

**Item 1 – Cover Page**

## **Sofinnova Investments, Inc.**

**3000 Sand Hill Rd, 4-250  
Menlo Park, CA 94025  
(650) 681-8420  
[www.sofinnova.com](http://www.sofinnova.com)**

**March 15, 2024**

This brochure provides information about the qualifications and business practices of Sofinnova Investments, Inc. If you have any questions about the contents of this brochure, please contact us at (650) 681-8420. 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.

Sofinnova Investments, Inc. is a registered investment adviser. Registration as an investment adviser does not imply any level of skill or training.

Copies of this Brochure may be requested by contacting Jim Brody at [brody@sofinnova.com](mailto:brody@sofinnova.com). Additional information about Sofinnova Investments, Inc. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

There have been no material changes made to the brochure since the last brochure filed on July 27, 2023, by Sofinnova Investments, Inc.

### Item 3 – Table of Contents

Item 1- Cover Page.....	1
Item 2 – Material Changes.....	2
Item 3 – Table of Contents .....	3
Item 4 – Advisory Business .....	4
Item 5 – Fees and Compensation .....	5
Item 6 – Performance-Based Fees and Side-By-Side Management.....	8
Item 7 – Types of Clients.....	9
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	9
Item 9 – Disciplinary Information .....	23
Item 10 – Other Financial Industry Activities and Affiliations .....	23
Item 11 – Code of Ethics, Participation or Interests in Client Transactions and Personal Trading .....	24
Item 12 – Brokerage Practices .....	25
Item 13 – Review of Accounts .....	27
Item 14 – Client Referrals and Other Compensation .....	27
Item 15 – Custody.....	27
Item 16 – Investment Discretion .....	27
Item 17 – Voting Client Securities .....	27
Item 18 – Financial Information .....	28
Item 19 – Requirements for State Registered Advisers .....	28

## Item 4 – Advisory Business

- A. Sofinnova Investments, Inc. (“Sofinnova” or the “Firm”), is a registered investment adviser with the U.S. Securities and Exchange Commission (“SEC”) pursuant to the Investment Advisers Act of 1940 (the “Adviser Act”). The Firm was established in 1976 and its principal office is located in Menlo Park, California. It also has offices in; New York, New York; Montreal, Quebec; Boston, Massachusetts; and Dorado, Puerto Rico. Sofinnova serves as an investment adviser to private pooled investment vehicles (each, a “Fund”) and separately managed accounts (each, a “Separate Account” and collectively with the “Funds,” the “Clients”)<sup>1</sup>. An affiliate of Sofinnova serves as the general partner (or similar managing body) of each Fund.

Sofinnova is owned by Alain Azan, James Healy, Nathalie Auber, Maha Katabi, and Hooman Shahlavi. The members of Sofinnova’s board of directors are James Healy, Nathalie Auber, Lars Ekman, and Maha Katabi.

- B. Sofinnova provides discretionary investment advisory services to the Clients. Sofinnova's advisory services consist of (a) identifying and evaluating investment opportunities, (b) structuring, negotiating and consummating investments on behalf of the Clients, (c) managing and monitoring such investments, and (d) deciding when to exit such investments. As part of the management, Sofinnova employees may serve on the board of directors of certain of the Clients’ portfolio investments. Certain Clients primarily make private venture related investments (the “Venture Fund(s)”), while other Clients primarily invest in publicly-traded equity securities (the “Public Clients”). Investments for all Clients are generally made in the biotechnology and pharmaceuticals and related industries (collectively, “Therapeutics”).

Sofinnova is affiliated with entities that serve as the general partners to each of the Funds (each, a “General Partner”). Unless otherwise indicated, references in this brochure to “Sofinnova” or the “Firm” include the General Partners. The following is a list of the General Partners:

*General Partners:*

Sofinnova Management VIII, L.L.C.

Sofinnova Management IX, L.L.C.

Sofinnova Management X-A, L.L.C.

Sofinnova Management X, L.P.

Sofinnova Management XI, L.P.

Sofinnova Management XI, L.L.C.

Sofinnova Synergy Fund GP, L.L.C.

Sofinnova BioEquities GP LLC

- C. Sofinnova provides investment advisory services to each Fund in accordance with the Fund’s offering and governing documents (e.g., private placement memorandum and limited partnership agreement (or analogous organizational document), as well as Sofinnova’s investment advisory agreement with

---

<sup>1</sup> The persons and entities that invest in a Fund are generally referred to herein as “investors.” For the avoidance of doubt, as used herein, the terms “Fund” and “Client” do not include “investors.”

the Fund and contractual side letters with such Fund's investors and contractual side letters with such Fund's investors (collectively, the "Fund Documents"). The Firm provides investment advisory services each Separate Account in accordance with its investment advisory agreement with the Separate Account (each, an "Investment Advisory Agreement," and collectively with the Fund Documents, the "Governing Documents"). Investment restrictions for each Client, if any, are generally established in the Governing Documents of the applicable Client. An investment in each Fund is subject to the investment objectives, terms and conditions outlined in the Fund Documents of the relevant Fund. To the extent that there is any conflict between the disclosures contained in this brochure and any Fund Documents provided to prospective or existing Fund investors, the applicable Fund Documents will govern. Sofinnova has agreed to: (i) tailor its advisory services to the individual needs of certain Clients or Fund investors; and (ii) accept investment restrictions imposed by certain Clients or Fund investors.

- D. The Firm does not participate in wrap fee programs.
- E. As of December 31, 2023, the Firm had approximately \$3.7 billion in net Client assets under management (including uncalled capital commitments to the Funds), all of which it managed on a discretionary basis.

## **Item 5 – Fees and Compensation**

*A. and C.*

### **Funds:**

Sofinnova charges each Fund an investment management fee based on the value of the Fund's assets under management, capital commitments or invested capital (collectively, the "Management Fees"). The Management Fee rates of the Funds range from 1.25% to 2.50% (per annum). The Management Fees are: (i) charged monthly or quarterly in advance; and (ii) prorated for any period that is less than a full month or calendar quarter (as applicable). In general, the proration of Management Fees is calculated based on the number of days remaining in the applicable period. The Management Fees are generally deducted from each Fund account by the Funds' administrator upon Sofinnova's instructions. For more detailed information and a complete description of the Management Fees paid to Sofinnova, please refer to the Fund Documents of the relevant Fund.

Sofinnova is entitled to receive performance-based compensation from the Funds in the form of carried interest distributions or incentive allocations, which is compensation that is based on net profits (including net unrealized gains in respect of the Public Clients) attributable to Fund investments. This compensation ranges from 20% to 25% of the net profits, subject to a loss carryforward or a hurdle carryforward provision in respect of the Public Clients. Further, receipt of performance-based compensation is subject to a hurdle in respect of certain Funds. Performance-based compensation is allocable to Sofinnova as of the end of each year in respect of certain Funds, and upon withdrawals or other distributions with respect to all Funds. Further, Sofinnova may cause all or any portion of performance-based compensation to which it would otherwise be entitled to be allocated to one or more persons or entities. For more detailed information and a complete description of the performance-based compensation allocable to Sofinnova, please refer to the Fund Documents of the relevant Fund.

The Management Fees and performance-based compensation are subject to waiver or reduction by Sofinnova in its sole discretion, both voluntarily and on a negotiated basis with selected investors via side letter or other similar arrangements. In that regard, certain Fund investors who are current or former members, principals, employees or affiliates of Sofinnova, as well as relatives or friends of those persons, are generally not subject to Management Fees or performance-based compensation.

**Separate Accounts:**

The Separate Account clients generally pay an annual investment management fee that is negotiated on a case by case basis and, in certain cases, are lower than those paid by the Funds. Separate Account clients are generally required to pay management fees monthly in arrears. In addition, the Firm is entitled to a performance fee pursuant to the terms of each Investment Advisory Agreement. The Firm may reduce, waive or calculate differently the fees with respect to any Separate Account client.

B.

