

Finsbury Worldwide Pharma

Foundations for sustained outperformance now in place

The past few years have been disappointing for healthcare investors. However, in an environment where there is undoubted potential for earnings disappointment, the sector now offers relatively attractive and stable earnings growth. Meanwhile valuations have fallen to multi-year lows, a feature that is likely to encourage further M&A activity. Performance relative to the benchmark has begun to gain traction this year and we expect further outperformance in coming months as risk appetite wanes. **BUY.**

Final Results – year to 31 March 2010: The NAV total return was modestly ahead of the benchmark, and relative returns have gained further traction in subsequent months. There was a significant increase in the revenue return and consequently the dividend was increased from 5p to 8.5p. Arguably the key development was the passage of the US healthcare reform bill which removed a lot of uncertainty that had acted as a drag on the healthcare sector since February 2009.

Valuations at extremely depressed levels (see page 2): After peaking in 1998 and 2000 respectively, the pharmaceutical and biotech sectors have undergone a brutal multi-year de-rating. Consequently, valuations now look attractive, both on an absolute basis and relative to the broader market.

Proposed change to investment policy/company name: The company will shortly seek approval to broaden the investment universe to include companies in the healthcare equipment and technology sectors and also companies that provide healthcare and related services. The benchmark will be changed to the MSCI World Healthcare Index. Approval is also sought for a change in name to the Worldwide Healthcare Trust.

Company struggling to defend discount target level: Since the beginning of 2007, the company has bought back 25m shares, equivalent to 44% of the number of shares at the start of the period. However, the average discount in the past year is 7.8%, much wider than the 6% discount target.

Skin in the game: Earlier this year, we began to incorporate details of Director's remuneration and investment in our research. It is encouraging to see Sam Isaly's investment along with a couple of his colleagues, although the personal holding of some Directors is disappointing.

Keep an eye on the canaries in the coalmine (see page 6): The ongoing collapse in the ECRI Leading Indicators and the Baltic Dry Index would suggest that economic growth is about to disappoint. Indeed we expect the V-shaped recovery that is currently priced in by equities to prove as illusive as an Emile Heskey hat-trick in the World Cup Final. As we see further evidence of this slowdown over the coming months, we expect risk assets to materially underperform. Finsbury Worldwide is a constituent of our model portfolio whose defensive characteristics reflect our expectations of weak equity markets.

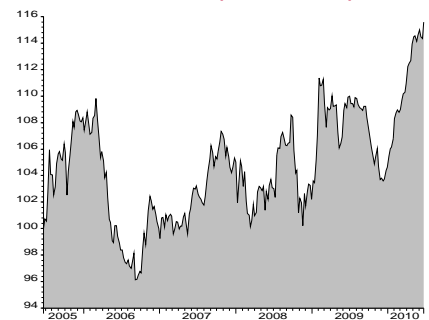
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24 June 2010

Market stats at cob 23 June 2010

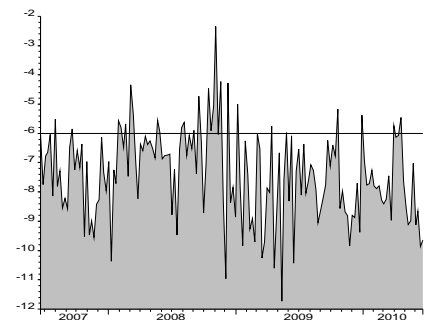
Price	644p
Discount	8.5%
Dividend Yield	1.3%
Effective equity exposure (% of NAV)	106%
Market capitalisation	£277m

NAV vs benchmark (total returns)



Source: Thomson Financial Datastream

Discount (%)



Source: Thomson Financial Datastream

Skin in the game

Director (appointed)	Fee	Investment
Martin Smith (2007)	£35,000	£13,148
Josephine Dixon (2004)	£25,000	£19,722
Paul Gaunt (1995)	£22,000	£0
Prof D Geddes ('95)	£22,000	£277,752
Dr D Holbrook (2007)	£22,000	£0
Sam Isaly (1995)	£22,000	£2.34m
Anthony Townsend (1995)	£22,000	£123,493

Contact

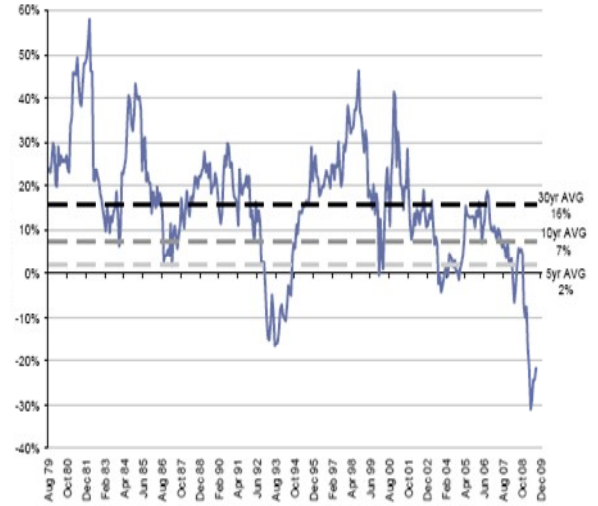
Alan Brierley
+44 (0) 20 7523 8091
ABrierley@collinsstewart.com

