, Note 1 and note 8</b>	
<p>The investment portfolio at the year-end comprised of quoted and unquoted investments.</p> <p>We consider that the valuation and ownership of investments is the most significant balance in the financial statements and underpin the principal activity of the entity. Given the significance of the investments there is a risk that an error in their valuation could have a material impact on the financial statements.</p> <p>The investment valuations are prepared by the Alternative Investment Fund Manager (AIFM), Frostrow Capital LLP and the Portfolio Manager, OrbiMed Capital LLC, who are remunerated based on the net asset value of the Company. The investment valuations are reviewed and approved by the Board. Notwithstanding this review, there is a potential risk of misstatement in the investment valuations. The majority of the investments are Level 1 quoted investments which we do not consider to be a highly subjective area. We do note there are three unquoted investments which are collectively material, the valuation of which involves a higher level of judgment and subjectivity.</p> <p>There is also a risk of error in the recording of investment holdings such that the investments are misstated due to the incorrect use of number of shares held by the Company.</p> <p>For these reasons and the materiality of the balance in relation to the financial statements as a whole, we considered this to be a key audit matter.</p>	<p>We responded to this matter by testing the valuation and ownership of the whole portfolio of investments.</p> <p>In respect of the quoted investments valuation testing we have for 100% of the portfolio:</p> <ul style="list-style-type: none"> <li>• Confirmed the year-end bid price used by agreeing to externally quoted prices;</li> <li>• Confirmed that the foreign exchange rates used in the valuations were appropriate by corroborating these to independent sources;</li> <li>• Tested the computational accuracy by multiplying the number of shares held per the statement obtained from the custodian by the valuation per share; and</li> <li>• Assessed if there were contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value by considering the realisation period for individual holdings.</li> </ul> <p>In respect of unquoted investments valuation testing we have for 100% of the portfolio:</p> <ul style="list-style-type: none"> <li>• Considered whether the valuation methodology is the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines;</li> <li>• Verified and benchmarked key inputs and estimates to independent information and our own research;</li> <li>• Recalculated the value attributable to the Company;</li> <li>• Where applicable, we performed back testing by comparing the valuation at IPO to the most recent fair value per the books to assess the ability of the Company in valuing unquoted investments;</li> <li>• Considered the competence, capabilities and expertise of the management's expert through consideration of the qualifications held by the expert. We considered the independence and objectivity of the expert through review of the independence declaration made by the expert to the Company. We considered the appropriateness of the methodology and assumptions employed by the expert through review of the accounting framework and valuation guidelines followed.</li> <li>• Where appropriate, we performed a sensitivity analysis by developing our own point estimate where we considered that alternative input assumptions could reasonably have been applied and we considered the overall impact of such sensitivities on the portfolio of investments in determining whether the valuations as a whole are reasonable and free from bias.</li> </ul> <p>We have corroborated ownership by reference to confirmations:</p> <ul style="list-style-type: none"> <li>• from the custodian, J.P. Morgan Securities LLC for quoted investments; and</li> <li>• from the investee companies for the unquoted investments.</li> </ul> <p><i>Key observations:</i></p> <p>Based on our procedures performed we did not identify any matters to suggest the valuation or ownership of both quoted and unquoted investments was not appropriate.</p>

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BIOTECH GROWTH TRUST PLC CONTINUED

**OUR APPLICATION OF MATERIALITY**

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Company Financial statements	
	2023	2022
<b>Materiality</b>	£3,290,000	£3,940,000
Basis for determining materiality	1% of net assets	1% of net assets
Rationale for the benchmark applied	As an investment trust, the net asset value is the key measure of performance for users of the financial statements.	As an investment trust, the net asset value is the key measure of performance for users of the financial statements.
<b>Performance materiality</b>	£2,460,000	£2,950,000
Basis for determining performance materiality	75% of materiality	75% of materiality
Rationale for the percentage applied for performance materiality	The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements and the level of transactions in the year.	The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements and the level of transactions in the year.

**Lower testing threshold**

We determined that for Revenue return before tax, a misstatement of less than materiality for the financial statements as a whole, could influence users of the financial statements as it is a measure of the Company's performance of income generated from its investments after expenses. As a result, we determined a lower testing threshold for those items impacting revenue return of £164,000 (2022:£197,000) based on 5% of overall materiality (2022: 5% of overall materiality).

**Reporting threshold**

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £164,000 (2022:£197,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BIOTECH GROWTH TRUST PLC** CONTINUED**OTHER INFORMATION**

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**CORPORATE GOVERNANCE STATEMENT**

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that 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.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

**Going concern and longer-term viability**

- The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified; and
- The Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate.

**Other Code provisions**

- Directors' statement on fair, balanced and understandable;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and
- The section describing the work of the Audit Committee.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BIOTECH GROWTH TRUST PLC CONTINUED****OTHER COMPANIES ACT 2006 REPORTING**

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

**Strategic report and Directors' report**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

**Directors' remuneration**

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- 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
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**RESPONSIBILITIES OF DIRECTORS**

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BIOTECH GROWTH TRUST PLC CONTINUED

**Extent to which the audit was capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

**Non-compliance with laws and regulations**

Based on:

- Our understanding of the Company and the industry in which it operates;
- Discussion with management and those charged with governance; and
- Obtaining an understanding of the Company's policies and procedures regarding compliance with laws and regulations,

we considered the significant laws and regulations to be Companies Act 2006, the FCA listing and DTR rules, the principles of the AIC Code of Corporate Governance, industry practice represented by the AIC SORP, UK adopted International accounting standards, and the Company's qualification as an Investment Trust under UK tax legislation as any non-compliance of this would lead to the Company losing various deductions and exemptions from corporation tax.

Our procedures in respect of the above included:

- Agreement of the financial statement disclosures to underlying supporting documentation;
- Enquiries of the AIFM, Administrator and those charged with governance relating to the existence of any non-compliance with laws and regulations;
- Review of a sample of legal invoices to look for potential non-compliance with laws and regulations or undisclosed contingencies and commitments;
- Reviewing minutes of meetings of those charged with governance throughout the period for instances of non-compliance with laws and regulations; and

- Reviewing the calculation in relation to Investment Trust compliance to check that the Company was meeting its requirements to retain its Investment Trust Status.

**Fraud**

We assessed the susceptibility of the financial statement to material misstatement including fraud.

Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Company's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud;
- Review of minutes of the Board and other committee meetings throughout the period for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements; and
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

Based on our risk assessment, we considered the areas most susceptible to be valuation of unquoted investments and management override of controls.

Our procedures in respect of the above included:

- The procedures set out in the Key Audit Matters section above;
- Recalculating investment management fees in total;
- Obtaining independent confirmation of bank balances; and
- Testing journals which met a defined risk criteria by agreeing to supporting documentation and evaluating whether there was evidence of bias by the AIFM, Portfolio Manager and Directors that represented a risk of material misstatement due to fraud.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BIOTECH GROWTH TRUST PLC** CONTINUED

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**USE OF OUR REPORT**

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 the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Peter Smith (Senior Statutory Auditor)**

For and on behalf of BDO LLP, Statutory Auditor  
London, UK

14 June 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# INCOME STATEMENT

## FOR THE YEAR ENDED 31 MARCH 2023

	Notes	Revenue £'000	2023 Capital £'000	Total £'000	Revenue £'000	2022 Capital £'000	Total £'000
Investment income	2	310	–	310	1,084	–	1,084
Losses on investments held at fair value through profit or loss	8	–	(32,727)	(32,727)	–	(206,032)	(206,032)
Foreign exchange losses		–	(3,759)	(3,759)	–	(2,340)	(2,340)
AIFM, Portfolio management and performance fees	3	(176)	(3,355)	(3,531)	(237)	6,232	5,995
Other expenses	4	(692)	(51)	(743)	(678)	(124)	(802)
<b>(Loss)/profit before finance costs and taxation</b>		(558)	(39,892)	(40,450)	169	(202,264)	(202,095)
Finance costs	5	(40)	(752)	(792)	(9)	(166)	(175)
<b>(Loss)/profit before taxation</b>		(598)	(40,644)	(41,242)	160	(202,430)	(202,270)
Taxation	6	(56)	–	(56)	(149)	–	(149)
<b>(Loss)/profit for the year</b>		(654)	(40,644)	(41,298)	11	(202,430)	(202,419)
<b>Basic and diluted (loss)/earnings per share</b>	7	(1.6)p	(100.9)p	(102.5)p	0.0p	(488.5)p	(488.5)p

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

The "Total" column of this statement represents the Company's Income Statement, prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. 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 77 to page 94 are an integral part of this statement.

# STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2023

	Notes	2023 £'000	2022 £'000
<b>Non current assets</b>			
Investments held at fair value through profit or loss	8	357,229	427,399
<b>Current assets</b>			
Other receivables	10	508	49
Cash and cash equivalents		2,772	–
		3,280	49
<b>Total assets</b>		360,509	427,448
<b>Current liabilities</b>			
Other payables	11	8,846	1,499
Loan	14	20,170	31,741
Derivative – OTC equity swaps	8, 9	1,202	–
		30,218	33,240
<b>Net assets</b>		330,291	394,208
<b>Equity attributable to equity holders</b>			
Ordinary share capital	12	9,684	10,289
Share premium account		79,951	79,951
Capital redemption reserve		13,746	13,141
Capital reserve	16	227,968	291,231
Revenue reserve		(1,058)	(404)
<b>Total equity</b>		330,291	394,208
<b>Net asset value per share</b>	13	852.6p	957.8p

The financial statements on pages 73 to 94 were approved by the Board on 14 June 2023 and were signed on its behalf by:

## Roger Yates

Chairman

The accompanying notes from page 77 to page 94 are an integral part of this statement.

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

## STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 31 MARCH 2023

	Notes	Ordinary Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 1 April 2022		10,289	79,951	13,141	291,231	(404)	394,208
Net loss for the year		–	–	–	(40,644)	(654)	(41,298)
Repurchase of own shares for cancellation		(605)	–	605	(22,619)	–	(22,619)
At 31 March 2023	13	9,684	79,951	13,746	227,968	(1,058)	330,291

### FOR THE YEAR ENDED 31 MARCH 2022

	Notes	Ordinary Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 1 April 2021		10,396	77,895	12,997	500,594	(415)	601,467
Net (loss)/profit for the year		–	–	–	(202,430)	11	(202,419)
Issue of new shares	12	37	2,060	–	–	–	2,097
Cost of share issuance		–	(4)	–	–	–	(4)
Repurchase of own shares for cancellation		(144)	–	144	(6,933)	–	(6,933)
At 31 March 2022	13	10,289	79,951	13,141	291,231	(404)	394,208

The accompanying notes from page 77 to page 94 are an integral part of this statement.

See note 16 on page 94 for details of the amounts of reserves available for distribution.

# STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023 £'000	2022 £'000
<b>Operating activities</b>			
Loss before taxation*		(41,242)	(202,270)
Finance costs		792	175
Losses on investments held at fair value through profit or loss	8	30,945	204,987
Transaction costs**		–	1,045
Foreign exchange losses		3,759	2,340
Decrease/(increase) in other receivables		28	(14)
Decrease in other payables		(116)	(18,255)
Taxation paid	6	(56)	(149)
<b>Net cash outflow from operating activities</b>		<b>(5,890)</b>	<b>(12,141)</b>
<b>Investing activities</b>			
Purchases of investments and derivatives		(459,606)	(439,160)
Sales of investments and derivatives		505,300	453,237
Transaction costs**		–	(1,045)
<b>Net cash inflow from investing activities</b>		<b>45,694</b>	<b>13,032</b>
<b>Financing activities</b>			
Gross proceeds from the issue of shares		–	2,097
Cost of share issuance		–	(4)
Repurchase of own shares for cancellation		(20,910)	(6,933)
Finance costs – interest paid		(792)	(175)
Net (repayment)/drawdown of the loan facility		(15,330)	2,622
<b>Net cash outflow from financing activities</b>		<b>(37,032)</b>	<b>(2,393)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,772</b>	<b>(1,502)</b>
Cash and cash equivalents at start of year		–	1,502
<b>Cash and cash equivalents at end of year†</b>		<b>2,772</b>	<b>–</b>

\* Includes dividends earned during the year of £283,000 (2022: £1,027,000) bond income of £nil (2022: £37,000) and deposit interest of £11,000 (2022: £3,000).

\*\* In the current year, transaction costs have been disclosed as operating activities, hence it is zero compared to the prior year.

† Collateral cash held at Goldman Sachs (2022: £nil).

### CHANGES IN NET DEBT ARISING FROM FINANCING ACTIVITIES

	2023 £'000	2022 £'000
Balance as at 1 April	31,741	26,779
Net cash flow on the loan facility	(15,330)	2,622
Foreign exchange losses	3,759	2,340
Loan balance at 31 March	20,170	31,741

The accompanying notes from page 71 to page 94 are an integral part of this statement.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES

### (A) BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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 is 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) issued in July 2022, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

The Board has considered an assessment of the Company's ability to meet its liabilities as they fall due, including stress and liquidity tests which modelled the effects of significant reductions in market liquidity on the Company's financial position and cash flows. The results of the tests showed that the Company would have sufficient cash through access to the J.P. Morgan loan facility, or the ability to liquidate a sufficient proportion of its listed holdings, to meet its liabilities as they fall due. Based on the information available to the Directors at the time of this report, including the results of the stress tests and the liquidity of the Company's listed investments, the Directors are satisfied that the Company has adequate financial resources to continue in operation for at least the next 12 months and that, accordingly, it is appropriate to adopt the going concern basis in preparing these financial statements.

The Company's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

### **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 estimate:

### ***Fair value of the unquoted investments estimate***

The Board has established a Valuation Committee to review the valuations and the valuation methodologies of the Company's unquoted investments. The Board has approved the valuations of the unquoted investments on the recommendation of the Valuation Committee.

The unquoted investment in OrbiMed Asia Partners L.P. has been valued using the Net Asset Value presented in the Statement of Partner's Capital Activity as at 31 March 2023, as permitted under the IPEV guidelines. The Consolidated Financial Statements of the partnership for the year ended 31 December 2022 were audited by KPMG LLP (New Jersey Headquarters) and were approved on 30 March 2023.

The following two investments, StemiRNA and XtalPi have been valued by Kroll, an independent valuer, using the probability – weighted expected returns methodology (PWERM). Under the PWERM, fair value is determined through consideration of the values of the investment under a range of scenarios. These scenarios range from the "partial recovery" or "full recovery" of the amount invested, through to a number of IPO or similar exit scenarios. Each scenario is assigned a probability, with the value of the investment reflecting the sum of each scenario's valuation weighted by the probability of its occurrence. Examples of the inputs into the valuation models are:

- The probability assigned to potential future outcomes;
- Likely exit scenarios; and
- The discount rate used to calculate the present value of future outcomes..

AWAKN warrants have been valued using the Black Scholes model with the volatility having been assessed by Kroll.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**1. ACCOUNTING POLICIES continued****(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 classified as fair value through profit or loss (FVTPL) 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 classified 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 weighted expected returns, 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.

Transfers between levels of fair value hierarchy are deemed to have occurred at the date of the event or change in circumstances that caused the transfer.

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

**(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. The requirements are to distribute net revenue but only so far as there are positive revenue reserves.

**(D) INVESTMENT 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. Foreign dividends are grossed up at the appropriate rate of withholding tax, with the withholding tax recognised in the taxation charge.

Dividends from investments in unquoted shares and securities are also recognised when the Company's right to receive payment is established.

Income from fixed interest securities is recognised on a time appointment basis so as to reflect the effective interest rate.

In deciding whether a dividend should be regarded as a capital or revenue receipt, the Company reviews all relevant information as to the reasons for and sources of the dividend on a case by case basis depending upon the nature of the receipt.

Special dividends of a revenue nature are recognised through the revenue column of the Income Statement. Special dividends of a capital nature are recognised through the capital column of the Income Statement.

