

BVF Partners L.P.

Part 2A of Form ADV: Firm Brochure

One Sansome Street, 30th Floor
San Francisco, CA 94104
(415) 525-8890
www.bvflp.com

March 31, 2015

This brochure (“Brochure”) provides information about the qualifications and business practices of BVF Partners L.P. (“BVF”). If you have any questions about the contents of this Brochure, please contact BVF’s Chief Compliance Officer, Spike Loy, at 415-525-8890. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Registration as an investment adviser with the SEC or with any state securities authority does not imply a certain level of skill or training.

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

Item 2 - Material Changes

The most recent update to this Brochure was made in March 2015. While we do not believe there are any material changes associated with this update, we have updated certain information regarding our advisory business, certain risk factors and made other changes.

Item 3 - Table of Contents

<u>Item</u>	<u>Page</u>
<u>Item 1 – Cover Page</u>	1
<u>Item 2 - Material Changes</u>	2
<u>Item 3 - Table of Contents</u>	2
<u>Item 4 - Advisory Business</u>	3
<u>Item 5 - Fees and Compensation</u>	4
<u>Item 6 - Performance Based Fees and Side-by-Side Management</u>	6
<u>Item 7 - Types of Clients</u>	7
<u>Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss</u>	8
<u>Item 9 - Disciplinary Information</u>	11
<u>Item 10 - Other Financial Industry Activities and Affiliations</u>	12
<u>Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading</u> .	13
<u>Item 12 - Brokerage Practices</u>	15
<u>Item 13 - Review of Accounts</u>	18
<u>Item 14 - Client Referrals and Other Compensation</u>	18
<u>Item 15 - Custody</u>	18
<u>Item 16 - Investment Discretion</u>	19
<u>Item 17 - Voting Client Securities</u>	19
<u>Item 18 - Financial Information</u>	19

Item 4 - Advisory Business

BVF Partners L.P. (“BVF” or “we”) is an asset management firm that generally invests in biotechnology companies. BVF is a Delaware limited partnership that commenced operations on November 1, 1993. The General Partner of BVF is BVF Inc., a Delaware corporation of which Mark N. Lampert is the sole stockholder, President and Director. BVF Inc. is the principal owner of BVF. Mr. Lampert is the Chief Executive Officer of BVF and Matthew Perry is the President of BVF. BVF provides discretionary advisory services to private investment vehicles including two commingled limited partnerships (the “BVF Funds”) and limited liability entities organized for single investors (each, a “Single Investor Fund”) as well as to separately managed accounts (each a “Managed Account” and collectively, “Managed Accounts”). The portfolio managers of BVF are Mark N. Lampert and Matthew Perry.

BVF generally pursues value-oriented investment strategies, investing primarily in the marketable securities issued by biotechnology companies. Investment advice is provided directly to the BVF Funds according to each BVF Fund’s investment objectives and is not tailored to the individual needs of BVF Fund investors. BVF has engaged, since its inception, in an investment strategy within the biotechnology sector focused primarily on the securities of companies with market capitalizations of less than \$1 billion (the “Biotechnology Strategy”). Although this is the primary focus of the BVF Funds, BVF has the flexibility in managing these portfolios to invest in biotechnology companies of any size. BVF may also invest in unregistered securities of public and closely-held private biotechnology companies by directly purchasing from issuers or other shareholders, in privately negotiated transactions, common stock, convertible preferred stock and/or debt instruments with warrants, options and/or similar rights to acquire an equity interest. Investors should review the applicable BVF Fund's confidential offering memorandum, limited partnership agreement, and corresponding appendices for a more complete explanation of the strategy of the Fund in which they are invested.

BVF also pursues a second investment strategy on behalf of a Single Investor Fund that invests in equity or equity-linked securities of companies involved in the biotechnology industry and related fields that, as of the time of the acquisition of such securities, have a market capitalization of between \$350 million and \$3 billion, subject to certain diversification and liquidity requirements as set forth in the Single Investor Fund’s operating agreement (the “Larger Cap Biotechnology Strategy”).

From time to time, BVF may manage “Excess Capacity Investments” which are generally an additional investment in the securities of an issuer held on behalf of BVF Funds, Single Investor Funds and/or Managed Accounts which investment BVF believes to be promising but which would not, in BVF’s judgment, be appropriate to augment the existing holdings of such funds and accounts given their available investment capital and diversification policies. Excess Capacity Investments may be held by commingled or single investor funds or in managed accounts. The BVF Funds, any Single Investor Fund and any fund holding an Excess Capacity Investment are

collectively referred to hereinafter as the “Funds” and, together with Managed Accounts are collectively referred to as “Clients” and individually as a “Client.”

We generally permit Single Investor Fund and separately Managed Account Clients to impose restrictions with respect to their portfolio objectives and constraints within the biotechnology sector, all of which would be detailed in the applicable fund documentation or through a written investment advisory agreement. BVF Fund investors are not permitted to impose restrictions on investing in certain securities or types of securities.

As of December 31, 2014, BVF had approximately \$1.248 billion in assets under management, all of which is managed on a discretionary basis.

