
Item 1 - Cover Page

Sectoral Asset Management Inc.

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March 30, 2020

This Brochure provides information about the qualifications and business practices of Sectoral Asset Management Inc. (“Sectoral” or the “Adviser”). If you have any questions about the contents of this Brochure, please contact us at (514) 849-8777 and/or info@sectoral.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Sectoral is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

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

Item 2 - Material Changes

The following material changes have occurred since the last annual update of our brochure on March 30, 2019:

Effective November 1, 2019, Mr. Michael Sjostrom replaced Mr. Stephan Patten as Sectoral's interim Chief Investment Officer.

On November 1, 2019, the sub-fund Variopartner SICAV - Sectoral Global Healthcare Fund was merged with the sub-fund Variopartner SICAV - Pharma/wHealth. As at January 31, 2020, the Sub-Fund Variopartner SICAV - Pharma/wHealth was renamed to Variopartner SICAV - Sectoral Healthcare Opportunities Fund .

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Item 4 - Advisory Business

Sectoral Asset Management Inc. (“Sectoral” or the “Adviser”), founded in 2000, is an asset management firm specializing in managing global equity portfolios in the healthcare sector. The Adviser, based in Montreal, Quebec, Canada, provides investment advisory services based on the individual needs of its clients as communicated to the Adviser from time to time. The Adviser is a wholly owned subsidiary of Sectoral Asset Management Holding Ltd., which is principally owned by the Adviser’s founders, Jérôme G. Pfund, CFA and Michael L. Sjöström, CFA.

The Adviser provides advisory services to institutional clients, primarily located in Europe and Asia, and to offshore private investment funds or pooled funds that are exempt from registration under the Investment Company Act of 1940 (the “Company Act”).

As of December 31, 2019, Sectoral had approximately \$ 836 million in assets under management, all of which is managed on a discretionary basis.

Sectoral’s management of each of its clients, and the terms of any investor’s investment in a fund managed by Sectoral, are governed exclusively by the terms of that fund’s organizational documents, private offering memorandum or other disclosure documents, limited partnership agreement (if any), investment management agreement, and subscription agreement (the “governing documents”). **All discussions in this brochure of funds managed by the Adviser, their investments, the strategies Sectoral uses in managing its funds, and the fees associated with an investment in the funds are qualified in their entirety by reference to such funds’ governing documents.**

Item 5 - Fees and Compensation

Separate Accounts - Basic Fee Schedule: In most cases, the Adviser charges a fee consisting of a percentage of assets under management. The Adviser’s basic fee schedule is equal, on an annual basis, to 1% of assets under management. The basic fee schedule is not generally negotiable. However, in certain circumstances, the Adviser may negotiate a performance fee arrangement, which will comply with the applicable requirements of Rule 205-3 under the Investment Advisers Act of 1940 (the “Advisers Act”).

Fees are payable in arrears, on a monthly or quarterly basis, mainly based on the average market value of assets under management for the given period. Compensation is not normally payable before the services are provided.

Although the Adviser's basic fee schedule is equal, on an annual basis, to 1% of assets under management, the fee schedule is negotiated with respect to each client and may include a performance fee arrangement that will comply with the applicable requirements of the Advisers Act.

Investors will normally incur fees related to custody and administration services, which will be also disclosed in relevant prospectus. Additionally, investors will normally incur brokerage and other transaction costs (refer to section 12).

Public Investment Funds: The fee schedule is defined in the prospectus of each fund. The management fee may vary for each share class as determined in the pertinent prospectus.

Investors will normally incur fees related to custody and administration services, which will be also disclosed in relevant prospectus. Additionally, investors will normally incur brokerage and other transaction costs (refer to section 12).

Private Investment Funds: The Adviser acts as investment adviser to the following private investment funds that are exempt from registration under the Investment Company Act.

New Emerging Medical Opportunities Fund, II L.P. (the "NEMO II Fund") is a Cayman Islands limited partnership. New Emerging Medical Opportunities Fund II, Ltd. (the "NEMO II Feeder"), is a Cayman Island exempted limited company which invests substantially all its assets into the NEMO II Fund. The NEMO II Fund has engaged the Adviser to act as its investment manager. The Adviser receives an advisory fee from the NEMO II Fund, on an annual basis, equal to 1.25% of the sum of (a) cost amount of investments that are still active; plus (b) follow-on reserves for such active investments; plus (c) follow-on reserves for future management fees and expenses of the fund. A pro rata portion of the advisory fee will also be assessed on any subscriptions accepted as of any date other than the first day of the quarter. Nemo II GP Inc., a Canadian corporation, acts as the general partner of the NEMO II Fund. NEMO II GP Inc. has also engaged the Adviser to act as its investment manager. In addition, NEMO II GP Inc. is entitled to Carried Interest Distribution in the particular cases of an early redemption or upon the expiration of the term of the Fund. The Carried Interest Distribution shall be applied based on a fixed hurdle rate. The hurdle rate is defined as an annual return of 8% measured on a cumulative basis, for the applicable period, applied to the amount of an Investor's total investment for the

applicable period, adjusted for any contributions, redemptions or other distributions, if applicable.

