

# LSP Life Sciences Fund N.V.

Annual Report 2020



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

Annual Report

2020

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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 Netherlands 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 of Onno Paymans, who has 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. The Supervisory Board also serves as the Audit Committee of the Fund. Currently, the Supervisory Board has less than the statutory and legally required number of members. To resolve this, the Fund Manager will propose to appoint an additional member at the upcoming General Meeting.

# DIRECTOR'S REPORT

## Investment Performance

As per the end of December 2020, the Fund has been operational for over nine and one-half years and has shown strong performance over that period. The Net Asset Value per share of the LSP Life Sciences Fund moved from Euro 231.30 as at 31 December 2019 to Euro 289.07 (plus 25.0%) as at 31 December 2020. The Fund thus recorded a profit for the period of Euro 10.4 million compared to a profit of Euro 6.6 million in the prior year. 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, 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). Our portfolio primarily holds investments in companies that have a market cap below Euro 1 billion. As at 31 December 2020 the value of the portfolio amounted to Euro 58.5 million holding 19 names (2019: Euro 58.1 million and 16 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 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 CACEIS Bank Netherlands Branch 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 CACEIS Bank Netherlands Branch. The depositary remains liable towards the Fund for loss of assets of which the custody has been delegated to CACEIS Bank Netherlands Branch 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 29-32 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 2020 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 below.

### **Remuneration of the Fund Manager's staff**

During the year 2020 the Fund Manager paid Euro 1.4 million (2019: 0.9 million) to its staff members. Of this amount Euro 0.8 million (2019: 0.8 million) was fixed remuneration and Euro 0.6 million (2019: 40 thousand) was variable.

Of the total remuneration referenced above an amount of Euro 1.0 million (2019: 0.6 million) related to the directors of the Fund Manager. This consists of a fixed remuneration of Euro 0.6 million (2019: 0.6 million) and a variable compensation for the period of € 0.4 million (2019: nil).

In total 5 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 0.6 million (2019: 0.4 million), such amount being allocated on the basis of the average Assets under Management of the various activities of LSP Advisory B.V. The following tables show the breakdown of the remuneration of the staff members attributed to the management of the Fund for the current and prior period. For the year 2020 the allocation to the Fund amounts to 42.3% (2019: 50.8%) of the total remuneration.

<b>2020</b>	<b>Beneficiaries</b>	<b>Fixed remuneration</b>	<b>Variable remuneration</b>	<b>Total Remuneration</b>
Directors	2	254,383	153,673	408,056
Identified staff	1	13,466	30,861	44,327
Other employees	2	80,634	61,723	142,357
<b>Total</b>	<b>5</b>	<b>384,483</b>	<b>246,257</b>	<b>594,740</b>

2019	Beneficiaries	Fixed remuneration	Variable remuneration	Total Remuneration
Directors	2	289,802	-	289,802
Identified staff	1	16,181	6,299	22,480
Other employees	3	108,211	14,170	122,381
Total	6	414,194	20,469	434,663

### **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 year 2020 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 31 December 2020 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

Equity Markets, along with our lives, were in turmoil in 2020. At the time of the dramatic and swift market sell off in March and April – it seemed impossible that the healthcare sector would recover and yet it has. The main impact on the companies in which we invest, were delays to clinical trials. The lockdown and the general overwhelming of the healthcare system and hospitals proved challenging to both enrolling new patients in clinical studies and maintaining per protocol treatment and monitoring of patients. The industry proved resilient and within a matter of months, most clinical trials were back up and running, although perhaps at a slower pace. It was feared that the FDA would grind to a halt during the pandemic or that all its resources would be diverted towards vaccines and treatment for COVID-19. What we have seen instead is that the FDA approved 53 new drug entities in 2020 – the second highest level after 2018. New drug approvals, of course, mean new drug launches and strong revenue momentum for the sector. The fund was established with the strategy of finding small to mid-sized interesting, innovative healthcare companies in Europe and the US – with a particular focus on drug/therapeutic development companies. Despite the market turmoil – our strategy of investing based on extensive due diligence of fundamental assets and technology has not changed. We avoided the hype and chose not to invest in companies which saw their valuations jump because the word COVID was in the title of the press release. Perhaps we could have made a return on some of these investments, but that is not how we work. 2020 was a year to stick to fundamental analysis, where we could see long term value in the drug candidates and pipeline.

