

# LSP Life Sciences Fund N.V.

Annual Report 2018



Document to which the KPMG report (1556389/19W00164092AVN) dated 11 April 2019 also refers.

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## CONTENTS

PROFILE.....	4
DIRECTOR'S REPORT .....	6
SUPERVISORY BOARD REPORT .....	10
KEY FIGURES .....	11
BALANCE SHEET on 31 December 2018 .....	12
PROFIT AND LOSS ACCOUNT for the year 2018 .....	13
CASH FLOW STATEMENT for the year 2018.....	14
SELECTED NOTES TO THE ANNUAL REPORT .....	15
OTHER INFORMATION.....	34
INDEPENDENT AUDITOR'S REPORT .....	35
STATEMENT OF THE DEPOSITARY.....	42

## PROFILE

### General information

LSP Life Sciences Fund N.V. (the Fund) is a public company with the status of an investment company with variable capital organised and established under the laws of the Netherlands on 18 April 2011. The Fund has its statutory seat in Amsterdam, the Netherlands and is registered at the Trade Register of the Chamber of Commerce in Amsterdam under file number 52545474. The Fund is an open-end investment fund listed on Euronext Amsterdam. The Fund qualifies as a tax-exempt investment fund within the meaning of article 6a of the Dutch corporate income tax act. Accordingly, the Fund is not subject to Dutch corporate income tax.

### Investment strategy

The Fund's primary investment objective is to achieve capital appreciation by investing in a diversified, yet concentrated portfolio of publicly listed life sciences companies (including biopharmaceutical, specialist pharmaceutical, medical device, drug delivery, vaccine and diagnostic companies). The majority of the Fund's portfolio will consist of European companies listed on one of the (main) European stock exchanges, with a market capitalization of below Euro 2.5 billion at the time of investment. The Fund Manager believes that in particular this sub-segment of companies – generally referred to as the small- and midcap segment – offers great potential for value growth. Typically, these companies will have developed a suite of innovative technologies that offer benefit over existing technologies and approaches. In addition, these companies have frequently established a product development pipeline that consists of therapeutics that have the potential to offer clinical benefit to a large and/or underserved market. The Fund intends to specifically target those companies that are projected to realize important clinical, regulatory or commercial milestones, value-enhancing partnerships and/or offer M&A potential. By doing so, the Fund expects to benefit from the value increases that frequently accompany the announcement of such milestones, partnerships or M&A transactions.

### Sustainable and responsible investing (SRI)

Sustainable and responsible investing means giving due consideration to environmental, social and governance (ESG) investment risks and opportunities – the pillars of the Sustainability model. The Fund uses these Sustainability measures, combined with more traditional methods of financial and company evaluation methods, to identify the very best investment opportunities.

The due diligence process of the Fund is structured and well-validated in the selection of companies with the 'best-in-class' approach within sub-sectors of our target market. On a macro level, an assessment is performed of the key need for the products which are the core assets of the company, the competitive environment in which the companies operate as well as of potential future developments which may impact the sustainability of the company's approach. On a company specific level, the key medical benefits of each of the products within the portfolio and their potential social and environmental impact are analysed. Furthermore the quality of management and their approach to corporate governance issues which may impact the company's reputation and investor confidence are reviewed as part of the due diligence process.

By focusing on sustainable investments in life sciences companies, the Fund believes that its investments help to support the development of all manner of medical innovation which could promote a better quality of life and increase life expectancy. In developing drugs, vaccines and other solutions for unmet medical needs or expanding the availability of medications, companies within the life sciences sector help to keep people healthier for longer, thereby improving productivity through reduced sick leave and reducing the burden on the healthcare system and society.

### **Fund Governance**

The Fund is managed by LSP Advisory B.V. as sole managing director of the Fund. LSP Advisory B.V. is a wholly owned subsidiary of LSP Advisory Group B.V.

The Fund Manager is responsible for the entire management of the Fund in accordance with the provisions of the Fund's organizational documents and applicable laws. The core investment team of the Fund Manager consists of two individuals - Mark Wegter and Geraldine O' Keeffe – who have complementary investment skills and backgrounds relevant to the Fund's business.

The investment team receives full support from the in-depth industry knowledge of the entire cross-Atlantic and pan-European LSP organization. The Fund Manager is further supported by LSP's established, global network of advisors and experts who bring specific expertise essential for performing in-depth due diligence on potential and existing investee companies.

The Fund Manager has been granted a license pursuant to Article 2:65 of the Dutch Financial Markets Supervision Act (Wft) by the Authority for the Financial Markets on 12 April 2011. With the Alternative Investment Fund Managers Directive (AIFMD) that came into force on 22 July 2014, this license has been converted into an AIFM license by legislative decree.

The Supervisory Board of the Fund comprises Pauline Bieringa and Onno Paymans, both having relevant expertise on the Fund's business. The principal duties and responsibilities of the Supervisory Board include (i) the supervision of the management of the Fund as performed by the Fund Manager as well as to supervise the general course of affairs of the Fund, and (ii) resolving any conflict of interest situation the Fund is involved in.

