

Finsbury Worldwide Pharma*

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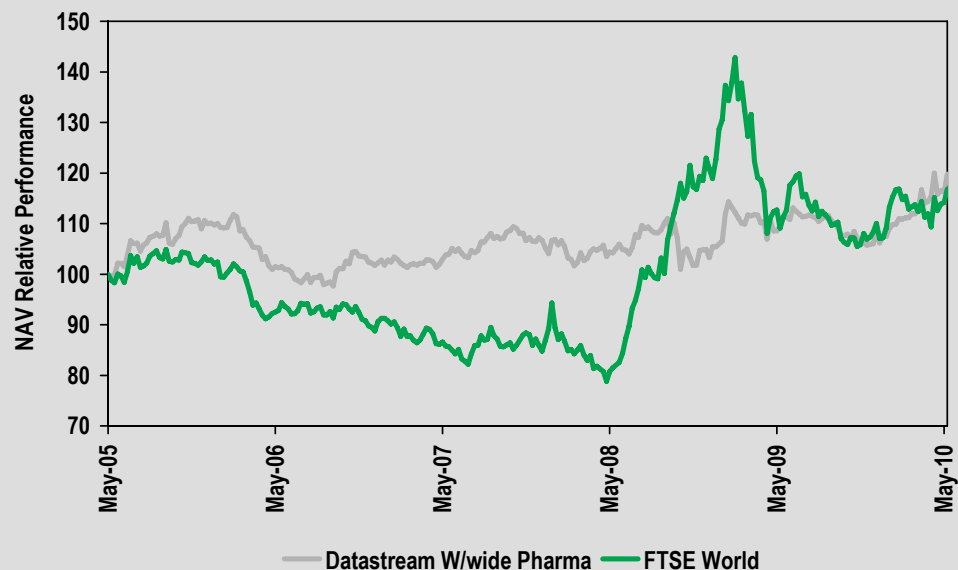
- Strong long term performance record
- Well resourced specialist investment team
- 70% increase in dividend to 8.5p

Investment Companies

■ Diversified exposure to the healthcare sector

Finsbury Worldwide Pharmaceutical invests in the healthcare sector with a focus on major pharmaceutical companies and both large and emerging biotech companies. The fund's investment manager is OrbiMed Capital, a New York based boutique which specialises in investing in the global health sciences industry. The fund has an impressive long term track record, delivering total return NAV growth of 667% since its launch in April 1995, against an equivalent return of 303% for the Datastream World Pharmaceutical Index and 156% for the FTSE World Index in Sterling. Over the past five years, the fund's NAV is up 58%, compared with a rise of 35% for the benchmark and a rise of 37% for the FTSE World Index.

5 Year relative performance of Finsbury Worldwide Pharma vs. FTSE World & Benchmark



Source: Winterflood Securities, Thomson Reuters

Winterflood View

After performing well in 2008, both pharma and biotech lagged the market recovery in 2009, partly as a result of the uncertainty over US healthcare reform. Although this is now resolved there has been no noticeable 'relief rally' to date. However, we remain positive on the prospects for the sector. Valuations remain near historic lows for the larger cap companies, while, in the longer term, biotech has the potential for substantial returns albeit with the risk inherent in drug discovery. The substantial M&A activity over the last few years, in our opinion, should continue to benefit biotech companies as major pharmaceuticals look to replenish their drug pipelines.

Finsbury Worldwide Pharmaceutical offers diversified exposure to the global pharma and biotech sectors. In our view, the fund benefits from a specialist and well resourced management team, with strong industry specific experience. The Board's recent decision to increase the dividend by 70% to 8.5p, means that yield, currently 1.3%, is now a higher component of the fund's total return. In addition, the Board's commitment to buyback shares at a 6% discount effectively underpins the fund's discount around this level. As such, we believe this fund is an attractive way to gain exposure to the healthcare sector.

■ Background & Management

Fund launched in
1995

Finsbury Worldwide Pharmaceutical, which was launched in 1995, is the largest specialist investment trust investing globally in pharmaceutical and biotechnology companies with assets of £370m. The fund raised just £16m at launch although there have been a number of subsequent fund raisings including £67m in January 2005 and £50m in 2009, the latter through the exercise of warrants. The fund's benchmark is the Datastream World Pharmaceutical and Biotechnology index.

