

**ITEM 1: COVER PAGE**



# PERCEPTIVE ADVISORS

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June 30, 2015

This brochure provides information about the qualifications and business practices of Perceptive Advisors LLC. If you have any questions about the contents of this brochure, please contact us at the phone number or email address above.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Registration of an investment adviser does not imply that Perceptive Advisors LLC or any of its principals or employees possesses a particular level of skill or training in the investment advisory business or any other business.

Additional information about Perceptive Advisors LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**ITEM 2: MATERIAL CHANGES**

This annual update to our Form ADV Part 2A (the “Brochure”) includes the following material changes from our Brochure dated March 2014:

- Items herein have been changed to provide additional disclosure with respect to Perceptive Credit Opportunities Fund, LP, a private investment fund launched in 2014.

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#### **ITEM 4: ADVISORY BUSINESS**

Perceptive Advisors LLC, a Delaware limited liability company (the “Advisor”), is an investment firm established in 1999. The Advisor focuses on investment opportunities in healthcare, with an emphasis on biotechnology. The Advisor believes that significant opportunities exist in biotechnology due to pervasive underlying market inefficiencies and volatility. Joseph Edelman is the founder, sole managing member, and sole owner of Perceptive Advisors.

As discussed in further detail in Item 7 herein, the Advisor advises two separate master-feeder private fund structures. One private fund structure, the “Perceptive Life Sciences Funds”, has historically invested primarily in publicly traded securities, and the other fund structure, the “Credit Opportunities Funds”, was launched to invest primarily in private securities and loans. (The Perceptive Life Sciences Funds and the Credit Opportunity Funds together are referred to as the “Funds”) The Advisor also advises two separately managed account clients (the “Separate Accounts” and together with the Funds, the “Client Accounts”). One of these Separate Accounts is an affiliated account owned by Joseph Edelman. As of December 31, 2014, the Advisor had net assets under management of \$1,148,180,641, all of which were managed on a discretionary basis.

The Advisor invests the Funds’ assets in accordance with the investment objectives and strategy set forth by the Advisor in the relevant Fund’s confidential private placement memorandum, as amended from time to time. Investors in a Fund cannot place investment restrictions on the Fund’s investment strategy, or on the Advisor’s trading of Fund assets pursuant to such strategy.

The Advisor invests the Separate Accounts’ assets in accordance with the relevant managed account agreement, which is tailored to the individual needs of each Separate Account. Separate Account clients may place investment restrictions on the Advisor’s trading for the Separate Account pursuant to such managed account agreement.

#### **ITEM 5: FEES AND COMPENSATION**

##### **The Perceptive Life Sciences Funds**

*Asset Based Fees.* The Advisor receives a management fee (the “Management Fee”), payable at the feeder fund level, equal to 2% per annum, based on the net asset value of each fund. The Management Fee is payable monthly at the beginning of each month.

The Advisor, in its discretion, may waive all or any portion of the Management Fee and may agree that a portion of its Management Fee be paid to third parties.

Each feeder fund also reimburses and/or advances to the Advisor a maximum of 1% per annum of the average month-end net asset value of each feeder fund for certain of the Advisor’s administrative and management costs and expenses, including without limitation computer equipment and services, office space and utilities, salaries and bonuses, and other overhead expenses of the Advisor, except to the extent such costs and expenses are provided through “soft dollars” as described in Item 12 herein.

Please see Item 6 for a discussion of the Advisor’s performance based compensation.

*Operating Expenses.* Each Fund pays for its operating expenses (including, with respect to the feeder funds, their pro rata portion of the expenses of the master fund). Such operating expenses include ongoing offering expenses, legal, accounting, and auditing fees, interest on borrowings, custodial fees and

expenses, brokerage commissions and fees, service fees, securities transaction costs, fees, brokerage commissions, transaction costs and taxes.

Certain expenses incurred in managing the Client Accounts may be charged to the Funds but will benefit all Client Accounts. The Advisor believes that these expenses, which will include the cost of certain filings with the Securities and Exchange Commission, will be *de minimis*.