The fund typically holds 15 -20 conviction buys in the portfolio at any one time. In total, the fund invested in 34 companies in 2020, spread across a range of different therapeutic areas and strategies. With the worst of the market turmoil over with in April/May – the fund made a steady climb back by focusing on its core investment strategy. Over the course of 2020, we made 18 new investments, this is up from 11 new investments in 2019. Across the portfolio, there were 6 drugs/therapies which received FDA approval and 12 pivotal clinical studies were completed, with a gratifying 11 of the 12 studies presenting positive data. There were also several companies which presented important validating Phase 2 data, with 9 critical Phase 2 read outs and only one program was discontinued based on the results. 2020 also proved to be a good year for transactions, with 11 licensing agreements signed within the portfolio, for a total deal value of approximately \$12bn. Furthermore, our portfolio companies raised a combined \$4.2bn in capital markets transactions, thus ensuring that they are well financed into the future. The fund participated in 4 capital market transactions last year; Dutch NK-Cell company Kiadis Pharma but also Swedish oncology company Oncopeptides, Swedish kidney disease company Calliditas and French inflammation company Abivax. This is a relatively high-risk sector and not without its setbacks. As is to be expected, not all companies in the portfolio were successful. There were two notable negative events in 2020; Amarin suffered an unexpected setback when a district court ruled a patent held by Amarin to be invalid, thus opening the door to generic competition and Galapagos' partner Gilead received push back from the FDA for lead drug candidate filgotinib, which means at best a delay to approval of 12-18 months and at worst the drug would never be approved.

But it is not just about the numbers. The LSP Life Sciences Fund continues to invest in and support really exciting medical innovations. Our strategy is to always invest in treatments which can truly make a difference to patients. Despite the turmoil, it was a busy and productive year for the LSP Life Sciences Fund. We maintained our focus and our strategy and continue to find exciting new investment opportunities and will maintain this focus into 2021. Due to the pandemic, health and healthcare has never been more important to our lives and to the global economy – it is also part of the DNA of LSP. We are 100% focused on finding those companies which have the potential to develop

ground-breaking treatments which can truly change the course of disease and change people's lives. We support and nurture companies in whatever way we can to help ensure these medicines reach patients. There has never been a more exciting time to invest in healthcare.

**Disclosure in respect of COVID-19 virus**

Economic expectations and prospects for capital markets were revised sharply downwards in the first quarter of 2020 due to the spread of the COVID-19 (commonly referred to as 'Corona') virus. Extensive measures have been taken worldwide to contain the virus. It is clear that these measures will have a huge impact on the economy. Central bankers and governments have announced measures to mitigate the economic impact of the COVID-19 virus. The further course of the virus will determine how long the measures will remain in effect. These developments have a major impact on society and economies. In 2020 the impact on the Fund's result were relatively limited. This mainly related to instruments that are valued at fair value (such as investments). However, this has not impacted the liquidity nor solvency of the Fund. The director follows developments closely.

Amsterdam, 19 April 2021

The director

**LSP Advisory B.V.**

Mark Wegter

Geraldine O'Keeffe

## SUPERVISORY BOARD REPORT

In accordance with the Fund documents, the Supervisory Board of the Fund meets at least quarterly and at such times as the Supervisory Board or the directors of the Fund Manager deem necessary. During the year 2020, the Supervisory Board held 4 regular meetings together with the directors of the Fund Manager.

During these meetings the Supervisory Board has discussed a wide range of subjects including the investment strategy and investment performance, the Fund's operations, human resources and the interaction with third party service providers (e.g. depositary, custodian, fund agent, fund administrator and brokers), the principles of fund governance, compliance and regulatory related matters as well as the monitoring and adherence to the investment restrictions and the Socially Responsible Investment practices and procedures of the Fund. During the year, the Fund Manager asked the Supervisory Board for approval of a proposed investment involving a potential conflict of interest. The Supervisory Board reviewed the case at hand, established that all relevant procedures were adhered to and granted its approval for the investment.

Furthermore, the Supervisory Board serves as the Fund's Audit Committee and in that capacity has monitored the financial reporting process, the effectiveness of the internal controls and the risk management of the Fund.

At the end of August, Pauline Bieringa resigned as chair of the Supervisory Board following her appointment as Managing Director of Triodos Bank. She was succeeded by Onno Paymans effective 1 September 2020. In addition, Maarten Scholten is identified as new member of the Supervisory Board. He will be proposed for appointment to the General Meeting once the Fund Manager has obtained the requested approvals from the AFM for the expansion of its license and in respect of the suitability of Maarten Scholten.

The Supervisory Board declares that all of its members were independent of one another as well as in respect of the Fund and the Fund Manager.