**Funds:**

In addition to management fees and performance-based compensation, each Fund generally bears its own expenses in accordance with its Fund Documents, including, without limitation, the expenses set forth below:

Venture Funds

- Organization costs of the Fund and the General Partners;
- All costs and expenses incurred in the purchase, holding, sale, exchange or other disposition of portfolio securities; including taxes applicable to the Fund on account of its operations; fees incurred in connection with the maintenance of bank or custodian accounts; brokerage fees; legal, audit, private placement and finder's fees paid to persons other than the General Partner or members of the General Partner, and other expenses incurred in connection with the registration of the Fund's portfolio securities under the Securities Act of 1933 (the "Securities Act"); legal and accounting fees and expenses incurred in connection with the purchase, sale, exchange or other disposition of securities (whether or not such purchase, sale or exchange or other disposition is ultimately consummated); and fees and expenses of investment advisers and independent consultants incurred in investigating and evaluating investment opportunities;
- All fees incurred in connection with the annual audit of the Fund and the preparation of the Fund's annual tax return, costs of independent appraisers, legal expenses of the Fund, premiums associated with insurance, if any; preparation and other expenses associated with annual and other reports to the investors, costs associated with any Fund meetings; legal fees and expenses incurred in prosecuting or defending administrative or legal proceedings relating to the Fund; administration fees and expenses;
- All liquidation costs, fees, and expenses incurred by the Fund or its General Partner.

Public Funds

- The fees and expenses of the independent directors of the Fund (if applicable);
- Fees paid to proxy and securities class action advisory firms;

- Legal, administration, tax and accounting expenses for the Fund (including fees and expenses related to any activist-related activities, initiating and defending lawsuits), and any extraordinary expenses (e.g., litigation expenses);
- Tax preparation and other tax related expenses (including preparation costs of financial statements, tax returns, data extraction and other types of reporting and reports to investors), auditing, consulting and other professional expenses;
- The Fund's pro rata share of Fund-related insurance costs of D&O insurance for the Firm, errors and omissions insurance, fidelity insurance;
- Investment-related expenses, including legal costs, expenses relating to consultants, attorneys, brokers or other professionals or advisors who provide research, advice or due diligence services with regard to investments (whether or not such investments are consummated);
- Certain compliance and reporting expenses and expenses attributable to regulatory filings which are made with respect to the Fund or assets of the Fund;
- Fees and expenses related to portfolio exposure and performance management systems, risk management services and software related to trade reconciliation, treasury, margin, financial and counterparty management, risk monitoring, performance reporting, valuation and quotation services and trade order management systems (including systems that facilitate trade compliance, commission management, stock locates and transaction cost analysis, and third party service providers used for implementation, custom reporting, updates, consultations, support, maintenance, monitoring and data extracts);
- Market data;
- Research-related expenses (including, without limitation, research-related travel expenses for investment personnel), investment-related expenses (i.e., expenses that, in Sofinnova's sole discretion, are related to the investment of the Fund's assets, such as commissions (including clearing fees), interest on margin accounts and other indebtedness;
- Organizational expenses of the Fund; and
- Expenses relating to the offer and sale of limited partnership interests or common shares and withdrawals, redemptions and transfers thereof, custodial fees, bank service fees, and other reasonable expenses related to the purchase, holding, sale or transmittal of the Fund assets.

**Separate Accounts:**

The Separate Account clients generally pay the management fee and performance-based compensation, and are generally responsible for their own expenses, including, without limitation, brokerage commissions, transaction fees, and other related fees and expenses.

- D. Neither Sofinnova nor any of its supervised persons anticipate receiving, directly or indirectly, any compensation from the sale of securities or other investment products.

Sofinnova bears its own operating, general, administrative, and overhead expenses, other than the expenses described above. Certain expenses may be paid by securities brokerage firms to which Sofinnova directs securities trades. Sofinnova reasonably believes that such payments fall within the safe harbor under Section 28(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

The allocation of expenses by Sofinnova between it and each Client and among Clients represents a conflict of interest for Sofinnova. To address this conflict, Sofinnova has adopted and implements policies and procedures for the allocation of expenses. Sofinnova allocates expenses to each Client in accordance with the Client’s Governing Documents. Sofinnova seeks to allocate common expenses among Clients in a manner that is fair and reasonable over time, generally pro rata based on relative assets under management. Sofinnova may, however, use other methods to allocate certain common expenses among Clients if it deems another method more appropriate based on relative use of the product or service, the nature or source of the product or service, the relative benefits derived by the Clients from the product or service, or other relevant factors.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

The Firm is entitled to receive performance-based compensation in accordance with each Client’s Governing Documents. Such performance-based compensation may create an incentive for Sofinnova to make investments on behalf of the Clients that are riskier or more speculative than would be the case in the absence of such performance-based compensation arrangements.

In addition, since the performance-based compensation received by Sofinnova from the Public Clients is calculated on a basis that includes unrealized appreciation of those Public Clients’ assets, such compensation may be greater than if it were based solely on realized gains. As a result, Sofinnova may receive performance-based compensation from a Public Client reflecting unrealized gains at the end of a year or upon a Public Client’s withdrawal or redemption, as applicable, that are not subsequently realized.

Since Sofinnova and its investment personnel manage multiple Client accounts, including accounts with different fee arrangements, a potential conflict of interest exists for one Client account to be favored over another Client account. In that regard, Sofinnova and its investment personnel have a greater incentive to favor Client accounts that pay Sofinnova (and indirectly its investment personnel) higher performance-based compensation and Management Fees, or in which Sofinnova’s personnel have more significant investments in their respective personal capacities. Accordingly, Sofinnova has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple Client accounts. In particular, Sofinnova reviews investment decisions for its Clients on a regular basis in order to ensure that Clients with substantially similar investment objectives are treated fairly. The performance of similarly managed portfolios is also regularly compared to determine whether there are any unexplained significant discrepancies. In addition, Sofinnova has implemented an investment allocation policy and Sofinnova regularly reviews its trade allocations to ensure they are made in a manner that is fair to all Clients.



## **Item 7 – Types of Clients**

Sofinnova provides investment advisory services to Funds and the Separate Accounts.

With respect to the Funds, any initial and additional subscription minimums are disclosed in the relevant Fund Documents. Minimum investment amounts have been, and may in the future be, reduced in Sofinnova's sole discretion.

Although Sofinnova does not maintain a specific minimum dollar value of assets or other conditions for opening a separately managed account, any such additional account relationship would generally involve a significant minimum account size.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

A.

### **Funds:**

#### **Venture Funds:**

For its Venture Funds, Sofinnova seeks to build a diverse and risk mitigated portfolio across stage, geography and equity market exposure. Sofinnova seeks to invest in compelling therapeutic opportunities which address an unmet or underserved medical need. It preferably has a high probability of success based on large patient data sets and/or compelling biology in validated disease models, the strength of its intellectual property, a clear regulatory path; and ultimately a compelling commercial potential.

From time to time, the Firm provides some of the Venture Funds' portfolio companies with support in a variety of areas, such as recruiting, strategy, clinical development, regulatory matters, business development, financial discipline, and capital markets, among others. A Fund will generally seek to act as lead or co-lead investor in structured investment transactions when multiple investors are involved, which the Firm believes will give a Fund access to more extensive due diligence information. The Venture Funds generally seek one or more seats on each portfolio company's board of directors.

#### **Public Funds:**

For its Public Funds (Sofinnova BioEquities, Sofinnova BioEquities Enhanced, and Sofinnova Synergy), Sofinnova seeks to deliver absolute returns across market cycles with the goal of capitalizing on significant sector inefficiency in the Therapeutics industry and medical technology (MedTech) while exercising valuation discipline and focusing on risk management. MedTech subsectors are typically defined as healthcare equipment & supplies, life sciences tools & services, and related industries within healthcare). The Firm believes that momentum investors strongly influence the stock market, and that a value-biased, fundamental research-driven investment approach will provide above average long-term returns in Therapeutics and medical technology. While the primary goal of each Public Fund is to be investment-oriented with a medium to long term horizon, it attempts to make the most of certain trading opportunities presented by the price volatility in individual securities. The Public Funds' investment strategies continually assesses the risk-reward ratio of individual securities, leading to trading and investment decisions that provide asymmetrical risk versus return opportunities.

