

## **LSP Life Sciences Fund N.V.**

Report on the first half of 2019

**LSP LIFE SCIENCES FUND N.V.**

(no audit or limited review is performed)

Report on the first half of  
2019

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# 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 2.5 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 Advisory 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 core investment team of the Fund Manager consists of two individuals - Mark Wegter 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. With the Alternative Investment Fund Managers Directive (AIFMD) that came into force on 22 July 2014, this license has been converted into an AIFM license by legislative decree.

The Supervisory Board of the Fund comprises Pauline Bieringa and Onno Paymans, both having relevant expertise on the Fund's business. 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.

# DIRECTOR'S REPORT

## Investment Performance

As per the end of June 2019, the Fund has been operational for over eight years and has shown strong performance over that period. As there is no relevant index for the European healthcare sector, let alone for our small- & mid-cap biotechnology subsegment – we tend to look at several indices to assess the general healthcare market trends, such as the Nasdaq Biotechnology Index, the MSCI World Healthcare Index and the STOXX 600 Healthcare Index. In all cases, when comparing performances, one needs to compromise either on geography, market cap, concentration, sector, segment or any combination thereof. Looking at the Nasdaq Biotechnology Index (NBI): following a strong start to the year, it ended the first half year at about +12%. The MSCI World Healthcare Index had a good performance up to that time point as well increasing some +9%. The panic seen at the end of last year – triggered by trade wars, Brexit and elections, budget concerns and the FED's (anticipated) interest policy at the time, had increased market uncertainty and reduced investor appetite for equities – but those issues seemed to have faded in the first half of the year. The Net Asset Value per share of the LSP Life Sciences Fund did very well (outperforming the NBI) and moved from Euro 214.48 as at 31 December 2018 to Euro 247.13 (+15.2%) as at 30 June 2019. The Fund recorded a profit for the period of Euro 11.3 million compared to a profit of Euro 5.9 million in the prior period. As outlined in the prospectus, the Fund aims to provide absolute return for its investors. Importantly, we focus to a lesser extent on short term investment opportunities and remain true to our strategy of building a balanced portfolio with investments that offer upside in the mid- to long term (on average 1 to 2 years). As at 30 June 2019 the value of the portfolio amounted to Euro 70.6 million holding 19 names (2018: Euro 71.1 million and 20 names).

The portfolio consists exclusively of equity (-derived) positions 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 monthly reports of the Fund that are published on the Fund's website include the current portfolio composition and also lists the top-5 best performing stocks of the respective month.

### **Alternative Investment Fund Managers Directive**

The Fund Manager has implemented the Alternative Investment Fund Managers Directive (AIFMD) that came into force on 22 July 2014. Furthermore it has appointed KAS Trust & Depositary Services B.V. as Depositary for the Fund in accordance with the directive. The Depositary is responsible for the (i) the safekeeping of the Fund's assets, and (ii) the oversight and supervision of the Fund and the management of the Fund by the Fund Manager. The Depositary has delegated its day-to-day custody tasks to KAS BANK N.V. The depositary remains liable towards the Fund for loss of assets of which the custody has been delegated to KAS BANK N.V. or another third party. The Depositary can only discharge itself from such liability if all the requirements of article 21(13) or 21(14) of the AIFMD are met.

### **Fund's risk management**

The Fund has exposure to market risks, liquidity risk, credit risk, counterparty risk and operational risks, including preservation and legal and tax compliance risks. The Fund Manager applies a comprehensive process based on qualitative and quantitative risk measures to assess the risks of the Fund entailing a standard monitoring process which consists of pre-defined monitoring items and cycles. The overall exposure of the Fund is calculated by means of the Value-at-Risk (VaR) methodology. A detailed description of the Fund's risk management is provided on pages 23-26 of this report.

### **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 of 2019 the Fund Manager has not exercised its voting rights.

### **Human resources**

The Fund does not employ any personnel. The management of the Fund is entrusted to the Fund Manager. A detailed description of the remuneration of the Fund Manager is provided on pages 22-23 of this report.

