

LSP Life Sciences Fund N.V.

Report on the first half of 2014

LSP LIFE SCIENCES FUND N.V.

(no audit or limited review is performed)

Report on the first half of
2014

Visiting address

Johannes Vermeerplein 9
1017 DV Amsterdam
The Netherlands

Website

<http://www.lspvc.com/funds/public.html>

Fund Manager

LSP Advisory B.V.
Johannes Vermeerplein 9
1017 DV Amsterdam
The Netherlands

Legal and Tax advisor

Clifford Chance LLP
Droogbak 1a
1013 GE Amsterdam
The Netherlands

Fund Agent and Administrator

KAS BANK N.V.
Nieuwezijds Voorburgwal 225
1012 RL Amsterdam
The Netherlands

Custody Bank

KAS BANK N.V.
Nieuwezijds Voorburgwal 225
1012 RL Amsterdam
The Netherlands

Auditor

KPMG Accountants N.V.
Laan van Langerhuize 1
1186 DS Amstelveen
The Netherlands

CONTENTS

PROFILE.....	4
DIRECTORS' REPORT	6
BALANCE SHEET on 30 June 2014	9
PROFIT AND LOSS ACCOUNT for the period 1 January – 30 June 2014	10
CASH FLOW STATEMENT for the period 1 January – 30 June 2014.....	11
SELECTED NOTES TO THE REPORT ON THE FIRST HALF OF 2014.....	12
OTHER INFORMATION.....	26

PROFILE

General information

LSP Life Sciences Fund N.V. (the Fund) is a public company with the status of an investment company with variable capital organised and established under the laws of the Netherlands on 18 April 2011. The Fund has its statutory seat in Amsterdam, the Netherlands and is registered at the Trade Register of the Chamber of Commerce in Amsterdam under file number 52545474. The Fund is an open-end investment fund listed on Euronext Amsterdam. The Fund qualifies as a tax-exempt investment fund within the meaning of article 6a of the Dutch corporate income tax act. Accordingly, the Fund is not subject to Dutch corporate income tax.

Investment strategy

The Fund's primary investment objective is to achieve capital appreciation by investing in a diversified, yet concentrated portfolio of publicly listed life sciences companies (including biopharmaceutical, specialist pharmaceutical, medical device, drug delivery, vaccine and diagnostic companies). The majority of the Fund's portfolio will consist of European companies listed on one of the (main) European stock exchanges, with a market capitalization of below Euro 1 billion at the time of investment. The Fund Manager believes that in particular this sub-segment of companies – generally referred to as the small- and midcap segment – offers great potential for value growth. Typically, these companies will have developed a suite of innovative technologies that offer benefit over existing technologies and approaches. In addition, these companies have frequently established a product development pipeline that consists of therapeutics that have the potential to offer clinical benefit to a large and/or underserved market. The Fund intends to specifically target those companies that are projected to realize important clinical, regulatory or commercial milestones, value-enhancing partnerships and/or offer M&A potential. By doing so, the Fund expects to benefit from the value increases that frequently accompany the announcement of such milestones, partnerships or M&A transactions.

Sustainable and responsible investing (SRI)

Sustainable and responsible investing means giving due consideration to environmental, social and governance (ESG) investment risks and opportunities – the pillars of the Sustainability model. The Fund uses these Sustainability measures, combined with more traditional methods of financial and company evaluation methods, to identify the very best investment opportunities.

The due diligence process of the Fund is structured and well-validated in the selection of companies with the 'best-in-class' approach within sub-sectors of our target market. On a macro level, an assessment is performed of the key need for the products which are the core assets of the company, the competitive environment in which the companies operate as well as of potential future developments which may impact the sustainability of the company's approach. On a company specific level, the key medical benefits of each of the products within the portfolio and their potential social and environmental impact are analysed. Furthermore the quality of management and their approach to corporate governance issues which may impact the company's reputation and investor confidence are reviewed as part of the due diligence process.

By focusing on sustainable investments in life sciences companies, the Fund believes that its investments help to support the development of all manner of medical innovation which could promote a better quality of life and increase life expectancy. In developing drugs, vaccines and other solutions for unmet medical needs or expanding the availability of medications, companies within the life sciences sector help to keep people healthier for longer, thereby improving productivity through reduced sick leave and reducing the burden on the healthcare system and society.

Fund Governance

The Fund is managed by LSP Advisory B.V. as sole managing director of the Fund. LSP Advisory B.V. is a wholly owned subsidiary of LSP Management Group B.V.