The portfolio manager of the Public Funds seeks to make investment decisions based on a thorough understanding of the underlying assets, key catalyst flow, financial strategy, and competitive dynamics of individual companies. The process consists of quantitative and qualitative analysis, and includes meetings and conversations with company management and expert networks, reviewing financial filings, sell-side inputs, and independent research as primary sources of information. There are limitations in describing any investment strategy due to its complexity, confidentiality and evolving nature. Depending on conditions and trends in the markets, Sofinnova may pursue any objective or use any technique that it considers appropriate and in the Clients' interests. The Firm's focus on Therapeutics enables it to develop specialized expertise, and allows it to benefit from historical industry knowledge and the incremental data points generated from in-depth scientific and financial analysis.

The Sofinnova BioEquities strategy (the "SoBE Strategy") employed for certain of the Public Funds has an emphasis on small-to-mid capitalization public companies (generally defined as <\$10-billion market capitalization at initial investment) that Sofinnova believes can generate significant growth over a multi-year horizon through successful drug development.

The SoBE Strategy is a concentrated long/short investment strategy that takes into account portfolio exposure (gross and net), single stock position sizing, and liquidity. Sofinnova expects in the course of its investment research to identify companies that are fundamentally undervalued (long portfolio) or overvalued (short portfolio). In particular, Sofinnova's portfolio managers focus on making fundamental investments in companies, evaluating multiple key development programs and catalysts, retaining positions through periods of market turbulence while capitalizing on volatility, utilizing a value-based, anti-momentum strategy, and concentrating investment research efforts. Sofinnova believes the range of market caps, geographies, and potential investment theses lead to an attractive diversity of investment ideas that can lead to alpha generation and higher absolute returns across market cycles, even though the investment universe is a sector-specific strategy focusing on Therapeutics companies.

The Synergy Master Fund seeks to achieve its investment objective by employing a long equity strategy that predominantly invests in publicly-traded stocks of global therapeutics and MedTech companies in the healthcare industry with a multi-year investment horizon. Sofinnova leverages the expertise of its portfolio managers and other investment personnel to invest primarily in the Therapeutics subsectors (typically defined as biotechnology, pharmaceuticals, and related industries within healthcare) and MedTech subsectors. Accordingly, the Synergy Master Fund's investments may include publicly-traded stocks that one or more Venture Funds have already invested in.

The Synergy Master Fund generally invests with a longer investment horizon than the SoBE Strategy (typically, 6-18 months) and predominantly focuses on long-term performance in the long portfolio. This enables Sofinnova's investment team to focus on making fundamental investments in companies, evaluating multiple key development programs and catalysts, retaining positions through periods of market turbulence, concentrating investment research efforts on the discovery of incremental information, and in many cases allowing time to accumulate positions. In a minority of long investments in which the Synergy Master Fund takes a meaningful ownership position, Sofinnova may seek to employ a shareholder activism strategy to effect constructive operational and/or governance changes and therefore promote significant shareholder value. In the course of its research process, Sofinnova expects to find some opportunities to invest in with an event-driven investment thesis (typically based on clinical or regulatory events or company earnings

announcements), potentially leading to short-term performance. Sofinnova believes the range of market caps, geography, and potential investment theses leads to an attractive diversity of investment ideas, even though the investment universe is a sector-specific strategy focused mainly on therapeutics companies and some MedTech companies. Sofinnova believes that this combined strategy can lead to alpha generation and higher absolute returns across market cycles.

Sofinnova seeks to minimize the Synergy Master Fund's exposure to material binary corporate events, which are common in the Therapeutics subsector, and macroeconomic events that increase general stock market volatility, by: (1) selecting investments with deeper research pipelines, experienced management teams, and multiple potential avenues for value creation; (2) allowing time for potential value creation through a longer investment horizon; (3) continual monitoring of the industry and the portfolio, including valuation assessments; (4) appropriate sizing of portfolio positions based on risk-reward assessments; (5) managing exposures of the portfolio; and (6) employing option hedging, where warranted.

#### **Separate Accounts:**

In general, for the Separate Account clients, the Firm employs the SoBE Strategy. Pursuant to the applicable Investment Advisory Agreements, there may be limits or guidelines on the types of securities in which a Separate Account may take positions in, the types of positions that it may take, the concentration of its investments or the amount of leverage that may be used. The Firm may use any trading or investment techniques, whether or not contemplated by the investment strategies described above. Depending on conditions and trends in securities and commodities markets and the economy generally, the Firm may pursue any objectives or use any techniques that it considers appropriate and in the best interest of the Separate Account clients.

#### **RISK FACTORS**

As a general matter, the Firm utilizes the methods of analysis and investment strategies described in the Governing Documents applicable to its respective Clients. The information contained herein is a summary only. Investors and prospective investors should refer to the relevant Governing Documents for a complete overview of the Firm's methods of analysis and investment strategies.

There can be no assurance that any Client's investment objectives will be achieved, and actual investment results may vary substantially from the investment objective. Investors should be prepared to bear these risks. The success of the Firm's investment activities will depend on its ability to identify investment opportunities that have the proper risk/reward balance. No guarantee or representation is made that any Client's investment program will be successful.

**Availability of Investment Capital-** Venture Fund investments may require additional rounds of capital before a portfolio company reaches positive clinical trial results, FDA approval or profitability. If a Venture Fund investor does not have funds available to participate in such required rounds of financing, that shortfall may have a significant negative impact on both the portfolio company and the value of the Venture Fund's original investment. Although it will be the Venture Fund's policy to maintain sufficient reserves to allow it to participate in follow-on rounds of financings, a Venture Fund may decide not to provide all necessary follow-on financing. Accordingly, third-party sources of financing will be required. There is no assurance that such additional sources of financing will be available, or, if available, will be on terms beneficial to the Venture Fund. Furthermore, each Venture

Fund's capital is limited and may not be adequate to protect the Venture Fund from dilution in multiple rounds of portfolio company financing.

**Competition for Investments-** The Clients will compete with other entities for the acquisition of investments. Such competition may come from groups that have greater resources and are owned by large and well-capitalized investors. There may be intense competition for investments of the type in which the Clients intend to invest, and such competition may result in less favorable investment terms than would otherwise be the case. Moreover, the Clients may incur bid, due diligence, legal or other costs on investments which may not be successful. As a result, the Clients may not recover all of their costs, which would adversely affect returns. The Clients may be unable to find a sufficient number of attractive opportunities to meet their investment objectives. There can, therefore, be no assurance that investments of the Clients will meet all their investment objectives, or that the Clients will be able to invest all of their available capital.

**Public Clients Related Market Risks-** The profitability of a significant portion of the Public Clients' investment programs depend to a great extent upon the ability to correctly assess the future course of the price movements of securities and other investments. There can be no assurance that the Firm will be able to predict accurately these price movements. Although the Firm may attempt to mitigate market risk through the use of long and short positions or other methods, there is always some degree of market risk.

**Capital Calls-** Capital calls will be issued by each General Partner from time to time at the discretion of the General Partner of the Venture Funds, based upon the General Partner's assessment of the needs and opportunities of the Venture Fund. To satisfy such capital calls, Venture Fund investors may need to maintain a substantial portion of their commitments in assets that can be readily converted to cash. Except as specifically set forth in the Fund Documents, each investor's obligation to satisfy capital calls will be unconditional. An investor's obligation to satisfy capital calls will not in any manner be contingent upon the performance of the Venture Fund or upon any assessment thereof provided by the General Partner. Notwithstanding the foregoing, the General Partner will not be obligated to call 100% of the investor's commitment during the Venture Fund's term.

**Nature of Investments-** The Firm has broad discretion in making investments for the Funds. Investments generally will consist of securities and other assets primarily in the Therapeutics industry that may be affected by business, financial market or legal uncertainties. There can be no assurance that the Firm will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on investments. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, results of clinical trials, FDA decisions, financial results and the prospects of particular companies selected by the Firm for investment, may significantly affect the results of the Funds' activities and the value of their investments. In addition, the value of the Public Clients' portfolios may fluctuate as the general level of interest rates fluctuates.

