

DEERFIELD MANAGEMENT COMPANY, L.P. (SERIES C)

PART 2A OF FORM ADV: FIRM BROCHURE

March 29, 2019

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This brochure provides information about the qualifications and business practices of Deerfield Management Company, L.P. (Series C) (the “Firm”, “we” or “us”). If you have any questions about the contents of this brochure, please contact us at 212-551-1600. 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.

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

The Firm is an investment adviser registered with the SEC. Registration with the SEC does not imply any level of skill or training.

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## ITEM 2 – MATERIAL CHANGES

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This brochure includes the following material changes since the Firm's brochure filed on May 10, 2018:

Item 4 – The Firm updated Item 4 to disclose the formation of a subsidiary that facilitates the incubation, development and operations of certain portfolio companies.

Item 10 – The Firm updated Item 10 with current information regarding its relationships with other investment advisers and conflicts of interest.

Item 14 – The Firm updated Item 14 to disclose benefits that the Firm may receive from or relating to portfolio companies.

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**ITEM 4 – ADVISORY BUSINESS**

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**A. Description of the Firm**

The Firm provides discretionary investment management services in the healthcare sector to domestic and offshore private pooled investment vehicles (each a “Fund” and together the “Funds”). Deerfield Management Company, L.P. has been engaged in the business of managing Funds since January 13, 1994; Series C thereof has been engaged in the business of managing Funds since January 1, 2005. The Firm is wholly owned by James E. Flynn and is controlled by its general partner, Flynn Management LLC, which is solely owned and controlled by James E. Flynn.

An affiliate of the Firm, Deerfield Mgmt, L.P., Deerfield Mgmt HIF, L.P., Deerfield Mgmt III, L.P. or Deerfield Mgmt IV, L.P., as applicable, is the general partner for those Funds organized as limited partnerships (each, a “General Partner”). Each of Deerfield Mgmt., L.P., Deerfield Mgmt HIF, L.P., Deerfield Mgmt III, L.P. and Deerfield Mgmt IV, L.P. is located at the Firm’s office in New York City.

The Firm conducts its investment advisory business from its office in New York City. The Firm conducts market and regulatory research on the global healthcare industry from a second office in the United States and through two foreign subsidiaries, as identified below:

Deerfield Management Company, L.P. d/b/a Deerfield Institute  
800 Westchester Ave., Suite N513  
Rye Brook, NY 10573

Deerfield Institute for Healthcare Research SARL  
Route de la Corniche, 3a  
Epalinges 1066  
Switzerland

Deerfield Healthcare Consulting (Shanghai) Corporation Limited  
K Wah Center 3906  
Middle Huaihai Road 1010  
Shanghai 200031  
People’s Republic of China

The Firm provides operational support to some portfolio companies from an office at:

Deerfield Management Company, L.P.  
300 Interpace Parkway (C3)  
Parsippany, NJ 07054

A subsidiary of the Firm, Deerfield Discovery and Development, LLC (“3DC”), facilitates the incubation, development and operations of certain portfolio companies, and is managed from the Firm’s New York City office.

Certain portfolio companies may reimburse or pay the Firm and/or its affiliate(s) for certain services, goods and facilities provided by the Firm and/or its affiliates to or for the benefit of such portfolio companies, subject to the governing documents of each Fund.

As used herein, the term “client” generally refers to each of the Funds.

## B. Advisory Services

Each of the Funds has engaged the Firm as its discretionary investment manager. In that capacity, the Firm manages the assets of each Fund and invests the assets of the Funds in accordance with each Fund’s investment strategy. The Firm conducts extensive fundamental research into healthcare sector investment opportunities, including research on individual companies, products and services, drug and device development pipelines, early stage medical research at academic and other research institutions, clinical trials, specific product and service markets, intellectual property protection and litigation, political and regulatory developments, and the dynamics of public securities markets. The Firm makes use of this fundamental research to identify investment opportunities, determine how best to structure or “express” an investment thesis, direct the purchase and sale of securities, negotiate structured investment transactions, and generally manage and invest the assets of the Funds.

The particular investment objectives, strategies, fees and risks of each Fund, and other relevant information, are contained in each Fund’s confidential offering documents (each, a “Memorandum”).

## C. Tailoring Services to Client Needs

The Firm’s investment management services adjust to accommodate each Fund’s investment strategy, as set forth in each Fund’s Memorandum. In the case of the Fund on whose behalf the Firm utilizes the Large Capitalization Strategy (described below), the Firm expresses its investment theses primarily through exchange traded securities, including derivatives, although it will sometimes invest in non-exchange traded securities. In the case of the Fund on whose behalf the Firm utilizes the Special Situations Strategy (described below), the Firm also directs investments mostly in exchange traded securities, but up to 50% of such Fund’s investments may be in less liquid securities. In the case of Funds on whose behalf the Firm utilizes the Private Design Strategy (described below) (the “Private Design Funds”), the Firm may generally direct investments in any type of asset (subject to the limitations specified in the applicable Fund Memorandum) and employ a variety of transaction structures. Lastly, in the case of the Fund on whose behalf the Firm utilizes the Healthcare Innovations Strategy (described below) (the “Innovations Fund”), the Firm focuses on early stage investing.

The Firm has established an advisory board (the “Advisory Board”) with which Mr. Flynn consults on a periodic and as needed basis regarding the Firm’s management of the Funds. The Advisory Board consists of persons selected by Mr. Flynn who may be individual investors or representatives of institutional investors and who have been asked by Mr. Flynn to serve on the Advisory Board. The size of the Advisory Board is determined by Mr. Flynn, and may be increased or decreased by him from time to time. The subjects addressed by the Advisory Board may include communications between the Firm and Fund investors, the allocation or structuring of investments that affect more than one Fund, strategic development of the Firm, conflicts of interest, amendments to Fund documents and such other matters as

may be identified by Mr. Flynn or members of the Advisory Board. The organizational documents of certain Funds also delegate to a Fund advisory committee the authority to advise on or approve certain actions proposed by the General Partner of a Fund. Members of the Firm's Advisory Board and of a Fund advisory committee serve without compensation or other pecuniary benefit. Members of the Firm's Advisory Board may, and currently do, serve as members of one or more Fund advisory committees. Similarly, members of one Fund's advisory committee may, and currently do, sit on one or more other Fund advisory committees. Such overlap may create a conflict of interest for certain members, in which a member may have an incentive to favor a Fund in which it has a greater economic interest.

D. Wrap Fee Programs

The Firm does not currently provide any investment management services in a wrap fee program.

Assets under Management

All Fund assets are managed by the Firm solely on a discretionary basis. As of December 31, 2018, the Firm managed approximately \$10,073,800,000 on a discretionary basis. The foregoing is computed using the same method used to report "regulatory assets under management" in Item 5.F in Part 1A of the Firm's Form ADV.

The information provided above about the investment advisory services provided to the Funds is qualified in its entirety by reference to the relevant Fund governing documents and offering materials.

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ITEM 5 – FEES AND COMPENSATION

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A. Fees

The Firm does not have a standardized fee schedule for the discretionary investment management services it provides the Funds. The Firm, General Partner and/or The Deerfield Partnership Foundation ("Deerfield Foundation"), as applicable, receives a management fee (calculated as a percentage of, as applicable, a Fund's net asset value, the cost basis of Fund assets, funded commitments and/or unfunded commitments) and performance-based compensation (based on the realized and unrealized profits earned by a Fund or based on distributions made by a Fund in excess of the Fund's investors' funded capital commitments or such other threshold as set forth in the relevant Fund Memoranda). The Firm and/or applicable General Partner may waive or reduce management fees and/or performance-based fees due with respect to any investor, including investors who are present or former partners or employees of the Firm or its affiliates and their respective family members and related entities. The fees applicable to each Fund are disclosed in the Memorandum for such Fund.

Management fees generally range from 0.50% to 1.75% annually, and will generally be reduced dollar for dollar, but not below zero on a going forward basis, by directors' fees, consulting fees, advisory fees, transaction fees, commitment fees, broken deal fees or other similar fees received by the Firm from investments made by a Fund. Performance-based compensation is generally 20% of a Fund's profits, with the exception of the Innovations Fund which is generally 25% of distributions after 300% of contributed capital with respect to each portfolio investment has been distributed to investors. In the Large

Capitalization Strategy and the Special Situations Strategy, performance-based compensation is subject to a “modified high water mark” in which the performance-based compensation is calculated at one-half the percentage otherwise applicable (that is, 10% instead of 20%) until the sum of accrued net profits for all years subsequent to the previous high water mark (excluding any year in which there is a net loss) equals 200% of the sum of all accrued net losses for all years subsequent to the prior high water mark (excluding any year in which there is a net profit). In the Healthcare Innovations Strategy, the performance-based compensation is allocated to the Deerfield Foundation. Performance-based compensation received by the Firm is charged in conformity with Rule 205-3 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”).

## B. Payment of Fees

Management fees are payable quarterly and performance-based compensation is generally payable annually or upon a distribution made after all of a Fund’s investors’ funded capital commitments have been returned (or otherwise when permitted by the Fund’s Memorandum). In the case of the Innovations Fund, performance-based compensation is payable upon distributions made in connection with portfolio investments as provided in the governing documents of the Innovations Fund.

Fees are paid or allocated directly by each Fund to the Firm or a General Partner, or to the Deerfield Foundation in the case of performance-based compensation from the Innovations Fund. The applicable General Partner holds a general partner interest in certain of the Funds managed by the Firm and is allocated performance-based compensation in respect of such Funds on the same terms as the performance-based compensation described above.

## C. Other Fees and Expenses

The Funds pay no direct fees to the Firm other than the management fees and the performance-based compensation described above. The Funds pay, subject to the governing documents of each Fund, all expenses related to their respective operations, including administration, legal, accounting, tax, valuation and audit and director fees and expenses, investment expenses (including brokerage commissions, custodial fees, interest on margin accounts, borrowing charges for securities sold short and short sale dividends, and expenses related to investments, including investments that fail to close), research and data fees and expenses (including third party research charges, expert consultant fees, market survey fees, and market and execution data fees), filing fees, legal expenses for Fund regulatory filings and compliance, initial offering and organizational expenses and on-going offering expenses, insurance costs and indemnification obligations, and all other expenses related to the purchase, sale or holding of investments. The Firm, in its discretion may, and sometimes does, elect to bear certain Fund expenses, but the Firm has no obligation to do so.

Certain of the research expenses paid for by the Funds constitute eligible research services and fall under the safe harbor established under Section 28(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), but are nonetheless paid for by the Funds directly as permitted by the applicable governing Fund documents rather than by soft dollars. The Firm generally allocates such research expenses that benefit more than one Fund based on factors that include the relevant Fund’s asset value, leverage and investment activity, as the Firm deems fair and reasonable.

The Firm and its affiliates from time to time incur fees, costs and expenses on behalf of more than one Fund. To the extent such fees, costs and expenses are incurred for the account or benefit of more than one Fund, each Fund will typically bear an allocable portion of any such fees, costs and expenses in proportion to its participation in a particular investment (subject to the terms of each Fund's applicable governing documents) or in such other manner as the Firm considers fair and reasonable.