Largest global
healthcare specialist

The fund's investment manager is OrbiMed Capital, a boutique company which specialises in the global health sciences industry. OrbiMed has managed the fund since its launch and has assets under management of around \$5bn. This New York based group was set up in 1989 and invests across the "life cycle" with its coverage extending from private equity through quoted biotech stocks to the big pharmas. It is headed by Sam Isaly who is supported by an extensive team of forty investment professionals, with extensive scientific, medical, finance and operational expertise.

Frostrow acts as
manager

In 2007, the fund's management contract moved from Close Investments to Frostrow Capital, a specialist provider of advisory and management services to investment companies. Frostrow, which is regulated by the FSA, provides management, administration, secretarial and other services to the fund.

■ Investment Process

Research driven
investment process

The investment process is research intensive, reflecting the manager's view that a focused portfolio of conviction stocks will lead to superior performance. The universe has grown considerably and consists of more than 750 quoted companies, the majority in the US. This universe is screened down based on valuations and growth prospects. The remaining companies are actively followed by OrbiMed's team of analysts who run valuation screens and meet management at least annually. The focus is on those companies that have a catalyst for an investment thesis and the best ideas are selected to form a core list of around 30 to 40 stocks. This list will tend to consist of 15 profitable companies (4-5% positions) and 20 emerging companies (1-3% positions).

Only conviction
stocks included

Once an investment thesis is formulated, it is presented at a regular portfolio review meeting. Changes are generally made on a 1 for 1 basis to ensure that only "conviction" stocks are included in the portfolio. 80% of the time sales are triggered by finding a more attractive "buy", while 20% of the time they will be the result of surpassing valuation targets or underperforming expectations. The research emphasis depends on the nature of the company:

- **Pharmaceutical** (distribution): management; market share gains from existing products; and pipeline for future growth.
- **Biotechnology** (discovery): management; innovative science; and sufficient resources to manage/fund growth. OrbiMed typically looks to buy biotech companies 2-3 years before profitability – they see profitability as an inflexion point with companies benefiting from improved liquidity and higher valuations, partly because many investors are only able to buy profitable companies. OrbiMed will look to gain an "edge" over other investors through its scientific expertise, including the ability to predict the success of drug trials based on clinical data.

Broad exposure of
60% pharma, 40%
biotech

The exact composition of the fund's portfolio has evolved since its launch in 1995 reflecting both the opportunity set in its investable universe and the growth in OrbiMed's resources. Originally, as its name suggests, the fund was primarily focused on Pharmaceutical companies but there has been an increasing emphasis on 'discovery' companies, essentially Biotechnology. There is a constraint that over 60% of the portfolio has to be in large-cap companies over \$5bn market cap – this includes the major Biotech companies, as well as the Pharmas. Up to 10% of assets can be invested in pre-IPO unquoted companies. The portfolio also encompasses other strategies and is increasingly investing in other related sectors within the broad Healthcare universe.

10% of the portfolio
in structured finance

The portfolio has had exposure to a derivatives strategy for a number of years following the recruitment of a specialist trader by OrbiMed. Similarly, the acquisition of a team formerly at Fortress, has provided structured finance expertise. Around 10% of the fund's portfolio is currently exposed to this strategy which provided good returns in 2009. The OrbiMed team is looking to make investments in other areas within the wider Healthcare universe including Medical devices, Healthcare services, Health Insurers, and Lifescience tools. These are all related areas to the current policy and reflect the management team's desire to broaden the mandate.

Investment process
not influenced by
Benchmark

The fund's benchmark is the Datastream World Pharmaceutical Index which includes a broad range of pharma and biotech stocks across more than 30 countries. Finsbury Worldwide Pharmaceutical uses this benchmark to measure long term performance, but it does not influence the investment process and the fund has no exposure to several of the largest stocks in the index.

■ Sector developments

US Healthcare Reform

Mixed impact from
US healthcare reform

After considerable wrangling and compromise, President Obama finally signed into law the US healthcare reform bill in March this year. OrbiMed's view on the reform is that a negative short-term financial impact should be offset by volume gains in years to come. Key points are:

- Positive measures for the biotech industry included the absence of a 'public plan' insurance option in the final bill and biotech drugs were given 12 years of market exclusivity
- Short term earnings will be affected by the expansion of the Medicaid rebate in 2010, new discounts on Medicare Part D drugs in 2011, and an excise tax on drugmakers from 2011.
- OrbiMed estimates that these measures will impact on the earnings of major biotech companies by less than 5%
- From 2014, healthcare coverage in the US will cover an additional 30 million people which should benefit biotech in terms of an increase in demand for drugs.

