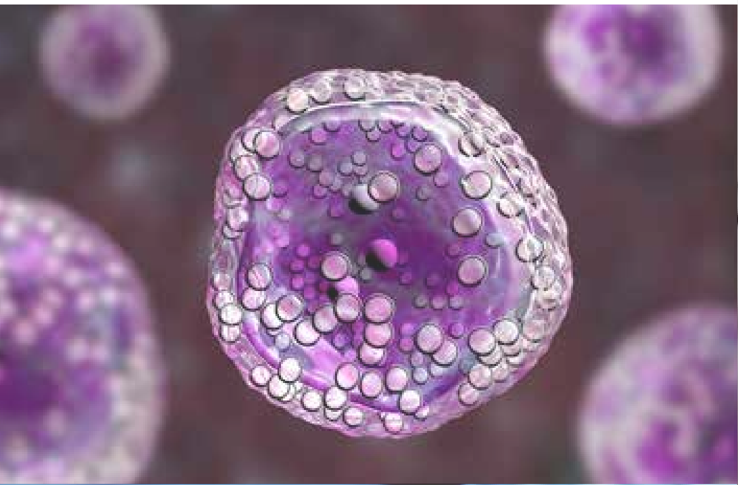
BioPharma Credit PLC



Generating strong returns

Annual Report 2019

Welcome to our Annual Report

BioPharma Credit PLC (the “Company”) provides investors with the opportunity to gain exposure to the fast-growing life sciences industry

Our diversified portfolio is secured by royalties or cash flows derived from sales of life sciences products

2019 Highlights

FINANCIAL

as at 31 December 2019

Share price
$1.0200
(31 December 2018: $1.0650)

Net income per Share
$0.0828
(31 December 2018: $0.0707)

Net Asset Value ("NAV") per Share
$1.0217
(31 December 2018: $1.0044)

Premium (discount) to NAV per Share
(0.17%)
(31 December 2018: 6.0%)

Shares in issue
1,373.9m
(31 December 2018: 1,373.9m)

Assets
as at 31 December 2019

Net assets
$1,403.7m
(31 December 2018: $1,380.0m)

Target dividend
7cents per annum

MOST RECENT COMMITMENTS IN 2019

Senior secured term loan to Global Blood Therapeutics
$83m
Read more on page 12

Senior secured term loan to Sarepta Therapeutics
$350m
Read more on page 12

Senior secured term loan to Akebia
$50m
Read more on page 13

Senior secured term loan to Epizyme
$35m
Read more on page 13

Senior secured term loan to OptiNose US
$83m
Read more on page 14

At a Glance

Our primary objective is to generate predictable income for shareholders over the long term

WE WILL SEEK TO ACHIEVE THIS BY CONTINUING TO BUILD A HIGH-QUALITY PORTFOLIO

We target high-quality investments...

The Company will mainly invest in debt secured by rights to approved life sciences products or royalties from sales of approved life sciences products.

Debt
Investments seek predictable cash flows with downside protection

Secured
Product rights or royalties will serve as collateral for the debt

Royalties
Right to receive a predetermined percentage of product sales derived from a licence agreement

Rights
Intellectual property, regulatory and other rights that give a life sciences company exclusivity on products and methods of treating certain diseases

Life sciences products
Products may include pharmaceuticals, biopharmaceuticals, medical devices and clinical diagnostics

Commercially approved
Product has met regulatory requirements and is available to patients

...and have clear investment opportunities.

Providing debt capital for the life sciences industry is an attractive investment opportunity with strong risk-adjusted returns.

Life sciences debt is a large and attractive market

Worldwide prescription drug sales were $827 billion in 2018 and growing

Large capital needs, Pharma and Biotech spent $179 billion in research and development during 2018

No large dedicated lender or specialised debt market

Industry dynamics create new debt investment opportunities

The specialisation and fragmentation in the industry results in new revenue-generating companies every year

Companies with products that have predictable revenues yet large research and development budgets are ideal borrowers

Product and structural expertise help optimise risk/reward

Life sciences products have predictable uncorrelated cash flows with a long runway of visibility

The Company has a highly experienced investment manager with a strong track record

2019

GBT
Amount committed:
$83m
Tranche A: $41m
Funded:
20 December 2019

SAREPTA THERAPEUTICS
Amount committed:
$350m
Tranche A: $175m
Funded:
20 December 2019

Akebia
Amount committed:
$50m
Tranche A: $40m
Funded:
25 November 2019

Epizyme
Amount committed:
$35m
Tranche A: $13m
Funded:
18 November 2019

optinose
Amount committed:
$83m
Tranche A: $44m
Funded:
12 September 2019

biodelivery sciences
Amount committed:
$80m
Tranche A: $60m
Funded:
28 May 2019

2018

Amicus Therapeutics
Amount invested:
$150m
Funded:
20 September 2018

Bristol-Myers Squibb
Amount committed:
$140-160m
First payment funded:
24 May 2018

SEBELA PHARMACEUTICALS INC.
Amount invested:
$194m
Funded:
20 April 2018

novocure
Amount invested:
$150m
Funded:
7 February 2018

2017

Lexicon pharmaceuticals
Amount invested:
Tranche A (funded):
$125m
Funded:
6 December 2017

TESARO
Amount invested:
Tranche A: $222m
Funded:
6 December 2017
Tranche B: $100m
Funded: 29 June 2018

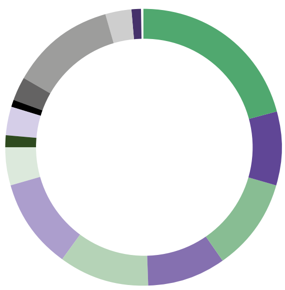
DEPOMED
Amount invested:
$24M convertible notes
13 September –
31 October 2017

INVESTMENT

Portfolio diversity increased in 2019

Key statistics ($m)	As at 31 Dec 2019	As at 31 Dec 2018	% Change
Cash and cash equivalents	297	364	-18.4%
Limited partnership interest in BioPharma III	–	8	–
Tesaro senior secured loan	–	322	–
Lexicon senior secured loan	125	125	–
Novocure senior secured loan	150	150	–
Sebela senior secured loan	130	189	-30.9%
BMS purchased payments	150	64	132.7%
Amicus senior secured loan	150	150	–
BioDelivery Sciences senior secured loan	60	–	–
BioDelivery Sciences equity	17	–	–
OptiNose US senior secured note and warrants	46	–	–
Epizyme senior secured loan	13	–	–
Akebia senior secured loan	40	–	–
Sarepta Therapeutics senior secured loan	175	–	–
Global Blood Therapeutics senior secured loan	41	–	–
Convertible bonds	20	–	–
Other net (liabilities)/assets	(9)	9	-198.5%
Total net assets	**1,404**	**1,380**	**1.7%**

Portfolio diversification as at 31 December 2019



Type	Percentage
Cash and cash equivalents	21.1%
Lexicon senior secured loan	8.9%
Novocure senior secured loan	10.7%
Sebela senior secured loan	9.3%
BMS purchased payments	10.7%
Amicus senior secured loan	10.7%
BioDelivery Sciences senior secured loan	4.3%
BioDelivery Sciences equity	1.2%
OptiNose US senior secured note and warrants	3.3%
Epizyme senior secured loan	0.9%
Akebia senior secured loan	2.8%
Sarepta Therapeutics senior secured loan	12.5%
Global Blood Therapeutics senior secured loan	2.9%
Convertible bonds	1.4%
Other net (liabilities)/assets	-0.7%
Total net assets	**100.0%**

Strategic Report

Chairman's Statement

Increasing the diversification and scale of our portfolio

Jeremy Sillem
Chairman

Introduction

2019 was the Company's second full year of operations and I am pleased to be able to report on another year of success.

Investments

As described in previous reports, January 2019 saw the early repayment to the Company of its largest investment, that of $322 million to Tesaro. That repayment was accompanied by prepayment and other fees totalling $46 million, thereby securing a very attractive rate of return on our investment but presenting our manager with the challenge of re-employing a substantial amount of capital. Over the course of 2019 the Company was able to announce six new investments totalling $728 million, of which $423 million was funded in 2019. In addition, $86 million of previous commitments were also funded, leading to a total of $509 million being invested over the course of the year. The balance of outstanding commitments at the end of 2019 is expected to be funded over the course of 2020.

Shareholder returns

The Company reported total Net Income of $114 million for 2019 or $0.0828 per share. Over the course of the year, Net Asset Value per share increased from $1.0044 on 31 December 2018 to $1.0217 on 31 December 2019, an increase of $0.0173 per share. Over the same period the Company made four dividend payments totalling $0.0718 per share, referencing the four quarters ending 30 September 2019. The Company was therefore able to maintain its record of paying a dividend of at least 1.75 cents per share in every quarter since that ending 30 June 2018.

Following the end of the year, the Company declared a further dividend in respect of the last quarter of 2019 of 3.03 cents per share made up of an ordinary dividend of 1.75 cents per share together with a special dividend of 1.28 cents per share.

Over the year the Company's ordinary share price declined from $1.0650 as at 31 December 2018 to $1.0200 as at 31 December 2019, therefore ending the year closely in line with the Net Asset Value per share of $1.0217.

Portfolio diversification

The Company ended the year with total net assets of $1,404 million, comprised of $1,116 million of investments, $297 million of cash, $16 million of other assets and $25 million of other liabilities. Follow-on commitments totalled $319 million as at 31 December 2019, of which most is expected to be funded during the second half of 2020.

As at 31 December 2019, the Company had outstanding 12 investments with amounts outstanding ranging in size from $10 million to $175 million. This compares with a portfolio as at 31 December 2018 of seven loans with commitments between $76 million and $96 million. Since year end, one further commitment, with Collegium Pharmaceutical, was made for $165 million, adding further diversification to the portfolio and taking the number of outstanding investments to 13, almost double the number outstanding 12 months earlier.

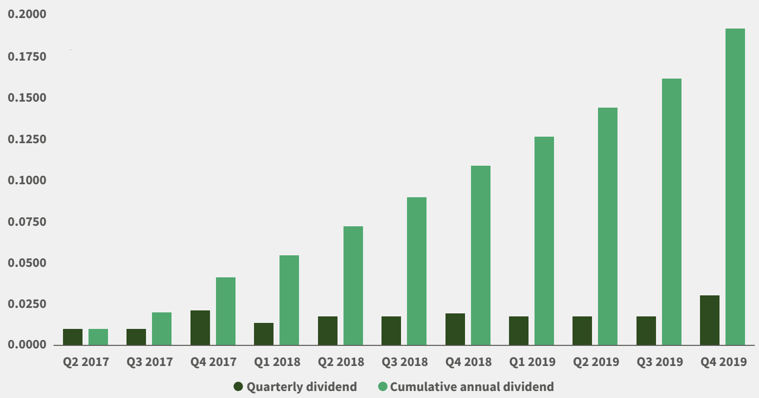
Outlook

Our investment manager, Pharmakon Advisors, continues to develop a pipeline of additional potential investments and, as a consequence, we expect to be evaluating a number of potential alternatives to fund this expected growth.

On behalf of the Board, I should like to express our thanks to Pharmakon for their continued achievements on behalf of the Company in 2019 and to our shareholders for their continued support.

Jeremy Sillem
Chairman
9 March 2020

Cumulative dividend



Market Overview

Life sciences is a large, vital industry with a track record of strong, consistent growth

MARKET DRIVERS

Strong expected growth over the foreseeable future fuelled by four strong growth drivers

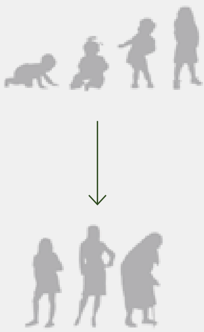
01
Growing population

1960: 3bn

2000: 6bn

2050: 9bn

02
Ageing population

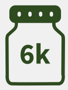


03
Emerging markets

Central & South America
Africa | Middle East
Asia Continent

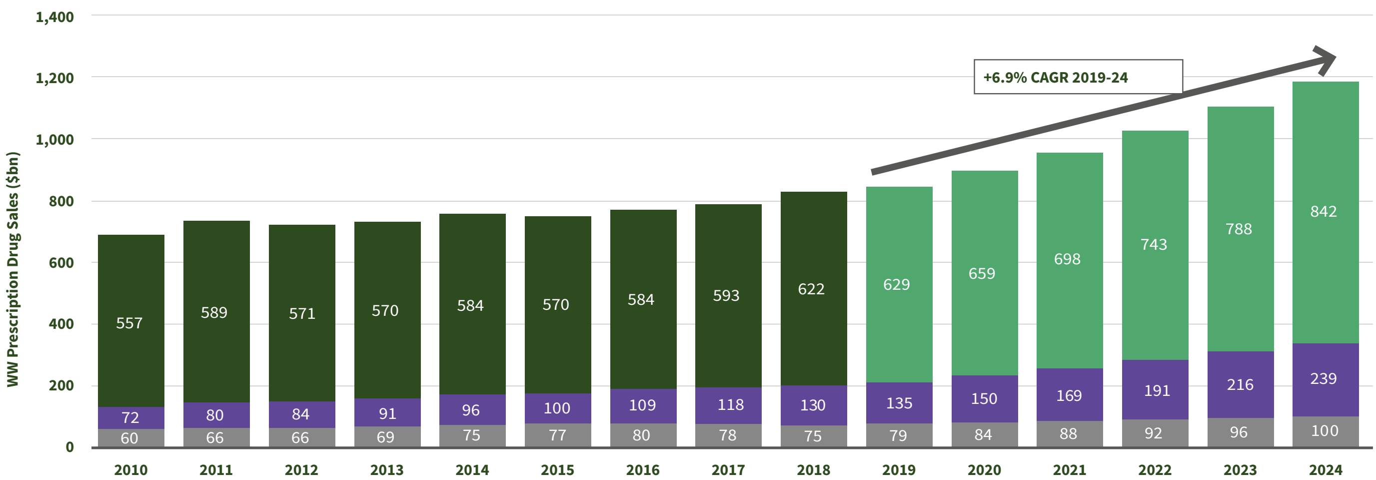
04
Innovation

Known diseases



Existing treatments
(approximately 20%)

Worldwide Total Prescription Drug Sales (2010-2024)



Source: EvaluatePharma, May 2019

Expected prescription drug sales

$1.2trn

by 2024

Size and growth dynamics of the industry

The life sciences industry consists of pharmaceutical and biotechnology firms and is a large and vital industry with a track record of strong, consistent growth. Worldwide prescription drug sales were $827 billion in 2018 and are expected to reach $1.2 trillion by 2024, reflecting a compounded annual growth rate of 6 per cent. While medical and scientific advances contribute to a portion of that increase, other growth drivers include more basic demographic and macroeconomic factors, such as a growing population, ageing populations and increasing prosperity in developing countries which is improving access to healthcare for millions of patients. The increase in spending is expected to be largely driven by brands and increased usage in emerging markets, offset by expiring patents.

Product life cycle

Pharmaceutical and biotechnology products have long life cycles, which can provide considerable downside protection for the Company. Worldwide patents can lead to more than 20 years of protection, which frequently translates into as long as 15 years of exclusivity from the time the products are first approved by regulatory agencies such as the U.S. Food and Drug Administration ("FDA"). Some governments also provide for regulatory exclusivity, which provides for six to ten years of commercial exclusivity independent of an approved patent, if an innovator performs clinical trials. On average, sales growth is very robust for the first 12 years of a product's life cycle, after which some of these products begin to lose exclusivity, and their sales growth slows and starts to decline shortly thereafter. A key driver of initial sales growth is increasing prescriptions from physicians in the early-launch markets, but subsequent commercialisation rates in additional geographic markets, as well as expanding indications, frequently drive attractive growth for more than a decade.

Market dynamics create fragmentation of the industry and more lending opportunities

Despite growth in the pharmaceutical market, large pharmaceutical companies continue to face mounting pressure on top-line sales from patent expiry on blockbuster products and failures in their research and development pipelines. The internal research and development departments of larger pharmaceutical companies have struggled to replace lost revenue with new products. Dramatically escalating research and development costs have also put pressure on industry participants to adapt their business model and seek partners to reduce risk. The amount of research and development investment per FDA-approved product is now approximately $1.4 billion. As a result of these factors, large pharmaceutical companies are increasingly relying on in-licensing and corporate acquisitions for new products.

Over the last 30 to 40 years, the landscape of the pharmaceutical industry has been transformed from one dominated by fully integrated pharmaceutical companies to a more dynamic and entrepreneurial research and development ecosystem comprised of thousands of participants. As a result of this research and development evolution, smaller companies, investor groups, universities and non-profit research institutes increasingly have rights to royalty streams on products that have been out-licensed to larger pharmaceutical companies. This broader shift in research and development approach provides an expanding landscape of lending opportunities for the Company, as smaller companies are increasingly partnering with large pharmaceutical companies.

The pharmaceutical and biotechnology ecosystem has evolved to one where innovation and commercialisation, which was once centralised in fewer than 100 big pharmaceutical companies, has now spread among more than 5,000 academic labs, government-funded entities and more than 5,000 biotech companies. The pool of creditworthy borrowers has increased exponentially.

Investment Manager's Report

An attractive investment environment to build on past performance

INTRODUCTION TO THE INVESTMENT MANAGER

Pharmakon Advisors, the Company's Investment Manager, was founded in 2009 and has invested $3.8 billion in 40 transactions on behalf of its clients.

Pedro Gonzalez de Cosio
Investment Manager
Co-founder and CEO

Mr Gonzalez de Cosio is the CEO and a Co-founder of the Investment Manager and manages the Company's portfolio. During the 14 years prior to founding the Investment Manager, Mr Gonzalez de Cosio held various positions in the structured finance divisions of Deutsche Bank and JP Morgan in New York, where he was responsible for structuring various forms of collateralised financings and derivatives for US and international clients, including several years covering clients in the life sciences industries.

Mr Gonzalez de Cosio's prior experience also includes various positions in the investment banking division of Nomura Securities in New York, the leasing division of Société Générale in Paris, and coordinating the issuance of external debt for the Mexican Ministry of Finance. Mr Gonzalez de Cosio earned a B.A. degree (Summa Cum Laude) in Business Administration from the University of San Diego and an M.B.A. from INSEAD in Fontainebleau, France.

Pablo Legorreta
Investment Manager
Co-founder and Principal

Mr Legorreta is Founder and CEO of Royalty Pharma, an affiliate of the Investment Manager, and a Principal and Co-founder of the Investment Manager, providing advisory oversight. Founded in 1996, Royalty Pharma is the industry leader in acquiring revenue producing intellectual property, with over $17 billion in royalty assets. Royalty Pharma funds innovation in life sciences, indirectly, when it acquires existing royalty interests from the original innovators (academic institutions, research hospitals, foundations and inventors) or, directly, when it partners with life sciences companies to co-develop and co-fund products in late-stage human clinical trials.

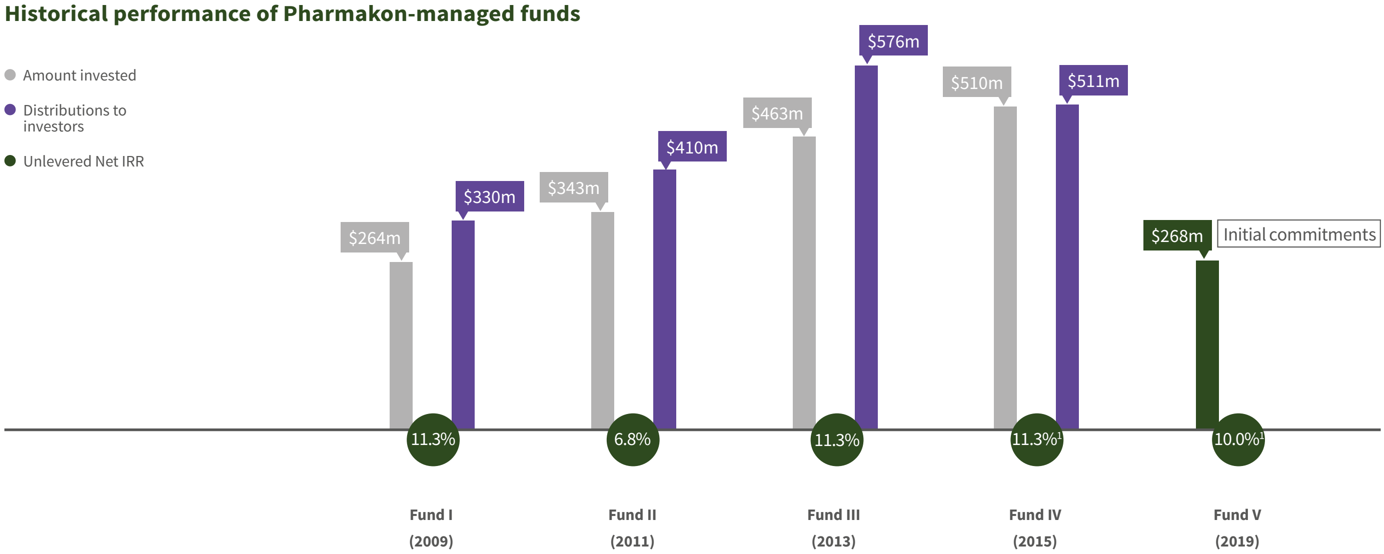
Prior to founding Royalty Pharma, Mr Legorreta spent a decade at Lazard Frères in Paris and New York where he provided cross-border merger and acquisition and corporate finance advisory services to European and US corporations. Mr Legorreta serves on the Board of Governors of the New York Academy of Sciences, and the Boards of Trustees of Rockefeller University, The Hospital for Special Surgery, The Pasteur Foundation (US affiliate of the French Institut Pasteur), The Open Medical Institute, The Park Avenue Armory and Grace Church School. Mr Legorreta founded and is currently Chairman of Alianza Médica para la Salud ("AMSA"), a privately-funded, not-for-profit foundation whose goal is to educate Latin American doctors and healthcare providers to improve the quality of healthcare in Latin America. Mr Legorreta received a degree in industrial engineering from Universidad Iberoamericana (Mexico City).