Onno Paymans (chair)

## KEY FIGURES

(in thousands of Euro's, except per share data)

	2020	2019	2018	2017	2016
Net Asset Value	58,254	58,502	71,477	75,028	59,783
Number of shares outstanding	201,517	252,924	333,247	319,169	352,971
Net Asset Value per share	289.07	231.30	214.48	235.07	169.37
Share price performance	25.0%	7.8%	-8,8%	38.8%	-20.1%
Net Result	10,389	6,626	-6,848	21,646	-18,267
Ongoing charges figure (OCF)	2.22%	1.97%	1.92%	2.01%	1.92%
Performance fee figure <sup>1</sup>	5.71%	0.00%	0.00%	2.77%	0.00%
Turnover Ratio	239%	145%	239%	360%	237%

<sup>1)</sup> The performance related fees expressed as a percentage of the Fund's average Net Asset Value (NAV)

## BALANCE SHEET on 31 December 2020

(in thousands of Euro's, before appropriation of the result)

	Note	31 December 2020	31 December 2019
<b>Assets</b>			
<b>Investments</b>			
	<b>1</b>		
Investments in securities		55,013	58,060
Investments in derivatives		3,470	-
		<u>58,483</u>	<u>58,060</u>
<b>Receivables</b>			
Amounts receivable		4	45
<b>Other assets</b>			
	<b>2</b>		
Cash accounts		2,688	2,633
		<u>61,175</u>	<u>60,738</u>
<b>Total assets</b>			
<b>Liabilities and shareholders' equity</b>			
<b>Shareholders' equity</b>			
	<b>3</b>		
Issued share capital		202	253
Share premium		-	9,142
Other reserves		47,663	42,481
Unappropriated result		10,389	6,626
		<u>58,254</u>	<u>58,502</u>
<b>Current liabilities</b>			
	<b>4</b>		
Creditors and accrued expenses		2,921	397
Cash accounts		-	1,839
		<u>2,921</u>	<u>2,236</u>
<b>Total liabilities and shareholders' equity</b>			
		<u>61,175</u>	<u>60,738</u>
Net Asset Value per share		289.07	231.30

## PROFIT AND LOSS ACCOUNT for the year 2020

(in thousands of Euro's)

	Note	31 December 2020	31 December 2019
<b>Income from investments</b>			
Dividends on securities		5	-
Income from securities lending		98	49
		103	49
<b>Realized movements in investments and other assets 5</b>			
Realized movements on securities		5,889	-263
Currency results on cash accounts		1,958	-1,417 *
		7,847	-1,680
<b>Unrealized movements in investments and other assets 5</b>			
Unrealized movements on securities		3,621	10,942
Unrealized movements on derivatives		3,061	-
		6,682	10,942
<b>Expenses</b>			
Management costs	6	3,443	1,008
Depositary costs	7	132	131
Fund operational costs	8	202	177
Interest expenses on cash accounts		466	1,369
		4,243	2,685
<b>Result for the year</b>		10,389	6,626

\* Adjusted for comparative purposes, see note 'Reclassification of currency results on cash accounts'

## CASH FLOW STATEMENT for the year 2020

(in thousands of Euro's)

	31 December 2020	31 December 2019
<b>Cash flows from investment activities</b>		
Net result	10,389	6,626
Realized movements in investments and other assets	-7,847	1,680 *
Unrealized movements in investments and other assets	-6,682	-10,942 *
Purchase of investments and other assets	-66,867	-54,380
Sale of investments and other assets	79,015	78,122
Change in amounts receivable	41	114
Change in current liabilities	685	-42,912
	8,734	-21,692
<b>Cash flows from financial activities</b>		
Issue of shares	10,622	7,880
Redemption of shares	-21,259	-27,481
<b>Total cash flows from financial activities</b>	-10,637	-19,601
Currency results on cash accounts	1,958	-1,417
<b>Net increase for the period</b>	<b>55</b>	<b>-42,710</b>
Opening balance	2,633	45,343
Closing balance	2,688	2,633
	55	-42,710

\* Adjusted for comparative purposes, see note 'Reclassification of currency results on cash accounts'

# 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 Euros 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 31 December 2020, in Euro	
United States Dollar	0.81729
Swedish Crown	0.09952

### 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.

#### Securities lending

Securities of which the legal ownership is transferred for a specific period under a securities lending transaction, continue to be recognized in the Company's balance sheet during this period, because the economic benefits and costs - in the form of investment income and changes in value - are for the account and risk of the Company.

The method of accounting of collateral received in connection with securities lending depends on its nature. If collateral is received in the form of securities, this is not recognized in the balance sheet of the Company, since the economic benefits and disadvantages associated with the collateral are for the account and risk of the counterparty. When collateral is received in the form of cash, it is recognized in the balance sheet of the Company, because in that case the economic benefits and costs are for the account and risk of the Company. In recognition of the fact that the holder of the instrument retains the right to sell back the instrument, it is classified as equity in accordance with RJ 290.808.

#### 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, derivate and foreign currency 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, derivate and foreign currency positions that are (still) in the portfolio at the end of the reporting period.