**(E) EXPENSES AND FINANCE COSTS**

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

- transaction costs on 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.
  - during the year, AIFM and Portfolio Management fees were charged 95% to the capital column of the Income Statement as the Directors had expected that in the long term virtually all of the Company's returns would come from capital;
  - during the year, loan interest was charged 95% to the capital column of the Income Statement as the Directors had expected that in the long term virtually all of the Company's returns would come from capital.



**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****1. ACCOUNTING POLICIES continued**

- performance fees are charged 100% to the capital column of the Income Statement. Performance fees are recognised as a liability of the Company when they crystallise and become due for payment. Details of the performance fee are set out on pages 48 and 49; and
- all other expenses are charged to revenue column of the Income Statement.

**(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.

Current tax is provided at the amounts expected to be paid or recovered.

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) FUNCTIONAL AND PRESENTATION CURRENCY**

The financial information is shown in sterling, being the Company's presentation 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 would be 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.

**(H) FOREIGN CURRENCIES**

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.

Exchange differences 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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**1. ACCOUNTING POLICIES continued****(I) RESERVES****Ordinary share capital**

- represents the nominal value of the issued share capital.

**Share premium account**

- represents the surplus of net proceeds received from the issue of new shares over the nominal value of such shares. The Share premium account is non-distributable.

**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. This reserve is non-distributable.

**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 policies;
- increases and decreases in the valuation of investments held at year-end; and
- shares which have been bought back by the Company for cancellation.

Realised Capital Reserves are distributable by way of a dividend.

**Revenue reserve**

- reflects all income and expenditure recognised in the revenue column of the Income Statement. Amounts standing to the credit of the Revenue Reserve are distributable by way of dividend.

**(J) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term deposits with a maturity of three months or less, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

**(K) OTHER RECEIVABLES AND OTHER PAYABLES**

Other receivables and payables are typically settled in a short time frame and are carried at the amount due to be settled. As a result, the fair value of these balances is considered to be materially equal to the carrying value.

**(L) LOAN**

The Company has a loan facility repayable on demand, provided by J.P. Morgan Securities LLC ("J.P. Morgan"). As part of the arrangements with J.P. Morgan they may take assets as collateral, up to 140% of the value of the loan drawn down. Such assets taken as collateral by J.P. Morgan may be used, loaned, sold, rehypothecated† or transferred. Any of the Company's assets taken as collateral are not covered by the custody arrangements provided by J.P. Morgan. Loans payable on demand are carried at the undiscounted amount of the cash or other consideration expected to be paid. Interest on the facility is charged at the U.S. overnight bank funding rate plus 45 basis points. Finance costs are apportioned 95% to capital in accordance with the policy set out under note 1(e) expenses and finance costs beginning on page 78.

† See glossary beginning on page 96.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**1. ACCOUNTING POLICIES continued****(M) 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.

**(N) FINANCIAL INSTRUMENTS INCLUDING DERIVATIVE 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.

The Company uses derivative financial instruments, namely equity swaps. All derivative instruments are valued initially, and at subsequent reporting dates, at fair value in the Statement of Financial Position.

The equity swaps are accounted for as current assets or current liabilities.

**(O) ADOPTION OF NEW AND REVISED STANDARDS****Standards and amendments to existing standards effective 1 January 2022**

The Company has applied the following standards and amendments for the first time for its annual reporting period commencing 1 April 2022:

- IFRS 9 Financial Instruments – clarification of fees which should be included in the 10% test for derecognition of financial liabilities became effective on 1 January 2022.

This amendment did not have any impact on the amounts recognised in both current and prior years.

**New standards, amendments and interpretations effective after 1 January 2023 which have not been early adopted**

A number of new standards, amendments to standards and interpretations will become effective for annual periods beginning after 1 January 2023, and have not been early adopted in preparing these financial statements. The new standards, amendments to standards and interpretations include the following:

- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
- Definition of Accounting Estimate – Amendments to IAS 8
- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12

None of these is expected to have a material effect on the financial statements of the Company.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**2. INCOME**

	2023 £'000	2022 £'000
<b>Investment income</b>		
Overseas dividend income	283	1,027
Bond income	–	37
<b>Other income</b>		
Derivatives	16	17
Deposit interest	11	3
<b>Total income</b>	<b>310</b>	<b>1,084</b>

**3. AIFM, PORTFOLIO MANAGEMENT AND PERFORMANCE FEES**

	Revenue £'000	Capital £'000	2023 Total £'000	Revenue £'000	Capital £'000	2022 Total £'000
AIFM fee – Frostrow Capital LLP	53	1,010	1,063	72	1,369	1,441
Portfolio management fee – OrbiMed Capital LLC	123	2,345	2,468	165	3,128	3,293
Performance fee written back during the year*	–	–	–	–	(10,729)	(10,729)
	176	3,355	3,531	237	(6,232)	(5,995)

\* During the financial year under review, due to underperformance against the Benchmark and in accordance with the performance fee arrangements in place, no performance fee was earned (2022: reversal of £10,729,000).

As at 31 March 2023, no performance fees were accrued or payable (31 March 2022: £nil).

Further details of the AIFM, portfolio management fee and the performance fee basis can be found in the Report of the Directors on page 48 and 49.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 4. OTHER EXPENSES

	2023 Total £'000	2022 Total £'000
Directors' emoluments	165	173
Fees payable to the Company's auditor for the audit of the Company's financial statements	50	40
Fees payable to the Company's auditor for other services to the Company+	–	5
Registrar fees	35	35
Depositary fees	58	68
Marketing and PR costs	68	70
Legal and professional fees <sup>^</sup>	51	103
Broker fees	39	34
Listing fees	37	46
Printing costs	32	30
Other costs	157	74
<b>Total expenses charged to Revenue</b>	<b>692</b>	<b>678</b>
Professional fees charged to Capital*	51	124
<b>Total expenses</b>	<b>743</b>	<b>802</b>

<sup>^</sup> Includes quarterly valuation fees in relation to the valuation of the unquoted investments.

\* Professional fees in respect of acquisition of unquoted and pre-IPO investments.

+ See page 58 for further information.

Details of the amounts paid to Directors are included in the Directors' Remuneration Report on pages 60 to 63.

## 5. FINANCE COSTS

	Revenue £'000	Capital £'000	2023 Total £'000	Revenue £'000	Capital £'000	2022 Total £'000
Loan interest	40	752	792	9	166	175
	40	752	792	9	166	175

## 6. TAXATION

## (A) ANALYSIS OF CHARGE IN THE YEAR:

	Revenue £'000	Capital £'000	2023 Total £'000	Revenue £'000	Capital £'000	2022 Total £'000
Overseas tax suffered	39	–	39	149	–	149
Corporation tax charge†	17	–	17	–	–	–
Total taxation for the year (see note 6(b))	56	–	56	149	–	149

†Corporation tax was paid during the year under review due to the large performance fee reversed in 2022 which was captured by the corporate loss restrictions rules.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**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 higher than the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below:

	Revenue £'000	Capital £'000	2023 Total £'000	Revenue £'000	Capital £'000	2022 Total £'000
Net (loss)/profit before taxation	(598)	(40,644)	(41,242)	160	(202,430)	(202,270)
Corporation tax at 19% (2022: 19%)	(114)	(7,722)	(7,836)	30	(38,462)	(38,432)
Effects of:						
Non-taxable losses on investments	–	6,932	6,932	–	39,591	39,591
Non-taxable overseas dividends	(54)	–	(54)	(195)	–	(195)
Overseas tax suffered	39	–	39	149	–	149
Excess expenses unused	168	790	958	165	(1,129)	(964)
Corporation tax charge	17	–	17	–	–	–
Total tax charge	56	–	56	149	–	149

**(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 profit 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.

At 31 March 2023, the Company had unutilised management expenses and other losses of £83,627,000 (2022: £78,625,000) that are available to offset future taxable revenue.

A deferred tax asset of £20,907,000 (25% tax rate) (2022: £19,656,000 (25% tax rate)) arising as a result of these excess management expenses and other losses has not been recognised because the Company is not expected to generate sufficient taxable income in future periods in excess of the available deductible expenses. Given the composition of the Company's portfolio, it is not likely that this asset will be used in the foreseeable future and therefore no asset has been recognised in the financial statements.