Martin Friedman
Investment Manager
Principal

Mr Friedman is a Principal of the Investment Manager, having joined in 2011. Mr Friedman has spent the past 22 years in various positions in the healthcare finance industry, most recently as the co-head of the US life sciences banking at Bank of America/Merrill Lynch. He has worked very closely with both large cap and emerging pharmaceutical, biotech, specialty pharmaceutical, device and diagnostic companies, having advised on M&A transactions and raised equity and debt capital.

Mr Friedman's prior experience also includes his 12 years at JPMorgan, including four years at JPMorgan Partners, and several years as the Head of M&A and Collaborations at Novartis AG based in Switzerland. Mr Friedman earned a B.A. degree in English and History from Columbia College and an M.B.A. (Honours) in Finance and Accounting from Columbia Business School.

Historical performance of Pharmakon-managed funds



Reflects historical performance to 31 December 2019 and estimated returns thereafter.

1. Estimated IRR

Pharmakon prides itself on its ability to identify and structure investments that meet its target returns while minimising risk through its rigorous diligence process and industry expertise.

As at 31 December 2019, Pharmakon clients included four previous BioPharma Funds (I, II, III and IV), BioPharma V, a private fund also investing in life sciences debt managed by Pharmakon Advisors launched in June 2019, and seven managed co-investor accounts. The four previous BioPharma Funds have now reached the end of their investment period.

The Pharmakon team has extensive expertise investing in debt and other cash flows backed by life sciences products.

Through a shared services agreement with RP Management LLC, Pharmakon has access to the complementary expertise of the team behind the market-leading investor in pharmaceutical royalties. RP Management LLC, an affiliate of Pharmakon, was established in 1996 and acquires revenue-producing intellectual property, with over $17 billion in royalty assets.

Key highlights

- 10% unlevered weighted average net returns on four private funds after all fees and expenses
- Pharmakon structured six transactions worth approximately $1,170 million over the past six months

Investment Manager's Report continued

INVESTMENTS

Pharmakon is pleased to present an update on the Company's portfolio and investment outlook. We are delighted with the results over the past year and look forward to a productive 2020 as we continue to solidify our position as the leading investor in life sciences debt. 2019 started with the previously announced repayment of the Tesaro loan which increased the Company's cash position to $768 million by 31 January 2019. During the remainder of the year Pharmakon was successful in executing six transactions on behalf of the Company and BioPharma V. The Company's share of these transactions amounted to $728 million, of which $319 million are commitments expected to be funded during 2020. Cash invested during the year totalled $509 million including funding $86 million in previous commitments. Below is an update on the Company's portfolio.

GBT

Investment type
Secured loan

Date
20 December 2019

Total loan amount
$150m

Company commitment
$83m

Maturity
December 2025

On 18 December 2019, the Company and BioPharma-V entered into a definitive senior secured term loan agreement for up to $150 million with Global Blood Therapeutics (Nasdaq: GBT), a biopharmaceutical company focused on innovative treatments that provide hope to underserved patient communities with a current market capitalisation of approximately $4,027 million as at 2 March 2020 ("GBT"). Under the terms of the agreement, GBT drew down $75 million at closing and has until December 2020 to draw the remaining $75 million, at their option.

The Company funded $41 million of the $75 million first tranche and will fund up to $41 million of the second tranche if the full $75 million of the second tranche is drawn. The loan will mature in December 2025 and will bear interest at three month LIBOR plus 7.00 per cent. per annum subject to a 2.00 per cent. floor along with a one-time additional consideration of 1.50 per cent. of the total loan amount payable upon funding and an additional 2.00 per cent. payable upon the repayment of the loan. GBT recently obtained US FDA approval for its first product, Oxbryta TM (voxelotor) for the treatment of sickle cell disease in adults and paediatric patients 12 years of age and older.

SAREPTA THERAPEUTICS

Investment type
Secured loan

Date
20 December 2019

Total loan amount
$500m

Company commitment
$350m

Maturity
December 2023

On 13 December 2019, the Company and BioPharma-V entered into a definitive senior secured term loan agreement for up to $500 million with Sarepta Therapeutics (Nasdaq: SRPT), a fully integrated biopharmaceutical company focused on precision genetic medicine with a current market capitalisation of approximately $9,322 million as at 2 March 2020 ("Sarepta"). Under the terms of the agreement, Sarepta drew down a first tranche of $250 million and has until December 2020 to draw the remaining second tranche of $250 million, at their option.

The Company funded $175 million of the $250 million first tranche and will fund up to $175 million of the second tranche if the full $250 million of the second tranche is drawn. The loan will mature in December 2023 and will bear interest at 8.5 per cent. per annum along with a one-time additional consideration of 1.75 per cent. of the total loan amount payable upon funding and an additional 2 per cent. payable upon the repayment of the loan.

Sarepta currently markets Exondys 51 (eteplirsen) in the US for the treatment of Duchenne muscular dystrophy (DMD) in patients who have a confirmed mutation of the DMD gene that is amenable to exon 51 skipping. On 12 December 2019, Sarepta announced the FDA approval of Vyondys 53 (golodirsen), its second RNA exon-skipping treatment for DMD approved in the U.S. and that commercial distribution of Vyondys 53 in the US will commence immediately. On 23 December 2019, Sarepta announced a partnership with Roche in territories outside the United States for its investigational micro-dystrophin gene therapy for Duchenne muscular dystrophy. Sarepta received an up front payment of $1.15 billion, comprising $750 million in cash and $400 million in equity and will receive future success-based milestones and royalties.

Akebia

On 11 November 2019, the Company and BioPharma-V entered into a definitive senior secured term loan agreement for up to $100 million with Akebia (Nasdaq: AKBA), a fully integrated biopharmaceutical company focused on the development and commercialisation of therapeutics for people living with kidney disease with a current market capitalisation of approximately $1,079 million as at 2 March 2020 ("Akebia"). Under the terms of the agreement, Akebia drew down $80 million at closing and has until December 2020 to draw the remaining $20 million, at their option.

The Company funded $40 million of the $80 million first tranche and will fund $10 million of the second tranche if it is drawn. The loan will mature in November 2024 and will bear interest at LIBOR plus 7.5 per cent. per annum along with a one-time additional consideration of 2 per cent. of the total loan amount. Akebia currently markets Auryxia® (ferric citrate) which is approved in the US for hyperphosphatemia (elevated phosphorus levels in blood serum) in adult patients with chronic kidney disease (CKD) on dialysis and iron deficiency anaemia in adult patients with CKD not on dialysis.

Investment type
Secured loan

Date
25 November 2019

Total loan amount
$100m

Company commitment
$50m

Maturity
November 2024

Epizyme

On 4 November 2019, the Company and BioPharma-V entered into a definitive senior secured term loan agreement for up to $70 million with Epizyme (Nasdaq: EPZM), a late-stage biopharmaceutical company developing novel epigenetic therapies with a current market capitalisation of approximately $2,317 million as at 2 March 2020 ("Epizyme"). Under the terms of the agreement, Epizyme drew down $25 million at closing and has until December 2020 to draw the remaining $45 million, in two tranches.

The Company funded $13 million of the $25 million first tranche and will fund $23 million of the remaining tranches if they are drawn. The loan will mature in November 2024 and will bear interest at LIBOR plus 7.75 per cent. per annum along with a one-time additional consideration of 2 per cent. of the total loan amount. Epizyme's lead product, tazemetostat, is a first-in-class, oral EZH2 inhibitor in clinical development for certain oncology indications, including epithelioid sarcoma and follicular lymphoma. Since tazemetostat was not FDA approved at the time the loan was funded, the loan was over collateralised with cash. This requirement went away when tazemetostat was approved on 23 January 2020.

Investment type
Secured loan

Date
18 November 2019

Total loan amount
$70m

Company commitment
$35m

Maturity
November 2024

Investment Manager's Report continued

Investment type
Secured loan

Date
12 September 2019

Total loan amount
$150m

Company commitment
$82.5m

Maturity
September 2024

On 12 September 2019, the Company and BioPharma-V entered into a definitive senior secured note purchase agreement for the issuance and sale of senior secured notes in an aggregate original principal amount of up to US$150 million by OptiNose US, a wholly-owned subsidiary of OptiNose (Nasdaq: OPTN), a commercial-stage specialty pharmaceutical company with a current market capitalisation of approximately $284 million as at 2 March 2020 ("OptiNose"). Under the terms of the agreement OptiNose purchased $80 million at closing and has until February 2021 to purchase the remaining $70 million of notes, in three tranches, at OptiNose's option.

The Company funded $44 million of the $80 million first tranche and will issue $39 million of the remaining tranches if they are drawn. The notes mature in September 2024 and bear interest at 10.75 per cent. per annum along with a one-time additional consideration of 0.75 per cent. of the aggregate original principal amount of senior secured notes which the Company and BioPharma-V are committed to purchase under the facility and approximately 800,000 warrants exercisable into common stock of OptiNose.

OptiNose's leading product, XHANCE® (fluticasone propionate), is a nasal spray approved by the U.S. Food and Drug Administration (FDA) in September 2017 for the treatment of nasal polyps in patients 18 years or older. XHANCE® utilises a novel and proprietary exhalation delivery system to deliver the drug high and deep into the sinuses, targeting areas traditional intranasal sprays are not able to reach.

Investment type
Secured loan and equity

Date
28 May 2019

Total loan amount
$80m

Equity
$25m

Company commitment
$105m

Maturity
May 2025

On 23 May 2019, the Company entered into a senior secured loan agreement for up to $80 million with BioDelivery Sciences International (Nasdaq: BDSI), a commercial-stage specialty pharmaceutical company ("BDSI") with a market capitalisation of approximately $496 million as at 2 March 2020. BDSI utilizes its novel and proprietary BioErodible MucoAdhesive (BEMA®) technology, to develop and commercialise new applications of proven therapies aimed at addressing important unmet medical needs. BDSI's leading products include BELBUCA® (buprenorphine buccal film) and Symproic® (naldemedine).

In addition, the Company acquired 5,000,000 BDSI shares at $5.00 each for a total cost of $25 million in a public offering that took place on 11 April 2019. As at 28 June 2019, BDSI's share price closed at $4.65. The first tranche of the loan for $60 million was funded on 28 May 2019 and an additional tranche of $20 million is available to be drawn down by May 2020 at BDSI's option. The loan will mature in May 2025 and bears interest at LIBOR plus 7.5 per cent., along with 2 per cent. additional consideration.

Proceeds from this financing, along with available cash on hand, were used to repay and retire the company's existing term loan with CRG Servicing LLC which had an outstanding balance of $62 million and a maturity date of December 2022. As at 2 March 2020 BDSI had a market capitalisation of $496 million.

Amicus Therapeutics

On 20 September 2018, the Company entered into a definitive senior secured loan agreement for $150 million with Amicus Therapeutics, Inc. (NASDAQ: FOLD), a commercial stage, rare metabolic disease-focused biopharmaceutical company ("Amicus").

The $150 million loan has a five-year maturity and is interest-only for the first four years. The loan bears interest at LIBOR plus 7.5 per cent. (subject to certain caps) and includes 2 per cent. additional consideration. Amicus can prepay the loan at any time subject to a two-year make-whole premium and prepayment fees.

Amicus has commercial operations in the United States, Europe, Japan and several other geographies in which it currently markets Galafold® (migalastat HCl) for Fabry disease with sales of $182 million during 2019. As at 2 March 2020 Amicus had a market capitalisation of $2,398 million.

SEBELA PHARMACEUTICALS INC.

On 1 May 2018, the Company was lead arranger of a $316 million senior secured term loan for Sebela BT Holdings Inc. ("Sebela"), a subsidiary of Sebela Pharmaceuticals. The Company committed to a $194 million investment, with the remaining $122 million balance coming from co-investors.

The five-year senior secured loan began amortising in the third quarter of 2018 and fully matures in December 2022. The loan bears interest at LIBOR (uncapped) plus a single-digit spread and includes additional consideration.

Sebela is a private specialty pharmaceutical company focused on gastrointestinal medicines, dermatology, and women's health. As at 31 December 2019, the principal amount outstanding of the Company's investment was $130 million.

novocure™

On 7 February 2018, the Company entered into a senior secured loan agreement for $150 million with Novocure Limited (NASDAQ: NVCR), a commercial stage oncology company with a current market capitalisation of approximately $7,467 million as at 2 March 2020 ("Novocure").

The $150 million loan will mature in February 2023 and bears interest at 9.0 per cent. per annum. Novocure used $100 million of the net proceeds to entirely prepay the $100 million, 10.0 per cent. coupon loan made by BioPharma III Holdings, LP ("BioPharma III") in 2015 that was scheduled to mature in 2020.

The Company was a limited partner in BioPharma III and therefore received a distribution of approximately $46 million from BioPharma III as a result of the prepayment from Novocure.

Novocure manufactures and sells the Optune system, a cancer treatment centred on a proprietary therapy called TTFields, which involves the use of electric fields tuned to specific frequencies to disrupt solid tumour cancer cell division. Optune is currently approved for the treatment of adults with Glioblastoma ("GBM").

On 27 February 2020, Novocure reported revenues of $351 million for the year ended 31 December 2019 a 42 per cent. increase over 2018. Novocure invests meaningfully in research and development and has late stage trials (Phase III pivotal studies) underway for TTFields in brain metastases, non-small cell lung cancer and pancreatic cancer.

On 23 May 2019, the FDA approved the NovoTTF-100L system in combination with chemotherapy for the treatment of malignant pleural mesothelioma. This is the first FDA approved mesothelioma treatment in over 15 years.

Lexicon pharmaceuticals

On 4 December 2017, the Company and BioPharma IV entered into a definitive term loan agreement for up to $200 million with Lexicon Pharmaceuticals (NASDAQ: LXRX) ("Lexicon"), a fully integrated biopharmaceutical company with a current market capitalisation of approximately $301 million as at 2 March 2020.

The Company funded $125 million of the $200 million first tranche and Lexicon did not draw the second tranche. The loan pays a fixed 9.0% coupon. Lexicon markets Xermelo® (telotristat ethyl) for the treatment of carcinoid syndrome diarrhoea in the United States and has licensed Xermelo® to Ipsen Pharma SA for commercialisation in territories outside of the United States and Japan. Lexicon is also developing Zynquista (sotagliflozin) for the treatment of type 1 and type 2 diabetes in partnership with Sanofi. The loan is secured by substantially all of Lexicon's assets, including its rights to XERMELO and Zynquista.

Zynquista (sotagliflozin) received approval in Europe for Type 1 diabetes on 26 April 2019. On 22 March 2019, the FDA issued a Complete Response Letter (CRL) which indicated that a New Drug Application for the oral treatment of type 1 diabetes would not be approved in its present form for Zynquista. Lexicon appealed the decision to the FDA and on 2 December 2019, the FDA affirmed its initial decision. Lexicon has escalated its appeal to the FDA's Center for Drug Evaluation and Research and is awaiting a decision. The drug is still being evaluated for use in Type 2 patients with potential to generate $110 million in development milestones by early 2020 plus $150 million upon approval. The Type 2 diabetes market is much larger than the Type 1 market.

On 26 July 2019, Lexicon announced Sanofi's notice of termination in relation to its collaboration and license agreement with Lexicon for the development and commercialisation of Zynquista. Sanofi's actions do not impact XERMELO® which is marketed by Lexicon in the US and is partnered outside the US with Ipsen. Lexicon and Sanofi came to an agreement effective 9 September 2019 in which Lexicon will regain all rights to and will be solely responsible for the worldwide development and commercialization of Zynquista. Under the terms of the settlement, Sanofi agreed to pay Lexicon US$260 million and coordinate with Lexicon in the transition of responsibility for ongoing clinical studies and other activities. Sanofi paid Lexicon $208 million in September 2019 and will pay the remaining $52 million in the next 12 months.

Investment Manager's Report continued

Bristol-Myers Squibb

On 8 December 2017, the Company's wholly-owned subsidiary entered into a purchase, sale and assignment agreement with a wholly-owned subsidiary of Royalty Pharma Investments ("RPI"), an affiliate of the Investment Manager, for the purchase of a 50 per cent. interest in a stream of payments (the "Purchased Payments") acquired by RPI's subsidiary from Bristol-Myers Squibb (NYSE: BMY) through a purchase agreement dated 14 November 2017.

As a result of the arrangements, RPI's subsidiary and the Company's subsidiary are each entitled to the benefit of 50 per cent. of the Purchased Payments under identical economic terms. The Purchased Payments are linked to tiered worldwide sales of Onglyza and Farxiga, diabetes agents marketed by AstraZeneca, and related products. The Company was expected to fund $140 million to $165 million during 2018 and 2019, determined by product sales over that period, and will receive payments from 2020 through 2025. The Purchased Payments are expected to generate attractive risk-adjusted returns in the high single digits per annum. As of 31 December 2019, the Company funded seven of the Purchased Payments based on sales from 1 January 2018 to 30 September 2019 for a total of $150 million out of the originally expected range.

TESARO®

On 21 November 2017, the Company and BioPharma Credit Investments IV, S.àr.L. ("BioPharma IV") entered into a definitive loan agreement for up to $500 million with Tesaro (NASDAQ: TSRO) ("Tesaro").

The Company funded $222 million of the $300 million first tranche on 6 December 2017 and $100 million of the $200 million second tranche on 29 June 2018 for a total investment of $322 million.

The Tesaro loan had a term of seven years and was secured by Tesaro's US rights to ZEJULA®. The first $300 million tranche bore interest at LIBOR plus 8 per cent. and the second tranche bore interest at LIBOR plus 7.5 per cent. The LIBOR rate was subject to a floor of 1 per cent. and certain caps. Each tranche of the loan was interest only for the first two years, amortises over the remaining term. Following its acquisition by GlaxoSmithKline, Tesaro repaid the $500 million loan on 23 January 2019.

The Company received a payment of $370 million on its $322 million share of the loan, including the make-whole and prepayment premium totalling $46 million, or 14.2 per cent., of the $322 million investment, which is the equivalent of what the Company would have received had the loan remained outstanding for another approximately fifteen months. The Company earned a 29 per cent. Internal rate of return on its Tesaro investment.

Update on seed assets

The Company acquired $339 million in seed assets at the time of the IPO in March 2017, consisting of a $185 million investment in the RPS Note and a 46 per cent. limited partnership interest in BioPharma III, valued at $154 million at the time of the IPO. On 15 October 2018, the Company received its final payment on the RPS Note of $20 million, realising a 12.9 per cent. IRR. On 29 January 2019, the Company received $8 million as its final payment from BioPharma III, realising a 13.6 per cent. IRR.

Investment outlook

The life sciences industry is expected to continue to have substantial capital needs during the coming years as the number of products undergoing clinical trials continues to grow. All else being equal, companies seeking to raise capital are generally more receptive to straight debt financing alternatives at times when equity markets are soft, increasing the number and size of fixed-income investment opportunities for the Company, and will be more inclined to issue equity or convertible bonds at times when equity markets are strong. A good indicator of the life sciences equity market is the New York Stock Exchange Biotechnology Index ("BTK Index"). While 2018 was a volatile year, with the BTK Index essentially at the same levels as it started the year, 2019 proved to be stronger with the BTK Index rising by 20%. As a result of the downside protection embedded in the debt nature of the Company's investments, the volatility in equity prices does not affect the value or quality of the assets in the portfolio. Global equity issuance by life sciences companies during 2019 was $62 billion, a 13 per cent. increase from the $55 billion issued during 2018. We anticipate an increased appetite for fixed-income as a source of capital in 2020.

Acquisition financing is an important driver of capital needs in the life sciences industry in general and a source of investment opportunities. An active M&A market helps drive opportunities for investors such as the Company, as acquiring companies need capital to fund acquisitions. Global life sciences M&A volume during 2019 was $198 billion, a 27 per cent decrease less than the $270 billion witnessed during 2018, driven by an decrease in biotech consolidation. We are encouraged by the number of M&A opportunities that are starting to build up and should lead to a more active market over the coming year.

In conclusion, there continues to be a robust pipeline of investment opportunities, but as usual, the precise timing of their execution is not completely within our control. Pharmakon will continue to evaluate potential capital sources to fund additional investments in addition to the $319 million in commitments expected to be funded during 2020. While the Company can raise equity and debt, it will also be important to monitor the potential early prepayment of loans in the portfolio in order to ensure the maximum amount of funds are deployed at all times. We remain focused on our mission of creating the premier dedicated provider of debt capital to the life sciences industry while generating attractive returns and sustainable income to investors. Further, Pharmakon remains confident of our ability to deliver attractive returns that will enable the Company to pay a robust dividend yield for our investors.