### Reclassification of currency results on cash accounts

In 2020 management concluded that the 2019 classification of currency results on cash accounts should be reflected as realized movements in investments and other assets. To adjust for this matter, the line items 'currency results on cash accounts' has been corrected in the comparable information over 2019 to reflect this accurate classification. The adjustments did not have a material impact on the Fund's result or shareholders' equity over 2019.

### 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

31 December 2020

31 December 2019

#### Securities

Market value beginning of period	58,060	71,123
Purchases	66,458	54,380
Sales	-79,015	-78,122
Unrealized price movements	4,625	11,831
Unrealized currency movements	-1,004	-889
Realized price movements	6,749	-2,085
Realized currency movements	-860	1,822
Market value at end of period	55,013	58,060

#### Derivatives

Market value beginning of period		
Purchases	409	-
Unrealized price movements	3,061	-
Market value at end of period	3,470	-

The derivative position consists of 714,326 warrants on common shares of Kiadis Pharma that were acquired by the Fund in connection with its participation in the private placement of Kiadis Pharma in April 2020. The parameters used for the valuation of these non-listed warrants are:

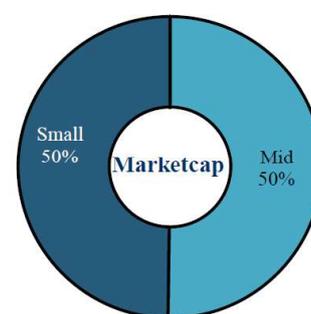
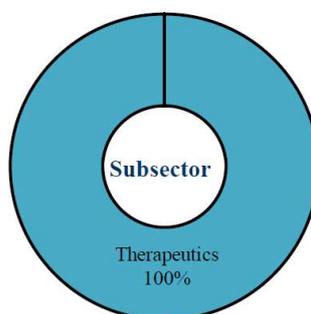
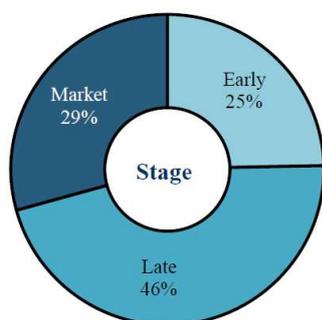
Parameter	Warrant Kiadis Pharma
Expiration date	April-2025
Remaining life	4.33 years
Price of underlying share at value date	EUR 5.28
Exercise price	EUR 2.32
Vesting period	-
Expected dividend yield	0.00%
Expected volatility	150.00%
Rate of yield curve	-0.50%

#### Securities lending

The Fund may make use of securities lending transactions for the purposes of generating additional income. The Fund is permitted to lend securities up to a maximum of 100% of its total assets. Securities lending transactions will only be carried out with CACEIS Bank Netherlands Branch as counterparty which is a reputable financial institution. The Fund has lent out Euro 7,789 thousand (2019: 19,643 thousand) of securities and received in return Euro 7,944 thousand (2019: 20,035 thousand) of securities as collateral as per below breakdown.

Security type	Issuer	Security	Market value
Government bond	France Republic	FR0013286192 0.75 FRANCE 28	3,972
Government bond	France Republic	FR0012993103 1.5 FCE OAT 31	3,972
			7,944

The Fund's investments are classified according to stage, subsector and market capitalization. The breakdown of the Fund's portfolio per 31 December 2020 is shown below.



Stage at year end	2020	2019
Early Stage	25%	23%
Late Stage	46%	59%
Market	29%	18%

Subsector at year end	2020	2019
Therapeutics	100%	100%
Medical Device	-	-
Specialty Pharma	-	-

Marketcap at year end	2020	2019
Microcap	-	1%
Smallcap	50%	9%
Midcap	50%	90%

### 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	%
Kiadis Pharma	Early	Therapeutics	Small	18.9%
Calliditas Therapeutics	Late	Therapeutics	Small	7.3%
Abivax	Late	Therapeutics	Small	7.2%
Oncopeptides	Late	Therapeutics	Mid	7.2%
Intra-Cellular Therapies	Market	Therapeutics	Mid	5.9%
Argenx	Late	Therapeutics	Mid	5.4%
Arrowhead Pharmaceuticals	Early	Therapeutics	Mid	5.2%
GW Pharmaceuticals	Market	Therapeutics	Mid	5.2%
Rhythm Pharmaceuticals	Market	Therapeutics	Mid	4.6%
Albireo Pharma	Late	Therapeutics	Small	4.5%
Morphosys	Market	Therapeutics	Mid	4.5%
Blueprint Medicines	Market	Therapeutics	Mid	4.0%
TCR2 Therapeutics	Early	Therapeutics	Small	3.8%
Otonomy	Late	Therapeutics	Small	3.2%
Uniqure	Late	Therapeutics	Mid	3.2%
Hookipa Pharma	Early	Therapeutics	Small	3.0%
Amarin	Market	Therapeutics	Mid	2.8%
Biohaven Pharmaceutical	Market	Therapeutics	Mid	2.4%
AC Immune	Early	Therapeutics	Small	2.1%
				100.4%

## 2. Other assets

### Cash accounts

The cash at banks are held with CACEIS Bank, Netherlands Branch and are available on demand.