## DIRECTOR'S REPORT

### Investment Performance

As per the end of December 2018, the Fund has been operational for over seven and one-half years and has shown strong performance over that period. As there is no relevant index for the European healthcare sector, let alone for our small- & mid-cap biotechnology subsegment – we tend to look at several indices to assess the general healthcare market trends, such as the Nasdaq Biotechnology Index, the MSCI World Healthcare Index, the STOXX 600 Healthcare Index amongst others. In all cases, when comparing performances, one needs to compromise either on geography, market cap, concentration, sector, segment or any combination thereof. Looking at the Nasdaq Biotech Index or the NBI: following a relatively volatile start to the year, it peaked at about +12% towards the end of September. The MSCI World Healthcare Index had a similar performance up to that time point (+10%). Since then, the NBI fell dramatically, along with most other general indices. For instance, one such general index - the Nasdaq Composite - fell 9% in October and again 9% in December, losing almost 24% between September 1st and December 24<sup>th</sup> of the past year. Such a drop is exceptional. In fact, not seen since the financial crisis hit in late 2008, over a decade ago. This sell off was swift and unforeseen and not sector specific. It would appear trade wars, Brexit and elections, budget concerns and the FED's (anticipated) interest policy, increased market uncertainty and reduced investor appetite for equities. At least for some time.... Quite astoundingly, the markets rebounded in the first two weeks of the new year even faster than they fell in the months before. As a result of the downturn in the overall equity markets in Q4 2018, the Net Asset Value per share moved from Euro 235.07 as at 31 December 2017 to Euro 214.48 (minus 8.8%) as at 31 December 2018. The Fund thus recorded a loss for the period of Euro 6.8 million compared to a profit of Euro 21.6 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 2018 the value of the portfolio amounted to Euro 71.1 million holding 20 names (2017: Euro 74.0 million and 19 names).

The portfolio consists exclusively of equity (-derived) positions in listed life sciences companies that jointly provide a balanced - yet concentrated - exposure to the sector. Investments have been spread across clinical stage of development, disease area, geography, field of technology and business model. The majority of the investments in the period were in the area of drug development, combined with investments in innovative diagnostics, medical devices and specialty pharma companies. Equity stakes were predominantly below 5% of the portfolio company's outstanding capital, the exact size depending on company specific factors such as liquidity, market capitalization, timing of expected news flow and long-term outlook. Holding periods consequently varied. The monthly reports of the Fund that are published on the Fund's website include the current portfolio composition and also lists the top-5 best performing stocks of the respective month.

**Alternative Investment Fund Managers Directive**

The Fund Manager has implemented the Alternative Investment Fund Managers Directive (AIFMD) that came into force on 22 July 2014. Furthermore it has appointed KAS Trust & Depository Services B.V. as Depository for the Fund in accordance with the directive. The Depository 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 Depository has delegated its day-to-day custody tasks to KAS BANK N.V. The depository remains liable towards the Fund for loss of assets of which the custody has been delegated to KAS BANK N.V. or another third party. The Depository 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 30-32 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 2018 the Fund Manager has not exercised its voting rights.

**Human resources**

The Fund does not employ any personnel. The management of the Fund is entrusted to the Fund Manager. A detailed description of the remuneration of the Fund Manager is provided on pages 28-29 of this report.

**Administrative organization and internal controls**

The Fund Manager and the Fund have documented the administrative organization and internal controls in accordance with the Dutch Financial Markets Supervision Act (Wft) and the Decree on Market Conduct Supervision of Financial Business (Bgfo). During the reporting period we have reviewed the various aspects of our operations. Our review did not find anything that would lead us to conclude that the administrative organization and the system of internal controls as referenced in article 121 of the Bgfo does not satisfy the requirements as laid down in the Bgfo and related regulations. Furthermore, we did not find that the administrative organization and internal controls are ineffective or that they do not operate in accordance with their description.

Based on the above, we declare as Fund Manager of the LSP Life Sciences Fund N.V. that we are in possession of a description of the administrative organization and internal controls in accordance with Article 121 of the Bgfo, which fulfils the requirements of the Bgfo. We also state with a reasonable degree of certainty that the administrative organization and the system of internal controls were effective and operated in accordance with its description during the reporting period.

The director of LSP Life Sciences Fund N.V. confirms to the best of its knowledge that:

- the financial statements for the year 2018 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 2018 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

Given the overwhelmingly positive news flow within the Fund's portfolio in the past year, it is disappointing that there was not a positive return for the year for the Fund. After a stellar 2017, in which the Fund generated a net return of +39%, outperforming all markets by a very significant margin, it closed at a net return of almost -9% in 2018. Is that performance a worry to us? Or, better still, should it be a worry to our investors? We believe it should not. Why not? Because we focus solely on the fundamental investment cases underlying the various portfolio companies that we hold, and do not try to "play" or "time" the markets. In fact, as the famous investor Peter Lynch has said<sup>1</sup>: "*Far more money has been lost by investors trying to anticipate corrections than has been lost in corrections themselves.*".

Since we focus on the fundamentals - and the fundamentals only - selecting for those companies that we believe are attractively valued – given risk profile and upside potential – and based on the due diligence which we perform in-house supported by a global LSP network of advisors and experts, we would worry only if our analyses prove to be wrong too often. That has not been the case. In fact, the opposite is true as described above.

The markets in 2018 have been heavily impacted by short term political and macro-economic trends and events. In particular during the second part of the year. Trump's rather unorthodox approach to running his political-, economic-, and foreign- & internal-affairs agendas, are – at best – unpredictable, leading to uncertainty, in turn leading to market volatility. This volatility – down and up – does impact the share *price* of the companies we invest in, it has no real impact on their *value*. Volatility in the portfolio due to non-company specific events, are beyond our control. What we can and do control, is the make-up of our portfolio. It was in great shape in 2018 and still is at the start of the new year.