Item 5 - Fees and Compensation

Compensation paid to BVF is negotiable and varies but typically consists of the following components:

Investment Management Fee

BVF, as the General Partner of each BVF Fund, generally receives a management fee at an annual rate of 1% or 1.5% of assets under management. The management fee paid by BVF Fund investors depends upon the class of BVF Fund interest owned, as detailed in the BVF Fund’s confidential offering memorandum. Management fees are deducted on a monthly basis from the capital account of each investor and are calculated based on the balance in an investor’s capital account in the BVF Fund as of the beginning of each quarter. An investor in a BVF Fund who is permitted to make a capital contribution on a date other than the first day of a calendar quarter will be charged a prorated management fee with respect to such capital contribution. If an investor withdraws from a BVF Fund during a calendar quarter (which is generally not permitted), BVF will refund a pro rata portion of the management fee applicable to the withdrawn capital for that quarter, based on the actual number of days remaining in the quarter divided by the total number of days in the quarter.

For Managed Accounts, it is up to the Client whether they wish to have the management and performance fees withdrawn directly from their custodian account or to pay by check or wire transfer. BVF will send an invoice to all Managed Account Clients who choose not to have management and performance fees withdrawn directly from their custodian account. The invoice is payable upon receipt and will include the fee calculation and the amount due. For Managed Account Clients who elect to have management and performance fees withdrawn directly from their custodian account, BVF will send a statement to both the Client and the custodian that will include the fee calculation and the amount due.

Performance-Based Allocation or Fee

In addition, BVF receives a performance-based allocation from the BVF Funds derived from the net profits of each investor’s investment in a BVF Fund. The performance allocation is made from each investor’s capital account or is accrued for payment at a later date. BVF Fund performance-based allocations assessed by BVF generally equal 20% or 25% per annum of net profits (including

both realized and unrealized gains and losses) in excess of a “high water mark” attributable to a BVF Fund investor’s capital account in the applicable BVF Fund, with the performance-based allocation made with respect to BVF Fund investors depending on the class of BVF Fund interest owned, as detailed in the BVF Fund’s confidential offering memorandum. Upon a partial withdrawal from a BVF Fund, any unpaid portion of performance-based allocations will be determined and due on a *pro rata* basis.

Performance-based allocations or fees are charged in accordance with the requirements of Rule 205-3 under the Investment Advisers Act of 1940 (the “Advisers Act”), and BVF will not accept clients who do not satisfy the eligibility criteria for making investments subject to incentive compensation.

Prepayment of fees is generally not required. In certain circumstances, fees and allocations for certain prospective investors in a BVF Fund may be individually negotiated. Such circumstances may include the size or nature of the investment, or a commitment to remain invested for an extended period of time. Negotiated fees may be higher or lower, or calculated differently than those summarized above or may, in certain circumstances, be waived. It should be noted that BVF principals and employees invested alongside other investors in the BVF Funds are not charged management fees or assessed performance-based allocations.

Fees and allocations relating to a Single Investor Fund, Managed Account or Excess Capacity Investments are individually negotiated and may differ from those that apply to investors in the BVF Funds. Negotiated management fees and performance allocations or fees may be higher or lower, or calculated differently than those applicable to the BVF Funds or may, in certain circumstances, be waived.

Clients will also generally bear direct and indirect costs, fees and expenses incurred by or on behalf of such Clients including, among others, all costs and expenses of organizing and/or restructuring a Fund and the offering for sale of interests in a Fund, all costs and expenses associated with negotiating and entering into contracts and arrangements in the ordinary course of a Client’s business, all legal, accounting, professional, expert and consulting fees and expenses arising in connection with the Client’s business, costs of communicating with current and prospective investors (including travel expenses) and all trading costs and expenses, including those relating to due diligence on investment ideas, brokerage commissions, clearing and settlement charges, option premiums and custodial and service fees. BVF bears its own operating, general, administrative and overhead costs and expenses, other than the expenses described above. See also Item 12 – Brokerage Practices.

As noted in Item 10 – Other Financial Industry Activities and Affiliations, BVF is an indirect minority shareholder in a Danish investment management firm that manages certain commingled investment partnerships in which certain BVF Clients are invested. Income received by BVF that is derived from fees or allocations assessed on BVF Client capital so invested offsets any compensation that BVF would otherwise receive directly from its Clients with respect to such capital.

Investors should refer to the applicable Fund offering memorandum and other relevant governing documents and agreements for additional/supplemental information regarding such Fund or Managed Account as well as the fees and expenses associated with such Fund or Managed Account. Similar services may be available from other investment advisers at a lower cost.

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

As noted in Item 5 — Fees and Compensation, BVF earns performance based allocations or fees which are based on a share of capital gains or capital appreciation of the Client's assets which includes unrealized appreciation of assets, realized gains and losses.

The fact that BVF is compensated based on trading profits may create an incentive for BVF to make investments on behalf of Clients that are riskier or more speculative than would be the case in the absence of such compensation. In addition, where the performance-based allocation or fee received by BVF is based on unrealized as well as realized gains, in certain circumstances, the performance-based allocation or fee could be based on unrealized gains that Clients may never realize.

BVF has a conflict of interest if, in any time period, one fee structure would generate higher fees to itself than another fee structure, because BVF would have an incentive to favor the Client account that would pay the higher fees in the allocation of investment opportunities. The manner in which the performance-based allocation or fee and management fee are determined for Single Investor Funds and Managed Accounts may differ among such funds and accounts as well as from the manner by which the performance-based allocations or fees allocable or payable to, and management fees payable to, BVF are determined with respect to the BVF Funds. Such differences may create incentives to allocate certain investment opportunities to or away from particular Clients relative to other Clients.

