
Item 1 - Cover Page

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March 31, 2015

This Brochure provides information about the qualifications and business practices of Sectoral Asset Management Inc. (“Sectoral” or the “Adviser”). If you have any questions about the contents of this Brochure, please contact us at (514) 849-8777 and/or info@sectoral.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Sectoral is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about Sectoral also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 - Material Changes

There have been no material changes from the last brochure filed on March 31, 2014.

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Item 4 - Advisory Business

Sectoral Asset Management Inc. (“Sectoral” or the “Adviser”), an asset management firm based in Montreal, Quebec, Canada, provides investment advisory services based on the individual needs of its clients as communicated to the Adviser from time to time. Sectoral is principally owned by its founders, Jérôme G. Pfund, CFA, Michael L. Sjöström, CFA, and its strategic partner, State Street Global Alliance Canada, Inc., whose ultimate parents are State Street Corporation (through the following intermediate subsidiaries: Global Alliance International Holdings, Inc., State Street Global Alliance, LLC and State Street Global Advisors, Inc.) and ABP through its subsidiary Limetree Investment, Inc.

The Adviser provides advisory services to registered investment companies, including funds in the United States, Europe and Asia, and to United States and offshore private investment funds or pooled funds that are exempt from registration under the Investment Company Act of 1940 (the “Company Act”). The Adviser also provides advisory services to institutional clients.

As of December 31, 2014, Sectoral had approximately \$2.9 bn in assets under management, all of which is managed on a discretionary basis.

Sectoral’s management of each of its clients, and the terms of any investor’s investment in a fund managed by Sectoral, are governed exclusively by the terms of that fund’s organizational documents, private offering memorandum or other disclosure documents, limited partnership agreement (if any), investment management agreement, and subscription agreement (the “governing documents”). **All discussions in this brochure of funds managed by the Adviser, their investments, the strategies Sectoral uses in managing its funds, and the fees associated with an investment in the funds are qualified in their entirety by reference to such funds’ governing documents.**

Item 5 - Fees and Compensation

Separate Accounts - Basic Fee Schedule: In most cases, the Adviser charges a fee consisting of a percentage of assets under management. The Adviser’s basic fee schedule is equal, on an annual basis, to 1% of assets under management. The basic fee schedule is not generally negotiable. However, in certain circumstances, the Adviser may negotiate a performance fee arrangement, which will comply with the applicable requirements of Rule 205-3 under the Investment Advisers Act of 1940 (the “Advisers Act”).

Fees are payable in arrears, on a monthly, quarterly or semi-annual basis, mainly based on the average market value of assets under management for the given period. Compensation is not normally payable before the services are provided.

Private Investment Funds: The Adviser also acts as investment adviser to the following private investment funds that are exempt from registration under the Investment Company Act.

New Emerging Medical Opportunities Fund, L.P. (the “NEMO Fund”) is a Cayman Islands limited partnership. New Emerging Medical Opportunities Fund, Ltd. (the “NEMO Feeder”), is a Cayman Island exempted limited company which invests substantially all of its assets into the NEMO Fund. The NEMO Fund has engaged the Adviser to act as its investment manager. Beginning December 1, 2013, Sectoral has agreed to waive all its Management Fee. Sectoral Asset Management Partners, Ltd. (“Sectoral Canadian GP”) acts as the general partner of the NEMO Fund. The Sectoral Canadian GP has also engaged the Adviser to act as its investment manager. In addition, the Sectoral Canadian GP is also entitled to Carried Interest Distribution in the particular cases of an early redemption or upon the expiration of the term of the Fund. The Carried Interest Distribution shall be applied based on a fixed hurdle rate. The hurdle rate is defined as an annual return of 8% measured on a cumulative basis, for the applicable period, applied to the amount of an Investor’s total investment for the applicable period, adjusted for any contributions, redemptions or other distributions, if applicable.

