

A pioneer in biotechnology investments

Investment mandate

Since the launch of the Pictet-Biotech fund in 1995, Pictet has provided investors with access to the growth opportunities in Biotechnology. In order to carefully manage the risks of this comparably volatile market, the investment universe of the fund has been designed to focus on companies that have a commercially successful business model. Small companies with great ideas, but no near-term sales potential, are filtered out of the investment focus. Except for these few but important constraints, the fund manager is free to select companies from any market, provided they are listed on a public stock exchange.

Hence, the focus is on enterprises that successfully sell biotech drugs or have drug projects in late stages of the development process (Phase III). Generally, they are comparably large in market capitalisation.

Our fund's investment strategy can be summarised as follows:

- *Active management*, in areas where there is solid evidence of the potential to generate alpha over the long term by taking active risk;
- *Focus on bottom-up stock selection*, with the emphasis on fundamental analysis and company visits;
- *Continuous risk management*, integrated into the investment process, and then ensured by independent risk control units;
- *A non-benchmark style* as no one index is able to fully reflect the diversity of the sectors we invest in.

Reference index

For the daily management of the fund, the fund manager has no obligation to beat any particular index. None of the well known biotechnology indices are anything close to the investment objective of the Pictet-Biotech fund and all have their drawbacks.

- *Nasdaq Biotech Index*: almost US-only index; various constituents are by no means biotech firms (ex. Mylan, Shire, Teva, Warner Chilcott)
- *AMEX Biotech*: US-only and equal-weighted index; only 20 constituents
- *MSCI World Biotechnology Index*: global index, only 11 constituents

Consequently, any comparison to one of the above three indices is for illustration purposes only and has no reference to the investment approach.

Why compare with Nasdaq Biotech Index anyway?

Since the investment community asks for a reference point. We selected the NBI because it is a well known index, while always emphasising that it is a Reference Index and **not a Benchmark**. In this sense, the NBI is the "least bad" of the three, with no material impact on the fund's strategic positioning or its day-to-day management.

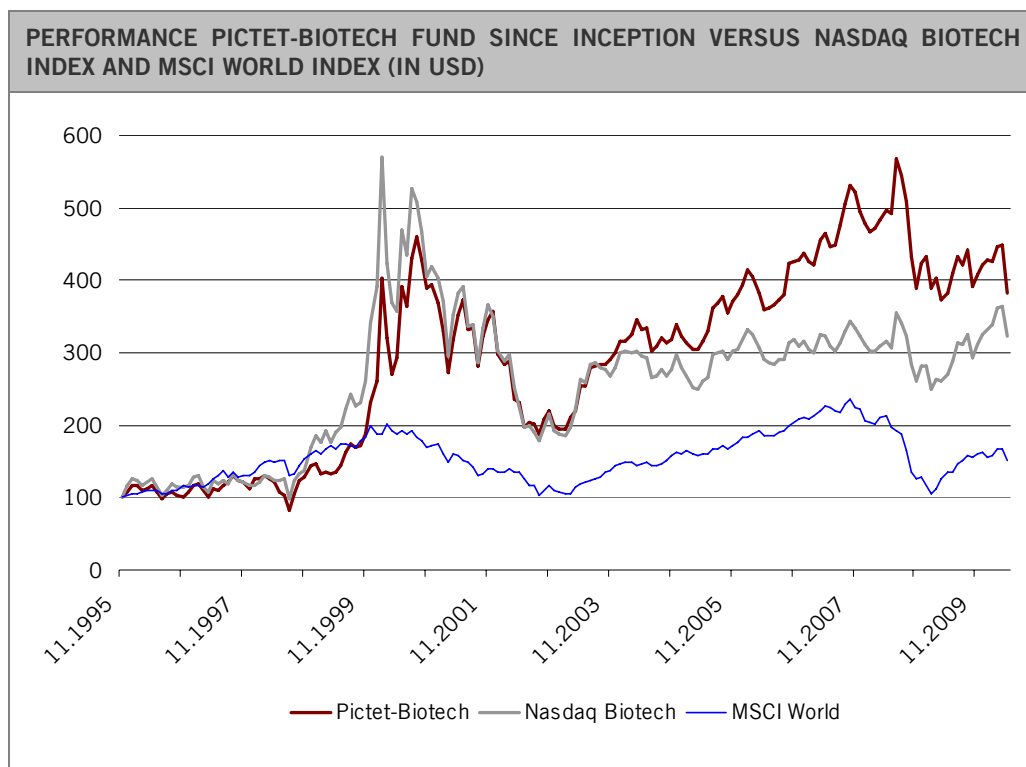
Performance relative to Reference Index

The Pictet-Biotech fund has outperformed the NBI 10 out of 14 years. In the past, it was only in 1998-99, when the biotechnology bubble was being built up, that the fund achieved returns lower than those of the NBI. For one, this had been the result of soaring stock prices of companies that were selling a lot of hope on the back of illusive expectations, both scientifically and economically. Furthermore, the index itself did not accurately measure the diversity of the industry at that time, with a company like Amgen, for instance, making up approximately 40% of the index, a weight that the fund was not allowed to have in any particular stock for legal reasons.