The Fund Manager is responsible for the entire management of the Fund in accordance with the provisions of the Fund's organizational documents and applicable laws. The investment team of the Fund Manager consists of three individuals - Mark Wegter, Joep Muijters and Geraldine O' Keeffe – who have complementary investment skills and backgrounds relevant to the Fund's business.

The investment team receives full support from the in-depth industry knowledge of the entire cross-Atlantic and pan-European LSP organization. The Fund Manager is further supported by LSP's established, global network of advisors and experts who bring specific expertise essential for performing in-depth due diligence on potential and existing investee companies.

The Fund Manager has been granted a license pursuant to Article 2:65 of the Dutch Financial Markets Supervision Act (Wft) by the Authority for the Financial Markets on 12 April 2011.

The Supervisory Board of the Fund comprises of three members, all having relevant expertise on the Fund's business. At the annual general meeting of shareholders on 27 May 2014, Hanso Idzerda has been appointed as member of the Supervisory board as successor to Tom van Wijngaarden. The principal duties and responsibilities of the Supervisory Board include (i) the supervision of the management of the Fund as performed by the Fund Manager as well as to supervise the general course of affairs of the Fund, and (ii) resolving any conflict of interest situation the Fund is involved in.

DIRECTORS' REPORT

Investment Performance

As per the end of June 2014, the Fund has been operational for over three years and has performed well over that period. Having launched the fund in May 2011 at € 100 a share, we made a suite of investments and divestments over the intervening period. Again, as we have seen in 2013, a number of these investments have achieved major value increasing milestones during the past half year. As a result, the Net Asset Value per share moved from Euro 133.95 as at 31 December 2013 to Euro 160.22 (plus 19.6%) as at 30 June 2014. The Fund recorded a profit for the period of Euro 12.27 million. As outlined in the prospectus, the Fund aims to provide absolute return for its investors. The Fund Manager is of the opinion that there is no proper benchmark available, which can be used to evaluate the Fund's performance. Therefore, no comparative benchmark data is presented in this report. Importantly, as previously stipulated in our 2013 Director's report, we focus to a lesser extent on short term investment opportunities and remain convinced of our strategy of building a balanced portfolio with investments that offer upside in the mid- to long term (on average 1 to 2 years). Our portfolio primarily holds investments in companies that have a market cap below Euro 1 billion, a space of limited investor focus. As at 30 June 2014 the portfolio amounted to Euro 65.03 million, holding 17 names.

The portfolio consists exclusively of shares and warrants in listed life sciences companies that jointly provide a balanced - yet concentrated - exposure to the sector. Investments have been spread across clinical stage of development, disease area, geography, field of technology and business model. The majority of the investments in the period were in the area of drug development, combined with investments in innovative diagnostics, medical devices and specialty pharma companies. Equity stakes were predominantly below 5% of the portfolio company's outstanding capital, the exact size depending on company specific factors such as liquidity, market capitalization, timing of expected news flow and long term outlook. Holding periods consequently varied. The vast majority of the investments were in European companies. Historically, since May 2011, we have invested some 77% in European companies, the balance in US companies. Contrary to 2013, we were not offered participation in a number of structured investment opportunities, but we did see many IPOs coming to market. The monthly reports of the Fund that are published on the Fund's website provide the current portfolio composition and list as well the top-5 best performing stocks of the respective month.

Outlook

As we described in our last Director's report, we continue to believe there is substantial upward potential in the LSP Life Sciences Fund, with significant additional milestones and news flow expected from its portfolio companies in the year 2014. Already, some of the anticipated milestones have materialized in the first months of the year, as exemplified by the strong performance of the fund since the beginning of 2014. We believe there is further upward potential in the current portfolio investments in the coming months, should certain anticipated milestones materialize in favour of the investment companies. Going forward, the Fund will continue to selectively add and dispose of companies in line with its investment strategy.

Fund's risk management

The Fund has established a risk management function that monitors the risks, among other things, on the basis of periodic reports from the fund administrator and other service providers. Please refer to pages 22 - 24 of the financial statements for a more detailed description.

Fund policy regarding conflicts of interest

The Fund Manager has implemented a policy regarding conflicts of interest to ensure that it maintains correct and professional relationships with its current and potential clients, and adheres strictly to the provisions of the relevant rules and regulations. This conflicts of interest policy is available on the Fund Manager's website.

Fund policy regarding voting rights and voting conduct

The Fund Manager will actively exercise, or deliberately refrain from exercising, voting rights attached to the Fund's shares in its portfolio companies. The Fund Manager will determine the manner in which voting rights are being exercised on a case-by-case basis, but at all times in the best interests of the Fund and the investors of the Fund. During the first half year of 2014 the Fund Manager has not exercised its voting rights.

