

Arctic Aurora LifeScience Monthly Report February 2019



FUND AND MARKET COMMENT

The strong biopharma sector performance from the previous month continued during February, partly driven by general better market conditions but also importantly continued M&A activity in the sector. The fund's USD class ended the month 4.52% up, which was 1.42% ahead of the benchmark index. Just like in January, the strong development during the month was fueled by acquisitions of small and mid cap biotech companies by larger pharma counterparts. Gene therapy took the front seat in the development, both in terms of deal-making and in terms of new positive clinical developments.

On February 25, Roche announced it has agreed to acquire Spark Therapeutics for USD 4.3 billion – a 122% market premium to the previous trading day. Spark is one of the pioneering companies within gene therapy and was the first company to get FDA and EMA approval of a gene therapy for a rare congenital eye disease. Besides the product called Luxturna, Spark also has a development pipeline most notably in Hemophilia, but also in other rare eye and metabolic diseases with the important addition of in-house manufacturing capabilities on commercial scale, something Roche noted as one of the key reasons to buy Spark.

Two other notable biotech acquisitions occurred in February. Ipsen agreed to buy all outstanding shares in the US/Canada-based Clementia Pharmaceuticals, a developer of therapies for rare diseases for a total deal value of USD 1.3 billion. Pharma and immuno-oncology giants Merck acquired Immune Design for approximately USD 300 million, a more than 300% market premium. The US biotech develops novel vaccine and cancer treatments that targets immune activation towards tumors.

Gene therapy took center stage in more ways than the Spark deal during the month. Portfolio company Sarepta Therapeutics, the current commercial and development leader in the congenital severe neuromuscular disorder Duchenne Muscular Dystrophy, presented early data in another rare neuromuscular disorder; Limb-girdle Muscular Dystrophy from a new gene therapy program. Although early days, the initial biomarker data looks impressive in the first three patients. Ultragenyx also presented promising early clinical gene therapy in three patients in a rare metabolic disease. Together with solid launch numbers for its first product treating a rare bone disease, Ultragenyx gained 30% during the month.

Sangamo Therapeutics however failed to show useful therapeutic effect in the first gene editing program to initiate clinical development. Sangamo has since long developed a competing gene editing technology to the much talked about CRISPR technology, but when trialed in a rare metabolic disorder, patients did not produce significant amounts of the therapeutic protein. There was a silver lining in that Sangamo was able to show activated edited gene, but the amounts were not large enough and the company dropped around 23% during the month.

Macrogenics gained approximately 75% over the month as the company announced positive clinical data in late stage breast cancer. As the clinical trial that preceded the Phase 3 trial now presented was very small, expectations were low for this readout but the company proved many doubter wrong and now looks set to introduce a new sought after for breast cancer patients that do not respond to current standard of care therapy.

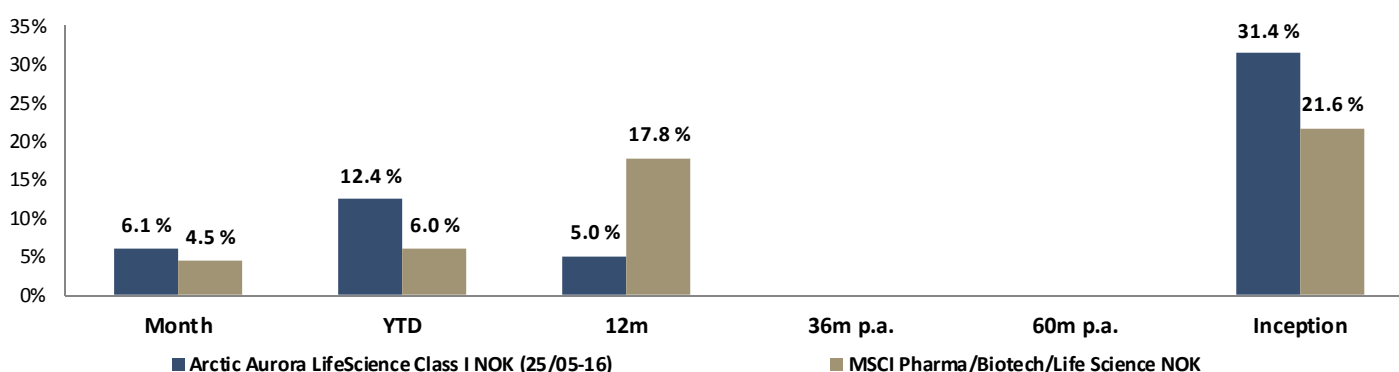
The common fatty liver disease known as NASH (nonalcoholic steatohepatitis) had its first two major Phase 3 readouts in February. First Gilead (-6% during the month) came out with negative data for its frontrunner NASH program. Then Intercept Pharmaceuticals announced positive data with its drug Ocaliva. Intercept showed that Ocaliva significantly reduced fibrosis, the key late-stage NASH endpoint and looks set to be the first drug specifically approved for NASH. However market reacted negative to some concerns over safety and tolerability. A portion (9%) of the patients on Ocaliva in the study developed itching, sometimes severe – a known side effect of the drug. The company calmed the market somewhat with a later update showing no adverse effect on liver function but for producing an overall successful late-stage NASH study, Intercept somewhat surprisingly ended the month 17% down. More data from the study at later scientific conference may further clarify the results however.

