

Item 1 – Cover Page

BVF Partners L.P.
Part 2A of Form ADV: Firm Brochure

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

March 29, 2018

This brochure (“Brochure”) provides information about the qualifications and business practices of BVF Partners L.P. (“BVF”). If you have any questions about the contents of this Brochure, please contact BVF’s Chief Compliance Officer, James Kratky, at 415-525-8830. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Registration as an investment adviser with the SEC or with any state securities authority does not imply a certain level of skill or training.

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

Item 2 – Material Changes

In reference to the prior annual update of ADV Part 2A dated May 1, 2017, the following material amendments have been made:

Item 5, Fees and Compensation, has been updated to reflect updated language in offering memorandums regarding additional fees and expenses.

Item 11, Code of Ethics, Participation or Interest in Client Transactions and Personal Trading, has been updated to reflect updated language in offering memorandums regarding transactions between Clients.

Item 3 – Table of Contents

Item 1 – Cover Page.....	1
Item 2 – Material Changes	2
Item 3 – Table of Contents.....	2
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	15
Item 10 – Other Financial Industry Activities and Affiliations	15
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	17
Item 12 – Brokerage Practices	18
Item 13 – Review of Accounts.....	22
Item 14 – Client Referrals and Other Compensation.....	22
Item 15 – Custody	22
Item 16 – Investment Discretion.....	23
Item 17 – Voting Client Securities.....	23

Item 18 – Financial Information	24
---------------------------------------	----

Item 4 – Advisory Business

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

BVF generally pursues value-oriented investment strategies, investing primarily in the marketable securities issued by biotechnology companies. BVF has engaged, since its inception, in an investment strategy within the biotechnology sector focused primarily on the securities of companies with market capitalizations of between \$100 million and \$2 billion. Although this is the primary focus of the BVF Funds, BVF has the flexibility in managing these portfolios to invest in biotechnology companies of any size. BVF may also invest in unregistered securities of public and closely-held private biotechnology companies by directly purchasing from issuers or other shareholders, in privately negotiated transactions, common stock, convertible preferred stock and/or debt instruments with warrants, options and/or similar rights to acquire an equity interest. Investors should review the applicable BVF Fund's confidential offering memorandum or Managed Account investment management agreement for a more complete explanation of the strategy of the Fund or Managed Account in which they are invested.

From time to time, BVF may offer and manage “Excess Capacity Investments,” *i.e.*, co-investment opportunities that generally involve an additional investment in the securities of an issuer held on behalf of BVF Funds, Single Investor Funds and/or Managed Accounts. These are investments BVF believes to be promising but which would not, in BVF's judgment, be appropriate to augment the existing holdings of such Client accounts, given, among other possible reasons, each Client's: (1) available investment capital, (2) risk-related limitations, (3) size considerations or (4) investment concentration or diversification policies. An Excess Capacity Investment may be made simultaneously with, or subsequent to, an investment in the subject security by the Client(s), may occur at a time when the price of the subject security is lower or higher than when the security was acquired by such Client(s) and may be more or less profitable than the original investment to which it relates.

BVF, in its sole discretion, determines the Excess Capacity Investment participants, which BVF limits to investors and other third parties, including investors in the BVF Funds and other BVF accounts, who have: (1) expressed interest in co-investment opportunities; (2) such knowledge and experience in financial and business matters necessary to make them capable of evaluating the merits and risks of the prospective investment; and (3) other factors, as determined by BVF in its sole discretion. BVF may receive a management fee and/or performance-based compensation

regarding each such Excess Capacity Investment as may be negotiated with the relevant investor(s).

BVF tailors its investment advice to the BVF Funds according to each BVF Fund's investment objectives and not to the individual needs of BVF Fund investors (*i.e.*, BVF Fund investors are not permitted to impose restrictions on investing in certain securities or types of securities). We generally permit the investor in a Single Investor Fund or a Managed Account owner to tailor these accounts and impose restrictions with respect to the relevant account's portfolio objectives and constraints within the biotechnology sector; such objectives and constraints are set forth in the fund documentation or through a written investment advisory agreement, respectively.

As of December 31, 2017, BVF had approximately \$1.766 billion in assets under management, all of which is managed on a discretionary basis.