BVF has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple Client accounts and the allocation of investment opportunities. BVF reviews investment decisions for the purpose of ensuring that all Client accounts with substantially similar investment objectives are treated equitably. The performance of similarly managed Client accounts is also regularly compared to determine whether there are any unexplained significant discrepancies. In addition, BVF's procedures relating to the allocation of investment opportunities require that similarly managed Client accounts generally participate in investment opportunities pro rata, based on each account's available assets, but subject to a number of considerations which are used to justify non-pro rata allocations. For more information on BVF's allocation procedure, please see Item 12 – Brokerage Practices, Allocation of Investment Opportunities.

As noted in Item 4 – Advisory Business, we have the opportunity to make Excess Capacity Investments and to allocate these investment opportunities to Clients other than the BVF Funds, Single Investor Funds or Managed Accounts. Typically we make these allocations in circumstances where the investment could not, because of available capital, risk limits, size, concentration or other reasons, be allocated to Clients that currently hold investments to which the Excess Capacity Investment relates. Excess Capacity Investments may be more or less profitable than the original investment to which they relate.

An investor in a Single Investor Fund or Managed Account will generally have withdrawal or termination rights comparable to the capital withdrawal rights of the BVF Funds. However, the investor in a Single Investor Fund or Managed Account may have the right to withdraw capital or terminate its investment management agreement with BVF based on prescribed events or otherwise upon prior notice. In such events, BVF may be required to liquidate certain securities positions held by the Single Investor Fund or Managed Account that are also held by other Clients which could adversely affect the pricing of those positions.

Item 7 - Types of Clients

As noted in Item 4 - Advisory Business, BVF currently provides investment advice directly to the BVF Funds and not individually to the limited partners of those Funds, as well as to Single Investor Funds and Managed Accounts. BVF currently has a \$2.5 million minimum initial investment requirement for investors in the BVF Funds. However, BVF, in its sole discretion, may permit investments that are less than the required minimum investment commitment. Fund investors must meet the investor qualifications associated with each Fund. BVF provides investment advice only to “accredited investors” which also are either “qualified purchasers” or “qualified clients,” as such terms are defined in the federal securities laws, through private investment vehicles or managed accounts. BVF Fund and other Client account investors include individuals, trusts, endowments, pension plans, corporations and other entities.

As described above, BVF manages Single Investor Funds, Managed Accounts and Excess Capacity Investment funds or accounts. Such funds and accounts are subject to individually negotiated terms.

BVF requires that all Clients and Fund investors represent to BVF in writing that they are — either themselves or together with their professional advisers — financially sophisticated and able to evaluate the merits and risk of their investment, including the risk of a total loss.

The beneficial owners of Single Investor Funds or separately Managed Accounts generally receive more information (including portfolio composition information) than investors in the BVF Funds. As noted in Item 5 – Fees and Compensation, we negotiate fees with beneficial owners of Single Investor Funds and separately Managed Accounts that may be more favorable than the fees in place for the BVF Funds. The opportunity to organize a Single Investor Fund or separately Managed Account with us is not available to all prospective clients and is generally subject to minimum asset levels in our sole discretion. Our decision on whether to allow a prospective client to open a Single Investor Fund or separately Managed Account with us is made based on a variety of factors.

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

Methods of Analysis, Investment Strategies

BVF invests primarily in biotechnology companies that possess proprietary drug discovery expertise and core technologies that can be leveraged into a stream of product opportunities. In particular, BVF seeks out biotechnology companies which have established, or are likely to establish, important partnerships with large drug companies. In selecting investments for Clients, BVF focuses on a variety of quantitative and qualitative metrics.

Risk Factors

The investment strategies pursued by BVF are speculative, involve a substantial degree of risk and are not intended as a complete investment program. An investment with BVF is suitable only for financially sophisticated investors who fully understand and are capable of bearing the risk of such an investment, including significant volatility and the loss of all or substantially all of their investment. The various risks that are briefly summarized below are not the only risks associated with an investment in a Fund or Managed Account. Before making any investment decision, you must carefully review and evaluate all of the applicable offering materials and related Fund or Managed Account governing documents, including the specific disclosures regarding risk factors and conflicts of interest that they contain. You should not rely on this Brochure in making any investment decision regarding any Fund or Managed Account.

Risk of Loss. The investments made by BVF on behalf of the Funds and Managed Accounts are speculative, high-risk investments which are subject to unusual risks. Investors must be prepared for the possibility of losing all or substantially all of their investment.

Past Performance. The past performance of Funds or Managed Accounts managed by BVF may not be indicative of future results, especially given the speculative nature of BVF's investing. Moreover, given the market volatility in the recent past and its impact on the biotechnology sector, BVF's performance to date may not be representative of future performance.

An Undiversified Portfolio. BVF uses a selective stock-picking strategy within a single industry sector, which means that its Client accounts will not be as diversified as other investment vehicles. Investors must be prepared for substantial volatility and the possibility of substantial losses.

Dependence on Mr. Lampert and Mr. Perry. BVF's success depends on the skill and acumen of Mark N. Lampert and Matthew Perry. Mr. Lampert and Mr. Perry devote the majority of their business time to BVF. Furthermore, should both Mr. Lampert's and Mr. Perry's services become unavailable to BVF, the Funds and Managed Accounts advised by BVF would, in all probability, be liquidated. Such liquidation could take place under materially adverse circumstances. The investors in the BVF Funds and certain other Clients have extraordinary capital withdrawal rights in the event that Mr. Lampert's services become unavailable. Effective January 1, 2016, this extraordinary capital withdrawal right will be revised for the BVF Funds and certain other Clients to be triggered in the event that both Mr. Lampert's and Mr. Perry's services become unavailable. The exercise of such

rights would most likely lead to the dissolution of these Funds and closing of other Client accounts, perhaps also under unfavorable market conditions.