#### The Credit Opportunity Funds

*Asset Based Fees.* During the investment period, the Advisor receives a management fee (the “Management Fee”), equal to 1.5% per annum, based on the fund’s total commitments. After the investment period, the Advisor receives a Management Fee equal to 1.5% of the sum of the net asset value of the fund plus any unfunded capital commitments to portfolio companies. The Management Fee is payable quarterly in advance.

The Advisor, in its discretion, may waive all or any portion of the Management Fee and may agree that a portion of its Management Fee be paid to third parties (including a party who introduces an investor to the Credit Opportunity Funds).

Please see Item 6 for a discussion of the Advisor’s performance based compensation.

*Operating Expenses.* The Credit Opportunity Funds will be responsible for, among other things, all third-party costs and expenses including all costs and expenses incurred in investigating, developing, negotiating, structuring, acquiring, trading, settling, monitoring and holding portfolio investments and prospective portfolio investments; travel, legal, tax and accounting expenses in connection therewith; broken deal expenses; expenses related to the registration, qualification or exemption of the Fund under any applicable laws; brokerage fees and commissions and prime brokerage fees, custodial expenses, agent bank and other bank service fees and other investment costs; payments to legal counsel, tax advisors, auditors, accountants, administrators, custodians, consultants and other outside advisors; the Management Fee; insurance; market data costs; and research-related expenses, including, without limitation, news and quotation equipment, software and services.

#### Separate Accounts

The affiliated Separate Account is not charged any fees by the Advisor.

The nonaffiliated Separate Account pays the Advisor a Management Fee and expense reimbursement that are generally equal to the Management Fee and expense reimbursement charged to investors in the Funds.

The Separate Accounts will each bear investment-related and operational expenses of each Separate Account, including, but not limited to, brokerage commissions, clearing and settlement charges, transaction costs, custodial fees and interest expenses.

### **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

#### The Perceptive Life Sciences Funds

An affiliate of the Advisor may receive performance-based compensation in the form of an incentive allocation equal to 25% of the appreciation in the net asset value of an investor’s capital account. This performance fee is subject to a high water mark. The Advisor or its affiliate, in its sole discretion, may waive or reduce the performance fee for certain investors.

### The Credit Opportunity Funds

An affiliate of the Advisor may receive incentive distributions from the Credit Opportunity Funds based on the net cash proceeds distributed to investors by the Funds. The calculation of the incentive distributions to the Advisor's affiliates is described in the Credit Opportunity Fund's offering documents. The incentive distribution is generally equal to 20% of the capital distributed after certain threshold returns to other investors are met.

### Separate Accounts

The affiliated Separate Account owned is not charged any incentive based compensation. With respect to the non-affiliated Separate Account, the Advisor receives performance-based compensation that is generally equal to the performance-based fee charged to investors in the Funds.

The Advisor's right to receive all or a portion of an incentive fee may create an incentive for the Advisor to make investments that are riskier or more speculative than would be the case if the Advisor was paid only a Management Fee. Performance-based fee arrangements may also create an incentive to favor accounts with higher incentive fee structures in the allocation of investment opportunities.

### **ITEM 7: TYPES OF CLIENTS**

The Advisor's clients are the Funds and the Separate Accounts. The Fund Documents provide the eligibility criteria and minimum investment requirements. Although the Advisor has the authority to accept subscriptions of a lesser amount, the required minimum initial investment in the Funds is generally \$1,000,000.

Investors in the Funds consist primarily of institutional investors, financial institutions, other investment funds, and high-net-worth individuals. The Advisor requires Fund investors to make representations concerning their financial sophistication and ability to bear the risk of loss of their entire investment.

