

2021 ESG Engagement Report Aescap Life Sciences

(non-mandatory disclosure)



20 July 2022

Introduction

In 2021, Aescap Life Sciences (the "Fund") has engaged with 15 of the 22 portfolio companies it counted as of December 31, 2021 regarding their ESG policy. The other portfolio companies had information readily available from their website or relevant company filings. Of the 15 companies the Fund engaged with, 3 required multiple extensive discussions, first to raise awareness around new regulations, and second to define a common deadline for ESG data disclosure. All discussions were fruitful and led 20 out of the 22 companies to provide answers to our questions, while the remaining 2 companies committed to deadlines before end of April 2022.

While the Fund realizes that it has limited impact on large companies, its impact on smaller companies is noticeable. For example, one portfolio company asked for direct guidance from the Fund for ESG data disclosure, and one company started drafting a report following our inquiries.

So far, no company disclosures have forced us to reconsider our investment position. If a company were to disclose such information, multiple steps will be taken before we reach this last step: (i) direct contact with company to flag the issues and discuss their intentions on resolving them (ii) continue discussions and make clear that continued breach of our ESG principles could lead to position divestment (iii) making use of our ownership % to vote relevant resolutions during shareholder meetings (iv) position divestment (after 3 years of breach and no effort undertaken to solution the issue)

The two companies that are still drafting their ESG reports are being closely monitored, and we will take action should the companies fail to comply with committed deadlines and our ESG principles.

Principal Adverse Impacts on sustainability factors

When making investment decisions, Aescap in 2021 did consider the possible negative impacts of investments on sustainability factors. In the past year there was insufficient reliable data available to adequately analyze these negative impacts. The Fund does intend to consider such adverse impacts by closely monitoring changes in tracked sustainability factors from our SASB materiality map and engaging the investee companies on the reporting of the Principal Adverse Impacts according to our defined engagement policy.

Sustainability

The Fund promotes social characteristics. In the context of the EU Sustainable Finance Disclosure Regulation (SFDR), the Fund is therefore classified as an Article 8 fund.

Social Characteristics promoted by the Fund

In addition to its financial aim to gain value by investing in publicly traded shares of biopharmaceutical companies and potentially also diagnostics and/or medical device companies, the Fund promotes a social characteristic. The investments of the Fund are contributing to the development, manufacturing and distribution of medicines worldwide. Nearly every person will encounter medicine at some point in their life to heal or prevent them from sickness and discomfort. Medicines improve quality of life and help people continue or go back to their day-to-day activities as much as possible whereas without medicines this would be severely attenuated or even impossible. By focusing its investment on the development of innovative treatments, rare diseases without any known treatment, complex diseases with a high unmet medical need, and championing best practices in the sector through engagement, the Fund aims to promote healthy lives and well-being.

As the Fund promotes social characteristics, the underlying investments do not take into account the EU criteria for environmentally sustainable economic activities described in article 7 of the Taxonomy Regulation.

Measurement of the social characteristics

By measuring and monitoring the alignment of the portfolio and Fund activities to the focus points above, the Fund provides insight into how its social characteristic is achieved. The Fund reports annually on the following:

1. Percentage of investee companies researching, developing or producing treatment for diseases with a high unmet medical need

Developing treatments for diseases with a high unmet medical need is one of the focus points of the Fund. These types of diseases and conditions, for example Alzheimer, Arthrosis, Diabetes, MS, Obesity, Oncology, Parkinson are characterized by: (inadequacy of) available treatments, severity of impact on the patient and severity of impact on the health care system.

2. Percentage of investee companies researching, developing or producing treatment for rare diseases

A rare disease is any disease that affects a small percentage of the population. Therefore, these types of diseases are often under researched. There are approximately 6,000 rare diseases for which there is currently no treatment at all.

3. Progress on ESG best-practice engagement following a sustainable investment strategy

The companies the Fund invests in should not only comply with the investment criteria and comply with the exclusion criteria below, but they should also continue to improve their Environmental, Social and Governances (ESG) performance wherever possible. The Fund’s social characteristics indicate a screening of the investable universe on a combination of unwanted activities, desired activities and the need and potential for engagement from an ESG perspective. The Fund has a long history with investing in- and engaging with biotech companies. Engagement with small-cap companies can be very effective and can have a concrete and direct impact on their policies and practices. This not only benefits the company, but all stakeholders and ultimately society at large.

We decided to map out, investigate and engage if needed to improve the risks from the SASB materiality map of the following criteria: Human rights & community relations, Access & affordability, Product quality & safety, customer welfare, selling practices & product labeling, employee engagement, diversity & inclusion, supply chain management, and business ethics.