Pedro Gonzalez de Cosio
Co-founder and CEO, Pharmakon
9 March 2020

Second Half of 2019

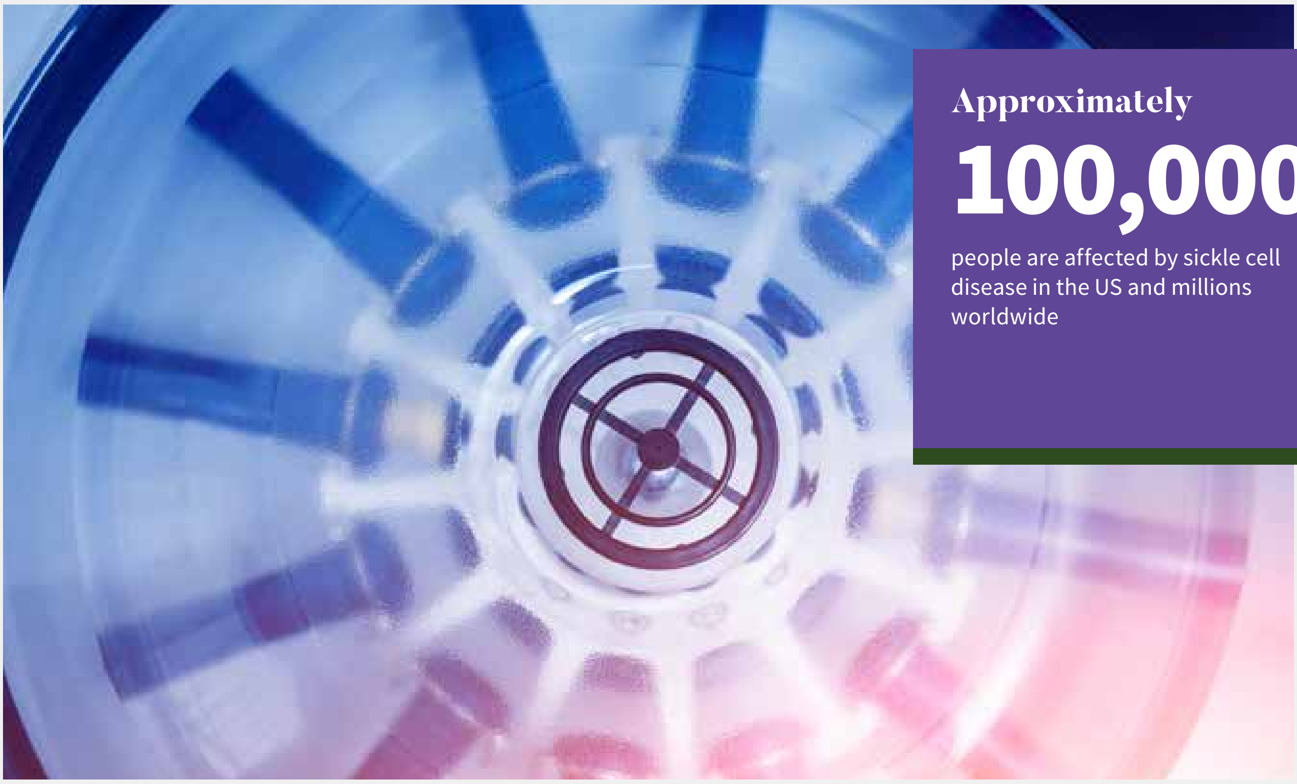
Treating lifelong inherited blood disorders with Global Blood Therapeutics

Global Blood Therapeutics is a publicly traded, biopharmaceutical company focused on innovative treatments that provide hope to underserved patient communities.

GBT recently obtained FDA approval for its first product, Oxbryta™ (voxelotor) for the treatment of sickle cell disease in adults and paediatric patients 12 years of age and older.

Sickle cell disease is a lifelong inherited blood disorder that impacts haemoglobin, a protein carried by red blood cells that delivers oxygen to tissues and organs throughout the body. Due to a genetic mutation, people with sickle cell disease form abnormal haemoglobin known as sickle haemoglobin. Through a process called haemoglobin polymerisation, red blood cells become sickled – deoxygenated, crescent-shaped and rigid. The sickling process causes haemolytic anaemia (low haemoglobin due to red blood cell destruction) and blockages in capillaries and small blood vessels, which impede the flow of blood and oxygen throughout the body. The diminished oxygen delivery to tissues and organs can lead to life-threatening complications, including stroke and irreversible organ damage. A recent publication noted that in the United States, sickle cell disease results in a decrease of approximately 30 years in life expectancy.

Sickle cell disease places a major burden on patients and society, with medical care costs of up to $286,000 annually for patients with complications. Additionally, sickle cell disease can greatly impact a person's life, including their ability to work, attend school and look after their families, with one study estimating approximately $700,000 in lost lifetime income per patient.



Approximately

100,000

people are affected by sickle cell disease in the US and millions worldwide

Second Half of 2019 continued

Treating muscular dystrophy with Sarepta Therapeutics

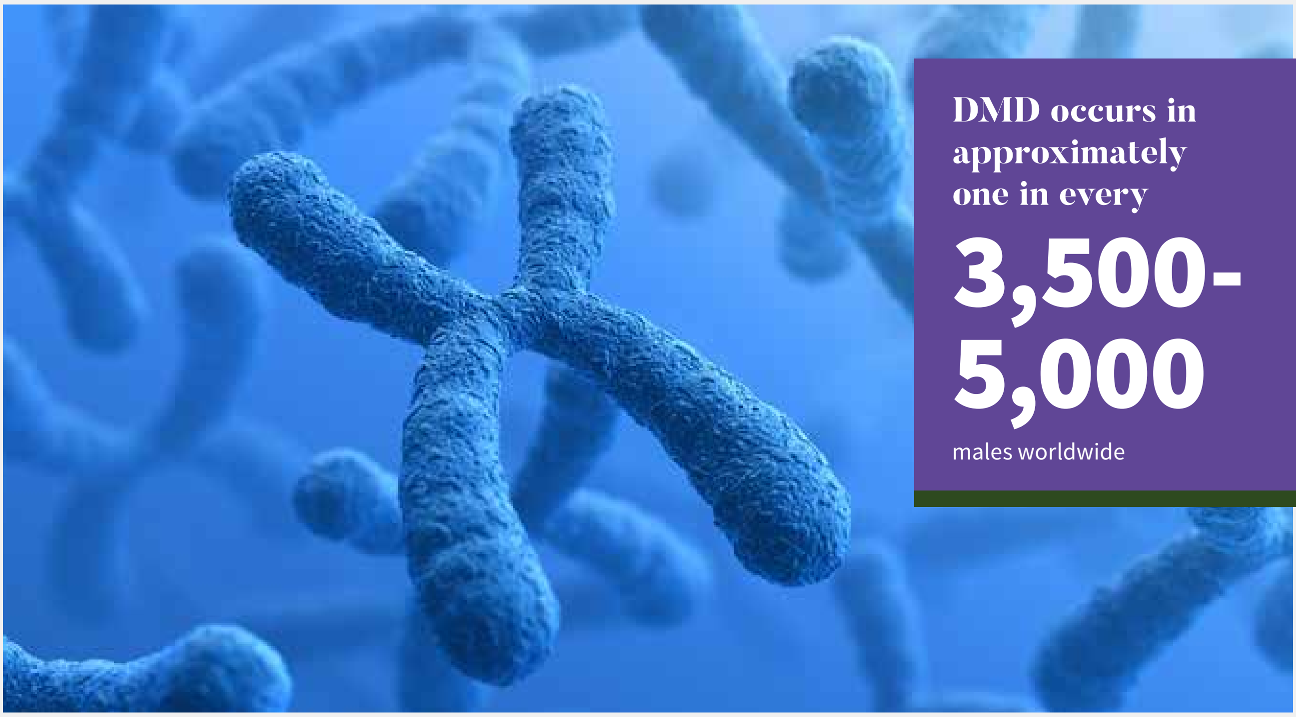
Sarepta Therapeutics (NASDAQ: SRPT) is a publicly traded, fully integrated biopharmaceutical company focused on precision genetic medicine. The Company has built an impressive position in Duchenne muscular dystrophy (DMD) and in gene therapies for limb-girdle muscular dystrophies (LGMDs), mucopolysaccharidosis Type IIIA, Charcot-Marie-Tooth (CMT), and other CNS-related disorders, with more than 40 programmes in various stages of development.

The Company's programmes and research focus span several therapeutic modalities, including RNA, gene therapy and gene editing.

Sarepta markets Exondys 51 (eteplirsen) in the US for the treatment of Duchenne muscular dystrophy (DMD) in patients who have a confirmed mutation of the DMD gene that is amenable to exon 51 skipping. On 12 December 2019, Sarepta announced the FDA approval of Vyondys 53 (golodirsen), its second RNA exon-skipping treatment for DMD approved in the US.

Duchenne muscular dystrophy (DMD) is a rare, fatal neuromuscular genetic disease that occurs in approximately one in every 3,500-5,000 males worldwide. DMD is caused by a change or mutation in the gene that encodes instructions for dystrophin. These changes in the genetic code may include large deletions (about 60-70 per cent.), large duplications (about 10 per cent.) or other small changes (about 15-30 per cent.). Genetic testing is required to confirm the diagnosis and identify the disease-causing mutation in the dystrophin gene. Symptoms of DMD usually appear in infants and toddlers. Affected children may experience developmental delays such as difficulty in walking, climbing stairs or standing from a sitting position. Boys with DMD often walk on their toes and have large calves, as well as use the Gowers Manoeuvre to stand from the floor. As the disease progresses, muscle weakness in the lower limbs spreads to the arms, neck and other areas. Most patients require full-time use of a wheelchair in their early teens, and then progressively lose the ability to independently perform activities of daily living such as using the toilet, bathing and feeding. Eventually, increasing difficulty in breathing due to respiratory muscle dysfunction requires ventilation support, and cardiac dysfunction can lead to heart failure. The condition is universally fatal, and patients usually succumb to the disease in their twenties.

On 23 December 2019, Sarepta and Roche entered into a licensing agreement providing Roche exclusive commercial rights to SRP-9001, Sarepta's investigational gene therapy for Duchenne muscular dystrophy, outside the United States. Under the agreement, Sarepta has received $1.15 billion in an up front payment and an equity investment; up to $1.7 billion in regulatory and sales milestones; and royalties on net sales, anticipated to be in the mid-teens. In addition, Roche and Sarepta will equally share global development expenses. Sarepta retains all rights to SRP-9001 in the United States.



DMD occurs in approximately one in every

3,500-5,000

males worldwide

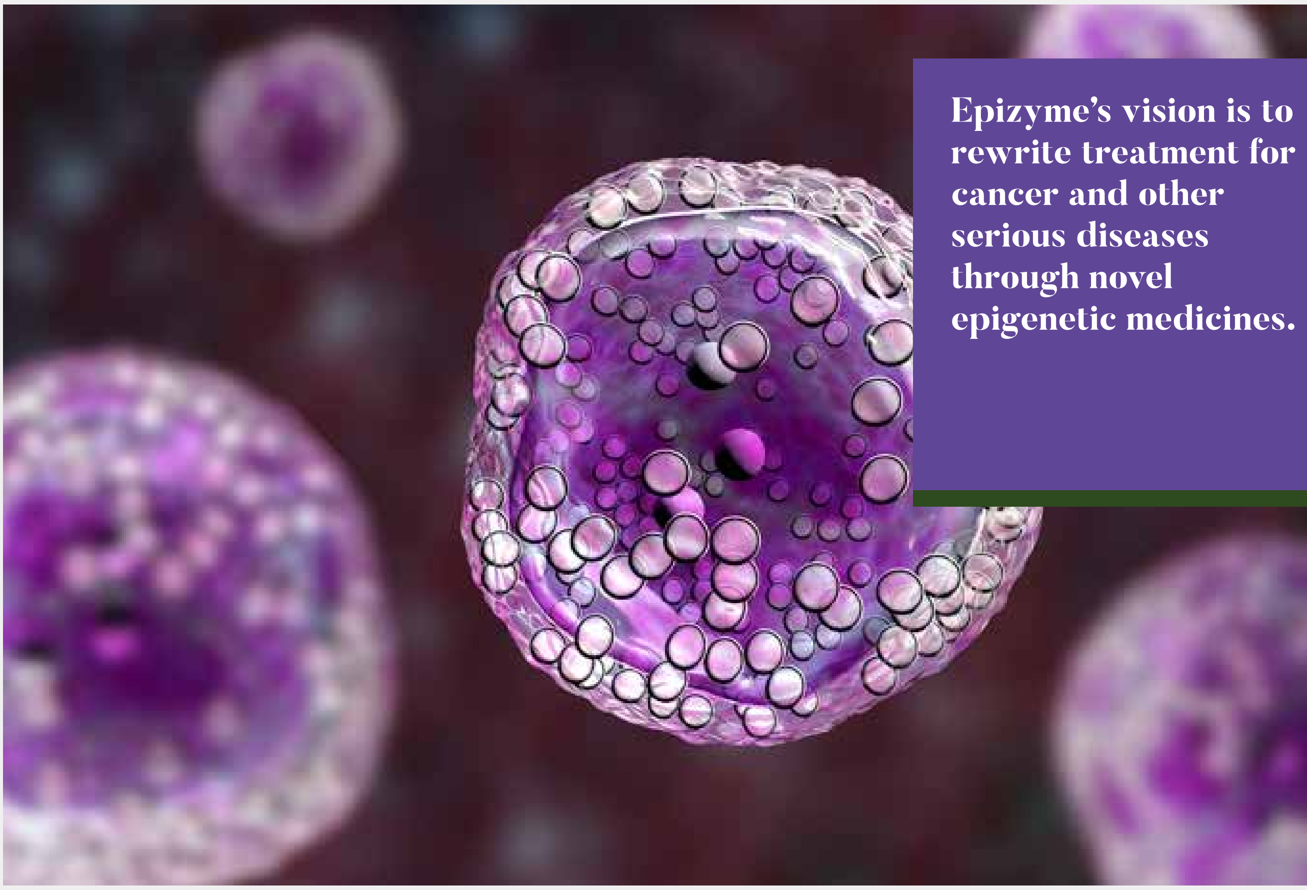
Treating cancer with Epizyme

Epizyme is a publicly traded biopharmaceutical company developing novel epigenetic therapies. Epizyme's stated vision is to rewrite treatment for cancer and other serious diseases through novel epigenetic medicines. They aspire to change the standard of care for patients and physicians by developing medicines with fundamentally new mechanisms of action.

The U.S. Food and Drug Administration (FDA) granted on 23 January 2020 accelerated approval of TAZVERIK™ (tazemetostat) for the treatment of adults and paediatric patients aged 16 years and older with metastatic or locally advanced epithelioid sarcoma (ES) not eligible for complete resection, based on overall response rate and duration of response in a Phase 2 clinical trial. TAZVERIK is the first and only FDA-approved EZH2 inhibitor, and the first and only FDA-approved treatment specifically indicated for ES patients.

On 14 February 2020, Epizyme announced that the FDA accepted for filing the company's New Drug Application (NDA) for the accelerated approval of TAZVERIK (tazemetostat) for patients with relapsed or refractory follicular lymphoma (FL) who have received at least two prior lines of systemic therapy.

The FDA granted Priority Review and has designated the company's application as a supplemental NDA (sNDA) with a Prescription Drug User Fee Act (PDUFA) target action date of 18 June 2020. Priority Review is granted to investigational therapies that, if approved, may offer significant improvements in the treatment, prevention or diagnosis of a serious condition.



Epizyme's vision is to rewrite treatment for cancer and other serious diseases through novel epigenetic medicines.

Treating kidney disease with Akebia

Akebia

Akebia is a publicly traded, fully integrated biopharmaceutical company focused on the development and commercialisation of therapeutics for people living with kidney disease.

Akebia currently markets Auryxia® (ferric citrate) which is approved in the US for the control of serum phosphorus levels in adult patients with chronic kidney disease (CKD) on dialysis (hyperphosphatemia) and iron deficiency anaemia in adult patients with CKD not on dialysis. Akebia is developing a late-stage product candidate called vadadustat which is being studied for anaemia due to CKD in both dialysis and non-dialysis patients.

The kidneys are the primary functional organs of the urinary system, filtering approximately 200 quarts of blood and eliminating waste every day. The kidneys are master regulators that also ensure the body has the proper balance of water and necessary chemicals and minerals, keeping what's needed and getting rid of what's not. The kidneys also produce hormones, which support the function of other organs in the body, including hormones that promote the production of healthy red blood cells. The kidneys' role in regulating the composition of blood and producing hormones affects virtually every part of the body.

Chronic kidney disease (CKD) is characterised by the gradual loss of kidney function and is a serious and life-altering illness that is persistent, progressive, and irreversible. CKD is estimated to affect approximately 37 million adults in the US. It is a top-10 leading cause of death in the United States and each year takes more lives than breast cancer or prostate cancer. Having CKD also increases the chances of heart disease and stroke.

While CKD is a complex disease with multiple causes and effects, the two main causes are diabetes and high blood pressure. Nearly three-quarters of all CKD cases are associated with diabetes and/or high blood pressure. Approximately one in every three adults with diabetes and one in every five adults with high blood pressure also has CKD.

The progression of CKD is defined by measurement of a patient's glomerular filtration rate, or GFR. The loss of kidney function is determined by GFR, which is measured by calculating how quickly plasma is cleared of certain substances in the body.

As progression occurs through the five stages of CKD, an increase in symptoms occurs, and additional health complications can develop as a result of the kidneys' reduced ability to eliminate waste from the body and produce important hormones. When people with CKD progress to a GFR of less than 15, they have reached Stage 5 and are close to losing or have lost all kidney function. These individuals will typically need to prepare for dialysis, where a machine does the work that the kidneys typically do, or prepare for a kidney transplant.

CKD is estimated to affect approximately

37 million

adults in the US

Treating nasal polyps with OptiNose US

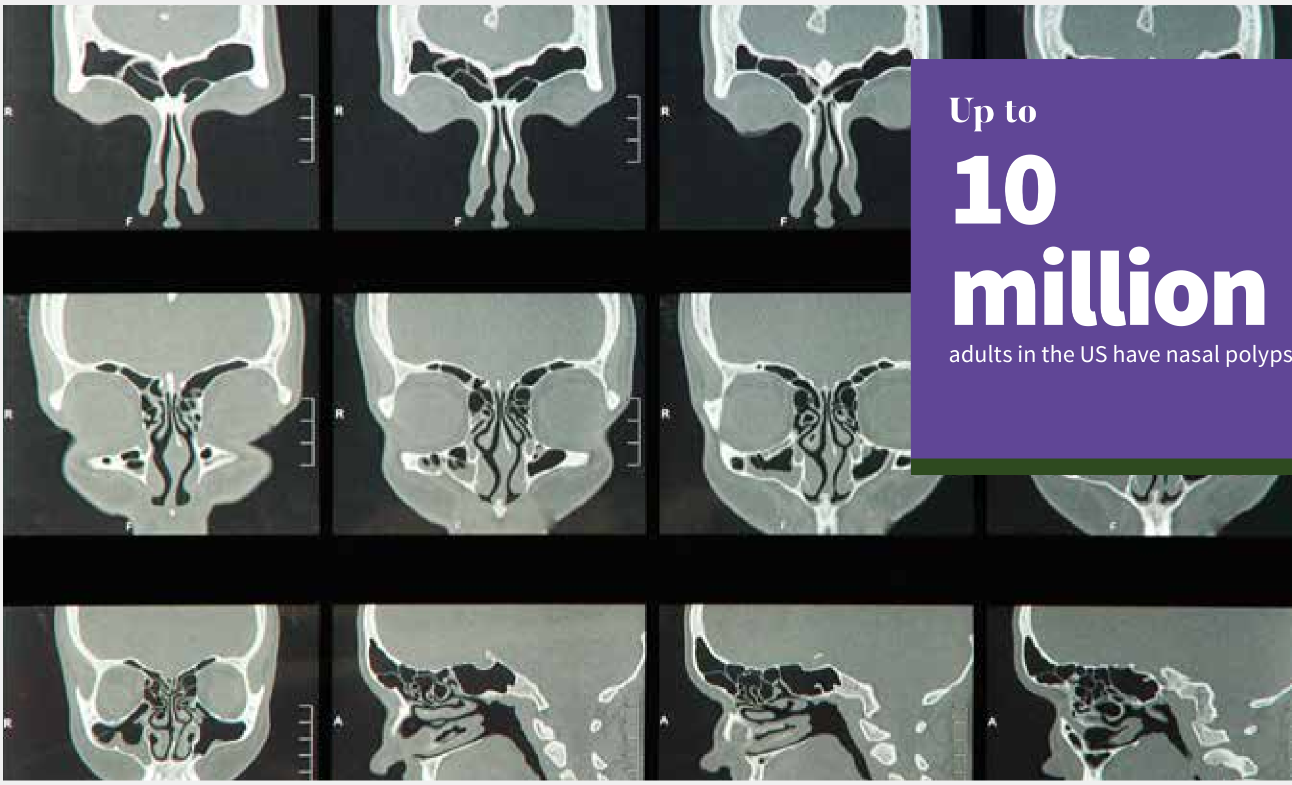
OptiNose is a publicly traded, specialty pharmaceutical company focused on serving the needs of patients treated by ear, nose, and throat (ENT) and allergy specialists.