The intrinsic value of the existing portfolio has increased due to the events in H2 2018. The share prices have shown an inverse trend in that period (Q4). This value however should be priced in if - and when - the markets start to correct. Furthermore, in the coming months, important investor, scientific and medical conferences will take place. Several of the companies in the portfolio will be announcing and presenting new data at these conferences. Positive data and progressing innovative new treatments towards the market is the life blood of this industry. Bringing new treatments to patients in need is the core purpose of these companies. The main markets may remain volatile but launching new drugs will ultimately benefit everyone – including our investors, like we have shown in the past 10 years.

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<sup>1</sup> *Kapitale Verhalen, Volume 5, 2018, Hans Betlem, Chief Investment officer, IBS Capital Allies*



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 2018, the Supervisory Board held 4 regular meetings and had one teleconference 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 and the interaction with third party service providers (e.g. depositary, custodian, fund agent, fund administrator and brokers), the principles of fund governance, compliance 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 two proposed investments involving a potential conflict of interest. The Supervisory Board reviewed the cases at hand, established that all relevant procedures were adhered to and granted its approval for the investments.

Furthermore the Supervisory Board has monitored the financial reporting process, the effectiveness of the internal controls and the risk management of the Fund.

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.

Pauline Bieringa (chair)

Onno Paymans

**KEY FIGURES**

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

	2018	2017	2016	2015	2014
Net Asset Value	71,477	75,028	59,783	94,948	70,175
Number of shares outstanding	333,247	319,169	352,971	448,036	380,941
Net Asset Value per share	214.48	235.07	169.37	211.92	184.21
Share price performance	-8,8%	38.8%	-20.1%	15.0%	37.5%
Net Result	-6,848	21,646	-18,267	10,315	21,252
Ongoing charges figure (OCF)	1.92%	2.01%	1.92%	1.92%	2.03%
Performance fee figure <sup>1</sup>	0.00%	2.77%	0.00%	3.57%	7.43%
Turnover Ratio	239%	360%	237%	166%	164%

<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 2018**

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

	Note	31 December 2018	31 December 2017
<b>Assets</b>			
<b>Investments</b>	<b>1</b>		
Investments in securities		71,123	74,011
<b>Receivables</b>			
Amounts receivable		159	5
<b>Other assets</b>	<b>2</b>		
Cash accounts		45,343	49,139 *
<b>Total assets</b>		<u>116,625</u>	<u>123,155</u>
<b>Liabilities and shareholders' equity</b>			
<b>Shareholders' equity</b>	<b>3</b>		
Issued share capital		333	319
Share premium		28,663	25,380
Other reserves		49,329	27,683
Unappropriated result		-6,848	21,646
		<u>71,477</u>	<u>75,028</u>
<b>Current liabilities</b>	<b>4</b>		
Creditors and accrued expenses		371	2,087
Cash accounts		44,777	46,040 *
		<u>45,148</u>	<u>48,127</u>
<b>Total liabilities and shareholders' equity</b>		<u>116,625</u>	<u>123,155</u>
Net Asset Value per share		214.48	235.07

\* adjusted for comparative purposes, see note 'Correction of errors' on page 17

**PROFIT AND LOSS ACCOUNT for the year 2018**

(in thousands of Euro's)

	Note	31 December 2018	31 December 2017
<b>Income from investments</b>			
Dividends on securities		11	31
<b>Realized movements in investments and other assets</b> 5			
Realized movements on securities		15,277	11,335
<b>Unrealized movements in investments and other assets</b> 5			
Unrealized movements on securities		-16,886	10,172
Currency results on cash accounts		-2,342	3,913
		-19,228	14,085
<b>Expenses</b>			
Management costs	6	1,232	2,856
Depositary costs	7	124	69
Fund operational costs	8	201	262
Interest expenses on cash accounts		1,351	618
		2,908	3,805
<b>Result for the period</b>		-6,848	21,646

**CASH FLOW STATEMENT for the year 2018**

(in thousands of Euro's)

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Cash flows from investment activities</b>		
Net result	-6,848	21,646
Realized movements in investments and other assets	-15,277	-11,335
Unrealized movements in investments and other assets	19,228	-14,085
Purchase of investments and other assets	-96,195	-136,642
Sale of investments and other assets	97,474	126,791
Change in amounts receivable	-154	295
Change in current liabilities	-2,979	47,916 *
	<u>-4,751</u>	<u>34,586</u>
<b>Cash flows from financial activities</b>		
Issue of shares	25,168	8,659
Redemption of shares	-21,871	-15,060
<b>Total cash flows from financial activities</b>	<u>3,297</u>	<u>-6,401</u>
Currency results on cash accounts	-2,342	3,913
<b>Net increase for the period</b>	<b>-3,796</b>	<b>32,098</b>
Opening balance	49,139	17,041
Closing balance	<u>45,343</u>	<u>49,139 *</u>
	-3,796	32,098

\* adjusted for comparative purposes, see note 'Correction of errors' on page 17

## SELECTED NOTES TO THE ANNUAL REPORT

### General

LSP Life Sciences Fund N.V. (the Fund) is a public limited liability company with the status of an investment company with variable capital organised and established under the laws of the Netherlands on 18 April 2011. The Fund has its statutory seat in Amsterdam, the Netherlands. The Fund is an open-end investment fund listed on Euronext Amsterdam. The Fund is managed by LSP Advisory B.V. as sole managing director of the Fund.