### **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

#### The Perceptive Life Sciences Funds

The Advisor's strategy is to invest in the equities of growth healthcare companies and value plays, with an emphasis on biotechnology. The Advisor's philosophy is that the most critical element in achieving superior investment returns is to maintain an unbiased view of fundamental company news without regard to our current or past investment position in the stock, or its price history. By acknowledging inherent uncertainty, only then can we make objective real time investment decisions. In the Advisor's view, investment decision biases are the single greatest impediment to generating positive investment returns. The Advisor's portfolio manager, Joseph Edelman, and his team of analysts use their substantial scientific, technical and investment expertise to identify opportunities to exploit relative value disparities and inefficiencies that exist on both the long and short side of the market. While most other Wall Street biotechnology analysts typically cover only the largest 20-30 companies in this industry, Perceptive's analysts also focus on the remaining smaller, more inefficiently priced 300 or more companies. In addition, an active risk management style, a low amount of leverage, and the team's focus on original investment ideas and research, all sourced in-house, contribute significantly to the Client Accounts' unique value. Hedging strategies using long and short equity positions, equity options, and index options are used in an attempt to reduce and control risk.

## The Credit Opportunity Funds

The investment objective of the Credit Opportunity Fund will be to achieve superior risk-adjusted returns by investing in senior secured loans and other debt and debt-related instruments issued by small and mid-cap publicly traded companies and privately-held emerging growth companies primarily in the healthcare and related industries. The Credit Opportunity Fund's investments may be originated by the Fund or in collaboration with a syndicate of other credit investors, and it is expected that a majority of the Fund's investments will be structured as directly originated loans to healthcare companies.

## Separate Accounts

The investment strategies of the Separate Accounts are substantially similar to those of the Perceptive Life Sciences Fund, though the Separate Accounts may take more concentrated positions and use a higher degree of leverage than the Perceptive Life Sciences Fund.

## Investment Risks

Investing in securities involves risk of loss that clients should be prepared to bear. The following does not purport to be a comprehensive summary of all of the risks associated with the Client Accounts' investment strategy. Rather, the following are only certain risks to which the strategies are subject.

The Client Accounts will invest its assets in securities, some of which are traded over the counter and some of which may be illiquid. There are several risks inherent in such investments, some of which are specifically referenced below. Such investments are subject to investment-specific price fluctuations as well as to macro-economic, market and industry-specific conditions, including, but not limited to, national and international economic conditions, domestic and international financial policies and performance, conditions affecting particular investments such as the financial viability, sales and product lines of corporate issuers, national and international politics and governmental events, and changes in income tax laws. Moreover, the Client Accounts may have only limited ability to vary their investment portfolios in response to changing economic, financial and investment conditions.

**The Client Accounts' Investments may be Volatile.** A principal risk in speculative securities investing and trading is the traditional volatility in the market prices of securities. The profitability of the Client Accounts depends greatly on predicting market prices. If the Advisor incorrectly predicts price movements, large losses could result.

**The Client Accounts' Investments may be Leveraged.** The Client Accounts intend to invest and trade on a leveraged basis (*i.e.*, where the security can be purchased by putting up only a portion of the instrument's face value and borrowing the remainder (margin)). Although the use of borrowed money to purchase securities will permit the Client Accounts to make investments in an amount in excess of the Client Accounts' capital, it also will increase the Client Accounts' exposure to losses. Thus, a relatively small price movement in such an investment may result in immediate and substantial loss to the Client Accounts. Like other leveraged investments, the Client Accounts' transactions may result in losses in excess of the amount invested. Moreover, the Client Accounts will incur interest charges in servicing the leverage, which charges may be substantial.

**Short Sales.** The Client Accounts intend to engage in significant short selling activities (*i.e.*, the sale of a security which the Client Accounts do not own for the purpose of taking advantage of an anticipated decline in the price by purchasing the same security at a later date) in which there is no limit to the amount of potential loss. The extent to which the Client Accounts will engage in short sales will depend

upon the Advisor's investment strategy and perception of market direction. The Client Accounts will incur a loss as a result of a short sale if the price of the security increases between the date of the short sale and the date on which the Client Accounts covers their short positions (*i.e.*, purchases the security to replace the borrowed security). The Client Accounts will realize a gain if the security declines in price between these dates. A short sale involves the theoretically unlimited risk of an increase in the market price of the security.

Although the use of short sales can substantially improve the return on invested capital, their use also may increase any adverse impact to which the investment portfolio of the Client Accounts may be subject. Gains and losses on short sales generally are treated as short-term capital gains and losses for tax purposes.

