
ITEM 1 – COVER PAGE

DEERFIELD MANAGEMENT COMPANY, L.P. SERIES C

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This brochure provides information about the qualifications and business practices of Deerfield Management Company, L.P., Series C (the “Firm”). If you have any questions about the contents of this brochure, please contact us at 212-551-1600. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Additional information about the Firm also is available on the SEC’s website at www.adviserinfo.sec.gov.

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

DATE: February 10, 2012

ITEM 2 – MATERIAL CHANGES

This Brochure is the initial investment adviser brochure filed by the Firm with the SEC. There are no material changes to report.

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ITEM 4 – ADVISORY BUSINESS

A. Description of the Firm

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

B. Advisory Services.

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

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

C. Tailoring Services to Client Needs

The Firm’s investment management services adjust to accommodate each Fund’s investment strategy, as set forth in each Fund’s Memorandum. In the case of Funds with the Large Capitalization Strategy (described below), the Firm expresses its investment theses primarily through exchange traded securities, including derivatives, although it will sometimes invest in non-exchange traded securities. In the case of Funds with the Special Situations Strategy (described below), the Firm will also invest mostly in exchange traded securities, but up to 25% of its investments may be in less liquid securities. Finally, in the case of Funds with the Private Design Strategy (described below), the Firm may invest in any type of asset (other than real estate) and employ a variety of transaction structures.

D. Wrap Fee Programs

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

E. Assets under Management.

All Fund assets are managed by the Firm solely on a discretionary basis. The value of assets managed by the Firm varies from time to time. As of December 31, 2011, the Firm managed approximately \$3.9 billion in regulatory assets under management.

ITEM 5 – FEES AND COMPENSATION

A. Fees

The Firm does not have a standardized fee schedule for the discretionary investment management services it provides the Funds. Generally, the Firm or its affiliate receives a management fee (calculated as a percentage of a Fund's net asset value and/or funded commitments and/or unfunded commitments) and performance-based compensation (based on the realized and unrealized profits earned by a Fund or based on distributions made by a Fund). The fees applicable to each Fund are disclosed in the Memorandum for such Fund.

Management fees generally range from 0.65% to 2% annually, and may be reduced dollar for dollar, but not below zero on a going forward basis, by directors' fees, consulting fees, advisory fees, transaction fees, commitment fees, broken deal fees or other similar fees received by the Firm from investments made by a Fund using the Private Design Strategy. Performance-based compensation is generally 20%, subject to a "high water mark," meaning that if there has been a decrease in the value of an investor's account in a Fund since the performance-based compensation was last paid, that decrease must be recovered before additional performance-based compensation may be earned by the Firm in respect of such investor. Performance-based compensation received by the Firm is charged in conformity with Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "Advisers Act").

B. Payment of Fees

Management fees are payable quarterly and performance-based compensation is generally payable annually, or payable when distributions to Fund investors exceed their contributions.

Fees are paid or allocated directly by each Fund to the Firm or its affiliate. Deerfield Capital, L.P., a related person of the Firm (the "General Partner"), holds a general partner interest in certain of the Funds managed by the Firm and is allocated performance-based compensation in respect of such Funds on the same terms as the performance-based compensation described above. The Firm does not receive performance-based compensation from a Fund that allocates performance-based compensation to the General Partner.

C. Other Fees and Expenses

The Funds pay no fees to the Firm other than the management fees and the performance-based compensation described above. The Funds pay all expenses related to their respective operations, including brokerage charges, administrative expenses, legal fees (including litigation expenses, if any), expenses incurred in connection with the making, holding, sale or proposed sale of investments, interest on investment-related borrowings, accounting, audit and tax preparation expenses, and extraordinary expenses. The Firm, in its discretion may, and sometimes does, elect to bear certain Fund expenses, but the Firm has no obligation to do so.

Item 12 describes factors that the Firm considers in selecting or recommending brokers for Fund transactions and determining the reasonableness of their compensation (e.g., commissions).

D. Timing of Fee Payments

Management fees are due quarterly in advance. The Firm has discretion to defer the payment of management fees and customarily receives payment in the final quarter of each calendar year for all management fees accrued during such year. Performance-based compensation is generally payable annually in arrears, or payable when distributions to Fund investors exceed their contributions.