OptiNose's leading product, XHANCE® (fluticasone propionate), is a nasal spray approved by the U.S. Food and Drug Administration (FDA) in September 2017 for the treatment of nasal polyps in patients 18 years or older. XHANCE® utilises a novel and proprietary exhalation delivery system to deliver the drug high and deep into the sinuses, targeting areas traditional intranasal sprays are not able to reach.

Nasal polyps are non-cancerous growths that arise from inflamed tissue. Evidence suggests that polyps can also actively promote inflammation, rather than simply resulting from it. Up to 10 million adults in the United States have nasal polyps and the associated symptoms (nasal congestion/obstruction, facial pain and pressure, rhinorrhea, and loss of sense of smell and taste).

The majority of nasal polyps are located within the ostiomeatal complex and typically originate in the middle meatus around the sinus openings. As they grow, polyps mechanically alter and can block the normal flow of air through the nose. Similarly, by blocking the drainage pathways of the paranasal sinuses, sinus inflammation and its associated symptoms occur.

XHANCE® is the only FDA-approved prescription nasal spray that uses an Exhalation Delivery System to treat nasal polyps.



Up to
10 million
adults in the US have nasal polyps

Strategic Overview

Investment objective

The Company aims to generate long-term shareholder returns, predominantly in the form of sustainable income distributions from exposure to the life sciences industry.

Investment policy

The Company will seek to achieve its investment objective predominantly through direct or indirect exposure to "Debt Assets".

The Company may acquire Debt Assets:

- directly from the entity issuing the debt asset (a "Borrower"), which may be: (i) a company operating in the life sciences industry (a "LifeSci Company"); or (ii) an entity other than a LifeSci Company which directly or indirectly holds an interest in royalty rights to certain products, including any investment vehicle or special purpose vehicle ("Royalty Owner"); or
- in the secondary market.

The Company may also invest in equity issued by a LifeSci Company, acquired directly from the LifeSci Company or in the secondary market.

"Debt Assets" will typically comprise:

- **Royalty debt instruments**
  Debt issued by a Royalty Owner where the Royalty Owner's obligations in relation to the Debt are secured as to repayment of principal and payment of interest by Royalty Collateral.
- **Priority royalty tranches**
  Contract with a Borrower that provides the Company with the right to receive payment of all or a fixed percentage of the future royalty payments receivable in respect of a Product (or Products) that would otherwise belong to the Borrower up to a fixed monetary amount or a pre-set rate of return, with such royalty payment being secured by Royalty Collateral in respect of that Product (or Products).
- **Senior secured debt**
  Debt issued by a LifeSci Company, and which is secured as to repayment of principal and payment of interest by a first priority charge over some or all of such LifeSci Company's assets, which may include: (i) Royalty Collateral; or (ii) other intellectual property and marketing rights to the Products of that LifeSci Company.
- **Unsecured debt**
  Debt issued by a LifeSci Company which is not secured or is secured by a second lien on assets of the Borrower.
- **Credit linked notes**
  Derivative instruments referencing Debt Assets, being a synthetic obligation between the Company and another party where the repayment of principal and/or the payment of interest is based on the performance of the obligations under the underlying Debt Assets.

"Royalty Collateral" means, with respect to a Debt Asset: (i) future payments receivable by the Borrower on a Product (or Products) in the form of royalty payments or other revenue-sharing arrangements; or (ii) future distributions receivable by the Borrower based on royalty payments generated from a Product (or Products); or (iii) both limb (i) and limb (ii).

"Debt" includes loans, notes, bonds and other debt instruments and securities, including convertible debt, and Priority Royalty Tranches.

Borrowers will predominantly be domiciled in the US, Europe and Japan, though the Company may also acquire Debt Assets issued by Borrowers in other jurisdictions.

Investment restrictions and portfolio diversification

The Company will seek to create a diversified portfolio of investments by investing across a range of different forms of Debt Assets issued by a variety of Borrowers. In particular, the Company will observe the following restrictions when making investments in accordance with its investment policy:

- no more than 30 per cent. of the Company's gross assets will be exposed to any single Borrower;
- no more than 35 per cent. of the Company's gross assets will be invested in Unsecured Debt; and
- no more than 15 per cent. of the Company's gross assets will be invested in equity securities issued by LifeSci Companies.

Each of these investment restrictions will be calculated at the time of each proposed investment. In the event that any of the above limits are breached at any point after the relevant investment has been made (for instance, as a result of any movements in the value of the Company's total assets), there will be no requirement to sell any investment (in whole or in part).

Cash management

The Company's uninvested capital may be invested in cash instruments or bank deposits for cash management purposes.

Hedging

The Company does not propose to enter into any hedging or other derivative arrangements other than as may from time to time be considered appropriate for the purposes of efficient portfolio management. The Company will not enter into such arrangements for investment purposes.

Business and status of the Company

The Company is registered in England as a public limited company and is an investment company in accordance with the provisions of Section 833 of the Companies Act 2006.

The principal activity of the Company is to carry on business as an investment trust. The Company intends at all times to conduct its affairs so as to enable it to qualify as an investment trust for the purposes of Sections 1158/1159 of the Corporation Tax Act 2010 ("S1158/1159"). The Directors do not envisage any change in this activity in the foreseeable future.

The Company has been granted approval from HM Revenue & Customs ("HMRC") as an investment trust under S1158/1159 and will continue to be treated as an investment trust company, subject to there being no serious breaches of the conditions for approval. The Directors are of the opinion that the Company has conducted its affairs for the year ended 31 December 2019 so as to be able to continue to qualify as an investment trust.

The Company has a wholly-owned subsidiary, BPCR Ongdapa Limited, details of which can be found in Note 15 to the financial statements.

Stakeholder engagement – Section 172(1) Statement

Overview

The Directors' overarching duty is to promote the success of the Company for the benefit of its shareholders, having regard to the interests of its stakeholders, as set out in section 172(1) of the Companies Act 2006. The Directors have considered each aspect of this section of the Act and consider that the information set out below is particularly relevant in the context of the Company's business as an externally managed investment company which does not have any employees or suppliers.

The importance of stakeholders is taken into account at every Board meeting. All discussions involve careful consideration of the longer-term consequences of any decisions and their implications for stakeholders.

Stakeholders

The Board seeks to understand the needs and priorities of the Company's stakeholders and these are taken into account during all its discussions and as part of its decision-making. During the period under review, the Board has discussed which parties should be considered as stakeholders of the Company. The Board believes that the Company's key stakeholders comprise its shareholders, clients and service providers. The section below discusses why these stakeholders are considered of importance to the Company and the actions taken to ensure that their interests are taken into account.

The Company recognises the importance of maintaining high standards of business conduct and seeks to ensure that these are applied in all of its business dealings and in its engagement with stakeholders. Further information on the impact of the Company's operations on the community and the environment is set out on page 29.

For more information on the purpose, culture and values of the Company, and the processes which the Board has put in place to ensure these, see the Corporate Governance Statement on pages 37 to 40.

Shareholders

Continued shareholder support and engagement are critical to the existence of the Company and the delivery of its long-term strategy.

Although the Company has been established with an indefinite life, the Articles provide that a continuation vote be put to shareholders at the first annual general meeting of the Company to be held following the fifth anniversary of Initial Admission i.e. in 2022 and, if passed, at the annual general meeting of the Company held every third year thereafter; and within two months of the expiration of any 12-month rolling period where the Shares have, on average, traded at a discount in excess of 10 per cent. to the Net Asset Value per Share (calculated by comparing the middle market quotation of the Shares at the end of each month in the relevant period to the prevailing published Net Asset Value per Share (exclusive of any dividend declared) as at such month end and averaging this comparative figure over the relevant period).

Engagement with shareholders is given a high priority by both the Board and the Investment Manager. The Chairman ensures that the Board as a whole has a clear understanding of the views of shareholders by receiving regular updates from the Brokers and Investment Manager. The Investment Manager and the Company's Brokers are in regular contact with major shareholders and report the results of all meetings and the views of those shareholders to the Board on a regular basis. The Chairman and the other Directors are available to attend these meetings with shareholders if required. Relations with shareholders are also considered as part of the annual Board evaluation process. For further details regarding this process see page 39.

All shareholders are encouraged to attend and vote at annual general meetings, during which the Board and the Investment Manager will be available to discuss issues affecting the Company and answer any questions. Further information regarding the AGM is detailed on page 36. Shareholders wishing to raise questions or concerns directly with the Chairman, Senior Independent Director or Company Secretary, outside of the AGM, should do so using the contact details provided on page 79.

Clients

The Company's clients are pharmaceutical and biotechnology companies within the life sciences industry to which it provides debt capital. The Investment Manager is highly experienced in this area with a strong track record of meeting the capital needs of its clients. The investments made by the Company support the large capital needs of its portfolio companies, supporting their research and development budgets for life sciences products. The Investment Manager meets regularly with the management teams of current and prospective investee companies to enhance relationships and to understand their views and capital requirements. The Directors receive updates from the Investment Manager on the companies within its investment portfolio at all Board meetings, and outside of meetings as appropriate. Further information on the Company's investee companies, including case studies regarding their products, is set out on pages 12 to 21.

Service providers

In order to function as an investment trust on the Specialist Fund Segment of the London Stock Exchange, the Company relies on a number of reputable advisers for support in complying with all relevant legal and regulatory obligations.

The Company's day-to-day operational functions are delegated to a number of third-party service providers, each engaged under separate contracts. The Company's principal service providers include the Investment Manager, Company Secretary, Brokers, Administrator, Legal Adviser, Auditor and the Registrar.

The Board keeps the ongoing performance of the Investment Manager under continual review and conducts an annual appraisal of the Investment Manager, along with the performance of all other third-party service providers. The Investment Manager has executed the investment strategy according to the Board's expectations and it is the opinion of the Directors that the continuing appointment of Pharmakon is in the interests of shareholders as a whole.

The Audit and Risk Committee reviews and evaluates the control environments in place at each service provider. Further details regarding the role of the Audit and Risk Committee are set out on pages 41 to 42. Further information about the review of service providers and the culture of the Investment Manager is set out on page 35.

Strategic Overview continued

The above mechanisms for engaging with stakeholders are kept under review by the Directors and are discussed on a regular basis at Board meetings to ensure that they remain effective.

Key performance indicators

The Company assesses its performance in meeting its investment objectives using the following Key Performance Indicators ("KPIs"):

NAV performance

The NAV at 31 December 2019 was $1.0217 per Share, compared to $1.0044 per Share at 31 December 2018.

A full description of the Company's performance for the year ended 31 December 2019 is included in the Investment Manager's Report on pages 10 to 16.

The early repayment of the $322 million loan to Tesaro accompanied by prepayment and other fees and re-employing a substantial amount of capital over the course of the year contributed to the income over the last 12 months.

Share price return

The Company's Share price at 31 December 2019 was $1.02, giving a return since 31 December 2018 of (4.2) per cent.

Share price premium (discount) to NAV per Share

The Company's Share price was at a premium to the Net Asset Value per Share for the first nine months of the year, ending the period at a discount of (0.17) per cent. The daily closing price of the Company's Shares ranged from $0.99 – $1.07 throughout the year.

If, during the last month of a Performance Period, the Shares have, on average, traded at a discount of 1 per cent. or more to the Net Asset Value per Share, the Investment Manager shall apply 50 per cent. of any Performance Fee paid by the Company to the Investment Manager to make market acquisitions of Shares until the Shares have, on average, traded at a discount of less than 1 per cent. to the Net Asset Value per Share over a period of five business days.

Dividend yield

The Company declared and paid dividends during the year in line with the expected 7 per cent. annual yield as disclosed in its IPO Prospectus dated 1 March 2017.

Ongoing charges

The Company's ongoing charges ratio is shown in the table below.

	Year ended 31 December 2019 %	Year ended 31 December 2018 %
Ongoing charges excluding performance fee*	**1.0**	1.2
Performance fee	**1.0**	0.8
Ongoing charges including performance fee	**2.0**	2.0

* Ongoing charges are the Company's expenses (excluding performance fees) expressed as a percentage of its average monthly net assets and follow the AIC recommended methodology.

Dividends

Dividends totalling 7.18 cents per Ordinary Share, including a special dividend of 0.18 cent, have been paid during the year ended 31 December 2019.

On 20 February 2020, the Company declared an interim dividend in respect of the financial period ended 31 December 2019 of $0.0303 per ordinary share, comprising an ordinary dividend of $0.0175 and a special dividend of $0.0128, payable on 27 March 2020 to ordinary shareholders on the register as at 28 February 2020.

RISK MANAGEMENT AND THE INTERNAL CONTROL ENVIRONMENT

	Responsibilities
Board	The Board, when setting the risk management strategy, also determines the nature and extent of the significant risks and its risk appetite in implementing this strategy. A formal risk identification and assessment process which identifies the principal and emerging risks facing the Company has been in place since the IPO, resulting in a risk framework document which summarises the key risks and their mitigation.
Audit and Risk Committee	The Board undertakes a formal risk review with the assistance of the Audit and Risk Committee at least twice a year in order to robustly assess the effectiveness of the Company's risk management and internal control systems. During the course of its review in respect of the year ended 31 December 2019, the Board has not identified, nor been advised of any failings or weaknesses which it has determined to be of a material nature. The principal risks and uncertainties which the Company faces are set out on the following pages.

Principal risks and uncertainties

The Board of Directors has overall responsibility for risk management and internal control of the Company. The Board recognises that risk is inherent in the operation of the Company and that effective risk management is key to the success of the organisation. The Board has delegated responsibility for the assurance of the risk management process and the review of mitigating controls to the Audit and Risk Committee.

The principal risks and the Company's policies for managing these risks are set out below and the policy and practice with regard to financial instruments are summarised in Note 17 to the financial statements. There were no changes to these risks in the current year or at the date of this report.

Risk	Description and mitigation
Failure to achieve target returns	The target returns are targets only and are based on financial projections that are themselves based on assumptions regarding market conditions, economic environment, availability of investment opportunities and investment-specific assumptions that may not be consistent with conditions in the future. The Company seeks to achieve its investment objective predominantly through direct or indirect exposure to debt assets. Debt assets typically comprise royalty debt instruments, priority royalty tranches, senior secured debt, unsecured debt and credit-linked notes. A variety of factors, including lack of attractive investment opportunities, defaults and prepayments under debt assets, inability of the Company to obtain debt at an appropriate rate, changes in the life sciences industry, exchange rates, government regulations, the non-performance (or underperformance) of any life sciences product (or any life sciences company) could adversely impact the Company's ability to achieve its investment objective and deliver the target returns. A failure by the Company to achieve its target returns could adversely impact the value of the Shares and lead to a loss of investment. The Company has an investment policy to achieve a balanced Investment with a diversified asset base and has investment restrictions in place to limit exposure to potential risk factors. These factors enable the Company to build a diversified portfolio that should deliver returns that are in line with its stated target return.
The success of the Company depends on the ability and expertise of the Investment Manager	In accordance with the Investment Management Agreement, the Investment Manager is responsible for the investment management of the Company's assets. The Company does not have its own employees and all of its Directors are appointed on a non-executive basis. All investment and asset management decisions are made by the Investment Manager (or any delegates thereof) and not by the Company or the Directors and, accordingly, the Company is completely reliant upon, and its success depends on, the Investment Manager and its personnel, services and resources. The Investment Manager is required, under the terms of the Investment Management Agreement, to perform in accordance with the Service Standard. The Investment Manager does not submit individual investment decisions to the Board for approval and the Board does not supervise the due diligence performed by the Investment Manager. As part of its asset management decisions, the Investment Manager may from time to time make commitments for future investments for which the Company may need to raise funds in the future by issuing equity and/or debt or by selling all or part of other investments to raise liquidity. The Company is entitled to terminate the Investment Management Agreement if the Investment Manager has: (i) committed fraud, gross negligence or wilful misconduct in the performance of its obligations under the Investment Management Agreement; or (ii) breached its obligations under the Investment Management Agreement, and the Company is reasonably likely to suffer a loss arising directly or indirectly out of or in connection with such breach of an amount equal to or greater than 10 per cent. of the NAV as at the date of the breach. The Investment Management Agreement may also be terminated at the Company's discretion on not less than six months' notice to the Investment Manager, such notice not to expire earlier than: (i) 36 months following Admission, unless approved by shareholders by ordinary resolution; and (ii) 18 months following Admission, in any event. Under the terms of the Investment Management Agreement, the Investment Manager is only liable to the Company (and will only lose its indemnity) if it has committed fraud, gross negligence or wilful misconduct or acted in bad faith, or knowingly violated applicable securities laws. The performance of the Company is dependent on the diligence, skill and judgement of certain key individuals at the Investment Manager, including Pedro Gonzalez de Cosio and other senior investment professionals and the information and investments' pipeline generated through their business development efforts. On the occurrence of a Key Person Event (as defined in the Investment Management Agreement), the Company may be entitled to terminate the Investment Management Agreement with immediate effect (subject to the Investment Manager's right to find an appropriate replacement to be approved by the Board (such approval not to be unreasonably withheld or delayed) within 180 days)). However, if the Company elects to exercise this right, it would be required to pay the Investment Manager a termination fee equal to either 1 per cent. or 2 per cent. of the invested NAV (depending on the reason for the Key Person Event), as at the date of such termination. If the Company elects not to exercise this right, the precise impact of a Key Person Event on the ability of the Company to achieve its investment objective and target returns cannot be determined and would depend *inter alia* on the ability of the Investment Manager to recruit individuals of similar experience, expertise and calibre. There can be no guarantee that the Investment Manager would be able to do so and this could adversely affect the ability of the Company to meet its investment objective and target returns and may adversely affect the NAV and Shareholder returns and result in a substantial loss of a shareholder's investment. Pharmakon Advisors, the Investment Manager, has extensive expertise and a track record of successfully investing in debt and other cash flows backed by life sciences products. The Investment Management Agreement provides attractive incentives for the Investment Manager to perform prudently and in the best interests of the Company. In addition, the Investment Manager and its affiliates own approximately 6 per cent. of the Company as at 31 December 2019, creating a strong alignment of interests between the Investment Manager and its affiliates and shareholders of the Company.

Strategic Overview continued

Risk	Description and mitigation
The Company may from time to time commit to make future investments that exceed its current liquidity	From time to time, the Company may commit to make future investments for which the Company will need to raise funds by issuing equity and/or debt, or by selling all or part of other investments. Investment opportunities may require the Company to fund transactions in two or more tranches, with the later tranches to be funded six or more months in the future. Refusing to offer such later tranches would decrease the attractiveness of the Company's investment proposals and harm the Company's ability to successfully deploy its capital. Requiring the Company to maintain low-yielding cash balances sufficient to fund all such later tranches at the time of the initial commitment would decrease the average yield on the Company's assets, adversely impacting the returns to investors, and may also result in missed investment opportunities. However, in order to fund all such later tranches, the Company could be forced to issue debt, sell assets or renegotiate with the party to which it has committed the funding on unattractive terms. Furthermore, there can be no assurance that the Company will always be able to raise sufficient liquidity (by issuing equity and/or debt, or by selling investments) to meet its funding commitments. If the Company were to fail to meet its funding commitments, the Company could be in breach of its contractual obligations, which could adversely affect the Company's reputation, could result in the Company facing legal action from its counterparty, and could adversely affect the Company's financial results. Pharmakon Advisors, the Investment Manager, together with its affiliate RP Management LLC, believes that the risks associated with such unfunded commitment is manageable without undue risk. Pharmakon Advisors has extensive expertise in raising debt secured by cash flows from life sciences products and has extensive relationships with banks and other financial institutions who can be called on to provide debt financing to the Company in order to raise liquidity. In addition, Pharmakon Advisors has expertise purchasing and selling life sciences debt assets in the secondary market and has extensive relationships with the major participants in the life sciences debt market who would be the likely purchasers of any assets offered for sale by the Company in order to raise liquidity.
The Investment Manager's ability to source and advise appropriately on investments	Returns on the shareholders' investments will depend upon the Investment Manager's ability to source and make successful investments on behalf of the Company. There can be no assurance that the Investment Manager will be able to do so on an ongoing basis. Many investment decisions of the Investment Manager will depend upon the ability of its employees and agents to obtain relevant information. There can be no guarantee that such information will be available or, if available, can be obtained by the Investment Manager and its employees and agents. Furthermore, the Investment Manager will often be required to make investment decisions without complete information or in reliance upon information provided by third parties that is impossible or impracticable to verify. For example, the Investment Manager may not have access to records regarding the complaints received regarding a given life science product or the results of research and development related to products. Furthermore, the Company may have to compete for attractive investments with other public or private entities, or persons, some or all of which may have more capital and resources than the Company. These entities may invest in potential investments before the Company is able to do so or their offers may drive up the prices of potential investments, thereby potentially lowering returns and, in some cases, rendering them unsuitable for the Company. An inability to source investments would have a material adverse effect on the Company's profitability, its ability to achieve its target returns and the value of the Shares. The Investment Manager believes that sourcing investments is one of its competitive advantages. The Investment Manager's professionals, together with those at its affiliate RP Management LLC, accessible through the Shared Services Agreement, have complementary scientific, medical, licensing, operating, structuring and financial backgrounds which the Investment Manager believes provide a competitive advantage in sourcing, evaluating, executing and managing credit investments in the life sciences industry.
There can be no assurance that the Board will be able to find a replacement investment manager if the Investment Manager resigns	Under the terms of the Investment Management Agreement, the Investment Management Agreement may be terminated by: (a) the Investment Manager on not less than six months' notice to the Company, such notice not to expire earlier than 18 months following Admission; or (b) the Company on not less than six months' notice to the Investment Manager, such notice not to expire earlier than: (i) 36 months following Admission, unless approved by shareholders by ordinary resolution; and (ii) 18 months following Admission, in any event. The Board would, in these circumstances, have to find a replacement investment manager for the Company and there can be no assurance that a replacement with the necessary skills and experience would be available and/or could be appointed on terms acceptable to the Company. In this event, the Board may have to formulate and put forward to Shareholders proposals for the future of the Company which may include its merger with another investment company, reconstruction or winding up. It is possible that, following the termination of the Investment Manager's appointment, the Investment Manager will continue to have a role in the investment management of certain assets, where a debt asset is shared with one or more other entity managed by the Investment Manager that continues to retain the Investment Manager's services. In the event the Investment Manager resigns, the Board will put forward to shareholders proposals for the future of the Company which may include its merger with another investment company, reconstruction or winding up. Entities affiliated with the Investment Manager own approximately 6 per cent. of the Company as at 31 December 2019. This affiliate ownership level, coupled with the fact that the Investment Manager is fairly compensated, provide further incentive for them to remain as Investment Manager to the Company.