Item 5 – Fees and Compensation

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

Investment Management Fee

BVF, as the General Partner or investment manager of each BVF Fund, generally receives a management fee at an annual rate of 1% or 1.5% of assets under management. The management fee paid by BVF Fund investors depends upon the class of BVF Fund interest owned, as detailed in the BVF Fund's confidential offering memorandum. Management fees are deducted on a monthly basis in advance from the capital account of each investor and are calculated based on the balance in an investor's capital account in the BVF Fund as of the beginning of each quarter. An investor in a BVF Fund whom BVF permits to make a capital contribution on a date other than the first day of a calendar quarter will be charged a prorated management fee with respect to such capital contribution. Due to redemption notice and liquidity restrictions, a management fee paid in advance will have been earned at the point of redemption. In unusual circumstances where an investor is permitted to withdraw from a BVF Fund during a calendar quarter, BVF will refund a *pro rata* portion of the management fee applicable to the withdrawn capital for that quarter, based on the actual number of days remaining in the quarter divided by the total number of days in the quarter.

For Managed Accounts, it is up to each Managed Account owner whether to have the management and performance fees withdrawn directly from their custodian account or to pay by check or wire transfer. BVF will send an invoice to all Managed Account Clients who choose not to have management and performance fees withdrawn directly from their custodian account. The invoice is payable upon receipt and will include the fee calculation and the amount due. For Managed Account Clients who elect to have management and performance fees withdrawn directly from their custodian account, BVF will send a statement, to both the Client and the custodian that will include the fee calculation and the amount due. It is the Client's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated. Currently, BVF does not deduct its fees from any Managed Account.

Performance-Based Allocation or Fee

In addition, BVF receives a performance-based allocation paid in arrears from the BVF Funds derived from the net profits of each investor's investment in a BVF Fund. The performance allocation is made from each investor's capital account or is accrued for payment at a later date. Performance-based allocations for BVF Funds generally equal 20% or 25% per annum of net profits (including both realized and unrealized gains and losses) in excess of a "high water mark" attributable to each BVF Fund investor's capital account, depending on the class of BVF Fund interest owned, as detailed in the BVF Fund's confidential offering memorandum. Upon a partial withdrawal from a BVF Fund, any unpaid portion of performance-based allocations will be determined and due on a *pro rata* basis.

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

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

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

Additional Fees and Expenses

Clients will also generally bear direct and indirect costs, fees and expenses incurred by or on behalf of such Clients including, among others, all costs and expenses of organizing and/or restructuring a Fund and the offering of interests in a Fund; all costs and expenses associated with negotiating and entering into contracts and arrangements in the ordinary course of a Client's business; all legal, accounting, auditing, tax advice and preparation, expert and consulting fees and expenses arising in connection with the Client's business; costs of communicating with current and prospective Clients and Fund investors (including travel expenses); administrative fees and expenses (which currently cover back office support, accounting verification, investor registrar services, computer and systems connections with administrators, prime brokers, custodians and counterparties); investment expenses and other expenses (including, without limitation, all brokerage and prime brokerage fees and other costs of executing transactions, clearing and settlement fees and expenses), custodial fees and expenses, litigation expenses arising from the Client's business, valuation and portfolio pricing expenses, costs incurred in preparing and submitting regulatory and self-regulatory filings (including, without limitation, Schedules 13D, 13F, and 13G, reports under Section 16 of the Securities Exchange Act of 1934 and other filings and reports, the preparation

and submission of which currently or in the future may be required under applicable law); interest and financing charges, applicable withholding and other taxes and duties related to the purchase, sale, transmittal or custody of assets and related items; investment research expenses (including, without limitation, research-related travel and due diligence expenses and the costs of research-related publications, market data, news and quotation equipment and software costs); due diligence expenses related to monitoring service provider relationships with Clients, (including travel related due diligence costs); any third-party proxy voting service or consultants; and insurance premiums (including, without limitation, Errors & Omissions, Directors & Officers and Professional Liability insurance, including for BVF and its affiliates) and indemnification payments.

BVF also causes its Clients and other accounts to share on a fair and equitable basis in the legal fees and other expenses it incurs in investigating and negotiating potential transactions, whether or not such transactions are consummated. BVF bears its own operating, general, administrative and overhead costs and expenses, other than the expenses described above. See also Item 12 – Brokerage Practices.