**7. BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE**

	Revenue pence	Capital pence	2023 Total pence	Revenue pence	Capital pence	2022 Total pence
(Loss)/earnings per share	(1.6)	(100.9)p	(102.5)p	0.0	(488.5)	(488.5)

The total loss per share of 102.5p (2022: loss of 488.5p) is based on the total loss attributable to equity shareholders of £41,298,000 (2022: loss £202,419,000).

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**7. BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE continued**

The revenue loss per share 1.6p (2022: profit of 0.0p) is based on the revenue loss attributable to equity shareholders of £654,000 (2022: profit of £11,000). The capital loss per share of 100.9p (2022: loss of 488.5p) is based on the capital loss attributable to equity shareholders of £40,644,000 (2022: loss of £202,430,000).

The total loss per share is based on the weighted average number of shares in issue during the year of 40,287,724 (2022: 41,441,570).

There are no dilutive instruments issued by the Company (2022: none).

**8. INVESTMENTS**

As at 31 March 2023, all investments with the exception of the unquoted investments have been classified as level 1. The unquoted investments have been classified as either level 2 or level 3. See note 14 beginning on page 87 for further details.

	2023				2022			
	Quoted Investments £'000	Unquoted £'000	Derivative Financial Instruments – Net £'000	Total £'000	Quoted Investments £'000	Unquoted £'000	Derivative Financial Instruments – Net £'000	Total £'000
Opening book cost	512,894	22,943	–	535,837	534,610	29,098	–	563,708
Opening investment holding (losses)/gains	(119,725)	11,287	–	(108,438)	70,926	8,636	(618)	78,944
Valuation at 1 April 2022	393,169	34,230	–	427,399	605,536	37,734	(618)	642,652
Movement in the year								
Purchases at cost	465,360	–	–	465,360	424,962	13,284	–	438,246
Sales proceeds	(505,787)	–	–	(505,787)	(450,556)	(123)	2,167	(448,512)
Transfer between levels	9,887	(9,887)	–	–	19,625	(19,625)	–	–
Net movement in investment holding losses	(25,667)	(4,076)	(1,202)	(30,945)	(206,398)	2,960	(1,549)	(204,987)
Valuation at 31 March 2023	336,962	20,267	(1,202)	356,027	393,169	34,230	–	427,399
Closing book cost at 31 March 2023	392,482	14,341	–	406,823	512,894	22,943	–	535,837
Investment holding (losses)/gains at 31 March 2023	(55,520)	5,926	(1,202)	(50,796)	(119,725)	11,287	–	(108,438)
Valuation at 31 March 2023	336,962	20,267	(1,202)	356,027	393,169	34,230	–	427,399

The sales proceeds of £505,787,000 (2022: £448,512,000) includes transaction costs of £991,000 (2022: £649,000). The book cost of these investments when they were purchased was £594,374,000 (2022: £465,513,000).

These investments have been revalued over time and until they were sold any unrealised gains/loss were included in the fair value of these investments.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**8. INVESTMENTS continued****GAINS ON INVESTMENTS**

	2023 £'000	2022 £'000
Losses on investments	(30,945)	(204,987)
Transaction costs	(1,782)	(1,045)
Losses on investments held at fair value through profit or loss	(32,727)	(206,032)

The total transaction costs for the year were £1,782,000 (31 March 2022: £1,045,000) broken down as follows: purchase transaction costs for the year to 31 March 2023 were £791,000 (31 March 2022: £396,000), sale transaction costs were £991,000 (31 March 2022: £649,000). These costs consist mainly of commission. Transaction costs are recorded in the capital column of the Income Statement.

**9. DERIVATIVE FINANCIAL INSTRUMENTS**

	2023 £'000	2022 £'000
Fair value of OTC equity swaps (assets)	–	–
Fair value of OTC equity swaps (liabilities)	(1,202)	–
	(1,202)	–

(See note 1(n) on page 81 for further details).

**10. OTHER RECEIVABLES**

	2023 £'000	2022 £'000
Future settlements – sales	487	–
Prepayments and accrued income	21	49
	508	49

**11. OTHER PAYABLES**

	2023 £'000	2022 £'000
Future settlements – purchases	6,206	452
Amounts due to brokers in respect of shares repurchased by the Company for cancellation	1,695	–
Other creditors and accruals	945	1,047
	8,846	1,499



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**12. ORDINARY SHARE CAPITAL**

	2023 Number of Shares	2022 Number of Shares
Allotted, issued and fully paid at 1 April 2022	41,158,682	41,584,769
Issue of new shares	–	150,000
Shares bought back for cancellation during the year	(2,421,263)	(576,087)
At 31 March 2023	38,737,419	41,158,682

During the year no new ordinary shares were issued (2022: 150,000 new ordinary shares were issued for a consideration of £2,093,000 net of issue costs of £4,000). 2,421,263 shares were bought back for cancellation for a consideration of £22,619,000 (2022: 576,087 shares were bought back for a consideration of £6,933,000).

	2023 £'000	2022 £'000
Allotted, issued and fully paid shares of 25p	9,684	10,289

**13. NET ASSET VALUE PER SHARE**

	2023	2022
Net asset value per share	852.6p	957.8p

The net asset value per share is based on the net assets attributable to equity shareholders of £330,291,000 (2022: £394,208,000) and on 38,737,419 (2022: 41,158,682) shares in issue at 31 March 2023.

**14. 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 26. 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 a loan 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 also considers (iv) fair value measurement and (v) capital management.

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

**OTC EQUITY SWAPS** (See glossary beginning on page 96 for further details)

The Company uses OTC equity swap positions to gain access to Chinese markets where the Company is not locally registered to trade directly. During the year the Company entered into an OTC equity swap contract related to Beigene, with Goldman Sachs as the counterparty.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**14. RISK MANAGEMENT POLICIES AND PROCEDURES continued****1. MARKET PRICE RISK:**

The Company's portfolio is exposed to fluctuations in market prices in the biotechnology sector and the regions in which it invests. Market-wide uncertainties which have recently caused increased volatility in the markets include the war in Ukraine, increasing political, military and commercial tensions between the US/West and China, and increased inflationary pressures.

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 7 and 8.

This market risk comprises three elements – foreign currency risk, interest rate risk and other price risk.

**(a) Foreign currency risk:**

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 the risk**

The AIFM and the 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 to manage market price risk.

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 £345,049,000 (2022: £395,486,000) of investments denominated in U.S. dollars and £10,978,000 (2022: £31,913,000) in other non-sterling currencies.

**Foreign currency sensitivity**

The fair value of the Company's monetary items that have foreign currency exposure at 31 March 2023 is shown below.

Where the Company's equity investments (which are not monetary items) are priced in a foreign currency they are shown separately in the analysis as to show the overall level of exposure.

	2023 £'000	2022 £'000
Sterling equivalent of US\$ and other non-sterling exposure		
Current assets	3,257	19
Creditors	(6,206)	(452)
Spot currency contracts	(1,692)	–
Loan (non-sterling)	(20,167)	(31,709)
Foreign currency exposure on net monetary items	(24,808)	(32,142)
Investments held at fair value through profit or loss including derivative equity swap	356,027	427,399
Total net foreign currency exposure	331,219	395,257

The table on page 89 details the sensitivity of the Company's profit or loss after taxation for the year (investment values) to a 10% increase and decrease in the value of sterling compared to the U.S. dollar and other non-sterling currencies (2022: 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 the AIFM and portfolio management fees.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**14. RISK MANAGEMENT POLICIES AND PROCEDURES continued**

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

	2023 £'000	2022 £'000
Impact on revenue return	–	–
Impact on capital return	43,302	43,500
Total return after tax/effect on shareholders' funds	43,302	43,500

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

	2023 £'000	2022 £'000
Impact on revenue return	–	–
Impact on capital return	(24,220)	(35,592)
Total return after tax/effect on shareholders' funds	(24,220)	(35,592)

**(b) Interest rate risk:**

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

**Interest rate exposure**

The Company's main exposure to interest rate risk is through its loan facility with J.P. Morgan Securities LLC which is repayable on demand. Interest is charged at the US overnight bank funding rate plus 45 basis points.