New Emerging Medical Opportunities Fund, III L.P. (the “NEMO III Fund”) is a Cayman Islands limited partnership. The NEMO III Fund has engaged the Adviser to act as its investment manager. The Adviser receives an advisory fee from the NEMO III Fund, on an annual basis, equal to 2% of aggregate committed capital. The fee is payable quarterly in advance, equal on a quarterly basis to 0.5% of the capital commitment of each limited partner. A pro rata portion of the advisory fee will also be assessed on any subscriptions accepted as of any date other than the first day of the quarter. Sectoral GP III L.P., a Canadian corporation, acts as the general partner of the NEMO III Fund. The general partner has the authority in its sole discretion, to enter into agreements that have the economic effect of waiving, in whole or in part, the management fee borne by any limited partner. Sectoral GP III L.P. has also engaged the Adviser to act as its investment manager. In addition, Sectoral GP III L.P. is entitled to Carried Interest Distribution in the particular cases of an early redemption or upon the expiration of the term of the Fund. The Carried Interest Distribution shall be applied based on a fixed hurdle rate. The hurdle rate is defined as an annual return of 8% measured on a cumulative basis, for the applicable period, applied to the amount of an Investor’s total investment for the applicable period, adjusted for any contributions, redemptions or other distributions, if applicable.

New Emerging Medical Opportunities Fund, IV SCSp (the “NEMO IV Fund”) is a Luxembourg special limited partnership. NEMO GP IV SCSp, a Luxembourg corporation, acts as the general partner of the NEMO IV Fund and has appointed Carne Global Fund Managers (Luxembourg) SA, a public limited company (société anonyme) authorized by the Luxembourg Commission de Surveillance du Secteur Financier, as the external Alternative Investment Fund Management (AIFM) within the meaning of article 4(1)(a) of the AIFM Law and as such it is subject to the full scope of the AIFM Law (the “AIFM”). The AIFM has also engaged the Adviser to act as its delegated portfolio manager. The Adviser receives an advisory fee from the NEMO IV Fund, on an annual basis, equal to 2% of aggregate committed capital. The fee is payable quarterly in advance, equal on a quarterly basis to 0.5% of the capital commitment of each limited partner. A pro rata portion of the advisory fee will also be assessed on any subscriptions accepted as of any date other than the first day of the quarter. The general partner has the authority, in its sole discretion, to enter into agreements that have the economic effect of waiving, in whole or in part, the management fee borne by any limited partner. In addition, NEMO GP IV SCSp is entitled to Carried Interest Distribution in the particular cases of an early redemption or upon the expiration of the term of the Fund. The Carried Interest Distribution shall be applied based on a fixed hurdle rate. The hurdle rate is defined as an annual return of 8% measured on a cumulative basis, for the applicable period, applied to the amount of an Investor’s

total investment for the applicable period, adjusted for any contributions, redemptions or other distributions, if applicable.

The management and performance-based fees applicable to each of the private investment funds, to which the Adviser acts as investment adviser, are in addition to the other fees and expenses borne by such funds, including, but not limited to, organizational expenses, investment expenses (*i.e.*, expenses related to the investment of the fund's assets, including, without limitation, brokerage commissions, expenses relating to permitted hedging transactions, interest expense, and other fees and expenses relating to particular investments), legal expenses, accounting, audit and tax preparation expenses, taxes, fees and expenses of third-party administrators, directors and other service providers, expenses relating to the offer, sale, transfer and withdrawal or redemption of interests, expenses of preparation and distribution of reports and other communications with investors, other expenses related to the operation of the fund and all extraordinary expenses. The Adviser generally is not responsible for any expenses or fees in connection with management of the funds other than as set forth in each fund's governing documents.

Item 6 - Performance-Based Fees and Side-By-Side Management

The Adviser will comply with the applicable requirements of Rule 205-3 under the Advisers Act in connection with the structuring of all performance-based fees. In any case where a performance-based fee is involved, the client or investor must acknowledge that, at the time of entering into a performance-based fee agreement, that the client or investor:

- (1) has at least \$1,000,000 under management with the Adviser or has a net worth (together, in the case of natural person, with assets held jointly with a spouse) of more than \$2 million;
- (2) is a "qualified purchaser" under section 2(a)(51)(A) of the Company Act; or
- (3) is a knowledgeable employee of the Adviser.