The Biotechnology Sector in General. The issuers in which BVF invests are subject to significant scientific, financial, regulatory and marketing risks. The prices of biotechnology securities are subject to significant fluctuation. Although BVF may succeed in identifying undervalued securities, there can be no assurance that stock prices will reflect such value over the time frame during which its Clients hold an investment. The Funds and Managed Accounts invest substantially all of their available capital (other than uninvested cash) in long positions in the securities of biotechnology firms (BVF has the authority to make short sales, but generally does not). While these securities are generally publicly-traded, the markets for securities of smaller capitalization issuers are generally illiquid and subject to substantial short-term fluctuations. Notwithstanding the existence of a public market, certain of these securities may cease, or effectively cease, to be traded after BVF invests in them. Changes in economic conditions, including, for example, interest rates, inflation rates, industry conditions, competition, regulatory environment, technological developments, political and diplomatic events and trends, tax laws and innumerable other factors outside the control of BVF, can substantially and adversely affect the business and prospects of the Client accounts. Many of the issuers in which BVF invests are particularly vulnerable to such changes.

Investing in Illiquid Securities. A Client may have its assets invested in securities that are not readily marketable or that are only thinly traded. In addition, they may also invest in private placements of securities that are not registered under the Securities Act of 1933, as amended, and may have little or no trading market. BVF may not be able to readily dispose of such investments, and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. These limitations on liquidity could prevent a successful sale of such investments, result in a delay of any sale, or reduce the amount of proceeds that might otherwise be realized.

A limited portion of the investment portfolios of Client accounts, other than an Excess Capacity Investment, may be allocated to “Designated Investments” or “Special Opportunity” investments which are investments in which only persons who are investors in the Client account at the time that such designation is made will participate. Designated and Special Opportunity Investments are typically illiquid or difficult to value and the fair value of such investments as reflected in the Client account may not reflect the price that would actually be realized if those investments were to be liquidated. Investors may be subject to tax however, on their participation in such investments prior to such liquidation. In addition investors who participate in such investments will continue to participate in them until they are liquidated, whether or not the investor has otherwise withdrawn entirely from the Client account. Although only a subset of a Client’s investors may participate economically in a particular Designated or Special Opportunity Investment, for state law purposes, all of the assets of the Client will be subject to any losses or liabilities relating to such investments.

Possible Inability to Deploy Capital. The success of BVF’s investments will be largely dependent upon our ability to identify successful portfolio companies. No assurance can be given that we will be able to identify suitable investment opportunities in which to deploy all available capital or make successful portfolio company investments and there have been and may be periods of time when

a material portion of Client account balances are in cash or cash equivalents. Investors in Funds or Managed Accounts will be dependent upon the judgment and ability of BVF in investing capital. No assurance can be given that BVF will be successful in doing so.

Lack of Available Credit. Many biotech investments are long-term investments but need to be financed on a short-term basis. In the past, there have been periods when it has become very difficult to continue to “roll” short-term financing in order to maintain long-term operations. The lack of available credit could potentially result in portfolio companies having to discontinue important research or abandon operations entirely. The financing available to biotechnology companies can vary substantially depending on economic conditions. Forced sales by, and substantial losses to, biotech companies and their investors may occur at times when financing becomes more difficult to obtain. Small biotechnology issuers tend to be materially adversely affected by “credit crises” due to such issuers’ limited access to the capital markets in general. Consequently, unless the companies in which BVF invests are able to obtain additional financing, they may be forced to scale back or discontinue operations.

Limited Investor Liquidity. The Funds have generally been structured with limited liquidity in order to attempt to avoid the portfolio disruption and losses caused by the need to fund frequent redemptions. However, as a consequence, investors in the Funds have very limited ability to control their losses or realize profits, and must have no near-term need of any portion of the capital which they invest in the Funds.

Differential Investor Liquidity Rights. Investors in different classes of BVF Fund interests or in different Funds or Managed Accounts may have differential liquidity rights which may enable certain investors to make capital withdrawals at certain times when other investors cannot do so. These differential investor liquidity rights could, in certain circumstances, be materially adverse to certain investors.

No Assurances as to Selection Criteria for BVF’s Portfolio Companies. In selecting portfolio companies in which to invest capital, there can be no assurance as to what factors will be considered by BVF, and poor selection could result in material losses.

Competition. In recent years there has been a dramatic increase in the amount of capital allocated to alternative investment strategies. BVF competes with other private investment funds, and the companies in which BVF invests compete with others with resources substantially greater than BVF or such companies. A number of other major private investment funds may also identify the biotechnology sector as one which offers buying opportunities, materially increasing the competitors of BVF.

Reliance on Financial Reporting by the Portfolio Companies. BVF will be dependent on financial information furnished by portfolio companies. BVF typically has no ability to independently verify the financial information in the financial reports of issuers in which BVF is or is considering investing on behalf of its Clients, and is dependent upon the integrity of both the management and the financial reporting process of such issuers. BVF’s Clients may sustain material losses as a result of mismanagement, fraud and accounting irregularities at portfolio companies.

No Control over Portfolio Companies. BVF's Clients will, individually or collectively, from time to time, acquire substantial positions in the securities of particular companies. Nevertheless, they will not usually obtain representation on the board of directors or any control over the management of any company in which they invest. The success of each investment will depend, in large part, on the ability and success of the management of such companies.

No Participation in Management. Fund or Managed Account investors will not participate in the management of their investment portfolios, much less in the operations of BVF. Investors will be dependent on the capabilities of BVF and its principals. There can be no assurance that competent personnel will be available to BVF in the future.