### **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 review 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 were 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 2019 have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code as well as the Dutch Act on Financial Supervision 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 2019 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 annual report, together with the principal risks and uncertainties of upcoming six months;
- the report provides adequate disclosure of the principal transactions with related parties.

### **Outlook**

Clearly, the overall markets will remain under influence of geopolitical turmoil which is likely going to result in further volatility in the coming months. Such volatility, the result of a period of “higher uncertainties”, is a fact of an investor’s life, only to be circumvented by not having any exposure to equities during such period. For those investors who do wish to remain in equities and believe “timing” is quasi-impossible in the long run, we believe an investment in the LSP Life Sciences fund should be of interest. It allows investors to gain exposure to a concentrated selection of high growth healthcare companies that operate in one of the most innovative and impactful sectors of the global economy. We focus solely on the fundamental investment cases underlying the various portfolio companies that we hold, and do not try to “play” or “time” the markets.

Since we focus on the fundamentals - and the fundamentals only - selecting for those companies that we believe are attractively valued – given risk profile and upside potential – and based on the due diligence which we perform in-house supported by a global LSP network of advisors and experts, “timing of the markets” becomes a non-issue. As long as the sector keeps making progress – driven by scientific advancements – and we select for the best companies, the LSP Life Sciences Fund should remain an attractive long-term investment proposition.

The director

**LSP Advisory B.V.**

Mark Wegter

Geraldine O’Keeffe

## BALANCE SHEET on 30 June 2019

(in thousands of Euro's, before appropriation of the result)  
(no audit or limited review is performed)

	Note	30 June 2019	31 December 2018
<b>Assets</b>			
<b>Investments</b>	<b>1</b>		
Investments in securities		70,560	71,123
<b>Receivables</b>	<b>2</b>		
Amounts receivable		783	159
<b>Other assets</b>	<b>3</b>		
Cash accounts		46,316	45,343
<b>Total assets</b>		<u>117,659</u>	<u>116,625</u>
<b>Liabilities and shareholders' equity</b>			
<b>Shareholders' equity</b>	<b>4</b>		
Issued share capital		279	333
Share premium		14,922	28,663
Other reserves		42,481	49,329
Unappropriated result		11,315	-6,848
		<u>68,997</u>	<u>71,477</u>
<b>Current liabilities</b>	<b>5</b>		
Creditors and accrued expenses		1,241	371
Cash accounts		47,421	44,777
		<u>48,662</u>	<u>45,148</u>
<b>Total liabilities and shareholders' equity</b>		<u>117,659</u>	<u>116,625</u>
Net Asset Value per share		247.13	214.48

## PROFIT AND LOSS ACCOUNT for the period of 1 January – 30 June 2019

(in thousands of Euro's)  
(no audit or limited review is performed)

	Note	30 June 2019	30 June 2018
<b>Income from investments</b>			
Dividends on securities		-	11
Income from securities lending	6	10	-
		10	11
<b>Realized movements in investments and other assets</b>			
Realized movements on securities	7	73	13,753
<b>Unrealized movements in investments and other assets</b>			
Unrealized movements on securities	7	13,948	-4,134
Currency results on cash accounts		-368	-1,045
		13,580	-5,179
<b>Expenses</b>			
Management costs	8	1,399	1,980
Depositary costs	9	44	60
Fund operational costs	10	122	139
Interest expenses on cash accounts		783	528
		2,348	2,707
<b>Result for the period</b>		11,315	5,878

## CASH FLOW STATEMENT for the period 1 January – 30 June 2019

(in thousands of Euro's)

(no audit or limited review is performed)

	30 June 2019	30 June 2018
Cash flows from investment activities		
Net result	11,315	5,878
Realized movements in investments and other assets	-73	-13,753
Unrealized movements in investments and other assets	-13,580	5,179
Purchase of investments and other assets	-71,915	-147,431
Sale of investments and other assets	86,499	150,691
Change in amounts receivable	-624	-1,978
Change in current liabilities	3,514	2,253
	15,136	839
Cash flows from financial activities		
Issue of shares	4,384	15,857
Redemption of shares	-18,179	-17,450
Total cash flows from financial activities	-13,795	-1,593
Currency results on cash accounts	-368	-1,045
<b>Net increase for the period</b>	<b>973</b>	<b>-1,799</b>
Opening balance	45,343	3,099
Closing balance	46,316	1,300
	973	-1,799

## **SELECTED NOTES TO THE ANNUAL REPORT**

### **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 as well as the Dutch Act on Financial Supervision.

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

Unless specifically specified otherwise the Fund applies the historical cost convention 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.

