

# DEERFIELD®

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

PART 2A OF FORM ADV: FIRM BROCHURE

March 28, 2024

345 Park Avenue South, 12<sup>th</sup> Floor  
New York, NY 10010  
Tel: (212) 551-1600  
Fax: (212) 599-3075  
[www.deerfield.com](http://www.deerfield.com)

This brochure (“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 is available on the Investment Adviser Public Disclosure website at <https://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.

---

**ITEM 2 – MATERIAL CHANGES**

---

The Firm routinely makes enhancements throughout its Brochure to improve, update or clarify its business practices, risks, conflicts, and compliance policies and procedures or in response to changes in the industry. This Brochure includes the following material changes since the Firm's Brochure filed on March 31, 2023:

Item 4 – The Firm updated Item 4 to disclose the closure of its Shanghai office and the establishment of an affiliate, Genscience LLC, which provides scientific and technical support related to genetics to certain portfolio companies and third parties.

Item 5 – The Firm updated Item 5 to disclose additional information regarding the calculation of management fees payable by certain Funds utilizing the Private Design Strategy or Healthcare Innovations Strategy (each defined below).

Item 5 – The Firm updated Item 6 to disclose arrangements that permit withdrawals from the Fund using the Public Securities Strategy (as defined below) to fund capital commitments to additional Funds utilizing the Healthcare Innovations Strategy.

Item 8 – The Firm updated Item 8 to disclose additional information regarding investment strategies, approaches and risks, including with respect to analytical, quantitative, systematic and algorithmic techniques or strategies used in the Public Securities Strategy, non-U.S. investments, rules that impact the private fund industry, artificial intelligence and machine learning, Fund borrowing, and follow on investments.

Item 9 – The Firm updated Item 9 to disclose the dismissal of charges and a complaint involving certain former employees and to remove disclosure regarding an old matter settled in 2013.

Item 10 – The Firm updated Item 10 to disclose information regarding the winddown of a special purpose acquisition company, the Firm's arrangement with EntryPoint Capital LLC relating to quantitative research and modeling, the establishment and activities of Genscience LLC, and the calculation of management fees payable by certain Funds utilizing the Private Design Strategy or Healthcare Innovations Strategy (each defined below). The Firm also removed previous disclosure relating to Lab of the Future due to changes.

Item 14 – The Firm updated Item 14 to disclose the Firm's engagement of a consultant to provide professional services and strategic advice relating to business development opportunities in the Middle East as well as the arrangement with EntryPoint Capital LLC described in Item 10.

Item 17 – The Firm updated Item 17 to disclose its updated proxy voting policy, in particular as it relates to securities held pursuant to quantitative, systematic, or algorithmic strategies used in the Public Securities Strategy.

We encourage you to read this Brochure in its entirety, including because other changes were also made to this Brochure.

---

**ITEM 3 – TABLE OF CONTENTS**

---

ITEM 2 – MATERIAL CHANGES.....	2
ITEM 3 – TABLE OF CONTENTS.....	3
ITEM 4 – ADVISORY BUSINESS.....	4
ITEM 5 – FEES AND COMPENSATION.....	6
ITEM 6 – PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....	11
ITEM 7 – TYPES OF CLIENTS.....	12
ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS.....	13
ITEM 9 – DISCIPLINARY INFORMATION .....	49
ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....	50
ITEM 11 – CODE OF ETHICS; PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.....	64
ITEM 12 – BROKERAGE PRACTICES .....	69
ITEM 13 – REVIEW OF ACCOUNTS .....	72
ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION.....	73
ITEM 15 – CUSTODY .....	74
ITEM 16 – INVESTMENT DISCRETION.....	75
ITEM 17 – VOTING CLIENT SECURITIES.....	75
ITEM 18 – FINANCIAL INFORMATION.....	76

---

**ITEM 4 – ADVISORY BUSINESS**

---

**A. Description of the Firm**

The Firm provides discretionary investment management services in the healthcare sector to domestic and offshore private pooled investment vehicles and their related alternative 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, directly and indirectly through Flynn Management LLC, by its Managing Partner, Mr. James E. Flynn (the “Managing Partner”), and is controlled by its general partner, Flynn Management LLC, which is solely owned and controlled by the Managing Partner.

An affiliate of the Firm, Deerfield Mgmt, L.P., Deerfield Mgmt HIF, L.P., Deerfield Mgmt HIF II, L.P., Deerfield Mgmt HIF III, L.P., Deerfield Mgmt III, L.P., Deerfield Mgmt IV, L.P. or Deerfield Mgmt V, L.P., as applicable, is the general partner for those Funds organized as limited partnerships (each, a “General Partner”). Each General Partner 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 its office in New York City. For a portion of 2023, the Firm conducted market and regulatory research through one foreign subsidiary in Shanghai, which was closed in 2023.

The Firm provides operational support to some portfolio companies from its New York City office and 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. An affiliate of the Firm, Genscience LLC (“Genscience”), provides scientific and technical support related to genetics to certain portfolio companies and third parties.

An affiliate of the Firm, 345 PAS Holding LLC, owns property and a building located at 345 Park Avenue South, referred to as the Cure, and is the landlord for the Cure. The Firm’s headquarters, its New York City office, is located in the Cure. The Cure is a healthcare innovation center in New York City, designed to provide laboratories, engineering and computing space, and other facilities and services to scientists, entrepreneurs and organizations in the healthcare space, including portfolio companies of the Funds. Another affiliate of the Firm, Cure Experience Services LLC, provides ancillary services to guests and residents at the Cure.

Certain portfolio companies reimburse or pay the Firm and/or its affiliate(s) for certain services, goods, intellectual property 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 research institutions, clinical trials, specific product and service markets, intellectual property protection and litigation, political and regulatory developments, evolving business trends 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, support the operations of certain portfolio companies and generally manage and invest the assets of the Funds. The Firm also utilizes analytical, quantitative, systematic and algorithmic techniques or strategies to develop differentiated views on securities and identify investment opportunities.

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 Deerfield Partners, L.P., which utilizes the Public Securities Strategy (described below), the Firm expresses its investment theses primarily through exchange traded securities, including derivatives, although it also invests in non-exchange traded securities and in privately structured debt with publicly traded companies. Up to 15% of such Fund’s investments may be in illiquid securities and other assets (as defined in the Fund’s governing document). 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 Funds on whose behalf the Firm utilizes the Healthcare Innovations Strategy (described below) (the “Innovations Funds”), the Firm focuses on early stage investing.

The Firm has established an advisory board (the “Advisory Board”) with which the Managing Partner consults on a periodic and as needed basis regarding the Firm’s management of the Funds. The Advisory Board consists of persons selected by the Managing Partner who are representatives of institutional investors and who have been asked by the Managing Partner to serve on the Advisory Board. The size of the Advisory Board is determined by the Managing Partner and may be increased or decreased by him. 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 the Managing Partner or members of the Advisory Board. The organizational documents of certain Funds also delegate to each such Fund an advisory committee with the authority to advise on or approve certain conflicts of interest and actions proposed by the General Partner of a Fund that are applicable specifically to such Fund. Members of the Firm’s Advisory Board and of a Fund’s advisory committee, where applicable,

serve without compensation or other pecuniary benefit. Members of the Firm's Advisory Board may, and currently do, serve as members on one or more Fund advisory committees. Similarly, members of a 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 who have an incentive to favor the Fund in which it has the greatest 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, 2023, the Firm managed approximately \$16,117,400,000 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's governing documents and Memorandum.

---

ITEM 5 – FEES AND COMPENSATION

---

A. Fees

The Firm does not have a standardized fee schedule for the discretionary investment management services it provides the Funds. The Firm receives a management fee (calculated as a percentage of, as applicable pursuant to the relevant Fund governing documents, a Fund's net asset value ("NAV"), the cost basis of Fund assets, funded commitments and/or unfunded commitments). The relevant General Partner and/or The Deerfield Partnership Foundation ("Deerfield Foundation"), as applicable, receives 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 Memorandum). The Firm and/or the applicable General Partner has waived or reduced and may waive or reduce management fees and/or performance-based compensation due with respect to certain investors, including investors who are present or former partners or employees of the Firm or its affiliates and their respective family members and related entities, operating partners and others the Firm determines provide or provided value to the Firm as well as certain investors in Deerfield Private Design Fund V, L.P. 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 (excluding any fees or other such remuneration received by any discovery specialist (generally employees or consultants of the Firm, 3DC or its affiliates who principally support the discovery activities and other operations of one or more portfolio companies and research projects, including persons who are scientific specialists, persons who may serve on a scientific advisory board, persons who are regulatory specialists, manufacturing specialists, intellectual property specialists, chief medical

officers, chief science officers, recruiting specialists, clinical trial specialists, scientific collaboration directors and engineers (“Discovery Specialists”)), operating partners (including interim operating partners), entrepreneurs-in-residence or other similar consultants to or employees of the Firm or its affiliates). In addition, the following fees generally do not offset management fees: reimbursement of the Firm’s out-of-pocket expenses relating to a Fund or portfolio company; rent payments for access to facilities owned or leased by the Firm or its affiliates; payments to the Firm or its affiliates for the use of services made available through or at the Cure, including catering and dining services, physical security, building use and service data analytics, programming, event services and space, conferences, lectures and concierge services, video production, graphic design and communications services, and membership and residency programs; fees for the use of or access to equipment or utilities; fees in respect of goods, facilities and intellectual property provided by the Firm or its affiliates; fees in respect of goods, facilities, intellectual property and services provided indirectly through third parties; and fees in respect of Discovery Specialists.

Performance-based compensation is generally equal to 20% of a Fund’s profits, with the exception of Deerfield Healthcare Innovations Fund, L.P., which is generally 25% of distributions after 300% of contributed capital with respect to each portfolio investment has been distributed to investors. In Deerfield Partners, L.P., 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 Deerfield Healthcare Innovations Fund, L.P., 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”).

The governing documents of certain Funds utilizing the Private Design Strategy or Healthcare Innovations Strategy provide that such Fund’s management fees will be calculated and charged on a basis that generally is not tied to the Fund’s then-current net asset value. The applicable governing documents of certain Funds utilizing the Private Design Strategy or Healthcare Innovations Strategy provide that before and including a certain date (the “Fee Reduction Date”), management fees generally will be charged based on a formula tied to the amount of an investor’s capital commitment to the relevant Fund. After the Fee Reduction Date, management fees generally will be charged and calculated based on a formula tied to an investor’s capital commitment to the relevant Fund or cost basis of investments made by the relevant Fund that have not been disposed of or written off as worthless at a specified date. Accordingly, following the Fee Reduction Date, the amount of management fees payable by such a Fund generally will not correspond with fluctuations in the net asset value of individual investments or of a Fund, including following the relevant investment period, and will not be reduced in connection with any write downs (whether temporary or permanent), except in the case of investments that are disposed of or written off as worthless at a specified date. In many circumstances, the post-Fee Reduction Date management fee base will include capitalized transaction-specific expenses of unrealized investments. Further, management fees generally will not be reimbursed or refunded under the governing documents in the event of realizations, dispositions or write-offs that occur partway through the relevant calculation period.

The governing documents set forth the full list of terms under which management fees will be reduced, offset, or otherwise limited, and consequently, unless otherwise agreed to by the relevant General

Partner, investors should expect to bear the full specified management fee rate in the governing documents until they are reduced in the circumstances and on the date(s) specified therein.

## 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 Deerfield Healthcare Innovations Fund, L.P., performance-based compensation is payable upon distributions made in connection with portfolio investments as provided in the governing documents of the 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 Deerfield Healthcare Innovations Fund, L.P. 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. With respect to Deerfield Healthcare Innovations Fund II, L.P., an entity affiliated with the seller of the Cure building is entitled to a minority portion of the applicable General Partner's performance-based compensation. Certain third parties, including the Deerfield Foundation, Advantium Health Network and EntryPoint Capital LLC (which provides specialized consulting services relating to quantitative research and modeling to the Fund utilizing the Public Securities Strategy), receive, or are entitled to receive, a portion of the performance-based compensation received by the applicable General Partner from certain Funds.

## 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 and the fees or reimbursement that are not subject to offset as set forth above (which may be paid by the Funds and/or their actual or prospective portfolio companies). Each Fund pays, subject to its governing documents, all expenses related to its operations, including administration, legal, accounting, tax, valuation (including expenses for third party valuation services and independent valuation agents) 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, costs related to guarantees of portfolio company obligations, 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, market and execution data fees, research related technology and tools, and certain scientific and medical periodicals and publications), due diligence expenses; professional fees, including expenses of consultants, bankers, research specialists, quantitative analysis specialists, sub-advisers with special expertise and other experts relating to the investments or operations of the relevant Fund including related overhead and technology costs, filing fees, legal expenses for Fund regulatory filings and compliance, costs relating to any actual or threatened legal proceeding, investigation, litigation or audit involving the Fund, the General Partner, the Firm or their affiliates or personnel in connection with the investments or operations of the Fund, initial offering and organizational expenses and on-going offering expenses including legal fees, registration and other filing fees and side letter negotiations, expenses in connection with the Fund's ongoing operations, including updating the Fund's governing documents, processing transfer or redemption requests, and negotiations with prospective investors, trading counterparties and service providers; insurance costs and indemnification



obligations; certain travel expenses, and all other expenses related to the identification, sourcing, acquisition, management, purchase, sale or holding of investments (including those related to due diligence, informational and diligence platforms, and software, platforms or portals and related infrastructure). The Funds also pay for certain expenses, including, but not limited to, drug and device discovery and development expenses and certain expenses of operations that are provided by third parties through the Firm or 3DC or provided directly by the Firm, 3DC or its affiliates, including the costs of Discovery Specialists. 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 such as the relevant Fund’s asset value, leverage and investment activity, as the Firm deems fair and reasonable.

The Firm and its affiliates, including 3DC, often 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. With respect to goods, services, facilities and intellectual property provided either by the Firm, its affiliates or third parties for the benefit of the Funds or their portfolio companies, each Fund will typically bear an allocable portion of such expenses that are not borne by portfolio companies based on allocation methodologies informed by factors such as time spent, anticipated level of participation in the relevant good, facility, intellectual property or service, relative Fund capital commitments, and relative Fund capital available for investment, as the Firm deems fair and reasonable, or in such other manner as the Firm considers fair and reasonable. Allocation determinations involve inherent matters of discretion. Each Fund will likely bear a portion of any applicable expense that is either greater or less than the benefit supplied to such Fund when compared to the benefit supplied to other Funds, portfolio companies or the Firm, including due to timing of payment. It is expected that some third party vendors will offer volume or similar discounts that apply to goods and services procured after a threshold is met, such that a Fund or portfolio company that is an early purchaser of goods or services may pay a higher price than paid by the Firm, a Fund or a portfolio company that purchases the same goods or services at a later date.

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 or modify 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 (which may include investors in the Funds), such co-investors may not under some circumstances agree to bear any, or their proportionate share, of 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. For example, certain research institutions with which certain

Funds have research collaborations may co-invest in projects funded pursuant to the respective collaboration, and the Funds will bear all expenses associated with developing, and if applicable, consummating and monitoring the investment.

As described more fully in the governing documents of the Funds, certain employees and consultants of the Firm and its affiliates, including 3DC, provide services to the Firm, the Funds and portfolio companies. The fees and expenses associated with such employees or consultants may be allocated to the Fund or portfolio company that is the actual or expected 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 relevant Fund(s). 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 (whether in the form of cash, securities or otherwise) in connection with such services from portfolio companies. Such compensation may be retained by the employees or consultants and will not offset against management fees otherwise payable by the Funds. Similarly, to the extent a former employee of the Firm becomes a consultant to, or employed by, a portfolio company, no compensation earned by such former employee will offset the management fee, whether or not such former employee has a remaining interest in the relevant Fund's General Partner or affiliated entity. Conversely, in the event that the Firm employs a person that previously received compensation from a portfolio company, investors will receive the benefit of any applicable offset only beginning as of the relevant start date of the person's employment with the Firm, and not with respect to any compensation paid prior to such date, including equity grants made prior to the date of employment that vest thereafter.

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).

While it is difficult to predict the future fees and expenses of the Funds, such fees and expenses could be substantial.

#### 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 Deerfield Partners, L.P., 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 when distributions are made, although tax distributions to a Fund's General Partner or other persons entitled to receive carried interest may be paid at a time when corresponding distributions are not made to investors.

The Firm's advisory agreements with the Funds are generally terminable upon either 60 days' written notice prior to the end of the current one- or two-year term or 90 days' prior written notice, without penalty. The Firm's advisory agreement with Deerfield Healthcare Innovations Fund III, L.P. and Deerfield Healthcare Innovations Fund III-A, L.P. is terminable upon 24 hours' prior 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.

---

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

---

As set forth in Item 5 above, the Firm receives performance-based compensation based on the realized and unrealized profits of a Fund or based on distributions made by the Fund, 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 compensation arrangements create an incentive for the Firm to operate the relevant Fund in a riskier, more speculative or other manner that is less favorable to investors than it would operate under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts or accounts for which the Firm has a higher expected probability of receiving performance-based compensation over other accounts in the allocation of investment opportunities, particularly in instances where the Fund governing documents include terms requiring clawback or giveback of performance-based compensation amounts at the end of the relevant Fund's life or at certain interim intervals.

The compensation of Firm personnel will be influenced by the performance of the Funds and the Firm's profitability. Certain personnel receive a percentage of the performance-based compensation earned by a General Partner with respect to one or more Funds; however, the percentage and/or underlying economics of the performance-based compensation for a given person will not be identical for each Strategy (as defined in Item 8) or for each Fund. This creates a conflict by creating an incentive for certain personnel 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 certain personnel 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, certain personnel have an incentive to suggest allocating desirable investment opportunities to a Fund more likely to pay performance-based compensation.