Valuations

The de-rating of the S&P Biotech and S&P Pharma sectors



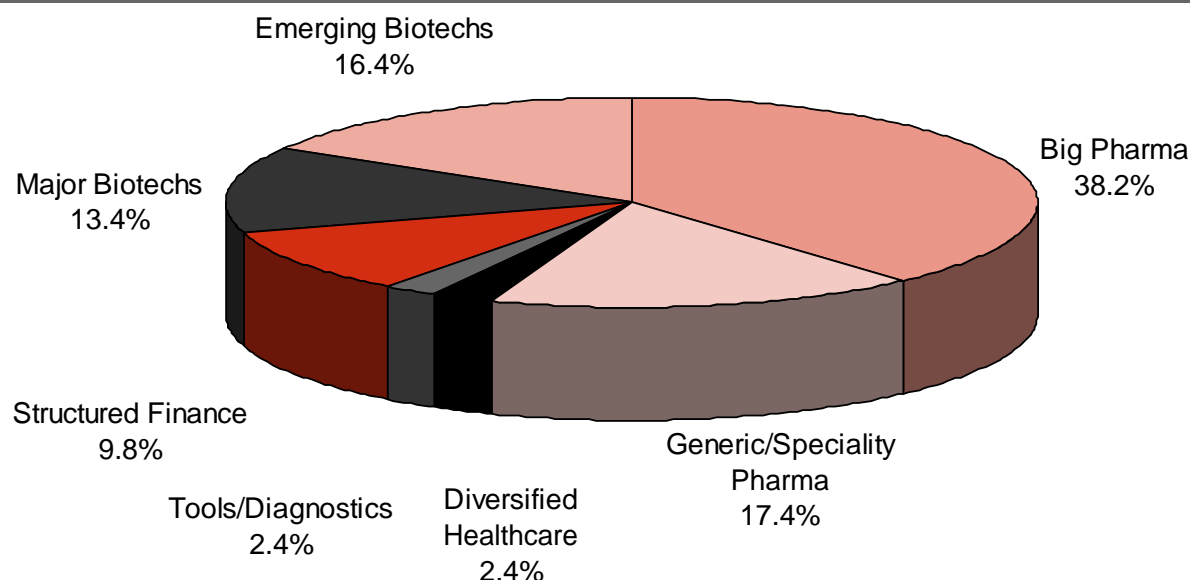
Healthcare vs S&P – PE relative



Source: Company data

Investment portfolio

Key investment themes



Source: Company data

Big Pharmaceutical (38%) – Bristol Myers Squibb, Pfizer, Novartis

- Contrarian value plays
- High dividend yields
- Extremely selective to avoid looming patent expirations

Generic/Specialty Pharmaceutical (17%) – Allergan, Sawai, Towa, Warner Chilcott, Hospira, Watson Pharmaceutical

- >\$120m of US branded drugs lose exclusivity by 2015
- Several quality branded names trade at rock-bottom valuations
- Secular growth story in Japan, catalysed by fiscal pressures and regulatory changes

Emerging Biotech (16%) – Dendreon, Vertex, Human Genome Sciences, Momenta Pharma

- Continuing source of innovation and high R&D productivity
- Rampant M&A potential as Big Pharma tries to acquire biotech products and expertise
- Valuations at low end of historical range

Major Biotech (13%) – Amgen, Genzyme, Celgene

- PEG Ratio of nearly 1, close to lowest levels in history
- High growth rates, in some cases accelerating further
- Low political and reimbursement risk
- Few patent expiration issues

Structured Finance (10%) – Vertex, Incyte, Endo Pharmaceuticals

- Basket of diversified companies with attractive equity like returns with debt protection
- Exposure to improvements in the credit market

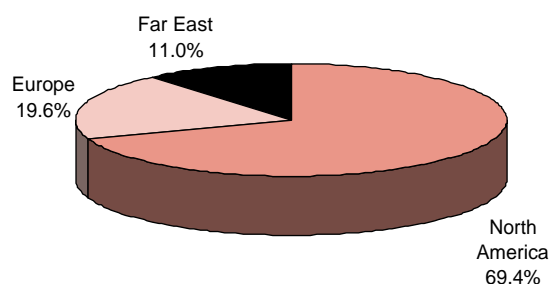
Tools/Diagnostics (2%) - Illumina

- High growth opportunities
- Faster development times and lower regulatory hurdles than drugs