At the year-end financial assets and liabilities subject to interest rate risk were as follows:

	Fixed rate 2023 £'000	Floating rate 2023 £'000	Floating rate 2022 £'000
Loan facility with J.P. Morgan Securities LLC	–	20,170	31,741
Gross exposure on OTC equity swaps	–	6,224	–
Total liabilities subject to interest rate risk	–	26,394	31,741
Cash held at Goldman Sachs	–	2,772	–
Total net liabilities subject to interest rate risk	–	23,622	31,741

**Management of the risk**

The level of borrowings is approved and monitored by the Board and the AFIM on a regular basis.

**Interest rate sensitivity**

The majority of the Company's financial assets are equity shares and other investments which neither pay interest nor have a maturity date. The amount subject to interest risk as at 31 March 2023 was £23,622,000 (2022: £31,741,000). If the rate increased by 1%, the impact on the profit or loss and net assets would be expected to be £236,000 (2022: £317,000).

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**14. RISK MANAGEMENT POLICIES AND PROCEDURES continued****(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 (2022: 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 2023 would have increased/decreased by £71,762,000 (2022: £84,668,000), after adjusting for an increase or decrease in the AIFM and the Portfolio management fees. The calculations are based on the portfolio valuations as at the respective Statement of Financial Position dates.

**Other price risk exposure**

	Assets £'000	Liabilities £'000	2023 Notional exposure* £'000	Assets £'000	Liabilities £'000	2022 Notional exposure* £'000
Investments	357,229	–	357,229	427,399	–	427,399
OTC equity swaps	–	(1,202)	(1,202)	–	–	–
	357,229	(1,202)	356,027	427,399	–	427,399

\* Calculated in accordance with AIFMD requirements, see glossary beginning on page 96 for further details.

**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. Stress tests have been performed to understand how long the portfolio would take to realise in such situations. The Board is comfortable that in such situations the Company would be able to meet its liabilities as they fall due. Short-term funding flexibility can be achieved through the use of the bank loan facility. The maximum amount of gearing permitted by the Board is 20% of net assets which equated to £66,058,000 at the year end.

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 2023, based on the earliest date on which payment can be required, are as follows:

	2023 3 months or less £'000	2023 3 to 12 months £'000	2022 3 months or less £'000	2022 3 to 12 months £'000
Loan facility (repayable on demand)	20,170	–	31,741	–
Future settlements	6,206	–	452	–
Performance fees accrued	–	–	–	–
Derivative – OTC equity swaps	–	1,202	–	–
Other creditors and accruals	2,640	–	1,047	–
	29,016	1,202	33,240	–

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**14. RISK MANAGEMENT POLICIES AND PROCEDURES continued****3. CREDIT RISK:**

Credit risk is the risk of failure of a counterparty to discharge its obligations resulting in the Company suffering a loss.

J.P. Morgan Securities LLC ("J.P. Morgan") may take assets with a value of up to 140% of the loan as collateral. Such assets held by J.P. Morgan are available for rehypothecation†.

As at 31 March 2023, the maximum value of assets available for rehypothecation was £28,238,000 being 140% of the loan balance of £20,170,000 (31 March 2022: £44,437,000 being 140% of the loan balance of £31,741,000).

See page 32 for further details on the loan facility and the associated credit risk.

† See glossary beginning on page 96.

**Management of the risk**

The risk is not significant and is managed as follows:

**J.P. Morgan**

- by receiving and reviewing regular updates from the Custodian and Prime Broker and Depository.
- by reviewing their Internal Control reports and regularly monitor J.P. Morgan's credit rating. J.P. Morgan has a credit rating of Aa3 (Moody's), A+ (S&P) and AA (Fitch).
- by reviewing on a monthly basis assets which are available for rehypothecation.

**Other counterparties**

- by only dealing with brokers which have been approved by OrbiMed Capital LLC and banks with high credit ratings such as Goldman Sachs International who have a credit rating of A1 (Moody's), A+ (S&P) and A+ (Fitch);
- by investing in markets that mainly operate DVP (delivery versus payment) settlement.
- all cash balances are held with approved counterparties. J.P. Morgan is the Custodian of the Company's assets and all assets are segregated from J.P. Morgan's own assets.

At 31 March 2023 the Company's exposure to credit risk amounted to £3,260,000 and was in respect of amounts due from brokers in relation to future settlements and cash held as collateral (2022: £nil).

**4. FAIR VALUE MEASUREMENT****Hierarchy of investments**

As required under IFRS 13 "Fair Value Measurement", 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 of 31 March 2023	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets	336,962	–	20,267	357,229
Derivatives: equity swap (liabilities)	–	(1,202)	–	(1,202)
Financial investments held at fair value through profit or loss	336,962	(1,202)	20,267	356,027

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**14. RISK MANAGEMENT POLICIES AND PROCEDURES continued**

As at 31 March 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets	393,169	303	33,927	427,399
Financial investments held at fair value through profit or loss	393,169	303	33,927	427,399

As at 31 March 2023, the investments in OrbiMed Asia Partners LP Fund has been classified as Level 3. The OrbiMed Asia Partners Fund LP has been valued at the net asset value presented in its Statement of Partners Capital Activity as at 31 March 2023, as permitted under the IPEV guidelines. If the value of the fund were to increase or decrease by 10%, while all other variables remain constant, the return and net assets attributable to shareholders for the year ended 31 March 2023 would have increased/decreased by £216,000 (2022: £175,000).

The following two investments have been valued by the Board, following recommendations received from the Valuation Committee which has reviewed in detail both the valuation and the methodologies provided by Kroll, an independent valuer. StemiRNA and XtalPi have been valued using the probability-weighted expected returns methodology (PWERM) and are classified as Level 3. If the non-observable market data – “the probability of scenarios” percentage were to increase or decrease by 10%, while all other variables remain constant, the return attributable to shareholders for the year ended 31 March 2023 would have increased/decreased by £1,786,000.

These Level 3 investments include assumptions based on non-observable market data such as:

- (i) the probability of certain scenarios;
- (ii) the expected time to the date of sale or realisation opportunity; and
- (iii) discount rates.

The tables below set out the range of inputs applied in arriving at the fair value of the Level 3 investments valued by Kroll.

**Probability of Scenario**

The probability assigned to certain scenarios is determined by the independent valuer following consultation with the Portfolio Manager. The probability assigned to any scenario reflects a number of factors including the operating performance and prospects of the investee company and market receptivity for IPOs or other realisation routes.

2023	Probability of scenario	5%-35%
	Weighted average probability of scenario	20%
2022	Probability of scenario	10%-35%
	Weighted average probability of scenario	22.5%

**Expected time to date of sale or realisation opportunity**

The expected time to a sale or realisation opportunity is determined by the independent valuer following consultation with the Portfolio Manager and reflects a number of factors including the operating performance and prospects of the investee company and the current and expected market receptivity for IPOs and other realisation routes.

2023	Expected time to sale or realisation opportunity	1-2.5 years
	Weighted average expected time to sale or realisation opportunity	1.75 years
2022	Expected time to sale or realisation opportunity	0.3-1.8 years
	Weighted average expected time to sale or realisation opportunity	1.05 years

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**14. RISK MANAGEMENT POLICIES AND PROCEDURES continued****Discount rate**

The discount rates assigned to certain scenarios are determined by the independent valuer using market surveys of discount rates used in a range of private equity and unquoted investment transactions.

2023	Discount rate	22.5%
	Discount rate weighted average	22.5%
2022	Discount rate	20.5%
	Discount rate weighted average	20.5%

**Level 3 Reconciliation**

Please see below 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 levels.

	2023 £'000	2022 £'000
Assets		
As at 1 April	33,927	37,483
Purchase of unquoted investments	–	13,266
Sale of unquoted investments	–	(40)
Net movement in investment holding gains during the year	(3,773)	2,843
Transfer from level 3 to level 1	(9,887)	(19,625)
Assets as at 31 March	20,267	33,927

Yisheng Biopharma and Summit Healthcare Acquisition Corp. entered into a definitive agreement for a business combination and upon closing of the transaction in March 2023, the combined company was renamed as YS Biopharma Co. Ltd and became a publicly traded company on the Nasdaq.