Developments in laws and regulations

The Fund Manager has prepared itself to comply with the Alternative Investment Fund Management Directive or AIFMD which comes into effect on 22 July 2014. The directive includes amongst others guidelines for risk management, custody of assets and outsourcing. Furthermore it prescribes the appointment of a separate and independent depositary.

Administrative organization and internal controls

The Fund Manager and the Fund have documented the administrative organization and internal controls in accordance with the Dutch Financial Markets Supervision Act (Wft) and the Decree on Market Conduct Supervision of Financial Business (Bgfo). During the reporting period we have reviewed the various aspects of our operations. Our work did not find anything that would lead us to conclude that the administrative organization and the system of internal controls as referenced in article 121 of the Bgfo does not satisfy the requirements as laid down in the Bgfo and related regulations. Furthermore, we did not find that the administrative organization and internal controls are ineffective or that they do not operate in accordance with their description.

Based on the above, we declare as Fund Manager of the LSP Life Sciences Fund N.V. that we are in possession of a description of the administrative organization and internal controls in accordance with Article 121 of the Bgfo, which fulfils the requirements of the Bgfo. We also state with a reasonable degree of certainty that the administrative organization and the system of internal controls was effective and operated in accordance with its description during the reporting period.

The director of LSP Life Sciences Fund N.V. confirms to the best of its knowledge that:

- the financial statements for the first half of 2014 have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code and give a true and fair view of the assets, liabilities and financial position of LSP Life Sciences Fund N.V. as at 30 June 2014 and of its result for the period then ended.
- the report includes a fair review of the key developments of the Fund during the period and the effects thereof on the half year report, together with the principal risks and uncertainties of upcoming six months.
- the report provides adequate disclosure of the principal transactions with related parties.

The director

LSP Advisory B.V.

Mark Wegter

Joep Muijers

Geraldine O'Keeffe

BALANCE SHEET on 30 June 2014(in thousands of Euro's, before appropriation of the result)
(no audit or limited review is performed)

	Note	30 June 2014	31 December 2013
Assets			
Investments	1		
Investments in securities		59,495	52,627
Investments in derivatives		5,540	6,581
		65,035	59,208
Receivables			
Issued capital receivable from shareholders		27	170
Other assets	2		
Intangible assets		59	78
Cash accounts		9,541	4,684
		9,600	4,762
Total Assets		74,662	64,140
Liabilities and shareholders' equity			
Shareholders' equity	3		
Issued share capital		433	467
Share premium		42,231	47,742
Statutory reserve		59	78
Other reserves		14,324	1,530
Unappropriated result		12,273	12,775
		69,320	62,592
Current liabilities	4		
Creditors and accrued expenses		5,342	1,548
Total Liabilities and shareholders' equity		74,662	64,140
Net Asset Value per share		160.22	133.95

PROFIT AND LOSS ACCOUNT for the period 1 January – 30 June 2014

(in thousands of Euro's)

(no audit or limited review is performed)

	Note	30 June 2014	30 June 2013
Realized movements in investments and other assets	5		
Realized movements on securities		8,759	1,424
Unrealized movements in investments and other assets	5		
Unrealized movements on securities		8,730	5,050
Unrealized movements on derivatives		-1,041	2,227
Currency results on cash accounts		-592	299
		7,097	7,576
Expenses			
Administration expenses	6	3,465	1,016
Other operating expenses	7	19	19
Tax on dividends	8	26	-
Interest expenses on cash accounts		73	81
		3,583	1,116
Result for the period		12,273	7,884

CASH FLOW STATEMENT for the period 1 January – 30 June 2014(in thousands of Euro's)
no audit or limited review is performed)

	30 June 2014	30 June 2013
Cash flows from investment activities		
Net result	12,273	7,884
Realized movements in investments and other assets	-8,759	-1,424
Unrealized movements in investments and other assets	-7,097	-7,576
Purchase of investments and other assets	-30,538	-22,421
Sale of investments and other assets	41,159	18,448
Change in amounts receivable	143	-2,263
Change in intangible assets	19	19
Change in current liabilities	3,794	2,834
	10,994	-4,499
Cash flows from financial activities		
Issue of shares	8,181	5,818
Redemption of shares	-13,726	-1,191
Total cash flows from financial activities	-5,545	4,627
Currency results on cash accounts	-592	299
Net change for the period	4,857	427
Opening balance	4,684	6,549
Closing balance	9,541	6,976
	4,857	427

SELECTED NOTES TO THE REPORT ON THE FIRST HALF OF 2014

General

LSP Life Sciences Fund N.V. (the Fund) is a public limited liability company with the status of an investment company with variable capital organised and established under the laws of the Netherlands on 18 April 2011. The Fund has its statutory seat in Amsterdam, the Netherlands. The Fund is an open-end investment fund listed on Euronext Amsterdam. The Fund is managed by LSP Advisory B.V. as sole managing director of the Fund.