**Concentration of Investments.** Subject to the Client Accounts' investment policies described above, there is no limit on the amount of the Client Accounts' assets that can be invested in any particular position or strategy. In fact, the Advisor's approach will emphasize securities of the companies in the biotechnology industry and may at times emphasize particular sectors of the healthcare industry. Accordingly, a loss in any single position or strategy could materially reduce the Client Accounts' assets. In addition, the value of the Client Accounts' investment positions may be subject to decreases as a result of general economic conditions and/or the adverse effect upon the companies of which the Client Accounts own stock. Furthermore, new legislation or changes in governmental regulations could adversely affect the Client Accounts' ability to engage in certain of its anticipated investment strategies.

**Trading in Small Capitalization Markets.** The Client Accounts may invest a portion of their assets in Securities of companies with small market capitalizations that may not be well known to the general public and have limited trading volumes. Some of these companies will have been in operation for fewer than three years. This trading may entail more risk than investments in companies with higher market capitalizations, because of increased volatility and trading liquidity.

**Options Trading.** An option on a security gives the purchaser of the option the right but not the obligation to take a position at a specified price (the "striking," "strike" or "exercise" price) in a security. A "call" option gives the purchaser the right to buy the underlying security, and the purchaser of a "put" option acquires the right to take a sell position in the underlying security. The purchase price of an option is referred to as its "premium." The seller (or "writer") of an option is obligated to take a position at a specified price opposite to the option buyer if the option is exercised. Thus, in the case of a call option, the seller must be prepared to sell the underlying security at the strike price if the buyer should exercise the option. A seller of a put option, on the other hand, stands ready to buy the underlying security at the strike price. Both the purchasing and selling of call and put options entail risks. Although an option buyer's risk is limited to the amount of the original investment for the purchase of the option, an investment in an option may be subject to greater fluctuation than is an investment in the underlying securities. In theory, an uncovered call writer's loss is potentially unlimited, but in practice the loss is limited by the term of existence of the call. The risk for a writer of a put option is that the price of the underlying security may fall below the exercise price.

**Over-the-Counter Trading.** Securities that may be purchased or sold by the Client Accounts will include instruments not traded on an exchange. Over-the-counter options, unlike exchanged-traded options, are two party contracts with price and other terms negotiated by the buyer and seller. The risk of nonperformance by the obligor on such an instrument may be greater and the ease with which the Client Accounts can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. In addition, significant disparities may exist between "bid" and "asked" prices for securities that are not traded on an exchange. Securities not traded on exchanges are also not subject to the same type of government regulation as exchange-traded instruments,



and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions. To the extent that the Client Accounts engage in these transactions, the Client Accounts must rely on the creditworthiness of its counterparty.

**The Markets and Securities Traded by the Client Accounts May Be Illiquid.** At various times, the markets for securities purchased or sold by the Client Accounts may be “thin” or illiquid, making purchase or sale of securities at desired prices or in desired quantities difficult or impossible. It may not always be possible to execute a buy or sell at the desired price or to close out an open position, either due to market conditions, daily price fluctuation limits or speculative position limits. Particularly, there is a very limited market for, and substantial restrictions on, the resale of privately-traded securities. In addition, investors in privately-traded securities typically have certain registration rights with respect to the registration of such securities at a later date, but the exercise of these registration rights is dependent upon various conditions. There is no assurance that these conditions will occur or that these registration rights will otherwise be exercisable. Illiquid securities may have to be held for a substantial period of time because of market or industry conditions, the development stage at which they were purchased, or legal restrictions on resale. The valuation of illiquid securities will be in the Advisor’s discretion.

**Turnover; Excessive Trading Risk.** The Client Accounts’ capital will primarily be invested and traded on the basis of short-term market considerations. The portfolio turnover rate of those investments may be significant, potentially involving substantial brokerage commissions and fees. These commissions and fees will, of course, reduce the Client Accounts’ profits.