The Firm endeavors to allocate fees, costs and expenses on a fair and reasonable basis over time. Notwithstanding the foregoing, the Firm may in the future develop policies and procedures to address the allocation of expenses that differ from its current practice.

In the event the Firm presents co-investment opportunities to third parties, such co-investments may be limited to the capital invested in a portfolio company and not bear the expenses associated with developing, consummating and monitoring the investment. Where a proposed transaction with potential co-investors is not consummated, broken deal expenses relating to such proposed transaction may be allocated to potential co-investors to the extent practical or pursuant to agreement with such proposed co-investors, or may be fully borne by the applicable Fund(s) that would have made the investment.

The Firm may utilize certain employees or consultants who are paid fees for services provided to the Firm, a Fund or a portfolio company. The fees and expenses associated with such employees or consultants may be allocated to the Fund or portfolio company that is the recipient or beneficiary of the services provided and in such case would not be paid for out of, or offset against, the management fee paid to the Firm by the Fund. Such employees or consultants may also serve on the boards of directors of portfolio companies and may otherwise serve directly as employees of or consultants to portfolio companies and may receive directors' fees, consulting fees and other compensation in connection with such services from portfolio companies. Such compensation may be retained by the employees or consultants and not offset against management fees otherwise payable by the Funds.

The Firm incurs brokerage costs on behalf of the Funds. Item 12 describes factors that the Firm considers in selecting brokers for Fund transactions and determining the reasonableness of their compensation (e.g., commissions).

D. Timing of Fee Payments

Management fees are due quarterly in advance. The Firm has discretion to defer the payment of management fees. With respect to the Large Capitalization Strategy and the Special Situations Strategy, performance-based compensation is generally payable annually in arrears (or otherwise when permitted by the Fund's Memorandum when distributions are made to Fund investors). With respect to the Private Design Strategy and the Healthcare Innovations Strategy, performance-based compensation is paid upon distributions.

The Firm's advisory agreements with the Funds are generally terminable upon 60 days' prior written notice, without penalty. Advisory fees are pro-rated for partial periods. Upon termination of any Fund advisory agreement, any prepaid, unearned fees will be promptly refunded and any earned, unpaid fees will be due and payable.



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**ITEM 6 – PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

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As set forth in Item 5 above, the Firm receives performance-based compensation based on the realized and unrealized profits of the Funds or based on distributions made by the Funds, which generally is charged annually in arrears or when otherwise permitted by the Fund's Memorandum when distributions are made to Fund investors. Performance-based compensation is charged in conformity with Rule 205-3 under the Advisers Act, as applicable. Please see Item 5 for more information.

Performance-based fee arrangements create an incentive for the Firm to recommend investments that are riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities.

The compensation of Firm employees will be influenced by the performance of the Funds and the Firm's profitability. Certain employees receive a percentage of the performance-based compensation earned by a General Partner for one or more Funds; however, the percentage of the performance-based compensation for a given employee may not be identical for each Strategy or for each Fund. This creates a conflict by creating an incentive for an employee to favor the profitability of one Strategy or Fund over another if a particular investment would fall within multiple Strategies or Funds. It also creates a conflict, when Strategies overlap, by creating an incentive for an employee to favor one Fund over another Fund if performance-based compensation is likely to be paid sooner, or at a higher level, in one than in the other. In addition, if a Fund's performance makes it unlikely to pay performance-based compensation, an employee has an incentive to suggest allocating desirable investment opportunities to a Fund more likely to pay performance-based compensation.

Performance-based compensation also incentivizes the Firm to overvalue assets in order to increase the amount of performance-based compensation. Since performance-based compensation in the Large Capitalization Strategy and the Special Situations Strategy is calculated on a basis that includes unrealized appreciation of the Funds' assets, it may be greater than if it were based solely on realized gains. A Fund may hold investments for which a market quotation is not readily available. Such investments may be valued in part or in whole based on valuations provided by the Firm, and such valuations may be a basis for determining amounts payable to the General Partner of the applicable Fund and the Firm.

Performance-based compensation earned by a Fund's General Partner that is attributable to gains from the sale or disposition of certain assets that have been held for three years or less are treated as short-term capital gains and will be taxed at the higher ordinary income tax rates. As a result, the interests of the General Partner and Fund investors may not always be aligned with respect to the timing of the disposition of an investment, which timing could have an impact on investment performance.

The Firm seeks to ensure that all Funds are treated equitably in the allocation of investment opportunities and trades. Please see Item 11 for more information. Allocation decisions are made by Mr. Flynn or his designee.

Provided that the withdrawal proceeds are used to fund capital commitments in Deerfield Private Design Fund III, L.P., Deerfield Private Design Fund IV, L.P. and/or Deerfield Healthcare Innovations Fund,

L.P., certain investors in Deerfield Partners, L.P. are permitted to withdraw all or any part of their subscriptions in the foregoing Funds without being subject to the required lock up, notice and timing of redemptions provisions contained in the relevant Memorandum (the “Unrestricted Withdrawals”). Although the Firm generally does not expect an Unrestricted Withdrawal to disadvantage the remaining investors in the Fund, such investors will be disadvantaged if such Fund needs to sell its positions in securities at undesirable prices to fund the withdrawals.

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#### ITEM 7 – TYPES OF CLIENTS

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The Firm’s only clients are pooled investment vehicles, the Funds, and no investment advice is provided directly to individuals or to investors in the Funds. Conditions for investing in each Fund, such as the minimum investment amount, are stated in the respective offering documents, which note that the General Partner of each Fund has discretion to reduce or waive the minimum investment amounts.

Generally, investors participating in the Funds are required to meet certain suitability and net worth qualifications, such as being (i) an “accredited investor” within the meaning of Rule 501 of Regulation D under the Securities Act of 1933, as amended, and (ii) either a “qualified purchaser” as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (“Investment Company Act”), or a “knowledgeable employee” within the meaning of Rule 3c-5 of the Investment Company Act.

The Firm, without notice to or consent of investors, has entered and may in the future enter into side letters with certain investors in the Funds granting preferential liquidity, transparency, reporting, fee or other terms.

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

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The following is a summary of the methods of analysis and investment strategies employed by the Firm on behalf of its Funds. This summary should not be interpreted to limit in any way the Firm’s investment activities. The Firm may offer any advisory services, provide advice with respect to any investment strategies and make any investments, including those that may not be described in this Brochure, that the Firm considers appropriate, subject to each Fund’s investment objectives and guidelines. Specific descriptions of such strategies and methods are included in each Fund’s Memorandum, limited partnership agreement or other governing documents. There can be no assurance that the investment objectives of any Fund will be achieved, and results may vary substantially over time.

A. Methods of Analysis and Investment Strategies

The Firm conducts extensive fundamental research into healthcare sector assets and investment opportunities, including research on individual companies, products and services, drug and device development pipelines, scientific research, clinical trials, specific product and service markets, intellectual property protection and litigation, political and regulatory developments, and the dynamics of public and private securities markets. The Firm makes use of this fundamental research to identify investment opportunities, determine how best to structure or “express” an investment thesis, direct the purchase and

sale of securities, negotiate structured investment transactions, and generally manage and invest the assets of the Funds.

The Firm considers the healthcare sector to include, without limitation, pharmaceuticals, biotechnology, DNA and RNA editing and therapy, therapeutic delivery methods, generic drugs, over-the-counter drugs, medical devices, medical equipment, diagnostics, clinical trial services, healthcare data collection and delivery, hospital supplies, hospital services, acute care hospitals, nursing homes, psychiatric hospitals, addiction recovery centers, alternate-site providers, home care, physician practice management, medical software, HMOs, health insurers, benefit management companies, distributors, drugstores, and animal and plant healthcare products and services, and all related technologies, goods, services, financing activities, real estate and enterprises.

The majority of Fund investments are made in companies that are organized in the United States or that issue securities available in the U.S. public securities markets. The emphasis on U.S.-based opportunities reflects the fact that the Firm is more knowledgeable about U.S. companies, product markets, securities markets and regulatory dynamics. There is no geographic limitation on potential investments, and the Funds also make investments outside the United States when the Firm believes it has sufficient information to make such investments.

Subject to the foregoing, each Fund advised by the Firm pursues one of four partially overlapping investment strategies (the “Strategies”). The fundamental research conducted by the Firm is heavily used in all Strategies. The specific investment Strategies and allocation guidelines of each Fund client are set forth in its Memorandum and are summarized below.

## 1. Large Capitalization Strategy

Investment Strategy. The Large Capitalization Strategy invests primarily in debt and equity securities, including derivative securities, of publicly-traded companies in the healthcare and healthcare related sector. When implementing the Large Capitalization Strategy, the Firm seeks to achieve capital appreciation through a portfolio strategy that combines security selection based on in-depth fundamental analysis of healthcare companies, and a diversified portfolio comprising stock, debt, and derivative securities and a mix of long and short positions. The Firm considers the following factors when making investment decisions and designing a portfolio for this Strategy.

- *Healthcare Universe.* At least 90% of investments made for this Strategy (and the other Strategies as well) is expected to be in healthcare securities, and in practice the Funds have invested almost exclusively in the healthcare sector.
- *Leverage.* Total exposure varies from time to time based on market factors and the constantly varying mix of investment opportunities.
- *Diversification.* The portfolio consists of a relatively large number of positions, with 1% to 3% of total Fund assets representing the typical size of an individual investment. The Firm customarily invests across a number of healthcare industry segments. The Firm does not invest more than 12.5% of the net assets of a Fund utilizing the Large Capitalization Strategy (computed at the time the investment is made) in the securities of any one company.

- *Balance.* The portfolio usually has a net long exposure, but its long and short positions may vary significantly from time to time, and past exposure may not be indicative of future exposure. At any given time, the portfolio is likely to include positions in equity, debt and derivative securities. Geographically, the portfolio is expected to be weighted toward U.S.-based healthcare companies, but it may include substantial non-U.S. exposure. Exposure to foreign investments varies with prevailing investment opportunities.
- *Holding Periods.* Holding periods of both long and short positions are determined by the underlying investment thesis and developments in the relevant securities. The Firm attempts to realize long-term capital gains for domestic taxable investors where possible and prudent.
- *Risk.* The Firm may take above-average risk in particular situations if the risk-adjusted return justifies the exposure. The risk inherent in any one investment is mitigated to a degree by the diversity of the portfolio within the healthcare sector.
- *Use of Derivatives.* The Firm uses exchange traded derivative instruments or other derivative instruments, including bilateral swaps, when and to the extent they provide the best means of achieving desirable risk-adjusted returns, sometimes in combination with other securities. Currency forward contracts may also be used to hedge currency risk.
- *Private Market Financing.* The Large Capitalization Strategy focuses primarily on publicly traded securities. It also invests in tradable syndicated debt and in privately structured financings of publicly-traded companies where liquidity may be restricted for short periods of time (generally less than three months). Private securities with restricted liquidity in excess of three months represent no more than 10% of net assets of a Fund utilizing the Large Capitalization Strategy, determined at the time the investment is made.

Investment Selection. The primary determinant of the Large Capitalization Strategy's success is the ability of the Firm to assess the value of companies and assets within the healthcare securities universe. The Firm pursues in-depth fundamental research of potential investments by developing detailed analytical models, visiting companies, attending medical conferences and investment seminars, reading medical and trade literature, reviewing intellectual property, consulting with individuals possessing relevant expertise, and surveying participants in the healthcare field.