Cash account	at 31 December 2020		at 31 December 2019	
	in Local Currency	in Euro	in Local Currency	in Euro
Euro	2,688	2,688	2,633	2,633
<b>Total</b>		<b>2,688</b>		<b>2,633</b>

## 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 31 December 2020 amounts to 201,517.

	31 December 2020	31 December 2019
<b>Issued share capital</b>		
Balance at beginning of period	253	333
Issued	44	35
Redemption	-95	-115
Balance at end of the period	202	253
<b>Share premium account</b>		
Balance at beginning of period	9,142	28,663
Issue of shares	10,578	7,845
Redemption of shares	-19,720	-27,366
Balance at end of the period	-	9,142
<b>Other reserves</b>		
Balance at beginning of period	42,481	49,329
Result appropriation for previous year	6,626	-6,848
Redemption of shares	-1,444	-
Balance at end of the period	47,633	42,481
<b>Number of issued shares</b>		
Balance at beginning of period	252,924	333,247
Issued	44,349	34,606
Redemption	-95,756	-114,929
Balance at end of the period	201,517	252,924
Number of shares	201,517	252,924
Net Asset Value	58,254	58,502
Net Asset Value per share	289.07	231.30

<b>Unappropriated result</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
Balance at beginning of period	6,626	-6,848
Result previous year added to other reserves	-6,626	6,848
Result for the period	10,389	6,626
Balance at end of the period	10,389	6,626

<b>4. Current liabilities</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Creditors and accrued expenses</b>		
Interest	24	67
Share redemptions payable to shareholders	23	169
Fund operational costs	76	86
Management fee	77	75
Performance fee	2,721	-
	2,921	397

The creditors and accrued expenses are payable within one year.

The breakdown of the fund operational costs payable in the amount of Euro 76 thousand is provided below.

Fund administration fee	13	7
Remuneration of the Supervisory Board	-	12
Auditor's remuneration	41	40
Advisory costs	8	6
Other Costs	14	21
	76	86

#### **Cash accounts**

The cash accounts on the liability side of the balance sheet comprises of a debit balance on the Euro currency account as shown in below table.

Cash account	at 31 December 2020		at 31 December 2019	
	in Local Currency	in Euro	in Local Currency	in Euro
Euro	-	-	-1,839	-1,839
<b>Total</b>		-		<b>-1,839</b>

These cash accounts are an integral part of the Fund's currency hedging as further detailed in note 5.

## Notes to the Profit and Loss account

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

	31 December 2020	31 December 2019
<b>Realized movements on securities</b>		
Realized gains / losses on securities	6,749	-2,085
Currency results on securities	-860	1,822
	5,889	-263
<b>Unrealized movements on securities</b>		
Change in unrealized gains / losses on securities	4,625	11,831
Currency results on securities	-1,004	-889
	3,621	10,942
<b>Unrealized movements on derivatives</b>		
Change in unrealized gains / losses on securities	3,061	-
	3,061	-

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 31 December 2020</b>			
Securities	23,711	-17,822	5,889
<b>Unrealized movements 31 December 2020</b>			
Securities	19,163	-15,542	3,621
Derivatives	3,061	-	3,061
	22,224	-15,542	6,682
<b>Realized movements 31 December 2019</b>			
Securities	17,003	-17,266	-263
<b>Unrealized movements 31 December 2019</b>			
Securities	18,643	-7,701	10,942

### 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 realized currency results on these cash accounts amounted to a gain of Euro 1,958 thousand (2019: loss 1,417 thousand), whilst the realized and unrealized currency result of the investments amounted to a loss of Euro 1,864 thousand (2019: profit 933 thousand). The net currency result of the Fund thus amounted to a gain of Euro 94 thousand (2019: loss 484 thousand).

## 6. 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 for the year amounts to Euro 722 thousand (2019: 1,008 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 210.81 at 31 December 2020. 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 302.58, and thus above the High Watermark. As such there is a performance fee calculated of 2,721 thousand for the period (2019: nil).

(in Euro per share)	31 December 2020	31 December 2019
Net Asset Value (before performance fee)	302.58	231.30
Hurdle	210.81	195.19
High Watermark	235.07	235.07
Excess performance	67.51	0.00
Performance fee (20% of excess performance)	13.50	0.00
Number of shares outstanding	201,517	252,924

## 7. Depositary costs

In connection with the Alternative Investment Fund Manager Directive (AIFMD) that came in force on 22 July 2014, the Fund has appointed CACEIS Bank, Netherlands branch 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.