Risk	Description and mitigation
Concentration in the Company's portfolio may affect the Company's ability to achieve its investment objective	The Company's published investment policy allows the Company to invest up to 30 per cent. of the Company's assets in a single debt asset or in debt assets issued to a single borrower. While the investment limits in the investment policy have been set keeping in mind the debt capital requirements of the life sciences industry and the investment opportunities available to the Investment Manager, it is possible that the Company's portfolio may be significantly concentrated at any given point in time. Concentration in the Company's portfolio may increase certain risks to which the Company is subject, some or all of which may be related to events outside the Company's control. These would include risks around the creditworthiness of the relevant borrower, the nature of the debt asset and of any life sciences product(s) in question. The occurrence of these situations may result in greater volatility in the Company's investments and, consequently, its NAV, and may materially and adversely affect the performance of the Company and the Company's returns to shareholders. Such increased concentration of the Company's assets could also result in greater losses to the Company in adverse market conditions than would have been the case with a less concentrated portfolio, and have a material adverse effect on the Company's financial condition, business, prospects and results of operations and, consequently, the Company's NAV and/or the market price of the Shares.
Life sciences products are subject to intense competition and various other risks	The biopharmaceutical and pharmaceutical industries are highly competitive and rapidly evolving. The length of any life sciences product's commercial life cannot be predicted. There can be no assurance that the life sciences products will not be rendered obsolete or non-competitive by new products or improvements made to existing products, either by the current marketer of the life sciences products or by another marketer. Adverse competition, obsolescence or governmental and regulatory life sciences policy changes could significantly impact royalty revenues of life sciences products which serve as the collateral or other security for the repayment of obligations outstanding under the Company's investments. If a life sciences product is rendered obsolete or non-competitive by new products or improvements on existing products or governmental or regulatory action, such developments could have a material adverse effect on the ability of the borrower under the relevant debt asset to make payment of interest on, and repayments of the principal of, that debt asset, and consequently could adversely affect the Company's performance. If additional side effects or complications are discovered with respect to a life sciences product, and such life sciences product's market acceptance is impacted or it is withdrawn from the market, continuing payments of interest on, and repayment of the principal of, that debt asset may not be made on time or at all. It is possible that over time side effects or complications from one or more of the life sciences products could be discovered, and, if such a side effect or complication posed a serious safety concern, a life sciences product could be withdrawn from the market, which could adversely affect the ability of the borrower under the relevant debt asset to make continuing payments of interest on, and repayment of the principal of, that debt asset, in which case the Company's ability to make distributions to investors may be materially and adversely affected. Furthermore, if an additional side effect or complication is discovered that does not pose a serious safety concern, it could nevertheless negatively impact market acceptance and therefore result in decreased net sales of one or more of the life sciences products, which could adversely affect the ability of borrowers under the relevant debt asset(s) to make continuing payments of interest on, and repayment of the principal of, that debt asset(s), in which case the Company's ability to make distributions to investors may be materially and adversely affected. The Investment Manager engages in a thorough diligence process before entering into any debt instrument with the counterparty and interacts with each counterparty as needed to evaluate the status of its investment on an ongoing basis.
Investments in debt obligations are subject to credit and interest rate risks	Debt instruments are subject to credit and interest rate risks. Credit risk refers to the likelihood that the borrower will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of a borrower are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt asset may affect its credit risk. Credit risk may change over the life of an instrument. Interest rate risk refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt asset indirectly (especially in the case of fixed rate debt assets) and directly (especially in the case of debt assets whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt asset and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules. In addition, interest rate increases generally will increase the interest carrying costs to the Company (or any entity through which the Company invests) of leveraged investments. The Company will often seek to be a secured lender for each Debt Asset. However, there is no guarantee that the relevant borrower will repay the loan or that the collateral will be sufficient to satisfy the amount owed under the relevant Debt Asset. Credit risk will be assessed on an ongoing basis along with interest rate risk, and is further mitigated by the Company's investment policy permitting up to 30 per cent. of the Company's assets to be invested in a single Debt Asset or in Debt Assets issued to a single borrower. Interest rate risk can be managed in a variety of ways, including with the use of derivatives.
Counterparty risk	The Company intends to hold debt assets that will generate an interest payment. There is no guarantee that any borrower will honour their obligations. The default or insolvency of such borrowers may substantially affect the Company's business, financial condition, results of operations, the NAV and shareholder returns. The Company will often seek to be a secured lender for each Debt Asset. However, there is no guarantee that the relevant borrower will repay the loan or that the collateral will be sufficient to satisfy the amount owed under the relevant Debt Asset.

Strategic Overview continued

Risk	Description and mitigation
Sales of life sciences products are subject to regulatory actions that could harm the Company's ability to make distributions to investors	There can be no assurance that any regulatory approvals for indications granted to one or more life sciences products will not be subsequently revoked or restricted. Such revocation or restriction may have a material adverse effect on the sales of such products and on the ability of borrowers under the relevant Debt Asset to make continuing payments of interest on, and repayment of the principal of, that Debt Asset, in which case the Company's ability to make distributions to investors may be materially and adversely affected. Changes in legislation are monitored with the use of third-party legal advisers and the Investment Manager will maintain awareness of new approvals or revoked approvals.
Net asset values published will be estimates only and may differ materially from actual results	Generally, there will be no readily available market for a significant number of the Company's investments and hence, the majority of the Company's investments are not valued based on market-observable inputs. The valuations used to calculate the NAV on a monthly basis will be based on the Investment Manager's unaudited estimated fair market valuations of the Company's investments. It should be noted any such estimates may vary (in some cases materially) from the results published in the Company's financial statements (as the figures are published at different times) and that they, and any NAV figure published, may vary (in some cases materially) from realised or realisable values. The Investment Manager sends valuations on a monthly basis to the administrator for calculation of the NAV. The NAV is prepared by the administrator on the basis of information received from the Investment Manager and, once finalised, is reviewed and approved by a representative of the Investment Manager. Once approved, the Investment Manager notifies the Board and the NAV is released to the market.
Changes in taxation legislation or practice may adversely affect the Company and the tax treatment for shareholders investing in the Company	Any change in the Company's tax status, or in taxation legislation or practice in the UK, US or elsewhere, could affect the value of the Company's investments and the Company's ability to achieve its investment objective, or alter the post-tax returns to shareholders. It is the intention of the Directors to conduct the affairs of the Company so as to satisfy the conditions for approval of the Company by HMRC as an investment trust under section 1158 of the Corporation Tax Act 2010 (as amended) and pursuant to regulations made under Section 1159 of the Corporation Tax Act 2010. However, although the approval has been obtained, neither the Investment Manager nor the Directors can guarantee that this approval will be maintained at all times. The Company has been granted approval from HMRC as an investment trust and will continue to have investment trust status in each subsequent accounting period, unless the Company fails to meet the requirements to maintain investment trust status, pursuant to the regulations. For example, it is not possible to guarantee that the Company will remain a non-close company, which is a requirement to maintain investment trust status, as the Shares are freely transferable. Failure to maintain investment trust status could, as a result, (*inter alia*) lead to the Company being subject to UK tax on its chargeable gains. Existing and potential investors should consult their tax advisers with respect to their particular tax situations and the tax effects of an investment in the Company.

Environmental, human rights, employee, social and community issues

The Board recognises the requirement under the Companies Act 2006 to detail information about employees, human rights, environmental and community issues, including information about any policies it has in relation to these matters and the effectiveness of these policies. These requirements do not apply directly to the Company as it has no employees, all the Directors are non-executive and it has outsourced all its functions to third-party service providers. The Company has therefore not reported further in respect of these provisions.

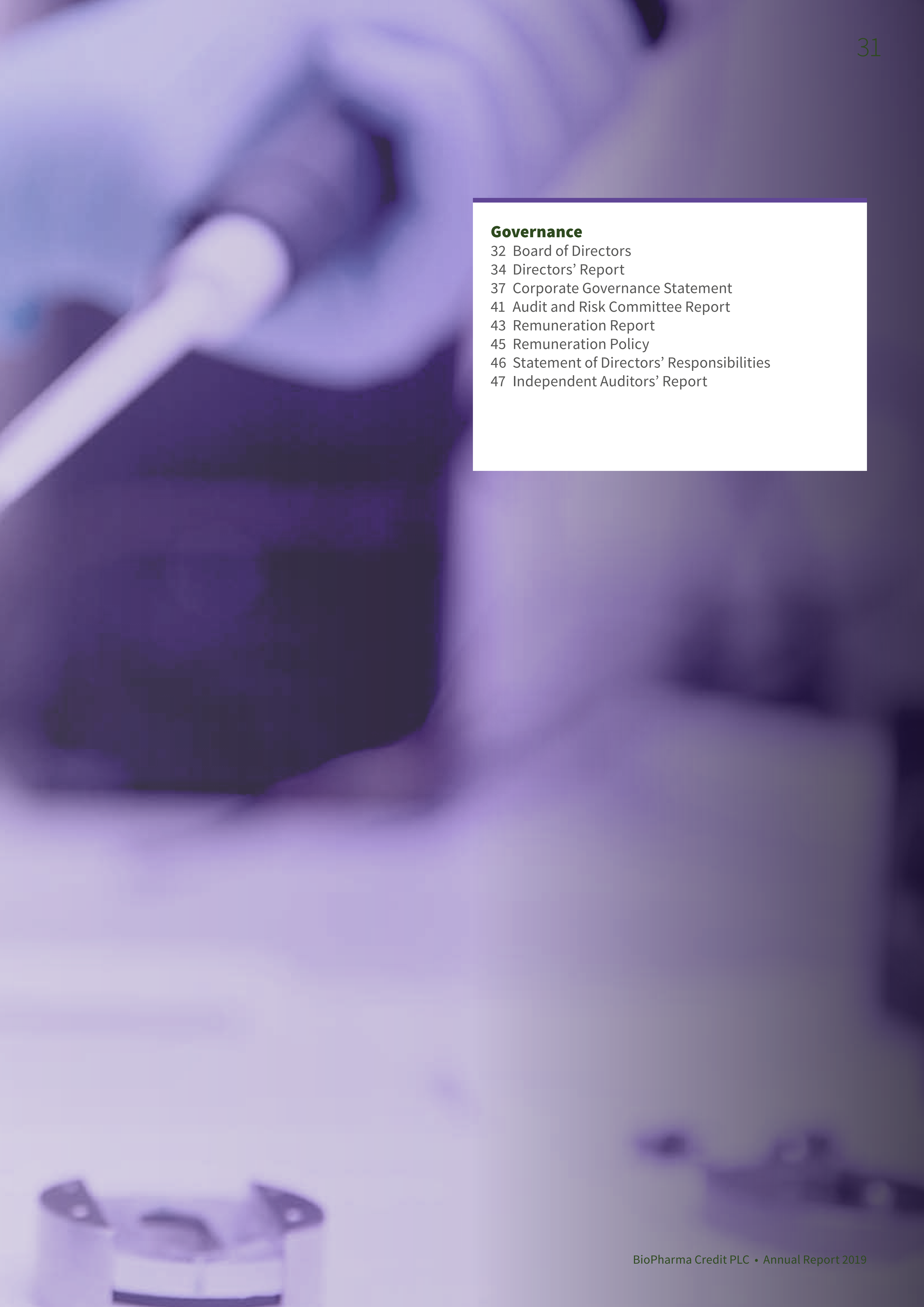
While the Company is not within the scope of the Modern Slavery Act 2015 and it is not, therefore, obliged to make a slavery and human trafficking statement, the Company considers its supply chains to be of low risk as its principal service providers are the professional advisers set out in the Corporate Information section on page 79.

Further information on the Company's anti-bribery and corruption policy is set out on page 36.

There are five Directors, four male and one female. Further information on the composition and operation of the Board is detailed on pages 32 and 33.

The Strategic Report has been approved by the Board and signed on its behalf.

Jeremy Sillem
Chairman
9 March 2020



Governance

Board of Directors

All Directors in office at the date of this report are Non-executive and independent of the Investment Manager.

Jeremy Sillem
Chairman

Jeremy Sillem is the managing partner of Spencer House Partners LLP, a London-based firm focused on providing financial advice and capital to the asset and wealth management industry. Prior to founding Spencer House Partners in 2005, he was, from 2000 to 2004, chairman of Bear Stearns International in London. Before that, he spent a 28-year career with Lazard LLC and its predecessor entities in London and New York. Mr Sillem is a non-executive director of RIT Capital Partners plc and an advisory director of Partners Capital LLC. He is the former chairman of The World Trust Fund, and a former board member of CDC Group, Martin Currie, RHJ International, Kleinwort Benson Group, Harbourmaster Holdings and WP Stewart. He is a trustee of Reform, the public policy think tank, a member of the investment committee of the National Portrait Gallery and a former member of the investment advisory committee of Brasenose College, Oxford. He received an M.A. (Honours) in Politics, Philosophy and Economics from the University of Oxford.

Mr Sillem was appointed as a Director of the Company on 24 October 2016.

Colin Bond
Chairman of the Audit and Risk Committee

Colin Bond has been chief financial officer of the pharmaceutical company Vifor Pharma based in Zürich since 2016. He is a non-executive director of Siegfried AG. From 2010 to 2016, he was the chief financial officer of Evotec AG, the early drug discovery company listed on the Frankfurt Stock Exchange as part of the MDAX. Prior to that, he held CFO positions at several companies including Ecolab and Novelis. During his early career, he worked as a pharmacist, auditor, and management consultant for Procter & Gamble, Arthur Andersen, and PricewaterhouseCoopers LLP, respectively. He holds a university degree in Pharmacy from the University of Aston (Birmingham) and an M.B.A. degree from London Business School. He is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Royal Pharmaceutical Society. Mr Bond is a citizen of Great Britain and Switzerland.

Mr Bond was appointed as a Director of the Company on 15 November 2016.

Duncan Budge
Director

Duncan Budge is chairman of Dunedin Enterprise Investment Trust plc and Artemis Alpha Trust plc, and a non-executive director of Lazard World Trust Fund ("SICAF"), Lowland Investment Company plc, Menhaden Capital plc and Asset Value Investors Limited. He was previously a director of J. Rothschild Capital Management from 1988 to 2012 and a director and chief operating officer of RIT Capital Partners plc from 1995 to 2011. Between 1979 and 1985 he was with Lazard Brothers & Co. Limited. He received an M.A. (Honours) in History from the University of Oxford.

Mr Budge was appointed as a Director of the Company on 24 October 2016.

Harry Hyman
Senior Independent Director

Harry Hyman is the founder and managing director of Primary Health Properties PLC ("PHP"), a FTSE 250 Index company that specialises in the ownership of property leased on a long-term basis to healthcare providers. PHP is managed externally by Nexus Tradeco Limited ("Nexus"). After graduating from Christ's College Cambridge, Mr Hyman qualified as a chartered accountant with Price Waterhouse. In 1983 he joined Baltic PLC where he was deputy managing director, finance director, and company secretary. He left to establish PHP and Nexus in February 1994. Harry is the non-executive chairman of Summit Properties Limited, an AIM-listed property company. He is also the non-executive chairman of Hertsford Capital PLC. Mr Hyman is the founder of The International Opera Awards. He has been a non-executive director of a number of listed investment trusts.

Mr Hyman was appointed as a Director of the Company on 27 February 2017.

Stephanie Léouzon
Director

Stephanie Léouzon is a partner and head of Torreya Europe. She has worked on over 100 strategic and financing transactions in the biopharmaceutical industry, with an aggregate value of over $75 billion. Mrs Léouzon joined Torreya in 2011. Previously, she was a managing director and senior adviser at Credit Suisse in London. She has also worked at Salomon Brothers, as a director of healthcare investment banking, and as a vice president in the investment banking divisions of JP Morgan and Lehman Brothers in New York. She was previously a non-executive director of Endotis Pharma SA and Immunovaccine Inc.

Mrs Léouzon was appointed as a Director of the Company on 5 December 2018.

Directors' Report

The Directors are pleased to present the Annual Report and financial statements for the year ended 31 December 2019.

Directors

The Directors in office during the year and up to the date of this report are shown on pages 32 and 33.

Share capital

At the general meeting held on 28 February 2017, the Company was granted authority to allot ordinary Shares or C Shares up to an aggregate nominal amount of $20 million on a non-pre-emptive basis for a period of five years from the date of the resolution. No Ordinary Shares or C Shares have been allotted under this authority during the year. As at the date of this report, the Company may allot further Ordinary Shares or C Shares up to an aggregate nominal amount of $6,244,039 under its existing authority. Further information on the Company's share capital, including ordinary and C shares issued in the prior year, is set out in Notes 13 and 14 to the financial statements.

At the annual general meeting held on 19 June 2019, the Company was granted authority to purchase up to 14.99 per cent. of the Company's Ordinary Share capital in issue at that date, amounting to 205,952,416 Ordinary Shares. No Ordinary Shares have been bought back under this authority. This authority will expire at the conclusion of, and renewal will be sought at, the Annual General Meeting to be held on 20 May 2020.

At 31 December 2019, and as at the date of this report, there are 1,373,932,067 Ordinary Shares in issue, none of which are held in treasury. At general meetings of the Company, shareholders are entitled to one vote on a show of hands and on a poll, to one vote for every Share held. The total voting rights of the Company at 31 December 2019 were 1,373,932,067.

Substantial shareholdings

The Directors have been informed of the following notifiable interests in the Company's voting rights as at 31 December 2019:

	Number of Ordinary Shares	% of voting rights
Invesco Limited	**151,058,421**	10.99
M&G plc	**145,315,573**	10.58
Newton Investment Management Limited	**111,307,405**	8.10
Adage Capital Partners GP LLC	**99,113,687**	7.21
Quilter PLC	**88,000,000**	6.40
Pablo Legorreta	**76,742,548**	5.59
Interseguro Compañía de Seguros S.A.	**72,791,326**	5.30
Inteligo Bank Limited	**66,593,210**	4.85

On 27 January 2020, the Company was notified that Invesco Limited had an interest in 136,071,720 Ordinary Shares, comprising 9.90 per cent. of the total voting rights.

The Company has not been informed of any other changes to the notifiable interests between 31 December 2019 and the date of this report.

Information about securities carrying voting rights

The following information is disclosed in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and DTR 7.2.6 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules:

- the Company's capital structure and voting rights and details of the substantial shareholders in the Company are set in Note 14 to the financial statements and above;
- an amendment to the Company's articles of association and the giving of powers to issue or buy back the Company's Shares requires an appropriate resolution to be passed by shareholders; and
- there are no restrictions concerning the transfer of securities in the Company or on voting rights; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a takeover bid.

Dividends

Dividends paid in respect of the year ended 31 December 2019 are set out on in Note 6 to the financial statements.

Dividend policy

The Company pays dividends in US dollars or GBP Sterling, if requested by a specific shareholder, on a quarterly basis. The Company may, where the Directors consider it appropriate, use the reserve created by the cancellation of its Share premium account to pay dividends.

The Company targets an annual dividend yield of 7 per cent. on the Ordinary Shares (calculated by reference to the issue price at IPO), together with a net total return on NAV of 8-9 per cent. per annum on the Ordinary Shares in the medium term.

Financial risk management

The principal risks and the Company's policies for managing these risks are set out in the Strategic Overview on pages 24 to 28 and Note 17 to the financial statements.