#### Going concern

These financial statements have been prepared on the basis of the going concern assumption.

### 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 2019, in Euro	
Danish Crown	0.13398
United States Dollar	0.87812
Swiss Franc	0.90062

### Asset and Liabilities

Assets and liabilities are measured at nominal value, unless otherwise measured in the further principles. An asset is recognised in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the asset has a cost price or value of which the amount can be measured reliably. Assets that are not recognised in the balance sheet are considered as off-balance sheet assets. A liability is recognised in the balance sheet when it is expected that the settlement of an existing obligation will result in an outflow of resources embodying economic benefits and the amount necessary to settle this obligation can be measured reliably. Provisions are included in the liabilities of the Company. Liabilities that are not recognised in the balance sheet are considered as off-balance sheet liabilities.

### 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.

### Receivables and other assets

Other receivables are carried at amortised cost on the basis of the effective interest method, less impairment losses.

### Cash and cash equivalents

Cash and cash equivalents are stated at nominal value. If cash and cash equivalents are not readily available, this fact is taken into account in the measurement.

### Share premium account

This reserve originates from the issue and redemption of shares over and above their nominal value.

### Current liabilities

Current liabilities and other financial commitments are stated after their initial recognition at amortised cost on the basis of the effective interest rate method.

### Profit and Loss account

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

### Realized movements in investments and other assets

Realized movements in investments and other assets consist of gains or losses on securities and derivate positions that have been sold during the reporting period.

### Unrealized movements in investments and other assets

Unrealized movements in investments and other assets consist of gains or losses on securities and derivate positions that are (still) in the portfolio at the end of the reporting period.

### Income

Dividends are recognised on an ex-dividend date basis. Dividend income is recognised net of dividend withholding tax as the fund cannot reclaim dividend tax paid from the tax authorities. 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

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

### 1. Investments

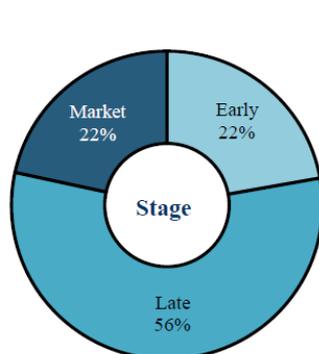
30 June 2019

31 December 2018

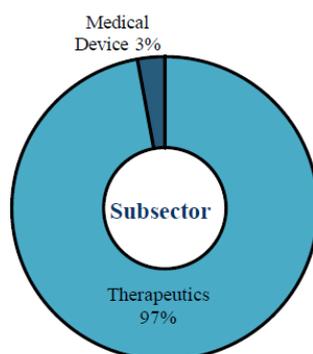
#### Securities

Market value beginning of period	71,123	74,011
Purchases	71,915	96,195
Sales	-86,499	-97,474
Unrealized price movements	14,346	-19,056
Unrealized currency movements	-398	2,170
Realized price movements	-662	15,680
Realized currency movements	735	-403
Market value at end of period	70,560	71,123

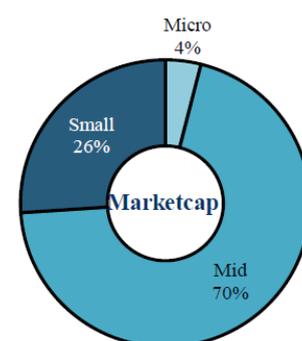
The Fund's investments are classified according to stage, subsector and market capitalization. The breakdown of the Fund's portfolio per 30 June 2019 is shown below.