**Trading on Non-United States Exchanges.** The Client Accounts may invest and trade on exchanges and with counterparties located outside the United States, where the protections provided by Securities and Exchange Commission regulations do not apply. In the case of trading or investing by the Client Accounts in non-U.S. markets or with non-U.S. counterparties, the Client Accounts will be subject to the risk of the inability of or refusal by their counterparties to perform with respect to their contracts with the Client Accounts and the difficulties of enforcing contractual obligations subject to non-U.S. law. The Client Accounts also may not have the same access to certain investments and opportunities as do various other participants in non-U.S. markets.

As one or more of the Funds and Separate Accounts determines its net assets in United States Dollars, with respect to trading on non-U.S. markets, it will be subject to the risk of fluctuation in the exchange rate between the local currency and dollars and to the possibility of exchange controls.

**Special Risks of Non-U.S. Investments.** Non-U.S. investments made by the Client Accounts could be adversely affected by political, legal, tax or economic developments in non-U.S. markets in which the Client Accounts may invest. In addition, non-U.S. investments by the Client Accounts will be subject to the risks of adverse market conditions due to changes in national or local economic conditions, changes in interest rates and changing governmental rules and policies.

**Currency and Exchange Rate Risks.** Since the Client Accounts may invest in Securities denominated or quoted in currencies other than the U.S. Dollar, changes in currency exchange rates may affect the value of the Client Accounts’ portfolios and the unrealized appreciation or depreciation of investments. The Client Accounts may seek to protect the value of some portion or all of their portfolio holdings against currency risks by engaging in hedging transactions, if available, cost-effective and practicable. The Client Accounts may enter into forward contracts on currencies as well as purchase put and call options on currencies. There is no certainty that instruments suitable for hedging currency shifts will be available at the time when the Client Accounts wish to use them or that, even if available, the Client Accounts will elect to utilize a hedging strategy.

**Risk Arbitrage Transactions.** The Client Accounts may engage in risk arbitrage transactions where they will purchase securities at prices that may be only slightly below the anticipated value of the cash, securities or other consideration to be paid or exchanged for such securities at the time of a proposed merger, exchange offer, tender offer or other similar transaction. Such purchase prices may be substantially in excess of the market price of the securities prior to such time. If the proposed merger, exchange offer, tender offer or other similar transaction later appears likely not to be consummated or in fact is not consummated or is delayed, the market price of the security purchased by the Client Accounts may decline sharply and result in losses to the Client Accounts.

**Special Situations.** The Client Accounts may invest in securities of an issuer based upon, or in anticipation of, an extraordinary corporate event, such as a spin-off, merger, or other reorganization, or which may be highly leveraged or operating in an out-of-favor industry. In special situation investing there are risks that the anticipated special situation will not occur or the anticipated benefit of the special situation will not be realized.

**Private Investing.** The investment activities of one or more advisory clients of the Advisor may result in the imposition of restrictions on the flexibility of other client accounts. For example, if the Advisor obtains material non-public information concerning a company on behalf of an advisory client in connection with a privately negotiated transaction, other advisory clients may be unable to trade in the securities of the same company in the public markets.

**Derivative Instruments.** The Client Accounts may invest in complex derivative instruments which seek to modify or replace the investment performance of particular securities, commodity interests, other property, interest rates, indices or markets on a leveraged or unleveraged basis. Derivative instruments are subject to additional risks that include interest rate and credit risk volatility, world and local market price and demand, and general economic factors and activity. Derivative instruments also have counterparty risk and may not perform in the manner expected by the Client Accounts or the counterparties, thereby resulting in greater loss or gain to the Client Accounts.

**Risks from Hedging Activities.** If the Advisor analyzes market conditions incorrectly or employs a risk reduction strategy that does not correlate well with the Client Accounts' investments, the Client Accounts' risk reduction techniques could result in a loss, regardless of whether the intent was to reduce risk or increase return. These risk reduction techniques may also increase the volatility of the Client Accounts and/or result in a loss if the counterparty to the transaction does not perform as promised.