The purpose of the Fund is to achieve capital appreciation by investing in a diversified, yet concentrated portfolio of publicly listed life sciences companies (including biopharmaceutical, specialist pharmaceutical, medical device, drug delivery, vaccine and diagnostic companies).

The Fund qualifies as a tax-exempt investment fund within the meaning of Article 6a of the Dutch Corporate Income Tax Act. Accordingly, the Fund is not subject to Dutch corporate income tax.

Accounting principles

General

The financial year of the Fund corresponds to the calendar year. This report has been prepared in accordance with generally accepted accounting principles in the Netherlands, and in compliance with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code.

The functional currency of the Fund is Euro and the financial statements are presented in thousands of Euro's except per share data.

To facilitate comparison, the presentation of the comparative figures has been amended where deemed necessary.

Unless specifically specified otherwise the Fund applies the historical cost convention and for monetary financial instruments the amortised cost convention, both less any value adjustments deemed necessary. Furthermore, the accrual method of accounting has been applied which means that income and expenses are recognised in the period to which they relate rather than the period in which they have been paid or received.

Foreign currency translation

Unless otherwise stated, assets and liabilities denominated in foreign currencies are translated into the Fund's reporting currency at the exchange rates at closing date. Revenues and expenses denominated in foreign currencies are translated into Euro's at rate prevailing at the transaction date. Resulting currency exchange differences are taken into the Profit and Loss account under currency results.

The exchange rates at 30 June 2014, in Euro	
British Pound	1.24891
Danish Crown	0.13413
Swedish Krona	0.10925
Swiss Franc	0.82362
United States Dollar	0.73038

Investments*Securities*

Investments are recorded at their fair value. The Fund only has investments in listed securities for which fair value is determined at their closing price on the valuation date on the relevant exchanges. Transaction costs in respect of purchase and sale of investments are included in unrealized and realized movements in investments.

Derivatives

Derivatives (warrants) are measured at fair value on initial recognition. After initial recognition, these derivative financial instruments are carried at fair value, with gains and losses recognized in unrealized and realized movements in investments in the Profit and Loss account.

In the absence of a quotation, the fair value of the warrants is calculated using the Black-Scholes Discrete model, taking into account the exercise price of the warrant, the remaining life of the warrant, the vesting period of the warrant, the share price of the underlying security at valuation date, the risk-free interest rate, the expected volatility and the expected dividend yield.

Intangible assets

Establishment expenses are capitalized at the level of the Fund and are amortized over a period of 5 years.

Share premium account

This reserve originates from the issue and from the redemption of shares.

Other assets and liabilities

Cash accounts and liabilities are shown at their nominal value.

Profit and Loss account

Income and expenses are accounted for in the period to which they relate.

Income

Dividends are recognised on an ex-dividend date basis. If the Fund elects to receive a stock dividend in lieu of a cash dividend, an amount equal to dividends not received is included in income. When the Fund receives a stock dividend when there is no cash alternative, an amount equal to the nominal value of the shares issued is included in income to the extent that such stock dividend is regarded as revenue for Dutch tax purposes.

Expenses

Administrative expenses are dealt with on an accrual basis. All expenses are charged to the Profit and Loss account.

Cash Flow statement

The Cash Flow statement is prepared by using the indirect method.

Notes to balance sheet**30 June 2014** **31 December 2013****1. Investments**

The changes in securities are shown below:

Securities

Market value beginning of period	52,627	31,577
Purchases	30,538	51,630
Sales	-41,159	-41,826
Unrealized price movements	8,138	4,351
Unrealized currency movements	592	-556
Realized price movements	9,142	7,819
Realized currency movements	-383	-368
Market value at end of period	59,495	52,627

All the securities are listed.

The changes in derivatives are shown below:

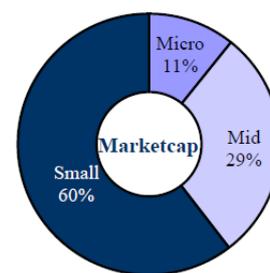
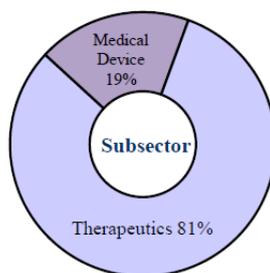
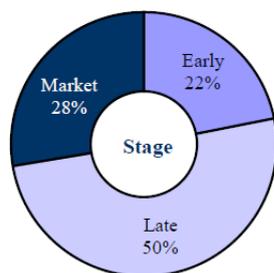
Derivatives