**Consequences of Default-** If a Venture Fund investor fails to pay in full any requested capital contributions, the General Partner of the relevant Venture Fund may take certain actions that may result in a forfeiture of such investor's interest in the Venture Fund. Additionally, each General Partner may pursue any available legal or equitable remedies, with the expenses of collection of the unpaid amount, including attorneys' fees, to be paid by such defaulting investor. The General Partners will be granted such powers to deal with defaulting investors as specified in the Fund Documents of

the Venture Funds. If a Venture Fund investor fails to pay any of its capital commitment when due, and the capital contributions and unused capital commitments of non-defaulting investors and borrowing by the Venture Fund are inadequate to cover the defaulted capital contribution, the Venture Fund may be unable to pay its obligations when due. As a result, the Venture Fund may be subjected to significant penalties that could materially adversely affect the returns to the investors (including non-defaulting investors). In addition, any default of a Venture Fund investor in respect of its capital contribution obligations may reduce the amount of Venture Fund capital available for investment or other activities.

**Lack of Diversification/Portfolio Concentration-** It is anticipated that the Public Clients' portfolios will be invested primarily in equities of companies in the Therapeutics industry. Accordingly, the Public Clients' portfolios may not be diversified among industries or types of securities. Further, the Public Clients' portfolios may not be diversified among a wide range of issuers. Accordingly, the investment portfolio of the Public Clients may be subject to more rapid change in value than would be the case if the Public Clients were required to maintain a wide diversification among industries, investment areas, types of securities and issuers.

**Non-U.S. Investments-** Client assets will sometimes be invested in companies outside the U.S., and income received by the Clients from such investments may be in non-U.S. currencies. Non-U.S. securities involve certain risk factors not typically associated with investing in U.S. securities, including risks relating to (i) currency exchange matters, and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including potential price volatility in and relative liquidity of some foreign securities markets, the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (iii) certain economic, social and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital, the risks of political, economic or social instability, including the risk of sovereign defaults, and the possibility of expropriation or confiscatory taxation; (iv) the possible imposition of foreign taxes on income and gains recognized with respect to such securities and (v) less developed corporate laws regarding creditors' rights (including the rights of secured parties), fiduciary duties and the protection of investors.

**Non-U.S. Currency and Exchange Rate Risks-** Client assets and income may be denominated in various currencies. Contributions and distributions, however, will be denominated in U.S. dollars. As a result, the return of the Clients on any investment may be adversely affected by fluctuations in currency exchange rates, devaluations of local currencies and inflationary pressures. As a general policy, Sofinnova does not intend to engage in hedging against currency risk. In addition, the Clients may incur costs in connection with conversions between various currencies.

**Therapeutics and Related Risks-** Therapeutics company securities, especially those of smaller, research-oriented companies, can be more volatile than the overall market. The Therapeutics companies in which the Clients invest may allocate, or may have allocated, greater than usual amounts to research and product development. The securities of such companies may experience above-average price movements or price volatility associated with the perceived prospects of success of the research and development programs. Only a limited number of Therapeutics companies have reached the point of approval of products by government regulatory bodies, such as the U.S. Federal Drug Administration and the European Medicines Agency, and the subsequent commercial production and distribution of such products. Therefore, the success of investments in the

Therapeutics industry is often based upon expectations about future products, research progress, and new product filings with regulatory authorities. In addition, a number of these companies may have limited operating histories. As a result, these companies may face undeveloped or limited markets, have limited products, have no proven profit-making history, operate at a loss, have limited access to capital and/or be in the developmental stages of their businesses.

Further, many Therapeutics companies with proprietary platform technologies rely on patent protection and non-disclosure agreements to establish and protect their proprietary technologies, which may be essential to the growth and profitability of the company. Patents have limited duration, and, upon expiration, competitors may market substantially similar "generic" products which cost less to develop and may cause the original developer of a product or service to lose market share and/or reduce prices, resulting in lower profits for the original developer. In addition, there can be no assurance that a particular company will be able to protect these rights, or will have the financial resources to do so. Conversely, other companies may make infringement claims against a company in which the Clients invest, which could have a material adverse effect on such company.

The Therapeutics industry is subject to extensive government regulation. The industry will be affected by government regulatory requirements, regulatory approval for new drugs and medical products, product liability concerns, and similar significant matters. Changes in governmental policies may have a material effect on the demand for or costs of certain Therapeutics products and services, and securities prices of healthcare companies can fluctuate dramatically as a reaction to adverse legal judgments and the adverse publicity associated with accompanying threatened litigation. As these factors impact the industry, the value of the Clients' investments may fluctuate significantly over relatively short periods of time.

Therapeutics companies are frequently dependent upon private and governmental third-party sources of reimbursement for products and services provided to their customers. In addition to market and cost factors affecting the fee structures implemented by Therapeutics companies, numerous Medicare and Medicaid regulations, cost containment and utilization decisions of third-party payers and other payment factors over which the companies do not have control may affect the amount of payment that Therapeutics companies receive for their products and services. These third-party payers are increasingly challenging the prices charged for Therapeutics products and services and, in some cases, refusing payments for products and services they deem inappropriate.

**Investments in Public Companies-** The Public Clients' investment portfolios will contain securities or instruments issued by publicly held companies. Such portfolio investments may subject the Public Clients to risks that differ in type or degree from those involved with portfolio investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the Public Clients to dispose of such securities or instruments at certain times, increased likelihood of shareholder litigation against such companies' board members, and increased costs associated with each of the aforementioned risks.

**High Growth Industry Related Risks-** The Firm expects to have investments in the securities of high growth companies (e.g., biotechnology companies). Certain of the high growth companies in which Public Clients may invest, may allocate, or may have allocated, greater than usual amounts to research and product development. The securities of such companies may experience above-average price movements associated with the perceived prospects of success of the research and development

programs. In addition, companies in which the Public Clients invest could be adversely affected by lack of commercial acceptance of a new product or products or by technological change and obsolescence. Some of these companies may have limited operating histories. As a result, these companies may face undeveloped or limited markets, have limited products, have no proven profit-making history, may operate at a loss or with substantial variations in operating results from period to period, have limited access to capital and/or be in the developmental stages of their businesses.

Further, many high growth companies with proprietary technology rely on a combination of patent, copyright, trademark and trade secret protection and non-disclosure agreements to establish and protect their proprietary rights, which may be essential to the growth and profitability of the company. There can be no assurance that a particular company will be able to protect these rights or will have the financial resources to do so, or that competitors will not develop or patent technologies that are substantially equivalent or superior to the technology of a company in which the Public Clients invest. Conversely, other companies may make infringement claims against a company in which the Public Clients invest, which could have a material adverse effect on such a company.

The markets in which many high growth companies operate are extremely competitive. New technologies and improved products and services are continually being developed, rendering older technologies, products and services obsolete. Moreover, competition can result in significant downward pressure on pricing. There can be no assurance that companies in which Public Clients invest will successfully penetrate their markets or establish or maintain competitive advantages.

**Healthcare Sector and Therapeutics Industry Related Risks-** The Clients expect to invest in Therapeutics companies and the Public Clients may also invest in MedTech. Some of these companies may have limited operating histories. As a result, these companies may face undeveloped or limited markets, have limited products, have no proven profit-making history, may operate at a loss or with substantial variations in operating results from period to period, have limited access to capital and/or be in the developmental stages of their businesses.

There can be no assurance that a particular company will be able to protect these rights or will have the financial resources to do so, or that competitors will not develop or patent technologies that are substantially equivalent or superior to the technology of a company in which the Clients invest. Conversely, other companies may make infringement claims against a company in which the Clients invest, which could have a material adverse effect on such company.

The markets in which many biotechnology companies operate are extremely competitive. New technologies and improved products and services are continually being developed, rendering older technologies, products and services obsolete. Moreover, competition can result in significant downward pressure on pricing. There can be no assurance that companies in which the Clients invest will successfully penetrate their markets or establish or maintain competitive advantages.

