LSP Life Sciences Fund

Monthly Report August 2019

NAV per Share € 217.15

Performance

YTD	1 Month	3 Months	1 Year	2 Years	3 Years	5 Years
1.2%	-8.9%	-3.7%	-19.3%	-1.2%	23.1%	36.1%

NAV of Fund	58,901,456
Number of Shares	271,242
Valuation Date	31/08/2019

Top-5 performers

1. Foamix Pharmaceuticals	20.9%
2. ObsEva	5.9%
3. Marinus Pharmaceuticals	4.5%
4. Merus	1.6%
5. Cocrystal Pharma	0.4%

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

Investment strategy

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

Manager's comments - 1

Following a very strong first half of the year, the fund's performance in the months of July (see monthly report July) and August was negative. It is the Fund's largest holdings that have underperformed in these months leading to the performance loss incurred in those months. We believe their negative share price performances to be unwarranted. They do not adequately reflect the fundamental value of the individual investment cases in the portfolio.

Galapagos has a range of drugs in development, the most important one being a drug for the treatment of Rheumatoid Arthritis. In mid-July, Galapagos saw its share price increase significantly upon announcement of an innovative and novel deal structure with its existing partner Gilead. Galapagos and Gilead agreed for the latter to invest over $5 billion in a 10-year collaboration which will allow Gilead to leverage Galapagos' team of more than 500 scientists and drug discovery platform to develop a portfolio that includes 6 molecules currently in clinical trials. The deal was announced in July and closed in August. It is an excellent deal, that is not only rich in terms of the financial aspects, but it allows Galapagos to remain independent at least for the coming 10 years, during which time it can grow further and strengthen its position as one of the biggest stars of the European biotech sector.

After announcing the Gilead deal, the company's stock reached an all-time high of EUR 168.8 on July 22nd. Since then, it has been trading down, reaching EUR 143 per share in early September. Its market cap currently amounts to just under EUR 9 billion. The company's net cash position amounts to EUR 5 billion, giving it a "technology value" of less than EUR 4 billion (no debt). We believe this is too low. Its partnership with Gilead (allowing the partnered drug Filgotinib to be developed in a number of inflammatory indications), its net cash position, its product pipeline (including a late stage program in IPF), its ability to add products and technologies through M&A, all provide for a lot of comfort from a fundamental investment point of view.

Amarin Corp's sole asset is Vascepa, a highly purified derivative of fish oil. The drug is already on the market for patients with very high levels of triglyceride (bad lipid) and last autumn the company reported the results of a large, long term study which demonstrated that patients, even with moderately elevated triglycerides, had a 25% reduction in their risk of a cardiovascular event (including heart attack, hospitalization, death). This is better than any result previously seen in a cardiovascular outcome study or CVOT as such a study is called. FDA approval to treat patients with moderately elevated triglycerides would open-up a huge market opportunity. The results of the CVOT have now been formally filed for approval with the FDA at the end of March this year. The FDA granted Amarin a priority review (faster response) and set the date of September 28th as the date by which they would respond – the PDUFA date. Based on the impending approval of the drug for a large patient population – there was a lot of speculation regarding the potential for Amarin to be acquired. The first summer sell off occurred when Amarin announced a $400m offering. Investors took this to mean that no deal was imminent.

The big question for investors in the past few months was whether or not the FDA would call for an Advisory Committee to review the data, a so called AdComm. It is standard practice for the FDA to call an AdComm for a treatment for a new disease, a new technology or a treatment which is expected to be used by a large population of patients. The FDA can call an AdComm at its discretion. At an AdComm, the FDA calls together a group of relevant experts, asks them to review the available material on the drug candidate and holds a public discussion on the merits of the drug. After the discussion, the FDA typically asks the panel to vote on a number of questions – usually including whether or not they think FDA should approve the drug. As the weeks passed and the PDUFA date approached, the likelihood of an AdComm decreased. In mid-August, Amarin announced that the FDA had informed the company that they would be holding an AdComm and this will take place on November 14th. The PDUFA date has been set for late December 2019. This caused a sell off as investors see that the launch is delayed – although only by a few months. Investors also see more risk to approval.

Why does the FDA want an AdComm – are they uncomfortable about some aspect of the filing? We are unlikely to know more until the briefing documents are published a few days before the AdComm in November. We do know that the data has been published in leading scientific and medical journals and the data has already been included in the guidelines for the US and the European societies of cardiology and atherosclerosis. We remain very confident in the strength of the clinical data. Amarin shares dropped 40% from their peak in early July to the lowest point in early August when the AdComm was announced. We remain confident in the strength of the clinical data and expect the FDA to approve Vascepa shortly after the AdComm meeting in November.