The purpose of the Fund is to achieve capital appreciation by investing in a diversified, yet concentrated portfolio of publicly listed life sciences companies (including biopharmaceutical, specialist pharmaceutical, medical device, drug delivery, vaccine and diagnostic companies).

The Fund qualifies as a tax-exempt investment fund within the meaning of Article 6a of the Dutch Corporate Income Tax Act. Accordingly, the Fund is not subject to Dutch corporate income tax.

### Accounting principles

#### General

The financial year of the Fund corresponds to the calendar year. This report has been prepared in accordance with generally accepted accounting principles in the Netherlands, and in compliance with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code as well as the Dutch Act on Financial Supervision.

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

Unless specifically specified otherwise the Fund applies the historical cost convention less any value adjustments deemed necessary. Furthermore, the accrual method of accounting has been applied which means that income and expenses are recognised in the period to which they relate rather than the period in which they have been paid or received.

#### Going concern

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

Foreign currency translation

Unless otherwise stated, assets and liabilities denominated in foreign currencies are translated into the Fund's reporting currency at the exchange rates at closing date. Revenues and expenses denominated in foreign currencies are translated into Euro's at rate prevailing at the transaction date. Resulting currency exchange differences are taken into the Profit and Loss account under currency results.

The exchange rates at 31 December 2018, in Euro	
Danish Crown	0.13400
British Pound	1.11414
United States Dollar	0.87478
Swiss Franc	0.88739

Asset and Liabilities

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

Investments*Securities*

Investments are recorded at their fair value. The Fund only has investments in listed securities for which fair value is determined at their closing price on the valuation date on the relevant exchanges. Transaction costs in respect of purchase and sale of investments are included in unrealized and realized movements in investments.

Receivables and other assets

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

Cash and cash equivalents

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

Share premium account

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

Current liabilities

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



Correction of errors

After adoption of the 2017 financial statements, a material error in the presentation of the cash accounts was identified. As per 31 December 2017, the balance of individual cash accounts was incorrectly presented as a single netted amount. The identified error has no impact on shareholders' equity as per 31 December 2017 and per 1 January 2017. The impact on the result for the year 2017 is nil. In the reporting year 2018 the cash accounts have been presented on a gross basis. Further, the comparative figures for the year 2017 have been restated as per below table.

## Balance sheet on 31 December 2017

(in thousands of Euro's)

	As previously reported	Adjustment	As restated
Investments in securities	74,011	-	74,011
Accounts receivable	5	-	5
Cash accounts	3,099	46,040	49,139
<b>Total Assets</b>	<b>77,115</b>	<b>46,040</b>	<b>123,155</b>
Shareholders' equity	75,028	-	75,028
Current liabilities	2,087	46,040	48,127
<b>Total liabilities and shareholders' equity</b>	<b>77,155</b>	<b>46,040</b>	<b>123,155</b>

Profit and Loss account

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

Realized movements in investments and other assets

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

Unrealized movements in investments and other assets

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

Income

Dividends are recognised on an ex-dividend date basis. Dividend income is recognised net of dividend withholding tax as the fund cannot reclaim dividend tax paid from the tax authorities. If the Fund elects to receive a stock dividend in lieu of a cash dividend, an amount equal to dividends not received is included in income. When the Fund receives a stock dividend when there is no cash alternative, an amount equal to the nominal value of the shares issued is included in income to the extent that such stock dividend is regarded as revenue for Dutch tax purposes.

Expenses

Expenses are dealt with on an accrual basis. All expenses are charged to the Profit and Loss account.

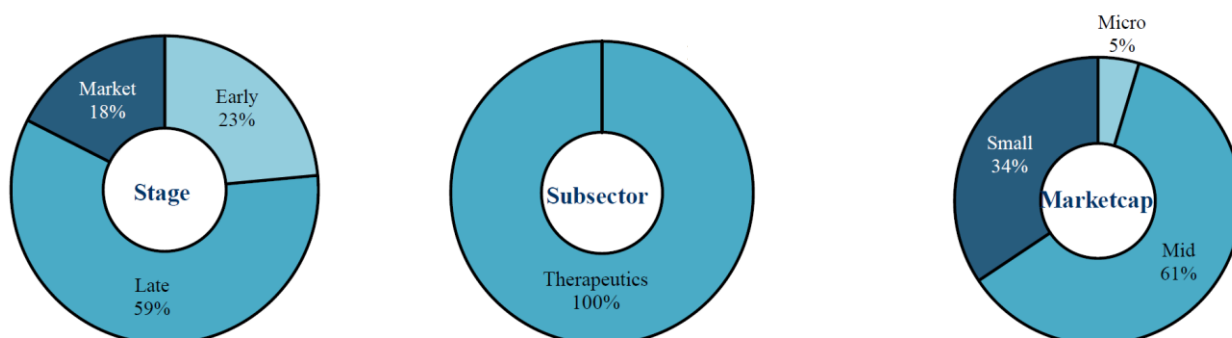
Cash Flow statement

The Cash Flow statement is prepared by using the indirect method.