**The Markets in Which the Client Accounts Invest are Highly Competitive.** The Securities industry in general, and the biotechnology/healthcare industry markets in which the Client Accounts intends to invest and trade, are extremely competitive. In pursuing its investment and trading methods and strategies, the Client Accounts will compete with securities firms, including many of the larger investment advisory and private investment firms, as well as institutional investors and, in certain circumstances, market-makers, banks and Brokers. In relative terms, the Client Accounts have little capital and may have difficulty in competing in markets in which its competitors have substantially greater financial resources, larger research staffs, and more securities professionals than the Client Accounts have or expect to have in the future. In any given transaction, investment and trading activity by other firms will tend to narrow the spread between the price at which a security may be purchased by the Client Accounts and the price it expects to receive upon consummation of the transaction.

#### **ITEM 9: DISCIPLINARY INFORMATION**

Certain inquiries were conducted by the Securities and Exchange Commission (the "SEC") and FINRA regarding various short sales that were placed by Joseph Edelman and others associated with the Advisor

in 2005 and 2006 on behalf of a prior broker-dealer Mr. Edelman had been associated with. Mr. Edelman and such other parties cooperated fully with regulatory authorities.

FINRA Matter No. 20050007960 was formally resolved on or about December 18, 2008 pursuant to the terms of a Letter of Acceptance, Waiver and Consent (“AWC”) entered into by Joseph Edelman and other persons, including certain persons associated with the Advisor. By the AWC, Mr. Edelman and such other persons associated with the Advisor accepted and consented, without admitting or denying, to the entry of findings that they violated Rule 105 of Regulation M under the Securities Exchange Act of 1934, as amended which rule was subsequently amended in October 2007). Pursuant to the AWC, Mr. Edelman agreed to the payment of a fine of \$50,000. This fine has been duly paid by Mr. Edelman out of the Advisor’s assets. Fines in lesser amounts were also imposed against some of the other parties associated with the Advisor. None of these fines were paid by the Funds/Investors.

On October 20, 2009, SEC Matter No. NY-0793, an inquiry conducted by the SEC’s New York Regional Office concerning primarily the same secondary offerings that were the subject of the AWC, was formally resolved pursuant to the terms of an Order Instituting Administrative Cease and Desist Proceedings Pursuant to Section 21C of the Exchange Act and Section 203(e) of the Advisers Act (the “Order”).

By the terms of the Order, the Advisor accepted and consented, without admitting or denying, to the entry of findings that it violated then Rule 105 of Regulation M under the Exchange Act (which rule was subsequently amended in October 2007). Pursuant to the Order, the Advisor was censured and agreed to disgorge profits and pay pre-judgment interest in the aggregate amount of \$314,755.26, and to pay a fine of \$125,000. These amounts have been paid by the Advisor. None of these amounts were paid by the Funds/Investors.

#### **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Perceptive Life Sciences Onshore Funds’ general partner is Perceptive Capital LLC, a Delaware limited liability company. Perceptive Capital LLC is an affiliate of the Advisor. Joseph Edelman is the managing member of Perceptive Capital LLC. This relationship may create an incentive for the Advisor to make investments that are riskier or more speculative than would be the case if Perceptive Capital LLC did not receive incentive compensation from the Perceptive Life Sciences Onshore Funds.

The Credit Opportunities Fund’s general partner is Perceptive Credit Opportunities GP, LLC, a Delaware limited liability company. Perceptive Credit Opportunities GP, LLC is an affiliate of the Advisor. Joseph Edelman is the managing member of Perceptive Credit Opportunities GP, LLC. This relationship may create an incentive for the Advisor to make investments that are riskier or more speculative than would be the case if Perceptive Credit Opportunities GP, LLC did not receive incentive compensation from the Credit Opportunities Funds.

#### **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

**Code of Ethics.** The Advisor has adopted a Code of Ethics pursuant to Rule 204A-1 under the Advisers Act for the purpose of instructing employees about their fiduciary obligations to clients and to provide rules for, among other things, their personal securities transactions. Clients or prospective clients may obtain a copy of the Code of Ethics by contacting the Advisor’s Chief Compliance Officer.