New Emerging Medical Opportunities Fund, II L.P. (the “NEMO II Fund”) is a Cayman Islands limited partnership. New Emerging Medical Opportunities Fund II, Ltd. (the “NEMO II Feeder”), is a Cayman Island exempted limited company which invests substantially all of its assets into the NEMO II Fund. The NEMO II Fund has engaged the Adviser to act as its investment manager. The Adviser receives an advisory fee from the NEMO II Fund, on an annual basis, equal to 2% of that capital account’s balance. The fee is payable quarterly in advance, equal on a quarterly basis to 0.5% of the balance of each capital account. A pro rata portion of the advisory fee will also be assessed on any subscriptions accepted as of any date other than the first day of the quarter. Nemo II GP Ltd., a Canadian corporation, acts as the general partner of the NEMO Fund. NEMO II GP Ltd. has also engaged the Adviser to act as its investment manager. In addition, NEMO II GP Ltd. is also entitled to Carried Interest Distribution in the particular cases of an early redemption or upon the expiration of the term of the Fund. The Carried Interest Distribution shall be applied based on a fixed hurdle rate. The hurdle rate is defined as an annual return of 8% measured on a cumulative basis, for the applicable period, applied to the amount of an Investor’s total investment for the applicable period, adjusted for any contributions, redemptions or other distributions, if applicable.

The management and performance-based fees applicable to each of the private investment funds to which the Adviser acts as investment adviser are in addition to the other fees and expenses borne by such funds, including, but not limited to, organizational expenses, investment expenses (*i.e.*, expenses related to the investment of the fund's assets, including, without limitation, brokerage commissions, expenses relating to permitted hedging transactions, interest expense, and other fees and expenses relating to particular investments), legal expenses, accounting, audit and tax preparation expenses, taxes, fees and expenses of third-party administrators, directors and other service providers, expenses relating to the offer, sale, transfer and withdrawal or redemption of interests, expenses of preparation and distribution of reports and other communications with investors, other expenses related to the operation of the fund and all extraordinary expenses. The Adviser generally is not responsible for any expenses or fees in connection with management of the funds other than as set forth in each fund's governing documents.

Registered and Private Investment Companies. The Adviser currently provides advice to public European investment funds, offshore private investment fund, a U. S. registered investment company, Japanese registered mutual funds, and a South Korean business conglomerate. The Adviser also provides advice to segregated accounts of large Institutions in Europe.

Although the Adviser's basic fee schedule is equal, on an annual basis, to 1% of assets under management, the fee schedule is negotiated with respect to each investment fund, and may include a performance fee arrangement that will comply with the applicable requirements of Advisers Act.

Item 6 - Performance-Based Fees and Side-By-Side Management

The Adviser will comply with the applicable requirements of Rule 205-3 under Advisers Act in connection with the structuring of all performance-based fees. In any case where a performance-based fee is involved, the client or investor must acknowledge that, at the time of entering into a performance-based fee agreement, that the client or investor:

- (1) has at least \$750,000 under management with the Adviser or has a net worth (together, in the case of natural person, with assets held jointly with a spouse) of more than \$1.5 million;
- (2) is a "qualified purchaser" under section 2(a)(51)(A) of the Company Act; or
- (3) is a knowledgeable employee of the Adviser.

This type of fee arrangement may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case in the

absence of a performance fee. In addition, the performance-based fee may create an incentive for the Adviser to favor higher fee paying client accounts over other client accounts (*i.e.*, accounts not charged a performance-based fee) in the allocation of investment opportunities. The Adviser has implemented procedures for allocating investment opportunities that the Adviser believes are reasonably designed to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients. See Item 12 below. Furthermore, because the performance-based fee is calculated on a basis that includes unrealized appreciation, the performance-based fee may be greater than if it were based solely on realized gains.

Item 7 - Types of Clients

Sectoral provides portfolio management services to banking or thrift institutions, investment companies (including mutual funds) and other pooled investment vehicles. The Adviser also provides advisory services to institutional clients.

Certain funds managed by Sectoral may not be available to U.S. investors, may limit the number of U.S. investors they will accept, or may require that any U.S. investors certify that they are “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act of 1940. These funds also may impose qualification requirements with respect to non-U.S. investors. Investors in funds managed by Sectoral generally are required to meet certain conditions, including a minimum initial investment (typically \$1 million), minimum subsequent investments (typically \$100,000), and other qualifications, such as net worth, investment sophistication, and country of residence. The funds may waive the minimum investment requirements in their discretion. Investors must submit a completed subscription agreement and subscription funds must be credited to the applicable fund’s account prior to a closing in order for a subscription to be accepted for the applicable closing date. Shares in certain funds managed by Sectoral may not be available to investors in certain markets.

In addition, certain of the funds managed by Sectoral limit the ability of investors to withdraw capital or redeem or transfer their shares for a period of time after investment. These withdrawals, redemption or transfer provisions may differ among the different funds managed by Sectoral. A fund may waive or alter these requirements.

Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss

Analysis and Investment Strategies

Methods of Analysis and Sources of Information: The Adviser is an investment manager specialized in the area of global healthcare. The Adviser employs a bottom-up investment approach that can be categorized as Growth at a Reasonable Price (“GARP”). Investments are selected using a focused stock selection process based on primary research of company fundamentals and close contacts with company management to assess their scientific, business and financial aspects.

Given the complex nature of the sector, the Adviser relies on a team of around 11 specialized individuals, many of which have a background in both healthcare and finance. The investment professionals are further supported in their in-depth scientific due diligence (e.g. literature reviews, company visits, discussions with expert clinicians and scientists, assessment of specific research and development projects, etc.) by a proprietary Scientific Advisory Network (“SAN”) composed of 9 world-class consultants specialized in different healthcare areas. The purpose of the SAN is to provide the Adviser with a unique and flexible resource to assess the scientific and technological quality of an investment opportunity and to provide the investment professionals with information about recent developments in science and technology.

The investment process consists of 5 steps: Idea Generation, Analysis of Fundamentals, Valuation, Recommendation and Implementation.

- **Idea Generation:** Although the investment process is a continuum, the trigger point of any single process is an idea. The original idea may have several possible sources such as the Adviser’s SAN, industry contacts, interactions with companies, scientific and lay literature, Wall Street research, screening, etc. The Adviser’s investment universe incorporates approximately 1,000 listed companies worldwide. Geographically, these companies are located in North America (approx. 58%), Europe (approx. 23%) and Asia & ROW (approx. 19%). The screening criteria the analysts of the Adviser use are more qualitative than quantitative. They include: access to senior management, company must operate in a growing therapeutic area; company must have a sound business model as well as a competitive edge.
- **Analysis of Fundamentals:** The analysts of the Adviser conduct preliminary research and analysis to select candidates for further evaluation. This includes desk research such as reviewing literature and documentation, interaction with companies and with the Adviser’s SAN. Finally, the analysts of the Adviser perform a summary model and

scenario analysis before selecting the investment candidates. The analysts next engage in primary research about each investment candidate. This requires intensive management contact and thorough due diligence concerning all aspects of investment candidates (products and technology, intellectual property, scientific expertise, the potential of the drugs/medical devices currently sold or going through the Food and Drug Administration (“FDA”) or other regulatory approval processes, the competition, business strategy, quality of senior management, financials, etc.). Company visits are an important part of the Adviser’s investment process. The analysts identify key success factors and analyze financial statements. At the end of this phase, the analysts determine which investment candidates merit further consideration. The remaining investment candidates are then subject to a forecasting process. This part of the process focuses on sales models for key products and the elaboration of prospective financial statements. The analysts also perform scenario analysis based on various assumptions concerning the key success factors for each investment candidate.

- **Valuation:** The Adviser’s analysts attempt to determine the fair value for each investment candidate as well as a 1-year and a 3-year price target. Depending on the development stage of the company, these are determined using various models such as discounted cash-flow models, EBITDA models, classical growth models (PE approach), enterprise value/sales and peer group analysis.

- **Recommendation:** The Adviser’s analysts then compare the resulting fair value to the current market value of each investment candidate and issue a recommendation on the stocks accordingly.

- **Implementation:** In this last step, the portfolio manager assesses the impact of including each investment candidate on the portfolio’s risk/return profile and proceeds with the construction of the portfolio. He will populate each of the six industries (Health Care Equipment & Supplies, Health Care Providers & Services, Health Care Technology, Biotechnology, Pharmaceuticals and Life Sciences Tools & Services) with the analysts’ investment recommendations. The weight of each industry is determined and reviewed by the Chief Investment Officer and is a function of the attractiveness of the following factors: expected growth, profitability, historic valuation and relative valuation.

Principal Risks

Investing in securities involves risks and clients bear the risk of loss (including entire loss of principal) on their investments. The following is a description of certain of the most significant risks involved in the Adviser’s strategies. Not all of these risks will be equally relevant to each Fund or other client at any given time.

Risks Associated with Investments in Securities Generally. Any investment in securities carries certain market risks. Such investments may decline in value for any number of reasons over which the Adviser may have no control, including changes in the overall market for equity and/or debt securities, and factors pertaining to particular portfolio securities, such as management, the market for the issuer's products or services, sources of supply, technological changes within the issuer's industry, the availability of additional capital and labor, general economic conditions, political conditions and other similar conditions. The value of a client's investments will fluctuate, and there is no assurance that the client will achieve its investment objectives.