**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.

**5. CAPITAL MANAGEMENT**

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.

The Board's policy is to limit gearing to a maximum of 20% of the Company's net assets.

As at 31 March 2023 the Company was geared 7.8% (2022: 8.4%).

The capital structure of the Company consists of the equity share capital, retained earnings and other reserves shown in the Statement of Financial Position on page 74.

Shares may be repurchased by the Company as explained on pages 28 and 29.

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

As at 31 March 2023, the maximum value of assets available for rehypothecation was £28,238,000, being 140% of the loan balance of £20,170,000 (31 March 2022: £44,437,000 being 140% of the loan balance of £31,741,000).

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**15. TRANSACTIONS WITH RELATED PARTIES AND THE MANAGERS****Related Parties**

- The Directors of the Company

Details of the remuneration of the Directors of the Company can be found on page 61. Geoff Hsu has waived his Directors' fees. Details of the Directors' interests in the capital of the Company can be found on page 63.

**Transactions with the Managers**

- Frostrow Capital LLP
- OrbiMed Capital LLC

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 on page 48. Geoff Hsu, who joined the Board on 16 May 2018, is a General Partner at OrbiMed. Details of fees paid to OrbiMed by the Company can be found in note 3 on page 82. All material related party transactions have been disclosed in notes 3 and 4 on page 82 and 83.

The Company holds an interest in OrbiMed Asia Partners Fund which equates to 0.6% of the investments held at 31 March 2023. Further details can be found on page 77.

Three current and two former partners at OrbiMed Capital LLC have a minority financial interest totalling 20% in Frostrow Capital LLP, the Company's AIFM. Details of the fees paid to Frostrow Capital LLP by the Company can be found in note 3 on page 82.

**16. CAPITAL RESERVE**

	2023			2022		
	Other £'000	Capital Reserves Investment holdings gains/ (losses) £'000	Total £'000	Other £'000	Capital Reserves Investment holdings gains/ (losses) £'000	Total £'000
At 1 April	399,416	(108,185)	291,231	421,917	78,677	500,594
Net (losses)/gains on investments	(90,316)	57,589	(32,727)	(19,170)	(186,862)	(206,032)
Foreign exchange losses	(3,759)	–	(3,759)	(2,340)	–	(2,340)
Expenses charged to capital	(4,158)	–	(4,158)	5,942	–	5,942
Repurchase of own shares for cancellation	(22,619)	–	(22,619)	(6,933)	–	(6,933)
At 31 March	278,564	(50,596)	227,968	399,416	(108,185)	291,231

Sums within the Total Capital Reserve less unrealised gains (those on investments not readily convertible to cash) are available for distribution. Investment holding gains in the table above are unrealised.

**17. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS**

As at 31 March 2023 there were no contingent liabilities or capital commitments for the Company (2022: nil).



## SHAREHOLDER INFORMATION

### FINANCIAL CALENDAR

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

### ANNUAL GENERAL MEETING

The Annual General Meeting of The Biotech Growth Trust PLC will be held at the Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR on Thursday, 27 July 2023 at 12 noon. Please refer to the Chairman's Statement beginning on page 2 for details of this year's arrangements.

### 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

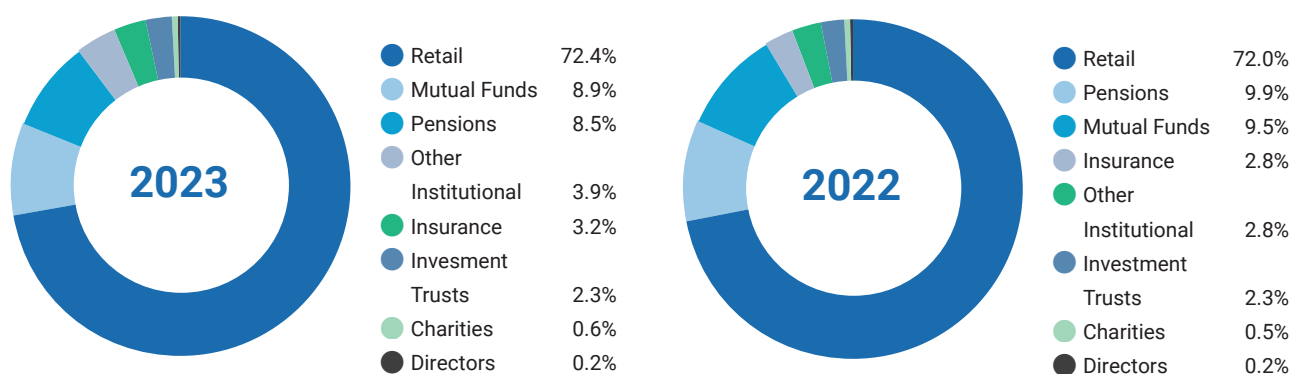
Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's Registrars, Link Group, under the signature of the registered holder.

### 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



## GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES

### ACTIVE SHARE

Active Share is expressed as a percentage and shows the extent to which a fund's holdings and their weightings differ from those of the fund's benchmark index. A fund that closely tracks its index might have a low Active Share of less than 20% and be considered passive, while a fund with an Active Share of 60% or higher is generally considered to be actively managed.

### ADR

An American depositary receipt (ADR) is a negotiable security that represents securities of a foreign company and allows that company's shares to trade in the U.S. financial markets. Shares of many non-U.S. companies trade on U.S. stock exchanges through ADRs, which are denominated and pay dividends in U.S. dollars, and may be traded like regular shares of stock.

### AIC

Association of Investment Companies.

### ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE (AIFMD)

Agreed by the European Parliament and the Council of the European Union and transposed 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.

### ALTERNATIVE PERFORMANCE MEASURE (APM)

An APM is a numerical measure of the Company's current, historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the applicable financial framework. In selecting these Alternative Performance Measures, the Directors considered the key objectives and expectations of typical investors in an investment trust such as the Company.

### DISCOUNT OR PREMIUM<sup>^</sup>

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.

	pages	As at 31 March 2023 (pence)	As at 31 March 2022 (pence)
Share price	1&6	783.0	898.0
Net asset value per share (see note 13 on page 87 for further information)	1&6	852.6	957.8
Discount of share price to net asset value per share	1&6	8.2%	6.2%

<sup>^</sup> Alternative Performance Measure

## GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES CONTINUED

**GEARING<sup>^</sup>**

Gearing represents prior charges, adjusted for net current liabilities, expressed as a percentage of net assets (AIC methodology). Prior charges includes all loans and overdrafts for investment purposes.

	pages	31 March 2023 £'000	31 March 2022 £'000
Loan	74	20,170	31,741
Net current liabilities (excluding loan and derivatives)*	–	5,566	1,450
	–	25,736	33,191
Net assets	74	330,291	394,208
Gearing	6	7.8%	8.4%

\*current liabilities less current assets

**IPO**

An Initial Public Offering ("IPO") is the process by which the shares of a previously private company are listed on a stock exchange for the first time. Through this process a company can raise new capital, offer an exit opportunity for private investors and founders, and enable the trading of its shares.

**IPO LOCK-IN**

When a company offers shares in an IPO, investors sometimes enter into a lock-in agreement preventing them from selling their shares for a specified period after the IPO.

**LEVERAGE**

The AIFMD leverage definition is slightly different from the Association of Investment Companies' method of calculating gearing and is defined 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.

For the purposes of the AIFMD, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

	Gross Method	Commitment Method
Maximum limit	130.0%	130.0%
Actual as at 31 March 2023	110.5%	109.7%

**MARGINABLE SECURITIES**

Marginable securities are stocks, bonds, futures or other securities capable of being traded on a Margin Account and are available for rehypothecation\*.

**NET ASSET VALUE (NAV)**

The net asset value of the Company's assets, principally investments made in other companies and cash 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.

\* See glossary definition on page 98.

<sup>^</sup> Alternative Performance Measure

## GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES CONTINUED

**NET ASSET VALUE PER SHARE TOTAL RETURN<sup>^</sup>**

The net asset value per share return for the year ended 31 March 2023 is calculated by taking the percentage movement from the net asset value per share as at 31 March 2022 of 957.8p (2021: 1,446.4p) to the net asset value per share at 31 March 2023 of 852.6p (2022: 957.8p). The Company has not paid any dividends to shareholders in respect of the above mentioned years (see pages 1 and 6).