Possible Positive Correlation with Stocks and Bonds. BVF's investments may provide alternative market exposure, including a diversification from traditional portfolio investments. However, there can be no assurance, particularly during periods of market stress, that the Funds or Managed Accounts will in fact experience a low level of correlation with a traditional portfolio of stocks and bonds.

Uncertain Exit Strategies. Although BVF's Clients will generally be invested in publicly-traded securities, many of these securities will generally have a very thin trading market. Consequently, not only may it be necessary for BVF to spend a considerable period of time building a position (so as to avoid affecting market prices in the course of doing so), but also it may not be feasible for BVF to exit a position effectively by open market sales (due to the adverse effect which such sales would have on the price of the securities being sold). In certain cases, BVF will be required to attempt to develop a strategic exit plan (a buy-out, merger, etc.) in an attempt to realize an investment's fair value. There can be no assurance that any such plan will come to fruition.

Prime Brokerage Risk. There are risks in dealing with the custodians or prime brokers who settle trades. BVF's Clients maintain custody accounts with several prime brokers and custodian banks. While BVF monitors exposure to prime brokers and custodians, there is no guarantee that these prime brokers and custodians, or any prime broker or custodian that BVF or BVF's Clients may use from time to time, will not become insolvent. While both the U.S. Bankruptcy Code and the Securities Investor Protection Act of 1970 seek to protect customer property in the event of a failure, insolvency or liquidation of a broker-dealer, there is no certainty that, in the event of a failure of a broker-dealer that has custody of a Client's assets, such Client would not incur losses due to its assets being unavailable for periods of time, ultimately less than full recovery of its assets, or both.

The foregoing outline of certain risk factors does not purport to be a complete explanation of the risks involved with investing with BVF. Fund or Managed Account investors should read all documents and agreements related to investing in a Fund or opening a Managed Account (including a Fund's Offering Memorandum and other relevant Client account documents).

Item 9 - Disciplinary Information

There are no legal or disciplinary events that are material, or that would be presumed to be material pursuant to the Advisers Act regulations, to a Client's, prospective Client's, Fund investor's or

prospective Fund investor's evaluation of BVF's advisory business or the integrity of BVF's management.

Item 10 - Other Financial Industry Activities and Affiliations

Neither BVF nor its management have any relationship or arrangement with a related person (BVF's affiliates and any person under common control with BVF) that is material to BVF's advisory business or BVF's Clients.

BVF does have relationships with certain third parties who are neither related persons nor affiliates of BVF, as those terms are defined for purposes of this Part 2A of Form ADV and that BVF believes are not material to BVF's advisory business or BVF's Clients. In particular, BVF has a relationship with Grosvenor Capital Management, L.P. ("Grosvenor"), which is a non-affiliated investment adviser. In 1993, Grosvenor affiliates provided BVF with a seed investment and working capital in connection with BVF's organization and the commencement of its investment advisory business. As a result, an investment fund managed by Grosvenor and an investment fund managed by a former employee of Grosvenor are limited partners of BVF. Neither Grosvenor, nor any affiliate of Grosvenor, exercise any control over investment or management decisions of BVF. Grosvenor provides certain administrative services to BVF and BVF's Clients pursuant to an Administrative Services Agreement. In addition, one of BVF's Managed Accounts is comprised of investors that are the same investment fund managed by Grosvenor and investment fund managed by a former employee of Grosvenor.

BVF is an indirect minority shareholder in Nordic Biotech Advisors ApS ("Nordic"), a non-affiliated Danish investment management firm, and certain affiliates of Nordic. Mathew Perry, the President and a portfolio manager of BVF, is a member of the board of directors of Nordic. BVF does not, either as a result of its minority shareholdings or Mr. Perry's directorship, exercise any control or influence over investment or management decisions of Nordic or any affiliates of Nordic. Nordic and/or its affiliates are the adviser and general partner to several Danish private limited partnerships that invest in either private equity or publicly traded securities of biotechnology companies that are generally located in Europe. BVF obtained its minority interests in exchange for providing working capital and industry expertise to Nordic. Certain Nordic advised partnerships are Designated Investments of BVF's Clients. While BVF's minority interest in Nordic creates a potential conflict of interest where BVF Client capital is invested in a Nordic advised fund, BVF addresses this conflict with policies pursuant to which the compensation it receives from Nordic relating to these Designated Investments offset any compensation that BVF would otherwise receive directly from its Clients with respect to these Designated Investments. Additionally, BVF also addresses potential conflicts of interest through policies pursuant to which investments are made in accordance with Client investment objectives and decisions are to be made in the best interest of Clients. Moreover, Mr. Perry does not receive any compensation for his service as a director of Nordic. Mr. Perry's service on the Nordic board of directors creates a conflict of interest with respect to access to sensitive information. BVF has policies to guard against information sharing that provide for the safeguarding of proprietary and non-public information by BVF personnel as well as policies and procedures to detect and prevent misuse of material, non-public information. See also Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.

As noted in Item 4 – Advisory Business, BVF may, from time to time, offer to certain investors an “Excess Capacity Investment” which is generally an additional investment in the securities of an issuer held on behalf of BVF Clients which investment BVF believes to be promising but which would not, in BVF’s judgment, be appropriate for its Clients’ accounts given their available investment capital and diversification policies.