The existence of performance-based compensation creates a conflict of interest in valuing assets and there will be situations in which the Firm is incentivized to influence or adjust the valuation of assets. For example, the Firm may be incentivized to employ valuation methodologies that improve a Fund's track record, to defer recognizing losses from investments that have experienced a permanent impairment that must be returned prior to an affiliate receiving performance-based compensation, or to employ valuation methodologies that give rise to a higher valuation in order to increase fees. Since performance-based compensation payable by Deerfield Partners, L.P. is calculated on a basis that includes unrealized appreciation of the Fund's assets, it may be greater than if it were based solely on realized gains. A Fund may hold investments for which market quotations are not readily available. Such investments may be valued in part or in whole based on valuations provided by the Firm, and such valuations would be a basis for determining amounts payable to the General Partner of the applicable Fund and the Firm. Fund investments will be valued at fair value, consistent with the Firm's valuation policy and procedures. The Firm makes valuation determinations in accordance with Accounting Standards Codification (ASC) 820. For assets that can be priced by the Funds' administrator, the Firm will utilize the administrator's valuation. It is expected that a Fund's administrator will value those assets that are classed Level 1 or Level 2 and that the Firm will value Level 3 assets. If the Funds' administrator does not believe it is capable of independently sourcing or

validating a valuation, and for all Level 3 assets, the Firm's internal valuation committee assumes responsibility of such valuation in accordance with the Firm's valuation policies and procedures. Valuation of investments will necessarily be individualized given the customized nature of each investment. At its discretion and at the direction of the Firm's valuation committee, the Firm uses a third-party independent valuation firm to assist in valuation of certain assets, and the costs of such valuation agent will be borne by the relevant Fund(s). While the Firm uses data supported methods and metrics, valuation of Level 3 assets involves matters of judgement, and there can be no assurance that the valuation assigned by the Firm reflects the value that will ultimately be realized upon the eventual disposition of the investment. Accounting rules and guidelines continue to evolve, and such changes may impact how the Firm values certain assets.

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 is 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 over time. Please see Item 11 for more information. Allocation decisions are made by the Managing Partner or the Managing Partner's 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., Deerfield Healthcare Innovations Fund, L.P., Deerfield Healthcare Innovations Fund II, L.P., Deerfield Private Design Fund V, L.P., Deerfield Healthcare Innovations Fund III, L.P. and/or Deerfield Healthcare Innovations Fund III-A, L.P., certain investors in Deerfield Partners, L.P. are permitted to withdraw all or any part of their capital in Deerfield Partners, L.P. (except in the case of funding capital commitments in Deerfield Healthcare Innovations Fund II, L.P. for which there is a maximum withdrawal of \$200,000 per capital call for investors not affiliated with the Firm) 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 materially disadvantage the remaining investors in Deerfield Partners, L.P. given the ability of the Firm to make reasonable projections of the anticipated capital calls for the other Funds, such investors will be disadvantaged if Deerfield Partners, L.P. needs to sell its positions in securities at undesirable prices or take other actions to fund the withdrawals.

---

## ITEM 7 – TYPES OF CLIENTS

---

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) a "qualified purchaser" as defined in Section 2(a)(51) of the

Investment Company Act of 1940, as amended (“Investment Company Act”). Certain “knowledgeable employees” within the meaning of Rule 3c-5 of the Investment Company Act also participate in the Funds.

The Firm, without notice to or consent of investors, has entered into, and may in the future enter into, side letters with certain investors in the Funds (“Side Letters”). Side Letters may grant preferential liquidity, transparency, reporting, fee or other terms. Current and former Firm personnel investors in a Fund have preferential liquidity rights to the extent the General Partner of the Fund waives the notice or other requirements for a redemption specified in the applicable governing Fund documents in connection with such redemption, and, as disclosed above in Item 6, Unrestricted Withdrawals are permitted for certain investors funding capital commitments to certain Deerfield Funds. Investors who or which redeem their investments ahead of other investors could adversely impact the remaining investors in the Fund. Similarly, where certain investors in a Fund have preferential transparency rights, those investors would have information before other investors, which could benefit those investors with such preferential transparency rights.

---

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

---

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, medical technology, diagnostics, sequencing and imaging technologies and devices, clinical trial services, healthcare data collection and delivery, hospital supplies, hospital services, real estate principally used in operations related to the healthcare industry, acute care hospitals, nursing homes, psychiatric hospitals, addiction recovery centers, alternate-site providers, home care, physician practice management, medical and scientific research and development, medical software, HMOs, health insurers, benefit management companies, distributors, sales organizations, 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, products and services markets, securities markets, and reimbursement 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 three 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. Public Securities Strategy (Deerfield Partners, L.P.)

Investment Strategy. The “Public Securities 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 Public Securities 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. Investments may be expressed through a variety of financial instruments in addition to securities and obligations of publicly traded companies, including, without limitation, privately placed securities, debt obligations, product royalties, revenue participations and other assets issued by public or private companies. The Public Securities Strategy also utilizes analytical, quantitative, systematic and algorithmic techniques or strategies to develop differentiated views on the value and movements of securities. 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 assets, and in practice the Funds have invested almost exclusively in the healthcare and healthcare-related sector.
- *Leverage.* Total exposure varies based on market factors and the constantly varying mix of investment opportunities. This Strategy may also guarantee obligations of portfolio companies, including on a joint and several basis with other Funds.
- *Diversification.* The portfolio consists of a relatively large number of positions, with 0.50% to 3% of total Fund assets representing the typical size of an individual fundamental 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 Deerfield Partners, L.P. (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, 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 generally determined by the underlying investment thesis and developments in the relevant securities. The Firm, when appropriate, may attempt to realize long-term capital gains for domestic taxable investors where possible and prudent, which could result in delayed disposition of an investment relative to the expected disposition had such tax considerations been disregarded.
- *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 Public Securities Strategy focuses primarily on publicly traded securities. It also invests in tradable syndicated debt and in privately structured financings of publicly traded companies. The Public Securities Strategy also invests in opportunities where liquidity may be restricted, such as in privately structured financings of private companies or in other assets where there is a long-term legal or contractual restriction on sale. With respect to Deerfield Partners, L.P., securities with restricted liquidity in excess of 180 days represent no more than 15% of net assets, determined at the time the investment is made.

Investment Selection. The primary determinant of the Public Securities 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, meeting with companies, attending medical conferences and investment seminars, reading medical and trade literature, reviewing intellectual property, consulting with individuals possessing relevant expertise, surveying participants in the healthcare field, analyzing data and reviewing other forms of information and research. The Firm also employs other analytical and quantitative techniques and strategies to identify opportunities.

## 2. 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, (viii) acquire, develop, construct, lease and sell healthcare related real property, and (ix) 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. Such securities, instruments and 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 underlying science, development and commercialization pathways, regulatory environment and 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 research institutions 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. The Funds utilizing the Private Design Strategy may invest anywhere in the world, though a majority of the Funds' 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.
- *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, including 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. The Funds utilizing the Private Design Strategy may also guarantee obligations of portfolio companies, including on a joint and several basis with other Funds.
- *Portfolio Concentration.* Portfolio concentration in the Funds utilizing the Private Design Strategy will vary with available opportunities and at different times in a Fund's 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, for tax purposes, or in exiting an investment.



Exposure to foreign investments is possible, and has occurred, and a significant minority of investments could be outside the United States, depending on available opportunities.

- *Duration of Investments.* Investments may have any duration, and many investments will have no specified term. The Firm expects some investments will 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. The Firm attempts to realize long-term capital gains or qualified small business stock treatment for domestic taxable investors where possible and prudent, which could result in delayed disposition of an investment relative to the expected disposition if such tax considerations were to be disregarded.
- *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.
- *Research Collaborations and Research Projects.* Certain Funds utilizing the Private Design Strategy enter into joint research and development collaborations with research institutions and companies that have given, and may in the future give, rise to the opportunity to accept and perform multiple separate research projects over a number of years. These Funds will invest in such projects either directly or indirectly via portfolio companies founded in connection with such collaborations and in companies created to further develop or commercialize one or more projects. Such Funds can also invest in research projects that are conceived internally at the Firm.

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, Funds utilizing the Private Design Strategy may acquire all or substantially all of the equity or assets of a portfolio company. The objective is ordinarily to obtain a favorable skew in the expected dollar of reward for dollar of risk.

### 3. 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, animal and plant health and well-being. The Firm considers the following investment guidelines when making investment decisions.

- *Healthcare Universe.* The Innovations Funds may invest in any sector of the healthcare industry. The Innovations Funds may invest anywhere in the world, though a majority of the Funds' 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.
- *Research Collaborations and Research Projects.* The Innovations Funds enter into joint research and development collaborations with research institutions and companies that have given, and may in the future give, rise to the opportunity to accept and perform multiple separate research projects over a number of years. The Innovations Funds will invest in such projects either directly or indirectly via portfolio companies founded in connection with such collaborations and in companies created to further develop or commercialize one or more projects. The Funds can also invest in research projects that are conceived internally at the Firm.
- *Levels of Ownership.* When investing in healthcare companies, the Innovations Funds may acquire any level of ownership, from passive minority investments to complete ownership and control.
- *Leverage.* The Innovations Funds generally will not employ leverage at the Fund level when making investments, although the Innovations Funds 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. The Innovations Funds may also guarantee obligations of portfolio companies, including on a joint and several basis with other Funds.
- *Portfolio Company Debt.* Companies in which the Innovations Funds invest 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 Funds' 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 an Innovations Fund), 100% of their portfolios may be concentrated in a single portfolio company. No more than 15% of an 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 some investments 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. The Firm attempts to realize long-term capital gains or qualified small business stock treatment for domestic taxable investors where possible and prudent, which

could result in delayed disposition of an investment relative to the expected disposition if such tax considerations were to be disregarded.

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 loss of their entire 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, where additional risks are also set forth. 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.* The Funds intend to make investments in the healthcare sector. 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, demographic, 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.
- *Sector Concentration.* Each Fund focuses 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.
- *Healthcare Policy.* Healthcare policy and changes in healthcare policy and related laws and regulations could have a material and adverse impact on the healthcare companies in which a Fund intends to invest, and the U.S. or non-U.S. government's role in the healthcare industry could adversely impact a Fund's performance. The success of a Fund's investments is expected to be dependent upon obtaining or failing to obtain certain governmental approvals. The research, development, preclinical and clinical trials, manufacturing, labeling, and marketing related to therapeutics, diagnostics, or medical devices and other healthcare products are subject to an extensive regulatory approval process by the FDA and other regulatory agencies in the U.S. and abroad. The process for obtaining FDA and other required regulatory approvals, including the required preclinical and clinical testing, is very lengthy, costly, and uncertain. There can be no guarantee that, even after such time and expenditures, a company will be able to obtain the necessary regulatory approvals for clinical testing or for the manufacturing or marketing of any

products or that the approved labeling will be sufficient for favorable marketing and promotional activities. If a company is unable to obtain these approvals in a timely fashion or if after approval for marketing, a product is later determined to be ineffective or to have unacceptable side effects not discovered during testing, the company may experience significant adverse effects. The success or failure of a company in which the Funds invest will be “binary” where it is dependent on the authorization of a single major product (for example, either the company’s drug will successfully obtain FDA approval, or it will not).

In some cases, products of healthcare companies are approved by regulatory authorities on a conditional basis with approval conditioned upon fulfilling the requirements of regulators. Regulatory authorities are placing greater focus on monitoring products originally approved with post-approval conditions and on whether the sponsors of such products subsequently satisfy such conditions. If a company is unable to fulfill the subsequent conditions of its approval, such approval might be withdrawn or subject to a requirement to change the products’ labeled indications, which could have an adverse effect on the value of the company. Moreover, even after approval, products could still be the subject of regulatory action if new facts concerning their safety and efficacy come to light. Healthcare regulation is subject to change and can have a considerable impact on the marketing of products and services by companies. Such regulatory changes could affect a company’s ability to obtain or maintain approval of its products, even forcing a company to withdraw its products from the market. In some cases, new regulations can substantially change the marketing conditions for certain healthcare products, such as pharmaceuticals.

In addition, in both U.S. and non-U.S. markets, sales of certain healthcare-related products and their success will depend in part on the availability of reimbursement from third-party payors such as government health administration authorities, private health insurers and other organizations. The continuing efforts of governmental and third-party payors to contain or reduce the costs of healthcare affects the revenues and profitability of healthcare companies. Significant uncertainty exists as to the reimbursement status of newly approved healthcare products. There can be no assurance that a company’s proposed products will be considered cost-effective or that adequate third-party reimbursement will be available to enable a company, or a prospective acquirer of a company or product, to maintain price levels sufficient to realize an appropriate return on its investment in product development. The levels of revenues and profitability of pharmaceutical companies and other healthcare-related companies, including cash flows available to satisfy payment obligations, may be affected by the continuing efforts of governmental and third-party payors to contain or reduce the costs of healthcare. Moreover, if reimbursement rates are reduced, or if healthcare providers anticipate reimbursement being reduced, providers could narrow the circumstances in which they prescribe or administer a company’s products, which could reduce the use or sales of such products and thereby have a material adverse effect on the value of the company.

Many healthcare companies are subject to rigorous regulation in their operations. Compliance with these regulations can be costly. Even when healthcare companies develop and institute comprehensive compliance programs, they are not able to guarantee that they, their personnel, their consultants and their contractors will be in compliance with all potentially applicable regulations. If a healthcare company fails to comply with applicable regulations, the company could be subject to monetary and administrative penalties, increased compliance costs or a curtailment

of its authority to conduct business (including debarment from federally funded programs such as Medicare and Medicaid), any of which could have a material adverse effect on the value of the company.

- *Healthcare 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.
- *Product Development Risk.* Many 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 or a favorable reimbursement position 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, understanding of 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.

- *Impact of Government Regulation, Reimbursement and Reform.* Certain industry segments in which a Fund invests or intends to invest, including various segments of the healthcare industry or relevant sub-industries, are (or may become) (i) highly regulated at both the federal and state levels in the United States and internationally and (ii) subject to frequent regulatory change. Certain segments may be highly dependent upon various government or private reimbursement programs. While each Fund intends to invest in companies that seek to comply with applicable laws and regulations, the laws and regulations relating to certain industries, including, in particular, the healthcare industry, are complex, may be ambiguous or may lack clear judicial or regulatory interpretive guidance. An adverse review or determination by any applicable judicial or regulatory authority of any such law or regulation, or an adverse change in applicable regulatory requirements or reimbursement programs, could have a material adverse effect on the operations and/or financial performance of a company. The healthcare industry will likely continue to be significantly impacted by legislative changes, and various U.S. federal, state or local or non-U.S. legislative proposals related to such industries are introduced from time to time, which, if adopted, could have a significant impact on such industries in general and/or on companies in which a Fund may invest. These efforts to reform the healthcare delivery system in the United States and Europe have resulted in increased pressure on healthcare providers and other participants in the healthcare industry to reduce costs. These forces place constraints on the levels of overall pricing, and thus could have a material adverse effect on profit margins for healthcare companies.

There are various federal and state laws that regulate the operation of healthcare providers, including those that prohibit fraudulent and abusive business practices by health care providers, suppliers, and parties that contract with such providers and suppliers who participate in, receive payments from or are in a position to make or influence referrals in connection with government-sponsored health care programs, including the Medicare and Medicaid programs. Of particular relevance are:

- The federal Ethics in Patient Referrals Act, commonly referred to as the Stark Law, that, unless one of the statutory or regulatory exceptions apply, prohibits physicians from referring Medicare or Medicaid patients to an entity for the provision of certain "designated health services" if the physician or a member of such physician's immediate family has a direct or indirect financial relationship (including an ownership interest or a compensation arrangement) with the entity, and prohibits the entity from billing Medicare or Medicaid for such designated health services. Sanctions for violating the Stark Law include denial of payment, civil monetary penalties per claim submitted and exclusion from the federal health care programs. Failure to refund amounts received as a result of a prohibited referral on a timely basis may constitute a false or fraudulent claim and may result in civil penalties and additional penalties under the False Claims Act. The statute also provides for a penalty for a circumvention scheme;

- The federal Anti-Kickback Statute that prohibits the knowing and willful offer, payment, solicitation or receipt of any bribe, kickback, rebate or other remuneration for referring an individual, in return for ordering, leasing, purchasing or recommending or arranging for or to induce the referral of an individual or the ordering, purchasing or leasing of items or services covered, in whole or in part, by any federal health care program, such as Medicare and Medicaid. Remuneration has been interpreted broadly to be anything of value, and could include compensation, discounts or free marketing services. A person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation. In addition, the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the False Claims Act. Violations of the federal Anti-Kickback Statute may result in civil monetary penalties for each violation, plus up to three times the remuneration involved. Civil penalties for such conduct can further be assessed under the federal False Claims Act. Violations can also result in criminal penalties, including criminal fines and imprisonment. Similarly, violations can result in exclusion from participation in government health care programs, including Medicare and Medicaid;
- The criminal health care fraud provisions of the federal Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act, and their implementing regulations, which are collectively referred to as (“HIPAA”), and related rules that prohibit knowingly and willfully executing a scheme or artifice to defraud any health care benefit program or falsifying, concealing or covering up a material fact or making any material false, fictitious or fraudulent statement in connection with the delivery of or payment for health care benefits, items or services. Similar to the federal Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation;
- HIPAA, and its implementing regulations, which also imposes certain regulatory and contractual requirements regarding the privacy, security and transmission of protected health information;
- The federal False Claims Act that imposes civil and criminal liability on individuals or entities that knowingly submit false or fraudulent claims for payment to the government or knowingly make, or cause to be made, a false statement in order to have a false claim paid, and in addition provides for qui tam, or whistleblower, suits to be brought in the name of the government;
- The federal Civil Monetary Penalties Law prohibits, among other things, the offering or transfer of remuneration to a Medicare or state health care program beneficiary if the person knows or should know it is likely to influence the beneficiary’s selection of a particular provider, practitioner, or supplier of services reimbursable by Medicare or a state health care program, unless an exception applies;
- The Physician Payments Sunshine Act is designed to increase transparency around the financial relationships between physicians, teaching hospitals and manufacturers of drugs, medical devices and biologics;

- Reassignment of payment rules that prohibit certain types of billing and collection practices in connection with claims payable by the Medicare or Medicaid programs;
- Similar state law provisions pertaining to anti-kickback, self-referral and false claims issues, some of which may apply to items or services reimbursed by any third party payor, including commercial insurers or services paid out-of-pocket by patients;
- State laws that prohibit general business corporations from practicing medicine, controlling physicians' medical decisions or engaging in some practices such as splitting fees with physicians and psychologists;
- The Federal Trade Commission Act and federal and state consumer protection, advertisement and unfair competition laws, which broadly regulate marketplace activities and activities that could potentially harm consumers;
- Laws that regulate debt collection practices as applied to a company's debt collection practices;
- A provision of the Social Security Act that imposes criminal penalties on health care providers who fail to disclose or refund known overpayments;
- Federal and state laws that prohibit providers from billing and receiving payment from Medicare and Medicaid for services unless the services are medically necessary, adequately and accurately documented, and billed using codes that accurately reflect the type and level of services rendered;
- Risks related to employing or contracting with individuals or entities that are sanctioned or excluded from participation in government health care programs;
- The Federal Substance Abuse Confidentiality Regulations;
- Federal and state laws and policies that require health care providers to maintain licensure, certification or accreditation to provide physician and other professional services, to enroll and participate in the Medicare and Medicaid programs, to report certain changes in their operations to the agencies that administer these programs, as well as state insurance laws; and
- State and federal statutes and regulations that govern workplace health and safety.