As noted in Item 10 – Other Financial Industry Activities and Affiliations, BVF is an indirect minority shareholder in a Danish investment management firm that manages certain commingled investment partnerships in which certain BVF Clients are invested. BVF offsets any income it receives from the firm that is derived from fees or allocations assessed on BVF Client capital against any compensation that BVF would otherwise receive directly from its Clients with respect to such capital. Investors should refer to the applicable Fund offering memorandum and other relevant governing documents and agreements for additional/supplemental information regarding such Fund or Managed Account as well as the fees and expenses associated with such Fund or Managed Account. Similar services may be available from other investment advisers at a lower cost.

Side Letters

As a general matter, BVF owes certain fiduciary duties to each BVF Fund, which requires that BVF act in good faith and in what BVF considers to be in the best interests of each BVF Fund. In doing so, BVF also will endeavor to act in a manner that ensures the fair treatment of the respective BVF Fund's investors. From time to time, without the approval of any investor, BVF may enter into agreements with certain investors that provide for terms that are different from those described in the pertinent confidential offering memorandum ("side letters"). Such side letters or other similar agreements may not impose any additional obligations or liabilities on any other investor not party to such agreement. In exercising discretion in causing a BVF Fund to enter into a side letter, BVF will disclose terms of such side letter that it considers material to other investors (*i.e.*, any terms or combination of terms that could disadvantage any other investor). Otherwise, absent an agreement to the contrary, BVF may, but generally is not required to, disclose the existence or terms of any such side letters to any other investor.

Rights or terms that a side letter may alter may include, but are not limited to: (1) rights or terms necessary in light of particular legal, regulatory or public policy characteristics of an investor; (2) reporting obligations; (3) more favorable fee and/or allocation terms; and (4) enhanced transparency and position reporting. Such side letters or similar agreements will not, however,

combine preferential information rights with preferential redemption rights to the detriment of other investors. Also, the BVF Funds may issue additional partnership interests or series of member interests, as applicable, to one or more investors that reflect different rights or terms.

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

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

The manner in which the performance-based allocation or fee and management fee are determined for BVF Funds, Single Investor Funds and Managed Accounts may differ. BVF has a conflict of interest if, in any time period, one fee structure would generate higher fees than another. Such differences in fee structures create an incentive for BVF to allocate more favorable investment opportunities to the Client that pays the higher fees.

BVF has adopted and implemented policies and procedures intended to address these conflicts of interest relating to the side-by-side management of multiple Client accounts with different fee structures and the allocation of investment opportunities. BVF has adopted procedures relating to the allocation of investment opportunities that require similarly managed Client accounts generally to participate in investment opportunities *pro rata*, based on each account's available assets, but subject to a number of considerations that may result in non-*pro rata* allocations. BVF reviews investment decisions to ensure that all Client accounts with substantially similar investment objectives are treated equitably over time and regularly compares the performance of similarly managed Client accounts to determine whether there are any unexplained significant discrepancies. For more information on BVF's allocation procedures, please see Item 12 – Brokerage Practices, Allocation of Investment Opportunities.

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

Also, arrangements with Clients and Fund investors may include additional differences in rights or terms. For example, investors in different classes of BVF Fund interests or a Single Investor Fund or Managed Account may have differential liquidity rights, which enable certain investors or Clients to make capital withdrawals or redeem at certain times when other investors or Clients cannot do so. These differential investor liquidity rights could, in certain circumstances, be materially adverse to certain investors or Clients. As an example, under certain circumstances, investors who have interests with annual liquidity rights and exercise these rights could adversely affect investors who hold interests with more restrictive gated liquidity rights.

Additionally, an investor in a Single Investor Fund or an owner of a Managed Account generally receives more information (including portfolio composition information) than investors in the BVF Funds.

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

Item 7 – Types of Clients

As noted in Item 4 - Advisory Business, BVF currently provides investment advice to the BVF Funds, the Single Investor Fund and the Managed Accounts.

The minimum investment for an investor in a BVF Fund is \$25 million, which BVF, in its sole discretion, may waive. Also, Fund investors must meet the investor qualifications associated with each Fund.

Single Investor Funds and Managed Accounts are subject to individually negotiated terms. Further, the opportunity to organize a Single Investor Fund or open a Managed Account with us is not available to all prospective investors and clients. BVF determines in its sole discretion whether to allow a prospective investor or client to organize a Single Investor Fund or open a Managed Account, respectively, based on a variety of factors. Additionally, each type of account is generally subject to minimum asset levels, also as determined in our sole discretion.

