



LSP Advisory B.V.

Annual Report 2018

LSP
Life Sciences Partners

LSP Advisory B.V.

Annual report for the year 2018

Table of contents

Annual report

Directors' report	2
<i>Financial statements</i>	5
Balance sheet as at 31 December 2018	5
Profit and loss account for the year 2018	6
Notes to the financial statements	7
Other information	16
Independent auditor's report	17

Directors' report

General

LSP Advisory B.V. (the Company) was incorporated on 3 March 2008 as an asset manager focussing on investments in publicly listed life sciences companies. It currently manages the Euronext listed LSP Life Sciences Fund N.V. (the Fund) and four client mandates (the Mandates). During the reporting period the combined Assets under Management of the Fund and the Mandates have increased from € 107.6 million to € 135.7 million, a 26% increase.

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

Governance

LSP Advisory B.V. is a wholly owned subsidiary of LSP Advisory Group B.V. It has been granted a license pursuant to Article 2:65 of the Dutch Act on Financial Supervision (Wft) by the Netherlands Authority for the Financial Markets (AFM) on 12 April 2011. With the Alternative Investment Fund Managers Directive (AIFMD) that came into force on 22 July 2014, this license has been converted into an AIFM license by legislative decree.

The Supervisory Board of LSP Advisory B.V. currently comprises of one member. The principal duties and responsibilities of the Supervisory Board include (i) the supervision of the management of LSP Advisory B.V. as well as to supervise the general course of affairs of LSP Advisory B.V., and (ii) resolving any conflict of interest situation LSP Advisory B.V. is involved in.

Key Financial Data

In 2018 LSP Advisory B.V. had revenues amounting to € 1.7 million compared to € 3.1 million in the prior year. This revenue consists of € 1.7 million management fee (2017: € 1.0 million) and no performance fee (2017: € 2.0 million). Operating expenses for the year amount to € 1.3 million (2017: € 2.2 million) and the corporate income tax charge totals € 6 hundred (2017: minus € 43 thousand), resulting in a net profit for the period of € 0.4 million (2017: net profit of € 0.9 million). Per year end 2018 the shareholders' equity amounted € 1.5 million (2017: € 1.7 million) which is well above the solvency requirement as included in the AIFMD. Current assets less current liabilities as of 31 December 2018 amounted to € 1.5 million (2017: € 1.7 million).

Risk management

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

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

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

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

Personnel

During the year no changes occurred to the composition and number of staff members.

Investments and financing

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

Administrative organization and internal controls

LSP Advisory B.V. has documented the administrative organization and internal controls in accordance with the Dutch Act on Financial Supervision (Wft) and the Decree on Conduct of Business Supervision of Financial Undertakings (BGfo). During the reporting period we have reviewed the various aspects of our operations. Our review did not find anything that would lead us to conclude that the administrative organization and the system of internal controls as referenced in article 121 of the BGfo does not satisfy the requirements as laid down in the BGfo and related regulations. Furthermore,

we did not find that the administrative organization and internal controls are ineffective or that they do not operate in accordance with their description.

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

The Directors of LSP Advisory B.V. confirm to the best of their knowledge that:

- the financial statements for the year 2018 have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code and give a true and fair view of the assets, liabilities and financial position of LSP Advisory B.V. as at 31 December 2018 and of its result for the period then ended;
- the report includes a fair review of the key developments of the Company during the period and the effects thereof on the annual report, together with the principal risks and uncertainties of upcoming six months;
- the report provides adequate disclosure of the principal transactions with related parties.

Recent developments

Since the beginning of 2019 up until the date of these annual accounts, the Assets under Management have further increased to € 154.9 million (plus 14%), mainly as a result of investment performance.

Outlook

For the year 2019, LSP Advisory B.V. expects to further grow its Assets under Management, in line with the ambition to become a sizable player in its market. It is expected that this growth comes from a combination of investment performance as well as through subscription by new investors.

LSP Advisory B.V.