Market value at beginning of period	6,581	3,195
Unrealized price movements	-1,047	3,409
Unrealized currency movements	6	-23
Market value at end of period	5,540	6,581

The parameters used for the valuation of the non-listed warrants are:

Parameter	Warrant A	Warrant C	Warrant D
Expiration date	May 2017	July 2018	July 2018
Remaining life	2.92 years	4.04 years	4.04 years
Price of underlying share at value date	USD 10.25	GBP 0.2500	GBP 0.2500
Exercise price	USD 3.40	GBP 0.9250	GBP 0.4400
Vesting period	-	-	-
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	108.04%	30.77%	30.77%
Rate of yield curve	0.96%	2.00%	2.00%

The Fund's investments are classified according to stage, subsector and market capitalization. The breakdown of the Fund's portfolio per 30 June 2014 is shown below.



Stage at period end	2014-06	2013-12
Early Stage	22%	17%
Late Stage	50%	45%
Market	28%	38%

Subsector at period end	2014-06	2013-12
Therapeutics	81%	51%
Medical Device	19%	38%
Specialty Pharma	0%	10%
CRO	0%	1%
Diagnostics	0%	0%

Marketcap at period end	2014-06	2013-12
Microcap	11%	14%
Smallcap	60%	69%
Midcap	29%	17%

Portfolio breakdown

The below table shows the portfolio breakdown of the Fund grouped per company (including warrants) as a percentage of the total Fund's Net Asset Value.

Company	Stage	Subsector	Marketcap	%
InterMune	Market	Therapeutics	Mid	9.3%
Innate Pharma	Early	Therapeutics	Small	9.1%
Prosensa	Late	Therapeutics	Small	9.0%
AcelRX	Late	Medical Device	Small	7.5%
Genmab	Market	Therapeutics	Mid	7.1%
Enanta Pharmaceuticals	Late	Therapeutics	Small	6.8%
Ablynx	Early	Therapeutics	Small	6.5%
Lombard Medical	Late	Medical Device	Micro	6.3%
Neurocrine Biosciences	Late	Therapeutics	Small	6.1%
GW Pharmaceuticals	Market	Therapeutics	Mid	5.7%
MorphoSys	Early	Therapeutics	Mid	4.9%
NeoStem	Late	Therapeutics	Small	4.0%
Sphere Medical	Market	Medical Device	Micro	3.8%
Orexigen Therapeutics	Late	Therapeutics	Small	3.3%
Galapagos	Late	Therapeutics	Small	3.1%
Auspex Pharmaceuticals	Late	Therapeutics	Small	0.9%
Synergy Pharmaceuticals	Late	Therapeutics	Small	0.5%

	30 June 2014	31 December 2013
2. Other assets		
<u>Intangible assets</u>		
Establishment expenses	195	195
Depreciation	-136	-117
Value at end of period	59	78

The intangible assets consist of the establishment expenses of the Fund that are capitalized at the level of the Fund and are amortized over a period of 5 years. Included in the establishment expenses are legal, accounting and tax advisory costs, incorporation expenses and travel costs.

Cash accounts

The cash at banks are held with KAS BANK N.V. and are available on demand.

3. Shareholders' equity

The authorized share capital of the Fund is Euro 1,000,000 and is divided in 1,000,000 shares with a par value of Euro 1.00 each. The number of issued shares at 30 June 2014 amounts to 432,637.

	30 June 2014	31 December 2013
Issued share capital		
Balance at beginning of period	467	397
Issued	55	90
Redemption	-89	-20
Balance at end of period	433	467
Share premium account		
Balance at beginning of period	47,742	39,273
Issue of shares	8,126	10,879
Redemption of shares	-13,637	-2,410
Balance at end of period	42,231	47,742
Number of issued capital		
Balance at beginning of period	467,271	396,581
Issued	54,536	90,800
Redemption	-89,170	-20,110
Balance at end of period	432,637	467,271
Net Asset Value	69,320	62,592
Number of shares	432,637	467,271
Net Asset Value per share	160.22	133.95

	30 June 2014	31 December 2013
Statutory reserve		
Balance at beginning of period	78	117
Intangible assets (establishment expenses)	-19	-39
Balance at end of period	59	78

Other reserves

Balance at beginning of period	1,530	-6,379
Result appropriation for previous year	12,775	7,870
Intangible assets (establishment expenses)	19	39
Balance at end of period	14,324	1,530

4. Current liabilities

	30 June 2014	31 December 2013
--	--------------	------------------

Creditors and accrued expenses

Interest	14	17
Capital redemption payable to shareholders	15	69
Purchase of investments	2,295	-
Fund operational costs	89	105
Management fee	87	77
Performance fee	2,842	1,280
	5,342	1,548

The creditors and accrued expenses are payable within one year.