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

E. Fees for Other Investment Products

Neither the Firm nor any of its employees or other related persons receives compensation for the sale of securities or other investment products other than the management fees and performance-based compensation described above.

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

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

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

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

The Firm addresses these potential conflicts by adhering to its policy of fairly allocating investment opportunities in accordance with Fund Strategy, Fund size or committed capital, and remaining Fund life. Allocation decisions are made by Mr. Flynn and not by individual employees. As between the domestic and offshore counterparts of Funds having the same Strategy, investments are allocated generally on the basis of Fund size or committed capital; however, differences in the tax implications between the domestic and offshore counterpart Funds may sometimes dictate a non-proportional allocation. Multiple factors come into play when the Firm must allocate an investment opportunity other than strictly on the basis of Fund size or committed capital. The Firm may consider a Fund's existing diversification among healthcare subsectors, its gross and net exposure, correlated investments held by a Fund, and other factors in determining the suitability and appropriate sizing of an investment. The Firm will take all relevant factors into account and allocate an investment fairly based on those factors. In some instances, Mr. Flynn may seek additional input from an advisory board comprising (in addition to Mr. Flynn) three or four investors (or representatives of investors) in the Funds that are not otherwise affiliated with the Firm.

ITEM 7 – TYPES OF CLIENTS

The Firm's only clients are the Funds, and no investment advice is provided directly to individuals or to investors in the Funds. The Firm does not have a standard minimum account size.

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

A. Methods of Analysis and Investment Strategies

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

The Firm considers the healthcare sector to include, without limitation, therapeutics, medical devices, diagnostics, and healthcare and healthcare related services of any type for humans or animals.

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

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

1. Large Capitalization Strategy

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

- *Healthcare universe.* At least 90% of investments made for this Strategy (and the other Strategies as well) must be in healthcare securities, and in practice, the Funds have invested almost exclusively in the healthcare sector.
- *Leverage.* Total exposure varies from time to time based on market factors and the constantly varying mix of investment opportunities. In recent years, the exposure of the Funds utilizing the Large Capitalization Strategy has been in the range of 65-110% for

long positions and 20-60% for short positions; however, exposure may vary from those ranges in the future.

- *Diversification.* The portfolio consists of a relatively large number of positions, with 1% to 2% of total exposure representing the typical size of an individual investment. The Firm customarily invests across a number of healthcare industry segments. The Firm does not invest more than 10% of the net assets of a Fund utilizing the Large Capitalization Strategy (computed at the time the investment is made) in the securities of any one company.
- *Balance.* The portfolio usually has a net long exposure, but its long and short positions may vary significantly from time to time and net exposure has averaged about 30% over time; however past exposure may not be indicative of future exposure. The portfolio may include positions in equity, debt and derivative securities. Geographically, the portfolio is expected to be weighted toward U.S.-based healthcare companies, but it may include substantial non-U.S. exposure. Exposure to foreign investments varies with prevailing investment opportunities.
- *Holding periods.* Holding periods of both long and short positions are determined by the underlying investment thesis and developments in the relevant securities. The Firm attempts to realize long-term capital gains for domestic taxable investors where possible and prudent.
- *Risk.* The Firm may take above-average risk in particular situations if the risk-adjusted return justifies the exposure. The risk inherent in any one investment is mitigated to a degree by the diversity of the portfolio within the healthcare sector.
- *Use of Derivatives.* The Firm uses exchange traded derivative instruments when and to the extent they provide the best means of achieving desirable risk-adjusted returns, sometimes in combination with other securities. Derivatives may also be used to hedge currency risk.
- *Private Market Financing.* The Large Capitalization Strategy focuses primarily on publicly traded securities. It also invests in tradable syndicated debt and in privately structured financings of publicly-traded companies where liquidity may be restricted for short periods of time, generally less than three months. Such private securities with restricted liquidity represent no more than 5% of net assets of a Fund utilizing the Large Capitalization Strategy, determined at the time the investment is made.