Companies in the Therapeutics and MedTech industries also face pressure on the pricing of their products from the insurance industry and as a result of public criticism of rising costs and calls for regulatory change. There can be no assurance that companies in which the Clients invest will be successful in obtaining the product pricing which they are seeking.

**Biotechnology and MedTech Companies** - Biotech and MedTech companies are generally subject to greater governmental regulation than other industries at both the state and federal levels. Changes in governmental policies may have a material effect on the demand for or costs of certain products and services. A biotech or MedTech company must receive government approval before introducing new drugs and medical devices or procedures. This process may delay the introduction of these products and services to the marketplace, resulting in increased development costs, delayed cost-recovery and loss of competitive advantage to the extent that rival companies have developed competing products or procedures, adversely affecting the company's revenues and profitability. Expansion of facilities by healthcare providers is subject to "determinations of need" by the appropriate government authorities. This process not only increases the time and cost involved in these expansions, but also makes expansion plans uncertain, limiting the revenue and profitability growth potential of healthcare facilities operators and negatively affecting the price of their securities. Certain biotech and MedTech companies depend on the exclusive rights or patents for the products they develop and distribute. Patents have a limited duration and, upon expiration, other companies may market substantially similar "generic" products that cost less to develop and may cause the original developer of the product to lose market share and/or reduce the price charged for the product, resulting in lower profits for the original developer. Finally, because the products and services of biotech and MedTech companies affect the health and well-being of many individuals, these companies are especially susceptible to product liability lawsuits. The share price of a biotech or MedTech company can drop dramatically not only as a reaction to an adverse judicial ruling, but also from the adverse publicity accompanying threatened litigation.

**Small-to-Medium Capitalization Companies** - The Public Clients may invest a significant portion of their respective assets in the stocks of companies with small-to medium-sized market capitalizations (generally defined at less than \$10 billion market capitalization). The Firm believes these companies can present investment opportunities due to market inefficiencies in the small and mid- cap area, a limited universe of potential investors given liquidity, and limited coverage of these companies from sell-side Firms. While the Firm believes these investments often provide significant potential for appreciation, those stocks, particularly smaller-capitalization stocks, involve higher risks in some respects than do investments in stocks of larger companies. For example, prices of such stocks are often more volatile than prices of large-capitalization stocks. In addition, due to thin trading in some such stocks, an investment in these stocks may be more illiquid than that of larger volume stocks.

**Short Sales**- Short selling, or the sale of securities not owned by the Public Clients, necessarily involves certain additional risks. Such transactions expose the Public Clients to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and in the case of equities, without effective limit. There is the risk that the securities borrowed by the Public Clients in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein the Public Clients might be compelled, at the most disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

**Non-U.S. Securities**- Investing in securities of non-U.S. governments and non-U.S. companies, which are generally denominated in non-U.S. currencies, and the utilization of options on non-U.S. securities, involves certain considerations comprising both risks and opportunities not typically associated with investing in securities of the United States government or United States companies.



These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, greater risks associated with counterparties and settlement, greater difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

**Currency Risks-** The investments of the Clients that are denominated in non-U.S. currencies are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. In general, the Firm does not expect to try to hedge the currency exposure of Clients by investing in currencies and options thereon, forward currency exchange contracts, or similar transactions. Further, there can be no assurance that currency hedging strategies the Firm does seek to implement (if any) will be effective.

**Leverage-** While the use of certain forms of leverage, including margin borrowing, structured products or derivative instruments, can substantially improve the return on invested capital, such use may also increase the adverse impact to which a Fund's portfolio may be subject.

The Public Clients generally will obtain their borrowings from securities brokers and dealers and typically will secure those borrowings with such Clients' securities and other assets. Under certain circumstances, a broker-dealer providing financing to a Client may demand an increase in the collateral that secures such Client's obligations, and if such Client were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy such Client's obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of a Client's borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on that Client's profitability.

Depending on conditions in the credit environment at any given time, the Firm may find it difficult or impossible to obtain leverage for the Public Clients. Since the Public Clients intend to use leverage as a part of their respective investment strategies, in such an event such Clients could find it difficult to implement their strategies. In addition, any leverage obtained, if terminated on short notice by the lender, could result in the Firm being forced to unwind positions quickly and at prices below what the Firm deems to be fair value for the positions.

**Lack of Liquidity within Investment Portfolio-** The Venture Funds' investment portfolios will, to a significant extent, consist of investments in private companies. The marketability and value of each such investment will depend upon many factors beyond the relevant General Partner's control. Generally, the investments made by the Venture Funds will be illiquid and difficult to value, and there will be little or no collateral to protect an investment once made. At the time of a Venture Fund's investment, a portfolio company may lack one or more key attributes (e.g., differentiated product, sizable market, profitable sales channel, or strategic alliances) necessary for success. There may be no readily available market for the Venture Fund's investments, many of which will be difficult to value, and the disposal of a portfolio investment by the Venture Fund may be prohibited or delayed many years from the date of initial investment for legal and/or regulatory reasons. The public market for Therapeutics products and other emerging growth companies is extremely volatile. Such volatility

may adversely affect the development of portfolio companies, the ability of the Venture Funds to dispose of investments, and the value of investment securities on the date of sale or distribution by the Venture Funds.

**Reliance on Portfolio Company Management Team-** Each portfolio company's day-to-day operations will be the responsibility of such company's management team. Although Sofinnova will be responsible for monitoring the performance of each investment, there can be no assurance that the existing management team, or any successor, will be able to operate the portfolio company in accordance with Sofinnova's expectations. The success of each portfolio company depends in substantial part upon the skill and expertise of each portfolio company's management team. Additionally, portfolio companies will need to attract, retain, and develop executives and members of their management teams. The market for executive talent is, notwithstanding general unemployment levels or developments within a particular industry, extremely competitive. There can be no assurance that portfolio companies will be able to attract, develop, integrate, and retain suitable members of their management team and, as a result, the Clients may be adversely affected thereby. Instances of fraud and other deceptive practices committed by the management team of portfolio companies in which the Clients have an investment may undermine Sofinnova's due diligence efforts with respect to such companies. If such fraud is discovered, it could adversely affect the valuation of the Clients' investments and may contribute to overall market volatility that can negatively impact the Clients' investment portfolios.

**Shareholder Activism-** The Public Clients' investment strategies may involve shareholder activism that will attempt to influence the destinies of target companies, and there exists the risk that such activism for a particular company will be unsuccessful. Further, when securities are purchased in anticipation of influencing the future direction of a company, a substantial period of time may elapse between the Public Clients' purchase of the securities and the anticipated results. Additionally, if the anticipated results do not in fact occur, the Public Clients may be required to sell their investments at a loss. Moreover, there may be instances where the Public Clients will be restricted in transacting in or redeeming a particular investment as a result of Sofinnova's activism with respect to an investment.

**Special Situations-** The Clients may invest in companies involved in (or the target of) acquisition attempts or tender offers or in companies involved in or undergoing work-outs, liquidations, spin-offs, reorganizations, bankruptcies or other catalytic changes or similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Clients of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Clients may be required to sell their investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which the Clients may invest, there is a potential risk of loss by the Clients of their entire investments in such companies.

**Options-** The purchase or sale of an option involves the payment or receipt of a premium by the investor and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security, commodity or other asset for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying asset will not change price in the manner expected, so that the investor loses its premium. Selling options, on the other hand, involves potentially greater risk because the investor is exposed to the extent of the actual price movement in

the underlying asset rather than only the premium payment received (which could result in a potentially unlimited loss). Over-the-counter options also involve counterparty solvency risk.

**Risks of Certain Dispositions-** In connection with the disposition of an investment in a portfolio company or otherwise, a Venture Fund may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of any business. It may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate, and under certain circumstances described in its Fund Documents, Sofinnova may make distributions of cash or securities to the investors that remain subject to recall for the payment (in whole or in part) of such contingent liabilities. These arrangements may result in contingent liabilities, which might ultimately have to be funded by the relevant Venture Fund.