Fund operational costs

Fund administration, custody and bank fees	16	16
Remuneration of the Supervisory Board	21	42
Auditor's remuneration	36	24
Governance costs	6	5
Advisory costs	7	15
Other costs	3	3
	89	105

Notes to the Profit and Loss account

5. Realized and unrealized movements in investments and other assets

	30 June 2014	30 June 2013
Realized movements on securities		
Realized gains on securities	9,142	1,553
Currency results on securities	-383	-129
	8,759	1,424
Unrealized movements on securities		
Change in unrealized gains on securities	8,138	5,384
Currency results on securities	592	-334
	8,730	5,050
Unrealized movements on derivatives		
Change in unrealized gains on derivatives	-1,047	2,224
Currency results on derivatives	6	3
	-1,041	2,227

Currency results on cash accounts

The Fund makes use of foreign currency cash accounts to (partially) hedge the currency exposure of its investments. During the reporting period the currency results on these cash accounts amounted to a loss of Euro 592 thousand (H1-2013: +299 thousand), whilst the realized and unrealized currency result of the investments amounted to a profit of Euro 215 thousand (H1-2013: -460 thousand). The net currency result of the Fund thus amounted to a loss of Euro 377 thousand (H1-2013: -161 thousand).

	30 June 2014	30 June 2013
6. Administration expenses		
Fund operational costs	128	126
Management fee	495	347
Performance fee	2,842	543
	3,465	1,016
Fund operational costs		
Fund administration, custody and bank fees	77	72
Remuneration of the Supervisory Board	21	21
Auditor's remuneration	12	14
Governance costs	3	5
Advisory costs	11	8
Other costs	4	6
	128	126

Fund operational costs include all costs of legal, tax, regulatory, administrative, custody, auditing, reporting and similar services and advices provided to the Fund, the cost of the Fund Agent and Administrator, the costs of supervision of the Fund, all costs incurred in relation to the Fund's Supervisory Board and all costs of communications with and meetings of the investors.

Invoices relating to custody services amounting Euro 4 thousand (H1-2013: 4 thousand) are included in the line item Fund administration, custody and bank fees.

Management Fee

The Fund Manager is entitled to an annual management fee due by the Fund to the Fund Manager equal to 1.5% per annum of the Net Asset Value excluding (i.e. before deduction of) the accrued management fee and performance fee. The management fee accrues on a daily basis by reference to the latest Net Asset Value and is payable by the Fund in arrears as per the last business day of each month.

Performance Fee

The Fund Manager is entitled to receive a performance fee of twenty per cent (20%) of the increase (if any) in the Net Asset Value accrued during each year, adjusted for the direct effect on the Net Asset Value of subscriptions and redemptions of shares and distributions effected during the year concerned, but only to the extent such increase exceeds the hurdle of 8%. The performance fee is furthermore subject to a perpetual high watermark which means that performance fee shall only be payable if, and to the extent that, the Net Asset Value at the end of a year is greater than the highest value of this variable which has been determined at the end of all of the preceding years. The performance fee is calculated and accrues on a daily basis. The performance fee, if any, is payable as per the last valuation day of each calendar year. The initial issue price of Euro 100.00 per share, plus the 8% hurdle since inception amounted to Euro 127.87 at 30 June 2014. The high watermark is equal to the Net Asset Value per share as per 31 December 2013 which was Euro 133.95 and thus exceeds the hurdle. The Net Asset Value per share – before performance fee – as of period-end was Euro 166.79, yielding an excess performance of Euro 32.84 per share. The performance fee amounts to 20% of this excess performance, multiplied by the number of shares outstanding results in an accrued performance fee of Euro 2,842 thousand for the period.

(in Euro per share)	30 June 2014	30 June 2013
Net Asset Value (before performance fee)	166.79	124.63
Hurdle	127.87	118.40
High watermark	133.95	n/a
Excess performance	32.84	6.23
Performance fee (20% of excess performance)	6.57	1.25
Number of shares outstanding	432,637	435,933

	30 June 2014	30 June 2013
7. Other operating expenses		
Amortisation of establishment expenses	19	19
	19	19

The establishment expenses are capitalized at the level of the Fund and are amortized over a period of 5.

8. Tax on dividends

The Fund received new shares of ContraVir Pharmaceuticals from a spin off event of Synergy Pharmaceuticals. This receipt of new shares is treated as taxable distribution in amount equal to fair market value. Therefore it is taxed as a dividend income with 30% withholding tax amounting to Euro 26 thousand.