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

2. Special Situations Strategy

Investment Strategy. The Special Situations Strategy emphasizes investments in publicly traded healthcare companies with smaller market capitalization (currently \$300 million at the time of investment and increasing at a rate of about 3% per year). At least 90% of the portfolios of Funds utilizing the Special Situations Strategy must be invested in healthcare related companies, and in practice essentially all investments are healthcare related. These investments may involve equity, debt, royalties or other assets, some of which may have limited liquidity. The Special Situations Strategy may make both long and short investments and may utilize leverage in seeking to improve investment returns, but total gross exposure of the portfolios of Funds utilizing the Special Situations Strategy may not exceed 200%.

Investment Approach. In general, the Special Situations Strategy observes investment considerations, portfolio management practices and valuation methodologies similar to those of the Large Capitalization Strategy. The Special Situations Strategy also incurs investment-related risks, similar to those of the Large Capitalization Strategy. There are some differences, however. Up to 25% of assets of the Funds utilizing the Special Situations Strategy may be invested in assets having restricted liquidity, including investments in private companies, which may cause those Funds to be less liquid than ones utilizing the Large Capitalization Strategy. Because Funds utilizing the Special Situations Strategy focus on a smaller universe of companies and have a substantially lower asset value, these Funds may have less diversity in their investments, a larger average position size (as a percentage of Fund size), and greater volatility in returns than the Funds utilizing the Large Capitalization Strategy.

3. Private Design Strategy

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

Investment Approach. The Firm has established long term relationships with the management of many healthcare companies, and possesses deep knowledge of the markets for

healthcare products and services. These attributes allow the Firm to identify financing needs of companies and devise customized investment structures that, on a risk adjusted basis, are intended to meet the financing needs of the portfolio company and the return objectives of the Funds utilizing the Private Design Strategy. The Firm considers the following investment guidelines when making investment decisions.

- *Healthcare Universe.* The Firm will invest primarily in the healthcare sector, including publicly traded and private companies and established and start-up businesses.
- *Leverage.* The Funds utilizing the Private Design Strategy may leverage their investments and may obtain such leverage in any manner deemed appropriate by the Firm, including, but not limited to, borrowing on margin or otherwise, repurchase agreements, derivative transactions that provide leveraged exposure to various underlying baskets of assets, and loans from the Firm or its affiliates on arm's-length terms. The Funds utilizing the Private Design Strategy may also obtain credit lines to provide initial funding of investments without drawing down unfunded capital commitments or as a short-term bridge financing of investments pending drawdown of unfunded capital commitments.
- *Portfolio Concentration.* Portfolio concentration in the Funds utilizing the Private Design Strategy will vary with available opportunities and at different times in Fund life (being more concentrated at the beginning and end of a Fund). No more than 30% of a Fund's aggregate committed capital may be invested in a single portfolio company as of the date of investment.
- *Balance.* The Private Design Strategy generally does not engage in stand-alone short transactions, but may take short positions as part of a broader transaction, in anticipation of structuring a broader transaction, or in exiting an investment. Exposure to foreign investments is possible and will depend on available opportunities.
- *Holding Periods.* Investments will have varying holding periods, depending on the terms of the particular investment. The Private Design Strategy generally seeks to have liquidity within five years of investment but may structure transactions having a longer time to liquidity.
- *Risk.* The Private Design Strategy may take above-average risk in particular situations if the Firm believes that the risk-adjusted returns justify the investment.
- *Use of Derivatives.* Derivatives may be employed when structuring investments or transactions to adjust overall exposure or to enhance performance.

Investment Selection. The Firm seeks opportunities that allow it to apply its understanding of the healthcare sector with creative transactional abilities to meet the funding needs and growth objectives of healthcare companies in a way that optimizes the benefits over time for both the Private Design Strategy and the relevant company. In general, the Firm looks for companies whose funding needs cannot be as efficiently satisfied by conventional forms of debt or equity financing and for funding structures that simultaneously mitigate downside risk

while retaining the opportunity for upside reward. In some cases, the Private Design Strategy may acquire all or substantially all of the equity of a portfolio company. The objective is to obtain a favorable skew in the expected dollar of reward for dollar of risk.