**Commodities and Futures Contracts-** Futures markets are highly volatile. The low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. There is no assurance that a liquid secondary market will exist for futures contracts or options purchased or sold, and the Public Clients may be required to maintain a position until exercise or expiration, which could result in losses. Many futures exchanges limit the amount of fluctuation permitted in contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit. Contract prices could move to the daily limit for several consecutive trading days permitting little or no trading, thereby preventing prompt liquidation of futures and options positions and potentially subjecting the Public Clients to substantial losses. Investing in futures contracts, options or commodities is a highly specialized investment activity entailing greater than ordinary investment risks.

**Counterparty Risk-** To the extent the Public Clients invest in swaps, “synthetic” or derivative instruments, repurchase agreements, certain types of options or other customized financial instruments, or, in certain circumstances, non-U.S. securities, the Public Clients take the risk of non-performance by the other party to the contract. This risk may include the credit risk of the counterparty and the risk of settlement default. This risk may differ materially from those entailed in exchange-traded transactions which generally are supported by guarantees of clearing organizations, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default.

**Hedging Transactions-** While the Public Clients do not expect to conduct portfolio level hedging activities, those Clients may utilize financial instruments, both for investment purposes and for risk management purposes in order to: (i) protect against possible changes in the market value of their investment portfolios resulting from fluctuations in the securities markets and changes in interest rates, (ii) protect unrealized gains in the value of their investment portfolios, (iii) facilitate the sale of any such investments, (iv) enhance or preserve returns, spreads or gains on any investment, (v) hedge the interest rate or currency exchange rate on any of their liabilities or assets, (vi) protect against any increase in the price of any securities they anticipate purchasing at a later date or (vii) for any other reason that the Firm deems appropriate.

The success of any hedging strategy of the Public Clients will be subject to the Firm's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of a hedging strategy will also be subject to the Firm's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner.

**Early-Stage Investments-** Although the Venture Funds will have significant exposure to private, later-stage companies, they will likely also have some investments in privately-held, early stage companies. These early-stage companies typically have no revenues and are not profitable. They require considerable additional capital to develop products and markets, acquire customers and achieve or maintain a competitive position. This capital may not be available at all, or on acceptable terms. Further, the products and markets of such companies may not develop as anticipated, even after substantial expenditures of capital. Such companies may face intense competition, including competition from established companies with much greater financial and technical resources, more extensive development, manufacturing, marketing and service capabilities, and a greater number of qualified managerial and technical personnel. Typically, although a Venture Fund may be represented by a member of Sofinnova on a portfolio company's board of directors, each portfolio company will be managed by its officers (who generally will not be affiliated with Sofinnova). Portfolio companies may have substantial variations in operating results from period to period and experience failures or substantial declines in value at any stage.

**Non-Controlling Investments-** The Venture Funds may hold non-controlling interests in certain portfolio companies and, therefore, may have limited ability to protect their positions in such portfolio companies. However, as a condition to an investment in a portfolio company, it is expected that appropriate rights generally will be sought to protect the Venture Fund's interests to the extent possible. There can be no assurance that such minority shareholder rights will be available.

**Securities Laws Restrictions on Trading-** A member, officer, employee, or other representative of Sofinnova or an affiliate may serve as a director of a publicly traded portfolio company. As a result, Sofinnova (through its representatives or otherwise) may receive or be deemed to receive information that would restrict its ability to cause the Clients to buy or sell securities of a company for substantial periods of time when profit could otherwise be realized or loss avoided, which may adversely affect the Clients' ability to buy, sell, or distribute securities. In addition, the ability of the Clients to execute trades in securities of these companies may also be restricted by securities laws, including, but not limited to, Section 16 of the Exchange Act and Rule 144 promulgated under the Securities Act, as a result of the board participation or extent of ownership of the Clients and affiliated persons.

**Late-Stage Investments** - The Venture Funds will have significant exposure to private, later-stage companies. These companies typically have modest revenues and may or may not be profitable. They may require additional capital, at high valuations, to develop products and markets and achieve or maintain a competitive position. This capital may not be available at all, or on acceptable terms. Further, the products and markets of such companies may not develop as anticipated, even after substantial expenditures of capital. Such companies may face intense competition, including competition from established companies with much greater financial and technical resources, more extensive development, manufacturing, marketing and service capabilities, and a greater number of qualified managerial and technical personnel. Although a Venture Fund may be represented by a member of Sofinnova on a portfolio company's board of directors, each portfolio company will be

managed by its own officers (who generally will not be affiliated with Sofinnova). Portfolio companies may have substantial variations in operating results from period to period and experience failures or substantial declines in value at any stage.

**Custody and Prime Brokerage Risk** - There are risks involved in dealing with the custodians or prime brokers who settle the Clients' trades. Although Sofinnova monitors the Clients' prime brokers and custodians and believes that they are appropriate prime brokers and custodians, there is no guarantee that any prime broker or other custodian that a Client may use from time to time, will not become bankrupt or insolvent. While both the Bankruptcy Code, as amended, and the Securities Investor Protection Act of 1970, as amended, seek to protect customer property in the event of a bankruptcy, insolvency, failure, or liquidation of a broker-dealer, there is no certainty that, in the event of a failure of a broker-dealer that has custody of Client assets, the Client would not incur losses due to the Client's assets being unavailable for a period of time, the ultimate receipt of less than full recovery of its assets, or both.

A Client and/or a Client's prime broker or custodian may appoint sub-custodians in certain non-U.S. jurisdictions to hold the Client's assets. Such primer broker or custodian may not be responsible for cash or assets which are held by sub-custodians in certain non-U.S. jurisdictions, or for any losses suffered by the Client as a result of the bankruptcy or insolvency of any such sub-custodian. The Client may therefore have a potential exposure on the default of any sub-custodian and, as a result, many of the protections that would normally be provided by a custodian may not be available to the Client. Under certain circumstances, including certain transactions where a Client's assets are pledged as collateral for leverage from a non-broker-dealer custodian or a non-broker-dealer affiliate of a prime broker, or where the Client's assets are held at a non-U.S. custodian, the securities and other assets deposited with the custodian or broker may not be clearly identified as being assets of the Client and hence the Client could be exposed to a credit risk with regard to such parties. Custody services in certain non-U.S. jurisdictions remain undeveloped and, accordingly, there is a transaction and custody risk of dealing in certain non-U.S. jurisdictions. Given the undeveloped state of regulations on custodial activities and bankruptcy, insolvency, or mismanagement in certain non-U.S. jurisdictions, the ability of a Client to recover assets held by a sub-custodian in the event of the sub-custodian's bankruptcy or insolvency could be in doubt, as the Client may be subject to significantly less favorable laws than many of the protections that would be available under U.S. laws. In addition, there may be practical or timing problems associated with enforcing a Client's rights to its assets in the case of bankruptcy or insolvency of any such party.

**Due Diligence Risks-** Before making investments, Sofinnova intends to conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence and making an assessment regarding an investment, Sofinnova will rely on resources available to it, including information provided by the target of the investment and, in some circumstances, third party investigations. The due diligence process may at times be subjective with respect to newly organized companies for which only limited information is available. Accordingly, there can be no assurance that the due diligence investigation that Sofinnova will carry out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Further, there can be no assurance that such an investigation will result in an investment being successful.

**Cybersecurity Risks** - The information and technology systems of Sofinnova and of key service providers to Sofinnova and the Clients, including banks, broker-dealers, custodians and their affiliates, may be vulnerable to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. For instance, cyber-attacks may interfere with the processing or execution of Sofinnova's transactions on behalf of a Client, cause the release of confidential information, including private information about Clients, subject Sofinnova or its affiliates to regulatory fines or financial losses, or cause reputational damage. Additionally, cyber-attacks or security breaches (e.g., hacking or the unlawful withdrawal or transfer of funds), affecting any of Sofinnova's and/or a Client's key service providers may cause significant harm to Sofinnova or a Client, including the loss of capital. Similar types of cybersecurity risks are also present for issuers of securities in which Sofinnova may invest on behalf of a Client. These risks could result in material adverse consequences for such issuers, and may cause a Client's investments in such issuers to lose value. Although Sofinnova has implemented various measures designed to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, it may be necessary for Sofinnova to make a significant investment to fix or replace them and to seek to remedy the effect of these issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the operations of Sofinnova or its Client accounts and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information, which may result in identity theft.