<b>8. Fund operational costs</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
Fund administration fee and bank fees	93	71
Remuneration of the Supervisory Board	26	30
Auditor's remuneration	41	41
Advisory costs	19	12
Other costs	23	23
	<hr/>	<hr/>
	202	177

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.

	<b>31 December 2020</b>		
	<b>KPMG Accountants N.V.</b>	<b>Other KPMG network</b>	<b>Total KPMG</b>
Audit of the financial statements	41	-	41
Other audit engagements	-	-	-
Tax-related advisory services	-	-	-
Other non-audit services	-	-	-
	<hr/>	<hr/>	<hr/>
	41	-	41

31 December 2019

	KPMG Accountants N.V.	Other KPMG network	Total KPMG
Audit of the financial statements	41	-	41
Other audit engagements	-	-	-
Tax-related advisory services	-	-	-
Other non-audit services	-	-	-
	<hr/>	<hr/>	<hr/>
	41	-	41

#### Comparison total expenses with expenses mentioned in the prospectus

	Actual costs	Prospectus
Management fee	722	722
Performance fee	2,721	2,721
Depositary costs	132	} 217
Fund operational costs	202	
	<hr/>	<hr/>
	3,777	3,660

The expenses in the Prospectus are based on an average Fund size of Euro 75 million and have been adjusted proportionally to the actual average Fund size in this comparison. In the Prospectus the depositary costs are not mentioned separately but are included in the Fund operational costs.

#### Portfolio Turnover Ratio

The portfolio turnover ratio refers to the measure of trading activity in the Fund's portfolio. The portfolio turnover rate is a percentage of the portfolio that is bought and sold in exchange for other stocks. The portfolio turnover ratio is calculated by taking the amount of new securities purchased and the amount of securities sold minus the amount for redemption and issue of own shares over the financial year. The result is expressed as a percentage of the average Net Asset Value (NAV). The average Net Asset Value is calculated, in accordance with the generally accepted accounting principles in the Netherlands, as the average of all calculated and published NAV's during the year. The portfolio turnover ratio for 2020 amounts to 239% (2019: 145%). As the portfolio turnover measure includes both the purchases as well as the sales of securities, it effectively corresponds to an average holding period of about 0.8 years, consistent with the Fund's investment strategy.

### Ongoing Charges Figure

The ongoing charges figure (OCF) is the total amount of costs the Fund incurred in a year, expressed as a percentage of the Fund's average Net Asset Value (NAV) for the period concerned. The performance related fees are excluded from the ongoing charges figure and are expressed separately as a percentage of the Fund's average Net Asset Value (NAV) for the period concerned. The resulting OCF for 2020 is 2.22% (2019: 1.97%). The resulting percentage of the performance fee for 2020 is 5.71% (2019: nil).

### 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 Supervisory Board

The total of remuneration for the members of the Supervisory Board for the period amounts to Euro 26 thousand (2019: 30 thousand).

<b>Supervisory Board member</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
Pauline Bieringa (01/01/20 – 31/08/2020)	12	18
Onno Paymans	14	12
	<hr/>	<hr/>
	26	30

## **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 year of 2020 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.

For all investments, an estimate of the impact of COVID-19 is incorporated in the valuation. For liquid investments or illiquid investments and derivatives where the valuation is derived from liquid investments, the effects have been absorbed by financial markets and are reflected in market prices. The impact of COVID-19 is strongly dependent on government decisions which can change from time to time.

**(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 31 December 2020 the 5 single largest holdings account for 46% of the Net Asset Value of the Fund (year-end 2019: 60%).

**(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 British Pound, Danish Crown, Swedish Crown and United States Dollar was largely hedged by contrary positions on the respective foreign currency cash accounts. Prior to year-end 2020, these offsetting positions were unwound. Early January 2021, the foreign currency hedge was re-established.

Net currency exposure	at 31 December 2020		at 31 December 2019	
	in Local Currency	in Euro	in Local Currency	in Euro
Danish Crown	-	-	-	-
Swedish Crown	84,605	8,420	33,483	3,186
Swiss Franc	-	-	-	-
United States Dollar	35,602	29,098	36,506	32,522

***(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 2,688 thousand as at 31 December 2020 (2019: 794 thousand), are held with the CACEIS Bank, Netherlands branch. Following the completion of the merger with CACEIS, the credit ratings of the Netherlands branch is now equalized with those of Credit Agricole, CACEIS’ ultimate parent. Per 10 November 2020, FitchRatings issued Long- and Short-Term Issuer Default Ratings (IDRs) to ‘A+/AA-‘ and ‘F1+’, respectively for Credit Agricole.