Corporate governance

The Corporate Governance Statement on pages 37 to 40 forms part of the Directors' Report.

Stakeholder engagement

While the Company has no employees, suppliers or customers, the Directors give regular consideration to the need to foster the Company's business relationships with its stakeholders, in particular with clients, shareholders and service providers. The effect of this consideration upon the principal decisions taken by the Company during the financial year is set out in further detail in the Strategic Report on pages 23 to 24.

Going concern

The Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements. After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion, the Directors have considered the liquidity of the portfolio and the Company's ability to meet obligations as they fall due for a period of at least 12 months from the date that these financial statements were approved.

Viability statement

The Board has assessed the principal risks facing the Company over a five-year period, including those that would threaten its business model, future performance, solvency or liquidity. The five-year period was selected to align with the average duration of the Company's existing investments. The Board has developed a matrix of risks facing the Company and has put in place certain investment restrictions which are in line with the Company's investment objective and policy in order to mitigate these risks as far as practicable. The principal risks which have been identified, and the steps taken by the Board to mitigate these risks, are presented on pages 24 to 28.

The Company believes its borrowing capabilities provide further flexibility and help ensure it is in a position to finance its funding obligations in the event that internally generated cash flow in the period is insufficient to finance the unfunded portion of a lending commitment. The Board reviews the Company's financing arrangements quarterly to ensure that the Company is in a strong position to fund all outstanding commitments on existing investments as well as being able to finance new investments. In addition, the Board regularly reviews the prospects for the Company's portfolio and the pipeline of potential investment opportunities which provide comfort that the Company is able to continue to finance its activities for the medium-term future.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five-year period.

Greenhouse gas emissions

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, including those within its underlying investment portfolio.

Requirements of the Listing Rules

Listing Rule 9.8.4 requires the Company to include specified information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The information required under Listing Rule 9.8.4(7) in relation to allotments of shares is set out on page 34. The Directors confirm that no additional disclosures are required in relation to Listing Rule 9.8.4.

Management arrangements

The Company has appointed Pharmakon Advisers L.P., a limited partnership established under the laws of the State of Delaware, USA as its Investment Manager and Alternative Investment Fund Manager ("AIFM"). The Investment Manager is a registered investment adviser under the Advisers Act and is regulated by the SEC.

The Company and the Investment Manager have entered into an Investment Management Agreement dated 1 March 2017, as amended on 14 March 2018, 24 May 2018 and 19 September 2018, pursuant to which the Investment Manager has been given responsibility, subject to the overall supervision of the Board, for the active investment management of the Debt Assets and all other investments of the Company from time to time, including sourcing and advising on investment opportunities and proposals which are in accordance with the Company's investment objective and policy. The Investment Management Agreement may be terminated by: (a) the Investment Manager on not less than six months' notice to the Company; or (b) the Company on not less than six months' notice to the Investment Manager, such notice not to expire earlier than: (i) 36 months following Admission, unless approved by Shareholders by ordinary resolution.

Details about the management and performance fee can be found in Note 4 to the financial statements.

The Investment Manager consists of three principals: Pedro Gonzalez de Cosio, Pablo Legorreta and Martin Friedman. Further details of the principals are set out on page 10. In addition, the Investment Manager may draw on the expertise of certain employees of its affiliate, RP Management LLC. For these purposes, the Investment Manager and RP Management LLC entered into a Shared Services Agreement on 30 November 2016, whereby RP Management LLC provides the services of its research, legal and compliance, and finance teams to the Investment Manager.

The Investment Manager is responsible for the acts of RP Management LLC personnel pursuant to the Shared Services Agreement. Under the Shared Services Agreement, each of RP Management LLC and the Investment Manager has agreed to reimburse the other for reasonable internal and third-party expenses incurred by the other on its behalf, or for its benefit, as a result of rendering such services. Such expenses include (without limitation) business development, due diligence, legal, consulting, compliance, research and similar expenses.

Under the Shared Services Agreement, subject to each party's fiduciary duties to its clients, each of RP Management LLC and the Investment Manager has agreed to refer to the other any business opportunities that fit the other's investment objectives. To the extent that a business opportunity involves both equity and debt-like financing transactions, each of RP Management LLC and the Investment Manager shall be free to negotiate an offer aligning with its own investment objectives and is under no obligation to take the other party's investment objectives into consideration during such a negotiation.

The Shared Services Agreement is governed by the laws of the State of New York and may be terminated by either RP Management LLC or the Investment Manager upon 30 days' written notice.

Directors' Report continued

Future developments
Looking ahead, there are likely to be challenges during 2020 as the UK continues to deal with the uncertainty arising from leaving the European Union on 31 January 2020. The long-term impact on the portfolio from Brexit has been considered. Whilst it is difficult to quantify the impact of such a change, it is not believed to fundamentally impact the business of the Company or to make the sector any less attractive as an investment.

Further details on the outlook of the Company are set out in the Chairman's Statement on pages 6 to 7.

Anti-bribery and corruption policy
The Company has reviewed the statements regarding compliance with the Bribery Act 2010 by the Company's Investment Manager and service providers. These statements are reviewed regularly by the Audit and Risk Committee.

Auditor
The Directors who held office at the date of approval of the Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all reasonable steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

PricewaterhouseCoopers LLP has expressed its willingness to continue in office as Auditor of the Company and resolutions for its reappointment and to authorise the Directors to determine its remuneration will be proposed at the forthcoming Annual General Meeting.

AGM
The AGM of the Company will be held at 12.00 noon on Wednesday 20 May 2020 at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose St, London EC2A 2EG.

By order of the Board

Link Company Matters Limited
Company Secretary
9 March 2020

Corporate Governance Statement

This Corporate Governance Statement forms part of the Directors' Report.

Introduction from the Chairman

I am pleased to introduce this year's Corporate Governance Statement. In this statement, the Company reports on its compliance with the AIC Code of Corporate Governance (the "AIC Code") and sets out how the Board has operated during the past year. The revised AIC Code, as published in February 2019, sets out new principles and provisions regarding matters including stakeholder engagement and the culture of the Company, against which the Company has reported in the below Statement. The Board is accountable to shareholders for the governance of the Company and is committed to maintaining the highest standard of corporate governance for the long-term sustainable success of the Company.

Compliance with the AIC Code

The Company reviews its standards of governance against the principles and recommendations of the AIC Code. The Board considers that reporting against the principles and recommendations of the AIC Code provides better information to shareholders as it addresses all the principles set out in the 2018 UK Corporate Governance Code (the "UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts, and is endorsed by the Financial Reporting Council (the "FRC"). The terms of the FRC's endorsement mean that AIC members who report against the AIC Code meet fully their obligations under the UK Code and the related disclosure requirements contained in the Listing Rules of the Financial Conduct Authority. A copy of the AIC Code can be found at www.theaic.co.uk. A copy of the UK Code can be obtained at www.frc.org.uk.

The Board recognises the importance of a strong corporate governance culture and has established a framework for corporate governance which it considers to be appropriate to the business of the Company.

The UK Code includes provisions relating to:

- the role of the chief executive; and
- executive directors' remuneration.

For the reasons explained in the AIC Code, the Board considers that these provisions are not relevant to the Company, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

The Board has reviewed the principles and recommendations of the AIC Code and considers that it has complied throughout the year, except as disclosed below:

- Directors are not appointed for a specific term as all Directors are non-executive and the Company has adopted a policy of all Directors, including the Chairman, standing for annual re-election. The Board has determined that no further policy on tenure is required.
- Given the structure and size of the Board, the Board does not consider it necessary to appoint separate nomination, management engagement or remuneration committees. The roles and responsibilities normally reserved for these committees are matters for the full Board.

Board of Directors

Under the leadership of the Chairman, the Board of Directors is collectively responsible for the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. It provides overall leadership, sets the strategic aims of the Company and ensures that the necessary resources are in place for the Company to meet its objectives and fulfil its obligations to shareholders within a framework of high standards of corporate governance and effective internal controls. The Directors are responsible for the determination of the Company's investment policy and investment strategy and have overall responsibility for the Company's activities, including the review of investment activity and performance and the control and supervision of the Investment Manager.

The Board consists of five non-executive Directors. It seeks to ensure that it has an appropriate balance of skills and experience, and considers that, collectively, it has substantial recent and relevant experience of investment trusts and financial and public company management. The Chairman of the Audit and Risk Committee, Mr Bond, has recent and relevant financial experience as set out in his biography on page 32.

The terms and conditions of the appointment of the Directors are formalised in letters of appointment, copies of which are available for inspection from the Company's registered office. None of the Directors has a contract of service with the Company nor has there been any other contract or arrangement between the Company and any Director at any time during the year. Directors are not entitled to any compensation for loss of office.

Culture

The Chairman leads the Board and is responsible for its overall effectiveness in directing the Company. He demonstrates objective judgement, promotes a culture of openness and debate and facilitates constructive Board relations and the effective contribution of all Directors. In liaison with the Company Secretary, he ensures that the Directors receive accurate, timely and clear information. The Directors are required to act with integrity, lead by example and promote this culture within the Company.

The Board seeks to ensure the alignment of its purpose, values and strategy with this culture of openness, debate and integrity through ongoing dialogue and engagement with its service providers, principally the Investment Manager. The culture of the Board is considered as part of the annual performance evaluation process which is undertaken by each Director and the culture of the Company's service providers, including their policies, practices and behaviour, is considered by the Board as a whole during the annual review of the performance and continuing appointment of all service providers. In addition, the holding of the December 2018 Board meeting at Pharmakon's offices in New York enabled the Board to understand better the culture of the Investment Manager and of RP Management LLC, with whom the Investment Manager has a Shared Services Agreement. A further visit to New York is scheduled to take place in 2020 for the same purpose.

Further information on the Company's engagement with its stakeholders is set out on pages 23 to 24.

Corporate Governance Statement continued

Chairman and Senior Independent Director

The Chairman, Mr Sillem, is deemed by his fellow independent Board members to be independent in character and judgement and free of any conflicts of interest. He considers himself to have sufficient time to spend on the affairs of the Company. Mr Sillem has no significant commitments other than those disclosed in his biography on page 32.

Mr Hyman is the Senior Independent Director of the Company. He acts as a sounding board for the Chairman, meets with major shareholders as appropriate, provides a channel for any shareholder concerns regarding the Chairman and takes the lead in the annual evaluation of the Chairman by the independent Directors. In the event of a period of stress, the Senior Independent Director would work with the Chairman, the other Directors, and/or shareholders to resolve any issues.

Board operation

The Directors have adopted a formal schedule of matters specifically reserved for their approval. These include the following:

- approval of the Company's investment policy, long-term objectives and commercial strategy;
- approval of the gearing policy of the Company;
- approval of Annual and Half-yearly Reports and financial statements and accounting policies, prospectuses, circulars and other shareholder communications;
- raising new capital;
- approval of dividends;
- Board appointments and removals;
- appointment and removal of the Investment Manager, Auditor and the Company's other service providers; and
- approval of the Company's annual expenditure budget.

Board meetings

The Company has four scheduled Board meetings a year, with additional meetings arranged as necessary.

At each Board meeting, the Directors follow a formal agenda which is circulated in advance by the Secretary. The Secretary, the Administrator and the Investment Manager regularly provide the Board with financial information, including an annual expenses budget, together with briefing notes and papers in relation to changes in the Company's economic and financial environment, statutory and regulatory changes and corporate governance best practice. A description of the Company's risk management and internal control systems is set out in the Strategic Report on page 24.

At each Board meeting, representatives from the Investment Manager are in attendance to present reports to the Directors covering the Company's current and future activities, portfolio of assets and its investment performance over the preceding period. The Board and the Investment Manager operate in a fully supportive, co-operative and open environment and ongoing communication with the Board is maintained between formal meetings.

Audit and Risk Committee

The Board has established an Audit and Risk Committee to assist its operations. The Committee's delegated responsibilities are clearly defined in formal terms of reference, which are available on the Company's website.

The Committee comprises all Directors and is chaired by Mr Bond. Given the size and nature of the Board it is felt appropriate that all Directors are members of the Audit and Risk Committee. Its responsibilities are detailed in the Audit and Risk Committee Report on pages 41 and 42. The Committee has direct access to the Company's Auditor, and provides a forum through which the Auditor reports to the Board. Representatives of the Auditor attend quarterly meetings of the Committee.

Further details about the Audit and Risk Committee and its activities during the year under review are set out on pages 41 and 42.

Meeting attendance

The number of scheduled Board and Audit and Risk Committee meetings held during the year ended 31 December 2019 and the attendance of the individual Directors is shown below:

	Board meetings		Audit and Risk Committee meetings	
	Number of meetings	Number attended	Number of meetings	Number attended
Jeremy Sillem	4	4	3	3
Colin Bond	4	4	3	3
Duncan Budge	4	4	3	3
Harry Hyman	4	4	3	3
Stephanie Léouzon	4	4	3	3

A number of additional Board and Audit and Risk Committee meetings were held by the Company during the year ended 31 December 2019. These meetings were held in respect of Share issuances, new investments, the amendment to the Investment Management Agreement and for planning the year end audit and obtaining updates on the interim review.

Independence of Directors

The independence of the Directors is reviewed as part of the annual evaluation process. Each Director is considered to be independent in character and judgement and entirely independent of the Investment Manager. None of the Directors sit on the boards of any other companies managed by the Investment Manager.

Induction of new Directors

A procedure for the induction of new Directors has been established, including the provision of an induction pack containing relevant information about the Company, its processes and procedures. New appointees have the opportunity of meeting with the Chairman, relevant persons at the Investment Manager and the Secretary.

Election/re-election and retirement of Directors

Under the Company's Articles and in accordance with the AIC Code, Directors are subject to election by shareholders at the first AGM after their appointment. Thereafter, at each AGM any Director who has not stood for re-election at either of the two preceding AGMs shall retire. In addition, one-third of the Directors eligible to retire by rotation shall retire from office at each AGM. Beyond these requirements, the Board has agreed a policy whereby all Directors will seek annual re-election at the Company's Annual General Meetings.

Following formal performance evaluation as detailed above, the Board strongly recommends the election/re-election of each of the Directors on the basis of their experience and expertise in investment matters, their independence and continuing effectiveness and commitment to the Company.

Diversity policy

In accordance with the AIC Code, the Board is comprised of a mixture of individuals who have an appropriate balance of skills and experience to meet the future opportunities and challenges facing the Company. Appointments are made first and foremost on the basis of merit and taking into account the recognised benefits of all types of diversity. The Board ensures that diversity is an important consideration and part of the selection criteria used to assess candidates to achieve a balanced Board.

Conflicts of interest

It is the responsibility of each individual Director to avoid an unauthorised conflict of interest situation arising. The Director must request authorisation from the Board as soon as he/she becomes aware of the possibility of an interest that conflicts, or might possibly conflict, with the interests of the Company ("situational conflicts"). The Company's Articles authorise the Board to approve such situations, where deemed appropriate.

A register of conflicts is maintained by the Secretary and is reviewed at Board meetings, to ensure that any authorised conflicts remain appropriate. The Directors are required to confirm at these meetings whether there has been any change to their position.

The Board is responsible for considering Directors' requests for authorisation of situational conflicts and for deciding whether or not the situational conflict should be authorised. The factors to be considered will include: whether the situational conflict could prevent the Director from properly performing their duties; whether it has, or could have, any impact on the Company; and whether it could be regarded as likely to affect the judgement and/or actions of the Director in question. When the Board is deciding whether to authorise a conflict or potential conflict, only Directors who have no interest in the matter being considered are able to take the relevant decision, and in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate in the circumstances.

Performance evaluation of the Board

The Directors are aware that they need to continually monitor and improve performance and recognise this can be achieved through regular Board evaluation, which provides a valuable feedback mechanism for improving Board effectiveness. The Directors have therefore opted to undertake an internal performance evaluation by way of questionnaires specifically designed to assess the strengths and independence of the Board and the Chairman, individual Directors and the performance of the Audit and Risk Committee. The evaluation of the Chairman is carried out by the other Directors of the Company, led by the Senior Independent Director. The questionnaires are also intended to analyse the focus of Board meetings and assess whether they are appropriate, or if any additional information may be required to facilitate Board discussions. The Chairman acts on the results of the evaluation by recognising the strengths and addressing any weaknesses of the Board as appropriate. The results of the Board evaluation process are reviewed and discussed by the Board as a whole. This evaluation process is carried out annually.

Following the evaluation process conducted during the year under review, the Board considers that all the current Directors contribute effectively and have the skills and experience relevant to the leadership and direction of the Company. The Board has satisfied itself that the Directors have enough time to devote to the Company's affairs.

Insurance and indemnity provisions

The Board has agreed arrangements whereby Directors may take independent professional advice in the furtherance of their duties. The Company has Directors' and Officers' liability insurance and professional indemnity insurance to cover legal defence costs and public offering of securities insurance in place in respect of both the IPO and the Placing Programme. Under the Company's Articles, the Directors are provided, subject to the provisions of UK legislation, with an indemnity in respect of liabilities which they may sustain or incur in connection with their appointment. This indemnity was in force during the year and remains in force as at the date of this report. Apart from this, there are no third-party indemnity provisions in place for the Directors.

Company Secretary

The Board has direct access to the advice and services of the Secretary, Link Company Matters Limited, which is responsible for ensuring that Board and Committee procedures are followed and that applicable regulations are complied with. The Secretary is also responsible to the Board for ensuring timely delivery of the information and reports which the Directors require and that the statutory obligations of the Company are met.

Corporate Governance Statement continued

Internal control review

The Board is responsible for the systems of internal controls relating to the Company, including the reliability of the financial reporting process and for reviewing the systems' effectiveness. The Directors have reviewed and considered the guidance supplied by the FRC on risk management, internal control and related finance and business reporting and an ongoing process has been established for identifying, evaluating and managing the principal risks faced by the Company. This process, together with key procedures established with a view to providing effective financial control, was in place during the year under review and at the date of this report.

The internal control systems are designed to ensure that proper accounting records are maintained, that the financial information on which business decisions are made and which is issued for publication is reliable, and that the assets of the Company are safeguarded.

The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's objectives. It should be recognised that such systems can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Directors have carried out a review of the effectiveness of the systems of internal control as they have operated over the year and up to the date of approval of the report and financial statements. There were no matters arising from this review that required further investigation and no significant failings or weaknesses were identified.

Internal control assessment process

Robust risk assessments and reviews of internal controls are undertaken regularly in the context of the Company's overall investment objective:

In arriving at its judgement of what risks the Company faces, the Board has considered the Company's operations in light of the following factors:

- the nature and extent of risks which it regards as acceptable for the Company to bear within its overall business objective;
- the threat of such risks becoming reality;
- the Company's ability to reduce the incidence and impact of risk on its performance;
- the cost to the Company and benefits related to the review of risk and associated controls of the Company; and
- the extent to which third parties operate the relevant controls.

A risk matrix has been produced against which the risks identified and the controls in place to mitigate those risks can be monitored. The risks are assessed on the basis of the likelihood of them happening, the impact on the business if they were to occur and the effectiveness of the controls in place to mitigate them. This risk matrix is reviewed twice a year by the Audit and Risk Committee and at other times as necessary.

The principal risks that have been identified by the Board are set out on pages 25 to 28.

The Board reviews financial information produced by the Investment Manager and the Administrator on a regular basis.

Most functions for the day-to-day management of the Company are subcontracted, and the Directors therefore obtain regular assurances and information from key third-party suppliers regarding the internal systems and controls operated in their organisations. In addition, each third party is requested to provide a copy of its report on internal controls each year, which is reviewed by the Audit and Risk Committee.

Audit and Risk Committee Report

I am pleased to present the Audit and Risk Committee Report for the year ended 31 December 2019.

Responsibilities of the Committee

The primary responsibilities of the Committee are as follows:

- to monitor the integrity of the financial statements of the Company, the financial reporting process and the accounting policies of the Company;
- to review the content of the Annual Report and financial statements and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- to keep under review the effectiveness of the Company's internal control environment and risk management systems;
- to review the scope and effectiveness of the audit process undertaken by the Auditor;
- to make recommendations to the Board in relation to the appointment, reappointment or removal of the external Auditor and to approve its remuneration and terms of engagement;
- to review and monitor the Auditor's independence, objectivity and effectiveness; and
- to approve any non-audit services to be provided by the Auditor and monitor the level of fees payable in that respect.

Activities in the period

During the year, the Committee has:

- conducted a review of the internal controls and risk management systems of the Company and its third-party service providers;
- agreed the audit plan and fees with the Auditor in respect of the interim review of the Half-yearly Report for the period ended 30 June 2019 and the statutory audit of the Annual Report for the year ended 31 December 2019, including the principal areas of focus;
- received and discussed with the Auditor its report on the results of the review of the half-yearly financial statements and the year-end audit;
- reviewed the Company's half-yearly and annual financial statements and recommended these to the Board for approval;
- examined in detail the methodology and assumptions applied in revaluing the assets of the Company; and
- agreed that, from Q3 2019 onwards, it will review the valuation of the Company's assets on a quarterly basis.

Meetings

The Audit and Risk Committee (the "Committee") met four times during the year under review and once following the year end.

Details of the composition of the Committee are set out in the Corporate Governance Statement on page 38.