Changes in applicable laws or regulations, or in the interpretations of these laws and regulations, could result in increased compliance costs or the need for additional capital expenditures. For example, in November 2020, U.S. Department of Health and Human Services ("HHS") published two final rules that aim to reduce regulatory barriers to care coordination and accelerate the transformation of the health care system into one that pays for value and promotes the delivery of coordinated care. The rules provide greater flexibility for health care providers to participate in value-based arrangements and to provide coordinated care for patients. The final rules also ease certain compliance burdens for health care providers and other stakeholders across the



industry, while maintaining strong safeguards to protect patients and programs from fraud and abuse.

To enforce compliance with the federal laws, the U.S. Department of Justice and the HHS Office of Inspector General have continued their scrutiny of health care providers and companies, which has led to a number of investigations, prosecutions, convictions and settlements in the healthcare industry. Dealing with investigations can be time- and resource-consuming and can divert management's attention from the business. Any such investigation or settlement could increase costs or otherwise have an adverse effect on operations. In addition, because of the potential for large monetary exposure under the federal False Claims Act, healthcare companies often resolve allegations without admissions of liability for significant and material amounts to avoid the uncertainty of treble damages and civil penalties that may be awarded in litigation proceedings. Such settlements often contain additional compliance and reporting requirements as part of a consent decree, settlement agreement or corporate integrity agreement. Given the significant size of actual and potential settlements, it is expected that the government will continue to devote substantial resources to investigating health care providers' compliance with the health care reimbursement rules and fraud and abuse laws.

The provision of healthcare is subject to vast and complicated regulatory systems at federal, state and local levels that impose numerous licensing, permitting, certification and other approvals on a host of individuals and activities, requirements that may be subject to change from time to time and place to place. Such regulations and changes in regulations could increase the cost, and even compromise the ability, of a company to operate some or all aspects of its business. Regulatory requirements may also prevent a company from entering into certain transactions or cause transactions to be structured in ways that are not optimal for the Fund. Noncompliance with applicable regulations could subject a portfolio company to civil or criminal liability and fines or the loss of the right to operate or provide certain goods or services.

- *FCPA Considerations.* The Firm and Funds seek to comply with the U.S. Foreign Corrupt Practices Act ("FCPA") and other anti-corruption, anti-bribery and anti-boycott laws and regulations to which they are subject. As a result, a Fund may be adversely affected because of its unwillingness to participate in transactions that violate such laws or regulations. Such laws and regulations may make it difficult in certain circumstances for a Fund to act successfully on investment opportunities and for portfolio companies to obtain or retain business. While the Firm has policies and procedures designed to help ensure compliance by the Firm and its personnel with the FCPA, such policies and procedures may not be effective to prevent violations in all instances. In addition, notwithstanding the Firm's policies and procedures, portfolio companies and their affiliates may engage in activities that could result in FCPA violations. Any determination that the Firm, Fund or any portfolio company has violated the FCPA, or other applicable anti-corruption or anti-bribery laws, could subject the Fund to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect the Firm's and the Fund's business prospects and/or financial position, as well as the Fund's ability to achieve its investment objective and/or conduct its operations.

- *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 or require 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.
- *Uncertainty of Financial Results.* The acquisition of interests in the Funds and the investments made by the Funds are highly speculative, involve a high degree of business and financial risk and could involve the risk of total loss of an investor's capital. The prior performance of investment vehicles managed by the Firm is not necessarily indicative of any Fund's future results. There can be no assurance that investments by any Fund will achieve returns comparable to the historical performance of any investment vehicles managed by the Firm. Any given investment made by a Fund may prove to be worthless, and an investor may lose all or a portion of the capital contributed to a Fund.
- *Concentration of Investments.* Because as much as 30% of a Private Design Fund's, or 15% of an 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 an Innovation Fund's capital. The foregoing risks are also applicable to the Public Securities Strategy, which may not have exposure to a single company exceeding 12.5% of net assets at the time of purchase.
- *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 Public Securities Strategy 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, for tax purposes, 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.

- *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.
- *Small and Medium Capitalization Companies.* A Fund 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 the market or that are still in the research or development stage. Such companies may also be dependent on personnel (including key personnel) with limited experience.
- *Preferred Stock.* Investments in preferred stock involve risks related to priority in the event of bankruptcy, insolvency or liquidation of the issuing company and how dividends are declared. Preferred stock ranks junior to debt securities and, accordingly, is subordinate to all debt in bankruptcy. As such, preferred stock generally entitles holders to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied. Preferred stock generally has a preference as to dividends. Such dividends are generally paid in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are usually payable only if declared by the issuer’s board of directors. Preferred stock may also be subject to optional or mandatory redemption provisions.
- *Warrants.* Warrants are securities or instruments granting the right to or otherwise permitting, but not obligating, holders to purchase a specified number of shares of an issuing corporation at a specified price during a specified period of time, and they do not represent any rights in the assets of the issuer. Warrants may be exercisable only at prices that exceed the value of the underlying security and involve the risk of a loss of the purchase value of the warrant if the right to subscribe to additional shares is not exercised prior to the warrants’ expiration. Furthermore, a Fund may be adversely affected in the event that the securities underlying such warrants decline in value. As a result, warrants may be considered more speculative than other types of equity investments.
- *Convertible Securities and Investments in Equity-Linked Convertible Securities.* A Fund may invest a portion of its capital in convertible securities and equity-related convertible securities. Convertible securities are equities, bonds, debentures, preferred stocks or other securities that

may be converted into or exchanged for a specified fixed or variable amount of common stock or other security of the same (or less commonly, a different issuer) within a particular period of time at a specified price or formula. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's indenture or other governing instrument. If a convertible security held by a Fund is called for redemption, the Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on a Fund's ability to achieve its investment objective. Convertible securities may offer lower interest or dividend yields than non-convertible securities of similar quality. In the event of a liquidation of the issuing company, holders of convertible preferred securities would be paid after the company's creditors but before the company's common stockholders. Consequently, the issuer's convertible preferred securities may often be viewed as having more risk than its debt securities, but less risk than its common stock.

- *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 or value of the derivative instrument and the underlying investment that may prevent a Fund 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.
- *Swaps.* Swap agreements are two-party contracts entered into for periods ranging from a few weeks to more than one year. In a standard "swap" transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments, which can be adjusted for an interest factor. The Funds may use swaps to implement their strategies synthetically, which may be volatile and speculative. Certain positions may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. Use of swaps presents risks similar to other derivative instruments, including: (i) an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent the Fund from achieving the intended economic effect or expose the Fund to greater risk of loss; (ii) derivative financial instruments may not be liquid in all circumstances, and the Fund may not be able to close out a position without incurring a substantial delay or loss; and (iii) derivative financial instruments can result in large amounts of leverage which may magnify the gains and losses experienced by the Fund and could cause its investments to be subject to wide fluctuations in value. Swaps are subject to the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty. Swaps and other forms of over-the-counter derivative instruments may not be currently guaranteed by an exchange or clearing house. Regulatory changes in the United States and other countries may significantly impact the trading of swaps and other derivatives in the future.
- *Leverage.* While the use of borrowed funds can substantially improve the return on invested capital, leverage can also magnify the loss on an investment. The cost and availability of leverage is

highly dependent on the state of the broader credit markets (and such credit markets may be impacted by regulatory restrictions and guidelines), which state is difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage. Leverage at the portfolio company level often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and potentially will constrain its ability to operate its business as desired and/or finance future operations and capital needs.

- *Investments in Debt Securities Generally.* The Funds may hold debt and debt-related instruments that expose the Funds to credit risk. Credit risk refers to the likelihood that an issuer will default on the payment of principal and/or interest on a debt instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument. Interest rate risk refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument directly and indirectly. In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable-rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules. It cannot be predicted with certainty when, or how, the Federal Reserve and other global central banks may change their policies with respect to interest rates, but further actions by the Federal Reserve and other central bankers may have a significant effect on interest rates and on the U.S. and world economies generally, which in turn may affect the performance of the Funds' investments.
- *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 an 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 an 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 an 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 an 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 an Innovations Fund's exit strategy. The success of a Fund's investment in a private company depends on the Fund's ability to exit the investment, often only through a merger, acquisition or IPO, and the likelihood of such an exit occurring may be materially affected by prevailing market conditions. Even if a private company in which a Fund invests is ultimately successful, such success may occur only after a recapitalization of the company which significantly dilutes the value of the Fund's investment, or such success may not occur during a timeframe in which it is feasible for the Fund to maintain its investment. The Funds may make minority investments in private companies where they may have limited influence and/or access to financial or operating information. Such a company may develop economic or business interests or goals that are not consistent with those of the Funds, and the Funds may not be in a position to limit or otherwise protect the value of their investment in such company. The foregoing risks are also applicable to the Public Securities Strategy to the extent it makes private investments.

- *Private Debt Transactions.* The Funds may invest in loans, make loans directly to borrowers and engage in other types of private debt transactions. There are no restrictions on the credit quality of the Funds' loan investments. Loans held by the Funds may have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans the Funds may own may have large uncertainties or major risk exposures to adverse conditions and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than higher quality loans but involve greater risk of loss of income and principal. The value of certain of these loans may also be more sensitive to changes in economic conditions than higher-quality loans.

Although loans originated by a Fund may be collateralized, such Fund may be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, if any, the creditworthiness of the borrower and the existence and priority of any lien are of great importance to the Fund. A Fund cannot guarantee the adequacy of the protection of the Fund's interest in any loan, including the validity or enforceability of the loan or the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, claims may be asserted by other parties that might interfere with enforcement of the Fund's rights. In the event of a foreclosure by a Fund, the Fund or an affiliate of the Fund may assume direct ownership of the underlying asset. The liquidation proceeds upon the sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to the Fund. Any costs or delays in effecting a foreclosure or the liquidation of any underlying collateral will further reduce the proceeds and thus increase the Fund's loss.

The Funds may acquire or participate in both performing and non-performing loans. Performing loans may become non-performing or impaired for a variety of reasons. Nonperforming or impaired loans may require substantial workout negotiations or restructuring that may entail a substantial write-down of the value of the loan. Loans may encounter trading delays due to their unique and customized nature, and transfers may require the consent of an agent bank and/or borrower. Risks associated with a Fund's investment by way of an assignment or participation in bank loans include the fact that prepayments may generally occur at any time without premium or penalty.

As a lender, the Funds may be exposed to certain lender liability risks under various legal theories. Lenders are also potentially subject to risks of fraudulent conveyance or avoidable preference or otherwise subject to the risk of equitable subordination. In addition, settlement of corporate loans may take an extended time period. In the case of a loan participation, the Fund will have only an indirect claim to the related loan and will assume both the credit risk of the corporate borrower as well as the credit risk of the interposed financial intermediary.

Purchasers of loans are mainly commercial banks, investment funds, mutual funds and investment banks. As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreements, and the private syndication of the loans, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to, for instance, the high-yield debt market. Loans originated or held by the Funds may be sufficiently bespoke such that such loans may not benefit from the secondary markets.

- *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.
- *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 the purchaser's 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 SPACs.* A Fund may invest in, sponsor or otherwise facilitate the acquisition of companies by, and exit portfolio investments through the use of, special purpose acquisition companies (“SPACs”). A SPAC is a single-use vehicle incorporated for the purpose of raising capital to fund the acquisition, through a merger, asset acquisition or other similar business combination, of one or more operating businesses, by a predetermined deadline. Investors in a SPAC typically would receive a return on their investment in the event that a target company is acquired by the SPAC and such target company’s value increased. However, the value of any target company could decrease following its acquisition by a SPAC. A SPAC may fail to identify a specific target, and, as a result, it may never execute a business combination. If a SPAC is unable to locate and acquire a target company (or target companies) by the deadline, the SPAC would be forced to liquidate its assets, which could result in losses due to the SPAC’s expenses and liabilities and cause a Fund to incur the opportunity cost of missed investment opportunities from which a Fund otherwise may have benefited. If a SPAC is unsuccessful in identifying an attractive investment (or obtaining any requisite approvals for a business combination) and consummating a business combination, investors in the SPAC may be required to wait until the deadline before liquidating distributions are made. A transaction once identified or effected may prove unsuccessful and an investment in the SPAC may lose value; the warrants or other rights with respect to the SPAC held by a Fund may expire worthless, or may be repurchased or retired by the SPAC at an unfavorable price; and an investment in a SPAC may be diluted by additional later offerings of interests in the SPAC or by other investors exercising existing rights to purchase shares of the SPAC. In addition, a SPAC target company may have limited operating experience, a smaller size, limited product lines, markets, distribution channels and financial and managerial resources. Investing in the securities of smaller companies involves greater risk, and portfolio price volatility.

Some SPACs may pursue acquisitions only within certain industries or regions, which may increase the volatility of their prices. In addition, SPAC securities, which are typically traded on an exchange, may be subject to restrictions on resale. SPACs could generate substantial fees, costs and expenses, which are typically borne by the investors therein (in some cases, regardless of whether, or when, the SPAC consummates a transaction). A Fund may also invest in the equity securities of the sponsor of a SPAC (“SPAC Sponsor Equity”). Investments in SPAC Sponsor Equity involve even greater risks because the SPAC Sponsor Equity will typically be required to absorb certain expenses of the related SPAC if the SPAC does not successfully complete a business combination transaction before the relevant deadline.

In connection with the risks described above, a SPAC has an increased risk of shareholder litigations and regulatory scrutiny, which could lead to costly investigations, fines and settlements, and could adversely impact the value of a SPAC investment.



- *Investments in PIPEs.* A Fund may invest in privately sourced and structured equity and equity-linked securities of public companies (“PIPEs”), including PIPEs issued by SPACs. 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 companies that issue PIPEs are often thinly traded, and the companies may be under-capitalized, and therefore such securities may 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 issuers to comply with registration, conversion, exchange or other obligations under the agreements pursuant to which such securities have been sold to a Fund or by burdensome requirements imposed by an issuer or its advisors in connection with potential sales.
- *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.
- *Changes to Benchmark Rates.* To the extent that a Fund’s investments, borrowing facilities, hedging activities, or other assets or structures are tied to interest rates based on benchmark or reference rates, including the London Interbank Offered Rate (“LIBOR”), Secured Overnight Financing Rate (“SOFR”) or other rates (each, a “Benchmark Rate”), the Fund may be subject to certain material risks, including the risk that a Benchmark Rate is terminated, ceases to be published or otherwise ceases to be broadly used by the market. Regulators, central banks, governments and other market participants have transitioned historical instruments and contracts away from LIBOR to new Benchmark Rates. This transition includes the potential to: increase volatility or illiquidity in markets; cause delays in or reductions to financing options for the Funds and their portfolio companies; increase the cost of borrowing; reduce the value of certain instruments or the effectiveness of certain hedges; cause uncertainty under applicable legal documentation; or otherwise impose costs and administrative burdens relating to factors that include document amendments and changes in systems. Future transitions to and from Benchmark Rates have the potential to have similar effects.
- *Financial Institution Risk; Distress Events.* An investment in a Fund is subject to the risk that one of the banks, brokers, counterparties, clearinghouses, exchanges, lenders or other custodians (each, a “Financial Institution”) of some or all of the Fund’s (or any portfolio company’s) assets fails to timely perform or otherwise defaults on its obligations or experiences insolvency, closure, seizure, receivership or other financial distress or difficulty (each, a “Distress Event”). Distress Events can be caused by factors including eroding market sentiment, significant withdrawals,

fraud, malfeasance, poor performance, undercapitalization, market forces or accounting irregularities. If a Financial Institution experiences a Distress Event, the Firm, its affiliates, the Funds and/or any of the portfolio companies may be unable to access deposits, borrowing facilities or other services, either permanently or for an indeterminate period of time. Although assets held by regulated Financial Institutions in the United States frequently are insured up to stated balance amounts by organizations such as the Federal Deposit Insurance Corporation, in the case of banks, and the Securities Investor Protection Corporation, in the case of certain broker-dealers, amounts in excess of the relevant insurance are subject to risk of total loss, and any non-U.S. Financial Institutions that are not subject to similar regimes pose potentially increased risk of loss. While in recent years governmental intervention has often resulted in additional protections for depositors and counterparties in connection with Distress Events, there can be no assurance that any intervention will occur, be successful or avoid the risks of loss, substantial delays or negative impact on banking or brokerage conditions or markets. Any Distress Event has a potentially adverse effect on the ability of the Firm to manage the Funds and their investments, and on the ability of the Firm, its affiliates, any Fund or any portfolio company to maintain operations, which in each case could result in operational burdens, significant losses and unconsummated investment acquisitions and dispositions. Such losses could include, without limitation: a loss of funds; an obligation to pay fees and expenses in the event a Fund or portfolio company is unable to close a transaction (whether due to the inability to draw capital on a credit line provided by a Financial Institution experiencing a Distress Event, the inability of the Fund to access capital contributions or otherwise); the inability of the Fund or portfolio company to acquire or dispose of investments, including at prices that the Firm believes reflect the fair value of such investments; and/or the inability of the Firm, its affiliates or portfolio companies to make payroll, fulfill obligations and/or maintain operations. If a Distress Event leads to a loss of access to a Financial Institution's services, it is also possible that the Firm, its affiliates, the Funds or portfolio companies will experience operational burdens and expenses, will incur additional expenses and/or delays in putting in place alternative arrangements and/or that such alternative arrangements will be less favorable than those formerly in place (with respect to economic terms, service levels, access to capital or otherwise). There can be no assurance that the Firm, its affiliates, the Funds or portfolio companies will be able to exercise contractual remedies under the agreements with Financial Institutions in the event of a Distress Event, or that such remedies will be successful or avoid losses, delays or other negative impacts. The Funds and their portfolio companies are subject to additional risks in the event a Financial Institution utilized by investors of a Fund or suppliers, vendors, service providers or other counterparties of a portfolio company become subject to Distress Events, which could have a material adverse effect on a Fund, its investors or such portfolio companies, including the risk of investor defaults. Many Financial Institutions require, as a condition to using their services (including lending services), that the Firm, Fund or portfolio company maintain all or a set amount or percentage of their respective accounts or assets with the Financial Institution, which heightens the risks associated with a Distress Event with respect to such Financial Institutions. Although the Firm seeks to do business with Financial Institutions that it believes are creditworthy and capable of fulfilling their respective obligations to the Funds, the Firm is under no obligation to use a minimum number of Financial Institutions with respect to any Fund, or to maintain account balances at or below the relevant insured amounts.