Investors in the BVF Funds and the Single Investor Funds and Managed Account owners include high net worth individuals, trusts, endowments, pension plans, corporations and other entities who are (1) “accredited investors” and (2) either “qualified purchasers” or “qualified clients,” as such terms are defined in the federal securities laws.

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

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

Methods of Analysis, Investment Strategies

BVF invests primarily in biotechnology companies that possess proprietary drug discovery expertise and core technologies that can be leveraged into a stream of product opportunities. In particular, BVF seeks out biotechnology companies that have established, or are likely to establish, important partnerships and licensing arrangements with large drug companies. The focus of the BVF strategy is on fundamental, “bottom up” analysis of individual issuers based on the theory

that market mispricings exist because market prices do not incorporate all knowable economic and other relevant data (in the case of BVF, with particular emphasis on the idiosyncratic factors applicable to individual issuers).

In selecting investments for Clients, BVF seeks to evaluate the science supporting, and potential pipeline for, drugs currently in development as well as the financial condition and management of the companies under consideration. In doing so, BVF focuses on a variety of quantitative and qualitative metrics designed to detect market pricing inefficiencies due to: (1) the sector's scientific complexity and lack of objective valuation measurements (*i.e.*, earnings); (2) the sector's long product development cycle; and (3) the illiquidity of small capitalization biotechnology stocks. BVF's analysis also draws on its internal expertise in the biotechnology and pharmaceutical sectors and, particularly, in the small capitalization biotechnology universe.

Risk Factors

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

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

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

Performance Volatility. The performance of Funds or Managed Accounts managed by BVF has historically exhibited a high degree of a volatility and has, on occasion, incurred significant mark-to-market losses over short periods of time.

Fundamental Analysis. Fundamental analysis is subject to the risk of inaccurate or incomplete market information, as well as the difficulty of predicting future prices based upon analysis of all known information. Investments made on the basis of fundamental analysis are subject to significant losses when market sentiment leads to investments' market prices being materially discounted from the expected prices indicated by fundamental analysis (as in the case of "flights to quality" when the demand for certain risky investments plummets) or when technical factors, such as price momentum encouraged by trend-following strategies, dominate the market.

Fundamental analysis is inherently subject to the risk of not having identified all the relevant economic factors. In the case of BVF, this risk is exacerbated by the difficulty of even being aware of all relevant idiosyncratic factors (there may, for example, be setbacks in a drug being developed, dissension among management, illness of one or more key persons, and/or inaccurate accounting procedures, none of which is generally within the scope of BVF's universe of data). Fundamental analysis is also inherently subject to the unpredictable duration of periods during which market prices and "true value" as determined by such analysis will diverge. BVF may be entirely correct in its analysis of the idiosyncratic factors affecting the price of a stock, but the market may not reflect "true value" during the period that BVF determines to hold such stock. Although BVF's conviction in a particular position factors into BVF's analysis of a likely "exit strategy" or "event path" through which value will be realized, BVF may not correctly identify such "exit strategy" or "event path."

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

Dependence on Mr. Lampert and Mr. Perry. BVF's success depends on the skill and acumen of Mark N. Lampert and Matthew Perry. Mr. Lampert and Mr. Perry devote the majority of their business time to BVF. Furthermore, should both Mr. Lampert's and Mr. Perry's services become unavailable to BVF, the Funds and Managed Accounts advised by BVF would, in all probability, be liquidated. Such liquidation could take place under materially adverse circumstances. The investors in the BVF Funds and certain other Clients have extraordinary capital withdrawal rights in the event that both Mr. Lampert's and Mr. Perry's services become unavailable. The exercise of such rights would most likely lead to the dissolution of these Funds and closing of other Client accounts, perhaps also under unfavorable market conditions.

The Biotechnology Sector in General. The issuers in which BVF invests are subject to significant scientific, financial, regulatory and marketing risks. The prices of biotechnology securities are subject to significant fluctuation. Although BVF may succeed in identifying undervalued securities, there can be no assurance that stock prices will reflect such value over the time frame during which its Clients hold an investment.

The Clients invest substantially all of their available capital (other than uninvested cash) in long positions in the securities of biotechnology firms (BVF has the authority to make short sales, but generally does not). While these securities are generally publicly traded, the markets for securities of smaller capitalization issuers are generally illiquid and subject to substantial short-term fluctuations. Notwithstanding the existence of a public market, certain of these securities may cease, or effectively cease, to be traded after BVF invests in them.