Mark Wegter

Geraldine O'Keeffe

Financial statements

Balance sheet as at 31 December 2018

(before proposed appropriation of result)

Assets		31 December 2018	31 December 2017
(in Euro)			
Current assets			
Receivables from group companies	1	739,412	262,835
Taxes and social security premiums	2	18,893	95,111
Other receivables	3	627,718	2,703,254
Cash and cash equivalents	4	<u>652,825</u>	<u>204,586</u>
		2,038,848	3,265,786
		<u>2,038,848</u>	<u>3,265,786</u>

Liabilities		31 December 2018	31 December 2017
(in Euro)			
Equity			
	5		
Issued capital		18,000	18,000
Share premium		332,000	332,000
General reserve		794,049	414,041
Result for the year		<u>361,416</u>	<u>945,008</u>
		1,505,465	1,709,049
Current liabilities			
Payable to group companies		-	-
Taxes and social security premiums	6	60,355	60,526
Other liabilities	7	<u>473,028</u>	<u>1,496,211</u>
		533,383	1,556,737
		<u>2,038,848</u>	<u>3,265,786</u>

Profit and loss account for the year 2018

		2018	2017
(in Euro)			
Management fee	8	1,717,729	1,045,801
Performance fee		-	2,041,700
Operating income		1,717,729	3,087,501
Staff expenses	9	817,035	1,405,362
Other operating expenses	10	477,835	715,451
Service fee	11	53,550	51,300
Operating expenses		1,348,420	2,172,113
Operating income (loss)		369,309	915,388
Interest income and similar proceeds		(7,252)	(13,373)
Financial result		(7,252)	(13,373)
Income before tax		362,057	902,015
Corporate income tax	12	(641)	(42,993)
Net income (loss) for the year		361,416	945,008

Notes to the financial statements

General

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

Principles of accounting

Basis of preparation

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

Going concern

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

General

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

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

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

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

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

Using estimates and judgments

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

Foreign exchange translation

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

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

Financial instruments

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

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

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

Other receivables

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

Equity

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

Current liabilities

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

Taxes

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

Balance sheet as at 31 December 2018

Current Assets

1. Receivables from group companies

The receivables from group companies consist of a receivable from LSP Advisory Group B.V. of € 0.7 million which is due within one year.

2. Taxes and social security premiums

Taxes and social security premiums consist of a receivable for corporate income tax for the year 2015.

3. Other receivables

Other receivables consist of a receivable from LSP Life Sciences Fund for management fee of € 0.1 million regarding December 2018 and management fee of € 51 thousand in connection with the Client Mandates. Next to this there is a receivable from LSP Management Group B.V. of € 0.2 million, from LSP Bioventures Management B.V. of € 0.2 million and from LSP Operations B.V. of € 21 thousand. All these receivables are due within one year.

4. Cash and cash equivalents

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

5. Equity

(in Euro)	Issued capital	Share premium	General reserve	Result for the year	Total
Balance as at 31 December 2016	18,000	82,000	700,124	(286,083)	514,041
Changes during the year					
Transfer of result to reserve			(286,083)	286,083	-
Contribution share premium		250,000			250,000
Result for the year				945,008	945,008
Balance as at 31 December 2017	18,000	332,000	414,041	945,008	1,709,049
Changes during the year					
Transfer of result to reserve			945,008	(945,008)	-
Dividend			(565,000)		(565,000)
Result for the year				361,416	361,416
Balance as at 31 December 2018	18,000	332,000	794,049	361,416	1,505,465

In the year 2018 the Company paid a dividend in the amount of € 0.6 million to its (sole) shareholder. The year before no dividend was paid to its shareholder.

Issued capital

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

Appropriation of profit

The management proposes to add the net profit for the year 2018 to the general reserve. This proposal has not been included in the financial statements.

Current liabilities**6. Taxes and social security premiums**

Taxes and social security premiums consist of VAT payable for the fourth quarter of 2018 of € 60 thousand. This liability is due within one year.

7. Other liabilities

Other liabilities consist of various expenses made in 2018, which will be paid in 2019 for an amount of € 0.2 million as well as a payable to LSP Bioventures Inc. of € 0.3 million. All these liabilities are due within one year.

Income Statement for the year 2018

8. Management fee

LSP Advisory B.V. has concluded an investment management agreement with LSP Life Sciences Fund N.V. pursuant to which LSP Advisory B.V. is entitled to receive a management fee equal to 1.5% per annum of the Net Asset Value excluding (i.e. before deduction of) the accrued management fee and performance fee. The management fee accrues on a daily basis by reference to the latest Net Asset Value and is payable by the Fund in arrears as per the last business day of each month.

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

The aggregate management fee for the year 2018 amounts to € 1.7 million (2017: € 1.0 million).

9. Staff expenses

(in Euro)	2018	2017
Gross wages and salaries	613,425	743,969
Social security charges	79,464	80,025
Pension insurance	82,169	75,967
Performance based remuneration	38,394	501,818
Other staff expenses	3,583	3,583
Total staff expenses	817,035	1,405,362
FTE at year end	4.7	3.7

As part of the AIFMD implementation, the Investment Managers and the Risk Manager have been seconded to LSP Advisory B.V. as of 1 July 2014. As part of this secondment agreement LSP Operations B.V. charges the fully loaded personnel expenses to LSP Advisory B.V.