■ Portfolio

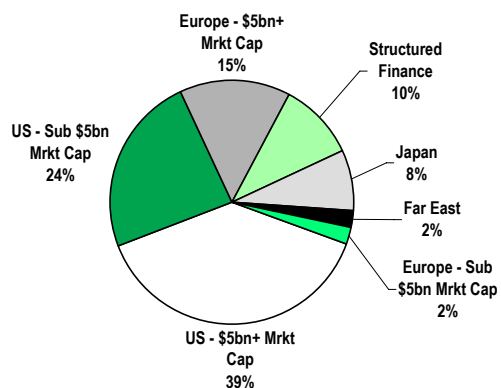
Underweight large
pharmaceuticals

The portfolio is focused on undervalued large cap biotech companies, growing pharmaceutical companies and smaller companies with significant growth prospects and/or the potential of being acquired. At the end of April this year, the portfolio contained 40 holdings and the fund remains overweight the biotechnology sector relative to the larger pharmaceutical companies. The portfolio has no exposure to a number of the major pharmaceuticals such as **GlaxoSmithKline**, **Sanofi-Aventis**, or **AstraZeneca**. OrbiMed considers all these companies unattractive due to the issue of patent expirations and lack of pipeline catalysts.

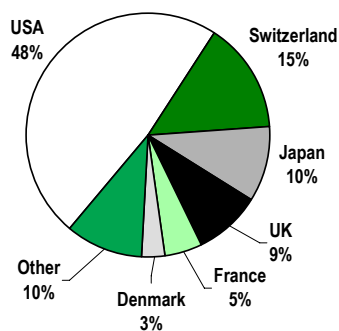
71% of assets in US
companies

The fund is heavily weighted towards North America, which represents 71% of assets, compared with 19% in Europe and 10% in Japan. This high weighting to the US against the rest of the world, mirrors the level of expenditure on healthcare there. However, OrbiMed is increasingly identifying opportunities throughout the world including Japanese generic drug providers and Chinese drug distributors. In Japan, the authorities are encouraging the use of generic drugs which has traditionally been lower than elsewhere in the developed world. Holdings include **Sawai Pharmaceutical** and **Nichi-iko Pharma**. OrbiMed has opened a Shanghai office to provide better investment access to the Chinese market and the key holding currently is **Sinopharm Medicine** which has seen its share price rise 17% so far this year in Sterling terms.

Portfolio exposure as at 27 May 2010



Benchmark by Country (by value) as at 27 May 2010



Source: Winterflood Securities, The Company

Source: Winterflood Securities, Thomson Reuters

Very positive
outlook on market

Gearing is currently 8% of net assets through short term borrowings and this is unlikely to exceed 20%. In order to hedge some of the dollar exposure, the majority of the fund's borrowings are in dollars.

Top Ten Holdings as at 27 May 2010

Company	Country	Market Cap (£m)	% of Total Assets
Johnson & Johnson	US	110,248	7.6
Roche	Europe	66,453	7.1
Pfizer	US	82,253	5.5
Merck	US	71,126	5.2
Novartis	Europe	81,475	5.0
Bristol-Myers Squibb	US	26,930	4.9
Shire	Europe	7,909	3.5
Genzyme	US	8,734	3.2
Sawai Pharmaceutical	Japan	871	3.1
Amgen	US	34,039	2.9
Total			48.0

Source: The Company, Winterflood Securities

Recent purchases & rationale

In the last year, the portfolio turnover has been in line with the long-term trend. Recent purchases and the broad rationale for investment are as follows:

- **Valuation:** A number of recent purchases are considered by OrbiMed to be attractively valued including **Pfizer**, which has the largest discount in the large cap pharma space, **Teva Pharmaceutical**, which has the potential for strong near-term operating performance, and **Warner Chilcott**.
- **Drug approvals:** A number of companies in the portfolio are awaiting FDA approval which should prove a catalyst for valuations. This includes **Endo Pharmaceuticals**, **Genmab**, and **Allergan** which OrbiMed believes could benefit from FDA approval of Botox for chronic headaches.
- **Strong growth prospects:** This could be a result of drug approval, operational improvements or simply strong sales growth. Recent purchases include **Celgene**, a fast growing Biotech company, **Hospira**, and **Sinopharm Medicine**, which is the leading pharmaceutical distributor in China.
- **Potential M&A candidates:** the fund previously had a sub-portfolio consisting of potential M&A candidates. OrbiMed is no longer pursuing this as a stand-alone strategy although there are a number of holdings in the portfolio that could benefit from corporate activity. This includes, **Dendreon**, which OrbiMed believes could benefit from the market under-estimating the potential of one of this company's drugs, Provenge.