**Notes to balance sheet**

<b>1. Investments</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Securities</b>		
Market value beginning of period	74,011	42,653
Purchases	96,195	136,642
Sales	-97,474	-126,791
Unrealized price movements	-19,056	12,468
Unrealized currency movements	2,170	-2,296
Realized price movements	15,680	12,590
Realized currency movements	-403	-1,255
Market value at end of period	<u>71,123</u>	<u>74,011</u>

The Fund's investments are classified according to stage, subsector and market capitalization. The breakdown of the Fund's portfolio per 31 December 2018 is shown below.



Stage at year end	2018	2017
Early Stage	23%	27%
Late Stage	59%	47%
Market	18%	26%

Subsector at year end	2018	2017
Therapeutics	100%	88%
Medical Device	-	-
Specialty Pharma	-	12%

Marketcap at year end	2018	2017
Microcap	5%	-
Smallcap	34%	57%
Midcap	61%	43%

### 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	%
argenx	Late	Therapeutics	Mid	12.3%
Galapagos	Late	Therapeutics	Mid	7.9%
Evotec	Early	Therapeutics	Mid	7.3%
Amarin Corp	Market	Therapeutics	Mid	6.9%
Morphosys	Late	Therapeutics	Mid	6.8%
Genmab	Market	Therapeutics	Mid	5.9%
ObsEva	Late	Therapeutics	Small	5.8%
Foamix Pharmaceuticals	Late	Therapeutics	Small	5.4%
Cocrystal Pharma	Early	Therapeutics	Micro	4.6%
Aerie Pharmaceuticals	Market	Therapeutics	Mid	4.6%
Zogenix	Late	Therapeutics	Mid	4.4%
Stemline Therapeutics	Late	Therapeutics	Small	4.4%
CytomX Therapeutics	Early	Therapeutics	Small	4.3%
Verastem	Late	Therapeutics	Small	4.2%
Uniqure	Late	Therapeutics	Small	4.2%
Merus	Early	Therapeutics	Small	3.4%
FibroGen	Late	Therapeutics	Mid	2.7%
Eloxx Pharmaceuticals	Early	Therapeutics	Small	1.9%
Viking Therapeutics	Early	Therapeutics	Mid	1.8%
Clementia Pharmaceuticals	Late	Therapeutics	Small	0.5%
				99.5%

## **2. Other assets**

### **Cash accounts**

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

### 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 2018 amounts to 333,247.

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Issued share capital</b>		
Balance at beginning of period	319	353
Issued	99	40
Redemption	-85	-74
Balance at end of the period	333	319
<b>Share premium account</b>		
Balance at beginning of period	25,380	31,747
Issue of shares	25,069	8,619
Redemption of shares	-21,786	-14,986
Balance at end of the period	28,663	25,380
<b>Other reserves</b>		
Balance at beginning of period	27,683	45,950
Result appropriation for previous year	21,646	-18,267
Balance at end of the period	49,329	27,683
<b>Number of issued shares</b>		
Balance at beginning of period	319,169	352,971
Issued	98,901	40,277
Redemption	-84,823	-74,079
Balance at end of the period	333,247	319,169
Number of shares	333,247	319,169
Net Asset Value	71,477	75,028
Net Asset Value per share	214.48	235.07
<b>Unappropriated result</b>		
Balance at beginning of period	21,646	-18,267
Result previous year added to other reserves	-21,646	18,267
Result for the period	-6,848	21,646
Balance at end of the period	-6,848	21,646

**4. Current liabilities****31 December 2018****31 December 2017****Creditors and accrued expenses**

Interest	136	49
Share redemptions payable to shareholders	22	6
Purchase of investments	4	-
Fund operational costs	115	90
Management fee	94	95
Performance fee	-	1,847
	<u>371</u>	<u>2,087</u>

The creditors and accrued expenses are payable within one year.

The breakdown of the fund operational costs payable in the amount of Euro 115 thousand is provided below.

Fund administration fee	30	30
Remuneration of the Supervisory Board	30	-
Governance costs	-	2
Auditor's remuneration	38	39
Advisory costs	9	10
Other Costs	8	9
	<u>115</u>	<u>90</u>

**Cash accounts**

The cash accounts on the liability side of the balance sheet comprises of a debit balance on the Euro, Danish Crown, United States Dollar and Swiss Franc currency accounts as shown in below table.

Cash account	at 31 December 2018		at 31 December 2017	
	in Local Currency	in Euro	in Local Currency	in Euro
Euro	-1,839	-1,839	-1,690	-1,690
Danish Crown	-31,742	-4,253	-43,544	-5,848
British Pound	-	-	-5,586	-6,293
United States Dollar	-44,218	-38,681	-38,673	-32,206
Swiss Franc	-4	-4	-4	-3
<b>Total</b>		<b>-44,777</b>		<b>-46,040</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 2018	31 December 2017
<b>Realized movements on securities</b>		
Realized gains / losses on securities	15,680	12,590
Currency results on securities	-403	-1,255
	15,277	11,335
<b>Unrealized movements on securities</b>		
Change in unrealized gains / losses on securities	-19,056	12,468
Currency results on securities	2,170	-2,296
	-16,886	10,172