## 2. Special Situations Strategy

Investment Strategy. The Special Situations Strategy emphasizes investments in publicly traded healthcare companies with smaller market capitalization (which we define currently as \$378 million at the time of investment and increase at a rate of about 3% per year). At least 90% of the portfolio of the Fund utilizing the Special Situations Strategy is expected to be invested in healthcare related companies, and in practice essentially all investments are healthcare related. These investments may involve equity, debt, royalties or other assets, some of which may have limited liquidity. The Firm does not invest more than 15% of the net assets of a Fund utilizing the Special Situations Strategy (computed at the time the investment is made) in the securities of any one company. The Special Situations Strategy makes both long and short investments and may utilize leverage in seeking to improve investment returns.

Investment Approach. In general, the Special Situations Strategy observes investment considerations, portfolio management practices and valuation methodologies similar to those of the Large Capitalization Strategy. The Special Situations Strategy also incurs investment-related risks similar to those of the Large Capitalization Strategy. There are some differences, however. Up to 50% of the assets of the Fund utilizing the Special Situations Strategy may be invested in assets having restricted liquidity, including investments in private companies, which will generally cause the Fund to be less liquid than the Fund utilizing the Large Capitalization Strategy. Because the Fund utilizing the Special Situations Strategy focuses on a smaller universe of companies and has a substantially lower asset value, the Fund may have less diversity in its investments, a larger average position size (as a percentage of Fund size), and greater volatility in returns than the Fund utilizing the Large Capitalization Strategy.

### 3. Private Design Strategy

Investment Strategy. The Private Design Strategy invests in public and private companies in the healthcare sector using privately created instruments, structures and transactions. In utilizing the Private Design Strategy, the Firm may, without limitation, (i) initiate or participate in joint ventures, (ii) finance projects, products or companies, (iii) enter into value-added relationships with companies in the healthcare sector for the development or marketing of healthcare products, (iv) contract for revenue streams generated by or tied to healthcare products or services, (v) purchase such products or services outright, including the purchase of underlying intellectual property, (vi) initiate or participate in leveraged buyouts, other restructurings, or outright buyouts of companies, (vii) develop and sell, or participate in the development and sale of, therapeutics, medical devices or healthcare products and services, and (viii) establish any business and form any entity in furtherance of the foregoing. The foregoing list is illustrative, not exhaustive, and a Fund utilizing the Private Design Strategy may contract with any party, engage in any activity, pursue any investment, and create any business, in the healthcare field, as set forth in each Fund's Memorandum. A Fund utilizing the Private Design Strategy may buy, sell, and otherwise acquire, hold, dispose of and deal in any type of securities, financial instruments, or assets of companies. Such assets may or may not be registered, exchange traded or liquid.

Investment Approach. The Firm has established long term relationships with the management of many healthcare companies and research institutions, and possesses deep knowledge of the markets for healthcare products and services. These attributes allow the Firm to identify financing needs of companies and devise customized investment structures that, on a risk adjusted basis, are intended to meet the financing needs of such companies and the return objectives of the Funds utilizing the Private Design Strategy. The Firm considers the following investment guidelines when making investment decisions.

- *Healthcare Universe.* The Funds utilizing the Private Design Strategy will invest primarily in the healthcare sector, including publicly traded and private companies, established and start-up businesses and distressed assets and companies. Certain Private Design Funds enter into joint research and development collaborations with research institutions and will invest in portfolio companies founded in connection with such collaborations.
- *Leverage.* The Funds utilizing the Private Design Strategy may leverage their investments and will obtain such leverage in any manner deemed appropriate by the Firm, including, but not limited to, borrowing on margin or otherwise, repurchase agreements, derivative transactions that

provide leveraged exposure to various underlying baskets of assets, and loans from the Firm or its affiliates on arm's-length terms. The Funds utilizing the Private Design Strategy may also obtain credit lines to provide initial funding of investments without drawing down unfunded capital commitments or as a short-term bridge financing of investments pending drawdown of unfunded capital commitments.

- *Portfolio Concentration.* Portfolio concentration in the Funds utilizing the Private Design Strategy will vary with available opportunities and at different times in Fund life (being more concentrated at the beginning and end of a Fund). No more than 30% of a Fund's aggregate committed capital may be invested in a single portfolio company at any point in time.
- *Levels of Ownership.* When investing in healthcare companies, the Funds utilizing the Private Design Strategy may acquire any level of ownership, from passive minority investments to complete ownership and control.
- *Balance.* The Private Design Strategy generally does not engage in stand-alone short transactions, but may take short positions as part of a broader transaction, in anticipation of structuring a broader transaction, in managing position exposure, or in exiting an investment. Exposure to foreign investments is possible, and has occurred from time to time, and will depend on available opportunities.
- *Holding Periods.* Investments will have varying holding periods, depending on the terms of the particular investment. The Private Design Strategy generally seeks to have liquidity within six years of investment, but may structure transactions having a longer time to liquidity.
- *Risk.* The Private Design Strategy may take above-average risk in particular situations if the Firm believes that the risk-adjusted returns justify the investment.
- *Use of Derivatives.* Derivatives may be employed when structuring investments or transactions to adjust overall exposure or to enhance performance.

Investment Selection. The Firm seeks opportunities that allow it to apply its understanding of the healthcare sector with creative transactional abilities to meet the funding needs and growth objectives of healthcare companies and research institutions in a way that optimizes the benefits over time for both the participating Private Design Strategy Funds and the relevant organization. In general, the Firm looks for companies whose funding needs cannot be as efficiently satisfied by conventional forms of debt or equity financing and for funding structures that simultaneously mitigate downside risk while retaining the opportunity for upside reward. In some cases, the Funds utilizing the Private Design Strategy may acquire all or substantially all of the equity or assets of a portfolio company. The objective is to obtain a favorable skew in the expected dollar of reward for dollar of risk.

#### 4. Healthcare Innovations Strategy

Investment Strategy. The objective of the Healthcare Innovations Strategy is to make investments to achieve attractive absolute returns in healthcare companies and assets that serve important medical and societal needs. Investments will be made primarily through privately negotiated investments in healthcare

enterprises and assets. It is expected that many investments will be made in start-up and early stage companies, including companies developing unproven technologies and therapeutics having an uncertain possibility of success. The foregoing is illustrative, not exhaustive, and investments may be made in any sector of the healthcare industry and may take any form and include assets of any type.

Investment Approach. The Firm has established long term relationships with the management of many healthcare companies and research institutions, and possesses deep knowledge of the markets for healthcare products and services. These attributes allow the Firm to assist early stage researchers in devising an efficient research path, managing the complex and changing regulatory processes, and, for those developments that offer commercial promise, successfully accessing available sources of capital and management expertise to convert scientific insights into commercially viable products that ultimately may advance human health and well-being. The Firm considers the following investment guidelines when making investment decisions.

- *Healthcare Universe.* The Innovations Fund may invest in any sector of the healthcare industry. The Innovations Fund may invest anywhere in the world, though a majority of the Fund's investments are expected to focus on the healthcare industry in the United States. A significant minority of investments could be outside the United States, depending on available opportunities. The Innovations Fund enters into joint research and development collaborations with research institutions and will invest in portfolio companies founded in connection with such collaborations.
- *Levels of Ownership.* When investing in healthcare companies, the Innovations Fund may acquire any level of ownership, from passive minority investments to complete ownership and control.
- *Leverage.* The Innovations Fund generally will not employ leverage at the fund level when making investments, although the Innovations Fund may obtain credit facilities as short-term bridge funding for investments pending drawdown of unfunded capital commitments, including loans from the Firm or its affiliates.
- *Portfolio Company Debt.* Companies in which the Innovations Fund invests may be leveraged with debt in any manner, including, without limitation, through the use of loans from related or unrelated parties, derivative instruments, including swaps, and purchase/repurchase agreements.
- *Portfolio Concentration.* The Innovations Fund's portfolio may be concentrated or more diversified depending on the nature of opportunities that present themselves, and at times (particularly at the outset and end of the Innovations Fund), 100% of its portfolio may be concentrated in a single portfolio company. No more than 15% of the Innovations Fund's aggregate committed capital may be invested in a single portfolio company.
- *Duration of Investments.* Investments may have any duration, and many investments will have no specified term. The Firm expects that the majority of investments will be fully realized within six years following the initial investment; however, the Firm expects that some investments may have a longer duration or may be restructured over time in ways that will extend the date by which such investments will be fully realized or that will inherently be longer duration investments.

## B. Risks

All of the Strategies are generally speculative investments and are not intended as a complete investment program. The Strategies are intended solely for sophisticated investors who are able to bear the risk of an investment. There can be no assurances that any Strategy will achieve its investment objective or that there will not be a significant loss of capital. The specific risks associated with a Fund's investment strategy are described in greater detail in each Fund's Memorandum. The following risks, however, are those that generally may be applicable and should be carefully evaluated by prospective investors.

Investors may lose all, or substantially all, of their investment in any Fund.

### General Risks Applicable to All Strategies:

- *Healthcare Companies; Focused Investment Strategy.* An investment in the financial instruments of healthcare companies entails special considerations and risks. In addition to the risks associated with any strategy seeking capital appreciation through investment in financial instruments or other assets, a Fund's portfolio will bear the additional risk that many healthcare companies may be subject to, and possibly adversely affected by, some of the same general trends relating to demand for healthcare related products and services and the same regulatory, economic and political factors. Accordingly, a Fund will not enjoy the reduced risks of a broadly diversified portfolio, which likely will cause the Fund's investments to be more susceptible to particular economic, political, regulatory, technological or industry conditions or occurrences compared with a fund, or a portfolio of funds, that is more diversified or that has a broader focus.
- *Market Risks.* The profitability of a significant portion of each Strategy's investment program depends to a great extent upon correctly assessing the future course of the price movements of securities and other assets. There can be no assurance that the Firm will be able to accurately predict these movements. Although the Firm attempts to mitigate certain market risks through the use of long and short positions when available and deemed appropriate, a significant degree of market risk remains.
- *Equity Risk.* A principal risk of investing in a Fund is equity risk, which is the risk that the value of equity securities held by the Fund will fall due to general market and economic conditions, perceptions regarding the industries in which the issuers of securities held by the Fund participate, and the circumstances, financial condition and performance of particular companies whose securities the Fund holds. An investment in a Fund represents an indirect investment in the securities owned by the Fund. The value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. The value of an investment in a Fund may at any point in time be worth less than the original investment.
- *Short Sales.* The investment activities of the Firm for the Large Capitalization and Special Situations Strategies routinely include short selling. The Firm generally does not engage in stand-alone short transactions for the Private Design Strategy or the Healthcare Innovations Strategy, but may take short positions as a component of a broader transaction, in managing risk, or in exiting an investment. In certain circumstances, short sales can substantially increase the impact



of adverse price movements on a Fund's portfolio. A short sale of a security involves the risk of a theoretically unlimited increase in the market price of the security which could result in an inability to cover the short position on a timely basis and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.