Changes in economic conditions, including, for example, interest rates, inflation rates, industry conditions, competition, regulatory environment, technological developments, political and diplomatic events and trends, tax laws and innumerable other factors outside the control of BVF, can substantially and adversely affect the business and prospects of the Client accounts. Many of the issuers in which BVF invests are particularly vulnerable to such changes.

Regulation of the Biotechnology Sector. The biotechnology field is particularly subject to the risk of regulatory delay or adverse action. The Food and Drug Administration ("FDA") must approve all new drugs, and in many cases regulates the means by which research and testing can be conducted. Delays, or failure, in obtaining the necessary FDA approvals could adversely affect many of the issuers in which Clients invest.

Concentration on Equities. BVF focuses on long equity investing in small- and mid-capitalization companies. The equity markets—particularly the small- and mid-capitalization biotechnology equity markets are speculative and highly issuer-specific. Mismanagement or misconduct by corporate officers can cause the complete loss of an equity investment, and the equity markets may be particularly susceptible to subjective investment factors and market sentiment.

The success of BVF's strategy depends on BVF's ability to identify the idiosyncratic factors indicating value in a biotechnology company. Analyzing idiosyncratic factors is inherently uncertain, as is predicting whether (and over what time period) such factors will be reflected in market prices—particularly given the uncertainty of the FDA approval process. Furthermore, numerous inter-related and difficult-to-quantify economic and scientific factors, as well as market sentiment, subjective and extraneous political and other factors, influence the cost of biotechnology equities and during certain periods may dominate over idiosyncratic factors. Such periods can be expected to recur.

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

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

A limited portion of the investment portfolios of BVF Funds and certain Managed Accounts may be allocated to "Designated Investments" or "Special Opportunity" investments which are investments in which only persons who are investors at the time that such designation is made will participate. Designated and Special Opportunity Investments are typically illiquid or difficult to value and the fair value of such investments as reflected in the relevant BVF Funds and Managed Accounts may not reflect the price that would actually be realized if those investments were to be liquidated. Investors may be subject to tax however, on their participation in such investments prior to such liquidation. In addition, investors who participate in such investments will continue to participate in them until they are liquidated, whether or not the investor has otherwise withdrawn entirely from the relevant BVF Fund or Managed Account.

Possible Inability to Deploy Capital. The success of BVF's investments will be largely dependent upon our ability to identify successful portfolio companies. No assurance can be given that we will be able to identify suitable investment opportunities in which to deploy all available capital or make successful portfolio company investments and there have been and may be periods of time when a material portion of Client account balances are in cash or cash equivalents. Clients will be dependent upon the judgment and ability of BVF in investing capital. No assurance can be given that BVF will be successful in doing so.

Insider Status. The acquisition by a BVF Client of more than 10% of the equity securities of a public company or the service of an officer or employee of BVF as an executive officer or director of a company may subject a BVF Client to liability for "short-swing profits" under Section 16(b) of the Securities Exchange Act of 1934. Under Section 16(b), holders of more than 10% of any class of equity securities of a company registered under Section 12 of the Securities Exchange Act of 1934 and certain officers and directors of such issuer are prohibited from any purchase and sale, or any sale and purchase, of any equity or derivative security of such issuer within any period of less than six months. If a BVF Client engages in a transaction that results in short-swing profits, a BVF Client may be required to return the amount of such profit to the issuer, which could adversely affect the overall return on investment realized by a BVF Client. Measures to avoid short-swing liability may limit the ability of a BVF Client to buy or sell securities of the relevant portfolio company or companies. Antitrust or other regulatory complications may impose filing fees and other additional expenses and may adversely affect a BVF Client's ability to acquire or dispose of investment positions.

Material Non-Public Information. From time to time, BVF may come into possession of what it reasonably believes may be determined to be material non-public information concerning the issuer of a BVF Client's investment or any of such issuer's affiliates. Under applicable securities laws, this may limit BVF's flexibility to buy or sell such investment for a BVF Client. Such limitations on BVF's ability to trade could have an adverse effect on a BVF Client. Although BVF has adopted procedures to monitor the receipt of material non-public information, there is no guarantee that BVF will know whether an employee of BVF is in possession of material non-public information or will be able to prevent such information from being used for the benefit or detriment of a BVF Client. Receipt of material non-public information about a BVF Client's investments may restrict the ability of a BVF Fund, a Single Investor Fund or Managed Account to satisfy redemption or withdrawal requests, as applicable.