This type of fee arrangement may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case in the absence of a performance fee. In addition, the performance-based fee may create an incentive for the Adviser to favor higher fee-paying client accounts over other client accounts (*i.e.*, accounts not charged a performance-based fee) in the allocation of investment opportunities. The Adviser has implemented procedures for allocating investment opportunities that the Adviser believes are reasonably designed to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients. See Item 12 below. Furthermore, because the performance-based fee is calculated on a basis that

includes unrealized appreciation, the performance-based fee may be greater than if it were based solely on realized gains.

Item 7 - Types of Clients

Sectoral provides portfolio management services to investment companies (including mutual funds) and other pooled investment vehicles. The Adviser also provides advisory services to institutional clients, such as sovereign wealth funds.

Certain funds managed by Sectoral may not be available to U.S. investors, may limit the number of U.S. investors they will accept, or may require that any U.S. investors certify that they are “qualified purchasers” as defined in Section 2(a) (51) of the Investment Company Act of 1940. These funds also may impose qualification requirements with respect to non-U.S. investors. Investors in private funds managed by Sectoral generally are required to meet certain conditions, including a minimum initial investment (typically \$1 million), minimum subsequent investments (typically \$100,000), and other qualifications, such as net worth, investment sophistication, and country of residence. The funds may waive the minimum investment requirements at their discretion. Investors must submit a completed subscription agreement and subscription funds must be credited to the applicable fund’s account prior to a closing for a subscription to be accepted for the applicable closing date. Shares in certain funds managed by Sectoral may not be available to investors in certain markets.

In addition, certain of the funds managed by Sectoral limit the ability of investors to withdraw capital or redeem or transfer their shares for a period of time after investment. These withdrawals, redemption or transfer provisions may differ among the different funds managed by Sectoral. A fund may waive or alter these requirements.

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

Analysis and Investment Strategies

Methods of Analysis and Sources of Information: The Adviser is an investment manager specialized in the area of global healthcare. The Adviser employs a bottom-up investment approach that can be categorized as Growth at a Reasonable Price (“GARP”). Investments are selected using a focused stock selection process based on primary research of company fundamentals and in-depth due diligence on companies to assess their scientific, business, financial and ESG aspects.

Given the complex nature of the sector, the Adviser relies on a global team of specialized individuals, many of whom have a background in both healthcare and finance.

The Adviser’s investment universe contains over 2,700 companies listed worldwide with a total market cap of USD6,700 billion in the following industries: Pharmaceuticals, Biotechs, Life Science Tools and Services, Medtechs and Healthcare Providers and Services, Healthcare Equipment and Supplies and Healthcare Technology.

The Advisor actively covers 200 to 250 of these companies (70% of total market cap). Covered companies are blue-chips, main index constituents and companies with innovative programs identified through research and industry contacts, including recent IPOs.

The investment process encompasses stock selection, portfolio construction and risk management.

STOCK SELECTION:

Stock selection follows a fundamental approach, with emphasis on the scientific, business, financial and ESG aspects of the companies we research.

The stock selection process consists of 4 steps: Idea Generation, Analysis of Fundamentals, Valuation and Recommendation.

- **Idea Generation:** Ideas may have several possible sources, such as industry contacts, interactions with companies, scientific and lay literature, participation in medical and industry conferences, Wall Street research, screening, etc.
- **Analysis of Fundamentals:** The Adviser conducts preliminary research and analysis to select candidates for further evaluation. This includes desk research, such as

reviewing literature and documentation, and interaction with companies. Finally, the Adviser performs a summary model and scenario analysis before selecting the investment candidates. The Adviser then engages in primary research involving intensive contact with company management and thorough due-diligence concerning the key aspects of the investment candidates, such as:

- Products and technology
- Intellectual property
- ESG
- Scientific expertise
- Competitive Advantage
- Business strategy
- Pricing Power
- Quality of senior management, financials, etc....

The Adviser identifies key success factors and analyses financial statements, including cash balance, debt level, revenue growth, COGS and SG&A expenses, profit margins, etc. At the end of this phase, the Adviser determines which investment candidates merit further consideration, which are then subject to a forecasting process. This part of the process focuses on sales models for key products and the development of prospective financial statements. The Adviser also performs scenario analysis based on various assumptions concerning the key success factors for each investment candidate.

ESG aspects are considered as per the Adviser's ESG policy and some investment candidates may be excluded based on their ESG rating.

- **Valuation:** Once the financial modeling is complete, the Adviser's analysts attempt to determine the fair value for each investment candidate as well as a 12-month price target. Depending on the development stage of the company, these are determined using various models, such as discounted cash-flow models, EBITDA models, enterprise value/sales and peer group analysis.

- **Recommendation:** The Adviser then compare the resulting fair value to the current market value of each investment candidate and issue a Buy or Sell recommendation. Each recommendation is subject to a report .

PORTFOLIO CONSTRUCTION:

Portfolio construction consists of industry allocation and stock picking.