Risk of Investment Concentration. The Adviser expects the funds and accounts it manages to have a concentrated portfolio at any time. In addition, a fund's or account's investments may be concentrated in a single industry or market sector. Investing a significant portion of a fund's or account's assets in a single issuer, industry or market sector will make the fund or account susceptible to a greater degree than would otherwise be the case to the Adviser's judgment as to the potential of such investment and to risks affecting investments in such issuer, industry or market sector. Such concentration of investments will increase the volatility of the value of the fund's or account's portfolio investments.

Healthcare Industry Risks. The specific risks faced by healthcare companies include:

- Extensive government regulation. Government regulation is a significant factor in the production and marketing of healthcare products. Research and development, testing, manufacture, marketing and sales of healthcare or related products by healthcare companies are subject to extensive regulatory oversight. This oversight may cause significant additional costs and/or delays in bringing products to market, and in turn, may cause significant losses to investors.
- New and uncertain products and businesses. The business of a healthcare company may be in an emerging area. The success of any product, technology or company as a whole will depend largely on, among other things, the:
 - Caliber of the underlying science.
 - Ability to obtain approval by regulatory agencies.
 - Acceptance of the innovation by potential customers.
 - Ability to attract and retain quality scientific and management personnel.
 - Ability to raise large amounts of capital.
 - Ability to protect proprietary information and intellectual property.
 - Ability to meet demand and manage growth.
 - Level of competition among peers.
 - Ability to keep up with rapidly changing technology.

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- Ability to achieve and maintain profitability.
 - Managed care limitations. Private insurance companies, health maintenance organizations and governmental insurers are under increasing pressure to reduce expenditures, causing them to restrict products and procedures available to participants. These restrictions may impede the ability of healthcare companies to market their products successfully.
 - Potential liability. Healthcare companies may be exposed to potential product liability risks that are inherent in the testing, manufacturing and marketing of healthcare related products. These liabilities, if realized, could cause losses to these companies.

Securities of Foreign Companies. Investments in foreign securities involve special risks, which include:

- Unfavorable changes in currency rates and exchange control regulations.
- Restrictions on, and costs associated with, the exchange of currencies and the repatriation of capital invested abroad.
- Reduced availability of information regarding foreign companies.
- Different accounting, auditing and financial standards and less stringent reporting standards and requirements that may apply to foreign companies.
- Reduced liquidity as a result of inadequate trading volume and government-imposed trading restrictions.
- Difficulty in obtaining or enforcing a judgment abroad.
- Increased market risk due to regional economic and political instability.
- Higher brokerage commissions and custody fees.
- Securities markets which are subject to a lesser degree of supervision and regulation by competent authorities.
- Foreign withholding taxes.
- The threat of nationalization and expropriation.

Small and Medium Capitalization Companies. Investing in the securities of companies with small or medium capitalizations can involve greater risk and price volatility than investments in larger, more established companies. Historically, stocks of small or medium capitalization companies and recently organized companies have been more volatile in price than those of the larger market capitalization companies. In addition, small or medium capitalization companies and unseasoned companies may have limited product lines, markets or financial resources. These companies may depend upon a limited or less experienced management group.

The securities of small capitalization companies may sometimes be traded only on over-the-counter markets or on a regional securities exchange. Also, these securities

may not be traded daily or in the volume typical of trading on a national securities exchange. As a result, these securities may be hard to buy or sell at a fair price.

PIPES. To the extent a fund or account invests in private placements of public securities (commonly known as “PIPES”), these securities are illiquid until they are publicly registered by the issuing company. There can be no assurance that the issuing company will register these securities in a timely manner, or at all. If these securities are not registered, it may take the fund longer to be able to liquidate these positions (if they can be liquidated) than would be the case for registered securities of the same company. Even if the Adviser is able to liquidate these securities, the prices realized on the resale of these illiquid securities may be substantially less than the price of the company’s registered securities listed on an exchange or quotation system.

Private Equity Securities. Private equity securities of unseasoned companies present additional risks. Private equity investments are illiquid. Because there are no active or regulated trading markets for these investments, it may take longer or be impossible to liquidate these positions. Thus, a client’s ability to realize value from a private equity investment may depend upon the successful completion of the company’s initial public offering or the sale of the company to another company. A public offering or sale of the company may not occur until several years after the date of the client’s investment, if ever.