- *Small and Medium Capitalization Companies.* The Firm may invest in companies with small- to medium-sized market capitalizations, including start-up and growth stage companies, for all Strategies. The securities of small- to medium-sized companies and start-up companies involve higher risks in some respects than do investments in larger companies. For example, prices of small-capitalization and medium-capitalization stocks are often more volatile than prices of large-capitalization stocks, and the risk of bankruptcy or insolvency of many smaller companies is higher than for larger, "blue-chip" companies and is higher for start-ups than for established companies. In addition, due to thin trading in some small-capitalization stocks, an investment in those stocks may take time to liquidate, and investments in private companies may be wholly illiquid. Some small companies have limited product lines, distribution channels and financial and managerial resources. Some of the companies in which the Firm invests may have product lines that have, in whole or in part, only recently been introduced to market or that may still be in the research or development stage. Such companies may also be dependent on personnel (including key personnel) with limited experience.
- *Derivative Financial Instruments.* The Firm uses derivative financial instruments that may be subject to wide and sudden fluctuations in market value, with resulting fluctuations in profits and losses. Derivative instruments present various risks, including (i) an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment that may prevent the Firm from achieving the intended hedging or return effect, (ii) difficulty closing a position without a loss, especially large positions, when market liquidity is tight or volatility is high, and (iii) the amplification of gains and losses due to the leverage inherent in derivative instruments.
- *Newly Issued Securities.* The purchase of newly issued securities involves significant risk, because the prices of newly issued securities can increase or decrease significantly and quickly.
- *Leverage.* While the use of borrowed funds can substantially improve the return on invested capital, leverage can also magnify the loss on an investment.
- *Foreign Securities.* Investing in foreign securities, including privately structured investments in foreign companies, involves risks not typically associated with investing in securities of United States issuers. These risks include changes in exchange rates and exchange control regulations, political and social instability, expropriation of assets, the imposition of foreign taxes, less liquid markets and less available information on companies than is generally the case in the United States. Other risks of foreign securities and investments include higher transaction costs, less government supervision of exchanges, brokers and issuers, difficulty in enforcing contractual obligations, the lack of uniform accounting and auditing standards, and greater price volatility.

- *Regulatory Risk.* The performance, success and failure of healthcare companies are heavily influenced by governmental regulation, including marketing approval of drugs and devices and establishment of pricing and reimbursement by governmental purchasers of, and third party payors for, healthcare goods and services. The approval processes can be lengthy, costly, unpredictable, and in some cases determinative of the success or failure of a company. In addition, the applicable approval process or substantive standards may change in a manner that adversely (or favorably) affects the time, cost and likelihood of approval. As a consequence, the securities and other obligations of healthcare companies whose revenue model is closely tied to marketing approval or reimbursement decisions, particularly small and mid-sized companies, can be subject to large and unanticipated swings in value. Such changes can significantly affect the performance of a Fund for better and worse.
- *Sector Concentration.* A Fund will focus on investments in the healthcare sector and will not be diversified across multiple industry sectors. Healthcare companies face many common technological, legal, and demographic dynamics that can cause their performance to be closely correlated. As a result, the Fund will be affected to a greater extent by factors affecting such companies than would be the case if the Fund held a portfolio more diversified by industry.
- *Product Development Risk.* Some healthcare companies may spend many years developing a product before the product can be approved and commercialized. This may occur at a time when the company's commercialized products are insufficient to fund its product development or when it has no commercialized product. Such companies will generally be consuming cash for a period of years, during which they may need to raise additional capital, and investors providing the additional capital often significantly dilute the interests of earlier investors. In addition, the failure of a development product to achieve regulatory approval can cause the company itself to fail.
- *Commercial Failure.* Regulatory approval of a drug or device does not ensure commercial success. Commercial success can be compromised or wholly defeated by failure to achieve acceptance among physicians or patients, by competition from other newly developed or existing products, by failure of intellectual property protection and generic entry, by inability to achieve favorable reimbursement or coverage from government agencies or private insurers, and by safety or manufacturing problems.
- *Technological Risk.* Scientific advances in genetics, immunology, disease pathways and other elements of human biology, along with developments in materials science, nanotechnology and informatics, are transforming healthcare technology and are expected to continue doing so for many years to come. Such technological advances may introduce new therapeutic methods and products, and render obsolete many current therapeutic methods and products. Such technological change may produce substantial commercial turmoil among healthcare companies, creating winners, losers and unanticipated outcomes. Such turmoil presents both substantial risks and opportunities for healthcare investments.
- *Intellectual Property.* Many healthcare companies are highly dependent upon intellectual property rights, both to ensure a company's freedom to operate and/or to foreclose others, but

intellectual property rights can be subject to substantial uncertainty and risk. Actual or alleged infringement of another's patents may constrain or entirely foreclose a company's freedom to pursue its business or may impair its economic returns by requiring the payment of royalties. Conversely, the intellectual property upon which a company relies to protect its business may be challenged by third parties. Such challenges may succeed in whole or in part, and even if unsuccessful, may impose a substantial drain on a company's economic and human resources. Intellectual property risks are often difficult to foresee, and, even when these risks are recognized, it can be difficult to assess the potential value or liability associated with intellectual property disputes.

- *Currencies.* A Fund may invest in securities denominated in currencies other than the U.S. dollar or the price of which is determined with reference to currencies other than the U.S. dollar. Unless the Fund hedges the currency exchange risk, the value of such assets (measured in U.S. dollars) will fluctuate with U.S. dollar exchange rates as well as with price changes in the applicable local markets and currencies.
- *Options.* A Fund may invest in, or write, options. The purchaser of a put or call option runs the risk of losing his, her or its entire investment if the option expires out of the money. The uncovered writer of a call option is subject to a risk of loss should the price of the underlying security increase, and the uncovered writer of a put option is subject to a risk of loss should the price of the underlying security decrease.
- *Bonds.* A Fund may invest in bonds or other fixed income securities, including high yielding debt securities when the Firm believes that such securities offer attractive yields or capital appreciation. A Fund may invest in "distressed debt" that carries a significant risk of default by the issuer. Such securities are generally below "investment grade" and face ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the issuer's inability to meet timely interest and principal payments. The market values of lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, and tend to be more sensitive to economic conditions than are higher rated securities. Issuers of such securities often have less access to other sources of capital and, in the event of an adverse economic event, may be unable to satisfy their debt obligations in full. In the case of distressed debt, the issuing company may be at a substantial risk of bankruptcy.
- *Investments in PIPEs.* A Fund may invest in privately sourced and structured convertible and equity-linked securities of public companies ("PIPEs"). PIPE investments offer the opportunity for significant gains, but also involve a high degree of risk, including the complete loss of capital. Among these risks are the general risks associated with investing in companies operating at a loss or with substantial variations in operating results from period to period and investing in companies with the need for substantial additional capital to support expansion or to achieve or maintain a competitive position. Such companies may face intense competition, including competition from companies with greater financial resources, more expansive development, manufacturing, marketing and service capabilities, and a greater number of qualified managerial and technical personnel. Securities of such portfolio companies will likely

be thinly traded and under-capitalized and will therefore be more sensitive to adverse business or financial developments. The ability of a Fund to liquidate its positions and generate profits from its investment activities may also be adversely affected by a failure of portfolio companies to comply with registration, conversion, exchange or other obligations under the agreements pursuant to which such securities have been sold to a Fund.

- *Control Group Disclosure.* Section 13(d) of the Exchange Act provides that any “group” acquiring in excess of 5% of a public company’s equity must make certain public disclosures on Schedule 13D or 13G. Should a Fund, either alone or together as a “group” with other Funds or other persons, acquire in excess of 5% of a public company’s equity securities, such Fund would be required to file a Schedule 13D or 13G. The filing of such a Schedule might adversely affect such Fund’s ability to acquire sufficient additional securities at appropriate prices to pursue its strategy with respect to that company. In addition, even if a Fund is not acting as part of a “group” in acquiring a company’s equity securities, the company or the SEC could challenge such Fund’s strategy by alleging that it is part of a “group” and should have made a Section 13 filing. If such a challenge were successful, such Fund could be treated as having violated the Exchange Act, which could have a material adverse effect on the Fund. The determination of what constitutes a “group” is fact-specific; however, a Fund does not intend to possess voting or investment control, either alone or together with other Funds or other persons, over more than 5% of a public company’s equity without making the required filings.
- *Special Situations.* A Fund may invest in the financial instruments of an issuer based upon, or in anticipation of, an extraordinary corporate event, such as clinical trial results, regulatory action, a spin-off, merger, or other reorganization, or which may be highly leveraged or operating in an out-of-favor industry sector. In addition to all of the risks set forth herein, there is the additional risk that the anticipated special situation will not occur or the anticipated benefit of the special situation will not be realized.
- *Expert Consultations.* Investments are selected for a Fund based primarily on fundamental analysis, which may include paid consultations and surveys with experts in various disciplines, including, for example, the scientific, medical, mathematical, commercial, business, regulatory, and legal fields. Individuals with sufficient expertise to provide the Firm with useful information may also possess material, nonpublic and/or confidential information, the receipt of which could cause a Fund to be restricted from trading in relevant securities.
- *Cybersecurity Risk.* Increased reliance upon internet-based programs and applications to conduct transactions and store data creates growing security and operational risks. Targeted cyberattacks, as well as accidental events, can lead to a breach in computer and data systems security and subsequent unauthorized access to sensitive transactional or personal information. Data taken in breaches may be used by criminals in committing identity theft, obtaining loans or payments under false identities, and in other crimes that could affect the value of assets in which a Fund invests. Cybersecurity breaches at the Firm or its vendors and service providers may also lead to theft, data corruption, or overall disruption in operational systems. These threats may also directly or indirectly affect a Fund through cyber incidents with third party service providers or counterparties. Cybersecurity risks can disrupt the Firm’s ability to engage in investment-

related and transactional business, cause direct financial loss or reputational damage, or lead to violations of applicable laws, including those related to data and privacy protection. These risks also result in ongoing prevention and compliance costs.

- *Use of Alternative Data:* The Firm expects to obtain and use alternative data in its investment process. Alternative data (sometimes also referred to as “big data”) generally refers to data collected from a variety of sources, either by the Firm or third parties, including medical, hospital and insurance records, surveys of doctors and other service providers and participants in the healthcare industry, payment records, internet usage, financial transactions, applications and devices (such as smartphones) that generate location and mobility data, data gathered by satellites, and government and other public records and databases. The Firm intends to use alternative data to better identify trends and themes in the healthcare industry. There is no assurance that the Firm will be successful in utilizing alternative data in its investment process. There has been increased scrutiny from a variety of regulators regarding the use of alternative data for investment purposes, and the use or misuse of alternative data under current or future laws and regulations could create liability for the Firm or a Fund in numerous jurisdictions. The Firm cannot predict what, if any, regulatory or other actions may be asserted with regard to the use of alternative data, but any adverse inquiries or formal actions could cause reputational, financial, or other harm to the Firm or a Fund, and any future limitations on the use of alternative data could have a material adverse impact on the performance of a Fund. Although the Firm conducts due diligence reviews of data providers and requires that they make certain representations about the sources of the data that they provide, such actions may not be effective to protect against the effect of misrepresentations or violations of law by such data providers.
- *Governmental Export and Import Controls.* Various countries regulate the import of certain technology, including through import permitting and licensing requirements, and have enacted laws that could limit the ability of the Funds or their portfolio companies to offer or distribute their products. Further, U.S. export control laws and economic sanctions prohibit the shipment of certain products and services to countries, governments and persons targeted by U.S. sanctions. Such governmental export and import controls could negatively impact a Fund by impairing the ability of its portfolio companies to compete in international markets or subject it to liability for violations, including possible civil and criminal penalties and repercussions. In addition, as a result of export controls, certain portfolio companies may be unable to share information with persons outside the U.S. or with non-U.S. persons in the U.S., thus effectively preventing them from engaging in business with service providers located outside, and with certain service providers inside, of the United States.
- *Investment Clearances.* Certain investments by a Fund that involve the acquisition or divestiture of a business connected with or related to certain emerging and foundational technologies may be subject to review and approval by the U.S. Committee on Foreign Investment in the United States and/or non-U.S. investment clearance regulators. In the event that a regulator reviews one or more of a Fund’s proposed or existing investments, or the disposition or incremental capitalization of an investment, the Fund may not be able to maintain, or proceed with, such transactions on terms acceptable to the Fund.