Industry allocation follows the quarterly guidelines developed by the Chief Investment Officer. These are based on the macro environment, healthcare industry trends and dynamics as well as valuation considerations.

Following the due diligence, the financial modeling and investment recommendations by the Adviser's investment analysts, the portfolio manager assesses the impact of including each investment candidate on the portfolio's risk/return profile and proceeds with the construction of the portfolio. The portfolio manager will then populate each of the industries with the Adviser's analysts' investment recommendations. The portfolio manager may also include stocks that are not part of the firm's investment recommendation pool, for risk management purposes, among others. In such case, a report is also produced. As a result, a report is available for all positions in the portfolio.

The Adviser's portfolios are concentrated, with 45-60 positions and populated using a best ideas approach. The strategy is fundamentally benchmark agnostic, with maximum deviation from benchmark weight for each position of 4%. The risk/reward profile of each stock determines the size of its position in the portfolio. Early stage and small to mid-cap companies, will typically have lower weights than more mature and mid to large cap companies. Individual position sizes depend on the return expectations of an investment, its risk level, the diversification benefits it brings to the portfolio and portfolio constraints. Other considerations include liquidity, market cap, therapeutic area, etc.

Portfolio implementation can be executed promptly or gradually, depending on liquidity issues and time sensitivity.

The Adviser has a medium- to long-term investment horizon but will exploit opportunities created by volatility in the market. The portfolio manager will occasionally trim a position if it has converged to the price target in a short period of time. Conversely, the Adviser will opportunistically exploit short term pricing anomalies that disregard sound fundamentals and will sell any stock when an investment case can no longer be justified.

If a stock reaches its price target, the financial analyst covering that company will review the stock and issue a new recommendation and an updated price target. Upon that review, the portfolio manager can maintain the position in the portfolio, add to it, trim it or sell it completely. In case of significant underperformance, as measured by one standard deviation below the benchmark performance over a 3-month rolling period, a position must be sold down to benchmark weight immediately. For positions with limited liquidity, sales must be limited to maximum 20% of the trading volume. Such positions must be fully reassessed by the analyst or portfolio manager and may only be reinstated with the approval of the Head of Investments.

The Adviser aims to outperform the index of reference by approximately 300-400 basis points on average per annum over a full market cycle. However, the Adviser does not use the benchmark as a starting point to construct a portfolio. The Adviser's portfolios are populated based on a best investment idea basis.

Principal Risks

Investing in securities involves risks and clients bear the risk of loss (including entire loss of principal) on their investments. The following is a description of certain of the most significant risks involved in the Adviser's strategies. Not all of these risks will be equally relevant to each Fund or client at any given time.

Risks Associated with Investments in Securities Generally. Any investment in securities carries certain market risks. Such investments may decline in value for any number of reasons over which the Adviser may have no control, including changes in the overall market for equity and/or debt securities, and factors pertaining to particular portfolio securities, such as management, the market for the issuer's products or services, sources of supply, technological changes within the issuer's industry, the availability of additional capital and labor, general economic conditions, political conditions and other similar conditions. The value of a client's investments will fluctuate, and there is no assurance that the client will achieve its investment objectives.

Risk of Investment Concentration. The Adviser expects the funds and accounts it manages to have a concentrated portfolio at any time. In addition, a fund's or account's investments may be concentrated in a single industry or market sector. Investing a significant portion of a fund's or account's assets in a single issuer, industry or market sector will make the fund or account susceptible to a greater degree than would otherwise be the case to the Adviser's judgment as to the potential of such investment and to risks affecting investments in such issuer, industry or market sector. Such concentration of investments will increase the volatility of the value of the fund's or account's portfolio investments.

Healthcare Industry Risks. The specific risks faced by healthcare companies include:

- Extensive government regulation. Government regulation is a significant factor in the production and marketing of healthcare products. Research and development, testing, manufacture, marketing and sales of healthcare or related products by healthcare companies are subject to extensive regulatory oversight. This oversight may cause significant additional costs and/or delays in bringing products to market, and in turn, may cause significant losses to investors.

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- New and uncertain products and businesses. The business of a healthcare company may be in an emerging area. The success of any product, technology, or company as a whole will depend largely on, among other things, the:
 - Caliber of the underlying science.
 - Ability to obtain approval by regulatory agencies.
 - Acceptance of the innovation by potential customers.
 - Ability to attract and retain quality scientific and management personnel.
 - Ability to raise large amounts of capital.
 - Ability to protect proprietary information and intellectual property.
 - Ability to meet demand and manage growth.
 - Level of competition among peers.
 - Ability to keep up with rapidly changing technology.
 - Ability to achieve and maintain profitability.
 - Managed care limitations. Private insurance companies, health maintenance organizations, and governmental insurers are under increasing pressure to reduce expenditures, causing them to restrict products and procedures available to participants. These restrictions may impede the ability of healthcare companies to market their products successfully.
 - Potential liability. Healthcare companies may be exposed to potential product liability risks that are inherent in the testing, manufacturing and marketing of healthcare related products. These liabilities, if realized, could cause losses to these companies.