In respect of securities lending transactions, the Fund runs the risk that CACEIS Bank, Netherlands branch as borrower of the securities cannot comply with its obligations to return the securities it borrowed from the Fund on the agreed date or furnish the requested collateral. Investors should take into account that: if CACEIS Bank, Netherlands branch fails to return the securities it borrowed from the Fund, there is a risk that the value of the collateral received may be less than the value of the securities lent to CACEIS Bank, Netherlands branch and delays in returning the securities borrowed from the Fund may have an adverse effect on the Fund’s capacity to meet its own obligations in relation to any sales transactions of such securities. Generally, securities lending transactions are entered into to enhance the Fund’s overall performance however, an event of failure or default by the borrower may adversely affect the Fund’s performance.

***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 722 thousand (2019: 1,008 thousand) and a performance fee of Euro 2,721 thousand is due (2019: nil). 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 2020 (2019: none).

### **Subsequent 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 Fund.

Amsterdam, 19 April 2021

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.

**INDEPENDENT AUDITOR’S REPORT**



# Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of LSP Life Sciences Fund N.V.

## **Report on the audit of the financial statements 2020 included in the annual report**

### ***Our opinion***

In our opinion the accompanying financial statements give a true and fair view of the financial position of LSP Life Sciences Fund N.V. as at 31 December 2020 and of its result and its cash flows for the year 2020 then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

### ***What we have audited***

We have audited the financial statements 2020 of LSP Life Sciences Fund N.V. (hereafter: 'the Fund') based in Amsterdam.

The financial statements comprise:

- 1 the balance sheet as 31 December 2020;
- 2 the profit and loss account for the year 2020;
- 3 the cash flow statement for the year 2020; and
- 4 the notes comprising a summary of the accounting policies and other explanatory information.

### ***Basis for our opinion***

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of LSP Life Sciences Fund N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Audit approach**

### **Summary**

#### **Materiality**

- Materiality of EUR 582,500
- 1% of total shareholders' equity
- Misstatement threshold of EUR 29,125

#### **Key audit matters**

- Existence and valuation of investments
- Accuracy of investment income

#### **Opinion**

Unqualified opinion

### **Materiality**

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 582,500 (2019: EUR 585,000). The materiality is determined with reference to total shareholders' equity. The equity of the fund represents the value that an investor could obtain if the shares of the fund will be sold. Changes in the value of investments are a relevant part of the investment income and thus of the result of an investment entity. Due to the dependency on value changes both the total revenues and the profit before tax are inherently volatile and therefore less suitable as benchmark for determining materiality. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 29,125 which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

### **Audit scope on Outsourced Business Processes**

The Fund has no employees and its portfolio management and risk management is therefore carried out by LSP Advisory B.V. The financial and investment administration is outsourced to an external service provider, CACEIS Bank, Netherlands Branch. Consequently, the Fund is primarily dependent on CACEIS Bank, Netherlands Branch for generating financial information and drafting the financial statements.



We are responsible for obtaining an understanding of the nature and significance of the services provided by LSP Advisory B.V. and CACEIS Bank, Netherlands Branch. Based on this assessment we identify the risks of material misstatement and design audit procedures to address these risks. As part of our risk assessment we made use of the procedures performed by the external auditor of CACEIS Bank, Netherlands Branch in relation to the relevant administrative organisation and internal controls. The outcome of these procedures is included in the ISAE 3402 type II report of CACEIS Bank, Netherlands Branch.

### ***Our focus on the risk of fraud and non-compliance with laws and regulations***

#### ***Our objectives***

The objectives of our audit with respect to fraud and non-compliance with laws and regulations are:

With respect to fraud:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

With respect to non-compliance with laws and regulations:

- to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and
- to obtain a high (but not absolute) level of assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the Director, with oversight by the Supervisory Board. We refer to page 6 of the Annual Report where the Management Board included its risk assessment.

#### ***Our risk assessment***

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.



In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to the Fund and we inquired the Director and the Supervisory Board as to whether the entity is in compliance with such laws and regulations and inspected correspondence with relevant licensing and regulatory authorities.

The potential effect of the identified laws and regulations on the financial statements varies considerably.

Firstly, the Fund is subject to laws and regulations that directly affect the financial statements, including taxation and financial reporting. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items and therefore no additional audit response is necessary.

Secondly, the Fund is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognized or disclosures provided in the financial statements, or both, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an indirect effect:

- the requirements by or pursuant to the Act on Financial Supervision (Wet op het financieel toezicht);
- the anti-money laundering laws and regulations.