Stage at period end	2019 - 06	2018
Early Stage	22%	23%
Late Stage	56%	59%
Market	22%	18%



Subsector at period end	2019 - 06	2018
Therapeutics	97%	100%
Medical Device	3%	-
Specialty Pharma	-	-



Marketcap at period end	2019 - 06	2018
Microcap	4%	5%
Smallcap	26%	34%
Midcap	70%	61%

## Portfolio breakdown

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

Company	Stage	Subsector	Marketcap	%
Uniqure	Late	Therapeutics	Mid	13.4%
Galapagos	Late	Therapeutics	Mid	12.0%
argenx	Late	Therapeutics	Mid	10.9%
Amarin Corp	Market	Therapeutics	Mid	10.0%
Evotec	Early	Therapeutics	Mid	7.2%
Stemline Therapeutics	Market	Therapeutics	Small	6.1%
FibroGen	Late	Therapeutics	Mid	4.5%
Merus	Early	Therapeutics	Small	4.5%
ObsEva	Late	Therapeutics	Small	4.5%
Blueprint Medicines	Late	Therapeutics	Mid	4.1%
Cocrystal Pharma	Early	Therapeutics	Micro	4.1%
CytomX Therapeutics	Early	Therapeutics	Small	4.0%
Marinus Pharmaceuticals	Late	Therapeutics	Small	3.2%
Foamix Pharmaceuticals	Late	Therapeutics	Small	3.1%
Genmab	Market	Therapeutics	Mid	3.0%
Ambu	Market	Medical Device	Mid	2.9%
Morphosys	Late	Therapeutics	Mid	1.8%
Viking Therapeutics	Early	Therapeutics	Mid	1.7%
Eloxx Pharmaceuticals	Early	Therapeutics	Small	1.3%
				102.3%

## 2. Amounts receivable

	30 June 2019	31 December 2018
Receivables from securities transactions	782	-
Issued capital receivable from shareholders	1	159
	<b>783</b>	<b>159</b>

## 3. Other assets

### Cash accounts

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

#### 4. 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 2019 amounts to 279,186.

	30 June 2019	31 December 2018
<b>Issued share capital</b>		
Balance at beginning of period	333	319
Issued	18	99
Redemption	-72	-85
Balance at end of the period	279	333
<b>Share premium account</b>		
Balance at beginning of period	28,663	25,380
Issue of shares	4,366	25,069
Redemption of shares	-18,107	-21,786
Balance at end of the period	14,922	28,663
<b>Other reserves</b>		
Balance at beginning of period	49,329	27,683
Result appropriation for previous year	-6,848	21,646
Balance at end of the period	42,481	49,329
<b>Number of issued capital</b>		
Balance at beginning of period	333,247	319,169
Issued	18,407	98,901
Redemption	-72,468	-84,823
Balance at end of the period	279,186	333,247
Number of shares	279,186	333,247
Net Asset Value	68,997	71,477
Net Asset Value per share	247.13	214.48
<b>Unappropriated result</b>		
Balance at beginning of period	-6,848	21,646
Result previous year added to other reserves	6,848	-21,646
Result for the period	11,315	-6,848
Balance at end of the period	11,315	-6,848

**5. Current liabilities****30 June 2019****31 December 2018****Creditors and accrued expenses**

Interest	111	136
Capital redemption payable to shareholders	12	22
Purchase of investments	-	4
Fund operational costs	108	115
Management fee	168	94
Performance fee	842	-
	<hr/>	<hr/>
	<b>1,241</b>	<b>371</b>

**Fund operational costs**

Fund administration fee	37	30
Remuneration of the Supervisory Board	15	30
Auditor's remuneration	27	38
Advisory costs	9	9
Other costs	20	8
	<hr/>	<hr/>
	<b>108</b>	<b>115</b>

The creditors and accrued expenses are payable within one year.

## Notes to the Profit and Loss account

### 6. Income from securities lending

In accordance with the amended investment guidelines, the Fund can engage in securities lending transactions to enhance the Fund's investment return. During the period the income from securities lending amounted to Euro 10 thousand (H1 2018: nil).