**ONGOING CHARGES<sup>^</sup>**

Ongoing charges are calculated by taking the Company's annualised operating expenses expressed as a proportion of the average daily net asset value of the Company over the year.

The costs of buying and selling investments are excluded, as are interest costs, taxation, performance fees, cost of buying back or issuing ordinary shares and other non-recurring costs.

	pages	31 March 2023 £'000	31 March 2022 £'000
AIFM & portfolio management fees (note 3)	82	3,531	4,734
Other re-occurring expenses (note 4)	83	692	678
<b>Total ongoing charges</b>		<b>4,223</b>	<b>5,412</b>
Average daily net assets for the year		394,525	507,333
Ongoing charges	1&6	1.1%	1.1%

**OTC EQUITY SWAPS**

Over-the-Counter (OTC) refers to the process of how securities are traded via a broker - dealer network, as opposed to on a centralised exchange.

An equity swap is an agreement where one party (counterparty) transfers the total return of an underlying equity position to the other party (swap holder) in exchange for a payment of the principal, and interest for financed swaps, at a set date. Total return includes dividend income and gains or losses from market movements. The exposure of the holder is the market value of the underlying equity position.

There are two main types of equity swaps:

- **Funded** – where payment is made on acquisition. They are equivalent to holding the underlying equity position with the exception of additional counterparty risk and not possessing voting rights in the underlying security; and
- **Financed** – where payment is made on maturity. As there is no initial outlay, financed swaps increase exposure by the value of the underlying equity position with no initial increase in the investments value – there is therefore embedded leverage within a financed swap due to the deferral of payment to maturity.

**REHYPOTHECATION**

Rehypothecation is the practice by banks and brokers of using collateral posted as security for loans as regulated by the U.S. Securities Exchange Commission.

**GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES** CONTINUED**SUSTAINABILITY ACCOUNTING STANDARDS BOARD (SASB)**

The Sustainability Accounting Standards Board (SASB) is a non-profit organisation, founded in 2011 to develop sustainability accounting standards. Its stated mission is “to establish industry-specific disclosure standards across ESG topics that facilitate communication between companies and investors about financially material, decision-useful information. Such information should be relevant, reliable and comparable across companies on a global basis.”

**SHARE PRICE TOTAL RETURN<sup>^</sup>**

The share price total return represents the theoretical return to a shareholder, on a closing market price basis. The share price total return is calculated by taking the percentage movement from the share price as at 31 March 2022 of 898.0p (2021: 1,426.0p) to the share price as at 31 March 2023 of 783.0p (2022: 898.0p). The Company has not paid dividends to shareholders in respect of the above mentioned years.

See pages 1 and 6 for further information.

<sup>^</sup> Alternative Performance Measure

**VARIABLE INTEREST ENTITY (VIE)**

A corporate structure through which an investor can own the economic interests of shares in a company through a contractual relationship. This structure is common in China, including in the biotechnology sector.

## 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/">http://www.youinvest.co.uk/</a>
Barclays Smart Investor	<a href="https://www.smartinvestor.barclays.co.uk/">https://www.smartinvestor.barclays.co.uk/</a>
Bestinvest	<a href="http://www.bestinvest.co.uk/">http://www.bestinvest.co.uk/</a>
Charles Stanley Direct	<a href="https://www.charles-stanley-direct.co.uk/">https://www.charles-stanley-direct.co.uk/</a>
Halifax Share Dealing	<a href="https://www.halifaxsharedealing-online.co.uk/">https://www.halifaxsharedealing-online.co.uk/</a>
Hargreaves Lansdown	<a href="http://www.hl.co.uk/">http://www.hl.co.uk/</a>
HSBC	<a href="https://www.hsbc.co.uk/investments/">https://www.hsbc.co.uk/investments/</a>
iDealing	<a href="http://www.idealing.com/">http://www.idealing.com/</a>
Interactive Investor	<a href="http://www.iii.co.uk/">http://www.iii.co.uk/</a>
IWEB	<a href="http://www.iweb-sharedealing.co.uk/share-dealing-home.asp">http://www.iweb-sharedealing.co.uk/share-dealing-home.asp</a>
The Share Centre	<a href="https://www.share.com/">https://www.share.com/</a>

## Investment scams are often sophisticated and difficult to spot

### How to avoid investment scams

- 1 Reject unexpected offers**  
 Scammers usually cold call, but contact can also come by email, post, word of mouth or at a seminar. If you've been offered an investment out of the blue, chances are it's a high risk investment or a scam.
- 2 Check the FCA Warning List**  
 Use the FCA Warning List to check the risks of a potential investment – you can also search to see if the firm is known to be operating without FCA authorisation.
- 3 Get impartial advice**  
 Get impartial advice before investing – don't use an adviser from the firm that contacted you.

### If you're suspicious, report it

You can report a firm or scam to the Financial Conduct Authority on 0800 111 6768 or through [www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart)

If you've lost money in a scam, contact Action Fraud on 0300 123 2040 or [www.actionfraud.police.uk](http://www.actionfraud.police.uk)



**Be ScamSmart and visit**  
[www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart)



## 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 the Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR on Thursday, 27 July 2023 at 12 noon, for the following purposes:

### ORDINARY RESOLUTIONS

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

1. To receive and adopt the audited financial statements and the Report of the Directors for the year ended 31 March 2023.
2. To approve the Directors' Remuneration Report for the year ended 31 March 2023.
3. To approve the Directors' Remuneration Policy as set out on page 64 of the Annual Report for the year ended 31 March 2023.
4. To re-elect Steve Bates as a Director of the Company.
5. To re-elect Geoff Hsu as a Director of the Company.
6. To re-elect Julia Le Blan as a Director of the Company.
7. To re-elect Dr Nicki Shepherd as a Director of the Company.
8. To re-elect The Rt Hon Lord Willetts as a Director of the Company.
9. To re-elect Roger Yates as a Director of the Company.
10. To re-appoint BDO LLP as Auditor to the Company to hold office from the conclusion of the meeting to the conclusion of the next Annual General Meeting at which accounts are laid, and to authorise the Audit Committee to determine their remuneration.

### INVESTMENT POLICY

11. That the amended investment policy set out on page 106 of the Annual Report for the year ended 31 March 2023, a copy of which has been produced to the meeting and signed by the Chairman for the purposes of identification, be and is hereby approved and adopted as the investment policy of the Company in substitution for, and to the exclusion of, all previous investment policies of the Company.

### AUTHORITY TO ALLOT SHARES

12. 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 £941,986.50 (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 3,767,946 shares of 25 pence each or, if changed, the number representing 10% of the issued share capital of the Company at the date at which this resolution is passed, on such terms as the Board may determine, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2024 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 by this resolution had not expired.

### SPECIAL RESOLUTIONS

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

### DISAPPLICATION OF PRE-EMPTION RIGHTS

13. 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

**NOTICE OF THE ANNUAL GENERAL MEETING CONTINUED**

as if 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 £941,986.50 (or, if changed, 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**

14. 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 shall be that number of Shares which is equal to 14.99% of the issued Share capital of the Company as at the date of the passing of this resolution;
- (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;
- (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2024 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.

