



LSP Advisory B.V.

Report on the first half of 2020

LSP Advisory B.V.

Annual report for the period January
until June 2020

(no audit or limited review has been performed)

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Directors' report

General

LSP Advisory B.V. (the Company) was incorporated on 3 March 2008 as an asset manager focussing on investments in publicly listed life sciences companies. It currently manages the Euronext listed LSP Life Sciences Fund N.V. (the Fund) and five client mandates (the Mandates). During the reporting period the combined Assets under Management of the Fund and the Mandates have decreased from € 129.5 million to € 120.5 million, a 7% decrease.

LSP Advisory B.V. has its statutory seat at Johannes Vermeerplein 9, Amsterdam, the Netherlands and is registered at the Trade Register of the Chamber of Commerce in Amsterdam under file number 34296447.

Governance

LSP Advisory B.V. is a wholly owned subsidiary of LSP Advisory Group B.V. It has been granted a license pursuant to Article 2:65 of the Dutch Act on Financial Supervision (Wft) by the Netherlands Authority for the Financial Markets (AFM) 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 LSP Advisory B.V. currently comprises of one member. The principal duties and responsibilities of the Supervisory Board include (i) the supervision of the management of LSP Advisory B.V. as well as to supervise the general course of affairs of LSP Advisory B.V., and (ii) resolving any conflict of interest situation LSP Advisory B.V. is involved in.

Key Financial Data

In the first half year of 2020 LSP Advisory B.V. had revenues amounting to € 0.6 million compared to € 0.8 million in the same period prior year. Operating expenses for the period amount to € 0.6 million (2019 H1: € 0.6 million) and there is no corporate income tax (2019 H1: € nil), resulting in a net profit for the period of € 17 thousand (2019 H1: net profit of € 0.3 million). Per period end the shareholders' equity amounted € 1.8 million (2019 year-end: € 1.8 million) which is well above the solvency requirement as included in the AIFMD. Current assets minus current liabilities as of 30 June 2020 amounted to € 1.8 million (2019 year-end: € 1.8 million).

Risk management

LSP Advisory B.V. has established and maintains a permanent risk management function that implements effective risk management policies and procedures in order to identify, measure, manage and monitor on an ongoing basis all relevant risks.

The risk management function is functionally and hierarchically separated from the investment management function. The risk manager has a dotted line to the Supervisory Board and participates in the Supervisory Board meetings. The risk management function is also subject to the independent review of the Supervisory Board to ensure that decisions are being arrived at independently. The risks of LSP Advisory B.V. itself are mainly related to:

- Market risks
- Credit risk
- Operational risks, including regulatory compliance risk

LSP Advisory B.V. is exposed to market risk as the management fee is linked to the Assets under Management (AuM). In turn the AuM fluctuate with market movements. Also the performance fee is influenced by market movements as well as investment performance. Credit risk mainly relates to the solvency and liquidity of the investment funds from which LSP Advisory B.V. receives its fees. Operational risks relate mainly to people, e.g. skill and retention of key investment personnel, IT systems and regulatory compliance risk.

Personnel

During the reporting period no changes occurred in the composition and number of staff members.

Investments and financing

LSP Advisory B.V. will continue to make investments in its team and infrastructure in order to further improve the trade execution capabilities, risk management, data analytics and fundraising capability. The Company is completely financed with equity and it is expected to remain that way for the next couple of years. Aforementioned investments will be financed out of retained earnings.

Administrative organization and internal controls

LSP Advisory B.V. has documented the administrative organization and internal controls in accordance with the Dutch Act on Financial Supervision (Wft) and the Decree on Conduct of Business Supervision of Financial Undertakings (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 LSP Advisory B.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 Directors of LSP Advisory B.V. confirm to the best of their knowledge that:

- the financial statements for the period January until June 2020 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 Advisory B.V. as at 30 June 2020 and of its result for the period then ended;
- the report includes a fair review of the key developments of the Company 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

For the second half of 2020, LSP Advisory B.V. expects to grow its Assets under Management, in line with the ambition to become a sizable player in its market. It is expected that this growth comes from a combination of investment performance as well as through subscription by new investors.

LSP Advisory B.V.

Mark Wegter

Geraldine O’Keeffe

Financial statements

Balance sheet as at 30 June 2020

Assets	30 June 2020		31 December 2019	
(in Euro)				
Current assets				
Receivables from group companies	1	1,019,928		953,305
Other receivables	2	748,019		678,297
Cash and cash equivalents	3	<u>385,798</u>		<u>923,649</u>
			2,153,745	2,555,251
			<u>2,153,745</u>	<u>2,555,251</u>
<hr/>				
Liabilities	30 June 2020		31 December 2019	
(in Euro)				
Equity				
	4			
Issued capital		18,000		18,000
Share premium		332,000		332,000
General reserve		1,427,707		1,155,465
Result for the year		<u>16,609</u>		<u>272,242</u>
			1,794,316	1,777,707
Current liabilities				
Taxes and social security premiums	5	36,905		38,640
Other liabilities	6	<u>322,524</u>		<u>738,904</u>
			359,429	776,544
			<u>2,153,745</u>	<u>2,555,251</u>