Manager's comments - 2

Evotec's business model is quite unique and is based on a relatively low risk financial model. It is cash flow positive through its service business. It operates as a cutting-edge drug discovery partner for a broad range of larger pharma and biotech partners. Its fee for service model ensures that Evotec takes none of the risk. The Company then leverages its technology to partner with a range of leading research institutions and a variety of healthcare companies, where again they take limited risk, and keep a significant piece of the long-term upside. The company has over 100 partnered programs in development.

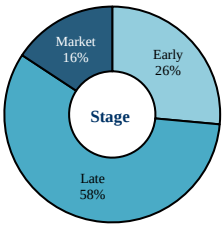
The down side of this strategy is that it is difficult to model by standard financial metrics. On the back of strong Q2 financial report – the stock experienced a dramatic sell off. The reason – there really was no fundamental reason that we or anyone we consulted could find, other than a US hedge fund dumping the stock. As one of only a few European healthcare companies with sufficient liquidity – it tends to come to the attention of US hedge funds. We have seen this before. In October 2017, there was a similar sharp sell-off in the shares when a well-known hedge fund pitched Evotec as a short idea. Something similar happened in September 2018 and each time the company has recovered. Evotec remains one of the best biotech companies in Europe. It has a very solid basis through its service business and continues to add tremendous value through its partnered pipeline. While it may be difficult for the financial markets to fully value Evotec – we strongly believe that this will change in the coming months and years.

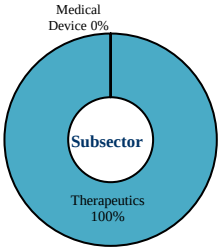
UniQure is our top pick in the gene therapy space. Gene therapy is a very hot area, due to recent advances in the technology, the approval of the first treatments and perhaps more importantly, due to some recent high-profile M&A in this segment of the healthcare market. Gene therapy is a cutting edge, science fiction-like treatment modality which aims to cure genetic diseases with a single treatment. The potential, but also the complexity is enormous. uniQure has experience and technology on its side. The company has been around for over 20 years and has built its own state of the art manufacturing facility. This is particularly important for these therapies.

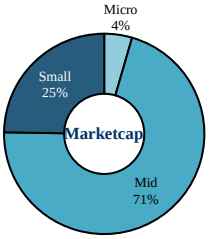
There was no news to cause the selloff in uniQure – just an evaporation of M&A expectations/speculation. The shares depreciated over 30% from their high in late June and a total of 44% following the announcement of a capital raise in September. The Company raised over $200m. Fundamentally, the case has become stronger. uniQure just announced completion of enrollment in their pivotal study for the treatment of Hemophilia B. This is not only faster than expected (they had guided towards year-end) but it means that in about 6 or7 months, the Company will announce top line results which could be sufficient to file for approval. This potentially means that they could have the product approved by the end of next year. The increased cash position not only allows it to progress the pipeline but also strengthens the negotiating position – should it wish to entertain M&A proposals.

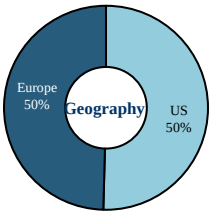
M&A or no M&A, this company is set to become one of the leading gene therapy companies in the world. They recently announced completion of enrollment in their lead program for hemophilia B. This sets the clock – we should see data in 1H20 and, considering the breakthrough status of the program, this therapy could be on the market as early as the end of 2020. This alone will cause a revaluation of the company. UniQure also has an exciting pipeline of other programs and FDA approval of the lead program – validates the technology reducing the risk somewhat for the pipeline.

Portfolio breakdown









LSP Life Sciences Fund

Portfolio breakdown

Company	Stage	Subsector	Marketcap	%
Galapagos	Late	Therapeutics	Mid	16.7%
Amarin Corp	Market	Therapeutics	Mid	11.8%
Uniqure	Late	Therapeutics	Mid	11.3%
argenx	Late	Therapeutics	Mid	10.6%
Evotec	Early	Therapeutics	Mid	9.5%
Merus	Early	Therapeutics	Small	6.0%
FibroGen	Late	Therapeutics	Mid	5.4%
Oncopeptides	Late	Therapeutics	Mid	5.3%
Stemline Therapeutics	Market	Therapeutics	Small	5.0%
Cocrystal Pharma	Early	Therapeutics	Micro	4.8%
Foamix Pharmaceuticals	Late	Therapeutics	Small	4.6%
ObsEva	Late	Therapeutics	Small	4.6%
CytomX Therapeutics	Early	Therapeutics	Small	3.8%
Viking Therapeutics	Early	Therapeutics	Mid	3.1%
Marinus Pharmaceuticals	Late	Therapeutics	Small	1.5%
Zogenix	Late	Therapeutics	Mid	1.4%
Eloxx Pharmaceuticals	Early	Therapeutics	Small	0.9%

Important information