Securities of Foreign Companies. Investments in foreign securities involve special risks, which include:

- Unfavorable changes in currency rates and exchange control regulations.
- Restrictions on, and costs associated with, the exchange of currencies and the repatriation of capital invested abroad.
- Reduced availability of information regarding foreign companies.
- Different accounting, auditing and financial standards and less stringent reporting standards and requirements that may apply to foreign companies.
- Reduced liquidity as a result of inadequate trading volume and government-imposed trading restrictions.
- Difficulty in obtaining or enforcing a judgment abroad.
- Increased market risk due to regional economic and political instability.
- Higher brokerage commissions and custody fees.
- Securities markets which are subject to a lesser degree of supervision and regulation by competent authorities.
- Foreign withholding taxes.

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- The threat of nationalization and expropriation.

Small and Medium Capitalization Companies. Investing in the securities of companies with small or medium capitalizations can involve greater risk and price volatility than investments in larger, more established companies. Historically, stocks of small or medium capitalization companies and recently organized companies have been more volatile in price than those of the larger market capitalization companies. In addition, small or medium capitalization companies and unseasoned companies may have limited product lines, markets, or financial resources. These companies may depend upon a limited or less experienced management group.

The securities of small capitalization companies may sometimes be traded only on over-the-counter markets or on a regional securities exchange. Also, these securities may not be traded daily or in the volume typical of trading on a national securities exchange. As a result, these securities may be hard to buy or sell at a fair price.

PIPES. To the extent a fund or account invests in private placements of public securities (commonly known as “PIPES”), these securities are illiquid until they are publicly registered by the issuing company. There can be no assurance that the issuing company will register these securities in a timely manner, or at all. If these securities are not registered, it may take the fund longer to be able to liquidate these positions (if they can be liquidated) than would be the case for registered securities of the same company. Even if the Adviser is able to liquidate these securities, the prices realized on the resale of these illiquid securities may be substantially less than the price of the company’s registered securities listed on an exchange or quotation system.

Private Equity Securities. Private equity securities of unseasoned companies present additional risks. Private equity investments are illiquid. Because there are no active or regulated trading markets for these investments, it may take longer or be impossible to liquidate these positions. Thus, a client’s ability to realize value from a private equity investment may depend upon the successful completion of the company’s initial public offering or the sale of the company to another company. A public offering or sale of the company may not occur until several years after the date of the client’s investment, if ever.

Accurate information about private companies may be less readily available than for public companies. Private equity investing is a highly specialized field. The Adviser has less experience in private investing than it has in investing in public companies.

Limitation of Risk Disclosures. The foregoing list of risks does not purport to be a complete enumeration or explanation of the risks involved in the Adviser’s investment

programs. Prospective investors in a fund managed by the Adviser should read the entire prospectus or offering memorandum (or equivalent) of the fund and the governing documents thereof and should consult with their own advisors before deciding whether to invest. In addition, as the Adviser's investment programs develop and change over time, clients and Fund investors may be subject to additional and different risk factors. No assurance can be made that profits will be achieved or that substantial losses will not be incurred.

Item 9 - Disciplinary Information

Sectoral has no information applicable to this Item.

Item 10 - Other Financial Industry Activities and Affiliations

The Adviser is a wholly owned subsidiary of Sectoral Asset Management Holding Ltd (the "Holdco"), a Hong Kong corporation.

Sectoral Asset Management Ltd., also a wholly owned subsidiary of the Holdco, is registered as an investment adviser in Hong Kong. The Adviser and Sectoral Asset Management Ltd. are under common control of the Holdco.

The Adviser's wholly owned subsidiary, Nemo II GP Inc., is the general partner of the NEMO II Fund. A separate Cayman Islands exempted limited company, the NEMO Feeder, serves as a "feeder" fund into the NEMO II Fund by investing substantially all its assets in the NEMO II Fund.

The Adviser's wholly owned subsidiary, Sectoral GP III, L.P. is the general partner of the NEMO III Fund.

NEMO GP IV SCSp, a special limited partnership established in accordance with the Luxembourg law of 10 August 1915 and wholly owned subsidiary of the Holdco, is the general partner of NEMO IV Fund. The Adviser and NEMO GP IV SCSp are under common control of the Holdco.