Significant issues

The Committee considered the following key issues in relation to the Company's financial statements during the year. A more detailed explanation of the consideration of the issues set out below, and the steps taken to manage them, is set out in the Principal Risks and Uncertainties on pages 25 to 28.

Valuation of unlisted investments

In the year under review, the Committee reviewed the valuation process of the Company's unlisted investments and the systems in place to ensure the accuracy of these valuations, particularly in view of the fact that the unlisted investments represent the principal element of the NAV. During the year, the Committee agreed to conduct quarterly reviews of the investments held by the Company on an ongoing basis. As a result, scheduled Audit and Risk Committee meetings will be held on a quarterly basis going forward, with the first such meeting being held in December 2019 in respect of the valuations for the quarter ended 30 September 2019.

Internal controls

The Committee carefully considers the internal control systems by continually monitoring the services and controls of its third-party service providers.

The Committee reviewed, and where appropriate, updated the risk matrix during the year under review. This is done on a biannual basis. The Committee received a report on internal control and compliance from the Administrator and Registrar and no significant matters of concern were identified.

The Company does not have an internal audit function. During the year, the Committee reviewed whether an internal audit function would be of value and concluded that this would provide minimal additional comfort at considerable extra cost to the Company. While the Committee believes that the existing system of monitoring and reporting by third parties remains appropriate and adequate, it will continue, on an annual basis, to actively consider possible areas within the Company's controls environment which may need to be reviewed in detail.

Going concern and long-term viability of the Company

The Committee considered the Company's financial requirements for the next 12 months and concluded that it has sufficient resources to meet its commitments. Consequently, the financial statements have been prepared on a going concern basis. The Committee also considered the longer-term viability statement within the Annual Report for the year ended 31 December 2019, covering a five-year period, and the underlying factors and assumptions which contributed to the Committee deciding that this was an appropriate length of time to consider the Company's long-term viability. The Company's viability statement can be found on page 35.

Audit and Risk Committee Report continued

Audit fees and non-audit services provided by the Auditor

The Committee reviewed the audit plan and fees presented by the Auditor and considered its report on the financial statements. Total fees for the year payable to the Auditor amounted to $518,000. This figure includes non-audit fees of $39,000 in respect of the interim review of the Half-yearly Report and financial statements for the period ended 30 June 2019, $11,000 in respect of interim review work and $129,000 in respect of reporting accountant work. In accordance with the Company's policy on the provision of non-audit services, all non-audit services provided by the Auditor during the year were approved in advance by the Directors. Further information on the fees paid to the Auditor is set out in Note 4 to the financial statements.

The non-audit services provided by the Auditor during the year under review were assurance related, and the Committee firmly believes that PricewaterhouseCoopers LLP have been best placed to provide them on a timely and cost-effective basis to the benefit of shareholders.

Effectiveness of the external audit

The Committee reviews the effectiveness of the external audit carried out by the Auditor on an annual basis. The Chairman of the Committee maintained regular contact with the Company's Audit Partner throughout the year and also met with them prior to the finalisation of the audit of the Annual Report and financial statements for the year ended 31 December 2019, without the Investment Manager being present, to discuss how the external audit was carried out, the findings from such audit and whether any issues had arisen from the Auditor's interaction with the Company's various service providers.

Independence and objectivity of the Auditor

The Committee has considered the independence and objectivity of the Auditor and has conducted a review of non-audit services which the Auditor has provided during the year under review. The Committee receives an annual confirmation from the Auditor that its independence is not compromised by the provision of such non-audit services. Scott Berryman is the Audit Partner allocated to the Company by PricewaterhouseCoopers LLP. The audit of the financial statements for the year ended 31 December 2019 is therefore his first as Audit Partner. In accordance with legislation in respect of the mandatory rotation of audit firms, a tender process will be undertaken by the Company in relation to the statutory audit for the year ending 31 December 2027. The Committee is satisfied that the Auditor's objectivity and independence is not impaired by the performance of these non-audit services and that the Auditor has fulfilled its obligations to the Company and its shareholders. PricewaterhouseCoopers LLP was appointed as Auditor to the Company in 2017. The Committee reviews the continuing appointment of the Auditor on an annual basis and gives regular consideration to the Auditor's fees and independence, along with matters raised during each audit.

Reappointment of the Auditor

Following consideration of the performance of the Auditor, the services provided during the year and a review of its independence and objectivity, the Committee has recommended to the Board the reappointment of PricewaterhouseCoopers LLP as Auditor to the Company.

Colin Bond
Audit and Risk Committee Chairman
9 March 2020

Remuneration Report

Statement from the Chairman

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019.

As set out in the Corporate Governance Statement on page 37, the Directors' remuneration is determined by the Board as a whole. The Board reviews Directors' fees on an annual basis. During the year ended 31 December 2019, the annual fees were set at the rate of $100,000 for the Chairman, $85,000 for the Chairman of the Audit and Risk Committee and $70,000 for a Director. These fees were unchanged from the prior year. No changes to these fee levels are proposed for the year ending 31 December 2020.

The Directors' remuneration policy was last approved by shareholders in 2018. There will be no change in the way the current approved remuneration policy will be implemented during the course of the next financial year.

An ordinary resolution will be put to shareholders at the forthcoming AGM to be held on 20 May 2020 to receive and approve the Directors' Remuneration Report.

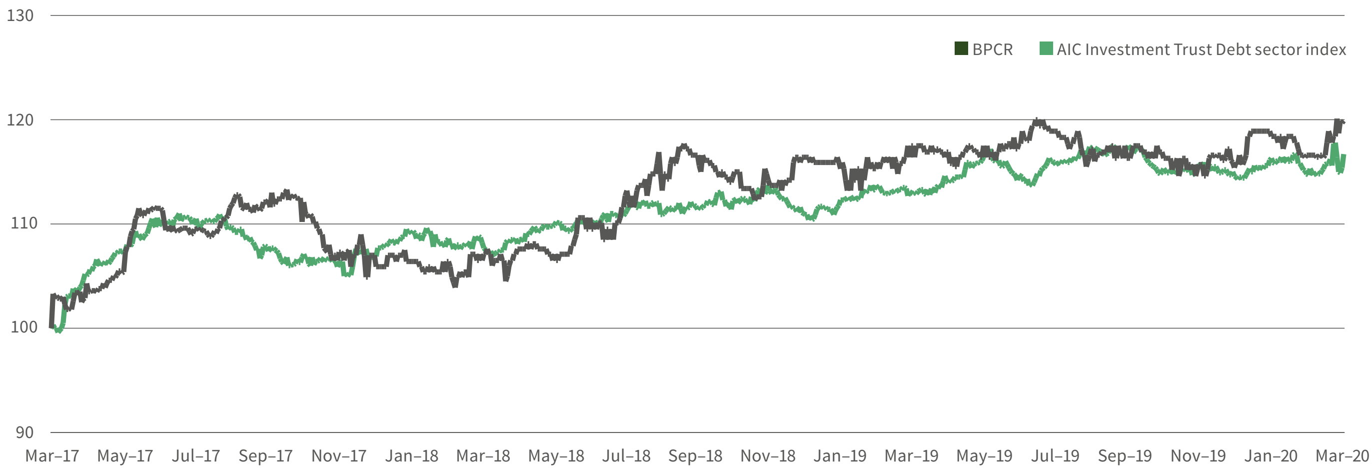
Voting at AGM

The Directors' Remuneration Report for the year ended 31 December 2018 and the Directors' Remuneration Policy were approved by shareholders at the AGMs held on 19 June 2019 and 29 June 2018 respectively. The votes cast by proxy were as follows:

	Directors' remuneration report		Directors' remuneration policy	
	Number of votes	% of votes cast	Number of votes	% of votes cast
For	**895,570,264**	**100.00**	**736,752,867**	**98.46**
Against	–	–	–	–
At Chairman's discretion	–	–	**11,540,322**	**1.54**
Total votes cast	**895,570,264**	**100.00**	**748,293,189**	**100.00**

Performance of the Company

The graph below compares the total return to Ordinary Shareholders compared to the AIC Investment Trust Debt sector index. The performance of the AIC Investment Trust Debt sector index (USD) is shown as a market reference for investors.



Directors' remuneration for the year ended 31 December 2019 (audited)

The remuneration paid to the Directors during the year ended 31 December 2019 is set out in the table below:

	Fees		Expenses		Total	
	Year ended 31 December 2019 $	Year ended 31 December 2018 $	Year ended 31 December 2019 $	Year ended 31 December 2018 $	Year ended 31 December 2019 $	Year ended 31 December 2018 $
Jeremy Sillem	**100,000**	100,000	**10,657**	313	**110,657**	100,313
Colin Bond	**85,000**	85,000	**–**	7,043	**85,000**	92,043
Duncan Budge	**70,000**	70,000	**–**	10,354	**70,000**	80,354
Harry Hyman	**70,000**	70,000	**2,837**	–	**72,837**	70,000
Stephanie Léouzon[1]	**70,000**	5,115	**9,778**	–	**79,778**	5,115
	395,000	330,115	**23,272**	17,710	**418,272**	347,825

1. Appointed as a Director of the Company on 5 December 2018.

Remuneration Report continued

Relative importance of spend on pay

The table below sets out in respect of the year ended 31 December 2019:
a) the remuneration paid to the Directors; and
b) the distributions made to shareholders by way of dividend.

	Year ended 31 December 2019 $	Year ended 31 December 2018 $	Change %
Directors' remuneration	**395,000**	330,115	19.66
Investment management fee	**14,023,375**	10,765,335	30.26
Dividends paid to shareholders	**98,613,163**	66,421,000	48.47

Directors' interests (audited)

There is no requirement under the Company's Articles for Directors to hold Shares in the Company.

As at 31 December 2019, the interests of the Directors and any connected persons in the Ordinary Shares of the Company are set out below:

	Year ended 31 December 2019 Number of Shares	Year ended 31 December 2018 Number of Shares
Jeremy Sillem	**300,000**	300,000
Colin Bond	**100,000**	100,000
Duncan Budge[1]	**100,000**	100,000
Harry Hyman	**102,278**[2]	102,100[3]
Stephanie Léouzon	**–**	–

1. The legal and beneficial interest in 50 per cent. of Mr Budge's shares is held by Mrs Budge.
2. 2,278 of these shares are held by Anita Hyman, a connected person of Mr Hyman.
3. 2,100 of these shares are held by Anita Hyman, a connected person of Mr Hyman.

On 23 January 2020, Anita Hyman, a connected person of Mr Hyman, acquired 38 ordinary shares by way of dividend reinvestment. As a consequence, as at the date of this report, Mr Hyman has an interest in 102,316 shares. 2,316 of these shares are held by Mrs Hyman. There have been no other changes to any of the above holdings between 31 December 2019 and the date of this report.

None of the Directors or any persons connected with them has a material interest in the Company's transactions, arrangements or agreements during the year.

Approval

The Directors' Remuneration Report was approved by the Board and signed on its behalf by:

Jeremy Sillem
Chairman
9 March 2020

Remuneration Policy

Introduction

The Directors' remuneration policy is put to a shareholder vote in the first year of a company or in any year where there is to be a change to the policy and, in any event, at least once every three years. The Company's Remuneration Policy, as approved by shareholders on 29 June 2018, is set out below. As there will be no change in the way in which the policy will be implemented during the course of the next financial year, there is no requirement for it to be put to shareholders at this year's AGM.

Policy

The Company follows the recommendation of the AIC Code that Non-executive Directors' remuneration should reflect the time commitment and responsibilities of the role. The Board's policy is that the remuneration of Non-executive Directors should reflect the experience of the Board as a whole, and be determined with reference to comparable organisations and appointments.

All Directors are Non-executive, appointed under the terms of letters of appointment. There are no service contracts in place. The Company has no employees. In line with the majority of investment trusts, there are no performance conditions attached to the remuneration of the Directors as the Board does not consider such arrangements or benefits necessary or appropriate for Non-executive Directors.

The Board has set three levels of fees: for a Director, for the Chairman of the Audit and Risk Committee and for the Chairman of the Board. Fees are reviewed annually in accordance with the above policy. The fee for any new Director appointed to the Board will be determined on the same basis.

The approval of shareholders would be required to increase the aggregate limit of $750,000, as set out in the Company's Articles. The Company is committed to ongoing shareholder dialogue and any views expressed by shareholders on the fees being paid to Directors would be taken into consideration by the Board when reviewing the Directors' Remuneration Policy and in the annual review of Directors' fees.

Directors' fee levels

	Expected annual fees for the year ending 31 December 2020	Annual fees for the year ended 31 December 2019
Chairman	**$100,000**	$100,000
Chairman of the Audit and Risk Committee	**$85,000**	$85,000
Director	**$70,000**	$70,000

Statement of Directors' Responsibilities

In respect of the Annual Report and financial statements

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. Each of the Directors, whose names and functions are listed on pages 32 and 33 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Jeremy Sillem
Chairman
9 March 2020

Independent Auditors' Report

to the members of BioPharma Credit Plc

Report on the audit of the financial statements

Opinion

In our opinion, BioPharma Credit Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its return and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the statement of financial position as at 31 December 2019; the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in the Audit and Risk Committee Report and Note 4 – Fees and Expenses, we have provided no non-audit services to the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

Materiality	• Overall materiality: $14 million (2018: $13.8 million), based on 1% of net assets.
Audit Scope	• The Company is a standalone Investment Trust Company and engages Pharmakon Advisors L.P. (the "Manager") to manage its assets.
	• We conducted our audit of the financial statements using information from Link Alternative Fund Administrators Limited (the "Administrator") to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
	• We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.
	• We obtained an understanding of the control environment in place at both the Manager and the Administrator, and adopted a substantive testing approach.
Key Audit Matters	• Valuation of unlisted investments • Accuracy, occurrence and completeness of performance fees

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of section 1158 of the Corporation Tax Act 2010, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and the Listing Rules, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to improve performance and management bias in estimating the fair value of unlisted investments. Audit procedures performed by the engagement team included:

- Discussions with management, the administrator and the Board, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the valuation of their unlisted investments (see related key audit matter below);
- Performing testing on a sample of journals based on identified potential fraud characteristics.
- Performing testing over Interest Income through recalculation and agreement to payments received.
- Designing audit procedures to incorporate unpredictability within our testing.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Independent Auditors’ Report continued

Key audit matters

Key audit matters are those matters that, in the auditors’ professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of unlisted investments Refer to pages 66 to 69 of Note 7 – Investments at fair value through profit and loss. The investment portfolio at the period end comprised of level three unlisted investments valued at $1,007 million, as disclosed on the Balance Sheet in the financial statements. We focused on the valuation of unlisted investments because they represent the principal element of the net asset value as disclosed on the Statement of Financial Position in the financial statements and require estimates and significant judgements to be applied by the Investment Manager in determining their fair value. Changes to the estimates and/or judgements can result, either on an individual or aggregate basis, in a material change to the valuation of unlisted investments. When assessing the fair valuation of these unlisted investments, we also examined the compliance with the requirements of International Private Equity and Venture (“IPEV”) Capital Valuation Guidelines. We focused on the existence of unlisted investments as they are, individually and in aggregate, material to the financial statements.	We assessed the appropriateness of the valuation methodology used to estimate the fair value of unlisted investments, including whether it was in accordance with IFRS and IPEV guidelines. We understood and assessed the analysis performed by the Investment Manager to estimate the key assumptions used in estimating fair value, specifically the discount rates used to discount the cash flows of the unlisted investments. We assessed the information used by the Investment Manager in making their assessment, such as cash flow forecasts, collateral valuations and their interactions with management of the investee companies. We performed backtesting of the Investment Manager’s cash flow projections against actuals for investee companies to assess the reasonableness of their forecasts. We independently obtained analyst reports for investee companies where available, and used them to assess the reasonableness of the Investment Manager’s assumptions. We engaged our valuation experts to assess the reasonableness of the discount rates used to discount cash flows for certain unlisted investments, giving consideration to both the investee companies themselves and the broader interest rate market. We tested the existence of the investment portfolio by circulating investment confirmations to all investee companies. For new investments, we agreed the key terms to the original signed contracts with the investee companies.
Accuracy, occurrence and completeness of performance fees Refer to page 60 (Accounting Policies) and pages 62 to 64 (Note 4 – Fees and Expenses). A performance fee of $13.6 million has been charged for the year with a liability at the year end of $21.4m. We focused on this area because the performance fee is calculated using a complex methodology, as set out in the Investment Management Agreement between the company and the Investment Manager.	We recalculated the performance fee to validate compliance with the methodology as set out in the Investment Management Agreement. We agreed the inputs to the calculation, including the net asset value and benchmark data, to appropriate sources, where applicable. We validated that the conditions for the payment of the performance fee have been met, and that the accounting treatment of the performance fee as a liability is appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	$14 million (2018: $13.8 million).
How we determined it	1% of net assets.
Rationale for benchmark applied	We applied this benchmark, which is a generally accepted auditing practice for investment trust audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $0.70 million (2018: $0.69 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation **Outcome**	**Outcome**
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Independent Auditors' Report continued

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. *(CA06)*

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (37 to 40) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in this information. *(CA06)*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement pages 37 to 40 with respect to the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. *(CA06)*

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the company. *(CA06)*

The directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company

As a result of the directors' voluntary reporting on how they have applied the AIC code of Corporate Governance the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on pages 25 to 28 of the Annual Report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on pages 25 to 28 of the Annual Report as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 46, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company obtained in the course of performing our audit.
- The section of the Annual Report on pages 41 and 42 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. *(CA06)*

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 46, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 2 November 2016 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2017 to 31 December 2019.

Other voluntary reporting

Going concern

The directors have requested that we review the statement on page 35 in relation to going concern as if the company were a premium listed company. We have nothing to report having performed our review.

The directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company

The directors have requested that we perform a review of the directors' statements on page 35 that they have carried out a robust assessment of the principal risks facing the group and in relation to the longer-term viability of the company, as if the company were a premium listed company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the company and its environment obtained in the course of the audit. We have nothing to report having performed this review.

Other Code provisions

The directors have prepared a corporate governance statement and requested that we review it as though the company were a premium listed company. We have nothing to report in respect of the requirement for the auditors of premium listed companies to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Scott Berryman
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors London
9 March 2020

Financial Statements

Statement of Comprehensive Income

For the year ended 31 December 2019
(In $000s except per Share amounts)

		Year ended 31 December 2019			Year ended 31 December 2018		
	Note	Revenue	Capital	Total	Revenue	Capital	Total
Income							
Investment income	3	**128,935**	**–**	**128,935**	92,091	–	92,091
Other income	3	**13,403**	**–**	**13,403**	4,582	–	4,582
Net gains on investments at fair value	7	**–**	**8,567**	**8,567**	–	648	648
Net currency exchange losses		**–**	**(12)**	**(12)**	–	(38)	(38)
Total income		**142,338**	**8,555**	**150,893**	96,673	610	97,283
Expenses							
Management fee	4	**(14,023)**	**–**	**(14,023)**	(10,765)	–	(10,765)
Performance fee	4	**(13,570)**	**–**	**(13,570)**	(7,794)	–	(7,794)
Directors' fees	4	**(395)**	**–**	**(395)**	(330)	–	(330)
Other expenses	4	**(529)**	**(48)**	**(577)**	(4,158)	(192)	(4,350)
Total expenses		**(28,517)**	**(48)**	**(28,565)**	(23,047)	(192)	(23,239)
Return on ordinary activities before finance costs and taxation		**113,821**	**8,507**	**122,328**	73,626	418	74,044
Finance costs – general	4	**–**	**–**	**–**	(3)	–	(3)
Finance costs – C Share amortisation	13	**–**	**–**	**–**	(3,677)	(218)	(3,895)
Return on ordinary activities after finance costs and before taxation		**113,821**	**8,507**	**122,328**	69,946	200	70,146
Taxation on ordinary activities	5	**–**	**–**	**–**	–	–	–
Return on ordinary activities after finance costs and taxation		**113,821**	**8,507**	**122,328**	69,946	200	70,146
Net revenue and capital return per Ordinary Share (basic and diluted)	11	**$0.0828**	**$0.0062**	**$0.0890**	$0.0707	$0.0002	$0.0709

The total column of this statement is the Company's Statement of Comprehensive Income prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the EU. The supplementary revenue and capital columns are presented for information purposes as recommended by the Statement of Recommended Practice ("SORP") issued by the Association of Investment Companies ("AIC").

All items in the above Statement derive from continuing operations.

There is no other comprehensive income, and therefore the return on ordinary activities after finance costs and taxation is also the total comprehensive income.