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ABOUT THE FUND

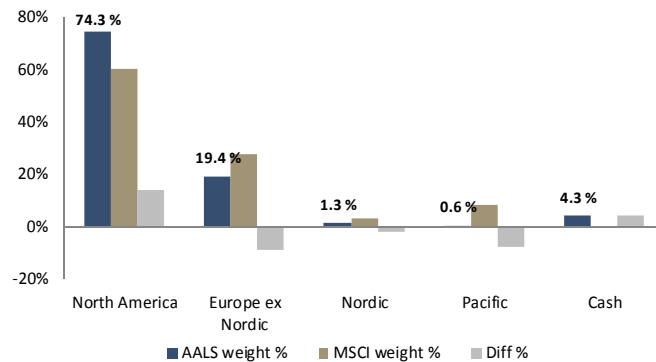
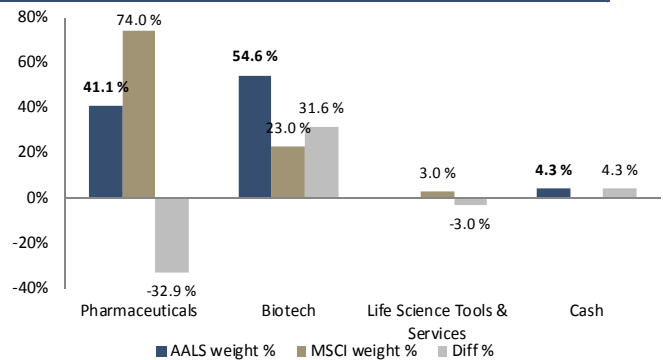
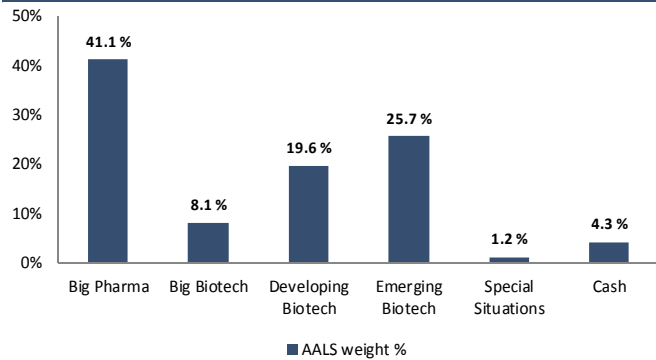
Arctic Aurora LifeScience is a specialized global healthcare fund (UCITS) investing primarily in public life science companies with a focus on the US and Europe. The investment strategy is focused on achieving an excess return from investments in the biotech sector complemented by active investments in larger companies such as global pharmaceutical companies. Benchmark is MSCI World Pharmaceuticals, Biotech and Life Science Total Return Net.