### 7. Realized and unrealized movements in investments and other assets

	30 June 2019	30 June 2018
<b>Realized movements on securities</b>		
Realized gains/losses on securities	-662	14,378
Currency results on securities	735	-625
	<u>73</u>	<u>13,753</u>
<b>Unrealized movements on securities</b>		
Change in unrealized gains/losses on securities	14,346	-5,883
Currency results on securities	-398	1,749
	<u>13,948</u>	<u>-4,134</u>

The realized and unrealized movements are a combination of gains as well as losses. In accordance with the generally accepted accounting principles in the Netherlands these gains and losses have to be reported separately. The below table provides this decomposition.

<b>Realized movements 30 June 2019</b>	<b>Gains</b>	<b>Losses</b>	<b>Total</b>
Securities	8,284	-8,211	73
<b>Unrealized movements 30 June 2019</b>	<b>Gains</b>	<b>Losses</b>	<b>Total</b>
Securities	18,123	-4,175	13,948
<b>Realized movements 30 June 2018</b>	<b>Gains</b>	<b>Losses</b>	<b>Total</b>
Securities	23,181	-9,428	13,753
<b>Unrealized movements 30 June 2018</b>	<b>Gains</b>	<b>Losses</b>	<b>Total</b>
Securities	5,721	-9,855	-4,134

### 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 368 thousand (H1-2018: 1,045 thousand), whilst the realized and unrealized currency result of the investments amounted to a profit of Euro 337 thousand (H1-2018: 1,124 thousand). The net currency result of the Fund thus amounted to a loss of Euro 31 thousand (H1-2018: profit of 79 thousand).

## 8. Management costs

### 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. The management fee amounts to Euro 557 thousand (H1-2018: 605 thousand).

### 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 per share accrued during the year for each share outstanding at the end of the relevant year, 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 per share 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 187.90 at 30 June 2019. The high watermark is set to the highest Net Asset Value per share at the end of all preceding years, i.e. Euro 235.07. As the High Watermark exceeds the hurdle, the performance fee is calculated with reference to this High Watermark. The Net Asset Value per share – before performance fee – as of period-end was Euro 250.15, and thus above the High Watermark. The performance fee amounts to 20% of this excess performance, multiplied by the number of shares outstanding. This results in a performance fee for the period in the amount of Euro 842 thousand (H1-2018: 1,375 thousand)

(in Euro per share)	30 June 2019	30 June 2018
Net Asset Value (before performance fee)	250.15	256.97
Hurdle	187.90	173.98
High Watermark	235.07	235.07
Excess performance	15.08	21.90
Performance fee (20% of excess performance)	3.02	4.38
Number of shares outstanding	279,186	314,002

## 9. Depositary costs

In connection with the Alternative Investment Fund Manager Directive (AIFMD) that came in force on 22 July 2014, the Fund has appointed KAS Trust & Depositary Services B.V. as depositary. The depositary acts in the interest of the investors and is responsible for the safekeeping of the fund's assets and the oversight and supervision of the Fund and the management of the Fund by the Fund Manager. The depositary costs consist of the fees contractually due to the depositary for the provision of its services.

## 10. Fund operational costs

	30 June 2019	30 June 2018
Fund administration fee, custody and bank fees	65	82
Remuneration of the Supervisory Board	15	15
Governance costs	3	-1
Auditor's remuneration	19	20
Advisory costs	5	5
Other costs	15	18
	<b>122</b>	<b>139</b>

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.

### Auditor's remuneration

The following fees were charged by KPMG Accountants N.V. to the company, its subsidiaries and other consolidated companies, as referred to in Section 2:382a (1) and (2) of the Netherlands Civil Code.