B. Risks

All of the Strategies may be deemed speculative investments and are not intended as a complete investment program. The Strategies are intended for sophisticated investors who are able to bear the risk of an investment. There can be no assurances that any Strategy will achieve its investment objective or that there will not be a significant loss of capital. The following risks should be carefully evaluated by prospective investors:

- *Market Risks.* The profitability of a significant portion of each Strategy's investment program depends to a great extent upon correctly assessing the future course of the price movements of securities and other investments. There can be no assurance that the Firm will be able to accurately predict these movements. Although the Firm attempts to mitigate certain market risks through the use of long and short positions, a significant degree of market risk remains.
- *Short Sales.* The investment activities of the Firm for the Large Capitalization and Special Situations Strategies routinely include short selling. The Firm generally does not engage in stand-alone short transactions for the Private Design Strategy, but may take short positions as a component of a broader transaction and in exiting an investment. In certain circumstances, short sales can substantially increase the impact of adverse price movements on a Fund's portfolio. A short sale of a security involves the risk of a theoretically unlimited increase in the market price of the security which could result in an inability to cover the short position on a timely basis and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.
- *Small and Medium Capitalization Companies.* The Firm may invest in companies with small- to medium-sized market capitalizations, including growth stage companies, for all Strategies. The securities of small- to medium-sized companies and start-up companies involve higher risks in some respects than do investments in larger companies. For example, prices of small-capitalization and medium-capitalization stocks are often more volatile than prices of large-capitalization stocks, and the risk of bankruptcy or insolvency of many smaller companies is higher than for larger, "blue-chip" companies and is higher for start-ups than for established companies. In addition, due to thin trading in some small-capitalization stocks, an investment in those stocks may take time to liquidate, and investments in a private company may be wholly illiquid. Some small companies have limited product lines, distribution channels and financial and managerial resources. Some of the companies in which the Firm invests may have product lines that have, in whole or in part, only recently been introduced to market or that may still be in the research or development stage. Such companies may also be dependent on personnel (including key personnel) with limited experience.

- *Derivative Financial Instruments.* The Firm uses derivative financial instruments that may be subject to wide and sudden fluctuations in market-value, with resulting fluctuations in profits and losses. Derivative instruments presents various risks, including (i) an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment that may prevent the Firm from achieving the intended hedging or return effect; (ii) difficulty closing a position without a loss, especially large positions, when market liquidity is tight or volatility is high; and (iii) the amplification of gains and losses due the leverage inherent in derivative instruments.
- *Newly Issued Securities.* The purchase of newly issued securities involves significant risk, because the prices of newly issued securities can increase or decrease significantly and quickly.
- *Leverage.* While the use of borrowed funds can substantially improve the return on invested capital, leverage may also magnify the loss on an investment.
- *Foreign Securities.* Investing in foreign securities, including privately structured investments in foreign companies, involves risks not typically associated with investing in securities of United States issuers. These risks include changes in exchange rates and exchange control regulations, political and social instability, expropriation of assets, the imposition of foreign taxes, less liquid markets and less available information on portfolio companies than is generally the case in the United States. Other risks of foreign securities and investments include higher transaction costs, less government supervision of exchanges, brokers and issuers, difficulty in enforcing contractual obligations, the lack of uniform accounting and auditing standards, and greater price volatility.

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

ITEM 9 – DISCIPLINARY INFORMATION

The Firm does not have any disciplinary or legal events to report.

ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

The Firm is a related person of Deerfield Capital, L.P., the General Partner to certain of the Firm's Fund clients. See Item 4.

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

The Firm has adopted a Code of Ethics (the “Code”) that sets forth the ethical and fiduciary principles and related compliance requirements under which the Firm operates and the procedures for implementing those principles. The Code includes provisions that govern fiduciary duty, client opportunities, insider trading, personal trading, gifts and entertainment, political contributions, outside business activities and confidentiality.

With respect to personal trading by its principals and employees (collectively, “Employees”), Employees may not establish a new investment position in any company in the healthcare sector, public or private, but may maintain investment positions in such companies if the position was established prior January 1, 2011. Employees may make trades to exit from such positions only with prior approval. Such approval will be given only if (i) the Firm is not restricted from trading in the relevant security, and (ii) the requested trade is not adverse to, or could be materially affected by, any trading strategy in which the Firm is engaged, whether in terms of the direction of a trade or by materially affecting price or trading volume in the relevant security.