FUND PERFORMANCE AND COMPOSITION END OF MONTH—CLASS I NOK

Performance	Month	3 months	6 months	YTD	12m	36m	Launch
AAL NOK class	6.1 %	1.9 %	-5.0 %	12.4 %	5.0 %		31.4 %
Benchmark	4.5 %	-1.5 %	1.9 %	6.0 %	17.8 %		21.6 %
Excess Return	1.6 %	3.4 %	-7.0 %	6.5 %	-12.7 %		9.8 %
AAL USD class	4.5 %	2.3 %	-6.7 %	13.6 %	-2.8 %		28.2 %
AAL hedged NOK	4.6 %	1.2 %	-7.9 %	13.6 %	-3.6 %		26.9 %

Inception NOK and USD Class 25.05.16, Hedged NOK Class 29.06.16

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	6.01 %	6.05 %											12.43 %
2018	1.40 %	-0.76 %	-4.55 %	0.49 %	3.55 %	-0.56 %	5.58 %	6.03 %	-4.95 %	-6.47 %	4.86 %	-9.37 %	-5.99 %
2017	1.29 %	10.03 %	1.33 %	0.79 %	-2.19 %	4.45 %	-4.74 %	4.83 %	4.88 %	-3.62 %	2.81 %	-0.31 %	20.30 %
2016*					1.39 %	-2.15 %	5.89 %	-3.95 %	1.97 %	-6.06 %	5.91 %	0.98 %	3.37 %

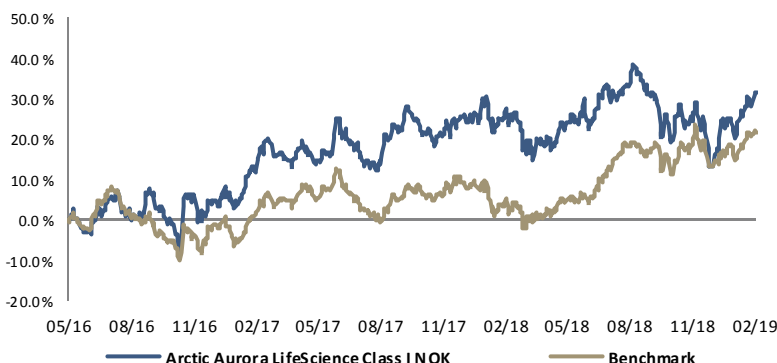


5 largest overweights		5 largest underweights	
Array Biopharma Inc	3.4 %	Johnson & Johnson	-3.7 %
Esperion Therapeutics	2.3 %	Sanofi	-3.6 %
Ultragenyx Pharmaceu	1.7 %	Abbvie	-3.5 %
Sage Therapeutics Inc.	1.4 %	Bayer	-3.4 %
Tocagen Inc	1.2 %	Allergan	-3.0 %

10 largest positions			
Johnson & Johnson	7.4 %	Eli Lilly & CO	3.8 %
Merck & Co Inc	6.6 %	Array Biopharma inc	3.4 %
Pfizer Inc	6.5 %	AstraZeneca PLC	2.9 %
Novartis AG	6.0 %	Gilead Sciences INC	2.9 %
Roche Holding AG-Gen	4.7 %	Reata Pharmaceutical	2.4 %

5 top contribut. year to date	AALS weight	AALS return	Contribution
Loxo Oncology Inc	0.5 %	64.4 %	1.6 %
Array Biopharma Inc	2.9 %	58.9 %	1.4 %
Reata Pharmaceutical	1.8 %	66.0 %	0.9 %
Sage Therapeutics In	1.3 %	64.1 %	0.6 %
Bluebird Bio Inc	1.3 %	54.4 %	0.6 %

5 bottom contribut. year to date	AALS weight	AALS return	Contribution
Sangamo	0.6 %	-33.1 %	-0.3 %
Verona Pharma Plc -	0.5 %	-37.0 %	-0.3 %
Us Dollar	4.4 %	-1.3 %	-0.2 %
Urogen Pharma Ltd	1.1 %	-11.8 %	-0.2 %
Amgen Inc	3.1 %	-2.9 %	-0.1 %



Disclaimer: Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. Arctic Fund Management AS seeks to the best of its ability to ensure that all information given in this report is correct, however, makes reservations regarding possible errors and omissions. Statements in the report reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. The report should not be perceived as an offer or recommendation to buy or sell financial instruments. Arctic Fund Management AS does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of the report. Employees of Arctic Fund Management AS may be owners of securities issued by companies that are either referred to in this rapport or are part of the fund's portfolio.