Employees of BVF serve, and may in the future serve, on boards of directors or in other management capacities at companies in which Clients invest, either directly or indirectly. Serving in such a capacity may subject such employee, and by association, BVF and its Clients, to certain limitations on the ability to trade the securities of the issuer company and to certain conflicts of interest. As a result of such service, an employee may become aware, from time to time, of material non-public information about the company in which Clients invest, and the employee’s knowledge is likely to be attributed to BVF and the Clients which may result in the Clients’ ability to trade the securities of such company becoming substantially restricted. Such limitations may cause the Clients to forgo sales that they would otherwise make, thereby exposing them to losses, or to forgo purchases, thereby exposing them to lost opportunities. BVF and its Clients may also be subject to Section 16 of the Securities Exchange Act of 1934, as amended, including the disclosure requirements, the restrictions on purchases and sales, and the disgorgement of profits in certain circumstances. An employee serving as a director of a company owned, directly or indirectly, by Clients may also face a conflict between the fiduciary duties owed by such employee to the Clients and the duties owed to such company. In such circumstances, an employee may act in ways that are in the best interest of such company but not the Clients. BVF maintains internal compliance policies that are intended to minimize the negative effects of such conflicts if they arise, and intends to prevent employees from taking such positions when, in BVF’s determination, the potential risks to the Clients outweigh the potential benefits. However, there can be no assurance that permitting the board membership of an employee will not result in less favorable results for Clients than if the employee were not permitted to serve in such capacity.

Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

BVF has adopted a Code of Ethics pursuant to Rule 204A-1 under the Advisers Act (the “Code”), including a Personal Securities Transaction Policy, that sets forth standards of conduct expected of employees and addresses potential conflicts that can arise from personal trading by employees. BVF has designated every employee as an “access person” for purposes of its Personal Securities Transaction Policy. As such, all employees of BVF are covered by this Personal Securities Transaction Policy. Under this Personal Securities Transaction Policy, employees must periodically report their personal securities transactions and holdings to our Chief Compliance Officer (“CCO”), and the CCO or his designee must review these reports. To this end, each employee must arrange for BVF to receive such employee’s investment account statements, containing information regarding all securities transactions in the accounts of such employee. In addition, employees must obtain approval before making certain types of investments.

BVF's Personal Securities Transaction Policy recognizes that personal securities trading by employees may raise potential conflicts of interest when such employees trade in a security that is owned by, or is being considered for purchase or sale for, a Client. Consequently, BVF's Personal Securities Transaction Policy prohibits BVF's employees from investing or trading in the public securities of issuers in the biotechnology, pharmaceutical, diagnostic or medical device sectors without the prior approval of the CCO. Preclearance is also required for any personal investment or trading of initial public offerings or private placements. The Code also contains policies involving the safeguarding of proprietary and non-public information by BVF personnel as well as policies and procedures to detect and prevent misuse of material, non-public information.

Any questions or possible violations that arise under the Personal Securities Transaction Policy must be reported to BVF's CCO immediately. Investors or prospective investors can obtain a copy of the Code, free of charge, from the CCO, Spike Loy, at (415) 525-8890 upon request.

Interests in Client Transactions

BVF, its employees or their related persons may invest directly in some of the Funds. As noted in Item 5 – Fees and Compensation, investments made in these Funds by such parties are not subject to the asset or performance-based fees or allocations described above.

As noted in Item 5 above, a Designated Investment made by BVF on behalf of certain BVF Clients consists of limited partnership interests in certain Danish biotechnology funds and BVF has an indirect minority interest in those funds' Danish adviser or general partner and certain of their affiliates. The Designated Investments were made based upon the investment objectives of the investing BVF Clients and BVF offsets any compensation it would otherwise receive from the capital so invested against any amounts it receives from the Danish adviser, general partner or affiliates in connection with the Designated Investment. See also Item 10 - Other Financial Industry Activities and Affiliations.

Adviser as a Principal in Client Trades

BVF has not in the past acted and does not now act as principal, either buying securities for itself from a Client or selling securities it owns to a Client. In the event that BVF decides to engage in any such principal transaction in the future, it will comply with the requirements of Section 206(3) of the Advisers Act.

Cross Trades between Advisory Clients

From time to time, one Fund may sell or buy a security to or from another Fund. While such transactions will typically not constitute "principal transactions," BVF recognizes the conflict of interest such transactions involve. To resolve such conflicts, BVF will obtain an independent review of the fairness of the transaction for both Funds if the investment is private, or an independent price (*i.e.*, a pricing service or broker quote) if the investment is public.

Similarly, from time to time, one Fund may sell or buy a security to or from a Managed Account or between Managed Accounts. BVF also recognizes the conflict of interest such transactions may

create. To resolve such conflicts, BVF will provide for review by the Managed Account's investors the name of each security to be "crossed" with the Fund or other Managed Account and confirm approval by such Managed Account's investors before executing the trade. Public securities will typically be "crossed" at the last sale price on the date of determination. Private securities will be valued by BVF, based on its valuation procedures, and such valuation will be reviewed and approved by the Managed Account's investors.

Gifts and Business Entertainment

In the normal course of business, BVF and its officers and employees may provide gifts and entertainment to or receive gifts or entertainment from various individuals or entities such as brokers, vendors, consultants, and service providers. These gifts and entertainment are not premised upon any specific client referrals or any expectation of any other type of benefit to us. BVF monitors any potential conflict of interest arising from its employees providing or receiving gifts or entertainment, including identifying any apparent patterns existing over time, to ensure that the interests of BVF and its employees are not placed ahead of the interests of its Clients and investors.