**Participation or Interest in Client Transactions and Personal Trading.** A related person may from time to time have an interest, direct or indirect, in a security, the purchase or sale of which is

recommended, or which in fact is purchased or sold by or otherwise traded for a client. To the extent a related person invests in a security that is held by or recommended to a client, a conflict of interest arises as the reason for making such recommendation to a client could be to benefit the related person (i.e. by increasing the value of the security) rather than it being in the best interest of the client. Policies and procedures are in place to ensure that clients' interests are not disadvantaged by a trade made by a related person and that a related person does not benefit personally from trades undertaken for clients. In particular, the Advisor's related persons must make necessary arrangements so that the Advisor will receive copies of the account statements and brokerage confirmation for holdings and transactions in the employees' accounts (and provide copies of the letter(s) making such arrangements, as well as all communications regarding an account) and disclose the reportable securities in which they have a direct or indirect beneficial ownership and must submit periodic reports that show all trades and holdings of accounts in which the related person has a beneficial interest. These reports are periodically reviewed by the CCO.

Although the Advisor does not currently do so, subject to compliance with applicable law, the Advisor or its related person as principal may buy securities for, or sell securities to, an advisory client and may engage in cross transactions for client accounts. The Advisor will not engage in cross transactions between the separate account owned by Joseph Edelman and another Client Account.

#### **ITEM 12 BROKERAGE PRACTICES**

The Advisor is authorized to determine the executing broker to be used for each securities transaction for the Client Accounts. Brokers will be selected by the Advisor generally on the basis of best execution services, which will be determined by taking into account, among other things, the broker's ability to commit capital, stability and responsibility, reputation, financial strength, reliability, responsiveness to the Advisor and accuracy of recommendations on particular securities, commission rates, ability to execute trades, block trading and block positioning capabilities, nature and frequency of sales coverage, securities price, depth of available services, arbitrage operations, bond capability and option operations, liquidity of market, access to various market venues, access to direct access trading, access to new issues and/or PIPES, expertise in certain securities or derivatives, the availability of stocks to borrow for short trades, willingness to execute related or unrelated difficult transactions in the future, the ability to execute larger transactions confidentially or anonymously or in a manner that avoids disclosing trading interest to the market, order of call, back office, processing and special execution capabilities, efficiency of execution and error resolution.

In selecting brokers to execute transactions, the Advisor need not solicit competitive bids and does not have an obligation to negotiate brokerage commission costs. Thus, the Client Accounts may be deemed to be paying for other products and services provided by the broker which are included in the transaction charges. In exchange for the direction of portfolio transaction dollars to certain brokers, credits are generated which may be used by the Advisor to pay for the products and services provided, or paid for, by such brokers. To the extent the Client Accounts' portfolio transactions generate such credits or products and services are provided, the Advisor or the Client Accounts will be receiving a benefit by reason of the direction of commissions.

Products and services may be used by the Advisor or its affiliates for themselves and/or in servicing some or all of their clients. In addition, some products and services may not necessarily be used by the Client Accounts even though its commission dollars (or other transaction charges) provided for the products and services. The Client Accounts, therefore, may not, in any particular instance, be the direct or indirect beneficiary of the products or services provided. The Advisor uses client commissions to acquire soft dollar items that the Advisor would otherwise be obligated to provide to, or acquire at its own expense for, the Client Accounts. Nonetheless, the Advisor believes that such soft dollar items may provide the

Client Accounts with benefits by supplementing the research and services otherwise available to the Client Accounts. The Advisor may have an incentive to select certain brokers based on the soft dollar items provided by such brokers rather than the clients' interest in receiving the most favorable execution.

The relationships with brokers that provide "soft dollar" services to the Advisor may influence the Advisor's judgment in allocating brokerage business and create a conflict of interest in using the services of those brokers to execute the Client Accounts' brokerage transactions.

Currently the Advisor uses soft dollars only for products and services that are within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended.

Securities trades for the accounts managed by the Advisor may, but are not required to, be aggregated. Where, because of prevailing market conditions, it is not possible to obtain the same price or time of execution for all of the securities or other investments purchased or sold for clients, the Advisor may average the various prices and transaction costs and charge or credit the accounts with the average price. Aggregation may operate on some occasions to the advantage, and on other occasions to the disadvantage, of the relevant clients.