Accurate information about private companies may be less readily available than for public companies. Private equity investing is a highly specialized field. The Adviser has less experience in private investing than it has in investing in public companies.

Limitation of Risk Disclosures. The foregoing list of risks does not purport to be a complete enumeration or explanation of the risks involved in the Adviser’s investment programs. Prospective investors in a fund managed by the Adviser should read the entire prospectus or offering memorandum (or equivalent) of the fund and the governing documents thereof and should consult with their own advisors before deciding whether to invest. In addition, as the Adviser’s investment programs develop and change over time, clients and Fund investors may be subject to additional and different risk factors. No assurance can be made that profits will be achieved or that substantial losses will not be incurred.

Item 9 - Disciplinary Information

Sectoral has no information applicable to this Item.

Item 10 - Other Financial Industry Activities and Affiliations

Sectoral is affiliated with State Street Bank and Trust Company (“SSB&T”), a state chartered bank, which, in accordance with applicable law, provides custody, accounting, securities lending, transfer agency, and administrative services to certain of the Funds. SSB&T also provides investment advisory services to its clients through its global asset management division, State Street Global Advisors (“SSgA”). Sectoral has entered into a fee-sharing agreement with SSgA whereby SSgA shall perform the services of an independent contractor on a non-exclusive basis to Sectoral. The fees for providing the services shall be 17% of the revenues (comprising of any investment management, advisory or other fees) of the first year, paid or payable to Sectoral or its affiliates by investors introduced by SSgA.

As a result of its relationship with SSB&T, Sectoral is also affiliated with a number of custodian banks, including State Street Trust Company Canada and State Street Bank Luxembourg SA, which, in accordance with applicable law, provide custody services to certain Sectoral clients.

Sectoral’s wholly owned subsidiary, the Sectoral Canadian GP, is the general partner of the NEMO Fund. A separate Cayman Islands exempted limited company, the NEMO Feeder, serves as a “feeder” fund into the NEMO Fund by investing substantially all of its assets in the NEMO Fund.

Sectoral’s wholly owned subsidiary, the Sectoral Canadian GP for NEMO II, is the general partner of the NEMO II Fund. A separate Cayman Islands exempted limited company, the NEMO Feeder, serves as a “feeder” fund into the NEMO II Fund by investing substantially all of its assets in the NEMO II Fund.

Item 11 - Code of Ethics

The Adviser has adopted a Code of Ethics and Insider Trading Policies and Procedures as part of its compliance manual. The Code of Ethics provides that each employee should place the interests of the Adviser’s clients ahead of his or her own. Each employee is required to conduct all personal securities transactions in a manner that is consistent with the Code of Ethics and avoid any actual or potential conflict of interest. No employee may misuse information about client accounts, abuse his or her position of trust and responsibility or take inappropriate advantage of his or her position. The Code of Ethics prohibits employees from engaging in late trading with respect to any mutual fund. All employees are required to obtain pre-clearance of certain transactions (including any initial public offerings and limited offerings) and

are prohibited from trading in any securities in the healthcare sector for their own accounts or for any account in which they have a direct or indirect beneficial interest, other than in accordance with the Adviser's Code of Ethics.

The Adviser may invest in securities for its own portfolios under management or when implementing and testing new investment strategies. The Adviser blocks non-ERISA client trades with transactions for its own proprietary portfolios formed to implement new investment strategies. In the case of partial executions, the Adviser fills the proprietary portfolios last. The Adviser's policy is to only aggregate trades by the proprietary portfolios with trades for other client accounts if the Adviser believes at the time the order is placed that aggregation is appropriate, in the best interests of the various accounts, and consistent with its duty to seek best execution for its clients and is not prohibited by the terms of the investment advisory agreement with any client for which trades are being aggregated. Trades for a proprietary portfolio may be aggregated with trades for other client accounts unless the Adviser determines at the time the order is placed that the inclusion of the trades for the proprietary portfolios would adversely affect (i) the price at which such order is executed or (ii) best execution for the other client accounts.

In the event that trades by a proprietary portfolio are not aggregated with those of other client accounts, the trades by the proprietary portfolio shall not be executed in a manner that is designed or could reasonably be expected to result in a more favorable execution than the trades for other client accounts. In most cases this will mean that trades for the proprietary portfolios that are not aggregated with orders for other client accounts will be executed after transactions that have been contemporaneously placed on behalf of other client accounts have been completed.