Item 11 - Code of Ethics

The Adviser has adopted a Code of Ethics and Insider Trading Policies and Procedures as part of its compliance manual. The Code of Ethics provides that each employee should place the interests of the Adviser's clients ahead of his or her own. Each employee is required to conduct all personal securities transactions in a manner that

is consistent with the Code of Ethics and avoid any actual or potential conflict of interest. No employee may misuse information about client accounts, abuse his or her position of trust and responsibility or take inappropriate advantage of his or her position. The Code of Ethics prohibits employees from engaging in late trading with respect to any mutual fund. All employees are required to obtain pre-clearance of certain transactions (including any initial public offerings and limited offerings) and are prohibited from trading in any securities in the healthcare sector for their own accounts or for any account in which they have a direct or indirect beneficial interest, other than in accordance with the Adviser's Code of Ethics.

The Adviser may invest in securities for its own portfolios under management or when implementing and testing new investment strategies. In the case of partial executions, the Adviser fills the proprietary portfolios last. The Adviser's policy is to only aggregate trades by the proprietary portfolios with trades for other client accounts if the Adviser believes at the time the order is placed that aggregation is appropriate, in the best interests of the various accounts, and consistent with its duty to seek best execution for its clients and is not prohibited by the terms of the investment advisory agreement with any client for which trades are being aggregated. Trades for a proprietary portfolio may be aggregated with trades for other client accounts unless the Adviser determines at the time the order is placed that the inclusion of the trades for the proprietary portfolios would adversely affect (i) the price at which such order is executed or (ii) best execution for the other client accounts.

In the event that trades by a proprietary portfolio are not aggregated with those of other client accounts, the trades by the proprietary portfolio shall not be executed in a manner that is designed or could reasonably be expected to result in a more favorable execution than the trades for other client accounts. In most cases, this will mean that trades for the proprietary portfolios that are not aggregated with orders for other client accounts will be executed after transactions, that have been contemporaneously placed on behalf of other client accounts, have been completed.

A portfolio manager may batch non-ERISA client trades with those of a private investment company or other collective fund in which the Adviser or its principals and employees have a minority beneficial interest. Such a company or fund may not be favored in any way over other client accounts.

In addition, the Adviser prohibits its officers, directors and employees from trading, either personally or on behalf of others, in securities on the basis of material non-public information regarding such securities or communicating material non-public information to others.

Participation or Interest in Client Transactions. The Adviser may recommend the purchase of limited partnership interest in private funds to U.S. clients. The Adviser may receive economic benefits in the form of advisory fees from such purchases.

Private funds managed by the Adviser include both a management fee and a performance fee and, as a result, may have a different fee structure than that of certain separately managed accounts. When recommending the purchase of limited partnership interests in private funds to U.S. clients, the Adviser will take both the fee structure and the investment guidelines of such client into consideration.

Transaction Reporting. The Adviser requires all its advisory personnel to submit quarterly reports of security transactions for their own accounts or any account in which they have a direct or indirect beneficial interest (“Reporting Accounts”). Reports need not be submitted:

- For accounts that are not directly or indirectly controlled by the Adviser or the reporting individual, or
- For transactions in money market instruments, direct obligations of the United States government, and shares of U.S. registered mutual funds.

All employees of the Adviser are prohibited from trading in listed and unlisted healthcare companies worldwide.

The Adviser requires employees to certify annually that they have complied with the Adviser’s Compliance Manual.

The Adviser does not allow employees to accept gifts over US \$250 from any person that does business with or on behalf of the Adviser. The Adviser requires its personnel to obtain advance approval to serve as a director or trustee of unaffiliated for-profit and non-profit organizations.

The Adviser does not and will not, directly or indirectly, make payments to, or endorse or support political parties, public officials, PACs or political causes. No employee may, directly or indirectly, without the prior review and written approval of the CCO:

- Make any payments to, or for the benefit of or at the request of, any public official, PAC or political party;
- Establish, maintain or control a PAC; or
- Coordinate or solicit any person (including any family member, political party or PAC) to make payment to a public official, PAC or political party.

Existing or prospective clients may obtain a copy of the Adviser’s Code of Ethics upon request to their portfolio manager or directly to Jérôme Pfund, Sectoral Asset Management Inc., 1010 Sherbrooke St., West, Suite 1610, Montreal, Quebec, Canada H3A 2R7 or by telephone at (514) 849-8777.

Item 12 - Brokerage Practices

Brokerage Transactions. In placing orders for and selecting brokers and dealers to execute a client's securities transactions, the Adviser seeks prompt execution of orders at the most favorable prices reasonably obtainable. In selecting brokers and dealers, the Adviser considers several factors, including, but not limited to, the following:

- The overall direct net economic result to the client.
- The financial strength, reputation, and stability of the broker or dealer.
- The efficiency of the broker or dealer in executing previous transactions.
- The ability of the broker or dealer to execute transactions in small capitalization and thinly traded stocks.
- If applicable, the ability of the broker or dealer to execute large transactions with the minimal adverse effect on the prices obtained by the client.
- The availability and readiness of the broker or dealer to execute difficult transactions in the future.