- *Social Media Risks.* The increasing use of social media platforms presents new risks and challenges to issuers in which the Funds invest. In recent years, there has been a marked increase in the use of social media platforms, which allow individuals access to a broad audience of consumers and other interested persons. The rising popularity of social media and other consumer-oriented technologies has increased the speed and accessibility of information dissemination. Many social media platforms immediately publish the content their subscribers and participants post, often without independent or authoritative verification of the content posted. Information posted on such platforms at any time may be adverse to the interests of issuers in which the Funds invest. The dissemination of negative or inaccurate information about such issuers via social media could harm their business, reputation, financial condition, and results of operations, which could adversely affect the Funds, or may influence the Firm's decisions as to whether to remain invested in such issuers. If a Fund holds a short or other derivatives position in such issuers, the price volatility of such issuer could magnify the risks of short sales or the use of other derivatives to the Fund. Any such information or misinformation regarding the Firm, the Funds or one or more portfolio companies could have a material and adverse effect on the value of the Funds.
- *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, the Firm does not intend to possess voting or investment control, either alone or together with other persons, over more than 5% of a public company's equity without making the required filings.
- *Material, Non-Public Information; Other Regulatory Restrictions.* As a result of the operations of the Firm and its affiliates as well as in connection with directorships of the Firm personnel, the Firm frequently comes into possession of confidential or material, non-public information. If the Firm has access to confidential and material, non-public information, applicable securities laws or internal policies and procedures may restrict a Fund from initiating a transaction or selling an investment which, if such information had not been known to the Firm, may have been undertaken on account of applicable securities laws or the Firm's internal policies and practices.

Investments are generally 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.

Similarly, anti-money laundering, anti-boycott and economic and trade sanction laws and regulations in the United States and other jurisdictions may prevent the Firm or a Fund from entering into transactions with certain individuals or jurisdictions. The United States Department of the Treasury's Office of Foreign Assets Control ("OFAC") and other governmental bodies administer and enforce laws, regulations and other pronouncements that establish economic and trade sanctions on behalf of the United States. Among other things, these sanctions may prohibit transactions with or the provision of services to, certain individuals or portfolio companies owned or operated by such persons, or located in jurisdictions identified from time to time by OFAC. If after subscribing to a Fund an investor is included on a list of prohibited persons maintained by a relevant regulatory or governmental authority (including OFAC or equivalent non-U.S. authorities) (a "Sanctions List"), the relevant General Partner will have the discretion to determine the resolution, remedy and manner of compliance of the Fund with applicable laws, including without limitation a "freeze" on distributions and/or capital calls from the relevant investor and reporting to the relevant authorities. Adverse actions by any such authorities, including temporary or permanent stays or holds on the Fund's activities, could materially and adversely affect the Funds.

Additionally, antitrust laws in the United States and other jurisdictions give broad discretion to the U.S. Federal Trade Commission, the U.S. Department of Justice and other U.S. and non-U.S. regulators and governmental bodies to challenge, impose conditions on, or reject certain transactions and even investment strategies (such as roll-ups of smaller players in a fragmented industry). In certain circumstances, antitrust restrictions relating to one Fund's acquisition of a portfolio company may preclude other Funds from making an attractive acquisition or require one or more other Funds to sell all or a portion of certain portfolio companies owned by them.

As a result of any of the foregoing, a Fund may be adversely affected because of the Firm's inability or unwillingness to participate in transactions that may violate such laws or regulations, or by remedies imposed by any regulators or governmental bodies. Any such laws or regulations may make it difficult or may prevent a Fund from pursuing investment opportunities, require the sale of part or all of certain portfolio companies on a timeline or in a manner deemed undesirable by the Firm or may limit the ability of one or more portfolio companies from conducting their intended business in whole or in part. Consequently, there can be no assurance that any Fund will be able to participate in all potential investment opportunities that fall within its investment objectives. Certain laws or regulations may also impact the ability of the Firm, its affiliates or portfolio companies to engage, or continue to engage, certain service providers, in particular those operating outside the U.S.

- *Non-U.S. Investments.* A Fund may invest in companies that are organized, headquartered and/or have substantial sales or operations outside of the United States, its territories and possessions. Such investments may be subject to certain additional risks due, among other things, to potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates and capital repatriation regulations (as such regulations may be given effect during the term of a Fund) and the application of complex tax rules to cross border investments, possible imposition of non-U.S. taxes on a Fund and/or the partners with respect to such Fund's income, and possible non-U.S. tax return filing requirements for such Fund and/or the investors.

- *Investment Adviser Regulatory Risk.* There continue to be discussions regarding enhanced governmental scrutiny and/or increased regulation of the private funds industry. Additionally, the SEC has proposed and enacted significant rules that will impact the business of the Firm and the Funds. In particular, the SEC has adopted a number of new rules that impose significant changes on private fund advisers and their management of private funds, and the SEC is expected to propose and/or adopt additional rules in the future. Such current and future rulemaking is expected to materially impact the Firm and its affiliates, the Funds and/or their investments. In addition, the Funds are expected to bear significant increased costs as a result of such rules, including costs relating to investor reporting and disclosures. Significant time and resources are expected to be required to comply with the new regulations, which potentially will detract from the time and resources dedicated to the Funds. Certain rules are or may become subject to legal challenge from private fund industry groups and others, and to the extent such legal challenges are successful, investors will not be afforded some or all of the protections provided by these rules.
- *Diligence.* The Firm seeks to conduct reasonable and appropriate due diligence and analysis of prospective investments based on the facts and circumstances applicable to each investment opportunity, with the objective of identifying attractive investment opportunities and identifying possible risks associated with the potential investment. Depending on the circumstances and nature of the particular investment opportunity, due diligence can often involve an evaluation of important and complex issues, including business, financial, tax, accounting, regulatory and legal issues, as well as an assessment of technological and other relevant factors. Consultants, legal advisers, accountants, regulatory experts and other third parties can be involved in the due diligence process to varying degrees, depending on the nature and type of the investment opportunity. Involvement of third party advisers or consultants presents a number of risks, including relating to the Firm's reduced control of the functions that are outsourced. The due diligence conducted with respect to any particular investment opportunity by or on behalf of the Firm will not always reveal all relevant facts or information necessary in evaluating the opportunity optimally. Instances of fraud and other deceptive practices committed by the management teams of prospective or existing portfolio companies of the Funds, for instance, could undermine the Firm's due diligence efforts with respect to such companies and could have an adverse effect on the Funds. The analysis of potential investments by the Firm may need to be undertaken on an expedited basis to take advantage of certain investment opportunities. In such cases, the information available to the Firm at the time of making an investment decision may be limited, and the Firm might not have access to detailed information regarding the investment opportunity. Therefore, there can be no assurance that the Firm will have complete knowledge of all potential circumstances, and that may adversely affect any investment by the Funds.
- *Use of Alternative Data.* The Firm obtains and uses alternative data in its investment process. Alternative data (sometimes also referred to as "big data") generally refers to data collected, including by webscraping, 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.

- *Artificial Intelligence and Machine Learning Developments.* Recent technological advances in artificial intelligence and machine learning technology (collectively, “Machine Learning Technology”), including OpenAI’s release of its ChatGPT application, may pose risks to the Firm, the Funds and portfolio companies. While the Firm may utilize Machine Learning Technology in connection with its business activities, including investment activities, the Firm intends to periodically evaluate and/or adjust internal policies governing use of Machine Learning Technology by its personnel. Notwithstanding any such policies, the Firm’s personnel could, unbeknownst to the Firm, utilize Machine Learning Technology in contravention of such policies. The Firm, the Funds and portfolio companies could be further exposed to the risks of Machine Learning Technology if third-party service providers or counterparties, whether or not known to the Firm, use Machine Learning Technology in their business activities. The Firm will generally not be in a position to control the use of Machine Learning Technology in third-party products or services.

Use of Machine Learning Technology by any of the parties described in the previous paragraph could include the input of confidential information — either by third parties in contravention of non-disclosure agreements or by the Firm personnel in contravention of the Firm’s policies, contractual or other obligations or restrictions to which any of the foregoing or any of their affiliates or representatives are subject, or otherwise in violation of applicable laws or regulations relating to treatment of confidential and/or personally identifiable information (including material, non-public information) — into Machine Learning Technology applications, resulting in such confidential information becoming part of a dataset that is accessible by other third-party Machine Learning Technology applications and users.

Independent of its context of use, Machine Learning Technology is generally highly reliant on the collection and analysis of large amounts of data, and it is not possible or practicable to incorporate all relevant data into the model that Machine Learning Technology utilizes to operate. Certain data in such models will inevitably contain a degree of inaccuracy and error — potentially materially so — and could otherwise be inadequate or flawed, which would be likely to degrade the effectiveness of Machine Learning Technology. To the extent that the Firm, the Funds or portfolio companies are exposed to the risks of Machine Learning Technology, any such inaccuracies or errors could have adverse impacts on the Firm, the Funds or portfolio companies. Conversely, to the extent competitors of the Firm and its portfolio companies utilize

Machine Learning Technology more extensively than the Firm and its portfolio companies, there is a possibility that such competitors will gain a competitive advantage.

Machine Learning Technology and its applications, including in the private investment and financial sectors, continue to develop rapidly, and it is impossible to predict the future risks that may arise from such developments.

- *Programming, Data and Models.* The Firm uses a range of data and models, both developed internally and supplied by third parties, in its investment process. There is no guarantee that any specific data or type of data will be utilized in generating models or informing investment decisions, and the decision whether or not to use specific data, data types or data products is informed by factors including the cost effectiveness of utilizing such data, and any risk that may be associated with it. There can be no guarantee that the data actually utilized in generating forecasts or making trading decisions underlying the models will be the most accurate data available or free of errors. Errors in data relied upon in making investment decisions expose the Funds to risks, including that investments are purchased at prices that are too high, sold at prices that are too low, or that potentially favorable investment opportunities are missed.
- *Quantitative Models.* The Public Securities Strategy utilizes portfolio construction models that are based on quantitatively-based relationships developed based on research and inferences drawn from data. The success of such models will generally depend on their ability to accurately predict future market prices and volatility, which in turn may depend upon a continuation of past correlations between equity market prices and the factors used in the models. To the extent that such models, or the assumptions underlying them, are not correct, the Fund may sustain losses. Even if such correlations exist in the future, they may not exist over the period of any particular investment in the Fund. Any one or all of these assumptions, whether or not supported by past experience, could prove over time to be incorrect. Even if such assumptions are correct, there can be no assurance that the software code used by the portfolio construction models will successfully or optimally translate the Firm's quantitative analyses into successful trading results. Portfolio construction models generally need to be updated regularly as market and fundamental data and dynamics shift over time in order to remain effective. A previously successful model often becomes outdated or inaccurate, perhaps without a quantitative research or portfolio manager recognizing that fact before substantial losses are incurred.
- *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, ransom demands, 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. Cybersecurity risks can also disrupt the operations of, and impose additional financial burdens on, portfolio companies, which could harm a Fund's investment returns.

- *Data Privacy Protection.* Legal requirements relating to the collection, maintenance, use and transfer of personal data relating to individuals continue to develop across many jurisdictions. Certain activities of the Firm or its affiliates, the Funds and portfolio companies may be subject to data protection laws. Many of these laws are new or not yet fully implemented, and it can therefore be difficult to accurately anticipate how these laws will be applied or interpreted. If the Firm, the Funds and portfolio companies do not comply with applicable data privacy protection laws, they may incur reputational damage and significant costs, including those associated with litigation, settlements, regulatory action, or penalties. Any proceeding involving the Firm or Funds may also divert time and effort of the Firm's personnel who are otherwise focused on investment activities of the Funds. Depending on how data protection laws are implemented, interpreted or applied, business practices may need to be modified in a manner that adversely impacts the Funds or portfolio companies.
- *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 the provision of funds 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, the Firm and 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.
- *Possibility of Misconduct of Personnel and Service Providers.* Misconduct by personnel of the Firm or by service providers of the Firm or Funds could result in significant losses to the Funds. Misconduct could include entering into transactions without authorization, the failure to comply with policies and procedures, including due diligence procedures, misrepresentations as to investments being considered by the Funds, the improper use or disclosure of confidential information, non-compliance with applicable laws or regulations (including in the workplace via inappropriate or unlawful behavior or actions directed to other personnel) and the concealing of any of the foregoing. Such misconduct could result in reputational damage, litigation, business disruption and/or financial losses to the Funds. The Firm has controls and procedures through which it seeks to minimize the risk of such misconduct occurring, but no assurances can be given that the Firm will be able to identify or prevent such misconduct.
- *Side Letters.* A General Partner and/or a Fund will enter into other written agreements, such as Side Letters with one or more investors. Side Letters may entitle an investor to make an investment in a Fund on terms other than those set forth in the Fund Memorandum and



governing documents. Any such terms, including with respect to (i) opting out of particular investments, (ii) notice or reporting obligations of a Fund, (iii) co-investment opportunities, (iv) fee structures, (v) transparency rights or (vi) any other matters, may be more favorable than those offered to any other investors. If a General Partner and/or a Fund enter into a Side Letter entitling an investor to opt out of a particular investment, any election to opt out by such investor may increase any other investor's pro rata interest in that particular investment. A General Partner and/or a Fund may enter into Side Letters with certain investors that have investment arrangements with respect to one or more other Funds, and such Side Letters may contain differing economic, governance or related arrangements to those offered and/or disclosed to other investors, and many of which will not be subject to "most-favored nation" provisions. Except in the circumstances and on the timing required by a Fund's governing documents and/or applicable law, such agreements will be disclosed only to those actual or potential investors that have separately negotiated with a General Partner for the right to review such agreements.

In addition, certain investors may be strategic investors to which the Firm provides rights that it does not provide to all investors, which may include investment opportunity rights as well as access to portfolio company management teams. In addition to these conflicts of interest for the Firm, the Firm's relationship with strategic investors may lead to conflicts of interests because strategic investors may have interests and relationships, including with the Firm or certain portfolio companies, that conflict with the interests of other investors.

- *U.S. Taxation of Carried Interest.* U.S. federal income tax law treats certain allocations of capital gains to service providers by partnerships such as the Funds as short-term capital gain (taxed at higher ordinary income rates) unless the partnership has held the asset that generated such gain for more than three years. This creates potential incentives for the Firm to cause a Fund to hold investments for a longer period than would be the case if such greater-than-three-year holding period requirement did not exist. Additionally, Congress has considered proposed legislation that would treat certain income allocations to service providers by partnerships such as a Fund (including any carried interest) as ordinary income for U.S. federal income tax purposes that under current law are treated as an allocation of the partnership's income (and which may be taxed at lower rates than ordinary income). Such rules, as well as any such legislation that may be enacted in the future, could apply to reduce the after-tax returns of individuals associated with a Fund, its General Partner, or the Firm who were or may in the future be granted direct or indirect interests in carried interest, which could make it more difficult for the relevant General Partner and its affiliates to incentivize, attract and retain individuals to perform services for a Fund.
- *Secondaries and other General Partner-Led Transactions.* There continues to be a significant market for secondary sales, General Partner-led transactions, continuation funds, successor fund investments and other transactions, and the Firm reserves the right to dispose of (or seek additional capital for) Fund investments through such means. Many of these transactions involve an auction process run by an investment bank and a buyer (or buyer group) that agrees to purchase all or a portion of one or more investments that will continue to be managed by the Firm following the transaction. Such transactions are permitted to be undertaken for various reasons, including, for example, to balance competing interests between offering liquidity to existing investors and maintaining exposure to an asset where the Firm believes there is the potential for

additional value generation. Where undertaken, existing investors typically are offered certain options relating to receiving liquidity from the transaction or continuing to maintain exposure to the asset, assets or a new portfolio of assets (including a portfolio that combines assets from multiple Funds sponsored by the Firm and its affiliates), often on different terms than their original investment in the Fund. However, certain of such transactions are expected to involve an investor investing (or being required to invest) additional capital in the existing Fund and/or other investment vehicles, a greater exposure to one or more particular portfolio companies, and/or a delay in the full liquidation of the Fund's investment. In other circumstances, even investors that elect to continue to hold a direct or indirect interest in the relevant portfolio company will have their interest adjusted as if distributed (i.e., a portion of such interest will be allocated to the relevant General Partner to the extent of its right to receive carried interest, if any), effectively diluting their interests.