Risks Applicable to the Private Design Strategy and Healthcare Innovations Strategy:

- *Illiquid Investments; Limited Markets.* Private investments, at least initially, are generally illiquid financial instruments or other illiquid assets. The risk of investing in such assets generally is greater than the risk of investing in registered, publicly traded financial instruments. There is a significant risk that a Private Design Fund or the Innovations Fund will be unable to realize its investment objectives by sale or other disposition at attractive prices or will otherwise be unable to complete any exit strategy. In some cases, a Private Design Fund or the Innovations Fund may be prohibited by contract from selling financial instruments for a period of time or otherwise may be restricted from disposing of such financial instruments. Furthermore, the types of investments made sometimes require a substantial length of time to liquidate. Lack of an active secondary market and resale restrictions may result in the inability of a Private Design Fund or the Innovations Fund to sell a financial instrument at a fair price and may substantially delay the sale of part or all of an investment which a Private Design Fund or the Innovations Fund seeks to sell. Although investors may have certain registration rights, the exercise of these registration rights will likely be dependent upon various conditions, and there is no assurance that such conditions will occur or that such registration rights will otherwise be exercisable.

Even upon registration, financial instruments of emerging healthcare companies may lack an active secondary market and may be relatively illiquid. Therefore, it may be difficult to sell large positions without adversely affecting the price of such financial instruments. Additionally, such financial instruments may be subject to more abrupt or erratic price movements than financial instruments of larger, more established companies or stock market averages in general. Such factors may negatively impact a Private Design Fund's or the Innovations Fund's exit strategy.

- *Concentration of Investments.* Because as much as 30% of a Private Design Fund's or 15% of the Innovations Fund's aggregate committed capital (and 100% of portfolio investments) may be invested in a single portfolio company at any point in time, any single loss may have a significant adverse impact on a Private Design Fund's or the Innovation Fund's capital.
- *Nature of Early Stage Investments:* While early stage investments offer the opportunity for significant gains, such investments also involve a high degree of business and financial risk that can result in substantial losses. The Innovations Fund emphasizes investment in companies in their early stage of development or with little or no operating history, and a Private Design Fund will also have meaningful exposure to such companies. Many of these companies will operate at a loss (or with no operating revenue), or with substantial variations in operating results from period to period. In addition, many of these companies will need substantial additional capital to support additional research and development activities, expansion or to achieve or maintain a competitive position. Such companies may face intense competition, including from companies with greater financial resources, more extensive development, manufacturing, marketing and service capabilities and a larger number of qualified managerial and technical personnel. Furthermore, the task of investing in early stage companies developing technology involves additional risk, including: failure to develop or perfect the technology as planned; obsolescence; patent infringement and similar claims that prevent

technology from being used or licensed; and lack of market acceptance of the technology. Often the success of an such investment will depend upon actions of key individuals or extraneous factors over which the Firm or Funds have little control. There is a high failure rate of early stage companies, particularly early stage companies focusing on research and development, and any such investment made by a Fund may prove worthless.

The foregoing risk factors do not purport to be a complete explanation of all of the risks involved in the Strategies utilized by the Firm. Additional risk factors are set forth in the Memorandum of each Fund. There can be no assurances that an investor will achieve its investment objective or that the Strategies pursued and methods utilized by the Firm will be successful under all or any market conditions. Past performance is no guarantee of future performance.

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**ITEM 9 – DISCIPLINARY INFORMATION**

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In September 2013, the Firm voluntarily agreed to settle an SEC inquiry relating to six alleged violations of Rule 105 of Regulation M under the Exchange Act, without admitting or denying the SEC's allegations. The violations allegedly occurred between December 2010 and January 2013. Rule 105 generally prohibits purchasing an equity security in a registered offering if the purchaser sold short the same security during a restricted period (generally defined as five business days before the pricing of the offering). Rule 105's prohibition applies irrespective of any intent to violate the rule. The settlement involved the payment by the Firm of disgorgement, prejudgment interest and a civil money penalty in the aggregate amount of \$1,902,224. Additional details regarding the settlement can be found in the Firm's Form ADV Part 1A, which can be accessed through the SEC website at <http://www.sec.gov>.

In May 2017, as supplemented by a superseding indictment in March 2018, the United States Attorney's office for the Southern District of New York charged two partners of the Firm (who were placed on leave of absence) with conspiracy to convert property of the United States, to commit securities fraud and to defraud the United States; conspiracy to commit wire and securities fraud; conversion of property of the United States; securities fraud; and wire fraud in connection with recommending trading in certain shares allegedly on the basis of material nonpublic information during 2009 to 2014. On the same day, the SEC filed a complaint against one of those individuals, alleging that he recommended trading in shares of certain securities during 2012 on the basis of material nonpublic information, in violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and Section 17(a)(1) of the Securities Act. The Firm was not named in either proceeding. In May 2018, both individuals were convicted in the criminal proceeding on five counts of conversion of government property, conspiracy, wire fraud, and securities fraud. Both individuals were sentenced in September 2018 and are appealing the verdict. The individuals are no longer with the Firm.

In August 2017, the Firm voluntarily agreed to settle an SEC administrative proceeding relating to alleged violations of Section 204A of the Advisers Act, without admitting or denying the SEC's allegations, pursuant to an order under Section 203(e) and 203(k) of the Advisers Act (the "Order"). The Order resolved the SEC's allegations that the Firm, from 2012 through 2014, failed to establish, maintain, and enforce policies and procedures reasonably designed to prevent the misuse of material, nonpublic information, particularly taking into consideration the nature of the Firm's business. The Order alleged that, as part of the Firm's research in the healthcare sector, the Firm engaged third party consultants and

research firms, including firms that specialized in providing “political intelligence” regarding upcoming regulatory and legislative decisions, that Firm employees based trading recommendations on such information, and that hedge funds advised by the Firm then made those trades. Based on the foregoing conduct, the SEC alleged that the Firm violated Section 204A of the Advisers Act, which requires investment advisers to establish, maintain, and enforce written policies and procedures reasonably designed, taking into consideration the nature of the investment adviser’s business, to prevent the misuse of material, nonpublic information by such investment adviser or any person associated with such investment adviser. The Order required the Firm to cease and desist from committing or causing any violations and any future violations of Section 204A of the Advisers Act, censured the Firm and provided that the Firm pay disgorgement of \$714,110, prejudgment interest of \$97,585 and a civil money penalty of \$3,946,267. Additional details regarding the settlement can be found in the Firm’s Form ADV Part 1A, which can be accessed through the SEC website at <http://www.sec.gov>.

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**ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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Broker-Dealer Registration Status

We are not affiliated with any broker-dealer.

Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Advisor Registration Status

The Firm and its management persons are not registered as, and do not have any application to register as, a futures commission merchant or associated persons of a futures commission merchant. The Firm is exempt from registration as a commodity pool operator and as a commodity trading advisor.

Material Relationships or Arrangements with Industry Participants

The Firm is associated with DFB Healthcare Acquisition Corp. (“DFB Healthcare”), a special purpose acquisition company that consummated an initial public offering in February 2018 and which currently trades on the NASDAQ Capital Market. The sponsor of DFB Healthcare is Deerfield/RAB Ventures, LLC (“Sponsor”). Deerfield Private Design Fund IV, L.P. is one of the two members of the Sponsor, and a supervised person of the Firm is one of the two managers of the Sponsor and serves on the DFB Healthcare’s board of directors.

DFB Healthcare was formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses. DFB Healthcare intends to leverage the Firm’s expertise, record of generating proprietary investment opportunities, and experience evaluating, structuring and executing transactions in the healthcare industry. DFB Healthcare may compete with the Funds or their portfolio companies for acquisition opportunities and related financing. In addition, investment ideas generated within DFB Healthcare may be suitable for a Fund or its portfolio company, and may be pursued by DFB Healthcare independently of such Fund or portfolio company. These conflicts are mitigated by the fact that the Firm and its supervised person have no obligation to present DFB Healthcare with any opportunity for a potential business combination, and the Firm and its supervised person have duties to offer acquisition opportunities to certain Funds or their



portfolio companies, as applicable. If such Funds or portfolio companies decided to pursue any such opportunities, DFB Healthcare would be precluded from pursuing such opportunities. Certain Funds could have an interest in a company targeted for DFB Healthcare's business combination. This conflict is mitigated by the requirement for DFB Healthcare stockholder approval of certain types of business combinations, and the fact that decisions for the Funds are not made by the supervised person serving as director.

The Firm's supervised person is compensated for services as a director of DFB Healthcare; however, any such compensation received will be treated as an offset against management fees of the relevant Fund(s) as set forth in the relevant Fund Memoranda.

#### Relationships with Other Investment Advisers

The Firm is a related person of each General Partner. See Item 4. In addition, certain of the Firm's supervised persons are principals of ABV, LLC ("ABV"), which acts as general partner to private funds ("ABV Private Funds") and receives performance-based compensation from such ABV Private Funds. The investment period for the ABV Private Funds has expired, and ABV does not expect to receive additional capital for new investment funds. Certain of the Funds are currently invested in the ABV Private Funds. The supervised persons have an incentive to recommend that such Funds invest additional capital, or that other Funds invest their capital, in the ABV Private Funds or ABV portfolio companies. Certain Funds have invested, and may in the future invest, in ABV portfolio companies and may purchase securities from ABV Funds through secondary transactions. These potential conflicts are mitigated, however, by the fact that such supervised persons are not authorized to make final investment decisions for the Funds, and personnel of the Firm who have such authority do not receive any financial or other benefits from ABV or the ABV Private Funds.