Directed Brokerage. The Adviser discourages, but does not prohibit, clients from directing brokerage transactions to a particular broker-dealer. Directing brokerage to a particular broker-dealer may involve the following disadvantages to directed brokerage clients:

- Impairing the Adviser's ability to negotiate commission rates and other terms on behalf of directed brokerage clients.
- Denying to directed brokerage clients the benefit of the Adviser's experience in selecting broker-dealers who can efficiently execute difficult trades.
- Limiting directed brokerage clients' opportunities to obtain lower transaction costs and better prices by aggregating ("bunching") their orders with orders for other clients.
- Receiving less favorable prices on securities transactions to the extent that the Adviser must place transaction orders for directed brokerage clients after placing bunched transaction orders for other clients.

Use of Soft Dollars to Obtain Research Services. Unless otherwise directed by a client, the Adviser may enter into "soft dollar" arrangements in accordance with Section 28(e) of the Securities Exchange Act of 1934 and the following policy.

Where more than one broker-dealer is believed to be capable of providing the best combination of price and execution with respect to a particular portfolio transaction, the Adviser may select a broker-dealer which furnishes products and/or research services that provide assistance to the Adviser in the performance of its investment decision-making responsibilities. If the Adviser determines in good faith that the commission charged by a broker-dealer is reasonable in relation to the value of brokerage and research services provided by the broker-dealer, the Adviser may cause a client account to pay the broker-dealer an amount of commission greater than the amount another broker-dealer may charge, but generally within a competitive range for full service brokers.

Research products or services that are eligible under a soft dollar arrangement may include: traditional research reports; market and economic data provided through financial and economic publications or through certain data services; advice from broker-dealers on order execution, strategies, and market participants; research-related seminars and conferences; software that provides analyses of securities portfolios or information on order execution, strategies, and market participants; and corporate governance and rating services.

Brokerage products or services that are eligible under a soft dollar arrangement may include post-trade matching of trade information; electronic communication of allocation instructions; routing settlement instructions to custodians and clearing agents; short-term custody; connectivity services such as dedicated lines to broker-dealers or order management systems; trading software used to route orders to market centers; software that provides algorithmic trading strategies, and software used to transmit orders to direct market access systems.

The Adviser may also enter into arrangements with brokers regarding the allocation of minimum annual amounts of brokered transactions to such brokers. In exchange, the Adviser would receive from such brokers research products and/or services and research-related software. A transaction would be placed with such brokers only if consistent with the best execution policies described above (which would take into account the provision of research and related services) and the Adviser would terminate any such arrangement or compensate the broker in cash for such research or software to the extent it cannot fulfill the arrangement consistent with such policies.

Some “mixed-use” products or services could be used by the Adviser for both research/execution and non-research purposes, such as administration or marketing. If these products or services are obtained with soft dollars, the Adviser would allocate their cost between research and non-research uses. The Adviser would use its own hard dollars to pay that part of the cost which is attributable to non-research uses.

Some brokerage and research services received may benefit client accounts other than the account generating the soft dollar credits. The Adviser's receipt of brokerage or research services will not reduce a client's investment advisory fees.

Bunching Orders. Although it need not do so, the Adviser may aggregate or "bunch" orders for multiple client accounts when the Adviser believes that bunching will result in a more favorable overall execution. If appropriate, the Adviser will allocate these bunched orders at the average price obtained.

Proprietary Portfolios. Conflicts may arise in connection with the management of proprietary portfolios formed from time to time in order to establish new investment strategies. The Adviser has adopted a Code of Ethics and Insider Trading Policies and Procedures as part of its compliance manual to deal with these issues - refer to Item 11 of this Brochure.

Balancing the Interests of Multiple Client Accounts. The Adviser may manage multiple accounts with similar investment objectives and strategies or may manage accounts with different objectives or strategies that may trade in the same securities. Despite these similarities, the Adviser's portfolio decisions about each client's investments and the performance resulting from these decisions may differ from those of other clients.

Conflicts of Interest Involved in the Adviser's Management of Multiple Client Accounts. The Adviser's CEO, CIO and CCO regularly monitor the portfolios to determine whether the specific needs of each client are being met.

The Adviser will not necessarily purchase or sell the same securities for client accounts at the same time or in the same proportionate amounts for all eligible clients. When the Adviser purchases thinly traded securities or oversubscribed public offerings, it may not be feasible to allocate a transaction pro rata to all eligible clients. Therefore, not all clients will necessarily participate in the same investment opportunities or participate on the same basis.

Allocating Investment Opportunities. The Adviser allocates investment and trading opportunities among various clients (including the sequence of placing orders) in a manner believed by the Adviser to be fair and equitable to each client over time. In making these allocations and in departing from a proportionate allocation based on the relative sizes of client accounts, the Adviser will consider the following factors:

- The client's investment objectives and strategies;
- The cash flows and amount of investment funds available to each client;
- The amount already committed by each client to a specific investment;
- Each client's risk tolerance and the relative riskiness of the investment;

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- Whether a proportionate allocation would result in odd lot positions;
 - Whether a proportionate allocation would, given the size of a client account, result in a position that is too small to be meaningful or too large to maintain an appropriate level of diversification.

