

LSP Life Sciences Fund



Monthly Report June 2017

NAV per Share € 212.92

Performance

YTD	1 Month	3 Months	1 Year	2 Years	3 Years
25.7%	4.4%	5.0%	25.1%	-0.6%	32.9%

NAV of Fund	67,138,670
Number of Shares	315,311
Valuation Date	30/06/2017

Top-5 performers

1. Neuroderm	25.4%
2. Paratek Pharmaceuticals	20.2%
3. Versartis	13.7%
4. Sphere Medical	13.3%
5. Syndax Pharmaceuticals	12.7%

Inception date:	27/04/2011
Currency:	Euro
Domicile:	The Netherlands
Legal Structure:	Dutch NV with variable capital
Listing:	Euronext Amsterdam
Euronext code:	LSP
ISIN Code:	NL0009756394
Bloomberg:	LSP NA

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 € 2.5 billion at the time of investment.

Manager's comments

June will go down as one of the better months in recent history for healthcare stock performance. Year-to-date the MSCI World Healthcare is up +15% versus +8% for the S&P 500. The LSP Life Sciences Fund is up +26% year-to-date ending a strong H1. The big portfolio winners for the month of June were Neuroderm and Paratek. For Neuroderm, which has an innovative drug/device for Parkinson's, the share performance was in part a correction of the selloff in the stock in May, which fuelled a series of analyst upgrades as it fell into the over-sold category. In our view, the investment case for Neuroderm still very much stands. Since we invested in antibiotics company Paratek, the company has announced strong clinical trial results for two clinical studies focused on treatment of acne, followed by stellar clinical results for the treatment of bacterial lung infections and further incrementally positive data this month which confirmed that the company's lead drug is active against a broad range of bacteria.

With such a strong 1H for the healthcare sector, and the LSP Life Sciences Fund in particular, what has fuelled the rally and is it sustainable? We published a detailed note on our website earlier this month (<http://www.lspvc.com/files/pdf/174.pdf>) but in summary, we see two overriding factors affecting the healthcare sector – namely drug pricing and health insurance.

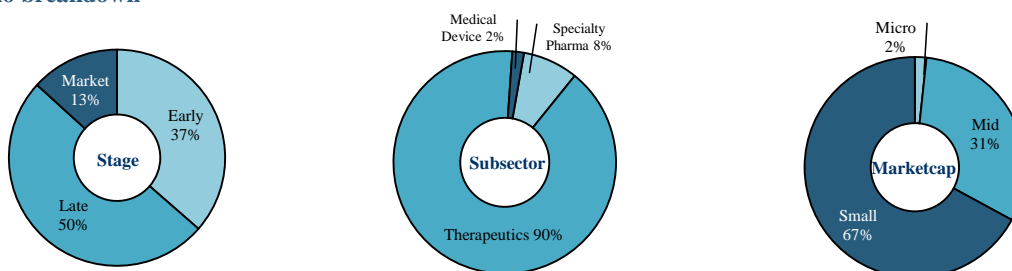
Drug pricing has been a theme for a long time but in particular in the past 18months. What has changed? It would seem that Trump has gone from saying that “they [Pharma companies] are getting away with murder” last December to drafting an Executive Order (EO) on drug pricing which has been described as very Pharma friendly. While it is still only in draft stage and anything can happen – it suggests Trump has been listening to what the Pharma execs have been telling him and the EO is likely to be at least more benign than previously feared.

Having made repealing Obamacare a key tenet of their presidential campaign – the Republicans are now under pressure to get something done. A new bill scraped through the House and now the Senate has proposed its new healthcare bill which is being called the Better Care Reconciliation Act or BCRA. Mitch McConnell has the unenviable task of garnering enough support for the bill to get it through. He needs support from at least 50 of the 52 Republican Senators. Some Republicans feel the new bill does not go far enough to repeal Obamacare – others are more concerned with the estimated 22 million Americans who could lose healthcare coverage under the new bill. While it may sound impossible – there should be enough funds available via Tax cuts to allow for increased support of those likely to lose coverage. There is a sense that having spent the past 7 years complaining about Obamacare – they have to move forward with a new plan. The Senate vote has already been postponed until after the July 4th break – and now looks as though it will not take place until the second half of July.

What would be the impact on the sector? The Senate bill will not be final but should give some clarity on the future of the healthcare system in the US. Perhaps more importantly – it allows the Republicans to move onto tax reform which could give the economy a boost, at least in the short term. There is also the possibility of new measures to allow repatriation of money – this could support a flurry of M&A activity as cash rich Pharma use the opportunity to acquire US based companies.

To answer the second part of the question – is the rally sustainable – it must be remembered that biotech stocks have underperformed the broader markets for the past two years. Relative to many sectors – the sector looks undervalued – with the caveat that there are different methods of such measurements. Based on several sector analyst report – near term revenue and earnings numbers have mostly reset to achievable levels. This should allay concerns of earnings miss and subsequent market fall out. As highlighted above – major political risks are subsiding and this could trigger more generalist investors to return to the sector. In short, indicators are very positive for the healthcare sector – at least through the next several quarters.

Portfolio breakdown



LSP Life Sciences Fund



Portfolio breakdown

Company	Stage	Subsector	Marketcap	%
Evotec	Early	Therapeutics	Mid	10.6%
Neuroderm	Early	Therapeutics	Small	8.4%
arGEN-X	Early	Therapeutics	Small	8.1%
Morphosys	Late	Therapeutics	Mid	8.0%
Versartis	Late	Therapeutics	Small	7.6%
Clinigen Group	Market	Specialty Pharma	Small	7.5%
Aerie Pharmaceuticals	Late	Therapeutics	Mid	7.2%
CytomX Therapeutics	Early	Therapeutics	Small	6.8%
Erytech Pharma	Late	Therapeutics	Small	6.0%
Ablynx	Late	Therapeutics	Small	5.5%
Paratek Pharmaceuticals	Late	Therapeutics	Small	5.3%
Syndax Pharmaceuticals	Late	Therapeutics	Small	3.6%
GW Pharmaceuticals	Market	Therapeutics	Mid	3.3%
Zynerba Pharmaceuticals	Late	Therapeutics	Small	2.1%
Sphere Medical	Market	Medical Device	Micro	1.6%
Probiodrug	Late	Therapeutics	Small	1.3%

Important information

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In Switzerland, the Fund may only be offered or distributed to qualified investors. For this, the Fund has appointed as Swiss Representative Oligo Swiss Fund Services SA, Av. Villamont 17, 1005 Lausanne, Switzerland, Tel: +41 21 311 17 77, email: info@oligofunds.ch. The Fund's paying agent is Banque Cantonale de Genève. Any Fund Documentation may be obtained free of charge from the Swiss Representative in Lausanne.