In addition, one of the Firm's supervised persons serves as an independent director of Solar Capital Ltd. and Solar Senior Capital Ltd., each a closed-end, non-diversified management investment company that has elected to be treated as a business development company ("BDC"), and as an independent director of SCP Private Credit Income BDC LLC, a private investment vehicle (collectively with the BDCs, the "Solar Entities"), all of which are externally managed by Solar Capital Partners, LLC ("Solar"). The supervised person is compensated for services as an independent director of the Solar Entities. He serves as Chairman of the Audit Committee of each Solar Entity and his responsibilities are primarily focused on valuation of investments. The supervised person has indicated that he is not involved in business development activities or the diligence and investment decision making process on behalf of the Solar Entities or Solar, and that he is not in a position to steer opportunities to, or away from, the Solar Entities or otherwise impart influence with respect to investments of the Solar Entities or Solar. Further, if a Solar Entity were to pursue an investment opportunity also sought by the Firm, the supervised person would not be permitted to participate in negotiating such an opportunity for the Firm. The Firm established in 2017, on behalf of certain of its Funds, a joint venture with affiliates of Solar focusing on debt origination in the healthcare sector. The joint venture may present potential conflicts if the supervised person has an incentive to recommend that such Funds invest in opportunities presented to the joint venture, commit additional capital to the joint venture in the future, or engage in additional ventures with Solar and its affiliates. However, the supervised person is not involved in the operations of the joint venture. The investment committee of the joint venture is responsible for making all investment decisions with regard to the joint

venture, and the supervised person is not on such committee. The foregoing potential conflicts are further mitigated by the fact that such supervised person is not authorized to make final investment decisions for the Funds, and personnel of the Firm who have such authority do not receive any financial or other benefits from Solar or its affiliates.

The Firm does not recommend or select other investment advisers for its clients.

## Certain Conflicts of Interest in Providing Services to Funds

The Firm recognizes that conflicts arise and endeavors to treat all clients fairly and equitably.

*Management of Multiple Funds.* Certain inherent conflicts of interest arise from the fact that the Firm and its affiliates provide investment management services to more than one Fund, and the Funds have overlapping investment objectives and strategies. The Firm and its affiliates are also generally permitted to establish and manage additional investment funds and accounts from time to time, which may have investment strategies that are similar to, or overlap with, existing Funds. These activities may adversely affect the prices and availability of securities held by or potentially considered for one or more of the Funds.

Certain affiliates of the Firm receive an allocation of profits earned by each of the Funds, except that the Deerfield Foundation, a non-profit organization managed by certain employees of the Firm, is allocated a portion of profits earned by the Innovations Fund. The Firm will have an incentive to allocate investment opportunities to Funds in which the applicable General Partner is likely to receive an allocation of profits. The Firm and its affiliates have an obligation to make investment decisions for the purpose of benefitting the Funds and not for purposes of benefiting the Firm, the General Partners or affiliated entities. To meet that obligation, the Firm has adopted allocation procedures designed to mitigate these conflicts of interest. See Item 11 below for additional information on the Firm's allocation policies.

*Conflicting Interests in respect of Portfolio Companies in which the Funds Invest.* A Fund may invest in a portfolio company in which another Fund has already invested, or vice versa. In such case, the Fund and such other Fund may hold interests in different classes of securities in the portfolio company's capital structure. Accordingly, a Fund and such other Fund may have conflicting interests and investment objectives, including with respect to the value of the investment (e.g., for purposes of the issuance of new securities), the targeted returns from the investment, the timeframe for disposing of the investment and the manner in which to pursue a return on the investment if the portfolio company becomes distressed and is unable to satisfy its obligations to all of its investors. In certain circumstances, the approval of a Fund advisory committee may be required. In the case of a Fund that does not have an advisory committee pursuant to its governing documents, the Firm may consult the Firm's Advisory Board, which currently consists of investor representatives from one or more of the Funds, regarding a conflict.

*Fund Advisory Committees.* Certain Funds have an advisory committee that consists of representatives of certain investors in such Fund. Any approval or consent given by such advisory committee is generally binding on such Fund and all of its investors. Advisory committees are also generally authorized to give approvals or consents required under the Advisers Act, including under Section 206(3) thereof. Members of a Fund advisory committee may themselves have conflicts of interest that do not

disqualify them from voting or consenting to matters submitted for review to the advisory committee on which they serve. If a member has an interest adverse to the Fund, such member may not act in the best interest of the Fund. Members of one Fund's advisory committee may, and currently do, sit on one or more other Fund advisory committees. Such overlap may create a conflict of interest for certain members, in which a member may have an incentive to favor a Fund in which it has a greater economic interest. While the Firm may adopt policies or procedures to address such conflicts in the future, it has not done so to date, and it may not be possible to eliminate such conflicts completely.

*Directors of Portfolio Companies.* From time to time, Firm personnel serve as directors of, or acquire board observer or other governance rights with respect to, certain portfolio companies in connection with Fund investments. In the event the Firm or a related person obtains material non-public information in such capacity with respect to any such company or another company or is subject to trading restrictions pursuant to the internal policies of such company, the Firm may be prohibited from engaging in transactions with respect to the securities of such company or another company, which may have an adverse effect on the Funds. In addition to any fiduciary duties Firm personnel owe to the Funds, Firm personnel owe fiduciary duties to the shareholders of the portfolio companies for which they serve as directors. While director positions are often important to a Fund's investment strategy, especially the Private Design Strategy and Healthcare Innovations Strategy, such positions may have the effect of impairing the ability of all Funds, including Funds utilizing the Large Capitalization Strategy and the Special Situations Strategy, to sell the related securities when, and upon the terms, they may otherwise desire. Because of the potential conflicting fiduciary duties that Firm personnel owe to a portfolio company, on the one hand, and to the Funds, on the other hand, such director positions may place Firm personnel in a position where they must make a decision that is either not in the best interests of a Fund or not in the best interests of the shareholders of a portfolio company. Should Firm personnel make a decision that is not in the best interests of the shareholders of a portfolio company, such decision may subject the Firm and any applicable Fund to claims they would not otherwise be subject to as an investor, including claims of breach of the duty of loyalty, securities claims and other director-related claims. In general, the applicable Funds will indemnify the Firm and its personnel from such claims.

*Absence of Information Walls and the Restricted List.* With the exception of a compliance wall for the screening of certain confidentially marketed investment opportunities like PIPEs, the Firm has an integrated approach and otherwise currently operates without an information barrier or wall that other firms implement to separate those who make investment decisions from others who might possess material non-public information. Consequently, if personnel acquire material non-public information in respect of a portfolio company or prospective portfolio company, the Funds will likely not be free to act upon any such information, and the possession of such information will likely preclude the Funds from engaging in transactions that they might otherwise have undertaken. The Compliance department maintains a list of restricted securities as to which the Firm may have access to material non-public information and in which the Funds are not permitted to trade without prior approval from the Compliance department. The Firm also maintains a Code of Ethics, as described in Item 11, and provides training to personnel with respect to conflicts of interest and how such conflicts are resolved under the Firm's policies and procedures.

*Limitations of Insurance Coverage.* The Funds are covered under the Firm's professional liability insurance policy and do not maintain separate professional liability insurance coverage. To the extent a

claim arises relating to any of the insured Funds during a policy period that erodes some or all of the limits under the Firm's policy, there will be less coverage, or potentially no coverage, available for all of the insured Funds under the policy for the remainder of the policy period.

*Transactions Between Portfolio Companies.* Portfolio companies of one Fund and portfolio companies of the same or another Fund may engage in commercial transactions with one another from time to time, which transactions may be recommended and/or caused by the Firm. In particular, it is expected that certain "platform" intellectual property portfolio companies of one Fund will permit other portfolio companies of the same Fund or other Funds to license or otherwise use "platform" intellectual property at a discount price. It is expected that a portfolio company will use the goods, services or intellectual property of another portfolio company only if the same or equivalent quality are not available at lower prices from third parties, but the Firm, a Fund and a portfolio company may be conflicted in its choice.

*Allocation of Fees and Expenses; Incubation of Portfolio Companies.* The Funds pay, subject to the governing documents of each Fund, all expenses related to their respective operations. In addition, the incubation, development and operations of certain portfolio companies of certain Funds is conducted through 3DC, a subsidiary of the Firm, with such portfolio companies paying fees for these incubator and other services, which fees are not treated as a reduction or offset to the Fund's management fee. A conflict of interest arises in the determination by the Firm whether certain expenses that are incurred within the operation of a Fund constitute operating expenses for which the Fund is responsible under the terms of its governing documents. Further, a conflict of interest arises in the determination by the Firm, a Fund and a portfolio company that the portfolio company should incur fees owed to 3DC for incubator and other services. A Fund will be reliant on the determinations of the Firm in this regard and in regard to the allocation of expenses generally, including between a Fund and any other affiliated Fund or entity.

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#### ITEM 11 – CODE OF ETHICS; PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

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The Firm has a Code of Ethics (the "Code") pursuant to Rule 204A-1 under the Advisers Act. The Code sets forth the ethical and fiduciary principles and related compliance requirements under which the Firm operates and the procedures for implementing those principles. The Code includes provisions that govern fiduciary duty, client opportunities, insider trading, engaging paid experts and research firms, personal trading, gifts and entertainment, political contributions, outside business activities and confidentiality. The Firm strives to adhere to the highest industry standards of conduct based on principles of integrity, honesty, trust and professionalism. Accordingly, the Code incorporates the principles that the Firm and its employees must place the interests of the Funds first, not take inappropriate advantage of their positions, maintain independence in the investment-decision making process and comply with applicable laws.

With respect to personal trading by the Firm's principals and employees (collectively, "Employees"), Employees may not, without express approval from the Firm's Chief Compliance Officer, establish a new investment position in any company on the Firm's restricted list or in the healthcare sector, public or private, but may maintain investment positions in such companies if the position was established prior to January 1, 2011 or prior to the individual becoming an Employee, or if the position is received without action by the employee (for instance, by bequest). Employees may make trades to exit from such publicly traded positions only with prior approval. Such approval will be given only if (i) the Firm is not restricted from trading in the

relevant security, and (ii) the requested trade is not adverse to, or could not be expected to materially affect, any trading strategy in which the Firm is engaged, whether in terms of the direction of a trade or by materially affecting price or trading volume in the relevant security.

With prior approval, which will customarily be granted, Employees may make investments in private companies operating outside of the healthcare sector. Employees may generally trade in publicly traded securities outside of the healthcare sector; however, Employees may not trade in any security, regardless of sector, if the Firm or the Employee is in possession of material non-public information regarding such security. Employees must submit holdings reports annually and transaction reports on a monthly basis for securities holdings (excluding securities exempt from such reporting under the Advisers Act and applicable regulations), regardless of sector. Employees must submit transaction reports on a quarterly basis disclosing reportable securities transactions that relate to private investments.

The Firm provides investment advisory services only to the Funds, which, although permitted to invest a portion of assets outside the healthcare sector, generally invest only in the healthcare sector. If any of the Funds were to invest outside the healthcare sector, the Code would apply to such investments in the same manner it applies to healthcare investments, including with respect to restrictions on trading and approval of Employee trades.

The Firm's Code is available to any client or prospective client upon request by contacting the Firm's Chief Compliance Officer at (212) 551-1600.

From time to time, it is appropriate for more than one of the accounts managed by the Firm to trade or invest in the same securities at the same time. When an investment is appropriate for more than one strategy or more than one Fund, it is the policy of the Firm to attempt to appropriately size and fairly allocate the opportunity among the applicable Funds. A fair allocation does not necessarily mean an equal or proportionate allocation. There can be no assurance the application of the Firm's policy will result in a Fund participating in all investment opportunities that may fall within the Fund's Strategy.