Transactions Between Client Accounts. The Adviser prohibits any cross transactions between client accounts and by/to any principal accounts. If a portfolio manager desires to enter into such a transaction, provided it is not expressly forbidden by law or disallowed by the fund's investment guidelines, he shall obtain the prior permission of the CCO. Cross-trading with an account governed by ERISA will be permitted only if the transaction is effected in accordance with Section 408(b) (19) of ERISA and in accordance with written cross-trading policies and procedures that are fair and equitable to all accounts participating. Any cross transactions would be effected at an independently determined market price and at half the normal brokerage commissions. Although each client may incur customary custodian and transfer fees, none of these fees will be paid to the Adviser.

Item 13 - Review of Accounts

Account Review. Each client account managed by the Adviser is monitored and reviewed regularly by the CEO, CIO and CCO to determine whether the specific needs of the client are being met.

The Adviser will furnish regular quarterly reports to all clients. The reports will generally consist of a portfolio appraisal, a summary of transactions, and performance information.

The Adviser will furnish monthly qualitative and quantitative reports to investment companies.

Investors in all the private investment funds to which the Adviser serves as investment manager will receive annual financial statements audited by an independent public accounting firm. Investors in such funds also receive quarterly investment letters (either by mail or electronic means) that include commentary and performance information.

Item 14 - Client Referrals and Other Compensation

Sectoral has solicitor agreements with Banque Bonhôte, Silver Leaf Partners, AAB Asset Services GmbH, Aspen Hill Partners (Hong Kong) Limited, Bordier Finlab S.A. and ARM Swiss Representatives SA.

The fee paid to the third-party solicitors is a percentage of the management fees paid to Sectoral by investors in the products introduced by third party solicitors, during the period during which such investors remain invested in the products.

Item 15 - Custody

The Adviser does not have custody over client funds or securities, except that the Adviser may be deemed to have custody of client assets as a result of its management of the private investment funds to which the Adviser or one of its affiliates serves as general partner or equivalent. The funds and securities held in such private investment funds are held by qualified custodians. Where applicable, the respective qualified custodian will send quarterly account statements directly to investors of the private fund. As noted in Item 13 above, investors in the funds receive the applicable annual financial statements audited by an independent public accounting firm. Investors in the Adviser's private investment funds are urged to carefully review such statements.

Item 16 - Investment Discretion

Sectoral usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Sectoral observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, Sectoral's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions are provided to Sectoral in writing.

Item 17 - Voting *Client* Securities

The Adviser has adopted Proxy Voting Policies and Procedures pursuant to Rule 206(4)-6 of the Advisers Act. The following is a summary of its Policies and Procedures:

- Unless otherwise specifically directed by a client in writing, the Adviser is responsible for the voting of all proxies related to securities that it manages on behalf of its clients.
- The Adviser believes proxy voting is included within the investment discretion clients have given to it under the Investment Management Agreement entered into with each client, and as such it will act prudently and in the client's best interest when voting proxies.
- The Adviser has established policies and procedures that are designed to mitigate the likelihood of a material conflict of interest. However, in the event when the Adviser determines there is a material conflict between a client's interests and its interests, the Adviser's Chief Compliance Officer will resolve the conflict in a manner that is in the collective best interests of its clients. This may include, without limitation, voting in accordance with pre-determined guidelines; obtaining consent of a majority in interest of clients before voting; or engaging an independent third party to determine how to vote.
- The Adviser has retained ISS to facilitate the proxy voting process. Although the Adviser relies upon research in establishing proxy voting guidelines, the Adviser may deviate from ISS recommendations. ISS is required to vote in accordance with

guidelines agreed to between ISS and the Adviser. A summary of the proxy voting guidelines, prepared by ISS and agreed to by the Adviser, is available upon request.

Clients may obtain a copy of the Adviser's Policies and Procedures upon request to their portfolio manager or directly to Mr. Jérôme G. Pfund, Sectoral Asset Management Inc., 1010 Sherbrooke St., West, Suite 1610, Montreal, Quebec, Canada H3A 2R7 or by telephone at (514) 849-8777. ISS maintains copies of all client proxies and a record of how they were voted so that it may respond to any question clients may have regarding them. Clients may obtain information about how their proxies were voted upon request to Mr. Pfund. If any client would rather vote their own proxies, they should contact Mr. Pfund to make that arrangement.

Item 18 - Financial Information

Sectoral has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.

Item 19 - Requirements for State-Registered Advisers

This item is not applicable.