**Effects of Health Crises and Other Catastrophic Events** - Health crises, such as pandemic and epidemic diseases, as well as other catastrophes that interrupt the expected course of events, such as natural disasters, war or civil disturbance, acts of terrorism, power outages and other unforeseeable and external events, and the public response to or fear of such diseases or events, have and may in the future have an adverse effect on Clients' investments and Sofinnova's operations. For example, any preventative or protective actions that governments may take in respect of such diseases or events may result in periods of business disruption, inability to obtain raw materials, supplies and component parts, and reduced or disrupted operations for Client portfolio companies. In addition, under such circumstances the operations of Sofinnova and other service providers, including functions such as trading and valuation, could be reduced, delayed, suspended or otherwise disrupted. Further, the occurrence and pendency of such diseases or events could adversely affect the economies and financial markets either in specific countries or worldwide.

**Risk Management Failures** - Although Sofinnova attempts to identify, monitor and manage significant risks, these efforts do not take all risks into account and there can be no assurance that these efforts will be effective. Moreover, many risk management techniques, including those employed by Sofinnova, are based on historical market behavior, but future market behavior may be entirely different and, accordingly, the risk management techniques employed on behalf of Clients may be incomplete or altogether ineffective. Similarly, Sofinnova may be ineffective in implementing or applying risk management techniques. Any inadequacy or failure in risk management efforts could result in material losses to Clients.

**Systems and Operational Risk** - Sofinnova relies heavily on certain financial, accounting, data processing and other operational systems and services that are employed by Sofinnova and/or by third party service providers, including prime brokers, the third party administrator, market counterparties and others. Many of these systems and services require manual input and are

susceptible to error. These programs or systems may be subject to certain defects, failures or interruptions. For example, Sofinnova and its Clients could be exposed to errors made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or related to other similar disruptions in the Clients' operations. In addition, despite certain measures established by Sofinnova and third party service providers to safeguard information in these systems, Sofinnova, Clients and their third party service providers are subject to risks associated with a breach in cybersecurity which may result in damage and disruption to hardware and software systems, loss or corruption of data and/or misappropriation of confidential information. Any such errors and/or disruptions may lead to financial losses, the disruption of Client trading activities, liability under applicable law, regulatory intervention or reputational damage.

**Dependence on Service Providers** - Each Client is dependent upon its counterparties and the businesses that are not controlled by Sofinnova that provide services to the Client (the "Service Providers"). Examples of Service Providers include a Client's administrator, prime brokers, custodians, legal counsel and auditor. Errors are inherent in the business and operations of any business, and although Sofinnova will adopt measures to prevent and detect errors by, and misconduct of, counterparties and Service Providers, and transact with counterparties and Service Providers that it believes to be reliable, such measures may not be effective in all cases. Errors or misconduct could have a material adverse effect on the Clients and the Fund Investors' investments therein.

Each Client is reliant on the performance of the Service Providers. In that regard, each Fund investor's relationship in respect of their investments in a Fund is with the Fund only. Accordingly, absent a direct contractual claim between the Fund investor and the relevant Service Provider, no Fund investor will have any contractual claim against any Service Provider for any reason related to its services to the relevant Fund. Instead, the proper plaintiff in an action in respect of which wrongdoing is alleged to have been committed against a Fund by the relevant Service Provider is, prima facie, the Fund.

## **Item 9 – Disciplinary Information**

On July 10, 2018, Sofinnova agreed to settle an administrative proceeding brought by the SEC for violations of the "pay to play" rules. Compliance policies have been updated and additional monitoring systems have been put into place to prevent future violations of the "pay-to-play" rule. A copy of the Administrative Order can be found on the SEC's website here:

<https://www.sec.gov/litigation/admin/2018/ia-4958.pdf>

## **Item 10 – Other Financial Industry Activities and Affiliations**

In order to avoid the appearance of potential conflicts of interest between the Clients, the Firm plans to allocate future initial private investment opportunities in Therapeutics companies to the Venture Funds (including any public offerings of such companies following investment by the Venture Funds or any private investments in public equities) and any future initial public investment opportunities in publicly-traded Therapeutics companies (where Sofinnova will not take a board seat) to the Public Clients. Furthermore, the Venture Funds generally cannot invest in the same issuer at the same time as the Public Clients. The Chief Compliance Officer and the officers of the Firm are responsible for evaluating a conflict that may arise due to a departure from the Firm's allocation policy. The Firm makes allocation decisions in the best interests of the Clients.

The General Partners serve as the general partners of each Fund separately and independently make all decisions regarding investments, capital contributions, and distributions on behalf of each Fund.

A Sofinnova employee may from time to time carry on investment activities for another investment adviser, as well as give advice and recommend securities to vehicles outside of the Sofinnova fund family. The advice given to, or portfolio companies recommended or bought for, any vehicles outside the Sofinnova fund family will generally not be deemed competitive with the types of portfolio company opportunities sought by the Clients. Sofinnova is reimbursed by the other adviser for the employees' time dedicated to servicing the other adviser.

#### **Item 11 – Code of Ethics, Participation or Interests in Client Transactions and Personal Trading**

Sofinnova has adopted a Code of Ethics (the "Code") under the Advisers Act, which describes the Firm's fiduciary duties and responsibilities to its Clients. The Code requires that the Firm's employees act in the best interests of Clients, act in good faith and in an ethical manner, avoid conflicts of interest with Clients to the extent reasonably possible, and identify and manage conflicts of interest to the extent that they arise. Sofinnova employees are also required to comply with applicable provisions of the federal securities laws and to make prompt reports to the Firm or other appropriate parties of any actual or suspected violations of such laws by Sofinnova or its employees. In addition, the Code sets forth formal policies and procedures with respect to the personal securities trading activities of Sofinnova employees. The Code prohibits employees from engaging in personal trading in the securities of issuers on the Firm's restricted list, requires employees to provide duplicate brokerage accounts statements and trade statements to the Firm or to report all securities transactions on at least a quarterly basis, and requires employees to provide a summary of securities holdings on at least an annual basis. The Code also includes policies and procedures to prevent the misuse and disclosure of material non-public information ("insider trading") and other confidential information and policies and procedures addressing conflicts of interest, outside activities of employees, gifts and business entertainment, including limitations and reporting requirements, and pre-clearance and reporting of political contributions. Sofinnova will provide the table of contents of its Code to any Client or investor upon request to Jim Brody at [brody@sofinnova.com](mailto:brody@sofinnova.com).

Without the requisite advisory board approval as set forth in the Governing Documents of the applicable Fund, neither Sofinnova nor any related person may recommend to the Funds, or buy or sell for the Funds, securities in which the Firm or any related person has a material financial interest. Firm employees are restricted from purchasing securities in the Therapeutics industry or any securities which a Fund also holds – employees that purchased such securities prior to the Fund holding such shares are prohibited from selling such shares within 7 days of when the Fund purchases or sells such shares.

Because the Firm manages more than one Client, there may be conflicts of interest over its time devoted to managing any one Client and allocating investment opportunities among all Clients. For example, the Firm selects investments for each Client based solely on investment considerations for that Client. The Firm may buy or sell a security or commodity for one type of Client but not for another, or may buy (or sell) a security or commodity for one type of Client while simultaneously selling (or buying) the same security for another type of Client. The Firm may give advice to, and take action on behalf of, any of its Clients that differs from the advice that it gives or the timing or nature of action that it takes on behalf of any other Client. The Firm is not obligated to acquire for any Client any security or commodity that the Firm or its partners, officers or employees may acquire for its or their own accounts or for any other Client, if in the Firm's absolute discretion, it is not practical or desirable to acquire a position in such security or



commodity for that Client. From time to time, the Venture Funds may invest in securities of companies that may be deemed to be, or develop products that would be, competitive.