The appropriate sizing of a position in a given investment will vary among Funds. Each Fund is equally entitled to participate in a new investment opportunity provided that the opportunity fits within the Fund's Strategy. In determining the appropriate sizing of an investment for a particular Fund, the Firm may consider many factors including the Fund's: investment policies, guidelines or restrictions; existing diversification among healthcare subsectors; gross and net exposure; correlated investments; tax considerations, cash availability and liquidity constraints; available and committed capital (where applicable); sector, sub-sector and individual security weightings; hedging activity; anticipated amount of securities received; and such other factors as the Firm considers relevant consistent with its fiduciary duties ("Sizing Factors"). Sizing decisions are made for each of the Funds with respect to a purchase or sale of a security ("Sizing Amount") based on the Sizing Factors (and, with respect to the Private Design Funds and the Innovations Fund, based on such additional factors as described below). The Firm attempts to execute the decision to purchase or sell the Sizing Amount for each of the participating Funds. The Sizing Amount may be adjusted if there are changes to the Sizing Factors.

In the case of an investment opportunity that is eligible for various Private Design Funds and/or the Innovations Fund, which have different investment periods, the following factors will be considered. If the

investment opportunity contemplates a term extending beyond the life of one Fund, it may be allocated to another Fund having sufficient remaining life. If the investment opportunity constitutes an extension, restructuring or replacement of an existing investment made by a Fund, the extension, restructuring or replacement will typically be allocated first to the Fund that made the initial investment (subject to such Fund having a sufficient remaining life and capital). If the investment opportunity fits the strategy of different Private Design Funds and/or the Innovations Fund and occurs within the investment period of such Funds, contemplates exit within the life of such Funds, and does not constitute the extension, restructuring or replacement of an existing investment that could be funded entirely by the Fund(s) that made the initial investment, then the Sizing Amount of the investment for each of the Private Design Funds and/or the Innovations Fund eligible to participate in the investment will be determined in a manner the relevant General Partner and portfolio manager consider fair based on the Sizing Factors including amounts a Fund must reserve to satisfy existing investment obligations.

When placing orders to purchase or sell the same security for more than one Fund, it is expected that the Firm will usually aggregate for all participating Funds purchases or sales of such a security (“block trading”) provided the Firm deems it appropriate and in the best interests of the Funds. All eligible Funds generally participate in the block purchases or sales according to the Sizing Amounts established for each participating Fund and bear the commission costs pro rata based on the amount purchased or sold by each Fund on a trade-by-trade basis. If partial sales or purchases are made, the allocation of securities to the participating Funds shall generally be in the same ratio as the actual transactions bear to the intended Sizing Amounts (the “Allocation Ratio”).

From time to time an allocation will not be made according to the Allocation Ratio for various reasons, including, but not limited to: (a) if a pro rata allocation results in a *de minimis* allocation to certain Funds, or an amount less than the minimum denomination available for a particular security; (b) if the allocation would result in unbalancing the diversification of one or more Funds (based on factors including, but not limited to, risk, sector, subsector, geography, issuer, and credit quality); (c) if a pro rata allocation would result in one or more Funds not meeting an investment objective or (d) other factors in the Firm’s professional judgment consistent with its fiduciary duties.

It is the policy of the Firm that transactions in a security in the same direction (*i.e.*, purchase or sale) during a day will be allocated to each of the Funds that received or sold a portion of the security at the average price obtained during the day.

In the public securities markets, it can take several hours, days or weeks (or longer) for the Firm to reach the Sizing Amounts originally established for a particular investment. The Firm may change the Sizing Amount for any Fund any time prior to a trade being made based on a reevaluation of the Sizing Factors in light of the most current circumstances related to the management of the Fund.

Although the Firm’s goal is to be fundamentally fair on an overall basis with respect to all Funds, there can be no assurance on a trade-by-trade basis that one Fund will not be treated differently from another or disadvantaged by the trading of another Fund. If the Firm did not manage multiple Fund accounts, each Fund individually at times would be able to receive or sell a greater percentage of all financial instruments purchased or sold. Consequently, when multiple Funds participate in limited

opportunity trades, each participating account often reduces the opportunity available to other participating accounts.

Investment allocations made with respect to public securities are entered in the Firm's order management system. Private investment allocation decisions are generally described in investment summaries and/or transaction documents.

The Firm does not engage in principal transactions with client accounts unless it first obtains consent from clients for the specific transaction. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account, buys a security from or sells a security to an advisory client. If the Firm engages in principal transactions, the Firm prices financial instruments in accordance with the Firm's valuation policies.

The Firm occasionally cross trades between Fund accounts. Cross trades between Funds utilizing different strategies are effected on occasion to, for example, avoid liquidity leakage and reduce transactions costs, if the Firm determines that doing so is in the best interest of each participating Fund. The Firm may also conduct a cross trade when a Fund that initially entered into an investment faces a situation in which the investment will require additional capital that would cause the investment to exceed the desired Sizing Amount for such Fund, but which remains a desirable investment. In such instances, the initially investing Fund may trade a portion of its position to one or more other Funds such that all of the relevant Funds participate in both the existing position and the additional investment. The Firm may obtain consent from the Firm's Advisory Board or the advisory committees of the relevant Funds. The Firm prices financial instruments that are traded in Fund to Fund transactions in accordance with the Firm's valuation policies.

From time to time, the Firm may be in a position to present co-investment opportunities to third parties, which may include Fund investors. Such co-investment opportunities may arise, for example, in connection with a proposed investment by the Funds (i) in which there is investment capacity in excess of the participating Funds' investment appetite, or (ii) relating to early stage research arising from a research institution that is also an investor in one or more of the Funds. Unless specifically provided in a collaboration agreement between a Fund and such a research institution, the Firm has no obligation to make such co-investment opportunities available to any investors. In the event a co-investment opportunity were made available to any third party, the Firm would not provide investment advice to any such third party or receive any compensation from such third relating to the prospective co-investment. The Firm does not undertake due diligence or make investment decisions or recommendations on behalf of prospective co-investors. Following the Firm's determination that the appropriate portion of an applicable investment opportunity has been allocated to the Funds and to present co-investment opportunities to third parties, the Firm may present co-investment opportunities to third parties, including investors in Funds, based on various factors, including but not limited to, contractual obligations, the co-investor's perceived ability to enhance the value of an investment, effectively execute a transaction, participate in follow-on financing rounds and provide strategic value to the Funds and the company.

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#### ITEM 12 – BROKERAGE PRACTICES

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The Firm's selection of brokers is guided and/or limited by (i) its responsibility to act as a fiduciary when handling Fund accounts, (ii) its obligation, to the extent applicable and subject to the conditions herein

below specified, to select brokers who offer overall best execution on Fund trades, and (iii) a Fund's Memorandum. A Brokerage Committee meets approximately quarterly to review the Firm's brokerage practices.

When selecting brokers, the Firm is not required to consider any particular criteria. For the most part, the Firm will seek the best combination of brokerage expenses, execution quality, liquidity and other relevant factors, but the Firm is not required to select the broker that charges the lowest commission or transaction cost, as lowest cost may not always be best. While trade price, including commission, is a quantitative factor in best execution, the Firm also evaluates qualitative execution factors, such as research capabilities, ability to execute trades, access to management of issuers, nature and frequency of sales coverage, depth of services provided, including back office and processing capabilities, financial stability and responsibility, reputation, commission rates, markups and markdowns, responsiveness to the Firm and the value of research and brokerage products and services provided by such brokers (as discussed below). The determinative factor is not the lowest possible commission cost alone.

The Firm considers research and soft dollar benefits in selecting brokers. "Soft dollar" benefits arise when a Fund pays a brokerage commission that is not the lowest possible commission available from the broker. When soft dollars are used to obtain research and other benefits, those benefits are being paid for by higher commissions incurred in connection with trades of Fund securities.

The Firm's investment approach emphasizes detailed research of individual healthcare companies, the healthcare sector generally, particular subsectors within the healthcare industry, and particular products, services and technologies and related commercial, legal, political, and regulatory dynamics. Consequently, the Firm considers the value of research and other products and services that may be available from a broker when selecting and engaging brokers. Such research and brokerage services may be provided directly by the broker or by third parties that are paid by the broker. Research and other products and services furnished or paid for by brokers may include, but are not limited to, written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; the costs of executing and obtaining responses to surveys of healthcare professionals, financial publications; statistics and pricing services; discussions with research personnel and other expert consultants; software, databases and other technical services utilized in the investment management and trade execution process; access to portfolio company managements; and attendance at conferences.

Soft dollars are not used to pay or reimburse the Firm's internal expenses, such as paying Firm employees, rent, utilities, or overhead expenses. The Firm applies soft dollars only to pay for research and brokerage services that fall within the safe harbor established under Section 28(e) of the Exchange Act. Brokerage products and services paid for with soft dollars include, but are not limited to, dedicated lines and message services that connect the Firm to other market participants (such as broker-dealers and custodians), software used to route orders to market centers or to direct market access systems or that provide algorithmic trading strategies, including software incorporated in order management systems, and certain post-trade services incidental to executing a transaction, such as post-trade matching of trade information, and the use of electronic confirmation and affirmation of institutional trades in connection with settlement processing.



Research products and services paid for with soft dollars include, but are not limited to, information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; surveys of healthcare professionals; financial and industry publications; market, financial, economic, and similar data; discussions with research personnel and other expert consultants.

Certain items obtainable with soft dollars will not be used exclusively for either brokerage or research services. Under such circumstances, the Firm makes a good faith effort to determine the percentage of such products or services that may be considered as Section 28(e) eligible research or brokerage services and will use soft dollars to pay for only that portion of the product or service used by the Firm for Section 28(e) eligible purposes. Those portions of the product or service that are used for other purposes will be allocated to the Funds to the extent they are allowable Fund expenses or to the Firm to the extent they are not allowable Fund expenses. In allocating the costs of a mixed-use product or service, the Firm has an incentive to designate as much as possible of the costs to eligible Section 28(e) soft dollar expenses to minimize the amount that the Firm and/or the Funds must pay directly. To address this conflict of interest, the Firm maintains documentation of its methodology for allocating the costs of mixed-use products and services between allowable and non-allowable soft dollar expenses. Such documentation is periodically reviewed by the Chief Compliance Officer to determine that the allocations were reasonable. In its discretion, the Firm may cause a Fund or the Firm, as applicable and to the extent permissible under relevant Fund documents, to pay for the portion of a product or service that is Section 28(e) eligible directly rather than through soft dollars.

The Firm's Commission Sharing Arrangements (CSA) Committee reviews on an approximately quarterly basis the Firm's use of soft dollars. The Firm participates in a client commission management arrangement under which it may effect transactions through a broker-dealer and request that the broker-dealer allocate a portion of the commissions to another broker-dealer that aggregates these client monies and, with the Firm's oversight and approval, pays service providers of qualified research and brokerage services. This arrangement enables the Firm to efficiently consolidate payments for qualified research and brokerage services. For administrative reasons, this broker-dealer aggregator does not process payments for certain services that qualify under Section 28(e), including surveys and consultations conducted by the Deerfield Institute. Expenses for surveys and consultations conducted by the Deerfield Institute are paid by the Funds, and are allocated based on the benefitting Fund(s)' asset value, leverage and investment activity, among other factors, or in such other way that the Firm deems fair and equitable.