Diversified Healthcare (2%) – Sinopharm

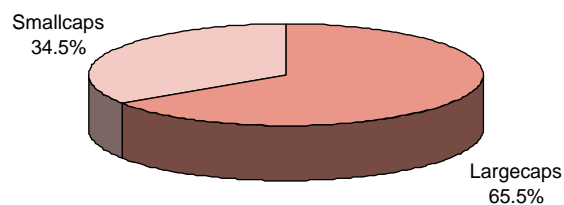
- Diversified away from specific products risks
- Taking advantage of accelerating growth in Chinese healthcare

Geographic exposure



Source: Company data

Size breakdown



Source: Company data

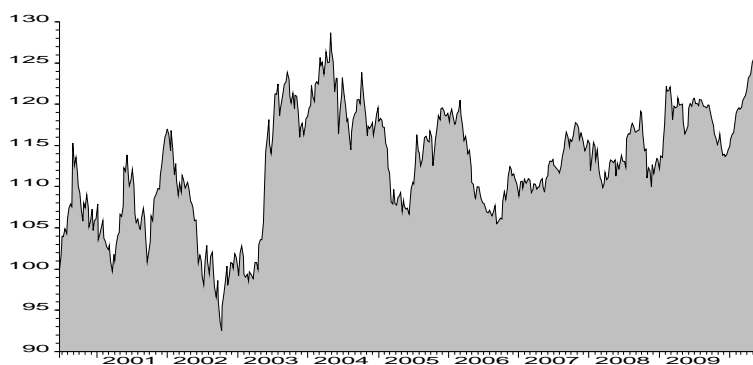
Top 10 holdings at 31 May 2010

	Region	%
Johnson & Johnson	North America	7.1
Pfizer	North America	5.1
Merck	North America	5.0
Novartis	Europe	4.8
Bristol-Myers Squibb	North America	4.6
Roche	Europe	3.9
Shire	Europe	3.8
Dendreon	North America	3.3
Sawai	Far East	3.2
Genzyme	North America	3.0
Sub-total		43.8

Source: Company data

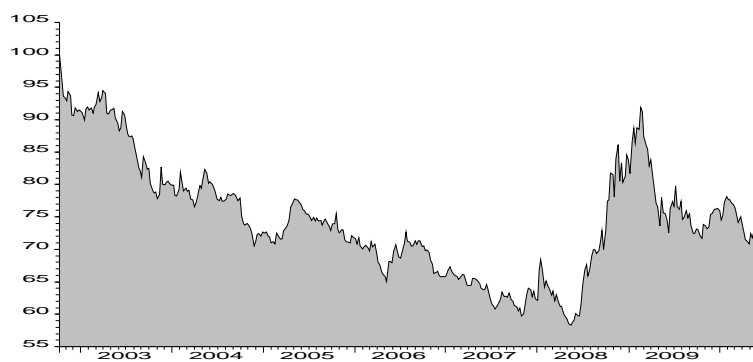
Performance

FWP Net Asset Value vs Datastream World Pharma & Biotech index (total returns)



Source: Thomson Financial Datastream

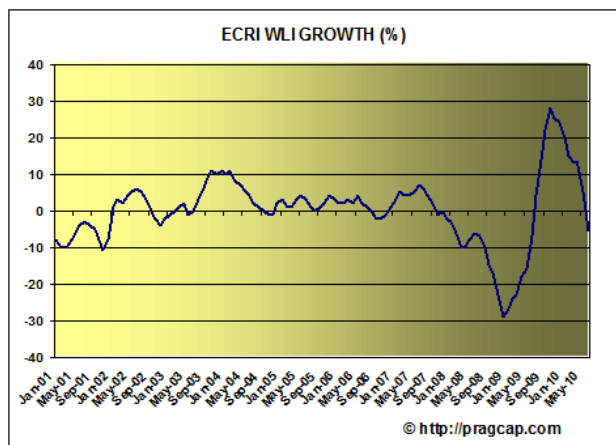
MSCI World Healthcare vs MSCI World (total return)



Source: Thomson Financial Datastream

The canaries in the coalmine

ECRI Leading Indicator



Source: ECRI

Baltic Dry Index



Source: Bloomberg

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CSEL makes a market in Finsbury Worldwide Pharmaceutical.

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Recommendations	Buys	Sells	Hold/Neutral
Percentage of Total	62%	6%	32%
Percentage of which in Corporate Client stocks	12%	0%	4%

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