Valuations look reasonable

Although, biotech and pharma have performed in line with the broader market over the last twelve months, valuations remain near to historical lows. Major US Pharmas are trading on a forward P/E of around 10x, significantly below the five year average of 17x. Relative to the S&P 500, US Pharma P/E ratios are also close to historic lows.

■ **Performance**

Pharma/Biotech Sector

Lagged bull market of 2003 to 2007

Throughout the bull market of 2003 to 2007, the Pharma and Biotech sectors significantly lagged the broader market. In the five years to the end of June 2008, the Datastream World Pharmaceutical Index delivered a total return in Sterling of just 11%, compared with a total return of 56% for the FTSE World Index. However, as the broader markets struggled, particularly in the second half of 2008, these sectors came back into favour due to their defensive characteristics and were among the few sectors to post positive absolute returns in 2008.

Asset class was in favour in 2008

In 2008, the Datastream Worldwide Pharmaceutical Index and Nasdaq Biotech Index returned 19% and 21% respectively, compared with a fall of 18% for the FTSE World Index. The fall in Sterling has had a significant impact on returns. When measured in dollars, the Datastream Worldwide Pharmaceutical Index delivered a total return of negative 14% in 2008 while the Nasdaq Biotech Index was down 13%.

Healthcare reform overshadowed sector

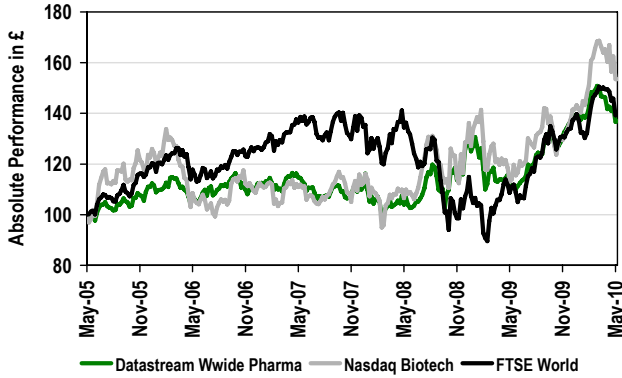
Conversely, the healthcare sector lagged the recovery in markets in 2009 with the Datastream Worldwide Pharmaceutical Index and Nasdaq Biotech Index up just 4% and 3% respectively, compared with 18% for the FTSE World Index. This was partly as a result of the uncertainty surrounding the Obama administration's proposals for healthcare reform.

Although this was resolved earlier this year, there has been no noticeable 'relief rally'. OrbiMed's view on the reform is that the measures have a mixed impact but are positive in that there is now greater certainty.

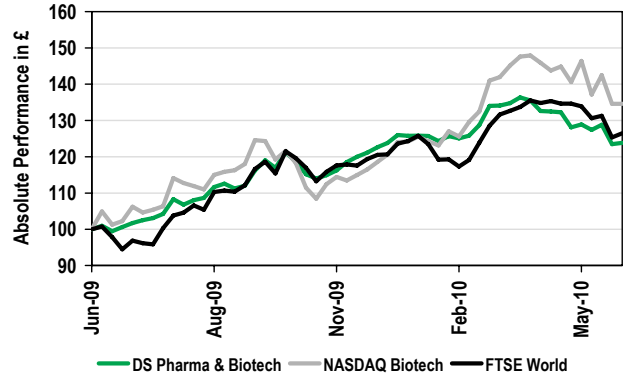
Biotech has
outperformed FTSE
World

Over a five year period, the Nasdaq Biotech Index is up 58% in Sterling compared with 37% for the FTSE World. The Datastream Worldwide Pharmaceutical Index has delivered a total return in Sterling of 35% over the same period. Though as the charts below show, these returns have been delivered in very different fashions.