Each of these transactions has the potential for conflicts between the interests of a Fund or investor and those of the Firm or any buyer group that typically are not applicable to more traditional investment sales. For example, in circumstances where the Firm or an affiliate will continue to manage and receive fees and/or performance-based compensation relating to the subject assets following the transaction, (potentially in addition to performance-based compensation earned by the relevant General Partner on the sale of an asset from an existing Fund in such transaction), their incentives are expected to diverge from those of investors who elect to sell their interests. Similarly, there are potential conflicts of interest among the selling Fund, the Firm, the relevant General Partner and any buyer group relating to the valuation and consideration offered for the subject investment(s). To the extent the Firm requires existing investors and/or new buyers to commit capital to a continuation fund or another Fund managed by the Firm in addition to the purchase amount paid in a transaction (including commitments to the relevant Fund in specified ratios to the purchase price), such requirement is expected to have a dilutive effect on the purchase price for the selling Fund and its investors. There can be no assurance that any such transaction will accurately reflect the fair market value of the investment(s) being sold. Further, the relevant General Partner is expected to be incentivized, including through the possibility of receiving additional compensation, to make investments in portfolio companies with the view of holding such investments for longer periods of time or to make investments that it would not otherwise have made if the possibility of liquidity through a secondary transaction did not exist. Where co-investors are invested in an investment subject to such a transaction, there can be no assurance that they will receive the same liquidity or other options as investors in the relevant Fund, and in such circumstances a co-investor may be compelled to receive cash or continue to hold an interest in the relevant investment. In other circumstances, certain investors may not be permitted to continue to maintain exposure to the asset(s) due to a lack of eligibility to invest in a continuation vehicle under relevant securities, tax or other considerations. Although relevant potential conflicts of interest would be disclosed to investors and/or the relevant advisory committee, if applicable, prior to the closing of the transaction, there can be no assurance that the Firm would successfully identify all conflicts of interest or resolve or mitigate all such conflicts of interest in favor of the Fund or any individual investor or group of investors. However, the Firm reserves the right, in its sole discretion, to determine to engage in such transactions, subject to any approvals required in the relevant Fund governing documents. The Firm is permitted to seek the consent of the relevant Fund advisory committee(s), to the extent applicable, to approve conflicts associated with such transactions and accordingly not all investors may necessarily be able to

approve or disapprove of such transactions. Similar to any prospective sale or disposition of Fund investments, to the extent such transactions are not consummated, the relevant Fund is expected to bear all of the related costs in the absence of an agreement with other parties to bear a portion of such costs.

- *Public Health Emergencies; COVID-19.* Pandemics and other widespread public health emergencies, including outbreaks of infectious diseases such as SARS, H1N1/09 flu, avian flu, Ebola and COVID-19, have resulted in historic market disruptions, and future such emergencies have the potential to materially and adversely impact economic production and activity in ways that are impossible to predict, all of which may result in significant losses to the Funds.

The ultimate impact of any such health emergency — and any resulting decline in economic and commercial activity — on global economic conditions, and on the operations, financial condition and performance of any particular industry or business, is impossible to predict, but could have a significant adverse impact and result in significant losses to the Funds. The extent of the impact on the Funds' and their portfolio companies' operational and financial performance will depend on many factors, all of which are highly uncertain and cannot be predicted, and this impact may include significant reductions in revenue and growth, unexpected operational losses and liabilities, impairments to credit quality and reductions in the availability of capital. These same factors may limit the ability of the Funds to source, diligence and execute new investments and to manage, finance and exit investments in the future, and governmental mitigation actions may constrain or alter existing financial, legal and regulatory frameworks in ways that are adverse to the investment strategy the Funds intend to pursue, all of which could adversely affect the Funds' ability to fulfill their investment objectives. They may also impair the ability of portfolio companies or their counterparties to perform their respective obligations under debt instruments and other commercial agreements (including their ability to pay obligations as they become due), potentially leading to defaults with uncertain consequences. In addition, the operations of the Funds, their portfolio companies and the Firm may be significantly impacted, or even temporarily or permanently halted, as a result of any such health emergencies, or any measures, restrictions, remote-working requirements and other factors related thereto, including its potential adverse impact on the health of any such entity's personnel. These measures may also hinder such entities' ability to conduct their affairs and activities as they normally would, including by impairing usual communication channels and methods, hampering the performance of administrative functions such as processing payments and invoices, and diminishing their ability to make accurate and timely projections of financial performance.

- *International Conflicts.* Wars and other international conflicts, such as the conflict in the Middle East and the ongoing military conflict between Russia and Ukraine have caused disruption to global financial systems, trade and transport, among other things. In response, multiple countries have put in place sanctions and other severe restrictions or prohibitions on certain of the countries involved, as well as related individuals and businesses. However, the ultimate impact of these conflicts and their effect on global economic and commercial activity and conditions, and on the operations, financial condition and performance of the Funds or any particular industry, business or investee country and the duration and severity of those effects, is impossible to predict.

These conflicts may have a significant adverse impact and result in significant losses to the Funds. This impact may include reductions in revenue and growth, unexpected operational losses and liabilities and reductions in the availability of capital. It may also limit the ability of a Fund to source, diligence and execute new investments and to manage, finance and exit investments in the future. Developing and further governmental actions (military or otherwise) may cause additional disruption and constrain or alter existing financial, legal and regulatory frameworks and systems in ways that are adverse to the investment strategy which any Fund intends to pursue, all of which could adversely affect the Fund's ability to fulfill its investment objectives.

- *United Kingdom (“UK”) Exit from the European Union (the “EU”).* The UK formally left the EU in 2020 (“Brexit”). After a transition period that ended at the end of 2020, EU rules ceased to apply in the UK. Although the terms of the UK's future relationship with the EU were agreed in a trade and cooperation agreement, such agreement does not include financial services and as a result, UK firms in the financial sector have more limited access to the EU market than prior to Brexit and EU firms similarly have more limited access to the UK, owing to the loss of passporting rights under applicable EU and UK legislation. Alternative arrangements and structures may allow for the provision of cross-border marketing and services between the EU and UK, but these are subject to legal uncertainty and the risk that further legislative and regulatory restrictions could be imposed in the future. As a result of the onshoring of EU legislation in the UK, UK firms are currently subject to many of the same rules and regulations as prior to Brexit. However, the UK Government has stated its intention to recast onshored EU legislation as part of UK legislation and regulation, which could result in substantive changes to regulatory requirements in the UK. It remains to be seen to what extent the UK may elect to implement or mirror future changes in the EU regulatory regime, or to diverge from the current EU-influenced regime over time. It is possible that the EU may respond to UK initiatives by restricting third-country access to EU markets. If the regulatory regimes for EU and UK financial services change or diverge further, this could have an adverse impact on any Fund and its investments (for example, owing to increased costs and complexity and/or new restrictions in relation to cross-border access between the EU and non-EU jurisdictions). There can be no assurance that any renegotiated laws or regulations will not have an adverse impact on a Fund and its investments, including the ability of a Fund to achieve its investment objectives.

The legal, political and economic uncertainty and disruption generally resulting from Brexit may adversely affect both EU- and UK-based businesses. Brexit has already led to disruptions in trade as businesses attempt to adapt cross-border procedures and rules applicable in the UK and in the EU to their activities, products, customers, and suppliers. Continuing uncertainty and the prospect of further disruption may also result in an economic slowdown and/or a deteriorating business environment in the UK and in one or more EU member states.

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

- *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 Funds emphasize 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. These companies may require multiple rounds of financing, and the amount of additional financing, whether from the Fund(s) or other investors or third parties, is typically intended to provide them with enough capital to reach their next major milestone. If the funds provided are not sufficient, these companies may need to raise additional capital at a price unfavorable to existing investors, including the Fund(s). The Fund(s) may make additional investments in order to preserve their proportionate ownership when a subsequent financing is planned, or to protect their investment when such companies' performance does not meet expectations. If additional capital is needed by such companies, it may not be available on reasonable terms, or at all, which could adversely impact the investment by the Fund(s). 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, without limitation: 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 such an investment will depend not only on the efforts of the Firm, but also upon actions of other key individuals or extraneous factors, including political or economic developments over which the Firm or Funds have little or no control. Many early stage investments are heavily dependent on support provided by 3DC. 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. There is a risk that investors could lose some or all of their money.

- *Deal Sourcing – Research Collaborations.* In addition to the Firm's traditional sourcing mechanisms, the Firm believes that a differentiating feature for Innovations Funds and certain Private Design Funds is access to a significant number of very early stage investment opportunities arising out of joint research and development arrangements ("Research Collaborations") between (1) certain universities, other non-profit research institutions, and healthcare industry partners ("Research Partners") and (2) a Fund and other investment vehicles managed by the Firm. It is anticipated that the Research Collaborations will give rise to the opportunity to invest into multiple separate research projects (each, a "Collaboration Project") over a number of years. Investments made by a Fund in connection with Research Collaborations and Collaboration Projects will result in risks and conflicts of interest described more fully in "Certain Conflicts of Interest in Providing Services to Funds – Joint Research and Development Arrangements" in Item 10 below.
- *Subscription Lines and Fund Level Borrowing.* An Innovations Fund or Private Design Fund generally is permitted to enter into a subscription line with one or more lenders in order to finance its operations including the acquisition, financing or refinancing of the Fund's investments, as well as to consolidate or make less frequent capital calls to investors. Fund-level borrowing subjects investors to certain risks and costs. For example, because amounts borrowed under a subscription line typically are secured by pledges of the relevant General Partner's right

to call capital from investors, investors may be obligated to contribute capital on an accelerated basis if a Fund fails to repay the amounts borrowed under a subscription line or experiences an event of default thereunder. Moreover, any investor claim against a Fund would likely be subordinate to a Fund's obligations to a subscription line's creditors.

In addition, Fund-level borrowing will result in additional Fund expenses that will be borne by investors. These expenses typically include interest on the amounts borrowed, unused commitment fees on the committed but unfunded portion of a subscription line, an upfront fee for establishing a subscription line, and other one-time and recurring fees and/or expenses, as well as legal fees (including the lender's legal fees) relating to the establishment, structuring and negotiation of the terms of the borrowing facility, as well as expenses relating to the maintaining, renegotiating or terminating the facility. Because a subscription line's interest rate is based in part on the creditworthiness of investors and the terms of a Fund's governing documents, it may be higher than the interest rate an investor could obtain individually. To the extent a particular investor's cost of capital is lower than a Fund's cost of borrowing, Fund-level borrowing can negatively impact an investor's overall individual financial returns even if it increases a Fund's reported net returns in certain methods of calculation. Conflicts of interest have the potential to arise in that the use of Fund-level borrowing typically delays the need for investors to make contributions to a Fund, or results in short-term gains to a Fund, which in certain circumstances enhances a Fund's return calculations and thereby may be deemed to benefit the marketing efforts of the Firm and its affiliates. A portfolio company financing from a subscription line, rather than from a Fund-level equity commitment, has the potential to increase such returns, particularly in instances where the relevant amount has been drawn for an extended period of time. In other circumstances the use of Fund-level borrowing can increase the base of a Fund's management fee calculation, such as during periods where management fees are based in whole or in part on an acquisition cost that includes a borrowing component. Because management fees are incurred whether an investment is financed through capital calls or borrowings, the relevant General Partner has an incentive to cause the Fund to make investments and/or pay such amounts using a subscription line rather than making capital calls. Conflicts of interest also have the potential to arise to the extent that a subscription line is used to make an investment that is later sold in part to co-investors (including one or more co-investing Funds), to the extent co-investors are not required to act as guarantors under the relevant facility or pay related costs or expenses, since co-investors nevertheless stand to receive the benefit of the use of the subscription line and neither a Fund nor investors generally will be compensated for providing the relevant guarantee(s) or being subject to the related costs, expenses and/or liabilities.

A credit agreement or borrowing facility frequently will contain other terms that restrict the activities of a Fund and its investors or impose additional obligations on them. For example, certain lenders or facilities are expected to impose restrictions on the relevant General Partner's ability to consent to the transfer of an investor's interest in a Fund or impose concentration or other limits on a Fund's investments, and/or financial or other covenants, which could affect the implementation of a Fund's investment strategy. In addition, in order to secure a subscription line, the relevant General Partner may request certain financial information and other documentation from investors to share with lenders. The relevant General Partner will have significant discretion in negotiating the terms of any subscription line and may agree to terms that are not the most favorable to one or more investors.

Fund-level borrowing involves a number of additional risks. For example, drawing down on a subscription line allows a General Partner to fund investments and pay Fund expenses without calling capital, potentially for extended periods of time. Calling a large amount of capital at once to repay the then-current amount outstanding under a subscription line could cause short-term liquidity concerns for investors that would not arise had the relevant General Partner called smaller amounts of capital incrementally over time as needed by a Fund. This risk would be heightened for an investor with commitments to other investment funds that employ similar borrowing strategies or with respect to other leveraged assets in its portfolio; a single market event could trigger simultaneous capital calls, requiring the investor to meet the accumulated, larger capital calls at the same time. A General Partner is authorized to use Fund-level borrowing to pay management fees and to reimburse the Firm and its affiliates for expenses incurred on behalf of a Fund.

In certain cases and subject to the applicable limitations in a Fund's governing documents, a Fund may guarantee borrowings by portfolio companies, including on a joint and several basis with other Funds. While this can enable a portfolio company to borrow higher amounts and/or on better terms than if the Fund did not provide a guarantee, the Fund will be financially responsible if a portfolio company defaults on its debt obligation. The Fund may also be independently liable for the full amount of a guaranteed indebtedness if another Fund with which it is jointly and severally liable is unable to satisfy its portion of the guarantee. Such guarantees could result in additional losses for the Fund with respect to such portfolio companies and could cause the Fund to reserve cash to support such guarantees that it might otherwise use for different purposes. Accordingly, any event that adversely affects the value of an investment by the Fund may be magnified to the extent that a portfolio company in which the Fund invests is leveraged. A Fund may also enter into letters of credit in support of one or more of its investments, including for the purpose of such Fund agreeing to fund additional equity financing or capital expenditures into a portfolio company (regardless of who the beneficiary to such letter of credit may be) at a certain time or upon the occurrence of a certain event. Although in many cases the governing documents impose limits on borrowings at the Fund level, portfolio investments and intermediate entities generally do not have such limits on their ability to engage in borrowings or incur leverage with respect to all or a portion of the relevant investments. The foregoing risks are also applicable to the Public Securities Strategy.

- *Valuation of Early Stage Healthcare Companies or Investments.* Generally, there will be no readily available market for a substantial portion of an Innovations Fund's or Private Design Fund's investments and, therefore, most of such portfolio investments will be difficult to value. The valuation of certain early stage health care companies or investments, including those pursuing regulatory approvals required for commercialization, are often less predictable than later-stage companies or companies in other sectors. Valuations of early stage investments or companies invested in by a Private Design Fund or an Innovations Fund might not be as reliable as valuations of later-stage companies with more observable valuation inputs or readily available market pricing. Moreover, certain financial and scientific challenges specific to early stage health care companies, such as the inherent uncertainty in the evaluation of the cost, risk and time of research and development, the outcomes of clinical trials, receipt of regulatory approvals and achievement of key milestones, could further adversely affect the reliability of the Firm's or the applicable General Partner's valuations of these investments.

- *Need for Follow On Investments.* Following an initial investment in a given portfolio company, the Firm anticipates that a Fund will be called upon frequently to provide additional funds to such portfolio company or will have the opportunity to increase its investment in such portfolio company. Although the Firm may use capital commitments to make follow-on investments, there is no assurance that the Fund and its co-investors, if any, will provide all necessary follow-on capital. Accordingly, third-party sources of financing may be required, but there is no assurance that such additional sources of financing will be available, or, if available, will be on terms favorable to the Fund. Furthermore, the Fund's capital is limited and may not be adequate to protect the Fund from dilution resulting from multiple rounds of financings of portfolio companies. If the Fund does not have capital available to participate in subsequent rounds of financing, failure to participate may have a significant negative impact on the portfolio company (including an event of default under applicable debt documents) and the Fund. Additionally, such failure to make such investments may result in a lost opportunity for the Fund to increase its participation in a successful portfolio company or the dilution of the Fund's ownership in a portfolio company if a third party invests in such portfolio company.
- *Control Liability.* In many cases, a Private Design Fund or an Innovations Fund will, individually or collectively with other Funds, own a significant or controlling percentage of the equity of a portfolio company. Significant or controlling ownership and serving on the board of directors of portfolio company exposes a Fund's representatives (including the Firm and its personnel), and ultimately the Fund, to potential liability because the Fund or its representatives may in certain cases be viewed as participating in the management of, influencing the conduct of, or controlling a portfolio company. Although portfolio companies often have insurance to protect directors and officers from such liability, such insurance may not be obtained by all portfolio companies in which a Private Design Fund or an Innovations Fund may have a significant or controlling interest and may be insufficient to cover the cost of liability if obtained. The possibility of successful claims cannot be eliminated, and such events may have a significant adverse effect on a Fund.
- *Real Estate Investments.* Certain Private Design Funds and Innovations Funds may invest in real estate associated with healthcare related companies and, therefore, may be subject to risks associated with the direct ownership of real estate, such as local real estate conditions, operating problems arising out of the absence of certain construction materials, changes in supply of, or demand for, competing properties in an area, the financial condition of tenants, buyers and sellers of properties, changes in availability and cost of debt financing, changes in the tax, real estate, environmental and zoning laws and regulations, various uninsured or uninsurable risks, natural disaster, and the ability to manage the real properties and/or obtain necessary occupancy or operating permits.

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, and market conditions may change.



---

**ITEM 9 – DISCIPLINARY INFORMATION**

---

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 appealed the verdict. A divided panel of the Court of Appeals for the Second Circuit affirmed the verdict in December 2019. The Court denied rehearing *en banc* in April 2020. In July 2020, the Court of Appeals for the Second Circuit granted the individuals’ motions to stay the mandate pending filing of petitions for a writ of certiorari in the Supreme Court. In January 2021, the Supreme Court granted the individuals’ petitions for a writ of certiorari, vacated the decision of the Court of Appeals for the Second Circuit, and remanded the case to the Court of Appeals for the Second Circuit for further consideration in light of the Supreme Court decision in *Kelly v. United States*. In December 2022, the Court of Appeals for the Second Circuit vacated the convictions of the two individuals formerly associated with the Firm and remanded the case to the District Court for the dismissal of all counts against them except for one conspiracy count, which it remanded to the District Court for further proceedings. In October 2023, pursuant to the terms of a deferred prosecution agreement with each individual, the one remaining charge was dismissed. In November 2023, the SEC dismissed the complaint it had filed. 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 personnel 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 Investment Adviser Public Disclosure website at <https://adviserinfo.sec.gov>.

---

## ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

---

### Broker-Dealer Registration Status

The Firm and its management persons 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.