A portfolio manager may batch non-ERISA client trades with those of a private investment company or other collective fund in which the Adviser or its principals and employees have a minority beneficial interest. Such a company or fund may not be favored in any way over other client accounts.

In addition, the Adviser prohibits its officers, directors and employees from trading, either personally or on behalf of others, in securities on the basis of material non-public information regarding such securities or communicating material non-public information to others.

Participation or Interest in Client Transactions. The Adviser may recommend the purchase of limited partnership interest in the NEMO or NEMO II Funds to its U.S. clients and shares of the NEMO or NEMO II Feeders to its non-U.S. clients when appropriate. The Adviser may receive economic benefits in the form of advisory fees from such purchases. The NEMO and NEMO II Funds, and the NEMO and NEMO II Feeders include both a management fee and a performance fee and, as a result, may have a different fee structure than that of certain separately managed accounts. When recommending the purchase of limited partnership interests in NEMO or NEMO II

Funds to its U.S. clients or shares of the NEMO or NEMO II Feeder to its non-U.S. clients, the Adviser will take both the fee structure and the investment guidelines of such client into consideration. The Adviser may recommend the purchase of shares in future investment funds managed by the Adviser to various clients.

Transaction Reporting. The Adviser requires all of its advisory personnel to submit quarterly reports of security transactions for their own accounts or any account in which they have a direct or indirect beneficial interest (“Reporting Accounts”).

Reports need not be submitted:

- For accounts that are not directly or indirectly controlled by the Adviser or the reporting individual or
- For transactions in money market instruments, direct obligations of the United States government, and shares of U.S. registered mutual funds.

All employees of the Adviser are prohibited from trading in listed and unlisted healthcare companies worldwide.

The Adviser requires employees to certify annually that they have complied with the Adviser’s Compliance Manual.

The Adviser does not allow employees to accept gifts over US \$250 from any person that does business with or on behalf of the Adviser. The Adviser requires its personnel to obtain advance approval to serve as a director or trustee of unaffiliated for-profit and non-profit organizations.

The Adviser does not and will not, directly or indirectly, make payments to, or endorse or support political parties, public officials, PACs or political causes. No employee may, directly or indirectly, without the prior review and written approval of the CCO:

- Make any payments to, or for the benefit of or at the request of, any public official, PAC or political party;
- Establish, maintain or control a PAC; or
- Coordinate or solicit any person (including any family member, political party or PAC) to make payment to a public official, PAC or political party.

Existing or prospective clients may obtain a copy of the Adviser’s Code of Ethics upon request to their portfolio manager or directly to Jérôme Pfund, Sectoral Asset Management Inc., 1000 Sherbrooke St., West, Suite 2120, Montreal, Quebec, Canada H3A 3G4 or by telephone at (514) 849-8777.

Item 12 - Brokerage Practices

Brokerage Transactions. In placing orders for and selecting brokers and dealers to execute a client's securities transactions, the Adviser seeks prompt execution of orders at the most favorable prices reasonably obtainable. In selecting brokers and dealers, the Adviser considers a number of factors, including, but not limited to, the following:

- The overall direct net economic result to the client.
- The financial strength, reputation and stability of the broker or dealer.
- The efficiency of the broker or dealer in executing previous transactions.
- The ability of the broker or dealer to execute transactions in small capitalization and thinly traded stocks.
- If applicable, the ability of the broker or dealer to execute large transactions with the minimal adverse effect on the prices obtained by the client.
- The availability and readiness of the broker or dealer to execute difficult transactions in the future.

Directed Brokerage. The Adviser discourages, but does not prohibit, clients from directing brokerage transactions to a particular broker-dealer. Directing brokerage to a particular broker-dealer may involve the following disadvantages to directed brokerage clients:

- Impairing the Adviser's ability to negotiate commission rates and other terms on behalf of directed brokerage clients.
- Denying to directed brokerage clients the benefit of the Adviser's experience in selecting broker-dealers who are able to execute efficiently difficult trades.
- Limiting directed brokerage clients' opportunities to obtain lower transaction costs and better prices by aggregating ("bunching") their orders with orders for other clients.
- Receiving less favorable prices on securities transactions to the extent that the Adviser must place transaction orders for directed brokerage clients after placing bunched transaction orders for other clients.

Use of Soft Dollars to Obtain Research Services. Unless otherwise directed by a client, the Adviser may enter into "soft dollar" arrangements in accordance with Section 28(e) of the Securities Exchange Act of 1934 and the following policy.