### **ITEM 13: REVIEW OF ACCOUNTS**

The Client Accounts are reviewed on a continual basis by the Advisor to assure conformity with investment objectives and guidelines. The Advisor engages in active management for the Client Accounts and accordingly reviews transactions, positions and cash balances on a daily basis.

The Advisor has engaged an independent administrator to send monthly unaudited reports reviewing each Fund's performance to investors. Additionally, investors in the Funds receive independently audited financial statements within 120 days of the Fund's fiscal year end.

Reporting requirements for the Separate Account clients are negotiated and vary per client.

### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

- A. Economic Benefits from Non-Clients. Please refer to discussion in Item 12 above regarding soft dollar items and other benefits that may be received by the Advisor from brokers in connection with execution of the Client Accounts' securities transactions.
- B. Client Referrals. The Advisor and/or one or more of the Funds have entered into third party marketing arrangements with respect to the sale of interests or shares in the Funds. Such third party placement agents are compensated with a portion of the Advisor's Management Fee payable with respect to the relevant Fund, at no cost to the investors in the Fund.

### **ITEM 15: CUSTODY**

#### **Funds**

Based on the fact that the Advisor's affiliated entities may serve as general partner of certain of the Funds, the Advisor will have constructive custody of client assets. The Advisor will comply with the requirements of the Rule 206(4)-2 of the Advisers Act with regards to the Advisor's custody of the Funds' assets by meeting the conditions of the pooled vehicle annual audit provision.

The Advisor will provide all investors with audited financial statements for the Funds in which they are invested within 120 days of such Fund's fiscal year end. In addition, the audited financial statements will be prepared by an independent accounting firm that is registered with and subject to review by the Public Company Account Oversight Board, in accordance with U.S. Generally Accepted Accounting Principles. Investors should carefully review the audited financial statements of the Funds.

#### Separate Accounts

The Advisor does not have custody over the unaffiliated Separate Account.

#### **ITEM 16: INVESTMENT DISCRETION**

The Advisor has discretionary authority to manage securities accounts with respect to the Client Accounts and to determine which securities and what amounts are to be bought or sold, which broker or dealer to be used and commission rates paid.

The Advisor invests the assets of each Fund pursuant to the investment strategy set forth in the Funds' private placement memorandum, and shareholders or limited partners (as applicable) in the Funds are generally not able to place restrictions on investing in certain securities or types of securities. The Funds may place restrictions in the investment management agreement.

With respect to the Separate Accounts, the Advisor invests the Separate Accounts' assets in accordance with the relevant managed account agreement, which is tailored to the individual needs of the Separate Account. Separate Account clients may place investment restrictions on the Advisor's trading for the Separate Account pursuant to such managed account agreement.

#### **ITEM 17: VOTING CLIENT SECURITIES**

The Advisor has established proxy voting policies and procedures designed to ensure that proxies are voted in the best interest of the Client Accounts. When voting proxies, the Advisor must identify and address material conflicts that may arise between the Advisor's interests and those of the Client Accounts. Specifically, the Advisor monitors the potential for conflicts of interest that might arise from personal relationships that the Advisor or its employees may have with parties involved in the vote, and other special circumstances.

If the Advisor determines that a conflict of interest exists as to a particular issuer, the CCO will determine whether the conflict is material to the vote. If it is determined not to be material, the Advisor will vote without further procedures. If it is determined to be material, the Advisor will resolve the conflict in one of several possible ways, such as by engaging a third party to recommend a vote.

A copy of the Advisor's proxy voting policies and procedures and information on how the Advisor has voted proxies are available upon request from Jim Mannix, the Advisor's CCO.

#### **ITEM 18: FINANCIAL INFORMATION**

Registered investment advisers are required in this Item to provide investors with certain financial information or disclosures about our financial condition. We have no financial commitment that impairs our ability to meet our contractual and fiduciary commitments to clients, and have not been the subject of a bankruptcy proceeding.