For each of the previous SASB risks, we wanted to give more granularity to certain risks in order for these risks to fit better to biotechnology terminologies.

SASB Risk	Aescap SASB risk renamed
Human rights & community relations	Inclusion of patients in need and outreach to lower income countries in clinical trials
Access & affordability	Access and affordability of medicines
Product quality & safety	Counterfeit products and product recalls
Customer welfare	Patient follow up and support

Selling practices & product labeling	Ethical marketing
Employee engagement, diversity & inclusion	Diversity & inclusion in the biotech industry
Supply chain management	Bioethics and Supply chain management
Business ethics	Business ethics

Results and findings as of December 31, 2021

1. Percentage of investee companies researching, developing or producing treatment for diseases with a high unmet medical need

Based on the portfolio holdings per year end 2021, 93% of the Fund's assets under management was invested in companies that are researching, developing or producing treatment for diseases with a high unmet medical need.

2. Percentage of investee companies researching, developing or producing treatment for rare diseases

Based on the portfolio holdings per year end 2021, 85% of the Fund's assets under management was invested in companies that are researching, developing or producing treatment for diseases with a high unmet medical need.

3. Progress on ESG best-practice engagement following a sustainable investment strategy

As ESG has become a topic of increasing importance to the Fund and key stakeholders (shareholders, companies, etc). In 2021, the Fund further engaged to different degrees with its portfolio companies in order to ensure that all met the new ESG standards the Fund had set itself.

A handful of companies already had a yearly ESG report publication. The data sourcing at these companies was swift as we would have all relevant information readily available, and if not, we would directly engage with relevant key persons from the portfolio company.

However, as SFDR regulations had only recently been put into place for investment funds in Europe, most companies had no information available and therefore a dialog with the company was required to assess the status quo and progress on all relevant topics. First contact was usually held directly with management team during regular meetings the Fund has with its portfolio companies, or via email. If necessary, questions on relevant topics would be sent and answers would be gathered internally before feedback would be given, if necessary, by the Fund.

Table 1: Quick view of portfolio companies fulfilling key ESG objectives from Aescap as of December 31st, 2021. "x" indicates that the criteria is met by portfolio company.

Company	Ticker	Developing drugs for diseases with high unmet medical need	Developing drugs for rare diseases
Albireo Pharma Inc.	ALBO	x	x
Allakos Inc	ALLK	x	
Alnylam Pharmaceuticals Inc.	ALNY	x	x
Apellis Pharmaceuticals Inc.	APLS	x	x
Arrowhead Pharmaceuticals Inc.	ARWR	x	x
Argenx SE	ARGX	x	x
Calliditas Therapeutics AB	CPH:CALTX	x	x
Excicure Inc.	XCUR	x	x
Galapagos	EPA:GLPG	x	x
Genmab A/S	CPH:GMAB	x	x
Ionis Pharmaceuticals Inc.	IONS	x	x
Merck Co. Inc.	MRK	x	x
Neurocrine Biosciences Inc.	NBIX	x	x
Oxford Biomedica PLC	LON:OXB		
ProQR Therapeutics NV	PRQR	x	x
Royalty Pharma PLC	RPRX		
Sio Gene Therapies Inc.	SIOX	x	x
Ultragenyx Pharmaceuticals Inc.	RARE	x	x
UNIQURE NV.	QURE	x	x
Vertex Pharmaceuticals Inc.	VRTX	x	x
Zai Lab Ltd.	ZLAB	x	x
Zealand Pharma A/S	CPH:ZEAL	x	x

For our first reporting year, the main topic of engagement was driving companies to start reporting on ESG practices if they did not do so already.

As ESG regulations were only recently implemented, we witnessed diverse degrees of preparedness from companies towards ESG reporting.

More mature companies (basket 1) had already anticipated the changes from the most recent regulations and had therefore already implemented structured ESG reporting practices. For these companies, the answers to our questions were readily available in the reports from the relevant ESG sections on companies' websites and/or from 10-K/20-F filings.

A second group (basket 2) was composed of companies who had limited information available on their websites or 10-K/20-F annual filings. These companies needed further engagement for us to get answers on missing topics in order to complete our SASB materiality map.

The third group of companies (basket 3) who had no or very limited information available concerning ESG at the time of engagement. For these companies, we needed to engage directly with company management for multiple reasons (i) raise awareness on recent ESG regulations (ii) initiate discussions with the goal to receive answers to a set line of questions to complete our SASB materiality map (iii) stress the need for extensive reporting on ESG, and request public availability of relevant data.