Where more than one broker-dealer is believed to be capable of providing the best combination of price and execution with respect to a particular portfolio transaction, the Adviser may select a broker-dealer which furnishes products and/or research services that provide assistance to the Adviser in the performance of its investment decision-making responsibilities. If the Adviser determines in good faith that the commission charged by a broker-dealer is reasonable in relation to the value of brokerage and research services provided by the broker-dealer, the Adviser may cause a client account to pay the broker-dealer an amount of commission greater than the amount another broker-dealer may charge, but generally within a competitive range for full service brokers.

Research products or services that are eligible under a soft dollar arrangement may include: traditional research reports; market and economic data provided through financial and economic publications or through certain data services; advice from broker-dealers on order execution, strategies, and market participants; research-related seminars and conferences; software that provides analyses of securities portfolios or information on order execution, strategies, and market participants; and corporate governance and rating services.

Brokerage products or services that are eligible under a soft dollar arrangement may include post-trade matching of trade information; electronic communication of allocation instructions; routing settlement instructions to custodians and clearing agents; short-term custody; connectivity services such as dedicated lines to broker-dealers or order management systems; trading software used to route orders to market centers; software that provides algorithmic trading strategies, and software used to transmit orders to direct market access systems.

The Adviser may also enter into arrangements with brokers regarding the allocation of minimum annual amounts of brokered transactions to such brokers. In exchange, the Adviser would receive from such brokers research products and/or services and research-related software. A transaction would be placed with such brokers only if consistent with the best execution policies described above (which would take into account the provision of research and related services) and the Adviser would terminate any such arrangement or compensate the broker in cash for such research or software to the extent it cannot fulfill the arrangement consistent with such policies.

Some “mixed-use” products or services could be used by the Adviser for both research/execution and non-research purposes, such as administration or marketing. If these products or services are obtained with soft dollars, the Adviser would allocate their cost between research and non-research uses. The Adviser would use its own hard dollars to pay that part of the cost which is attributable to non-research uses.

Some brokerage and research services received may benefit client accounts other than the account generating the soft dollar credits. The Adviser's receipt of brokerage or research services will not reduce a client's investment advisory fees.

Bunching Orders. Although it need not do so, the Adviser may aggregate or "bunch" orders for multiple client accounts when the Adviser believes that bunching will result in a more favorable overall execution. If appropriate, the Adviser will allocate these bunched orders at the average price obtained.

Proprietary Portfolios. Conflicts may arise in connection with the management of proprietary portfolios formed from time to time in order to establish new investment strategies. The Adviser has adopted a Code of Ethics and Insider Trading Policies and Procedures as part of its compliance manual to deal with these issues - refer to Item 11 of this Brochure.

Balancing the Interests of Multiple Client Accounts. The Adviser may manage multiple accounts with similar investment objectives and strategies or may manage accounts with different objectives or strategies that may trade in the same securities. Despite these similarities, the Adviser's portfolio decisions about each client's investments and the performance resulting from these decisions may differ from those of other clients.

Conflicts of Interest Involved in the Adviser's Management of Multiple Client Accounts. The Adviser's CEO, CIO and CCO regularly monitor the portfolios to determine whether the specific needs of each client are being met.

The Adviser will not necessarily purchase or sell the same securities for client accounts at the same time or in the same proportionate amounts for all eligible clients. When the Adviser purchases thinly traded securities or oversubscribed public offerings, it may not be feasible to allocate a transaction pro rata to all eligible clients. Therefore, not all clients will necessarily participate in the same investment opportunities or participate on the same basis.

Allocating Investment Opportunities. The Adviser allocates investment and trading opportunities among various clients (including the sequence of placing orders) in a manner believed by the Adviser to be fair and equitable to each client over time. In making these allocations and in departing from a proportionate allocation based on the relative sizes of client accounts, the Adviser will take into account the following factors:

- The client's investment objectives and strategies.
- The cash flows and amount of investment funds available to each client.
- The amount already committed by each client to a specific investment.

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- Each client's risk tolerance and the relative riskiness of the investment.
 - Whether a proportionate allocation would result in odd lot positions.
 - Whether a proportionate allocation would, given the size of a client account, result in a position that is too small to be meaningful or too large to maintain an appropriate level of diversification.