The relationship with brokerage firms that offer commission sharing arrangements to the Firm influences the Firm's judgment in allocating brokerage business. By using Fund brokerage commissions to obtain research, the Firm receives a benefit because it does not have to produce or pay for the research. Therefore, the Firm has an incentive to select a broker based on its interest in receiving research or other products or services, rather than on a Fund's interest in receiving best execution and thereby is subject to a conflict of interest in using the services of those brokers to execute a Fund's brokerage transactions. Although the Firm believes that these relationships will be beneficial to both the Firm and the Funds, a Fund will sometimes pay commissions higher than those charged by other brokers that do not provide soft dollar benefits. The Firm may also effect client transactions that generate soft dollars through electronic communication networks and other alternative trading platforms.

Because the Firm uses its research of the healthcare industry to analyze investment opportunities across all Fund Strategies, all Funds advised by the Firm may benefit directly or indirectly, immediately or over time, from research provided or paid for with soft dollars. The Firm does not attempt to allocate the benefits of soft dollars among the Funds in proportion to the trades that generate the soft dollars. Consequently, soft dollars generated by any one of the Funds will pay for products and services the exclusive, primary, disproportional or immediate benefit of which will inure to one or more of the other Funds, including Funds that have little or no soft dollar generating trading activity. In such cases, certain clients will obtain a disproportionate benefit in soft dollar paid research and/or services compared to the amount of soft dollars they generate, or vice versa. In addition, the Firm at times shares research paid for with soft dollars with portfolio companies in which the Funds invest. The Firm believes that doing so may benefit such portfolio companies and, in such cases, therefore, indirectly benefits the Funds' investment in such companies.

On occasion, the Firm, as a matter of good corporate citizenship, shares with the public research conducted by the Deerfield Institute through surveys, interviews and consultations that has been paid for with soft dollars. The results of such research may be conveyed to the public through the publication of articles, sharing the research with not-for-profit healthcare associations, institutes and organizations or through other means. The primary goal of sharing Deerfield Institute research with the public is to advance healthcare through the sharing of information.

In addition, at times, the Deerfield Institute conducts research at the request of third parties that are involved in advancing healthcare. If the Firm makes a determination that conducting such research will also benefit its Funds, it may pay for such research with soft dollars. To the extent that the Firm determines that any part of such research will not benefit the Funds, that portion of the research will be paid for by the Firm or by one or more third parties. The Firm has a conflict of interest in properly allocating the costs of such research because it has an incentive to pay for as much of such research as possible with soft dollars. To address this conflict of interest, the Deerfield Institute maintains documentation of its allocation methodology for such research which is reviewed by the Chief Compliance Officer.

Although the primary goal of the Firm in sharing research with the public and/or conducting research on behalf of third parties that may be paid for with soft dollars is to contribute towards advancing healthcare, the Firm and its affiliates may receive indirect benefits through providing such research to the public. For example, providing research to the public through various venues may improve the Firm's reputation as an investment manager in the healthcare sector, thus possibly leading to additional investors in the Funds and/or new investment opportunities for the Firm and/or the Funds. In such instances, the soft dollars generated by the Funds will have paid for these indirect benefits received by the Firm. Nonetheless, the Firm believes that obtaining such indirect benefits from sharing research with the public will occur rarely if at all.

The Firm will not share any research with or conduct any research on behalf of third parties if it believes doing so will adversely affect any positions held by a Fund in any material respect or will otherwise be materially adverse to a Fund.

The Funds, and not the Firm, will be responsible for any losses resulting from portfolio management, trading or administrative errors in connection with the relevant Fund's investment activities, in the absence of gross negligence, fraud or willful misconduct by the Firm, the relevant General Partner (if applicable) or their affiliates or personnel. A Fund's responsibility for such errors might include, for

example, incorrect entry of a trade into an electronic trading system, errors when reconciling trade activity, or drafting errors related to derivatives contracts or confirmations. Given the volume of transactions executed by the Firm on behalf of a Fund, investors should know that such errors do occur (although the Firm does not expect them to occur frequently), and that the Fund will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of the Firm, the relevant General Partner (if applicable) or its affiliates or personnel.

When placing orders to purchase or sell the same security for more than one Fund, the Firm will generally aggregate for all participating Funds purchases or sales of such security provided the Firm deems it appropriate and in the best interests of the Funds. Such aggregation may result in better prices and lower execution costs for the participating Funds. All participating Funds generally bear the commission costs pro rata based on the amount purchased or sold by each Fund, and securities purchased or sold are generally allocated on an average price basis. If partial sales or purchases are made, the Firm will allocate the order as described in Item 6 above.

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#### ITEM 13 – REVIEW OF ACCOUNTS

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The Firm's only clients are the Funds, each of which pursues a particular investment Strategy that is described in the offering documents of the Fund. The portfolios of the Large Capitalization Strategy and the Special Situations Strategy are reviewed on a daily basis by the Firm to determine whether positions should be added, removed or adjusted in light of a Strategy's objectives, the Firm's fundamental research, and the composition of a Fund's portfolio. The Firm adjusts its trading activities daily on the basis of that review. Private Design Strategy and Healthcare Innovations Strategy investments are infrequent, long-term, and generally illiquid; consequently, the Firm reviews the Private Design Strategy and Healthcare Innovations Strategy portfolios primarily upon the occurrence of actionable events and upon the making and exiting of investments.

The Firm does not provide personalized advice to individual investors and does not review individual Fund investor accounts or financial plans. Fund investors receive monthly (in the case of Funds utilizing the Large Capitalization Strategy or Special Situations Strategy) or quarterly (in the case of Funds utilizing the Private Design Strategy or the Healthcare Innovations Strategy) reports on the value of assets in the relevant Funds. Annually, Fund investors also receive audited fiscal year-end financial information within 120 days of the applicable Fund's fiscal year end.

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#### ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

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The Firm provides investment advice only to the Funds. Other than the soft dollar benefits described in Item 12 above, the Firm does not receive any economic benefit for providing advice to the Funds from anyone other than the Funds. Directors' fees and remuneration, consulting fees, advisory fees, transaction fees, commitment fees, broken deal fees or other similar fees received by the Firm from investments made by the Funds are generally offset by reducing the management fees otherwise receivable by the Firm from the Funds on a dollar-for-dollar basis (but not below zero).

The Firm may receive benefits from employees or consultants of portfolio companies in the form of information, ideas, consulting or other services, which may be provided without charge and which benefits may be used by the Firm for its own purposes. In addition, certain portfolio companies may reimburse or pay the Firm for services, goods or facilities provided to such portfolio companies by third parties including other portfolio companies. Such services, goods and facilities are expected to be provided to such portfolio companies on comparable or improved economic terms relative to those that any portfolio company could obtain individually, and the Firm may also procure such services, goods and facilities for its own use on the same economic terms. Furthermore, while it is anticipated that any intellectual property developed by the Firm in respect of services contracted by the Firm for the benefit of any portfolio company will accrue to the benefit of such portfolio company, it is expected that the Firm will retain rights to use certain intellectual property, including the ability to license such intellectual property to third parties. The Firm also expects to have access to certain information generated by Fund portfolio companies and to be able to generate insights and additional information through analysis of such data, the benefits of which may be reaped by the Firm.

Neither the Firm nor its related persons currently have any arrangement with third parties to refer prospective advisory clients to the Firm. The Firm accepted two investors in a Private Design Fund that were introduced by a solicitor with whom the Firm no longer has an ongoing arrangement, but to whom the Firm pays placement agent compensation upon receipt of any performance-based compensation attributable to such investors.

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## ITEM 15 – CUSTODY

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The Firm does not have actual custody of any client assets (other than certain privately placed securities that are not required to be held by a qualified custodian). The Firm or its related person, the applicable General Partner (in its capacity as general partner to certain Funds), is deemed to have custody of the assets of Fund clients because it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account.

In accordance with Rule 206(4)-2, the Firm maintains the assets of the Funds with qualified custodians and audited financial statements are furnished annually to all investors in the Funds within 120 days of the end of each Fund's fiscal year.

Investors in the Funds are urged to carefully review all account statements and to contact the Firm if they have any questions.

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## ITEM 16 – INVESTMENT DISCRETION

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The Firm's only clients are the Funds, and the Firm is granted discretionary authority to manage the assets of the Funds in accordance with each Fund's governing documents pursuant to an investment management agreement with a Fund or in the governing documents of a Fund. The Firm has the authority to determine, without obtaining specific consent, the securities, and the amount of securities, to be bought or sold. The Firm also retains the discretion to determine brokers to be used and to negotiate the amount of brokers' commissions. In the case of certain Funds utilizing the Private Design Strategy and the Healthcare

Innovations Strategy, each investor in such Funds has also granted the Firm a power of attorney to establish such “alternative investment structures” as the Firm deems appropriate for purposes of a given investment and to call capital directly into such alternative investment structures.

Limitations on the Firm’s authority are guided by, among other things, (i) its responsibility to act as a fiduciary when handling Fund accounts, (ii) the investment Strategies and objectives of the Funds, (iii) a Fund’s Memorandum, and (iv) the obligation to seek best execution for Fund trades.

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## ITEM 17 – VOTING CLIENT SECURITIES

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The Firm exercises discretion to vote proxies for Fund securities in accordance with its proxy voting policies and procedures. It is the Firm’s policy to vote proxies for Fund securities in a manner that, in the Firm’s judgment, is most likely to maximize the value of the relevant Fund’s investment. Individual investors in the Funds do not have a right to direct how the Firm exercises its voting discretion. Proxies for Fund securities are generally reviewed by Mr. Flynn, who makes final decisions regarding the voting of such proxies. The Firm’s Chief Financial Officer generally reviews and makes decisions regarding the voting of proxies relating to Fund investments in short-term money market funds.

The Firm must act as a fiduciary when voting proxies on behalf of the Funds. In that regard, the Firm will seek to avoid possible conflicts of interest in connection with proxy voting. The Firm itself generally holds no direct position in the companies in which the Funds invest and, therefore, should have no interest independent of the Funds in how Fund securities are voted. If Mr. Flynn or the Chief Financial Officer, as applicable, nevertheless believes there may be a potential conflict of interest between Funds or between the Firm and any Fund with regard to the voting of securities, Mr. Flynn or the Chief Financial Officer, as applicable, will notify the Chief Compliance Officer. The Chief Compliance Officer will review the potential conflict of interest and determine whether such potential conflict is material. Where the Chief Compliance Officer determines there is the potential for a material conflict of interest regarding a proxy, the Chief Compliance Officer will consult with Mr. Flynn and sector analysts that follow the company and/or the Chief Financial Officer, as applicable, and a determination will be made as to whether one or more of the following steps will be taken: (i) discuss the proxy vote with the relevant Fund advisory committee, Board of Directors, or Firm Advisory Board; and/or (ii) seek the recommendations of an independent third party.

Clients may obtain the Firm’s proxy voting policy and procedures and/or a record of the Firm’s proxy voting by contacting the Firm’s Chief Compliance Officer at (212) 551-1600.

The Firm has retained a third party service provider to facilitate its submission of claims in class actions involving securities held by Funds that have given the Firm the authority to do so.

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## ITEM 18 – FINANCIAL INFORMATION

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The Firm has no financial condition that impairs its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy proceeding.