Profit and loss account for the period January until June 2020

	01-06/2020		01-06/2019	
(in Euro)				
Management fee	8	<u>641,456</u>	<u>840,961</u>	
Operating income		641,456	840,961	840,961
Staff expenses	9	411,217	375,043	
Other operating expenses	10	187,980	148,306	
Service fee	11	<u>25,650</u>	<u>27,150</u>	
Operating expenses		624,847	550,499	
Operating income (loss)		<u>16,609</u>	<u>290,462</u>	
Income before tax		<u>16,609</u>	<u>290,462</u>	
Corporate income tax	12	-	-	
Net income (loss) for the year		<u>16,609</u>	<u>290,462</u>	

Notes to the financial statements

General

LSP Advisory B.V. is a private limited liability company established under the laws of the Netherlands on 3 March 2008. LSP Advisory B.V. has its statutory seat at Johannes Vermeerplein 9, Amsterdam, the Netherlands and is registered at the Trade Register of the Chamber of Commerce in Amsterdam under file number 34296447. Its primary activities consist of managing investment funds and mandates in the healthcare sector.

Principles of accounting

Basis of preparation

The accompanying financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil code and the Generally Accepted Accounting Principles in the Netherlands. In view of the size of the Company, the exemption provided for in article 396, Title 9, Book 2 of the Netherlands Civil code (small company) has been applied.

Going concern

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

General

An asset is disclosed in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. A liability is recognised in the balance sheet when it is expected to result in an outflow from the entity of resources embodying economic benefits and the amount of the obligation can be measured with sufficient reliability.

Income is recognised in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability.

If a transaction results in a transfer of future economic benefits and or when all risks relating to assets or liabilities to a third party, the asset or liability is no longer included in the balance sheet. Assets and liabilities are not included in the balance sheet if economic benefits are not probable and/or cannot be measured with sufficient reliability.

Income and expenses are allocated to the financial year to which they relate.

All amounts are in Euro (€), the Company's functional currency, unless otherwise stated.

Using estimates and judgments

The preparation of the financial statements requires that management make judgements and use estimates and assumptions that affect the application of the accounting principles and the reported value of the assets and liabilities and the income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are continually reviewed. Revised estimates are incorporated in the period in which the estimate is revised and in future periods for which the revision has consequences.

Foreign exchange translation

Transactions denominated in foreign currency are translated into the relevant functional currency of the Company at the exchange rate applying on the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the balance sheet date into the functional currency at the exchange rate applying on that date. Translation gains and losses are taken to the profit and loss account.

Non-monetary assets and liabilities in foreign currency that are stated at historical cost are translated into the functional currency at the applicable exchange rates applying on the transaction date. Non-monetary assets and liabilities in foreign currency that are stated at present value are translated into the functional currency at the applicable exchange rates at the moment the present value is determined. Translation gains and losses are taken directly to equity as part of the revaluation reserve.

Financial instruments

Financial instruments include investments in shares and bonds, trade and other receivables, cash items, loans and other financing commitments, derivative financial instruments, trade payables and other financial liabilities. These financial statements contain the following financial instruments: trade and other receivables, cash items and other financial liabilities.

Financial instruments are initially stated at fair value, including discount or premium and directly attributable transaction costs. However, if financial instruments are subsequently measured at fair value through profit and loss, then directly attributable transaction costs are directly recognised in the profit and loss account at the initial recognition.

After initial recognition, financial instruments are valued in the manner described below.

Other receivables

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

Equity

Financial instruments taking the legal form of shareholders' equity instruments are presented under shareholders' equity. Distributions to the holders of these instruments are deducted from shareholders' equity.

Current liabilities

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

Taxes

Taxes are calculated on the result, taking into account existing tax facilities.

Balance sheet as at 30 June 2020**Current Assets****1. Receivables from group companies**

The receivables from group companies consist of a receivable from LSP Advisory Group B.V. of € 1.0 million which is due within one year.

2. Other receivables

Other receivables consist of management fee and other costs paid from LSP Life Sciences Fund of € 63 thousand and management fee of € 0.2 million in connection with the Client Mandates. Next to this there are receivables from LSP Management Group B.V. of € 0.2 million, from LSP Bioventures Management B.V. of € 0.2 million and from LSP Operations B.V. of € 19 thousand. All these receivables are due within one year.

3. Cash and cash equivalents

Cash and cash equivalents consist of cash at banks with ING Bank in Amsterdam. All cash and cash equivalents are available on demand.

4. Equity

(in Euro)	Issued capital	Share premium	General reserve	Result for the year	Total
Balance as at 31 December 2018	18,000	332,000	794,049	361,416	1,505,465
Changes during the year					
Transfer of result to reserve			361,416	(361,416)	-
Result for the year				272,242	272,242
Balance as at 31 December 2019	18,000	332,000	1,155,465	272,242	1,777,707
Changes during the year					
Transfer of result to reserve			272,242	(272,242)	-
Result for the period				16,609	16,609
Balance as at 30 June 2020	18,000	332,000	1,427,707	16,609	1,794,316

In the first half of the year 2020 the Company paid no dividend to its (sole) shareholder. In 2019 no dividend was paid.