Risk of Litigation. In the ordinary course of business, BVF or a Client may be subject to litigation from time to time. BVF may accumulate substantial positions in the securities of issuers that become involved in proxy contests or other litigation. As a result, BVF or a Client could be named as defendants in a lawsuit or regulatory action. The outcome of such proceedings, which may materially adversely affect the value of the related portfolio company, may be impossible to anticipate, and such proceedings may continue without resolution for long periods. Any litigation may consume substantial amounts of BVF's resources, often to an extent disproportionate to the amounts at stake in the litigation.

There have been a significant number of regulatory as well as criminal proceedings brought relating to alleged "insider trading" by persons who had contact with, and received "material non-public information" from, officers and employees of generally smaller capitalization public

companies. BVF has ongoing contact with numerous participants in the small-cap biotechnology sector, and it is possible that BVF could become a target of regulatory scrutiny as a result.

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

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

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

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

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

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

Competition. The securities industry in general, and the biotechnology markets in which BVF invests and trades, are extremely competitive. BVF competes with other securities firms, including

many of the larger investment advisory and private investment firms, as well as institutional investors. In addition, the companies in which BVF invests compete with others with resources substantially greater than BVF or such companies. A number of other major private investment funds that are not currently focused on biotechnology may also identify the biotechnology sector as one that offers buying opportunities, materially increasing the competitors of BVF.

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

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

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

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

Item 9 – Disciplinary Information

There are no legal or disciplinary events that are material, or that would be presumed to be material pursuant to the Advisers Act regulations, to a Client's, prospective Client's, Fund investor's or prospective Fund investor's evaluation of BVF's advisory business or the integrity of BVF's management.

Item 10 – Other Financial Industry Activities and Affiliations

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

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

BVF is an indirect minority shareholder in Nordic Biotech Advisors ApS ("Nordic"), an unrelated Danish investment management firm, and certain affiliates of Nordic. Mathew Perry, the President and a portfolio manager of BVF, is a member of the board of directors of Nordic. BVF does not, either as a result of its minority shareholdings or Mr. Perry's directorship, exercise any control or influence over investment or management decisions of Nordic or any affiliates of Nordic. Nordic and/or its affiliates are the adviser and general partner to several Danish private limited partnerships that invest in either private equity or publicly traded securities of biotechnology companies that are generally located in Europe.

BVF obtained its minority interests in exchange for providing working capital and industry expertise to Nordic. Certain Nordic advised partnerships are Designated Investments of BVF's Clients. While BVF's minority interest in Nordic creates a potential conflict of interest where BVF Client capital is invested in a Nordic advised fund, BVF addresses this conflict with policies pursuant to which any amounts it receives from Nordic relating to these Designated Investments offsets compensation that BVF would otherwise receive directly from its Clients with respect to these Designated Investments.

Additionally, BVF also addresses potential conflicts of interest through policies pursuant to which investments are made in accordance with Client investment objectives and decisions are to be made in the best interest of Clients. Moreover, Mr. Perry does not receive any compensation for his service as a director of Nordic. Mr. Perry's service on the Nordic board of directors creates a conflict of interest with respect to access to, and the potential sharing of, sensitive information. BVF has policies to guard against information sharing that provide for the safeguarding of proprietary and non-public information by BVF personnel as well as policies and procedures to detect and prevent misuse of material, non-public information. See also Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.

Employees of BVF serve, and may in the future serve, on boards of directors or in other management capacities at companies in which Clients invest, either directly or indirectly. Serving in such a capacity may subject such employee, and by association, BVF and its Clients, to certain limitations on the ability to trade the securities of the issuer company and to certain conflicts of interest. As a result of such service, an employee may become aware, from time to time, of material non-public information about the company in which Clients invest, and the employee's knowledge

is likely to be attributed to BVF and the Clients which may result in the Clients' ability to trade the securities of such company becoming substantially restricted. Such limitations may cause the Clients to forgo sales that they would otherwise make, thereby exposing them to losses, or to forgo purchases, thereby exposing them to lost opportunities. An employee serving as a director of a company owned, directly or indirectly, by Clients may also face a conflict between the fiduciary duties owed by such employee to the Clients and the duties owed to such company. In such circumstances, an employee may act in ways that are in the best interest of such company but not the Clients. BVF maintains internal compliance policies that are intended to minimize the negative effects of such conflicts if they arise, and intends to prevent employees from taking such positions when, in BVF's determination, the potential risks to the Clients outweigh the potential benefits. However, there can be no assurance that permitting the board membership of an employee will not result in less favorable results for Clients than if the employee were not permitted to serve in such capacity.