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 2018</b>	<b>Gains</b>	<b>Losses</b>	<b>Total</b>
Securities	30,227	-14,950	15,277
<b>Unrealized movements 31 December 2018</b>	<b>Gains</b>	<b>Losses</b>	<b>Total</b>
Securities	7,599	-24,485	-16,886
<b>Realized movements 31 December 2017</b>	<b>Gains</b>	<b>Losses</b>	<b>Total</b>
Securities	28,747	-17,412	11,335
<b>Unrealized movements 31 December 2017</b>	<b>Gains</b>	<b>Losses</b>	<b>Total</b>
Securities	18,196	-8,024	10,172

### Currency results on cash accounts

The Fund makes use of foreign currency cash accounts to (partially) hedge the currency exposure of its investments. During the reporting period the currency results on these cash accounts amounted to a loss of Euro 2,342 thousand (2017: profit 3,913 thousand), whilst the realized and unrealized currency result of the investments amounted to a profit of Euro 1,767 thousand (2017: loss 3,551 thousand). The net currency result of the Fund thus amounted to a loss of Euro 575 thousand (2017: profit 362 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 1,232 thousand (2017: 1,009 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 180.73 at 31 December 2018. 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 214.48, and thus below the High Watermark. As such there is no performance fee for the period (2017: 1,847).

(in Euro per share)	31 December 2018	31 December 2017
Net Asset Value (before performance fee)	214.48	240.86
Hurdle	180.73	167.34
High Watermark	235.07	211.92
Excess performance	0.00	28.94
Performance fee (20% of excess performance)	0.00	5.79
Number of shares outstanding	333,247	319,169

## 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 KAS Trust & Depositary Services B.V. as depositary. The depositary acts in the interest of the investors and is responsible for the safekeeping of the fund's assets and the oversight and supervision of the Fund and the management of the Fund by the Fund Manager. The depositary costs consist of the fees contractually due to the depositary for the provision of its services.

<b>8. Fund operational costs</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Fund administration fee and bank fees	106	134
Remuneration of the Supervisory Board	30	30
Auditor's remuneration	31	48
Advisory costs	4	8
Other costs	30	42
	201	262

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 2018</b>		
	KPMG Accountants N.V.	Other KPMG network	Total KPMG
Audit of the financial statements	38	-	38
Other audit engagements	-	-	-
Tax-related advisory services	-	-	-
Other non-audit services	-	-	-
	38	-	38

The audit fee for the financial statement for the year 2018 amounts to Euro 38 thousand which is partly offset by a reimbursement of Euro 7 thousand received from KASBANK N.V. in respect of the 2017 audit. Hence the total auditor's remuneration amounts in the reporting period amounts to Euro 31 thousand.

	<b>31 December 2017</b>		
	KPMG Accountants N.V.	Other KPMG network	Total KPMG
Audit of the financial statements	42	-	42
Other audit engagements	-	-	-
Tax-related advisory services	-	-	-
Other non-audit services	-	6	6
	42	6	48

The other non-audit services of Euro 6 thousand are fees paid to KPMG LLP (UK) for assistance with the UK fund reporting.

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

	Actual costs	Prospectus
Management fee	1,232	1,232
Performance fee	-	-
Depositary costs	124	286
Fund operational costs	201	-
	1,557	1,557

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 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 now 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. Previously this average calculation was based on five measurement points during the year. The portfolio turnover ratio for 2018 amounts to 239% (2017: 360%). 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 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 changes consist of a change in calculation method and a change in the cost components that should be included in the calculation. The average Net Asset Value is now calculated as the average of all calculated and published NAV's during the year, whereas for the TER this average calculation was based on five measurement points during the year. 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 2018 is 1.92% (2017: 2.01%). The resulting percentage of the performance fee for 2018 is nil% (2017: 2.77%).

**Remuneration policy**

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

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

During the year 2018 the Fund Manager paid Euro 0.8 million (2017: 1.4 million) to its staff members. Of this amount Euro 0.8 million (2017: 0.9 million) was fixed remuneration and Euro 38 thousand (2017: 502 thousand) was variable.

Of the total remuneration referenced above an amount of Euro 0.6 million (2017: 1.2 million) related to the directors of the Fund Manager. This consists of a fixed remuneration of Euro 0.6 million (2017: 0.8 million) and Euro nil of variable compensation for the period (2017: 0.5 million).

In total 7 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 0.5 million (2017: 1.3 million), such amount being allocated on the basis of the average Assets under Management of the various activities of LSP Advisory B.V. The tables on the next page 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 2018 the allocation to the Fund amounts to 59.0% (2017: 90.1%) of the total remuneration.

<b>2018</b>	Beneficiaries	Fixed remuneration	Variable remuneration	Total Remuneration
Directors	3	330,412	-	330,412
Identified staff	1	14,217	7,314	21,531
Other employees	3	114,860	15,343	130,203
<b>Total</b>	<b>7</b>	<b>459,489</b>	<b>22,657</b>	<b>482,146</b>

<b>2017</b>	Beneficiaries	Fixed remuneration	Variable remuneration	Total Remuneration
Directors	3	694,402	416,423	1,110,825
Identified staff	1	21,173	17,543	38,716
Other employees	1	98,231	18,014	116,245
<b>Total</b>	<b>5</b>	<b>813,806</b>	<b>451,980</b>	<b>1,265,786</b>

### Remuneration of the Supervisory Board

The total of remuneration for the members of the Supervisory Board for the period amounts to Euro 30 thousand (2017: 30 thousand).

