LSP Life Sciences Fund

Monthly Report September 2017

NAV per Share € 213.92

Performance

YTD	1 Month	3 Months	1 Year	2 Years	3 Years
26.3%	-2.7%	0.5%	11.2%	6.1%	36.4%

NAV of Fund	66,501,028
Number of Shares	310,868
Valuation Date	30/09/2017

Top-5 performers

1. Evotec	24.5%
2. Morphosys	19.6%
3. Zogenix	13.8%
4. arGEN-X	8.0%
5. CytomX Therapeutics	5.2%

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.

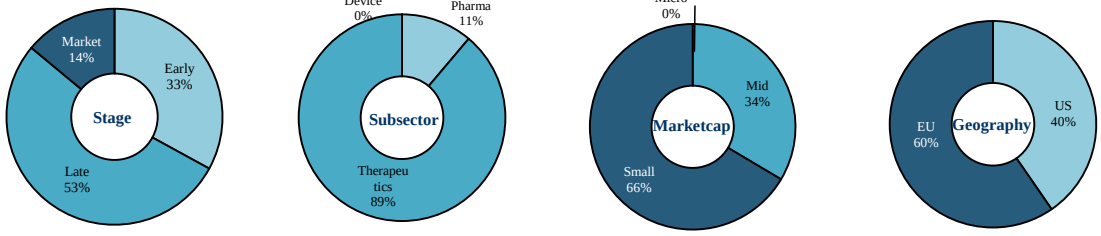
Manager's comments

For the first time this year, one of the fund's investment cases did not materialize as planned. Although there were also positive developments in the portfolio during the month, in this monthly report we will focus on this investment case in some detail. The US biotech company Versartis announced new clinical data on its lead product, a drug for the treatment of growth hormone deficiency indications, both in children and in adults. This drug – called Somavaratan that is undergoing late stage clinical testing – is a long-acting recombinant human growth hormone that does not require daily injections. Other recombinant treatments do exist and do provide benefit to patients with growth deficiencies, however these are all "daily injectables", which – from a patient's point of view – is far from ideal. As a result, the need for a drug that could be injected only once a week or even once every two weeks, is significant. This makes the potential for a drug that offers that benefit to a significant and underserved market, very large. Our investment case was based on this potential, coupled to a very attractive risk profile of the drug. Why was that the case? Firstly, because the clinical body of evidence generated in earlier clinical testings (phase 1 and 2 trials), showed strong and clinically relevant results, both in terms of safety and efficacy; secondly because the patient populations that were enrolled in earlier studies were very similar to the patients in the study for which data has now come available; thirdly, because the mechanism of action of Somavaratan is well known, as the drug is largely similar in structure to the naturally occurring growth hormone that plays a key role in (child) growth; and lastly, the relevant success criteria in the Phase 3 study, the so-called endpoints, had all been tested before in earlier studies with very favourable outcomes. In other words: our analyses – confirmed by experts in the field - suggested that the strong results generated in the past, would likely be replicated in the new study. But what happened? Unfortunately and in spite of our great confidence in the outcome of this trial and thus the potential of the drug, the children treated with Somavaratan twice-monthly achieved a height velocity of 9.44cm/year, compared with the daily comparator drug (called Genotropin) of 10.70cm/year. With a two-sided 95% confidence interval lower bound of -2.3cm/year in the so called "Intent To Treat or ITT" study population, it fell just outside the -2.0cm/year threshold for non-inferiority that was agreed upon with the FDA. This basically means that the drug – albeit by a tiny margin - did not show what it was supposed to, no matter its efficacy and safety profile, no matter its highly favourable dosing regimen. As a result it will not – on the basis of these results and given the primary endpoint agreed upon with the regulators – be able to gain market approval any time soon. At the very least, the development of the drug will be delayed because additional trials may be required. The Street reacted as if bitten by a snake: the stock fell 85% at open on Friday the 22nd, the first trading day after the results of the study were made public. Obviously, this was a disappointing development. In particular because the drug was again shown to work well. Still, given the uncertainties going forward, the position was liquidated from the fund.

While VSAR was unfortunate from all perspectives - not least for the patients - our portfolio approach allows us to mitigate the risk. Indeed, just before the end of September US company Zogenix announced stellar results in the treatment of a very severe form of childhood epilepsy. This was a very high risk trial as the only prior data was from a small study. Hence we did not invest in the company ahead of the data - however our due diligence in the space in relation to GW Pharmaceuticals allowed us to quickly evaluate the Zogenix results and invest immediately to profit from the subsequent uplift to the share price.

We anticipate continued news flow from our portfolio companies in the coming weeks and are constantly evaluating new opportunities to add to the fund.

Portfolio breakdown



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Portfolio breakdown

Company	Stage	Subsector	Marketcap	%
Evotec	Early	Therapeutics	Mid	11.0%
Clinigen Group	Market	Specialty Pharma	Small	10.2%
Morphosys	Late	Therapeutics	Mid	10.1%
CytomX Therapeutics	Early	Therapeutics	Small	10.1%
arGEN-X	Early	Therapeutics	Small	9.1%
Erytech Pharma	Late	Therapeutics	Small	7.3%
Aerie Pharmaceuticals	Late	Therapeutics	Mid	7.0%
Zogenix	Late	Therapeutics	Small	4.5%
Tetraphase Pharmaceuticals	Late	Therapeutics	Small	4.4%
Ablynx	Late	Therapeutics	Small	4.3%
Aduro Biotech	Late	Therapeutics	Small	4.1%
Achaogen	Late	Therapeutics	Small	4.1%
Syndax Pharmaceuticals	Late	Therapeutics	Small	3.0%
GW Pharmaceuticals	Market	Therapeutics	Mid	2.6%