LSP Advisory B.V. has implemented the AIFMD regulations regarding remuneration and has established a compliant remuneration policy. The objective of this remuneration policy is to motivate and retain the investment managers and other employees. The remuneration policy of the Company is designed such that it is consistent with and promotes sound and effective risk management and does not encourage risk-taking in a manner inconsistent with the risk policy of the Funds under management.

During the year 2018 LSP Advisory B.V. paid € 0.8 million (2017: € 1.4 million) to its staff members. Of this amount € 0.8 million (2017: € 0.9 million) was fixed remuneration and € 38 thousand (2017: € 0.5 million) was variable.

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

2018 (in Euro)	Beneficiaries	Fixed remuneration	Variable remuneration	Total remuneration
Directors	3	559,909	-	559,909
Identified staff	1	24,092	12,394	36,486
Other employees	3	194,640	26,000	220,640
Total	7	778,641	38,394	817,035

2017 (in Euro)	Beneficiaries	Fixed remuneration	Variable remuneration	Total remuneration
Directors	3	770,973	462,341	1,233,314
Identified staff	1	23,508	19,477	42,985
Other employees	1	109,063	20,000	129,063
Total	5	903,544	501,818	1,405,362

10. Other operating expenses

(in Euro)	2018	2017
Advisory costs	197,857	310,077
Supervisory board remuneration	10,000	18,167
Travel, meeting and representation expenses	23,945	76,220
Performance based compensation	-	116,861
Other costs	246,033	194,126
Total other operating expenses	477,835	715,451

Performance based compensation relates to a discretionary pay out to certain key employees of LSP in recognition for their expertise and research into the various life sciences domains. Staff members who are seconded to LSP Advisory B.V. are not considered for this performance-based compensation; instead their variable remuneration is included in the staff expenses as described in note 9.

11. Service fee

(in Euro)	2018	2017
Service fee LSP Operations B.V.	53,550	51,300

From 1 July 2014 onwards LSP Operations B.V. charges a service fee at arm's length conditions to LSP Advisory B.V. for financial and legal services, office automation, service provider management and housing costs. For the year 2018 the total fee charged amounted to € 54 thousand (2017: € 51 thousand).

12. Corporate income tax

The income tax charge of the year 2018 consists of a correction regarding the refund for taxes over the year 2016.

13. Related party transactions

LSP Operations B.V. on charges third party expenses to LSP Advisory B.V. for travel costs, office expenses and marketing costs paid. For 2018 the total amount charged is € 56 thousand (2017: € 63 thousand). Furthermore as detailed in notes 9 and 11, LSP Operations B.V. has charged LSP Advisory B.V. under the secondment agreement and the services agreement.

14. Post-balance sheet events

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

Amsterdam, 19 April 2019

As Statutory Directors

Mark Wegter

Geraldine O’Keeffe

As Supervisory Board member

Maarten Scholten

Other information

Statutory regulations as to appropriation of profit

According to Article 21 of the Articles of Association, profit as evidenced by the adopted financial statements shall be at the disposal of the General Meeting of Shareholders.

The Company may only make payments from the distributable profit to the shareholders and other parties having a profit entitlement in so far as its shareholders' equity exceeds the value of the paid-in portion of the capital augmented by such reserves as required to be maintained, either by law or, in so far as applicable, pursuant to these Articles of Association.

Independent auditor's report

The independent auditor's report is included on the next pages.



Independent auditor's report

To: the General Meeting and the Supervisory Board of LSP Advisory B.V.

Report on the accompanying financial statements

Our opinion

We have audited the financial statements 2018 of LSP Advisory B.V., based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of LSP Advisory B.V. as at 31 December 2018, and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- 1 the balance sheet as at 31 December 2018;
- 2 the profit and loss account for 2018; and
- 3 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 Advisory B.V. in accordance with 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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:

- Directors' report
- Statutory regulations as to appropriation of profit

Based on the following procedures performed, we conclude that the other information is consistent with the financial statements and does not contain material misstatements.

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 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 directors are responsible for the preparation of the other information.

Description of the responsibilities for the financial statements

Responsibilities of the directors and the Supervisory Board for the financial statements

The directors are 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 directors are responsible for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the directors should prepare the financial statements using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The directors 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 company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment 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 have detected all material errors and fraud during our audit.

Misstatements can arise from fraud or errors 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 the 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.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;



- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- concluding on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Amstelveen, 19 April 2019

KPMG Accountants N.V.

W.L.L. Paulissen RA