Political Contributions

BVF and its officers, manager and employees may also make political contributions to persons who may serve or seek to serve in elected capacities with certain public entities. These political contributions are permitted only in compliance with Rule 206(4)-5 under the Advisers Act.

Item 12 - Brokerage Practices

Selection of Broker-Dealers

BVF's objective is to make well-informed trade execution decisions that increase or preserve the value of its Clients' portfolios. While the selection of a broker or dealer (collectively, a "broker-dealer") to execute a transaction for a Client often will be a function of the facts and circumstances surrounding a particular execution, examples of factors BVF may consider include:

- Price quotes (including the applicable spread or commission);
- The broker-dealer's expertise in the specific securities or sectors in which BVF seeks to trade;
- The extent to which the broker-dealer makes a market in the securities involved or has access to such markets;
- Availability of accurate information regarding the market for the security;
- The size, type and difficulty of the transaction;
- The liquidity of the market for the securities in question;
- The broker-dealer's skill in positioning the securities involved;
- The likely market impact of the order and BVF's opinion as to which broker-dealer is best able to handle the order with minimum adverse market impact;
- The broker-dealer's promptness of execution;
- The broker-dealer's financial stability;
- Adequacy of the broker-dealer's trading infrastructure, technology and capital;

- The broker-dealer's reputation for diligence, fairness and integrity;
- BVF's prior experience with the broker-dealer's executions;
- Confidentiality considerations;
- The quality and usefulness of investment ideas presented by the broker-dealer;
- The broker-dealer's ability and willingness to correct errors;
- The broker-dealer's ability to accommodate any special execution or order handling requirements that may surround the particular transaction; and
- Other factors affecting the services obtained.

BVF has access to a variety of execution methods, including electronic crossing networks, and attempts to use the most appropriate method in a given situation.

While BVF generally seeks reasonably competitive trade execution costs, BVF does not necessarily pay the lowest commission or spread available, provided that BVF believes that the difference in cost is reasonably justified by the quality of the execution services provided.

Prime Brokers

BVF's Clients have prime brokerage and custodial arrangements with one or more broker-dealers. These arrangements provide for the clearing and settlement of trades executed at brokers other than the prime broker as well as custody, margin financing, stock lending, cash sweep and other cash management services. BVF's Clients may also execute trades through brokerage divisions of its prime brokers subject to its duty to seek best execution. The prime brokers may, at no additional cost, also provide additional services to BVF from time to time, including consulting services relating to technology requirements, infrastructure implementation, facilities management and possible refurbishment or build-out of trading stations. While this may create a potential conflict of interest, BVF does not believe that these additional services are material and the receipt of such services is not a consideration when selecting prime brokers. While a number of the services provided by the prime brokers benefit both BVF's Clients and BVF, certain of such services may primarily benefit BVF. BVF believes that the services it receives from the prime brokers are generally comparable to those services provided by many prime brokers to other similarly situated investment advisers.

Soft Dollars

BVF currently does not have any soft dollar contracts or targets pursuant to which it pays for third-party research or other third-party products, and BVF will not enter into any such third-party soft dollar arrangements without the express approval of its Chief Executive Officer. BVF does receive proprietary research from many of its executing and prime brokers. As a result, BVF may pay a broker a brokerage commission in excess of that which another broker might have charged for effecting the same transactions, in recognition of the value of the brokerage and research services provided by the broker and used by a Client account managed by BVF. In such circumstances, BVF endeavors to act in accordance with the criteria of Section 28(e) of the Securities Exchange Act of 1934. Subject to its duty to seek best execution, BVF may effect transactions with certain brokers primarily in consideration for providing research services. BVF may allocate brokerage to such firms, provided that the value of any research and brokerage services is reasonable in

relationship to the amount of commission paid. In no case will BVF make binding or informal commitments as to the level of brokerage commissions it will allocate to a broker.

BVF is not required to continue to use any particular prime broker (unless directed to do so by a Single Investor Fund or Managed Account Client) or direct a particular number of trades to any prime brokers. BVF has an incentive, however, to maintain the relationship with the prime brokers based on such firms' prior and continued provision of services.

Allocation of Investment Opportunities and Aggregation of Transactions

BVF attempts to act in a fair and reasonable manner in allocating investment and trading opportunities among BVF's Funds and Managed Accounts (collectively, "Accounts"). BVF's allocation procedures seek to allocate investment opportunities among the Accounts over time equitably, considering both the best interests and any specific restrictions of the Accounts. BVF intends to ensure that each investment is appropriate for each Account in light of the characteristics of the specific security and the overall portfolio composition of such Account. Within the overall parameters of equitable allocation, consideration is given to Account investment objectives, strategies and guidelines, Account constraints and restrictions, Account size, diversification, cash availability (including anticipated contributions and redemptions), tax issues, ramp-up or ramp-down status and other factors. Securities may be allocated pro-rata or in another manner across the Funds, Single Investor Funds, and Managed Accounts, as determined by BVF based the analysis of each security and current portfolio construction.

Where a number of Accounts are attempting to purchase or sell the same securities at or about the same time, BVF will generally aggregate all contemporaneous trades for multiple Accounts in a single order if it believes the aggregated trade would provide each Account with an opportunity to achieve a more favorable execution at a potentially lower execution cost. The costs associated with an aggregated order will be shared *pro rata* among the Accounts in the aggregated order based on the size of their orders. Generally, if orders for a security filled at different prices through trades with the same broker-dealer, all accounts participating in the order will receive the average price with respect to the trades executed by that broker-dealer (on a given business day). If all such orders cannot be fully executed under prevailing market conditions, BVF allocates on an equitable basis among the Accounts the purchases or sales which are made after giving due consideration to the respective sizes of the orders placed for the various Accounts and such other factors as BVF deems appropriate. In certain cases, this procedure may adversely affect the prices paid or received by Accounts and/or the size of the position obtained by such Accounts.