<b>Supervisory Board member</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Pauline Bieringa	18	18
Onno Paymans	12	12
	<b>30</b>	<b>30</b>

**Risk factors and risk management**

An investment in the Fund involves certain risks and uncertainties relating to the Fund's structure and investment strategy. The Fund has exposure to the following risks from financial instruments:

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

The Fund Manager applies a comprehensive process based on qualitative and quantitative risk measures to assess the risks of the Fund entailing a standard monitoring process which consists of pre-defined monitoring items and cycles. The overall exposure of the Fund is calculated by means of the Value-at-Risk (VaR) methodology. The Value-at-Risk methodology provides a measure of the potential loss that could arise over a given time interval under normal market conditions, and at a given confidence level. During the year of 2018 no risk limits of the Fund have been exceeded nor were they likely to be exceeded.

The Fund Manager has been given a discretionary authority to manage the assets in accordance with the Fund's investment objectives. Compliance with the investment restrictions and the composition of the portfolio is monitored by the Fund Manager on a daily basis.

***Market Risk***

The prices of financial instruments on the financial markets in general and more specifically the prices of financial instruments in the portfolio can increase or decrease as a result of a multitude of factors like expectations of economic growth, inflation and price movements of goods and foreign currencies. In addition the value of the portfolio can vary due to, for example, political and monetary developments. Market risks are increased as a result of limiting the geographic scope of the Fund to Europe (and in part to the United States) as well as the Fund's concentrated sector portfolio. The Fund manager distinguishes the following market risks: (i) price volatility, (ii) concentration risk, (iii) foreign currency risk and (iv) interest rate risk, which are discussed in further detail below.

***(i) Price volatility***

The stock prices of companies involved in the life sciences industry have been and will likely continue to be volatile. Stock prices and their related financial instruments (e.g. warrants) could be subject to wide fluctuations in response to a variety of factors, including the following:

- General market fluctuations (including the parameters used for valuation of warrants);
- Actual or anticipated variations in companies' operating results;
- Announcements of technological innovations by competitors;
- Changes in financial estimates by securities analysts;
- Changes in the market valuations of life sciences companies;
- Legal or regulatory developments affecting companies in the life sciences industry;
- Announcement by life sciences companies or their competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments; or
- Additions or departures of key personnel.

Many life sciences companies do not or in the future might not have earnings. As a result, the trading prices of life sciences companies may decline substantially and valuations may not be sustained. Any negative change in the public's perception of the prospects of life sciences companies, generally could depress the stock prices of a particular company regardless of its results. Other broad market and industry factors may decrease the stock price of life sciences stocks, regardless of their operating results.

Market fluctuations, as well as general political and economic conditions such as recession or interest rate or currency rate fluctuations, also may decrease the market price of life sciences stocks. Given the investment objective of the Fund and its inherent sector focus, the price volatility risk is in principle not managed by the Fund Manager.

**(ii) Concentration risk**

The Fund endeavours to create a concentrated portfolio of life sciences investments that are diversified by sub-sector (indication area or technology), geographic location, type of investment (IPOs, rights offerings, follow-on offerings, PIPEs, direct equity offerings, open market transactions, etc.), business model, area of focus, stage of development, etc. in order to achieve a high level of risk diversification. However, subject to the investment restrictions, investments may be weighted to certain indication and/or technologies and in certain geographic markets within Europe. Events that impact a specific investment, a specific sub-sector or a region may have an impact on the Fund's performance. The investment restrictions put an upper limit to the maximum allocation to a single portfolio company. Furthermore the Fund Manager monitors the concentration levels on a daily basis and will rebalance the portfolio if so required. As at 31 December 2018 the 5 single largest holdings account for 41% of the Net Asset Value of the Fund (year-end 2017: 44%).

**(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, Norwegian Krone and United States Dollar was partially hedged by contrary positions on the respective foreign currency cash accounts.

Net currency exposure	at 31 December 2018		at 31 December 2017	
	in Local Currency	in Euro	in Local Currency	in Euro
Danish Crown	-29	-4	142	19
British Pound	-	-	208	234
United States Dollar	4,132	3,615	977	814
Swiss Franc	-4	-4	-4	-3

**(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 566 thousand as at 31 December 2018 (2017: 3,099 thousand), are held with the KAS BANK N.V. Fitch ratings has affirmed KAS BANK N.V.'s (per 14 November 2018) long- and Short-Term Issuer Default Ratings (IDRs) at 'A-' and 'F2', respectively. The outlook on the Long-Term IDR is downgraded from Stable to Negative.

***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 1,232 thousand (2017: 1,009 thousand) and a performance fee of Euro nil is due (2017: 1,847 thousand). Employees of the Fund Manager, LSP or its affiliates participate in the Fund against a market price.

**Soft dollar arrangements**

The Fund will not enter into arrangements with any party regarding kickback payments. Third parties may in relation to the execution of orders by them on behalf of the Fund provide products and services to the Fund manager. During the reporting period the Fund's transactions were conducted under execution-only arrangements with its brokers and the Fund manager has assessed that it received no soft dollar arrangement during 2018 (2017: none).

**Interests of the Supervisory Board and Management**

The members of the Supervisory Board and Management had no interests in securities held by the Fund's portfolio as at 31 December 2018 (2017: no interests).