### Alternative Investment Fund Managers Regulations

An affiliate of the Firm is eligible to be marketed in the United Kingdom via its National Private Placement Regime, and the Firm is the alternative investment fund manager of the affiliate under the United Kingdom Alternative Investment Fund Managers Regulations 2013.

### Material Relationships or Arrangements with Industry Participants

The Firm has previously sponsored four prior healthcare special purpose acquisition companies: DFB Healthcare Acquisitions Corp., which completed its IPO in February 2018 and completed its business combination with AdaptHealth Corp. in November 2019; Deerfield Healthcare Technology Acquisitions Corp., which completed its IPO in July 2020 and completed its business combination with CareMax Inc. in June 2021; DFP Healthcare Acquisitions Corp., which completed its IPO in March 2020 and completed its business combination with The Oncology Institute, Inc. in November 2021; and DA32 Life Science Tech Acquisition Corp., which completed its IPO in July 2021 and redeemed all of its outstanding shares in July 2023 because it was not able to consummate an initial business combination within the required time period.

An indirect subsidiary of the Firm, 345 PAS Holding LLC, obtained financing from financial institutions in connection with its ongoing operation of and activities at the Cure. The Firm is a guarantor of certain obligations under the financing arrangement.

### 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, or that portfolio companies of the Funds acquire or enter into financial transactions with 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. Portfolio companies of the Funds may acquire or enter into financial transactions with ABV portfolio companies. This conflict is mitigated, however, by the fact that such supervised persons do not control portfolio companies of the Funds, and proposed transactions involving portfolio companies of Funds and ABV portfolio companies involve independent personnel and/or are reviewed and approved by personnel of the Firm who do not receive any financial or other benefits from ABV or the ABV Private Funds.

The Firm has an arrangement with EntryPoint Capital LLC (“EntryPoint”), an Exempt Reporting Adviser, involving the provision of specialized consulting services by EntryPoint relating to quantitative research and modeling to Deerfield Partners, L.P. and the sharing of the Firm’s expertise, insights and knowledge with EntryPoint. Deerfield Partners, L.P. bears the costs of such consulting services. Under the arrangement, the Firm has a license to certain EntryPoint intellectual property related to systematic models. EntryPoint is entitled to receive from the Firm a portion of performance-based compensation received by the General Partner of Deerfield Partners, L.P. and a portion of management fees received by the Firm from Deerfield Partners, L.P.. The Firm is entitled to receive from EntryPoint a portion of performance-based compensation received by EntryPoint from funds and accounts using EntryPoint’s systematic models. The Firm has a conflict because its receipt of compensation from EntryPoint is contingent on a Fund’s continued investment use of EntryPoint’s intellectual property. This is mitigated by the fact that the Firm would not expect to continue to use such intellectual property unless it generates adequate returns. The Firm also has a conflict because it is incentivized to encourage other parties to use EntryPoint’s systematic models, which could create competition in securities pursued by the Fund. This is mitigated due to restrictions imposed on EntryPoint that provide that EntryPoint may not (i) manage funds or accounts that invest in securities of healthcare companies (other than incidentally as part of a broad multi-sector diversification) if such funds and accounts include outside capital or (ii) provide services similar to the services provided to the Firm and Fund to healthcare-focused asset managers as well as non-healthcare focused asset managers that desire to use the EntryPoint’s systematic models to invest in healthcare focused strategies. While the Fund’s use of EntryPoint intellectual property may involve trading a limited amount of non-healthcare securities, the primary focus is healthcare.

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, which may have investment strategies that

are similar to, different from, 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 and the Deerfield Foundation receive an allocation of profits earned by each of the Funds. The General Partner of Deerfield Healthcare Innovations Fund, L.P., however, does not receive any portion of the profits earned by the Fund, as profits not allocated to investors are received by the Deerfield Foundation. 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. Similarly, the Foundation and certain third parties are entitled to receive a portion of the performance-based fees received by the General Partner from certain Funds. The Firm will have an incentive to allocate investment opportunities to Funds in which such third parties do not receive an allocation of profits. The Firm and its affiliates have an obligation to make investment decisions for the purpose of benefiting 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 may simultaneously invest or has already invested. In such case, such Funds may hold interests in different classes of securities in the portfolio company's capital structure. Accordingly, such Funds 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 addition, the Firm may cause a portfolio company or Collaboration Project in which a Fund is invested to be combined with a portfolio company or Collaboration Project in which another Fund is invested. The combination may ultimately result in economics or returns that are different, and possibly less favorable, than if the combination had not occurred. In other circumstances, during the period that a portfolio company is owned by a Fund, such portfolio company could become a suitable investment for one or more other Funds due to size, revenue, earnings, change in business focus or other characteristics. 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. A Fund may also invest in or sponsor a SPAC that identifies a portfolio company of another Fund as a potential target for an initial business combination. A conflict of interest exists in that the Firm may be incentivized to cause the SPAC to target and/or consummate a business combination with a portfolio company of another Fund. This conflict is mitigated by the fact that the Firm is generally not in a position to influence or participate in the activities of a SPAC in which a Fund is invested unless the Fund is also the SPAC sponsor, and with respect to a SPAC for which the Fund is a SPAC sponsor, the SPAC officers and directors owe certain duties to SPAC investors. A conflict of interest also exists in that the Firm may be incentivized to cause a portfolio company of a Fund to consummate a business combination with a SPAC in which another Fund has an investment or sponsorship. This potential conflict is mitigated by the fact that the Firm is generally not in a position to influence business combination decisions of a SPAC in which a Fund is invested unless the Fund is also the SPAC sponsor, and with respect to a SPAC for which the Fund is a SPAC sponsor, the Firm's personnel serving on the portfolio company's board owe duties to other shareholders of the portfolio company.

*Joint Research and Development Arrangements.* The Innovation Funds and certain Private Design Funds have entered into Research Collaborations. Although the terms of each Research Collaboration are negotiated and can vary, each Research Collaboration typically provides for (a) payments to the Research Partner for research relating to Collaboration Projects, (b) access to information regarding the Research Partner's scientific research and/or background intellectual property owned or controlled by the Research Partner, (c) the grant by the Research Partner to a Fund or Collaboration Company of certain options, licenses, preferential rights of negotiation or first refusal or similar rights or benefits with respect to background intellectual property, research results and intellectual property relating to Collaboration Projects, and (d) potential investment by a Fund or Collaboration Company in one or more Collaboration Projects or companies formed to further develop products and technologies resulting from Collaboration Projects (each, a "Research Company"). Multiple Funds may invest in a Collaboration Company that undertakes multiple Collaboration Projects, and any given Collaboration Project may be invested in by both a Fund and one or more other Funds; however, each Collaboration Project is treated as a separate investment, so the investments of the Fund and other Funds in a given Collaboration Project may not be proportionate to the investment of such entities in the Collaboration Company. Expenses and liabilities associated with a Collaboration Project will be apportioned to a Fund and other Funds invested in that particular Collaboration Project; however, there is no guarantee that liabilities associated with a Collaboration Project will be limited to the investors participating in such Collaboration Project. Overhead and general expenses of a Collaboration Company that cannot be precisely attributed to a given Collaboration Project may be allocated to a Fund and other Funds invested in the Collaboration Company in a manner determined by the Firm to be fair and reasonable. At any time, a Collaboration Company may contribute the assets of a Collaboration Project to a Research Company, and it is expected that, subject to available capital, remaining fund life, investment concentration and other factors that the Firm may consider, a Fund and other Funds that invest in a Collaboration Project will also invest in the Research Company to which such research project may be contributed, and subject to such considerations Funds that did not invest in the Collaboration Project may invest in the Research Company. As a result, Funds that did not originally invest in a Collaboration Project may in the future benefit, directly or indirectly, from Collaboration Projects funded by a Fund, and a Fund may benefit from Collaboration Projects, and resulting Research Companies, initially funded by other Funds.

It is also expected that Research Companies (related to the same or different Research Partners) will often be engaged in the development of related products and technologies, may collaborate extensively with each other, may rely on some of the same personnel (especially academic and research personnel within the same Research Partner, where applicable), may share ideas and other information, including proprietary information, may enter into licensing, joint development or other commercial transactions with each other, and otherwise may engage in a wide range of joint or related activities. Accordingly, it is likely that certain Collaboration Companies and Research Companies in which a Fund is not an investor will benefit from certain activities of Collaboration Companies and Research Companies in which a Fund is an investor, and under Research Collaborations to which a Fund is a party, and that certain Collaboration Companies and Research Companies in which a Fund is an investor will benefit from certain activities of Collaboration Companies and Research Companies in which a Fund is not an investor, and under Research Collaborations to which a Fund is not a party. The Firm believes that this environment of cooperation and joint development activities involving multiple Research Partners will benefit all of the Collaboration Companies and Research Companies, and indirectly the Funds, by creating an environment that will foster an enriched research environment and serve as an incubator for the development and commercialization of new products and technologies, and that any costs, in terms of the potential benefits provided to Funds and their portfolio investments (which

will be inherently difficult to quantify), will be offset in whole or in part by the potential benefits provided to each Fund and its portfolio companies.

A Research Partner that is a party to a Research Collaboration, or one or more of its affiliates, may be a current or prospective investor in the Fund or have another relationship with the Firm or its affiliates, such as leasing space from 345 PAS Holding LLC at the Cure building. A Research Partner that is a party to a Research Collaboration could also become involved in one or more transactions with a Fund, or with a portfolio company of a Fund. The Firm and its affiliates may have an incentive to cause a Fund to enter into a Research Collaboration in order to encourage or maintain an investment by the Research Partner or its affiliates in such Fund or other Funds or in other transactions involving the Research Partner.

In many instances, a Research Collaboration will entitle investment vehicles managed or advised by the Firm to invest up to a pre-determined amount into any Research Company arising as a result of such Research Collaboration at a pre-determined pre-money valuation. Such pre-determined pre-money valuation may not equal the then fair market valuation of such Research Company. To the extent other Funds have invested in a Research Company prior to a Fund, such Fund (and any other Funds) may be harmed or benefited, as a result of such arrangement. Similarly, to the extent Funds invest into a Research Company after a Fund has invested, such Fund (and such other Funds) similarly may be harmed or benefited, depending on whether the actual fair market value of such Research Company is more or less than the pre-determined pre-money valuation. Although the Firm may take steps to ameliorate this harm or benefit, it is not obligated to do so.

The Firm and its affiliates, Collaboration Companies and/or Research Companies will employ personnel with scientific and technical skills to assist in the evaluation of research and development proposals received from Research Partners and their personnel. It is anticipated that these personnel may cooperate closely with each other and make relevant expertise available on a regular ongoing basis. Accordingly, certain Collaboration Companies and Research Companies in which a Fund is not an investor may benefit from certain activities and expertise of personnel of Collaboration Companies and Research Companies in which a Fund is an investor, and vice versa. The Firm or its affiliates will also receive benefits from personnel of Collaboration Companies and Research Companies in the form of information, ideas, consulting or other services, which benefits, subject to any applicable confidentiality agreements, may be used by the Firm or its affiliates for their own purposes or shared by the Firm or its affiliates with or for the benefit of other Funds or other Collaboration Companies and Research Companies, including other Collaboration Companies and Research Companies in which a Fund is not an investor. Although the Firm may impose intercompany fees and expense reimbursement arrangements that it considers reasonable under the circumstances in connection with any of the activities and arrangements described in this paragraph and the preceding paragraphs, the Firm makes no representation that such reimbursement arrangements will be entered into or that intercompany fee and expense reimbursement arrangements will be appropriate, reasonable or sufficient for any purpose.

*Operating Partners.* The Firm has retained, and expects to retain, for the benefit of the Innovations Funds and Private Design Funds and/or their portfolio companies, as applicable, “operating partners”, “venture partners”, “entrepreneurs-in-residence”, “strategic partners”, “executive partners”, “senior advisors” or other similar consultants of the Fund or its affiliates (collectively, “Operating Partners”). Operating Partners may regularly provide services to one or more portfolio companies in relation to the identification, acquisition, holding, improvement and disposition of such portfolio companies, including operational aspects of such companies. Certain Operating Partners may also provide services to, or in connection with, one or more Funds in relation to their activities.

Pursuant to a Fund's governing documents, fees and expenses associated with the services provided by Operating Partners (collectively "Operating Partner Fees and Expenses") may be paid and/or reimbursed by applicable portfolio companies and/or, in many instances, the applicable Funds, and Operating Partner Fees and Expenses do not offset the management fee. In certain cases, including where a Fund does not own a controlling interest in a portfolio company, the portfolio company, its management and/or equity holders potentially will not agree to engage and/or bear the costs of Operating Partners. In such cases, where the relevant General Partner believes the services of the Operating Partners will benefit a portfolio company, it may cause the Fund to bear such costs directly, resulting in the Fund bearing a disproportionate share of those costs vis-à-vis other equity holders of a portfolio company, notwithstanding that other equity holders in that portfolio company will receive the benefit of any returns that result from Operating Partners services. Operating Partner Fees and Expenses may include, without limitation, cash fees, profits or equity interests in a portfolio company, a share of proceeds upon sale of a portfolio company and/or other compensation, including incentive-based compensation, to the Operating Partner. Operating Partner Fees and Expenses may be determined according to one or more methods, including, without limitation, the value of the time (including an allocation for overhead and other fixed costs) of the Operating Partner, a percentage, or percentage of the value, of the portfolio company, the invested capital exposed to such portfolio company, amounts charged by other providers for comparable services and/or a percentage of cash flows from such company. Additionally, portfolio companies may provide opportunities for Operating Partners to invest in such portfolio companies and reimburse costs and expenses incurred by Operating Partners. Operating Partners also may receive remuneration from the Firm and/or a Fund or affiliates and/or be entitled to other forms of compensation. Such investment opportunities, reimbursements and other compensation paid to an Operating Partner, including Operating Partner fees and expenses, will not offset the management fee. Operating Partners may have a limited partnership or profit interest in a Fund, a General Partner, one or more other investment funds sponsored by such General Partner or in an affiliate of such General Partner. Although the Firm intends to retain Operating Partners with a view to enhancing portfolio company performance, a number of factors may result in limited or no benefit. In addition, the Firm intends to retain only such Operating Partners which it believes provide a level of service consistent with other relevant market alternatives. However, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

It is also expected that employees of the Firm, 3DC and/or their respective affiliates will take on temporary, interim or permanent roles and positions at portfolio companies, and will receive remuneration (whether in the form of cash, securities or otherwise) for service in such roles and positions. Subject to advisory committee consent rights under applicable Fund governing documents, where applicable, any such employee (or former employee) designated as an Operating Partner, may (subject to agreement with the Firm or its affiliates) retain all remuneration paid by the applicable portfolio company to such Operating Partner in exchange for serving in the applicable role or position at such portfolio company, and no portion of such remuneration will constitute Fees Subject to Offset, and the management fee rate of the investors will not be reduced by the amount of such remuneration (in each instance, regardless of whether such Operating Partner continues to receive remuneration directly from, or later returns to, the Firm, 3DC or their respective affiliates on a full-time (or part-time) basis, and with respect to any securities received by such employee, regardless of the date on which such securities are exchanged, exercised, converted, sold or otherwise monetized, which, for the sake of clarity, may occur on a date on or after an Operating Partner returns to the Firm, 3DC or their respective affiliates on a full-time (or part-time) basis). For the avoidance of doubt, remuneration paid by any portfolio company attributable to an Operating Partner, in his or her capacity as such, will not be treated as normal administrative and overhead expenses of a General Partner and/or the

Firm. Additionally, subject to advisory committee consent rights under Fund governing documents, if any, if the applicable role or position assumed by such employee (or former employee) is “permanent”, then such employee (or former employee) shall be deemed an Operating Partner with respect to all portfolio companies such person serves for so long as such treatment is applicable.

*3DC and Genscience.* The Firm has created 3DC and Genscience, and may create additional entities, to provide access to Discovery Specialists who may or may not be employees of the Firm, 3DC, Genscience or their affiliates. 3DC and Genscience are affiliates of the Firm. 3DC and Genscience are engaged by prospective or actual portfolio companies of the Funds to facilitate the incubation, development and/or operations of certain portfolio companies by providing access to certain goods, facilities, intellectual property and services (directly and indirectly through contracts with third parties), as well as access to Discovery Specialists. Such services may include, without limitation, the following: access to laboratory (including wet laboratory), office and meeting space; office support and administrative services, including communications systems, website development, internet connections, human resources and recruiting services (including recruiting of Discovery Specialists) and bookkeeping and accounting services; drug and device development and discovery, including software and services (such as computational chemistry, computational biology, genomics, genetics analytics, and electronic laboratory notebooks), genomic sequencing facilities and services, molecular imaging services, scheduling, planning, logistics, and project management services, proprietary animal models, chemical compound libraries, tissue banks, virtual and tangible compound libraries and tissue samples, assays, laboratory hardware, reagents and data, databases, information, research and other libraries including genomic and phenotypic data and related data and information services; artificial intelligence, biomarker development, machine learning and data analysis; software, platform or portal and related infrastructure for research project evaluation and execution, academic and industry outreach, and business development in relation to portfolio companies and Research Collaborations, including development and maintenance thereof; three dimensional printing (such as for medical devices and therapeutics); services useful for the performance of drug and device development, including medicinal chemistry, assay development, data storage, compound handling, toxicology, product and manufacturing engineering, manufacturing and project management; other goods, facilities, intellectual property and services useful or necessary for the incubation, development and/or operations of start-up companies that engage in drug, device or diagnostics development and discovery, other medical research; and other items that will assist in the research, discovery and/or development, testing, regulatory approval process, manufacturing, licensing, business development and/or marketing and other operations of or for the benefit of one or more portfolio companies or the creation or delivery of healthcare services. Such goods, facilities, intellectual property and services will be provided (i) by the Firm, 3DC, Genscience or their affiliates (including by Discovery Specialists) and (ii) by way of contracts with third parties (as defined more specifically above, the “Third Party Services”), and will include a broad range of goods, facilities, services and intellectual property useful to one or more portfolio companies, that may be used by Firm, 3DC, Genscience or their affiliates in furtherance of providing services and in enabling the Discovery Specialists to provide services to the portfolio companies (and the Funds).