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

Code of Ethics

BVF has adopted a Code of Ethics pursuant to Rule 204A-1 under the Advisers Act (the "Code"), including a Personal Securities Transaction Policy, that sets forth standards of conduct expected of employees and addresses potential conflicts that can arise from personal trading by employees.

In accordance with the Code, all employees are required to act with competence, dignity and integrity, in an ethical manner, when dealing with Clients, the public, prospective clients, third-party service providers and fellow employees. Further, employees must avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interests of Clients. At all times, each employee must:

- Place Client interests ahead of BVF's interests and the employee's interests;
- Engage in personal investing that is in full compliance with the Code;
- Avoid taking advantage of the employee's position;
- Maintain full compliance with the federal securities laws; and
- Promptly report any violations of the Code to the Chief Compliance Officer (the "CCO").

BVF has designated every employee as an "access person" for purposes of its Personal Securities Transaction Policy. As such, all employees of BVF are covered by this Personal Securities Transaction Policy. Under this Personal Securities Transaction Policy, employees must periodically report their personal securities transactions and holdings to our CCO, and the CCO or his designee must review these reports. To this end, each employee must arrange for BVF to receive such employee's investment account statements, containing information regarding all securities transactions in the accounts of such employee. In addition, employees must obtain approval before making certain types of investments.

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

Any questions or possible violations that arise under the Personal Securities Transaction Policy must be reported to BVF's CCO immediately. Investors or prospective investors can obtain a copy of the Code, free of charge, from the CCO, James Kratky, at (415) 525-8830 upon request.

Interests in Client Transactions

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

Adviser as a Principal in Client Trades

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

Transactions between Clients

BVF may elect to effect purchase and sale transactions between the Funds and Managed Accounts with respect to particular investments; provided that (i) the transaction must be effected at a price that is fair to the advisory clients on both sides of the trade, (ii) neither BVF nor any of its affiliates may receive any compensation for effecting the trade and (iii) the trade must be in the best interests of both the advisory clients on both sides of the trade.

BVF will comply with all Advisers Act requirements regarding any transactions.

Item 12 – Brokerage Practices

Selection of Broker-Dealers

BVF's objective is to make well-informed trade execution decisions that increase or preserve the value of its Clients' portfolios. While the selection of a broker or dealer (collectively, a "broker-

dealer”) to execute a transaction for a Client often will be a function of the facts and circumstances surrounding a particular execution, examples of factors BVF may consider include:

- Price quotes (including the applicable spread or commission);
- The broker-dealer’s expertise in the specific securities or sectors in which BVF seeks to trade;
- The extent to which the broker-dealer makes a market in the securities involved or has access to such markets;
- Availability of accurate information regarding the market for the security;
- The size, type and difficulty of the transaction;
- The liquidity of the market for the securities in question;
- The broker-dealer’s skill in positioning the securities involved;
- The likely market impact of the order and BVF’s opinion as to which broker-dealer is best able to handle the order with minimum adverse market impact;
- The broker-dealer’s promptness of execution;
- The broker-dealer’s financial stability;
- Adequacy of the broker-dealer’s trading infrastructure, technology and capital;
- The broker-dealer’s reputation for diligence, fairness and integrity;
- BVF’s prior experience with the broker-dealer’s executions;
- Confidentiality considerations;
- The quality and usefulness of investment ideas presented by the broker-dealer;
- The broker-dealer’s ability and willingness to correct errors;
- The broker-dealer’s ability to accommodate any special execution or order handling requirements that may surround the particular transaction; and
- Other factors affecting the services obtained.

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

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

Prime Brokers

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

Soft Dollars

BVF currently does not have any soft dollar contracts or targets pursuant to which it pays for third-party research or other third-party products, and BVF will not enter into any such third-party soft dollar arrangements without the express approval of its CEO. BVF does receive proprietary research from many of its executing and prime brokers. As a result, BVF may pay a broker a brokerage commission in excess of that which another broker might have charged for effecting the same transactions, in recognition of the value of the brokerage and research services provided by the broker and used by a Client account managed by BVF. In such circumstances, BVF endeavors to act in accordance with the criteria of Section 28(e) of the Securities Exchange Act of 1934. Subject to its duty to seek best execution, BVF may effect transactions with certain brokers primarily in consideration for providing research services. BVF may allocate brokerage to such firms, provided that the value of any research and brokerage services is reasonable in relationship to the amount of commission paid. In no case will BVF make binding or informal commitments as to the level of brokerage commissions it will allocate to a broker.