BVF may also, from time to time, cause the record title to securities purchased on behalf of Accounts to be held in the name of a nominee or a special purpose vehicle on behalf of such Accounts. Such nominee or special purpose vehicle holdings will be undertaken when the size of the investment, the nature of the co-investment or other considerations relating to the transaction militate in favor of holding the securities in the name of one person rather than subdividing the securities among Accounts. Any such nominee or special purpose vehicle holdings will be held by a qualified custodian, for the sole benefit of the Accounts, each of which will retain full direct or indirect beneficial ownership of their shares of the securities in question.

BVF may also cause Accounts to share on a fair and equitable basis in the legal fees and other expenses it incurs in investigating and negotiating potential transactions, whether or not such transactions are consummated.

Item 13 - Review of Accounts

Client Accounts are reviewed on a routine basis by BVF's portfolio managers. Portfolio managers focus on the performance of investment positions and the portfolios as a whole, overall risks and adherence to investment guidelines. Specific reviews may be triggered by, among other factors, changing market conditions, news concerning specific holdings or changes in asset levels as a result of investor subscriptions or redemptions.

Managed Accounts receive transaction confirmations and monthly statements from brokers, as well as a monthly report listing the holdings, the market value, cost and other information concerning the account.

Each Fund investor receives a monthly account statement listing the value of its investment. Each Fund investor also receives an annual Schedule K-1, if applicable, and a copy of the annual audit for the Fund in which it is invested.

Item 14 - Client Referrals and Other Compensation

BVF does not, directly or indirectly, compensate any person for client referrals. BVF's executing and prime brokers may, from time to time, refer to BVF potential clients or arrange for meetings with potential clients who are also often clients of the broker. While this may create a potential conflict of interest, capital introduction is not a consideration when selecting or retaining prime brokers or executing trades. Other than standard commission rates paid by the Accounts, and customary prime brokerage fees, the brokers do not receive any compensation, directly or indirectly, for any form of client referral.

If, in the future, BVF engages solicitors to which it pays cash or a portion of the advisory fees paid by Clients or Fund investors referred by those solicitors, this practice will be disclosed in writing to the Client or Fund investor and BVF will comply with the requirements of Rule 206(4)-3 under the Advisers Act, as well as require that such solicitors comply with applicable broker-dealer rules.

Item 15 – Custody

BVF is deemed to have custody of the assets of certain Clients and is subject to Rule 206(4)-2 of the Advisers Act (the "Custody Rule"). However, we are not required to comply (or are deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because we comply with the provisions of the so-called "Pooled Vehicle Annual Audit Exemption." Such exemption, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each distribute its audited financial statements to its investors within 120 days after the end of its fiscal year.

Item 16 - Investment Discretion

BVF provides advisory services on a fully discretionary basis, subject in certain cases to specific portfolio objectives or constraints contained in applicable Client agreements. Fund investors execute a subscription agreement for the applicable Fund that, together with the Fund's organizational documents, grant investment discretion to BVF, and the Managed Accounts are party to an advisory agreement with BVF that similarly grants investment discretion to BVF. In certain cases, Clients (but not investors in the BVF Funds) may be permitted to place limits on this discretion or with respect to certain investments and/or investment types.

Item 17 - Voting Client Securities

BVF generally has authority to vote its Clients' proxies. BVF has adopted formal written Proxy Voting Policies and Procedures. Clients may obtain a copy of BVF's Proxy Voting Policies and Procedures and information as to how the Client's securities have been voted upon the request of the Client or its investor, free of charge, by contacting BVF's Chief Compliance Officer, Spike Loy, at 415-525-8890. Clients may not direct BVF's votes of proxies.

BVF assesses the costs, including the expenditure of time and resources, in relation to the potential benefits of voting proxies. In many instances, BVF may determine that the costs of voting proxies outweigh the benefits to Clients, and therefore will not vote proxies. BVF intends to vote proxies only if a circumstance arises where the benefits to Clients appears to outweigh the costs. Where BVF votes Client proxies, it is BVF's general policy to vote in accordance with the recommendation of an issuer's management on routine and administrative matters, unless BVF has a particular reason to vote to the contrary. This general policy should not be interpreted as a pre-determination, however, to vote in favor of the issuer's management, as BVF will review all Client proxies in accordance with its Proxy Voting Policies and Procedures. With respect to non-recurring or extraordinary matters, BVF will vote on a case-by-case basis in accordance with the goals of achieving an Account's stated objectives. The Chief Compliance Officer will monitor the potential for conflicts of interest on the part of BVF with respect to proxy voting as a result of personal relationships, significant client relationships, potential conflicts of interest among Clients or special circumstances that may arise during the conduct of BVF's business. If a conflict of interest is identified, BVF will not make related proxy voting decisions until it has been determined that the conflict of interest is not material or a method for resolving the conflict of interest has been agreed upon and implemented.

Upon receipt of class action information, the Chief Compliance Officer will inform the Chief Executive Officer who will evaluate the costs versus the benefits of participation in the suit for each pertinent Client. Unless the Chief Executive Officer determines that it would be in the best interests of the Client, BVF will not participate in the class action on behalf of the Client.

Item 18 - Financial Information

BVF has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage the Accounts or meet contractual commitments to Clients.