In accordance with the auditing standard we evaluated the fraud and non-compliance risks that are relevant to our audit, including the relevant presumed risks:

- revenue recognition, in relation to (a presumed risk)
- management override of controls (a presumed risk)

We rebutted the presumed fraud risk on revenue recognition as we identified limited perceived pressure on management from internal or external sources to achieve an expected (and perhaps unrealistic) revenue or earnings target and the Fund has no significant income other than unrealized and realized movements in investments and other assets.

We communicated the identified risks of fraud and non-compliance with laws and regulations throughout our team and remained alert to any indications of fraud and/or non-compliance throughout the audit.

In all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud.

We communicated our risk assessment and audit response to the Director and the Supervisory Board. Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.



### ***Our response***

We performed the following audit procedures (not limited) to respond to the assessed risks:

- We evaluated the design and the implementation of internal controls implemented at the service organization CACEIS Bank, Netherlands Branch, that mitigate fraud risk of management override of controls.
- We performed an analysis of journal entries, in which we did not identify instances of unexpected journal entries or other risks through our assessment.
- Assessment whether there are matters reported on the Director's incident register/whistleblowing and complaints procedures with the entity
- With respect to the risk of bribery and corruption we have evaluated the Fund's controls and procedures. We incorporated elements of unpredictability in our audit by applying specific selection criteria
- We considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud or non-compliance. If so, we re-evaluated our assessment of relevant risks and its resulting impact on our audit procedures.
- We obtained audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements.

We note that our audit is based on the procedures described in line with applicable auditing standards. In addition to the requirements of the auditing standards we have performed the following additional procedures:

- Assessment of compliance with laws and regulations with a direct and/or indirect impact on the financial statements
- Evaluate the accessibility of the whistle blower reporting

Our procedures to address identified risks of fraud and related to non-compliance with laws and regulations did not result in a key audit matter.

We do note that our audit is not primarily designed to detect fraud and non-compliance with laws and regulations and that management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud, including compliance with laws and regulations.

The more distant non-compliance with indirect laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

### **Our key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Compared to last year the key audit matter with respect to the accuracy of the investment income is not included, as it is considered non-complex and non-judgmental.

## **Existence and valuation of investments**

### **Description**

The investments of the Fund comprise 96% of the balance sheet total. These investments are valued at fair value based on market information. Therefore, the valuation of the investments has a significant impact on the financial results of the Fund. The determination of the fair value is disclosed on page 16. We assess the risk of a material misstatement in the valuation of the investments as low due to the low complexity and subjectivity involved in the valuation of the investments. Due to the amount of the investments in relation to the financial statements as a whole we identify the existence and valuation of investments as a key audit matter.

### **Our response**

Our audit procedures consisted of the following:

- determining the existence of the investments by obtaining an external confirmation from the independent custodian or by vouching the purchase of the investments to supporting documentation
- determining that the valuation used for the investments is based on the method which is defined for the relevant investment category. We have compared the used valuations for the investments with our independently determined valuation which is based on observable market prices or generally accepted valuation models. In performing these procedures we have used our valuation specialists.

Furthermore we assessed whether the disclosure in the financial statements on pages 16, 19 and 20 is in accordance with Dutch GAAP.

### **Our observation**

The outcome of our procedures is that the investments exist and we observed that the Fund's valuation of the investments resulted in an acceptable valuation in the financial statements. The disclosure in the financial statements on pages 16, 19 and 20 is in accordance with Dutch GAAP.



## **Report on the other information included in the annual report**

In addition to the financial statements and our auditor's report thereon, the annual report contains other information.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements; and
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Director is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

## **Report on other legal and regulatory requirements**

### ***Engagement***

We were engaged by the General Meeting of shareholders as auditor of LSP Life Sciences Fund N.V. as of the audit for the year 2011 and have operated as statutory auditor ever since that financial year. In accordance with the audit firm rotation requirements for Public Interest Entities, KPMG has to resign as the Fund's auditor after the audit of the 2020 financial statements.

### ***No prohibited non-audit services***

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

## **Description of responsibilities regarding the financial statements**

### ***Responsibilities of the Director and the Supervisory Board for the financial statements***

The Director is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Director is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.



As part of the preparation of the financial statements, the Director is responsible for assessing the Fund's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Director should prepare the financial statements using the going concern basis of accounting unless the Director either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Director should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Fund's financial reporting process.

### ***Our responsibilities for the audit of the financial statements***

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is located at the website of de 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at: [http://www.nba.nl/ENG\\_oob\\_01](http://www.nba.nl/ENG_oob_01). [This description forms part of our independent auditor's report.](#)

Amstelveen, 19 April 2021

KPMG Accountants N.V.

H.D. Grönloh RA

# STATEMENT OF THE DEPOSITARY

## Considering that

- CACEIS Bank, Netherlands branch (“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 2020 up to and including 31 December 2020, (“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, 19 April 2021

**CACEIS bank, Netherlands branch**