Albeit the situation of 2008-09 is not quite the same as it was in the late 1990s, the fund most recently went through a period of relative underperformance

compared with the NBI. The reasons for this situation, which have been discussed over the last months, can be summarised in short as follows:

- *Defensive characteristics* of the management mandate vs. increased risk appetite of the investor community, favouring small-cap stocks over large caps, a trend that goes into 2010
- *Strong performance of the non-biotech constituents* of the NBI.
- *A few missed opportunities* and stock picks that failed.



Source: Pictet

YEAR-ON-YEAR PERFORMANCE OF FUND VERSUS NBI (IN USD AND EUR)

Absolute year-on-year fund performance														
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Pictet-Biotech-P USD	-0.4	3.1	30.1	60.0	69.7	-10.9	-43.2	50.4	13.3	11.9	13.0	15.4	-14.3	-0.7
Pictet-Biotech-P EUR						-6.0	-51.9	25.7	5.0	28.1	1.4	4.4	-10.5	-3.3
Relative year-on-year fund performance versus Nasdaq Biotech Index														
Pictet-Biotech-P USD	0.7	5.5	-18.7	-41.7	46.7	5.3	2.1	4.6	7.2	9.0	12.0	10.9	-1.7	-16.3
Pictet-Biotech-P EUR						5.6	1.8	3.9	6.67	10.3	10.8	9.8	-1.8	-15.9

Source: Pictet

Sectoral manages funds for Pictet since 2000

In 2000, Pictet mandated Sectoral Asset Management Inc. (“Sectoral”) to manage the Pictet-Biotech fund. Since the launch of the Pictet-Generics fund in 2004, Sectoral has also been the investment advisor in charge for this product. The person in charge of the management of both funds is Michael Sjöström, CIO and Co-founder of Sectoral. He previously worked at Pictet & Cie from 1993 to 2000, and has been in charge of managing the Pictet-Biotech fund since its inception in 1995.

Conclusions

Despite the Pictet-Biotech fund lost, for credible and traceable reasons, part of its performance edge most recently, Pictet Funds will not move to a close benchmarking approach and, accordingly, will not change the characteristics of the investment mandate given to Sectoral.

Contact

Pictet Funds S.A.
Route des Acacias 60,
1211 Geneva 73, SWITZERLAND

Pictet Funds S.A. Zurich Office
Freigutstrasse 12, 8002 Zurich, SWITZERLAND

Pictet & Cie (Europe) S.A.
Niederlassung Frankfurt
Neue Mainzer Strasse 1
60311 Frankfurt am Main, GERMANY

Pictet Asset Management Ltd
Moor House, Level 11, 120 London Wall,
London EC2Y 5ET, UNITED KINGDOM

Pictet & Cie (Representative Office)
Sheikh Zayed Road - Park Place, 12th Floor
PO Box 125567, Dubai, UNITED ARAB EMIRATES

**Pictet & Cie (Europe) S.A.
Succursale Italiana**
Via Fratelli Gabba 1/A
20121 Milan, ITALY

**Pictet & Cie (Europe) S.A.
Sucursal en España**
Calle Hermosilla 11, 28001 Madrid, SPAIN
Pictet & Cie (Europe) S.A. Succursale de Paris
34, avenue de Messine,
75008 Paris, FRANCE

Pictet (Asia) Limited
Room 3901-10, Edinburgh Tower, The Landmark
15, Queen's Road Central, HONG KONG

Pictet Funds (Europe) S.A.
3, boulevard Royal,
L-2449 LUXEMBOURG

Tel. 0041 58 323 30 00 - www.pictetfunds.com

This marketing document is issued by Pictet Funds (Europe) S.A. It is neither directed to, nor intended for distribution or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. Only the latest version of the fund's prospectus, regulations, annual and semi-annual reports may be relied upon as the basis for investment decisions. These documents are available on www.pictetfunds.com or at Pictet Funds (Europe) S.A., 3 Boulevard Royal, L-2449 Luxembourg.

The information and data presented in this document are not to be considered as an offer or solicitation to buy, sell or subscribe to any securities or financial instruments. Information, opinions and estimates contained in this document reflect a judgment at the original date of publication and are subject to change without notice. Pictet Funds (Europe) S.A. has not taken any steps to ensure that the securities referred to in this document are suitable for any particular investor and this document is not to be relied upon in substitution for the exercise of independent judgment. Tax treatment depends on the individual circumstances of each investor and may be subject to change in the future. Before making any investment decision, investors are recommended to ascertain if this investment is suitable for them in light of their financial knowledge and experience, investment goals and financial situation, or to obtain specific advice from an industry professional.

The value and income of any of the securities or financial instruments mentioned in this document may fall as well as rise and, as a consequence, investors may receive back less than originally invested. Risk factors are listed in the fund's prospectus and are not intended to be reproduced in full in this document.

Past performance is neither guarantee nor a reliable indicator of future results. Performance data does not include the commissions and fees charged at the time of subscribing for or redeeming shares. This marketing material is not intended to be a substitute for the fund's full documentation or for any information which investors should obtain from their financial intermediaries acting in relation to their investment in the fund or funds mentioned in this document.