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

The Firm provides investment advisory services only to the Funds, which, although permitted to invest up to 10% of assets outside the healthcare sector, generally invest only in the healthcare sector. If any of the Funds were to invest outside the healthcare sector, the Code would apply to such investments in the same manner it applies to healthcare investments, including approval of Employee trades.

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

The Firm, consistent with clients’ investment objectives and in accordance with applicable law, may cause accounts it manages to effect, and will recommend to clients or prospective clients, the purchase or sale of securities in which the Firm, directly or indirectly, has a position or interest. The Firm may recommend to clients an investment in a private investment fund for which the Firm or a related person serves as the general partner or investment adviser. The potential conflict of interest regarding such relationship is disclosed to investors and prospective investors in a Fund prior to their making an investment in a Fund. See also Items 4 and 10.

From time to time, it may be appropriate for more than one of the accounts managed by the Firm to trade in the same securities at the same time. As a general rule, such orders are combined (or bunched) and allocations among the Firm’s clients acquiring or disposing of the same securities on the same day based on an allocation amount determined at the time of the order. If the orders

are combined (or bunched), each of the accounts will have its same day orders filled on an average price basis (such that each receives the same price).

The Firm does not engage in principal transactions with client accounts. Principal transactions are generally defined as transactions where an advisor, acting as principal for its own account, buys a security from or sells a security to an advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between accounts of different clients. Such Fund to Fund transactions may occur in connection with the re-balancing of assets between the onshore and offshore components of Funds having the same strategy. Such re-balancing is done to accommodate changes in the relative value of the aggregate assets of each Fund (for instance, due to contributions or withdrawals by investors).

ITEM 12 – BROKERAGE PRACTICES

The Firm considers solvency, reputation, corporate access, best execution and breadth of investment-related resources when selecting brokers and the reasonableness of their compensation. The Firm also considers research and other soft dollar benefits in selecting brokers. “Soft dollar” benefits arise when the Firm pays a brokerage commission that is not the lowest possible commission available from the broker. When soft dollars are used to obtain research and other benefits from brokers, those benefits are being paid for by higher commissions incurred in connection with trades in Fund securities.

The Firm’s investment approach emphasizes detailed research of individual healthcare companies, the healthcare sector generally, particular subsectors within the healthcare industry, and particular products, services and technologies and related commercial, legal, political, and regulatory dynamics. Consequently, the Firm considers the value of “soft dollars” in the form of research and other products and services that may be available from a broker when selecting and engaging brokers. Such soft dollars may pay for research and other services provided directly by the broker or by third parties that are paid by the broker. Soft dollars are not used to pay or reimburse the Firm’s internal expenses, such as paying Firm employees, rent, utilities, or overhead expenses. The Firm applies soft dollars only (i) to pay for products and services that fall within the safe harbor established under Section 28(e) of the Securities Exchange Act of 1934 and (ii) for services for which the Funds would otherwise be obligated to pay under the governing documents of each Fund. Soft dollars that qualify under Section 28(e) are paid primarily to third parties that provide the Firm with research regarding particular diseases, technologies, products, companies and sectors of the healthcare industry. Outside of Section 28(e) research services, the Firm uses soft dollars for the payment of legal fees that the Funds are otherwise obligated to pay.

The relationship with brokerage firms that provide soft dollar services to the Firm influences the Firm’s judgment in allocating brokerage business. The Firm has an incentive to select a broker based on its interest in receiving research or other products or services, rather than on a Fund’s interest in receiving the most favorable execution and thereby creates a conflict of interest in using the services of those brokers to execute a Fund’s brokerage transactions. The Firm believes that these relationships will be beneficial to both the Firm and Funds, but Fund trades executed through these firms or any other brokerage firm may or may not be at the best price otherwise available. By using Fund brokerage commissions to obtain research, the Firm receives a benefit because it does not have to produce or pay for the research. The Firm may have an incentive to select or recommend a broker based on its interest in receiving the research, rather than on a particular Fund’s interest in receiving most favorable execution. A Fund may pay commissions higher than those charged by other broker in return for soft dollar benefits.

