

LSP Life Sciences Fund



Monthly Report December 2016

NAV per Share € 169.37

Performance

YTD	1 Month	3 Months	1 Year	2 Years	3 Years
-20.1%	-0.9%	-11.9%	-20.1%	-8.1%	26.4%

NAV of Fund	59,783,766
Number of Shares	352,971
Valuation Date	31/12/2016

Top-5 performers

1. Neuroderm	36.2%
2. Evotec	20.9%
3. ProQR Therapeutics	15.3%
4. arGEN-X	8.9%
5. Colucid Pharmaceuticals	3.0%

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

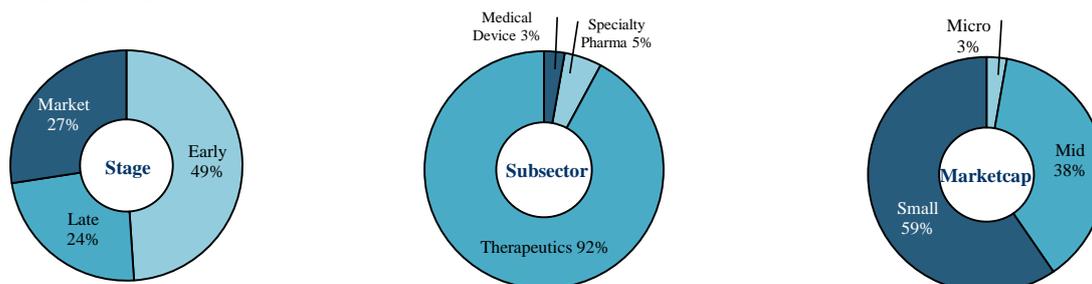
Investment strategy

The Fund's primary investment objective is to achieve capital appreciation by investing in a diversified, yet concentrated portfolio of publicly listed life sciences companies (including biopharmaceutical-, specialist pharmaceutical-, medical device-, drug delivery-, vaccine- and diagnostic companies). The majority of the Fund's portfolio will consist of European companies listed on one of the (main) European stock exchanges, with a market capitalization of below € 2.5 billion at the time of investment.

Manager's comments

Now that the year 2016 is behind us, we can conclude that it has been a challenging and highly volatile year for equities in general and for the healthcare sector in particular. For 2016, we were expecting volatility to remain relatively high, much in line with the second half of 2015, but certainly not to the extent seen through the year. In fact, the downturn of the global equity markets at the start of the year 2016 – driven by an ever increasing uncertainty (or fear) that global economic growth was slowing – was extreme. During that month and through the beginning of February, we saw a flight from risk – and thus from equities – by investors across the board; and within equities, a flight in particular from those sectors that are typically being perceived as riskier, such as the biomedical and biopharmaceutical sector. This has also had its impact on the LSP Life Sciences fund. In January alone, without any company specific negative development, the fund lost a significant part of its value. We felt this to be a significant overreaction; it simply did not reflect the underlying growth potential of the sector that is driven by fundamental, unstoppable and long term socio-economic and demographic trends; neither did it take into account the fundamental value of the individual investment cases in our portfolio. With the equity markets calming in March and April, the Fund – as one would expect – recouped much of the losses it incurred in the beginning of the year. Then, in June, around the UK referendum on its EU membership, fear returned and – in spite of a number of positive developments in the portfolio – the Fund returned to the lows reached earlier in the year. Again, within a couple of months and after the Brexit vote had been “consumed” by the markets, the Fund regained most of its losses, reaching a high of EUR 195 per share by the end of September. Still, one underlying factor and one that is specific to the healthcare sector, was looming in the background. It concerned the topic of drug pricing, a topic on which we issued a note in September [see note here]. At that time, the markets were indicating that Hillary Clinton had a modestly higher chance of becoming the next President of the United States. Then came October. One of the worst months for the healthcare sector in years. As we have described in our monthly report for that month [see note here] here and in November [see note here] the single most important trigger was the release of the Trump Locker Room Tape on October 7th. As of the moment of this release on that day, the polls started to improve significantly for Hillary Clinton, at the expense of Donald Trump. At the same time, the scenario of the Democrats gaining majority in the Senate and possibly even in the House of Representatives, became more of a reality. True or false, this scenario, whereby not only the Presidency, but also Congress would be controlled by the Democrats (generally referred to as a “Democrat Sweep”), was considered by the Street to be the “worst case” scenario for the sector. This was because the likelihood of implementing measures to curb healthcare expenditures related to drug pricing, was considered to increase in such a scenario. As a result, the Nasdaq Biotech Index lost more than 10% in three weeks. In that period, investors saw more than USD 50 billion evaporate in biotech stock value. After Trump winning the elections, healthcare stocks rebounded sharply. Nevertheless, the year closed with the Nasdaq Biotech Index down almost 22%. So what to expect for 2017? While the election of Trump averted the anticipated Clinton lead war on drug pricing – uncertainty remains. The healthcare markets remain volatile in response to any Trump associated comments on healthcare; most notably ‘repeal and replace’ of the Affordable Healthcare Act, more commonly known as ACA or Obamacare, and continued rhetoric around drug pricing. It is expected that any changes to ACA will only come into effect in about 2 years. Regarding drug pricing – there is increasing discussion in the industry about moving towards value based pricing systems for some medication. This would mean payment would be linked to treatment outcomes. Such a system should favour highly innovative, impactful new therapies such as those being developed by the biotechnology sector. The biotechnology sector in which the LSP fund invests, continues to advance the development and launch of exciting new healthcare solutions and treatments which should not only improve lives but reduce the overall cost of healthcare. In the short term, volatility may continue until there is some clarity on the policies of the Trump administration but in the longer term, the 2016 repricing of the sector provides new investment opportunities. Furthermore, recent measures and developments at FDA have demonstrated increased flexibility of the agency to accelerate market approval for the most promising new treatments – those designated as having ‘breakthrough’ potential. These measures undoubtedly benefit many companies within our investment universe. While 2017 contains uncertainty for the broader markets – the biotechnology sector fundamentals look promising for the long term investors.