Issued capital

The authorised capital of the Company amounts to € 90,000, divided in 90,000 common shares, with a par value of € 1.00, of which 18,000 shares have been issued and fully paid.

Current liabilities**5. Taxes and social security premiums**

Taxes and social security premiums consist of VAT payable for the second quarter of 2020 of € 37 thousand. This liability is due within one year.

6. Other liabilities

Other liabilities consist of various expenses made in the first half year of 2020, which will be paid before year end 2020 as well as a payable to LSP Bioventures Inc. of € 0.3 million. All these liabilities are due within one year.

7. Off-balance sheet assets and liabilities

LSP Advisory B.V. is part of a fiscal unity with LSP Advisory Group B.V. being the ultimate holding company. The income tax for the group is payable at group level and only recorded in the financial statements of the mother. LSP Advisory B.V. is however jointly and severally liable for the aggregate Corporate Tax liability of this group in case LSP Advisory Group B.V. does not timely or fully pay the group's taxes.

Income Statement for the period January until June 2020

8. Management fee

LSP Advisory B.V. has concluded an investment management agreement with LSP Life Sciences Fund N.V. pursuant to which LSP Advisory B.V. is entitled to receive a management fee 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.

In addition LSP Advisory B.V. has concluded an investment management agreement with the Client Mandates pursuant to which LSP Advisory B.V. is entitled to receive a management fee of up to 1.5% per annum of the average Net Asset Value of the respective Client Mandate.

The aggregate management fee for the period amounted to € 0.6 million (2019 H1: € 0.8 million).

9. Staff expenses

(in Euro)	01-06/2020	01-06/2019
Gross wages and salaries	344,888	305,284
Social security charges	25,614	28,496
Pension insurance	38,924	39,472
Other staff expenses	1,791	1,791
Total staff expenses	411,217	375,043
FTE at period end	3.7	3.7

As part of the AIFMD implementation, the Investment Managers and the Risk Manager have been seconded to LSP Advisory B.V. as of 1 July 2014. As part of this secondment agreement LSP Operations B.V. charges the fully loaded personnel expenses to LSP Advisory B.V. As such the above table shows the staff expenses for the period 1 January 2020 to 30 June 2020.

LSP Advisory B.V. 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 Company 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 Funds under management.

In the first half of the year 2020 LSP Advisory B.V. paid € 0.4 million (2019 H1: € 0.4 million) to its staff members. Of this amount € 0.4 million (2019 H1: € 0.4 million) was fixed remuneration and no variable compensation was paid for the period (2019 H1: € 6 thousand).

Of the total remuneration referenced above an amount of € 0.3 million (2019 H1: € 0.2 million) related to the directors of the Fund Manager. This consists of a fixed remuneration of € 0.3 million (2019 H1: € 0.2 million) and a variable compensation for the period of nil (2019 H1: nil).

01-06/2020 (in Euro)	Beneficiaries	Fixed remuneration	Variable remuneration	Total remuneration
Directors	2	300,283	-	300,283
Identified staff	1	15,896	-	15,896
Other employees	2	95,038	-	95,038
Total	5	411,217	-	411,217

01-06/2019 (in Euro)	Beneficiaries	Fixed remuneration	Variable remuneration	Total remuneration
Directors	2	239,919	-	239,919
Identified staff	1	15,920	-	15,920
Other employees	3	113,322	5,882	119,204
Total	6	369,161	5,882	375,043

10. Other operating expenses

(in Euro)	01-06/2020	01-06/2019
Advisory costs	41,509	45,689
Travel, meeting and representation expenses	143,095	101,754
Other costs	3,376	863
Total other operating expenses	187,980	148,306

11. Service fee

(in Euro)	01-06/2020	01-06/2019
Service fee LSP Operations B.V.	25,650	27,150

From 1 July 2014 onwards LSP Operations B.V. charges a service fee at arm's length conditions to LSP Advisory B.V. for financial and legal services, office automation, service provider management and housing costs. For the period January until June 2020 the total fee charged amounted to € 26 thousand (2019 H1: € 27 thousand).

12. Corporate income tax

From 1 July 2015, LSP Advisory B.V. is part of a fiscal unity with LSP Advisory Group B.V., which bears the corporate income tax as being the holding company.

13. Related party transactions

LSP Operations B.V. on charges third party expenses to LSP Advisory B.V. for travel costs, office expenses and marketing costs paid. For the first half year of 2020 the total amount charged is € 32 thousand (2019 H1: € 9 thousand). Furthermore, as detailed in notes 9 and 11, LSP Operations B.V. has charged LSP Advisory B.V. under the secondment agreement and the services agreement.

14. Post-balance sheet events

Management is not aware of any events that took place after balance sheet date that could have a material effect on the financial position of the Company.

Amsterdam, 28 August 2020

As Statutory Directors

Mark Wegter

Geraldine O'Keeffe