While it is expected that access to facilities, goods, services and intellectual property via the Firm, 3DC, Genscience or their affiliates will result in greater and more efficient access to discovery and medical research capabilities as well as improved economic terms for the portfolio companies, this could be incorrect, and the portfolio companies may have been able to obtain equivalent or better economic terms by not contracting with or through the Firm, 3DC or their affiliates. To the extent the Firm, 3DC, Genscience, the Funds, their affiliates and/or other portfolio companies avail themselves of facilities, goods, services and intellectual



property provided by third parties via the Firm, 3DC, Genscience and/or their affiliates, they similarly be able to obtain such improved economic terms. In addition, it is likely that certain portfolio companies will receive a disproportionate benefit as a result of contracting with or through the Firm, 3DC, Genscience and/or their affiliates and other portfolio companies of other Funds will ultimately not receive a benefit (for example, when 3DC initially contracts with a third party for a portfolio company, the costs may be greater than the costs when 3DC subsequently contracts for the same or similar goods or services for another (additional) portfolio company). Furthermore, while it is anticipated that any intellectual property developed by the Firm, 3DC, Genscience and their affiliates in respect of services contracted for the benefit of any portfolio company will accrue to the benefit of such portfolio company, it is expected that the Firm, 3DC and/or their affiliates will retain rights to use certain intellectual property, in particular intellectual property that the Firm characterizes (in its discretion) as “platform” intellectual property, including the ability to license such intellectual property, or otherwise provide services using such intellectual property, to other portfolio companies as well as to other third parties, including for profit.

The portfolio companies that benefit from the services of 3DC and/or Genscience will either bear certain costs associated with such services (including the services of the Discovery Specialists) directly or be required to pay to the Firm, 3DC, Genscience and/or their affiliates its share (as determined by the Firm, 3DC or their affiliates) of any costs incurred by the Firm, 3DC, Genscience and/or their affiliates on such portfolio companies’ behalf or otherwise apportioned to such portfolio companies. Except in limited circumstances as disclosed below, any such expenses will not be subject to the management fee offset of a Fund. Additionally, as disclosed above, the Firm will need to apportion expenses associated with the Firm’s, 3DC’s, Genscience’s or their affiliates’ services, including the Discovery Specialists, among the Funds and their portfolio companies. While any such expenses paid with respect to the Firm’s, 3DC’s, Genscience’s and/or their affiliates’ services are expected to be reasonable, the Firm makes no representation that such expenses will be reasonable. In addition, the Firm will use a variety of methodologies in apportioning expenses among the Funds, their portfolio companies and, to the extent applicable, the Firm and its affiliates. While the Firm will apportion such expenses in a manner it believes to be fair and equitable, there will be situations where the portfolio companies and Funds bear more (or less) than their actual benefit.

The Firm may cause a portfolio company to make its “platform” intellectual property available to other portfolio companies, including the portfolio companies of other Funds, on economic terms that may, from the providing entity’s perspective, be less remunerative than the terms on which it makes such intellectual property available to other parties and could cause such providing entity to forego more profitable work. This may not be in the best interest of the portfolio company providing such “platform” intellectual property.

3DC has limited operating history and its ability to provide benefits to companies is not yet fully tested; anticipated benefits as a result of transactions between a Fund and its portfolio companies on the one hand, and the Firm, 3DC and/or their affiliates on the other hand, may not materialize.

The Firm, 3DC, Genscience and their affiliates may provide goods, services, facilities and intellectual property to unaffiliated third parties, including those which may compete with the Firm, 3DC, Genscience, their affiliates, or portfolio companies, for profit. For example, Genscience makes goods, services and intellectual property available to unaffiliated third party customers for profit.

*Discovery Specialists.* 3DC, Genscience, the Firm and/or their affiliates retain or will retain Discovery Specialists as employees or consultants to support the discovery activities (e.g., drug discovery, medical

device discovery) and operations or other activities of one or more portfolio companies of the Funds (including portfolio companies of multiple Funds). Portfolio companies will be charged for services performed by such Discovery Specialists and the amounts charged will not exceed the “all-in” cost of such Discovery Specialists (e.g., including salaries, bonuses, benefits and expenses, office expenses (including an allocated portion of overhead and insurance)), office and equipment rental or acquisition expenses (e.g., computers, 3D printers and other equipment), entertainment expenses and travel expenses (including in relation to attending symposiums, presentations, lectures and specialized conferences). The Firm will apportion the fees associated with such services among the portfolio companies and the Funds on a basis that the Firm determines to be fair and equitable. While the amounts paid with respect to Discovery Specialists are expected to be reasonable, the Firm makes no representation that such amounts will be reasonable. Such amounts charged for services performed by Discovery Specialists will not be offset against the management fee as described below.

Discovery Specialists and employees and consultants of the Firm, 3DC or Genscience, in addition to assisting portfolio companies, will provide assistance to the Firm, its affiliates and other entities, and such assistance will often be provided without charge. In addition, while portfolio companies will generally enter into contracts for services provided by the Discovery Specialists, 3DC and Genscience, certain services will be provided either in the absence of contracts or without charge. Accordingly, the Firm, its affiliates and other entities will benefit from the provision of services by Discovery Specialists and employees and consultants of 3DC and Genscience to portfolio companies, and other portfolio companies of a Fund and portfolio companies of other Funds may benefit from such services.

*Allocation of Investment Opportunities.* The Firm expects that investment opportunities that it determines are within the strategy of a Fund may in certain circumstances be allocated to one or more other Funds, and that such investment opportunities that are allocated to a Fund will also be allocated to one or more other Funds. In particular, but not in limitation of the foregoing, it is expected that one or more Innovations Funds will co-invest alongside one or more Private Design Funds in early stage investments made by Innovations Funds. Such allocations may be more advantageous to a Fund relative to one or all of the other Funds, or vice versa. Accordingly, a Fund may not invest in a particular opportunity, and a Fund may acquire less than the entire amount of an opportunity that is otherwise available to such Fund. When an investment is appropriate for more than one Fund, the Firm attempts to appropriately size and fairly allocate the opportunity among the applicable Funds. 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. A description of the Firm’s investment allocation approach is described in Item 11, below. There can be no assurance that the allocation of investment opportunities by the Firm will not give rise to conflicts of interest among a Fund, other Funds and their respective investors or that the terms on which the allocation is made will be as favorable as they would be if the conflicts of interest to which the Firm may be subject did not exist. In the event that the available amount of an investment opportunity in which the Funds will invest exceeds an amount appropriate for such Funds, such excess may also be offered to one or more potential investors. In addition, investors (or their affiliates) that are party to a Research Collaboration may be entitled to invest alongside the Fund in their capacity as a Research Partner party to a Research Collaboration, in investments by the Fund arising as a result of (or in connection with) such Research Collaboration. Furthermore, such investment by such investor (or its affiliate) is expected to reduce the total amount that the Fund may invest in the applicable investment opportunity.

*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.

*Officers and Directors of Portfolio Companies.* Firm personnel serve as officers or directors of, or acquire board observer or information rights with respect to, 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 officers or directors. While officer and 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 Deerfield Partners, L.P., to purchase or 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 officer or 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 officer- or 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, 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 and certain affiliates of the Firm 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 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 or other transactions with one another, which transactions may be recommended and/or caused by the Firm. Such transactions may arise in the context, for example, where a portfolio company owned by one Fund is acquired by a portfolio company acquired by another Fund. In addition, 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, which may be at a discount price. Such price may be less remunerative to the providing portfolio company than the terms on which it makes such intellectual property available to other parties, which could cause the providing portfolio company to forego more profitable work. However, it is expected that the providing portfolio company would not provide such goods, services or intellectual property if it is unprofitable to do so. 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 are conducted through or supported by the Firm or 3DC, with such portfolio companies paying fees to the Firm or 3DC for goods, services, intellectual property and facilities, which fees are not treated as a reduction or offset to the relevant 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 the Firm or 3DC for goods, services, intellectual property and facilities. 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. Certain goods and services will have utility for multiple Funds and portfolio companies and be used for a variety of purposes and are allocated fairly based on methodologies developed by the Firm. Certain portfolio companies lease and will lease office and/or laboratory space from an affiliate of the Firm. The leasing of space and the terms on which such space will be leased by portfolio companies will give rise to conflicts of interest, though the Firm expects to mitigate such conflicts by reducing management fees by any rent paid by portfolio companies controlled by the Firm that is in excess of "reasonable rent". A conflict of interest arises in the determination by the Firm as to what constitutes reasonable rent, and a Fund will be reliant on the determinations of the Firm in this regard. Funds and/or portfolio companies will reimburse the Firm for the all-in costs of employees and consultants who are Discovery Specialists engaged to support the discovery activities and operations of portfolio companies. A conflict of interest arises in determining which activities of such Discovery Specialists are traced and charged to specific actual or prospective portfolio companies as opposed to other non-specified matters which do not lend themselves to tracing to a particular portfolio company (such as preliminary scientific diligence activities), and Funds and portfolio companies will be reliant on the Firm's periodic time tracking and

allocation methodology procedures. A conflict of interest also arises to the extent such Discovery Specialists engage in activities that benefit the Firm.

To mitigate conflicts of interest, and as set forth in more particularity in the applicable governing Fund documents, the Firm has agreed with respect to certain of the Private Design Funds and Innovation Funds to a process to evaluate, and potentially make the Funds whole, if “Fees Subject to Review” (as defined below) exceed an agreed threshold with respect to each Fund and are not reasonable. “Fees Subject to Review” is generally defined as any fees paid to the Firm, 3DC or their respective subsidiaries by any portfolio company (i) for the use or access to equipment owned by the Firm, 3DC or their respective subsidiaries, (ii) in respect of goods and services provided by the Firm, 3DC or their respective subsidiaries, (iii) in respect of intellectual property licensed from the Firm, 3DC or their respective subsidiaries and (iv) in respect of Discovery Specialists, whether in cash, stock, options, warrants or other forms of participation; provided, however, that Fees Subject to Review excludes (a) any amounts paid in respect of third party services to the extent such amounts do not exceed amounts paid by the Firm, 3DC or their respective affiliates in respect of such services and (b) any payments of rent for access to facilities owned or leased by the Firm, 3DC or their respective affiliates. If Fees Subject to Review for certain Funds in a given year, when combined with the management fee payable to the Firm by such Fund in such year, exceed 2% of capital commitments of such Fund, the Fees Subject to Review will be subject to review by the Fund’s advisory committee. If the 2% threshold is exceeded, the advisory committee may elect to (but is not required to) cause the Firm to engage an independent third party to review the Fees Subject to Review to determine (i) if all fees have been properly classified and (ii) whether the aggregate Fees Subject to Review in respect of such year are in excess of the amount such independent third party determines is reasonable in the aggregate. The portion of the Fees Subject to Review (on an aggregate basis) that are not reasonable, and that are attributable to the applicable Fund, will reduce the management fee for such Fund in subsequent quarters. For this purpose, Fees Subject to Review in any calendar year are deemed “reasonable” if in the aggregate all Fees Subject to Review for such calendar year do not exceed the sum of the cost that the third party determines that portfolio companies controlled by the Firm would have paid a third party on an arm’s length basis for substantially similar (and of the same quality) services, goods, facilities, and intellectual property that were provided in exchange for the Fees Subject to Review for such year.

*Written Off Investments.* The governing documents provide the Firm with wide-ranging authority to make determinations, including those related to investment purchases and dispositions (and their timing), valuation and other matters that in each case have the potential to affect the Firm’s compensation. In making such determinations, the Firm is subject to potential conflicts of interest. For example, the potential to earn additional compensation creates an incentive for the Firm or its affiliates to make investments and to hold investments longer than otherwise may be the case in the absence of the relevant Fund’s management fee and carried interest compensation arrangements. The Firm may be incentivized to cause a Fund to make, hold, value and/or dispose of investments, and/or to delay or forego a determination that the investments are written off as worthless, in order to receive greater ongoing management fees and, potentially, earlier and/or larger carried interest distributions than would otherwise be the case.

Where the management fee is calculated taking into account the valuation of an investment, the Firm will have an incentive to make determinations that result in the continued payment of, or a higher, management fee. Where the governing documents do not require management fees to be reduced in connection with investment reorganizations, restructurings, roll-over investments, extraordinary dividends or similar transactions, the Firm is incentivized to pursue such transactions. Additionally, the amount of

carried interest owed to the relevant General Partner is dependent in part on the amount and timing of investment dispositions, as well as in certain instances determinations that investments are written off as worthless, and the Firm expects to be subject to related potential conflicts of interest in determining whether and when to dispose of investments, make distributions, and/or determine that an investment is written off as worthless, within the requirements of the relevant governing documents.

The Firm's wide-ranging authority on the determination whether an investment is written off as worthless, and the criteria used by the Firm in valuing an investment, or determining whether an investment is written off as worthless, have the potential to be subjective, to be influenced by market information and other factors and to vary over time. There can be no assurance that a third party or investor would agree with the substance or timing of the relevant General Partner's determination that an investment is written off as worthless, and except as set forth in the governing documents, the Firm is not obligated to follow any third-party methodology in making its determination on whether an investment meets the relevant standards or whether value can be recovered or retained during the Fund's holding period. The Firm is entitled to make its own determination taking into account all facts and circumstances it deems relevant, subject to the provisions of the governing documents. As a general matter, the standards for determining whether an investment is written off as worthless are intended to be high, and are not intended to apply to investments that are written down (regardless of the magnitude of the write down) or to investments believed to be experiencing temporary declines to zero value. Because the amount of the Firm's compensation is dependent in part on an investment's status as an investment written off as worthless, the Firm faces potential conflicts of interest in determining whether an investment meets, or continues to meet, the relevant criteria. Although the Firm intends to operate in accordance with the governing documents, as well as its valuation policy, in order to mitigate the potential for subjectivity in making such determinations, there can be no assurance that such policy will address all of the necessary factors to do so, or completely eliminate all potential conflicts of interest in such determinations.

*Cure Activities.* Certain personnel of the Firm will spend significant time developing and operating the Cure building, a life sciences innovation center that is owned by an affiliate of the Firm. Such activities will reduce the time and attention that such personnel would otherwise have available to spend on the Funds. It is expected that the Funds will indirectly benefit from the Cure healthcare ecosystem. Tenants of the Cure (referred to as residents) and participants in the Cure include current portfolio companies and are expected to include future portfolio companies of the Funds as well as other organizations that may collaborate with the Funds or their portfolio companies. A conflict of interest may arise in which the Firm's actions with respect to a Fund's investment in a portfolio company that is a Cure resident or participant or that relates to a collaborator at the Cure could be influenced by the desire to manage and maintain Cure's relationship with the portfolio company or collaborator. A conflict may also arise to the extent the Firm has an ability to influence the decision of Fund portfolio companies to lease space within the Cure. It is expected that portfolio companies that decide to become resident at the Cure will do so if they expect to benefit from the Cure amenities and ecosystem. The Firm is required to disclose to the advisory committees of certain Private Design Funds and Innovations Funds all rent paid by such Funds' portfolio companies for access to facilities owned or leased by the Firm or its affiliates and the basis for determining that such rent is reasonable. Any such rent paid to the Firm or its affiliates that is not reasonable generally will reduce fees payable by the relevant Fund(s), as set forth in the Funds' governing documents. In addition, one or more affiliates of the Firm, such as Cure Experience Services LLC, will offer residents and other participants in Cure, including portfolio companies of the Funds, a range of ancillary services through or at the Cure that they may, though are not obligated to, use. Such services are expected to include, without limitation, catering and dining

services, physical security, event services and space, building use and service data analytics, programming (including programs providing academic or professional instruction, training, credits or certificates and other programs) conferences, lectures and concierge services, video production, graphic design and communications services, and membership and residency programs. Payments received by the Firm and its affiliates for such services do not offset any fees payable by the Funds and are not included in fees that are subject to review by a Fund's advisory committee. A conflict of interest exists because the Firm will be incentivized to encourage portfolio companies to purchase such services. This conflict is mitigated by the fact that many purchases of such services are at the sole discretion of portfolio company personnel.

*Investments by the Deerfield Foundation.* The Deerfield Foundation is a charitable organization managed by personnel of the Firm and largely supported by the Firm and individual personnel of the Firm. In addition to philanthropic funding of non-profit healthcare causes, the Deerfield Foundation occasionally invests in for profit healthcare companies. A potential conflict of interest exists with respect to the allocation of investment opportunities. This potential conflict is mitigated because any investment opportunity that is suitable for any of the Funds will be made available first to the applicable Funds. The Firm, through its personnel that control the Deerfield Foundation, will not cause the Deerfield Foundation to make an investment in a for-profit healthcare company without first determining that the Funds do not wish to invest. In some instances, a Fund may conduct diligence in furtherance of a prospective investment and determine that the investment is not expected to produce desired returns or is too risky. Such opportunity may subsequently be presented to and pursued by the Deerfield Foundation. To the extent a Fund incurs diligence costs evaluating an investment opportunity that is subsequently evaluated and/or ultimately made by the Deerfield Foundation, such Fund is expected to bear the costs of diligence conducted at the Fund's initiative. Costs incurred at the direction of the Deerfield Foundation will be borne by the Deerfield Foundation.