## **Item 12 – Brokerage Practices**

### **A. Factors Used to Select or Recommending Broker-Dealers**

The Firm will always have discretion as to the selection of brokers (and accordingly, the commission rates paid). In selecting brokers to effect portfolio transactions for the Clients, the Firm is not required to consider or focus on any particular criteria but will seek “best execution” of transactions, which is generally viewed as a duty to use reasonable efforts to execute securities transactions so that a client's total costs or proceeds in each transaction are the most favorable under the circumstances. In evaluating whether a broker will provide best execution, the Firm will consider a range of factors, including, but not limited to:

- quality of execution;
- overall costs of a trade;
- ability to access liquidity;
- error correction capabilities;
- availability and costs of securities to borrow in relation to short sales;
- block trading and block positioning capabilities;
- willingness to execute difficult transactions;
- willingness and ability to commit capital;
- minimization of market impact;
- derivative securities;
- quality of propriety research provided;
- ability to facilitate meetings with corporate executives;
- access to underwritten offerings and secondary markets; and
- market intelligence regarding trading activity.

The Firm need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Commissions paid by a Client to brokers may include “soft dollar” research services used by the Firm in making investment decisions.

### **B. Research and Other Soft Dollar Benefits**

The Firm can effect transactions with broker-dealers who provide research services (collectively, “soft-dollar items”) to the Firm that assist the Firm in making investment and trading decisions on behalf of its Clients. The negotiated commissions paid to broker-dealers supplying soft-dollar items may not represent the lowest obtainable commission rates. In any such arrangement, the amount of the commission paid must be reasonable in relation to the value of the brokerage and soft-dollar items provided by the broker-dealer, viewed in terms of either the particular transaction or the Firm’s overall responsibilities with respect to its Clients. The Firm intends to comply with the soft-dollar “safe harbor” afforded by Section 28(e) under the Exchange Act.

- C. When the Firm uses Client brokerage commissions to obtain soft-dollar items, it receives a benefit because it does not have to produce or pay for such soft-dollar items. However, the Firm believes that such soft dollar items may provide the Clients with benefits by supplementing the research and services otherwise available to the Clients.
- D. The Firm may have an incentive to select or recommend a broker-dealer based on its interest in receiving the soft-dollar items, rather than on the Client's interest in receiving most favorable execution. The Firm periodically reviews the execution performance of its brokers to ensure that any potential conflicts of interests are resolved.
- E. When the Firm does engage in such "soft dollar" arrangements, the Client may pay commissions to a broker in an amount greater than the amount another broker might charge.
- F. Soft-dollar items, whether provided directly or indirectly, may be utilized for the benefit of the Firm's and its affiliates' other accounts. Soft-dollar items are not limited to those Clients who have generated a particular benefit although certain soft dollar allocations are connected to particular clients or groups of clients. Usually, soft dollar benefits are not proportionally allocated to any accounts that may generate different amounts of the soft dollar benefits.
- G. The Firm uses "soft-dollars" for Section 28e eligible expenses such as (but not limited to) the following: (i) software and other products that aggregate market data, (ii) broker-dealer research reports, company financial data and economic data, (iii) industry consultants who provide direct market research, and (iv) certain equipment in connection with investment analysis and decision making.
- H. A broker from which the Firm obtains soft dollar services generally establishes "credits" based on past transactional business (including markups and markdowns on principal transactions), which may be used to pay for specified expenses. In some cases, the process is less formal, and a broker simply may suggest a level of future business that would fully compensate the broker for services or products it provides. The Firm monitors the soft dollar services provided to ensure that appropriate transactions are executed with a soft dollar provider.
- I. Occasionally, the Firm may permit a Separate Account Client to direct the Firm to execute the Client's trade with a specified broker-dealer. Although the Firm attempts to effect these transactions in a manner consistent with its policy of seeking best execution, there may be occasions where it is unable to do so, in which case the Firm will continue to comply with the Client's directions. The commissions charged to a Client that directs the Firm to execute the Client's trades through a specified broker-dealer may in some transactions be materially different than those of Clients who do not direct the execution of their trades. In cases where trading or investment restrictions are placed on a Client's account, the Firm may be precluded from aggregating that Client's transaction with others. In this case, the Client may pay a higher commission rate or receive less favorable prices than Clients who are able to participate in an aggregated order.
- J. The Firm may aggregate purchases and sales of securities for its Clients when more than one Client is purchasing or selling securities in a single issuer. In most cases, the Clients purchase or sell such securities in a predetermined ratio in all such similar transactions.

### **Item 13 – Review of Accounts**

- A. The Firm’s Investment Committee typically meets once a week to consider each Client’s holdings and potential transactions.
- B. This is not applicable to Sofinnova.
- C. Within 90 days after each Fund’s fiscal year-end, audited financial statements are distributed to investors in each Fund. The Firm also provides unaudited Fund performance information to Venture Fund investors on a quarterly basis and to Public Fund investors on a monthly basis.

### **Item 14 – Client Referrals and Other Compensation**

Sofinnova receives certain research or other products or services from broker-dealers through “soft-dollar” arrangements. These “soft-dollar” arrangements create an incentive for Sofinnova to select or recommend broker-dealers based on Sofinnova’s interest in receiving the research or other products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by Sofinnova on behalf of the Clients. Please see Item 12 for further information on Sofinnova’s “soft-dollar” practices.

### **Item 15 – Custody**

Sofinnova is deemed to have custody of the Funds’ assets. Sofinnova complies with Rule 206(4)-2 under the Advisers Act by meeting the conditions of the pooled vehicle annual audit provision thereunder.

Sofinnova does not have custody of the Separate Account Clients’ assets. All Separate Accounts Client assets are held at qualified custodians. The qualified custodian sends to the Separate Account Clients a statement no less than quarterly.

### **Item 16 – Investment Discretion**

Sofinnova provides investment advice to each Client on a discretionary basis. Generally, this discretion is subject only to the investment guidelines set forth in the relevant Client’s Governing Documents.

### **Item 17 – Voting Client Securities**

- A. In the event that the Firm is presented with an opportunity to vote a proxy, the Firm’s general policy is to vote proxies in accordance with the best interest of each Client. For the Venture Funds, barring any unusual circumstances, the Firm believes that portfolio company management generally is best suited to make the decisions that are essential to the ongoing operation of the company. Therefore, the Firm generally intends to vote proxies in line with company management. However, under circumstances when the Firm believes that company management’s proposal will not maximize value for each Venture Fund, the Firm intends to vote against company management’s recommendations.

For the Public Clients, Sofinnova has retained a proxy administrator and voting service provider (the “Proxy Administrator”) to assist in the proxy voting process. Sofinnova’s Chief Compliance Officer manages Sofinnova’s relationship with the Proxy Administrator and ensures all proxies are voted in accordance with the best interest of the Clients. The Proxy Administrator will also retain certain required documents associated with proxy voting. If the Proxy Administrator’s recommendation conflicts with the proxy voting decision of an issuer’s management, the Sofinnova’s Managing Partners and the Chief Legal Officer or Chief Compliance Officer will evaluate the merits of each position and cast a vote that they believe will serve best interest of the Clients.

In addition to maintaining oversight of individual proxy recommendations, Sofinnova may also periodically review the independence of the Proxy Voting Service. This may include a review of the Proxy Administrator’s conflict management procedures, interviewing its employees and ensuring that the Proxy Administrator continues to have the competency and capacity to vote proxies on an unbiased and informed basis.

Clients may obtain a copy of Sofinnova’s proxy voting policies and procedures and information about how Sofinnova voted a Client’s proxies by contacting Jim Brody via email at [brody@sofinnova.com](mailto:brody@sofinnova.com).

B. This is not applicable to Sofinnova.

#### **Item 18 – Financial Information**

This item is not applicable to Sofinnova.

#### **Item 19 – Requirements for State Registered Advisers**

This item is not applicable to Sofinnova.