Absolute Performance Comparisons over 5 Years



Absolute Performance Comparisons – 1 Year



Source: Winterflood Securities, Thomson Financial

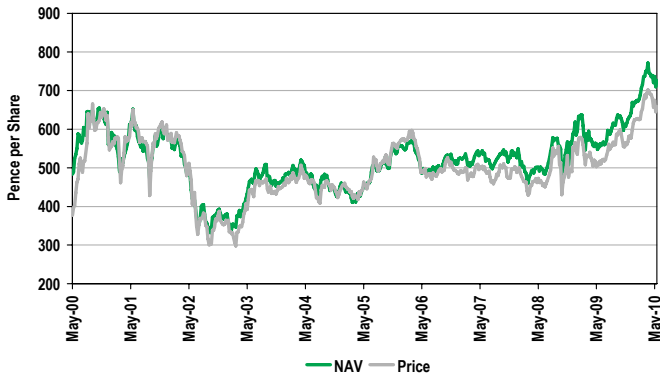
Source: Winterflood Securities, Thomson Financial

Finsbury Worldwide Pharmaceutical – Long-term Performance

Strong long-term
performance record

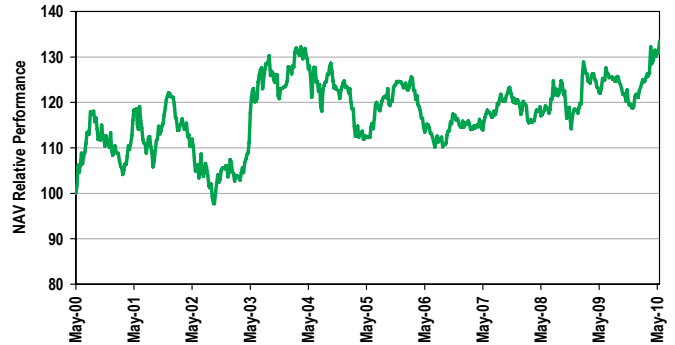
Finsbury Worldwide Pharmaceutical has an impressive long term track record, delivering total return NAV growth of 667% since its launch in April 1995, against an equivalent return of 303% for the Datastream Worldwide Pharmaceutical Index and 156% for the FTSE World Index in Sterling. Traditionally, the fund has tended to outperform when biotech has been in favour due to its emphasis on large cap Biotech.

10 Year Absolute Price & NAV Performance



Source: Winterflood Securities, Thomson Reuters

10 Year NAV Performance relative to Datastream World Pharma

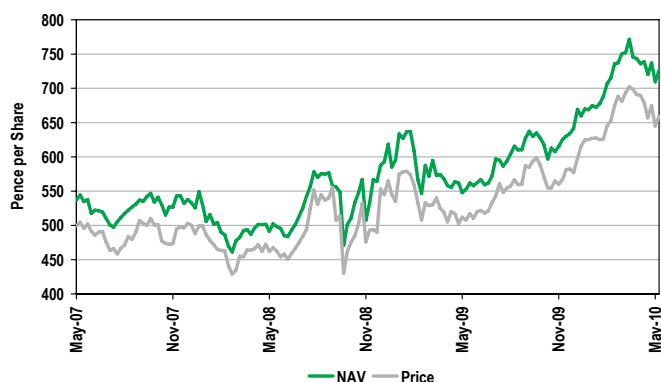


Source: Winterflood Securities, Thomson Reuters

Structure finance
exposure positive

Over the past three years the NAV is up 32%, compared with a rise of 17% for the benchmark and a fall of 1% for the FTSE World Index. The fund performed in line with the benchmark during 2008 while outperforming in 2009 when market conditions improved. Recent performance has been assisted by the fund's exposure to structure finance which saw exceptional returns in 2009. Japanese generics have also proved strong over the last twelve months. In the fiscal year ending in March this year, the best performer in percentage terms was **InterMune** (+109%) followed by **XOMA** (+85%) and **Sinopharm Medicine** (+81%). The worst was **Medicines Co** (-65%) followed by **Genomic Health** (-28%), and **Biogen** (-20%).

3 Year Absolute Price & NAV Performance



Source: Winterflood Securities, Thomson Financial

3 Year NAV Relative Performance relative to Datastream World



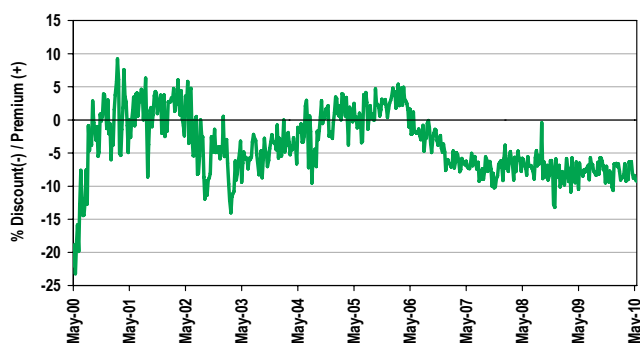
Source: Winterflood Securities, Thomson Financial