In 2021, the Fund has engaged with 15 of the 22 portfolio companies it counted as of December 31, 2021.

Table 2: Portfolio companies from Aescap Life Sciences as of December 2021, as well as the number of contact points. Companies are classified in different baskets corresponding to described baskets in paragraph 1.

Basket	Company	Ticker	Comments	Points of contact
1	Alnylam Pharmaceuticals Inc.	ALNY	Direct from website	0
1	Genmab A/S	CPH:GMAB	Documents available on website	0
1	Merck Co. Inc.	MRK	Documents available on website	0
1	Neurocrine Biosciences Inc.	NBIX	Documents available on website	0
1	Oxford Biomedica PLC	LON:OXB	Documents available on website	0
1	Royalty Pharma PLC	RPRX	Documents available on website	0
1	Ultragenyx Pharmaceuticals Inc.	RARE	Documents available on website + replied to questionnaire	2
1	Vertex Pharmaceuticals Inc.	VRTX	Documents available on website	0
1	Zai Lab Ltd.	ZLAB	Documents available on website	1
1	Zealand Pharma A/S	CPH:ZEAL	Documents available on website	0
2	Galapagos	EPA:GLPG	Engaged and pointed out to CSR report, June 2021	4
2	Ionis Pharmaceuticals Inc.	IONS	Replied with questionnaire	5
2	Sio Gene Therapies Inc.	SIOX	Limited info from 10-K filing	3
3	Albireo Pharma Inc.	ALBO	ESG report available mid-April 2022, updated ESG in April as	4
3	Allakos Inc	ALLK	Answered questions in Sept 2021	2
3	Apellis Pharmaceuticals Inc.	APLS	Answered questions in Jan 2022	2
3	Arrowhead Pharmaceuticals Inc.	ARWR	Questions replied on Jan 2022	4
3	Argenx SE	ARGX	Replied saying ESG would be in the annual report from 2022 for	7
3	Calliditas Therapeutics AB	CPH:CALT	Replied with answers to questionnaire on Sept, 2021	6
3	Excicure Inc.	XCUR	Replied with questionnaire	4
3	ProQR Therapeutics NV	PRQR	Replied with questionnaire in March 2022	6
3	UNIQURE NV.	QURE	Replied with questionnaire in March 2022	6
Total				59

As expected, each basket of company has required different levels of engagement. The first basket is composed of 10 companies and had an average of 0,3 contact points. The second basket is composed of 3 companies and required an average of 4,0 contact points. The third basket is composed of 9 companies and required an average of 4,6 contact points (see below)

Table 3: Average number of contact points per basket of portfolio company

Basket	Number of companies	Average contact points
1	10	0,3
2	3	4,0
3	9	4,6

Table 4: (Part 1) Portfolio companies from Aescap Life Sciences as of December 2021, with relevant SASB materiality criteria and their ratings.

Company	Ticker	Inclusion of Patients in Need and Outreach to Lower Income Countries in Clinical Trials	Access and Affordability of Medicines	Counterfeit drugs	Patient Follow Up and Support
Albireo Pharma Inc.	ALBO	=	+	=	+
Allakos Inc	ALLK	+	+	=	+
Alnylam Pharmaceuticals Inc.	ALNY	+	+	=	+
Apellis Pharmaceuticals Inc.	APLS	+	+	+	+
Argenx SE	ARGX	+	+	=	+
Arrowhead Pharmaceuticals Inc.	ARWR	=	=	+	=
Calliditas Therapeutics AB	CPH:CALTX	+	+	=	+
Excicure Inc.	XCUR	=	=	=	=
Galapagos	EPA:GLPG	+	+	=	+
Genmab A/S	CPH:GMAB	+	+	=	+
Ionis Pharmaceuticals Inc.	IONS	=	=	=	+
Merck Co. Inc.	MRK	+	+	+	+
Neurocrine Biosciences Inc.	NBIX	=	+	+	+
Oxford Biomedica PLC	LON:OXB	=	=	=	=
ProQR Therapeutics NV	PRQR	=	=	=	=
Royalty Pharma PLC	RPRX	=	=	=	=
Sio Gene Therapies Inc.	SIOX	=	=	=	=
Ultragenyx Pharmaceuticals Inc.	RARE	+	+	+	+
UNIQUIRE NV.	QURE	+	=	=	=
Vertex Pharmaceuticals Inc.	VRTX	+	+	+	+
Zai Lab Ltd.	ZLAB	=	+	+	+
Zealand Pharma A/S	CPH:ZEAL	+	+	=	+

Table 5: (Part 2) Portfolio companies from Aescap Life Sciences as of December 2021, with relevant SASB materiality criteria and their ratings.