Portfolio breakdown



Important information

LSP Advisory B.V. (as Fund Manager) and the LSP Life Sciences Fund N.V. (the Fund) have a license and are registered pursuant to the Dutch Act on Financial Supervision and are supervised by the Stichting Autoriteit Financiële Markten (Dutch Authority for the Financial Markets) and De Nederlandsche Bank N.V. (the Dutch Central Bank). This presentation is solely for information purposes and is not intended as advice in any way. The Fund Manager and the Fund cannot be held liable or responsible for the content of this presentation. Potential investors are advised to contact their investment- and fiscal advisor prior to taking an investment decision. There are risks involved in the investment. The value of the investment can fluctuate. Results achieved in the past offer no guarantee for the future. A Key Investor Information Document is also available for this product with information about the product, the costs and the risks involved. Read it before you invest in the product. The prospectus and the Key Investor Information Document of the LSP Life Sciences Fund can be downloaded via www.lspvc.com/funds/public.html

LSP Life Sciences Fund



Portfolio breakdown

Company	Stage	Subsector	Marketcap	%
Evotec	Early	Therapeutics	Small	9.6%
arGEN-X	Early	Therapeutics	Small	8.0%
Colucid Pharmaceuticals	Late	Therapeutics	Small	7.6%
Neuroderm	Early	Therapeutics	Small	7.3%
Kite Pharma	Early	Therapeutics	Mid	6.4%
GW Pharmaceuticals	Market	Therapeutics	Mid	6.1%
Genmab	Market	Therapeutics	Mid	5.0%
Clinigen Group	Market	Specialty Pharma	Small	3.6%
Aerie Pharmaceuticals	Late	Therapeutics	Mid	2.9%
TherapeuticsMD	Market	Therapeutics	Mid	2.8%
Forward Pharma	Late	Therapeutics	Small	2.8%
ProQR Therapeutics	Early	Therapeutics	Small	2.0%
Sphere Medical	Market	Medical Device	Micro	2.0%
CytomX Therapeutics	Early	Therapeutics	Small	1.7%
Spark Therapeutics	Late	Therapeutics	Mid	1.5%
Neurocrine Biosciences	Late	Therapeutics	Mid	1.4%
Bleubird Bio Inc	Late	Therapeutics	Mid	0.6%

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