■ Discount History

Discount is under-pinned

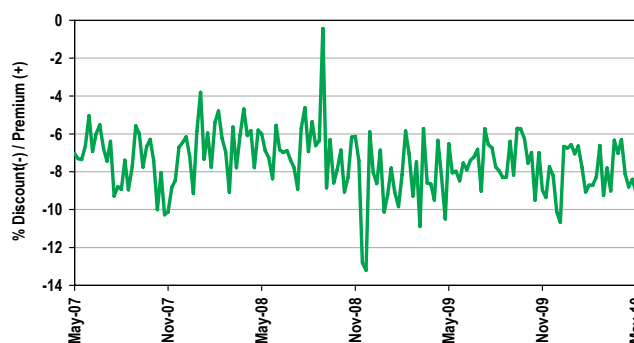
Over the last year, the discount has fluctuated between 5% and 12%, with occasional spikes driven by market volatility. It is currently around 7%, just slightly wider than the board's discount target of 6%. Since the start of 2007, 25.1m shares have been bought in worth £130m. Prior to the issuance of shares through the exercise of warrants in July 2009, over 30% of the fund's shares in issue had been bought back. The fund now has 7.7m shares worth around £50m in treasury which can be issued at a discount tighter than 5%. These shares will be cancelled at the fund's AGM in July if they are not issued by then.

Discount History over 10 Years



Source: Winterflood Securities, Thomson Financial

3 Year Discount History



Source: Winterflood Securities, Thomson Financial

■ Warrants & subscription shares

10.7m sub shares issued in 2009

As part of a fund raising in December 2004, the company issued bonus warrants on a one for five basis to all shareholders. These expired in July 2009 when 10.7m warrants were exercised at 464p per share. Consequently, the fund's net assets were increased by £49.9m to £288m, an increase of 21%. Following the expiry of these warrants, 9.7m subscription shares were issued in September 2009 to ordinary shareholders on a one for five, bonus, basis.

Final date of 31 July 2014

Holders of the subscription shares have the right to subscribe for one ordinary share on each of 31 October, 31 January, 30 April and 31 July until 31 July 2014. The subscription price is as follows:

- 614p on 31 July 2010
- 638p on any subscription date between 1 August 2010 and 31 July 2012
- 699p on any subscription date between 1 August 2012 and 31 July 2014

The subscription shares currently have a mid price of 71.5p and the ordinary shares have a mid price of 650.5p.

■ Winterflood View

Sector remains attractive

We remain positive on the prospects for the healthcare sector. At the larger end, valuations remain at or near to historic lows and, in a period of renewed market uncertainty, we believe that the sector could benefit from its defensive characteristics. Over the long term, biotech still holds the prospect of substantial returns albeit with the risk surrounding drug discovery. M&A activity, in our opinion, should benefit biotech companies as major pharmaceutical companies with strong balance sheets look to replenish their drug pipelines.

Expect to outperform pure Pharma funds

Given Finsbury Worldwide Pharmaceutical's high exposure to Biotechnology companies, we would expect that the fund will outperform a fund investing predominantly in Pharmaceutical companies in decent market conditions. While the fund's portfolio could be viewed as a higher risk play, this reflects where the OrbiMed management team see the opportunity in the Healthcare sector over the medium and long-term. The key advantage of their approach is the experience and depth of their investment team. OrbiMed is a specialist with a proven track record that, by dint of its medical expertise and experience, is very close to the healthcare industry. In our view, this advantage is best applied to the biotech side of the industry where the team's focus on drug development allows them to invest with a greater certainty of success in a high risk industry.

Attractive exposure to healthcare sector

Although we are currently recommending its sister fund, the Biotech Growth Trust, we recognise that this fund's risk return profile is not appropriate for many investors. In our opinion, Finsbury Worldwide Pharmaceutical provides significant exposure to the high potential returns of biotech companies while its exposure to the giants of the Pharmaceutical sector should lead to less volatile returns. Given its high biotech exposure, Finsbury Worldwide Pharmaceutical is unlikely to ever be a yield play despite the weighting to structured finance. However, the Board's recent decision to increase the dividend by 70% to 8.5p, which is fully covered by current earnings, means that yield, currently 1.3%, is now a higher component of the fund's total return. The commitment to buyback shares at a 6% discount effectively underpins the fund's discount around this level. As such, we believe this fund is an attractive way to gain exposure to the healthcare sector.

**Finsbury Worldwide Pharmaceutical Trust & The Biotech Growth Trust are corporate broking clients of Winterflood Securities*

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** Team Support*

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