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

Allocation of Investment Opportunities

BVF endeavors to act in a fair and reasonable manner in allocating investment and trading opportunities among BVF's Funds, Single Investor Funds and Managed Accounts (collectively, "Accounts"). BVF's allocation procedures seek to allocate investment opportunities among the Accounts equitably over time, considering both the best interests and any specific restrictions of the Accounts. BVF intends to ensure that each investment is appropriate for each Account in light of the characteristics of the specific security and the overall portfolio composition of such Account. Within the overall parameters of equitable allocation, consideration is given to Account investment

objectives, strategies and guidelines, Account constraints and restrictions, Account size, diversification, cash availability (including anticipated contributions and redemptions), tax issues, ramp-up or ramp-down status and other factors. Securities may be allocated pro-rata or in another manner across the BVF Funds, Single Investor Funds, and Managed Accounts, as determined by BVF based on its analysis of each security and current portfolio construction.

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

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

Trade Errors

On occasion, trades may be executed on behalf of Clients that are inconsistent with the BVF's specific trading instructions. Such errors are known as "Trade Errors." Examples of Trade Errors include: (1) buying or selling an investment asset at a price or quantity that is inconsistent with the specific trading instructions generated by a particular strategy or (2) buying rather than selling a particular investment asset (and vice versa). Trade Errors are distinguishable from errors in judgment, due diligence or other factors leading to a specific trading instruction being generated, as well as from unauthorized trading or other improper conduct by BVF personnel. Trade Errors do not include scenarios that do not result in a trade. Trade Errors frequently result in losses but occasionally may result in gains. BVF will endeavor to detect Trade Errors before settlement and correct and/or mitigate them in an expeditious manner. To the extent a Trade Error is caused by a third party, such as a broker, BVF may seek to recover any losses associated with the Trade Error from such third party, but may choose not to do so in its discretion, and BVF will not be liable for such losses.

BVF will not be liable for any losses resulting from Trade Errors and similar human errors, absent a breach of BVF's standard of care as set forth in the governing documents regarding the Client

account. BVF will determine in its sole discretion whether it caused any Trade Error and if the error breached this standard of care. Investors should be aware that, in making such determinations, BVF will have a conflict of interest. If BVF determines that a Trade Error was not the result of BVF's breach of its standard of care, the Client will bear the costs associated with the Trade Error. If BVF determines that a Trade Error was the result of BVF's breach of its standard of care, BVF will promptly reimburse such Client for the error. Any gains resulting from a Trade Error will be for the benefit of the Client.

Item 13 – Review of Accounts

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

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

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

Item 14 – Client Referrals and Other Compensation

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

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

Item 15 – Custody

Based on the fact that BVF or an affiliated entity serves as general partner or manager of certain Funds, BVF has custody of the assets of the Funds and is subject to Rule 206(4)-2 of the Advisers Act (the "Custody Rule"). However, we are not required to comply (or are deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because we comply with the provisions of the so-called "Pooled Vehicle Annual Audit Exemption." Such exemption, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant registered with, and subject to regular inspection by, the Public

Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to its investors within 120 days after the end of its fiscal year. BVF does not have custody of the Managed Accounts.

Item 16 – Investment Discretion

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

Item 17 – Voting Client Securities

BVF generally has authority to vote the BVF Funds' securities. BVF and the Managed Account owner coordinate in determining how to vote the securities of the particular account.

In addition to solicitations in connection with equity securities of traditional operating companies, proxy voting also is deemed to include any consent requested in matters such as bankruptcy or insolvency, covenant waivers in connection with debt, approvals regarding the restructuring of debt and other rights and remedies with respect to securities.

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

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

BVF has adopted formal written Proxy Voting Policies and Procedures. Clients and Fund investors may obtain a copy of BVF's Proxy Voting Policies and Procedures and information as to how the relevant Client's securities have been voted, free of charge, by contacting BVF's CCO, James Kratky, at 415-525-8830. Clients may not direct BVF's votes of proxies.

Item 18 – Financial Information

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