	30 June 2019		
	KPMG Accountants N.V.	Other KPMG network	Total KPMG
Audit of the financial statements	19	-	19
Other audit engagements	-	-	-
Tax-related advisory services	-	-	-
Other non-audit services	-	-	-
	19	-	19

	30 June 2018		
	KPMG Accountants N.V.	Other KPMG network	Total KPMG
Audit of the financial statements	20	-	20
Other audit engagements	-	-	-
Tax-related advisory services	-	-	-
Other non-audit services	-	-	-
	20	-	20

## Remuneration policy

The Fund itself has no employees. The management of the Fund is entrusted to the Fund Manager being LSP Advisory B.V. As such the remuneration policy is determined at the level of the Fund Manager. The Fund Manager has implemented the AIFMD regulations regarding remuneration and has established a compliant remuneration policy. The objective of this remuneration policy is to motivate and retain the investment managers and other employees. The remuneration policy of the Fund Manager is designed such that it is consistent with and promotes sound and effective risk management and does not encourage risk-taking in a manner inconsistent with the risk policy of the Fund. The remuneration policy is reviewed on annual basis and will be amended from time to time to remain compliant with applicable regulations and to abide by social norms. The remuneration consists of a fixed and a variable component. The variable remuneration is linked to the performance of the Fund as well as to the individual targets of the staff members.

## Remuneration of the Fund Manager's staff

During the first half of the year 2019, the Fund Manager paid € 0.4 million (H1-2018: € 0.4 million) to its staff members. Of this amount € 0.4 million (H1-2018: €0.4 million) was fixed remuneration and € 6 thousand variable compensation was paid for the period (H1-2018: nil).

Of the total remuneration referenced above an amount of € 0.2 million (H1-2018: € 0.4 million) related to the directors of the Fund Manager. This consists of a fixed remuneration of € 0.2 million (H1-2018: € 0.4 million) and no variable compensation for the period (H1-2018: nil).

In total 6 staff members worked in part or fully for the Fund. The total remuneration of these staff members that is attributed to managing the Fund for the period amounts to Euro 0.2 million (H1-2018: 0.3 million), such amount being allocated on the basis of the average Assets under Management of the various activities of LSP Advisory B.V. The tables below show the breakdown of the remuneration of the staff members attributed to the management of the Fund for the current and prior period.

<b>H1-2019</b>	<b>Beneficiaries</b>	<b>Fixed remuneration</b>	<b>Variable remuneration</b>	<b>Total Remuneration</b>
Directors	2	127,998	-	127,998
Identified staff	1	8,493	-	8,493
Other employees	3	60,458	3,138	63,596
<b>Total</b>	<b>6</b>	<b>196,949</b>	<b>3,138</b>	<b>200,087</b>

<b>H1-2018</b>	<b>Beneficiaries</b>	<b>Fixed remuneration</b>	<b>Variable remuneration</b>	<b>Total Remuneration</b>
Directors	3	216,470	-	216,470
Identified staff	1	7,432	-	7,432
Other employees	2	39,502	-	39,502
<b>Total</b>	<b>6</b>	<b>263,404</b>	<b>-</b>	<b>263,404</b>

### **Remuneration of the Supervisory Board**

The total of remuneration for the members of the Supervisory Board for the period amounts to Euro 15 thousand (H1-2018: 15 thousand).

<b>Supervisory Board member</b>	<b>30 June 2019</b>	<b>30 June 2018</b>
Pauline Bieringa	9	9
Onno Paymans	6	6
	<b>15</b>	<b>15</b>

### **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
- Liquidity risk
- Counterparty risk, including settlement risk
- Operational risks, including preservation and legal and tax compliance risks

The Fund Manager applies a comprehensive process based on qualitative and quantitative risk measures to assess the risks of the Fund entailing a standard monitoring process which consists of pre-defined monitoring items and cycles. The overall exposure of the Fund is calculated by means of the Value-at-Risk (VaR) methodology. The Value-at-Risk methodology provides a measure of the potential loss that could arise over a given time interval under normal market conditions, and at a given confidence level. During the first half year of 2019 no risk limits of the Fund have been exceeded nor were they likely to be exceeded.

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 2019 the 5 single largest holdings account for 52% of the Net Asset Value of the Fund (year-end 2018: 41%).

***(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 Danish Crown, United States Dollar and Swiss Franc was partially hedged by contrary positions on the respective foreign currency cash accounts.