Because the Firm uses its research of the healthcare industry to analyze investment opportunities across all Fund Strategies, all Funds advised by the Firm may benefit directly or indirectly, immediately or over time, from research provided or paid for with soft dollars. The Firm does not attempt to allocate the benefits of soft dollars among the Funds in proportion to the trades that generate the soft dollars. Consequently, the Firm may use soft dollars generated by any one of the Funds to pay for products and services the primary or immediate benefit of which may inure to one or more of the other Funds.

The Firm's selection of brokers is guided and/or limited by (i) its responsibility to act as a fiduciary when handling client accounts, (ii) its obligation, to the extent applicable and subject to the conditions hereinabove specified, to select brokers who offer overall best execution on client trades, and (iii) a Fund's Memorandum.

From time to time, it may be appropriate for more than one of the accounts managed by the Firm to trade in the same securities at the same time. As a general rule, such orders are combined (or bunched) and allocations among the Firm's clients acquiring or disposing of the same securities on the same day based on an allocation amount determined at the time of the order. If the orders are combined (or bunched), each of the accounts will have its same day orders filled on an average price basis (such that each receives the same price).

ITEM 13 – REVIEW OF ACCOUNTS

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

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

ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

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

B. Although it does not generally do so, the Firm may compensate third parties, including registered brokers, for referring prospective advisory clients (or investors in Funds) to it, at no additional cost to the Funds (or to Fund investors). Such referral fees may be a flat fee and/or a percentage of the annual management fees and/or performance-based compensation earned by the Firm. Such referral arrangements will conform to Rule 206(4)-3 under the Advisors Act.

ITEM 15 – CUSTODY

The Firm does not have actual custody of any client assets. The Firm or its related person, the General Partner, as general partner to certain Funds, is deemed to have custody of the assets of certain Fund clients. In accordance with Rule 206(4)-2, audited financial statements are furnished annually to all investors in the Funds.

Clients are urged to carefully review all statements and contact the Firm if they have any questions.

ITEM 16 – INVESTMENT DISCRETION

The Firm's only clients are the Funds, and the Firm has discretionary authority to manage the assets of the Funds in accordance with the each Fund's governing documents. The Firm has the authority to determine, without obtaining specific consent, the securities to be bought or sold and the amount of securities to be bought or sold. The Firm also retains the discretion to determine brokers to be used and to negotiate the amount of brokers' commissions. In the case of certain Funds utilizing the Private Design Strategy organized outside of the United States, each investor in such Funds has also granted the Firm a power of attorney to establish such "alternative investment structures" as the Firm may deem appropriate for purposes of a given investment and to call capital directly into such alternative investment structures.

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

ITEM 17 – VOTING CLIENT SECURITIES

The Firm exercises discretion to vote proxies for Fund securities in accordance with its proxy voting policies and procedures. The Firm's proxy voting policy is to vote all proxies in the Funds' best interests, considering such facts as it deems material. Proxies are reviewed by Mr. Flynn. Generally, the Firm's objective is to vote proxies, in its judgment, in a manner that is most likely to maximize the value of the Funds' investments. Individual investors in the Funds do not have a right to direct how the Firm exercises its voting discretion.

The Firm must act as a fiduciary when voting proxies on behalf of the Funds. In that regard, the Firm will seek to avoid possible conflicts of interest in connection with proxy voting. The Firm itself holds no position in the companies in which the Funds invest and, therefore, should have no interest independent of the Funds in how Fund securities are voted. Where the Firm nevertheless identifies a potential conflict of interest, the Firm will initially determine whether such potential conflict is material. Where the Firm determines there is a potential for a material conflict of interest regarding a proxy, the Firm may take one or some of the following steps: (i) inform clients of the material conflict and the Firm's voting decision; (ii) discuss the proxy vote with clients; (iii) fully disclose the material facts regarding the conflict and seek client consent to vote the proxy as intended; and/or (iv) seek the recommendations of an independent third party.

Mr. Flynn oversees and manages the process by which the Firm votes proxies. The Firm's proxy voting policy and procedures are available upon request. Investors may obtain the Firm's proxy voting policy and procedures or a record of the Firm's proxy voting by contacting the Firm's Chief Compliance Officer at (212) 551-1600.

ITEM 18 – FINANCIAL INFORMATION

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