Company	Ticker	Ethical Marketing	Employee Recruitment, Development & Retention	Diversity & Inclusion in the Biotech Industry	Business Ethics	Bioethics and Animal Welfare
Albireo Pharma Inc.	ALBO	+	+	+	+	+
Allakos Inc	ALLK	+	+	+	+	=
Alnylam Pharmaceuticals Inc.	ALNY	=	+	+	+	=
Apellis Pharmaceuticals Inc.	APLS	=	-	=	+	+
Argenx SE	ARGX	+	+	+	+	+
Arrowhead Pharmaceuticals Inc.	ARWR	+	+	+	+	+
Calliditas Therapeutics AB	CPH:CALTX	+	+	+	+	+
Excicure Inc.	XCUR	=	+	+	+	+
Galapagos	EPA:GLPG	=	+	+	+	+
Genmab A/S	CPH:GMAB	+	+	+	+	+
Ionis Pharmaceuticals Inc.	IONS	+	=	=	+	+
Merck Co. Inc.	MRK	+	+	+	+	+
Neurocrine Biosciences Inc.	NBIX	+	=	=	+	+
Oxford Biomedica PLC	LON:OXB	=	+	=	+	+
ProQR Therapeutics NV	PRQR	=	=	+	+	+
Royalty Pharma PLC	RPRX	+	+	+	+	=
Sio Gene Therapies Inc.	SIOX	=	=	=	=	=
Ultragenyx Pharmaceuticals Inc.	RARE	+	+	+	+	+
UNIQUIRE NV.	QURE	=	=	=	+	+
Vertex Pharmaceuticals Inc.	VRTX	+	+	+	+	=
Zai Lab Ltd.	ZLAB	+	+	=	+	+
Zealand Pharma A/S	CPH:ZEAL	+	+	+	+	+

For the tables above, the criteria for rating are as follows:

+: Data was available, and risk is clearly covered by company.

=: Data is not available or not fully, however, there is no identified risk or reason to believe that this could be a topic of high risk.

-: Data is available and is identified as a risk. For which the next step is to engage with the company on the topic according to our engagement policy.

Engaging with one of our portfolio companies

So far, only one company has had a criteria worthy of engaging. Apellis has communicated a certain level of employee turnover that we deemed high and most likely above industry average.

Therefore, we have decided to start engaging on this specific topic in order to understand the specifics as it could be a communication misunderstanding. If the number concerns non solicited employee turnover, we believe the communicated figure would be above industry average by a significant margin, if it is general turnover, it might be slightly above industry average. Therefore, the engagement will first have the objective to gain sufficient information to guide further steps according to our engagement policy. Further steps could include communicating to Apellis that we expected them to decrease turnover in 2022 to reach at least industry average numbers.

Voting

As an active investor, Aescap regularly engages with companies on a wide range of topics, including ESG factors and those other factors related to investment fundamentals.

Through its regular monitoring and screening activities, outlined above, Aescap identifies any issues that it believes are material to a company's alignment with the characteristics and ESG profile of the Fund. Where Aescap identifies a concern, for example, manufacturing issues, unjustified price increases leading to reduced patient outreach, an alarming rate of voluntary worker departure, major product recalls, concerns over the composition of the Board or shareholder register, then the appropriate level of escalation is determined based on our engagement policy.

Consequently, Aescap engages with a company through meetings/calls with the company's management or Chairperson, email communications with the investor relations team members or other company representatives on specific matters, company site visits, interactions with external industry experts or other industry participants and action through formal voting when we deem it necessary. Engagement will then be factored into our overall investment process to ensure that the company can deliver returns at an acceptable level of risk as well as provide the improvements needed to reach an acceptable level of ESG integration so as to fit with our engagement policy.

The Investment Manager exercises its voting rights acting, in its belief, in best interests of shareholder/stakeholders.

This engagement with companies is part of our responsible investment approach aimed at improving corporate practices, and we believe voting as shareholder can be a capital contributor and driving force to ESG compliance in our portfolio companies.

Previously, Aescap has been voting, especially when Aescap held a significant share of the portfolio company's capital ($\geq 2\%$). Less so, when the stake was viewed as insufficient in size to be a decisive change factor during new resolutions voting.

Through our holdings in companies' capital and our position as an investor, we possess an ability to engage and promote dialogue and exert influence among our portfolio companies.



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