Transactions Between Client Accounts. The Adviser prohibits any cross transactions between client accounts and also by/to any principal accounts. If a portfolio manager desires to enter into such a transaction, provided it is not expressly forbidden by law or disallowed by the fund's investment guidelines, he shall obtain the prior permission of the CCO. Cross-trading with an account governed by ERISA will be permitted only if the transaction is effected in accordance with Section 408(b)(19) of ERISA and in accordance with written cross-trading policies and procedures that are fair and equitable to all accounts participating. Any cross transactions would be effected at an independently determined market price and at half the normal brokerage commissions. Although each client may incur customary custodian and transfer fees, none of these fees will be paid to the Adviser.

Item 13 - Review of Accounts

Account Review. Each client account managed by the Adviser is monitored and reviewed regularly by the CEO, CIO and CCO to determine whether the specific needs of the client are being met.

The Adviser will furnish regular quarterly reports to all clients. The reports will consist of a portfolio appraisal, a summary of transactions and performance information.

The Adviser will furnish monthly qualitative and quantitative reports to investment companies.

Investors in all of the private investment funds to which the Adviser serves as investment manager will receive annual financial statements audited by an independent public accounting firm. Investors in such funds also receive quarterly investment letters (either by mail or electronic means) that include commentary and performance information.

Item 14 - *Client Referrals and Other Compensation*

As described in Item 10 above, Sectoral has entered into a fee-sharing agreement with SSgA, under which SSgA is entitled to fees equal to 17% of the revenues (comprising of any investment management, advisory or other fees) for the first year, paid or payable to Sectoral or its affiliates by investors introduced by SSgA.

Sectoral also has solicitor agreements with Finance and Law Consulting (based in the UK), Integra International Ltd (based in Bermuda) and Lancea Partners LLP (based in the UK) (“third party solicitors”).

The fees paid to the third party solicitors is twenty percent (20%) of the management fees paid to Sectoral by investors in the Products introduced by third party solicitors, during the period during which such investors remain invested in the Products.

Item 15 - *Custody*

The Adviser does not have custody over client funds or securities, except that the Adviser may be deemed to have custody of client assets as a result of its management of the private investment funds to which the Adviser or one of its affiliates serves as general partner or equivalent. The funds and securities held in such private investment funds are held by qualified custodians. As noted in Item 13 above, investors in the funds receive the applicable annual financial statements audited by an independent public accounting firm. Investors in the Adviser’s private investment funds are urged to carefully review such statements.

Item 16 - *Investment Discretion*

Sectoral usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Sectoral observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, Sectoral’s authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to Sectoral in writing.

Item 17 - Voting *Client* Securities

The Adviser has adopted Proxy Voting Policies and Procedures pursuant to Rule 206(4)-6 of the Advisers Act. The following is a summary of its Policies and Procedures:

- Unless otherwise specifically directed by a client in writing, the Adviser is responsible for the voting of all proxies related to securities that it manages on behalf of its clients.
- The Adviser believes proxy voting is included within the investment discretion clients have given to it under the Investment Management Agreement entered into with each client and as such it will act prudently and in the client's best interest when voting proxies.
- The Adviser has established policies and procedures that are designed to mitigate the likelihood of a material conflict of interest. However, in the event that the Adviser determines there is a material conflict between a client's interests and its interests, the Adviser's Chief Compliance Officer will resolve the conflict in a manner that is in the collective best interests of its clients. This may include, without limitation, voting in accordance with pre-determined guidelines; obtaining consent of a majority in interest of clients before voting; or engaging an independent third party to determine how to vote.
- The Adviser has retained ISS to facilitate the proxy voting process. Although the Adviser relies upon research in establishing proxy voting guidelines, the Adviser may deviate from ISS recommendations. ISS is required to vote in accordance with guidelines agreed to between ISS and the Adviser. A summary of the proxy voting guidelines, prepared by ISS and agreed to by the Adviser, is available upon request.

Clients may obtain a copy of the Adviser's Policies and Procedures upon request to their portfolio manager or directly to Mr. Jérôme G. Pfund, Sectoral Asset Management Inc., 1000 Sherbrooke St., West, Suite 2120, Montreal, Quebec, Canada H3A 3G4 or by telephone at (514) 849-8777. ISS maintains copies of all client proxies and a record of how they were voted so that it may respond to any question clients may have regarding them. Clients may obtain information about how their proxies were voted upon request to Mr. Pfund. If any client would rather vote their own proxies, they should contact Mr. Pfund to make that arrangement.

Item 18 - Financial Information

Sectoral has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

Item 19 - Requirements for State-Registered Advisers

This item is not applicable.