Net currency exposure	at 30 June 2019		at 31 December 2018	
	in Local Currency	in Euro	in Local Currency	in Euro
Danish Crown	1,010	135	-29	-4
United States Dollar	1,150	1,010	4,132	3,615
Swiss Franc	-4	-4	-4	-4

***(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.

***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.

***Counterparty 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. All cash balances, amounting to a net Euro 1,300 thousand as at 30 June 2019 (year-end 2018: 566 thousand), are held with the KAS BANK N.V. Fitch ratings has affirmed KAS BANK N.V.’s (per 14 November 2018) long- and Short-Term Issuer Default Ratings (IDRs) at ‘A-’ and ‘F2’, respectively. The outlook on the Long-Term IDR is Negative. In connection with the launch of the public offer by CACEIS bank for 100% of KAS BANK N.V.’s share capital, Fitch has upgraded the outlook to Positive. This upgrade took effect on 2 August 2019.

***Settlement risk***

The Fund can be subject to the risk 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. The Fund mitigates this risk by conducting most of its settlements through a broker and ensuring that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

### ***Operational risks***

Operational risk concerns the risk that the Fund will incur financial losses due to amongst others operational 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 557 thousand (H1-2018: 605 thousand) and a performance fee of Euro 842 thousand is due (H1-2018: 1,375 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 2019 (2018: 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 the first half of 2019 (2018: no interests).

One member of the Supervisory Board holds a total of 80 shares in the Fund as at 30 June 2019 (2018: 80 shares).

Employees of the Fund Manager, LSP or its affiliates participate in the Fund against a market price. These persons own in aggregate 15,113 (2018: 15,013) shares in the Fund. The lock-up period as described in the prospectus of the Fund has expired.

Amsterdam, 30 August 2019

The director

**LSP Advisory B.V.**

## **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.

## STATEMENT OF THE DEPOSITARY

### Considering that

- KAS Trust & Depositary Services B.V. (“the depositary”) is appointed to act as depositary of **LSP Life Sciences Fund N.V.** (“the fund”) in accordance with section 21(1) of the Alternative Investment Fund Managers Directive (2011/61/EU) (the “AIFM Directive”);
- Such appointment and the mutual rights and obligations of the fund manager and the depositary of the fund have been agreed upon in the depositary agreement dated 22 July 2014 between such parties, including the schedules to that agreement (the “depositary agreement”);
- The depositary issues this statement exclusively to the fund manager in relation to the activities of the fund manager and relates to the period 1 January 2019 up to and including 30 June 2019, (“the reporting period”).

### Responsibilities of the depositary

The depositary acts as a depositary within the meaning of the AIFM Directive and provide its services in accordance with the AIFM Directive, the EU implementing regulation, applicable Dutch laws and regulations and the policy rules issued by the European Securities and Markets Authority and the Netherlands Authority for the Financial Markets (the “regulations”). The responsibilities of the depositary have been described in the depositary agreement and include, in addition to the safekeeping, recordkeeping and ownership verification tasks (as defined in article 21(8) AIFM Directive), several monitoring and oversight tasks (as defined in article 21(7) and 21(9) AIFM Directive):

- Monitoring of the fund’s cash flows, including identification of significant and inconsistent cash flows and reconciliation of the cash flows with the fund’s administration;
- Ensuring that the sale, issue, re-purchase, redemption, cancellation and valuation of units or shares of the fund are carried out in accordance with the applicable national law and the fund documentation;
- Ensuring that in transactions involving the fund’s assets any consideration is remitted to the fund within the usual time limits;
- Ensuring that the fund’s income is applied in accordance with the applicable national law and the fund documents;
- Monitoring whether the fund is managed in compliance with the investment restrictions and leverage limits as defined in the fund documentation.

### Statement of the Depositary

The depositary has carried out such activities during the reporting period as considered necessary to fulfil its responsibilities as depositary of the fund. The depositary is of the opinion that, based on the information made available to it and the explanations provided by the fund manager, in all material respects, the fund manager has carried out its activities which are in scope of the monitoring and oversight duties of the depositary, in accordance with the regulations and the fund documentation.

### Miscellaneous

This statement does not create, and is not intended to create, any right for a person or an entity that is not a party to the depositary agreement.

Amsterdam, 30 August 2019

KAS Trust & Depositary Services B.V.