Remuneration of the Supervisory Board

The total of remuneration for the members of the Supervisory Board for the period amounts to Euro 21 thousand (H1-2013: 21 thousand).

Supervisory Board member	Remuneration
Pauline Bieringa	9
Onno Paymans	6
Tom van Wijngaarden (until 27 May 2014)	5
Hanso Idzerda (from 27 May 2014)	1

Personnel

The Fund did not employ any personnel.

Risk factors and risk management

An investment in the Fund involves certain risks and uncertainties relating to the Fund's structure and investment strategy. The Fund has exposure to the following risks from financial instruments:

- Market risks
- Credit risk, including settlement risk
- Liquidity risk
- Operational risks, including preservation and legal and tax compliance risks

The Fund Manager monitors the risks, among other things, on the basis of periodic reports from the fund administrator and the other service providers.

The Fund Manager has been given a discretionary authority to manage the assets in accordance with the Fund's investment objectives. Compliance with the investment restrictions and the composition of the portfolio is monitored by the Fund Manager on a daily basis.

Market Risk

The prices of financial instruments on the financial markets in general and more specifically the prices of financial instruments in the portfolio can increase or decrease as a result of a multitude of factors like expectations of economic growth, inflation and price movements of goods and foreign currencies. In addition the value of the portfolio can vary due to, for example, political and monetary developments. Market risks are increased as a result of limiting the geographic scope of the Fund to Europe (and in part to the United States) as well as the Fund's concentrated sector portfolio. The Fund manager distinguishes the following market risks: (i) price volatility, (ii) concentration risk, (iii) foreign currency risk and (iv) interest rate risk, which are discussed in further detail below.

(i) Price volatility

The stock prices of companies involved in the life sciences industry have been and will likely continue to be volatile. Stock prices and their related financial instruments (e.g. warrants) could be subject to wide fluctuations in response to a variety of factors, including the following:

- General market fluctuations (including the parameters used for valuation of warrants);
- Actual or anticipated variations in companies' operating results;
- Announcements of technological innovations by competitors;
- Changes in financial estimates by securities analysts;
- Changes in the market valuations of life sciences companies;
- Legal or regulatory developments affecting companies in the life sciences industry;
- Announcement by life sciences companies or their competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments; or
- Additions or departures of key personnel.

Many life sciences companies do not or in the future might not have earnings. As a result, the trading prices of life sciences companies may decline substantially and valuations may not be sustained. Any negative change in the public's perception of the prospects of life sciences companies, generally could depress the stock prices of a particular company regardless of its results. Other broad market and industry factors may decrease the stock price of life sciences stocks, regardless of their operating results.

Market fluctuations, as well as general political and economic conditions such as recession or interest rate or currency rate fluctuations, also may decrease the market price of life sciences stocks. Given the investment objective of the Fund and its inherent sector focus, the price volatility risk is in principle not managed by the Fund Manager.

(ii) Concentration risk

The Fund endeavours to create a concentrated portfolio of life sciences investments that are diversified by sub-sector (indication area or technology), geographic location, type of investment (IPOs, rights offerings, follow-on offerings, PIPEs, direct equity offerings, open market transactions, etc.), business model, area of focus, stage of development, etc. in order to achieve a high level of risk diversification. However, subject to the investment restrictions, investments may be weighted to certain indication and/or technologies and in certain geographic markets within Europe. Events that impact a specific investment, a specific sub-sector or a region may have an impact on the Fund's performance. The investment restrictions put an upper limit to the maximum allocation to a single portfolio company. Furthermore the Fund Manager monitors the concentration levels on a daily basis and will rebalance the portfolio if so required. As at 30 June 2014 the 5 single largest holdings account for 42% of the Net Asset Value of the Fund (year-end 2013: 48%).

(iii) Foreign currency risk

The Fund invests in life sciences companies in various countries. The investments may be dominated in currencies other than Euro and the value of these currencies may fluctuate. Thus, investors in principle will be subject to fluctuations in currency exchange rates. These fluctuations may have a positive or a negative effect on the Net Asset Value. The Fund Manager can make use of a range of financial instruments to (partially) hedge the various currency exposures that result from the portfolio investments. During the reporting period the currency risk of the Swiss Franc, British Pound, Danish Crown, and United States Dollar was partially hedged by contrary positions on the respective foreign currency cash accounts.

Net currency exposure	at 30 June 2014		at 31 December 2013	
	in Local Currency	in Euro	in Local Currency	in Euro
British Pound	157	196	107	129
Danish Crown	-53	-7	-	-
Swiss Franc	-	-	36	29
United States Dollar	1,029	752	2,195	1,593

(iv) Interest rate risk

The Fund has no significant exposure to interest rate risk, since all cash accounts have floating interest rates and the Fund does not hold any fixed income securities.