**GENERAL MEETINGS**

15. THAT the Directors be authorised to call general meetings (other than Annual General Meetings) on not less than 14 clear 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

14 June 2023

Registered office:  
One Wood Street  
London EC2V 7WS



## NOTICE OF THE ANNUAL GENERAL MEETING CONTINUED

## 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.
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. Members can vote by: logging onto [www.signalshares.com](http://www.signalshares.com) and following instructions; requesting a hard copy form of proxy directly from the registrars, Link Group at [shareholderenquiries@linkgroup.co.uk](mailto:shareholderenquiries@linkgroup.co.uk) or, in the case of CREST members, utilising the CREST electronic proxy appointment service in accordance with the procedures set out below, alternatively if you are an institutional shareholder you may also be able to appoint a proxy electronically via the proximity platform. 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 Link Group, PXS1, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL no later than 12 noon on 25 July 2023.
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 25 July 2023 (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 13 June 2023 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 37,679,460 ordinary shares, carrying one vote each (and no shares were held in Treasury). Therefore, the total voting rights in the Company as at 13 June 2023 are 37,679,460.
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 International 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 system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
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. If you are an institutional investor you may also be able to appoint a proxy electronically via the Proximity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proximity, please go to [www.proximity.io](http://www.proximity.io). Your proxy must be lodged by 10.00am on 25 July 2023 in order to be considered valid or, in the event of any adjournment, close of business on the date which is two working days before the time of the adjourned meeting. Before you can appoint a proxy via this process you will need to have agreed to Proximity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy. An electronic proxy appointment via the Proximity platform may be revoked completely by sending an authenticated message via the platform instructing the removal of your proxy vote.
15. 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).
16. 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.
17. 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 Link Group on 0371 664 0300 or +44 371 664 0300 if calling from outside the United Kingdom. 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 09.00-17.30, Monday to Friday excluding public holidays in England and Wales.
18. 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.
19. 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 Link Group, PXS1, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL.  
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.

## EXPLANATORY NOTES TO THE RESOLUTIONS

### Resolution 1 – Audited Financial Statements and the Report of the Directors

The audited financial statements and the Report of the Directors for the year ended 31 March 2023 will be presented to the Annual General Meeting. These accompanied this Notice of Meeting.

### Resolution 2 and 3 – Remuneration Report and Remuneration Policy

The Report on Directors' Remuneration is set out in full on pages 60 to 63. The Remuneration Policy is set out on page 64.

### Resolutions 4 to 9 – Re-election of Directors

Resolutions 4 to 9 deal with the re-election of the Directors. Biographies of each of the current Directors can be found on pages 38 to 39.

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

### Resolution 10 – Re-appointment of Auditor

Resolution 10 relates to the re-appointment of BDO LLP as the Company's independent auditor to hold office until the next Annual General Meeting of the Company and also authorises the Audit Committee to set their remuneration.

### Resolution 11 – Investment Policy

As explained in the Chairman's Statement beginning on page 2 and the Business Review beginning on page 26, the Board is proposing to make some changes to the investment policy, principally in order to clarify the scope of the use of swaps and derivatives for efficient portfolio management. The proposed changes will:

- Remove the reference to J.P. Morgan as the provider of the Company's loan facility as this is not considered to be a policy matter;
- Enable derivative instruments (other than equity swaps) to be used to mitigate risk and/or enhance return subject to an aggregate net exposure of 5% of the value of the Company's gross assets measured at the time of the relevant transaction; and
- Remove the current limit on equity swaps but impose a limit on aggregate net counterparty exposure through a combination of derivatives and equity swap transactions of 12% of the value of the gross assets of the Company at the time of the transaction.

A blacklined statement showing the proposed amendments to the Investment Policy is set out on page 106 which forms part of this Notice.

### Resolutions 12 and 13 – Issue of Shares

Ordinary Resolution 12 in the Notice of Annual General Meeting will renew the authority to allot the unissued share capital up to an aggregate nominal amount of £941,986.50 (equivalent to 3,767,946 shares, or 10% of the Company's existing issued share capital on 14 June 2023 or, if lower, the number representing 10% of the issued share capital of the Company at the date at which this resolution is passed). 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 13 will, if passed, give the Directors power to allot for cash equity securities up to 10% of the Company's existing share capital on 14 June 2023 or, if changed, the number representing 10% of the issued share capital of the Company at the date at which this resolution is passed, 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 12. 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.

**EXPLANATORY NOTES TO THE RESOLUTIONS** CONTINUED

The Directors intend to use the authority given by Resolutions 12 and 13 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. New shares will be only issued at a premium to the Company's net asset value per share.

**Resolution 14 – Share Repurchases**

The Directors wish to renew the authority given by shareholders at the Annual General Meeting held in July 2022. 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 the 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.

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 14 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 as at the date of the passing of the resolution (equivalent to 5,648,151 shares at the date of this Notice). 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 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 15 – General Meetings**

Special Resolution 15 seeks shareholder approval for the Company to hold General Meetings (other than the Annual General Meeting) on not less than at 14 clear days' notice.

**Recommendation**

The Board considers that the resolutions relating to the above items 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 totalling 27,000 shares.

## EXPLANATORY NOTES TO THE RESOLUTIONS CONTINUED

**AMENDED INVESTMENT POLICY**

The Company 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.

In connection with the investment policy, the following guidelines apply:

- The Company will not invest more than 10 per cent., 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 per cent., 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 per cent. 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 per cent. of the value of its gross assets in unquoted investments at the time of acquisition. This limit includes any investment in private equity funds managed by the Portfolio Manager or any affiliates of such entity.
- The Company may invest or commit for investment a maximum of U.S.\$15 million, after the deduction of proceeds of disposal and other returns of capital, in private equity funds managed by the Portfolio Manager, or any affiliates thereof.
- The Company's borrowing policy is that borrowings will not exceed 20 per cent. of the value of the Company's net assets. The Company's borrowing requirements are met through the utilisation of a loan facility, repayable on demand and provided by J.P. Morgan Securities LLC. This Any loan facility can in place from time to time may be drawn by the Portfolio Manager overseen by at the discretion of the AIFM.
- The Company may be unable either to invest directly or invest efficiently in certain countries or share classes. In these circumstances, the Company may gain exposure in such countries by investing indirectly through swaps or other derivative instruments where it is more efficient to do so. Exposure to underlying investments thus obtained will count towards and be subject to the investment limits set out above. Further, where the Company invests in via swaps or derivatives for such a purpose, exposure to these financial instruments will count towards and be subject to the limits on the use of derivatives and equity swaps set out below. underlying assets will not exceed 5% of the gross assets of the Company at the time of entering into the contract
- In line with the Investment Objective, derivatives are employed, when appropriate, in an effort to enhance returns and to improve the risk-return profile of the Company's portfolio. The Board has set the following limits within which derivative exposures are managed:
  - Derivative transactions (excluding equity swaps) can be used to mitigate risk and/or enhance return and will be restricted to an aggregate net exposure of 5 per cent. of the value of the gross assets measured at the time of the relevant transaction;
  - Equity swaps may be used for efficient portfolio management purposes and aggregate net counterparty exposure through a combination of derivatives (as set out in the previous bullet point) and equity swap transactions is restricted to 12 per cent. of the value of the gross assets of the Company at the time of the transaction.

## COMPANY INFORMATION

### DIRECTORS

Roger Yates (*Chairman*)  
 Steve Bates (*Chairman of the Management Engagement Committee*)  
 Julia Le Blan (*Chair of the Audit Committee*)  
 Geoff Hsu  
 Dr Nicki Shepherd  
 The Rt Hon Lord Willetts FRS

### 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 as Rebourne 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.  
 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 above e-mail address.

### 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.*

### INDEPENDENT AUDITOR

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 55 Baker Street  
 London W1U 7EU

### DEPOSITARY

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

### CUSTODIAN AND PRIME BROKER

J.P. Morgan Securities LLC.  
 Suite 1, Metro Tech Roadway  
 Brooklyn, NY11201  
 USA

### REGISTRAR

Link Group  
 10th Floor  
 Central Square  
 29 Wellington Street  
 Leeds LS1 4DL  
 E-mail: [shareholderenquiries@linkgroup.co.uk](mailto:shareholderenquiries@linkgroup.co.uk)  
 Telephone (in UK): 0371 664 0300+  
 Telephone (from overseas): + 44 371 664 0300+  
 Shareholder Portal: [www.signalshares.com](http://www.signalshares.com)  
 Website: [www.linkgroup.eu](http://www.linkgroup.eu)  
 Please contact the Registrars if you have a query about a certificated holding in the Company's shares.

### STOCK BROKER

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

### SOLICITORS

Charles Russell Speechlys  
 5 Fleet Place  
 London EC4M 7RD

### IDENTIFICATION CODES

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

### GLOBAL INTERMEDIARY IDENTIFICATION NUMBER

(GIIN): U1MQ70.99999.SL.826

### LEGAL ENTITY IDENTIFIER (LEI)

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