*Research Supported by Advancium Health Network.* The Firm and Deerfield Foundation helped launch in 2021 Advancium Health Network, Inc. ("Advancium"), a public charity with a mission to advance human health through innovation and education by bringing together diverse thought leaders, entrepreneurs, and mission-focused problem solvers to create cures and solutions. Advancium's approach includes moving forward healthcare projects in areas of compelling need but questionable commercial viability, and educating populations to engage diverse thought leadership in healthcare and investment. Advancium initiatives include identifying and developing potential medical discoveries and technologies that address unmet needs, including in rare disease and disease impacting children, operating an incubator at the Cure in space leased from an affiliate of the Firm that will provide facilities, lab space and programs to assist early stage healthcare companies including those led by underrepresented populations, and running programs intended to address the gender and racial gaps that exist in the healthcare and financial service industries with diversity programs that include those initially created by the Firm, including the Fellows Program, Break into the Boardroom®, and Women in Science. The Firm provides certain financial support to Advancium in connection with Advancium's lease and activities at the Cure. An employee of the Firm and Deerfield Foundation serves on the board of directors of Advancium and, along with other personnel of the Firm and Deerfield Foundation, help support the activities at Advancium. Advancium's efforts to support healthcare research and discovery could overlap with early stage discovery activities of the Funds or portfolio companies. This conflict is mitigated by the fact that research projects supported by Advancium are not expected to attract for profit investors. For example, Advancium intends to advance multiple life science and medical research projects each year that require exploratory work to de-risk targets and/or further develop therapeutic concepts or technologies in order to be deemed viable, with funding from Advancium to be used for costs relating to exploratory work for which there is a well-defined therapeutic hypothesis but a lack of

critical data to reliably predict the probability of success for drug discovery and development. Similarly, Advancium, through its subsidiary CobiCure, intends to acquire, license or develop medical technologies that may be advanced toward regulatory approvals and clinical trials that address unmet medical needs in the pediatric population and that otherwise would not receive funding due to their uncertain viability, scalability, market potential or efficacy. It is expected that the Firm will be a source of such projects or technologies; however, any project sourced from the Firm that is suitable for any of the Funds will be made available first to the applicable Funds. Moreover, funding of such projects or technologies by Advancium or its subsidiaries does not preclude the possibility of subsequent investment by the Funds. Similar to the Deerfield Foundation, in some instances, a Fund may conduct diligence in furtherance of a prospective investment and determine that the investment is not expected to produce desired returns or is too risky. Such opportunity may subsequently be presented to and pursued by Advancium. To the extent a Fund incurs diligence costs evaluating an investment opportunity that is subsequently evaluated and/or ultimately made by Advancium, such Fund is expected to bear the costs of diligence conducted at the Fund's initiative. Costs incurred at the direction of Advancium will be borne by Advancium. Employees of the Firm involved with Advancium do not intend to cause Advancium to invest in companies in which a Fund wishes to invest. Moreover, Advancium is an independent organization that is not controlled by the Firm or the Deerfield Foundation. It is also possible that companies that participate in Advancium's incubator may be suitable for potential investment by the Funds, and that the incubator's services, which are intended to help startup companies mature, could impact such companies' desire for current or future financing or result in higher pre-money valuations. Such companies may also compete with current or future portfolio companies of the Funds. However, the incubator is expected to be available only to companies that have secured seed financing but have not yet secured Series A funding. The opportunity to participate in the incubator and receive funding from one or more of the Funds are not mutually exclusive, though the Firm does not intend for the Funds to invest in companies that are active participants in the incubator. To the extent a Fund and an incubated company are mutually interested in a financing, the Firm expects a company's incubator experience to be beneficial from the Fund's perspective. Incubated companies are expected to have the opportunity to access and utilize certain equipment, goods and services of the Firm and its affiliates.

---

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

---

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 and securities fraud, 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, such persons are required to observe the Firm's Code of Ethics and generally 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 compliance 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. Employees may, without express approval from the Firm's Chief Compliance Officer, invest in healthcare focused open-end mutual funds that are not exchange traded funds.

With prior compliance approval, 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 quarterly basis for securities holdings (excluding securities exempt from such reporting under the Advisers Act and applicable regulations), regardless of sector, and submission requirements are generally satisfied through brokerage feeds to, or other information input into, ComplianceAlpha, a software platform used by the Firm.

The Firm provides investment advisory services only to the Funds, which, although certain Funds are permitted to invest a portion of assets outside the healthcare sector, invest almost exclusively in the healthcare sector. If any of the Funds were to invest materially outside the healthcare sector, the Firm expects that the Code would be updated to apply to such investments in the same manner as it applies to healthcare investments, including with respect to restrictions on trading and approval of employee trades, although the Chief Compliance Officer may determine a sector specific trading ban is not necessary or appropriate based on various considerations.

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

Occasionally, it may be 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; return objectives; correlated investments; tax considerations; cash availability and liquidity constraints; available and committed capital (where applicable); expected duration of investment; 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 Funds, based on 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 Innovations Funds, which have different investment periods, the following additional 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, replacement, refinancing or follow-on financing of an existing investment made by one or more Funds, the new investment will typically be made available to the Fund(s) that made the initial investment (subject to such Fund having a sufficient remaining life and capital, its return objectives, position size, expected duration and liquidity objectives, and such other factors as the Firm determines to be appropriate); however, if the Firm expects a company’s equity securities to become publicly traded within 18 months of the date of investment and the Fund using the Public Securities Strategy has not made the initial investment, the new investment will typically also be made available to such Fund in equal share to the Fund(s) that made the initial investment. If the investment opportunity fits the strategy of different Private Design Funds and/or Innovations Funds and occurs within the investment period of such Funds, contemplates exit within the life of such Funds, and does not constitute the extension, restructuring, replacement, refinancing or follow-on financing of an existing investment that could, and is desired to, 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 Funds eligible to participate in the investment will be determined in a manner the relevant General Partner and Managing Partner consider fair based on the Sizing Factors including amounts a Fund must reserve to satisfy existing or expected 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”).

Where 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 violating an investment restriction; 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) and with the same order instructions (*i.e.*, price limit) 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 or investments, each participating account often reduces the opportunity available to other participating accounts.

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

The Firm does not engage in principal transactions with client accounts unless it first obtains consent from the client(s) 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.

Subject to the governing documents of each Fund, the Firm may lend money to a Fund, which loans are repayable upon demand by the Firm. The Firm occasionally effects 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 consult the Firm's Advisory Board and/or obtain consent from the advisory committees of the relevant Funds, if applicable. The Firm prices financial instruments that are traded in Fund to Fund transactions in accordance with the Firm's valuation policies. A controlled portfolio company of one or more Funds may acquire securities owned by one or more Funds that are not invested in such portfolio company. In addition, a controlled portfolio company may acquire another controlled portfolio company. In such instances, the Firm may elect to consult the Firm's Advisory Board and/or obtain consent from the advisory committees of the relevant Funds. Cross trades are also expected to arise in the context of automatic or other re-balancing of investments among parallel investing entities, and in such circumstances the Firm generally will not seek a fairness opinion or advisory committee consent given that such transactions typically are effected close in time to the initial Fund's investment or pursuant to authorizing provisions in the relevant governing documents.

The Firm may be in a position to present co-investment opportunities to third parties in its sole discretion, which may include Fund investors. The allocation of co-investment opportunities may involve a

benefit to the Firm or its affiliates. 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 Partner that is also an investor in one or more of the Funds. Unless specifically provided in a collaboration agreement between a Fund and such Research Partner, the Firm has no obligation to make such co-investment opportunities available to any investors. Investors in the Funds should have no expectation of receiving co-investment opportunities. In determining how to allocate any such opportunities to co-invest alongside a Fund, if any, the Firm may consider numerous factors, including, without limitation, the size of investor commitments or potential commitments to the Fund or other Funds managed by the Firm and/or its affiliates, strategic value of such co-investor (including the Firm's perception of the strategic value of a prospective co-investor to the underlying investment opportunity), timing, and whether the co-investor will make a good syndicate partner. In addition, certain investors or their affiliates have (and other investors or their affiliates in the future may have) rights to co-invest alongside a Fund in priority to other investors in certain circumstances (for example, with respect to investments made by a Fund relating to a Research Collaboration with such investor (or an affiliate thereof)). Investors should not invest in a Fund with any expectation of receiving co-investment opportunities. The Firm or an affiliate thereof may form committed co-investment vehicles to participate alongside the Fund in investment opportunities that the Firm has determined in good faith exceed a Fund's interest in the opportunity or for a potential investment opportunity that the Firm has determined warrants "up-front" co-investors, due to the size or timing of the opportunity, confidentiality concerns, or requirements imposed by the portfolio company. The Firm, in its sole discretion, may determine to offer participation in a committed co-investment vehicle only to select investors, such as investors with substantial capital commitments to a Fund or capital commitments to other Funds managed by the Firm or its affiliates. The allocation of co-investment opportunities may not be in the best interests of the Fund or any individual investor, and may be made to one or more persons for any number of reasons as determined by the Firm in its sole discretion, including, but not limited to: (i) the ability of a potential co-investor to react promptly to a co-investment opportunity; (ii) any strategic advantages that may result from a potential co-investor's participation in a co-investment opportunity; (iii) a potential co-investor's commitment to the Fund(s); (iv) the likelihood that a potential co-investor may invest in a future Fund; (v) the potential co-investor's investable assets relative to the size of the co-investment opportunity; (vi) tax, regulatory and/or securities law considerations (e.g., qualified purchaser or qualified institutional buyer status); (vii) confidentiality concerns that arise in connection with providing the potential co-investor with specific information relating to the co-investment opportunity; (viii) whether the potential co-investor's participation in an investment opportunity may subject a Fund to legal, regulatory, reporting or other burdens or could impair the ability of the Firm to execute the relevant transaction in the desired time or on desired terms; (ix) the size of the investment allocation and practicality of dividing it among multiple potential co-investors; (x) lender requirements; and/or (xi) whether the Firm believes that allocating investment opportunities to the potential co-investor will help establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to one or more Funds.

The allocation of co-investment opportunities may involve a benefit to the Firm or one or more of its affiliates, including, without limitation, management fees, carried interest or other transaction-based compensation in connection with the co-investment opportunity, additional capital commitments to a Fund(s), and/or capital commitments. A Fund's expenses for a particular investment opportunity will generally not be impacted by the participation or potential participation of third party investors in a co-investment opportunity, and expenses relating to the Firm's development, consummation and oversight of an investment are generally borne exclusively by the participating Fund(s). Except where the relevant governing document or Side Letter(s) expressly provide to the contrary, if a proposed transaction with potential co-investors is not consummated,

certain broken deal expenses relating to such proposed transaction incurred by the Firm may be allocated to potential co-investors to the extent practical or pursuant to agreement with such proposed co-investors, if one exists, or may be fully borne by the applicable Fund that would have made the investment. As a result, the Firm and its affiliates may be subject to conflicting interests with respect to offering co-investment opportunities. In the event a co-investment opportunity is made available to any third party, the Firm will not ordinarily provide investment advice to any such third party or receive any compensation from such third party relating to the prospective co-investment. The Firm does not ordinarily undertake due diligence or make investment decisions or recommendations on behalf of prospective co-investors.

The Funds are permitted to co-invest with third parties through partnerships, joint ventures or other entities or arrangements. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that a third party co-venturer or partner may at any time have economic or business interests or goals that are inconsistent with those of a Fund, or may be in a position to take action contrary to the investment objectives of a Fund. In addition, a Fund may in certain circumstances be liable for actions of its third party co-venturer or partner. There can be no assurance that a Fund's return from a transaction would be equal to and not less than the return of another party that was allocated a co-investment opportunity and that is participating in the same transaction.

Furthermore, decisions regarding whether and to whom to offer co-investment opportunities may be made by the Firm in consultation with other participants in the relevant transactions, such as a co-sponsor. Co-investment opportunities may, and typically will, be offered to some and not to other Fund investors, if offered at all. Non-binding acknowledgments of interest in co-investment opportunities do not require the Firm to notify recipients of such acknowledgments in the event a co-investment opportunity arises. The Firm is permitted to offer co-investment opportunities to the same co-investor or subset of co-investors more frequently than other investors in its sole discretion and without any notice to other investors, including those that have requested non-binding acknowledgements of interest in co-investment opportunities. When and to the extent that employees and related persons of the Firm make capital investments in or alongside a Fund, the Firm is subject to conflicting interests in connection with these investments. The Firm's allocation of co-investment opportunities among the persons and in the manner discussed herein may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others.

---

## ITEM 12 – BROKERAGE PRACTICES

---

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, either directly or through another broker-dealer that aggregates commissions. 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 and industry publications; market, financial, economic, and similar data; healthcare related data and analytical software; 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 management; and attendance at conferences.

Soft dollars are not used to pay or reimburse the Firm’s internal expenses, such as paying Firm personnel, 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.

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 certain surveys and consultations conducted by the Deerfield Institute are paid by the Funds and are allocated based on the benefiting 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 also effects 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 or other groups at the Firm through surveys, interviews, consultations, and data 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 such 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 the 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 collaborates with the Chief Compliance Officer to review and document the Firm's allocation methodology for such research.

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.

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 the Funds, 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. Although the governing documents generally contain broad exculpation and indemnification provisions, the Firm will not interpret such provisions to constitute a waiver of any person's non-waivable federal fiduciary duties to the relevant Fund under the Advisers Act.

When placing orders to purchase or sell the same security at the same price 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 11 above.

---

## ITEM 13 – REVIEW OF ACCOUNTS

---

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 portfolio of the Public Securities Strategy is reviewed on a daily basis by the Firm to determine whether positions should be added, removed or adjusted in light of the Strategy's objectives, the Firm's research, and the composition of the Fund's portfolio. The Firm adjusts its trading activities daily on the basis of that review. The investments of the Private Design Strategy and



Healthcare Innovations Strategy are generally long-term, illiquid, and made less frequently than investments in the Public Securities Strategy. Consequently, the Firm reviews the Private Design Strategy and Healthcare Innovations Strategy portfolios regularly, on an as needed basis, including upon the occurrence of actionable events and in connection with the making and exiting of investments. The Firm reviews the portfolios of the Private Design Strategy and the Healthcare Innovations Strategy to assess whether to pursue transactions that may expand or reduce exposure to a portfolio company, restructure an investment to more closely conform to a portfolio company's business dynamics and the applicable Fund's desired return profile, or to initiate an exit or liquidity event such as a merger, initial public offering or sale of the portfolio company. Portfolio reviews are conducted under the supervision of the Firm's Managing Partner, or the Managing Partner's designee.

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 Deerfield Partners, L.P.) 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. The Firm provides commentary on the performance of all Funds and the state of the markets on a quarterly basis. Annually, Fund investors also receive audited fiscal year-end financial information within 120 days of the applicable Fund's fiscal year end.

---

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

---

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), subject to certain exceptions, including as described in Item 5 and Item 10.

As described in Item 10 above, the Firm has an arrangement with EntryPoint under which the Firm is entitled to receive from EntryPoint a portion of performance-based compensation received by EntryPoint from funds and accounts using EntryPoint's systematic models.

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. The Firm will receive benefits from employees and consultants who are Discovery Specialists engaged to support the discovery activities and operations of portfolio companies, whose costs are borne exclusively by the Funds and portfolio companies, in the form of information, ideas or other support in connection with the Firm's business. In addition, certain portfolio companies may reimburse or pay the Firm or its affiliates, including 3DC, for services, goods or facilities provided to such portfolio companies by third parties including other portfolio companies or by the Firm and its affiliates. 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 or its affiliates in respect of services contracted by the Firm or its affiliates for the benefit of any portfolio company will accrue to the benefit of such portfolio company, it is expected that the Firm or its affiliates will

retain rights to use certain intellectual property, including the ability to license such intellectual property to third parties, including other portfolio companies. The Firm and its affiliates also expect 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, its affiliates, other Funds and other portfolio companies.

An affiliate of the Firm owns a property and a building in New York City, known as the Cure, which provides laboratories, engineering and computing space, and other facilities and services to portfolio companies of the Funds. Certain ancillary services are provided by another affiliate of the Firm, Cure Experience Services LLC. The Firm's affiliates may benefit from the payment by portfolio companies for rent and fees for such space, facilities and services, including through increased occupancy due to the Firm's ability to direct portfolio companies to lease space and facilities and consume services and through appreciation in the value of the property. To ameliorate conflicts, management fees payable by the Funds will be reduced by any rent paid by portfolio companies controlled by the Firm that is in excess of "reasonable rent". In addition, the governing documents of certain Funds include a mechanism for review by the relevant Fund advisory committee of certain fees and expenses paid by portfolio companies to the Firm or certain affiliates.

The Firm accepted two investors in a Private Design Fund vintage that were introduced by a solicitor with whom the Firm no longer has an ongoing arrangement, but to whom the Firm paid placement agent compensation upon receipt of performance-based compensation attributable to such investors in respect of their investment in such Funds. The Firm recently entered into a consulting agreement with an individual to provide professional services and strategic advice relating to business development opportunities in the Middle East. Under the terms of the arrangement, the individual assists the Firm in the development of the business of it, its affiliates and portfolio companies by making introductions through a variety of methods. While such introductions have included potential non-U.S. investors that may consider investing capital in funds managed by Deerfield, the individual has not been engaged as a placement agent, finder, broker-dealer or underwriter or to provide any such services. Pursuant to the arrangement, the individual generally may not conduct business in or engage with potential investors or transaction counterparties in the United States. The individual receives a flat monthly payment, plus reimbursement of reasonable business expenses, in consideration of his services. The Firm utilizes capital introduction services offered by unaffiliated brokers-dealers with which the Firm has relationships.

---

#### ITEM 15 – CUSTODY

---

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 the Funds 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 under the Advisers Act, 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.

---

**ITEM 16 – INVESTMENT DISCRETION**

---

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 each Fund, (iii) a Fund's Memorandum and other governing documents, and (iv) the obligation to seek best execution for Fund trades.

---

**ITEM 17 – VOTING CLIENT SECURITIES**

---

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 generally 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. However, with respect to securities held by Deerfield Partners, L.P. pursuant to quantitative, systematic, or algorithmic strategies, it is the Firm's policy to generally vote to abstain, or to abstain from voting proxies, except that if voting securities of the same issuer are also held by the Fund pursuant to other strategies, such as a fundamental strategy, or held by other Funds, the Firm will generally vote proxies in respect of securities held pursuant to quantitative, systematic, or algorithmic strategies in the same manner as voting securities held pursuant such other strategies or other Funds. 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 the Managing Partner or the Managing Partner's designee, who makes final decisions regarding the voting of such proxies. The Firm's Chief Financial Officer or the Chief Financial Officer's designee generally reviews and makes decisions regarding the voting of proxies relating to Fund investments in short-term money market funds.

The Firm acts as a fiduciary when voting proxies on behalf of the Funds. 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 the Managing Partner, or the Managing Partner's designee, or the Chief Financial Officer, or the Chief Financial Officer's designee, 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, such person 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 the Managing Partner, or the Managing Partner's designee, and

sector analysts who follow the company and/or the Chief Financial Officer, or the Chief Financial Officer's designee, 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.

Investors 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.

---

**ITEM 18 – FINANCIAL INFORMATION**

---

The Firm does not require the payment of fees or other compensation six months or more in advance. 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.