Credit risk

The Fund can be subject to the risk of the inability or refusal of dealers, brokers, clearing and payment institutions, custodians, principals or other service providers, issuing entities or other counterparties to its transactions to duly and timely perform under such services or transactions. Any such shortcoming, failure or refusal, whether due to insolvency, bankruptcy or other causes, could subject the Fund to substantial losses. The Fund Manager mitigates these risks by reviewing the creditworthiness and reliability of all service providers and counterparties and only enters into transactions with those parties that the Fund believes to be creditworthy and reliable. In addition all securities transactions are settled as either receipt or delivery versus payment which further reduces the credit risk. All cash balances, amounting to Euro 9,541 thousand as at 30 June 2014 (year-end 2013: 4,684 thousand), are held with the KAS BANK N.V. which is rated by Standard & Poor's as long term BBB+ and short term A-2.

Settlement risk

The Fund can be subject to the risk of that settlement through a payment system is unable to take place as expected because payment or delivery of the financial instruments is not on time or does not happen at all. For all of its transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities – including redemptions of shares – that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund. The Fund Manager actively monitors the maximum possible share redemptions in relation to the Fund's cash position and the level of liquidity of securities in the portfolio and will take corrective action if so required.

Operational risks

Operational risk concerns the risk that the Fund will incur financial losses due to amongst others operational or financial reporting errors, negligence and/or fraud. In general the Fund manages this risk through an adequate administrative organization including segregation of duties and internal controls, which cover these risks.

Preservation risk

To safeguard the assets of the Fund, the Fund uses an independent custodian. Preservation risk is the risk that the assets of the Fund are lost as a result of, among other things, negligence, insolvency or fraudulent actions of the custodian. To monitor and mitigate this risk, the Fund Manager will periodically review the ISAE 3402 Type II report as received from the custodian to assess whether the relevant administrative organization and internal controls are adequate.

Legal and tax compliance risks

Changes in tax legislation in any of the countries in which the Fund has investments, or changes in tax treaties negotiated by those countries, could adversely affect the returns from the Fund to its investors. In the event that the Fund no longer complies with the requirements of a tax-exempt investment fund, the Fund might be subject to Dutch corporate income tax. The Fund Manager, in consultation with its tax and legal advisors, monitors compliance with the relevant rules and regulations.

Transactions with related parties

The Fund Manager, LSP Advisory B.V. qualifies as a related party. In the reporting period the Fund Manager received a management fee of Euro 495 thousand (H1-2013: 347 thousand) and for the reporting period a performance fee of Euro 2,842 thousand has been accrued for the Fund Manager (H1-2013: 543 thousand). Employees of the Fund Manager, LSP or its affiliates participate in the Fund against a market price.

Soft dollar arrangements

The Fund will not enter into arrangements with any party regarding kickback payments. Third parties may in relation to the execution of orders by them on behalf of the Fund provide products and services to the Fund manager. During the reporting period the Fund's transactions were conducted under execution-only arrangements with its brokers and the Fund manager has assessed that it received no soft dollar arrangement during the first half of 2014 (H1-2013: none).

Interests of the Supervisory Board and Management

The members of the Supervisory Board and Management had no interests in securities held by the Fund's portfolio as at 30 June 2014 (year-end 2013: no interests).

One member of the Supervisory Board holds a total of 100 shares in the Fund as at 30 June 2014 (year-end 2013: 100 shares).

Employees of the Fund Manager, LSP or its affiliates participate in the Fund against a market price. These persons own in aggregate 13,005 (year-end 2013: 14,535) shares in the Fund.

Amsterdam, 29 August 2014

The director

LSP Advisory B.V.

Mark Wegter

Joep Muijers

Geraldine O'Keeffe

OTHER INFORMATION

Statutory income allocation

According to article 22 of the Articles of Association, the Fund Manager will determine which part of the profit will be retained; the remainder of the profit will be at the disposal of the general meeting of shareholders.

Distributions policy

As the investment objective of the Fund is to achieve capital appreciation, frequent and regular distribution of profits or other net proceeds by the Fund are not intended nor anticipated. All net proceeds will in principle be reinvested and the Fund Manager will exercise its right to add profits of the Fund to the Fund's reserves.

Post-balance sheet events

There were no material post-balance sheet events which have a bearing on the understanding of the financial statements.

As at 21 July 2014 a change in the prospectus of the Fund has become effective. The changes mainly relate to the implementation of the AIFM Directive.