One member of the Supervisory Board holds a total of 80 shares in the Fund as at 31 December 2018 (2017: nil shares).

Employees of the Fund Manager, LSP or its affiliates participate in the Fund against a market price. These persons own in aggregate 15,013 (2017: 13,645) shares in the Fund. The lock-up period as described in the prospectus of the Fund has expired.

Amsterdam, 11 April 2019

The director

**LSP Advisory B.V.**

## OTHER INFORMATION

### **Statutory income allocation**

According to article 22 of the Articles of Association, the Fund Manager will determine which part of the profit will be retained; the remainder of the profit will be at the disposal of the general meeting of shareholders.

### **Distributions policy**

As the investment objective of the Fund is to achieve capital appreciation, frequent and regular distribution of profits or other net proceeds by the Fund are not intended nor anticipated. All net proceeds will in principle be reinvested and the Fund Manager will exercise its right to add profits of the Fund to the Fund's reserves.

### **Post-balance sheet events**

There were no material post-balance sheet events which have a bearing on the understanding of the financial statements.

## 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 2018 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 2018 and of its result for the year 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 2018 of LSP Life Sciences Fund N.V. (the Fund) based in Amsterdam.

The financial statements comprise:

- 1 the balance sheet as at 31 December 2018;
- 2 the profit and loss account for the year 2018;
- 3 the cash flow statement for the year 2018; 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 the LSP Life Sciences Fund N.V. in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), 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 714,000
- 1% of total shareholders' equity
- Misstatement threshold of EUR 35,000

##### **Key audit matters**

- Existence and valuation of investments

##### **Opinion**

Unqualified opinion

### **Materiality**

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 714,000 (2017: EUR 750,000). The materiality is determined with reference to total shareholders' equity. We consider total shareholders' equity as the most appropriate benchmark because we consider the invested amount by shareholders (equity) most relevant for an investment fund. Due to the dependency on the 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 35,000 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 in relation to fraud and non-compliance with laws and regulations***

#### ***Fraud risk***

In accordance with the Dutch Standards on Auditing we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. In determining the audit procedures we will make use of the evaluation of management in relation to fraud risk management (prevention, detection and response), including ethical standards to create a culture of honesty.

In our process of identifying fraud risks we assessed fraud risk factors, which we discussed with management and the Supervisory Board. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

In line with the auditing standards we evaluated the two presumed fraud risks: fraud risk in relation to the revenue recognition, and fraud risk in relation to management override of controls. After due consideration, we concluded that the presumed risk of fraud for revenue recognition is not present since the Fund has no significant income other than realized and unrealized movements in investments and other assets. These movements are directly related to the valuation of those investments and other assets and given the nature thereof we consider the opportunity of fraudulent revenue recognition to be limited.

Our audit procedures in response to the risk of management override of controls included an evaluation of the of internal controls relevant to mitigate this risk and supplementary substantive audit procedures, including detailed testing of (administrative) journal entries and documentation in relation to significant accounts.

Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

#### ***Laws and regulations***

We identified laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general and sector experience, through discussion with the directors, those charged with governance and/or other management (as required by auditing standards) and discussed the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations within our audit team and remained alert to any indications of non-compliance throughout the audit.

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



The Fund is subject to laws and regulations that directly affect the financial statements, such as financial reporting standards and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Based on our analysis of fraud risk factors and factors in relation to the risk of non-compliance with laws and regulations we have not identified any other fraud risks and significant risk in relation to non-compliance to laws and regulations..

Our procedures to address fraud risks and/or risk of non-compliance with laws and regulations did not result in findings to be included in this audit report.

### ***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.

## **Existence and valuation of investments**

### **Description**

The investments of the Fund comprise 99% 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 fact that the portfolio consists of liquid, listed investments which are traded on an active market. 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.
- determining that the price used for valuation of the investments is based on the method which is defined for the relevant investment category. We performed this procedure by comparing the used valuations of the investments with our independently determined valuation which is based on observable market prices. In performing these procedures we have used our valuation specialists.

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

### **Our observation**

The outcome of our procedures on the existence of the investments is satisfactory and we observed that the Fund's valuation of the investments resulted in an acceptable valuation in the financial statements. The disclosure on page 18 and 19 of the financial statements 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 that consists of:

- Profile
- Director's report;
- Supervisory Board report;
- Key figures;
- Statement of the Depositary; and
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

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 substantially 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 Director's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information pursuant to 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 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.

### ***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 the Director 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, 11 April 2019

KPMG Accountants N.V.

W.L.L. Paulissen RA

## STATEMENT OF THE DEPOSITARY

### Considering that

- KAS Trust & Depositary Services B.V. (“the depositary”) is appointed to act as depositary of **LSP Life Sciences Fund N.V.** (“the fund”) in accordance with section 21(1) of the Alternative Investment Fund Managers Directive (2011/61/EU) (the “AIFM Directive”);
- Such appointment and the mutual rights and obligations of the fund manager and the depositary of the fund have been agreed upon in the depositary agreement dated 22 July 2014 between such parties, including the schedules to that agreement (the “depositary agreement”);
- The depositary issues this statement exclusively to the fund manager in relation to the activities of the fund manager and relates to the period 1 January 2018 up to and including 31 December 2018, (“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, 11 April 2019

KAS Trust & Depositary Services B.V.