The Notes on pages 58 to 77 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2019
(In $000s)

For the year ended 31 December 2019	Note	Share capital	Share premium account	Special distributable reserve*	Capital reserve*	Revenue reserve*	Total equity attributable to shareholders of the Company
Net assets attributable to shareholders at 1 January 2019		**13,739**	**607,125**	**734,309**	**2,045**	**22,804**	**1,380,022**
Gross proceeds of Ordinary Share issue		–	–	–	–	–	–
Proceeds following C Share conversion to Ordinary Shares		–	–	–	–	–	–
Ordinary Share issue costs		–	–	–	–	–	–
C Share conversion costs		–	–	–	–	–	–
Return on ordinary activities after finance costs and taxation		–	–	–	**8,507**	**113,821**	**122,328**
Dividends paid to Ordinary shareholders	6	–	–	**(3,678)**	–	**(94,936)**	**(98,614)**
Net assets attributable to shareholders at 31 December 2019		**13,739**	**607,125**	**730,631**	**10,552**	**41,689**	**1,403,736**

For the year ended 31 December 2018	Note	Share capital	Share premium account	Special distributable reserve*	Capital reserve*	Revenue reserve*	Total equity attributable to shareholders of the Company
Net assets attributable to shareholders at 1 January 2018		9,143	150,379	734,356	1,845	26,851	922,574
Gross proceeds of Ordinary Share issue		2,975	302,025	–	–	–	305,000
Proceeds following C Share conversion to Ordinary Shares		1,621	162,781	–	–	–	164,402
Ordinary Share issue costs		–	(8,005)	–	–	–	(8,005)
C Share conversion costs		–	(55)	–	–	–	(55)
Return on ordinary activities after finance costs and taxation		–	–	–	200	69,946	70,146
Dividends paid to Ordinary shareholders	6	–	–	(47)	–	(73,993)	(74,040)
Net assets attributable to shareholders at 31 December 2018		13,739	607,125	734,309	2,045	22,804	1,380,022

* The special distributable and revenue reserves can be distributed in the form of a dividend. The capital reserve is not used for distributions.

The Notes on pages 58 to 77 form part of these financial statements.

Statement of Financial Position

As at 31 December 2019
(In $000s except per Share amounts)

	Note	31 December 2019	31 December 2018
Non-current assets			
Investments at fair value through profit or loss	7	**1,116,127**	1,007,265
Unlisted floating interest income receivable	8	**–**	988
		1,116,127	1,008,253
Current assets			
Trade and other receivables	8	**16,206**	21,448
Cash and cash equivalents	9	**296,638**	363,572
		312,844	385,020
Total assets		**1,428,971**	1,393,273
Current liabilities			
Trade and other payables	10	**24,504**	5,457
Total current liabilities		**25,235**	5,457
Total assets less current liabilities		**1,403,005**	1,387,816
Non-current liabilities			
Deferred performance fee		**731**	7,794
		–	7,794
Net assets		**1,403,736**	1,380,022
Represented by:			
Share capital	14	**13,739**	13,739
Share premium account		**607,125**	607,125
Special distributable reserve		**730,631**	734,309
Capital reserve		**10,552**	2,045
Revenue reserve		**41,689**	22,804
Total equity attributable to shareholders of the Company		**1,403,736**	1,380,022
Net asset value per Ordinary Share (basic and diluted)	12	**$1.0217**	$1.0044

The financial statements of BioPharma Credit PLC registered number 10443190 were approved and authorised for issue by the Board of Directors on 9 March 2020 and signed on its behalf by:

Jeremy Sillem
Chairman

The Notes on pages 58 to 77 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2019
(In $000s)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Cash flows from operating activities			
Investment income received		**134,424**	75,491
Other income received		**13,668**	4,279
Investment management fee paid		**(13,721)**	(9,575)
Finance costs paid		**(3)**	(5)
Other expenses paid		**(2,848)**	(3,052)
Cash generated from operations	16	**131,520**	67,138
Taxation paid		**–**	–
Net cash flow generated from operating activities		**131,520**	67,138
Cash flow from investing activities			
Purchase of investments		**(508,506)**	(658,788)
Redemptions of investments		**387,169**	221,801
Sales of investments		**21,042**	–
Net cash flow used in investing activities		**(100,295)**	(436,987)
Cash flow from financing activities			
Gross proceeds from Ordinary Share issue	14	**–**	305,000
Ordinary Share issue costs		**–**	(8,797)
Dividends paid to Ordinary shareholders	6	**(98,614)**	(74,040)
Gross proceeds of C Share issue		**467**	163,782
C Share issue costs		**–**	(3,275)
C Share conversion costs		**–**	(33)
Net cash flow (used in)/generated from financing activities		**(98,147)**	382,637
(Decrease)/increase in cash and cash equivalents for the year		**(66,922)**	12,788
Cash and cash equivalents at start of year		**363,572**	350,822
Revaluation of foreign currency balances		**(12)**	(38)
Cash and cash equivalents at end of year	9	**296,638**	363,572

The Notes on pages 58 to 77 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2019

1. GENERAL INFORMATION

BioPharma Credit PLC is a closed-ended investment company incorporated and domiciled in England and Wales on 24 October 2016 with registered number 10443190. The registered office of the Company is Beaufort House, 51 New North Road, Exeter, EX4 4EP. On 6 February 2017 the Company changed its name from PRECIS (2772) PLC.

The Company carries on the business as an investment trust company within the meaning of Sections 1158/1159 of the Corporation Tax Act 2010.

The Company's Investment Manager is Pharmakon Advisors L.P. ("Pharmakon"). Pharmakon is a limited partnership established under the laws of the State of Delaware. It is registered as an investment adviser with the SEC under the United States Investment Advisers Act of 1940, as amended.

Pharmakon is authorised as an Alternative Investment Fund Manager ("AIFM") under the Alternative Investment Fund Managers Directive ("AIFMD"). Pharmakon has, with the consent of the Directors, delegated certain administrative to Link Alternative Fund Administrators Limited ("Link").

2. ACCOUNTING POLICIES

a) Basis of preparation

The Company's annual financial statements cover the year from 1 January 2019 to 31 December 2019 and have been prepared in conformity with International Financial Reporting Standards ("IFRS") as adopted by the EU and interpretations issued by the IFRS Interpretations Committee ("IFRS IC"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and as applied in accordance with the Disclosure Guidance Transparency Rules sourcebook of the Financial Conduct Authority ("FCA") and the Statement of Recommended Practice as issued by the Association of Investment Companies ("AIC SORP") (issued in October 2019) for the financial statements of investment trust companies and venture capital trusts, except to any extent where it is not consistent with the requirements of IFRS. The financial statements have been prepared in accordance with the Companies Act 2006, as applicable to companies using IFRS. The financial statements have adopted the following accounting policies in their preparation, which remain consistent with the accounting policies adopted in the audited financial statements for the year ended 31 December 2018.

The financial statements are presented in US dollars, being the functional currency of the Company. The financial statements have been prepared on a going concern basis under historical cost convention, except for the measurement at fair value of investments measured at fair value through profit or loss.

The information for the year ended 31 December 2018 has been extracted from the latest published financial statements, which have been delivered to the Registrar of Companies. The Auditor's Report on those financial statements contained no qualification or statement under Section 498 of the Companies Act 2006.

Assessment as an investment entity

Entities that meet the definition of an investment entity within IFRS 10 'Consolidated Financial Statements' are required to measure their subsidiaries at fair value through profit or loss rather than consolidate the entities. The criteria which define an investment entity are as follows:

- an entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- an entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- an entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Directors have concluded that the Company meets the characteristics of an investment entity, in that it has more than one investor and its investors are not related parties, and that it holds a portfolio of investments, predominantly in the form of loans, which generates returns through interest income. All investments, including its subsidiary BPCR Ongdapa Limited, are reported at fair value to the extent allowed by IFRS.

b) Presentation of Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been prepared alongside the Income Statement.

c) Segmental reporting

The Directors are of the opinion that the Company has one operating and reportable segment being the investment in debt assets secured by royalties or other cash flows derived from the sales of approved life sciences products.

d) Investments at fair value through profit or loss

The principal activity of the Company is to invest in interest-bearing debt assets with a contractual right to future cash flows derived from royalties or sales of approved life sciences products. In accordance with IFRS, the financial assets are measured at fair value through profit or loss. They are accounted for on their trade date at fair value, which is equivalent to the cost of the investment. The fair value of the asset reflects any contractual amortising balance and accrued interest.

For unlisted investments where the market for a financial instrument is not active, fair value is established using valuation techniques in accordance with the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines (issued in December 2018), which may include recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where there is a valuation technique commonly used by market participants to price the instrument and that technique has proved reliable from estimates of prices obtained in actual market transactions, that technique is utilised.

Unlisted investments often require the manager to make estimates and judgements and apply assumptions or subjective judgement to future events and other matters that may affect fair value. For unlisted investments valued using a discounted cash flow analysis, the key judgements are the size of the market, pricing, projected sales of the product at trade date and future growth and other factors that will support the repayment of a senior secured or royalty debt instrument.

The fair value is either bid price or the last traded price on the exchange where the investment is listed.

Changes in the fair value of investments held at fair value through profit or loss, and gains or losses on disposal, are recognised in the Statement of Comprehensive Income as gains or losses from investments held at fair value through profit or loss. Transaction costs incurred on the purchase and disposal of investments are included within the cost or deducted from the proceeds of the investments. All purchases and sales are accounted for on trade date.

e) C Share financial liability

Any C Share issue that meets the definition of a financial liability under IAS 32 'Financial Instruments: Presentation', rather than an equity instrument, will be recognised on issue at fair value less directly attributable issuance costs. For details regarding previously held C Shares converted on 29 October 2018, see Note 13.

f) Foreign currency

Transactions denominated in currencies other than US dollars are recorded at the rates of exchange prevailing on the date of the transaction. Items which are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the Statement of Comprehensive Income.

g) Income

There are four main sources of revenue for the Company: interest income, royalty revenue, make-whole and prepayment income, and dividends.

Interest income is recognised when it is probable that the economic benefits will flow to the Company. Interest is accrued on a time basis, by reference to the principal outstanding and the effective interest rate that is applicable. Accrued interest is included within trade and other receivables on the Statement of Financial Position.

Any accrued income is reflected in the fair value of the Company's limited partnership interest, and is allocated to capital within the Statement of Comprehensive Income until the Company's right to receive the income is established, when it is transferred to revenue within the Statement of Comprehensive Income.

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably). Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

Make-whole and prepayment income is recognised when payments are received by the Company and is recorded to revenue within the Statement of Comprehensive Income.

Dividends are receivable on equity shares and recognised on the ex-dividend date. Where no ex-dividend date is quoted, dividends are recognised when the Company's right to receive payment is established. Dividends from investments in unquoted shares and securities are recognised when they become receivable.

Some investments include additional consideration in the form of origination fees, which are paid on completion of the transaction. Such fees are recognised up front and are allocated to revenue within the Statement of Comprehensive Income.

Bank interest and other interest receivable are accounted for on an accruals basis.

Notes to the Financial Statements continued

For the year ended 31 December 2019

2. ACCOUNTING POLICIES continued

h) Dividends paid to shareholders

Dividends to shareholders are recognised as a liability in the year which they are paid or approved by the Board and are reflected in the Statement of Changes in Equity. Dividends declared and approved after the balance sheet date are not recognised as a liability of the Company at the balance sheet date.

The Company may, if it so chooses, designate as an 'interest distribution' all or part of the amount it distributes to shareholders as dividends, to the extent that it has 'qualifying interest income' for the accounting period. Were the Company to designate any dividend it pays in this manner, it should be able to deduct such interest distributions from its income in calculating its taxable profit for the relevant accounting period. The Company intends to elect for the 'streaming' regime to apply to the dividend payments it makes to the extent that it has such 'qualifying interest income'. shareholders in receipt of such a dividend will be treated, for UK tax purposes, as though they had received a payment of interest, which results in a reduction of the corporation tax payable by the Company.

i) Expenses

All expenses are accounted for on an accruals basis. Expenses, including investment management fees, performance fees and finance costs, are charged through the revenue account except as follows:

- expenses which are incidental to the acquisition or disposal of an investment are treated as capital costs and separately identified and disclosed in Note 4; and
- expenses of a capital nature are accounted for through the capital account.

The performance fee is considered to be an annual fee and is only recognised at the end of each performance period. It is calculated in accordance with the details in Note 4(b) below. Any performance fee triggered, whether payable or deferred, is recognised in the Statement of Comprehensive Income. Where a performance fee is payable it is treated as a current liability in the Statement of Financial Position. Where a performance fee is deferred, it is treated as a non-current liability in the Statement of Financial Position. It becomes payable to the Investment Manager at the end of the first performance period in respect to which the compounding condition is satisfied.

j) Trade and other receivables

Trade and other receivables do not accrue interest and are measured at fair value through profit and loss and reduced by appropriate allowances for estimated unrecoverable amounts, where necessary. The Company assesses, on a forward-looking basis, the expected credit losses associated with its trade and other receivables. The Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The identified impairment loss is considered immaterial.

k) Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

l) Trade and other payables

Trade and other payables do not carry any interest and are measured at fair value through profit and loss.

m) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Corporation tax is recognised in the Statement of Comprehensive Income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous periods. The tax effect of different items of expenditure is allocated between revenue and capital on the same basis as the particular item to which it relates, using the Company's marginal method of tax, as applied to those items allocated to revenue, for the accounting year.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax liabilities are measured at the tax rates that are expected to apply to the year when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

n) Share capital and reserves

The share capital represents the nominal value of the Company's ordinary shares.

The share premium account represents the excess over nominal value of the fair value of consideration received for the Company's ordinary shares, net of expenses of the share issue.

The special distributable reserve was created on 29 June 2017 to give the possibility or option of the Company to buy back its own shares and pay dividends out of such distributable reserve, in each case when the Directors consider it appropriate to do so, and for other corporate purposes.

The capital reserve represents realised and unrealised capital and exchange gains and losses on the disposal and revaluation of investments, and of foreign currency items. The realised capital reserve can be used for the repurchase of shares.

The revenue reserve represents retained profits from the income derived from holding investment assets less the costs and interest on cash balances associated with running the Company. This reserve can be distributed.

o) Critical accounting estimates and judgements

The preparation of these financial statements in conformity with IFRS requires the Directors to make accounting estimates which will not always equal the actual results. The Directors also need to exercise judgement in applying the Company's accounting policies.

This note provides an overview of the areas that involve a higher degree of judgement or complexity and of items which are more likely to be materially adjusted due to estimates and judgements included in other notes, together with information about the basis of calculation for each line in the financial statements.

In particular, judgements and estimates are made in determining the fair valuation of unquoted investments for which there is no observable market and may cause material adjustments to the carrying value of those investments. Determining fair value of investments with unobservable market inputs is an area involving management judgement, requiring assessment as to whether the value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made including management's expectations of short and long term growth rates in product sales and the selection of discount rates to reflect the risks involved. These are valued in accordance with Note 2(d) above and using the valuation techniques described in Note 7 below.

Also, judgements are made when determining any deferred performance fee; this may be affected by future changes in the Company's portfolio and other assets and liabilities. Any deferred performance fee is calculated in accordance with Note 4(b) below and is recognised in accordance with Note 2(i) above.

These judgements and estimates are reviewed on an ongoing basis. Revisions to these judgements and estimates are also reviewed on an ongoing basis. Revisions are recognised prospectively.

p) New accounting standards effective 1 January 2019

Amendments to IFRS 9 'Financial Instruments'

The Directors have considered the implications of the amendments to IFRS 9 and are of the opinion that the Company's investments are already measured at fair value. Therefore, there has been no impact on the current and comparative financial statements for this accounting standard.

IFRS 16 'Leases'

The Directors have considered the implications of the amendments to IFRS 16 and are of the opinion that there is no impact to the Company as it does not have leases. Therefore, there has been no impact on the current and comparative financial statements for this accounting standard.

q) Accounting standards not yet effective

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued and endorsed the following standards and interpretations, applicable to the Company, which are not yet effective for the year ended 31 December 2019 and have therefore not been applied in preparing these financial statements.

Amendment to IFRS 3 'Business Combinations' – aims to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets, and is effective for reporting periods beginning on or after 1 January 2020.

The Directors do not expect that the adoption of the standards and interpretations will have a material impact on the financial statements.

Other future development includes the IASB undertaking a comprehensive review of existing IFRSs. The Company will consider the financial impact of these new standards as they are finalised.

Notes to the Financial Statements continued

For the year ended 31 December 2019

3. INCOME

	Year ended 31 December 2019 $000	Year ended 31 December 2018 $000
Income from investments		
US unfranked investment income from BioPharma III	**844**	9,045
US floating interest investment income from BPCR Ongdapa	**7,429**	988
US fixed interest investment income	**27,148**	29,421
US floating interest investment income	**38,696**	44,724
US make-whole interest investment income*	**36,102**	–
Prepayment premium**	**9,660**	–
Additional consideration received***	**9,056**	7,913
	128,935	92,091
Other income		
Interest from liquidity/money market funds	**10,525**	4,198
Interest income from US treasury bonds	**2,856**	–
Fixed term deposit interest	**–**	357
Other interest	**22**	27
	13,403	4,582
Total income	**142,338**	96,673

* In 2019 the Company's senior secured term loan to Tesaro included make whole interest investment income of $36,102,000, which was paid upon the loan repayment and recognised as income in the year.

** In 2019 the Company's senior secured term loan to Tesaro included a prepayment premium of $9,660,000, which was paid upon the loan repayment and recognised as income in the year.

*** In 2019 the Company's senior secured term loan to Biodelivery Services, and the tranche A notes to OptiNose US, Epizyme, Akebia, Global Blood Theraputics and Serepta Therapeutics included additional consideration in the form of structuring fees of $1,200,000, $1,856,000, $700,000, $1,000,000, $1,237,500 and $3,062,500 respectively, which was paid upon the completion of the transaction and recognised as income in the year.

In 2018 the Company's senior secured loan to Sebela, the second tranche of its senior secured loan to Tesaro and its senior secured loan to Amicus included additional consideration in the form of structuring income of $2,913,000, $2,000,000 and $3,000,000 respectively, which were paid upon the completion of the transaction or funding of each tranche, and are recognised as income in the year.

4. FEES AND EXPENSES

Expenses

	Year ended 31 December 2019			Year ended 31 December 2018		
	Revenue $000	Capital $000	Total $000	Revenue $000	Capital $000	Total $000
Management fee (Note 4a)	**14,023**	**–**	**14,023**	10,765	–	10,765
Performance fee (Note 4b)	**13,570**	**–**	**13,570**	7,794	–	7,794
Directors' fees (Note 4c)	**395**	**–**	**395**	330	–	330
Other expenses						
Company Secretarial fee	**88**	**–**	**88**	85	–	85
Administration fee	**126**	**–**	**126**	121	–	121
Legal and professional fees	**(867)**	**48**	**(819)**	2,825	192	3,017
Public relations fees	**204**	**–**	**204**	245	–	245
Auditor's remuneration – statutory audit	**339**	**–**	**339**	357	–	357
Auditor's remuneration – other audit-related services – interim review	**50**	**–**	**50**	39	–	39
Auditor's remuneration – reporting accounting work	**129**	**–**	**129**	–	–	–
Other expenses	**460**	**–**	**460**	486	–	486
	529	**48**	**577**	4,158	192	4,350
Total expenses	**28,517**	**48**	**28,565**	23,047	192	23,239

For the year ended 31 December 2019, the Auditor was also paid $129,000 for services performed in connection with reporting accounting work. There were no similar costs incurred in 2018.

For the year ended 31 December 2018, the Auditor was also paid $352,000 for services performed in connection with the C Share issue and conversion and additional share issue. There were no similar costs incurred in 2019. This amount was not included within the Auditor's remuneration figures above, as it was recognised as part of the C Share issue costs within the C Share figure within the Condensed Statement of Financial Position.

The negative balance of legal fees in the current year relates to the reversal of an accrual for legal work carried out in relation to a potential revolving credit facility. Following a negotiation of the fee subsequent to the year end, the amount paid in respect of the services was revised down from $1,658,000 to $500,000.

a) Investment management fee

With effect from the Initial Admission, the Investment Manager is entitled to a management fee ("Management Fee") calculated on the following basis: 1/12 of 1 per cent. of the NAV on the last business day of the month in respect of which the Management Fee is to be paid (calculated before deducting any accrued Management Fee in respect of such month) minus 1/12 of $100,000.

The Management Fee payable in respect of any quarter will be reduced by an amount equal to the Company's pro rata share of any transaction fees, topping fees, break-up fees, investment banking fees, closing fees, consulting fees or other similar fees which the Investment Manager (or an affiliate) receives in connection with transactions involving investments of the Company ("Transaction Fees"). The Company's pro rata share of any Transaction Fees will be in proportion to the Company's economic interest in the investment(s) to which such Transaction Fees relate.

b) Performance fee

Period from IPO in March 2017 to 19 September 2018

Subject to: (i) the NAV attributable to the Ordinary Shares as at the end of a performance period representing a minimum of 6 per cent. annualised rate of return annualised on the Company's IPO gross proceeds (adjusted for dividends, share issues and buybacks as appropriate), (ii) the total return on the NAV attributable to the Ordinary Shares (adjusted for dividends, share issues and buybacks as appropriate) exceeding 6 per cent. over such performance period, and (iii) a high watermark, the Investment Manager will be entitled to receive a performance fee equal to the lesser of: (a) 50 per cent. of the total return above 6 per cent; and (b) 10 per cent. of the total return over such performance period provided always that the amount of any performance fee payable to the Investment Manager will be reduced to the extent necessary to ensure that after account is taken of such fee, condition (iii) above remains satisfied.

Where the Investment Manager is not entitled to a performance fee solely because condition (i) has not been satisfied, such fee will be deferred and paid in a subsequent performance period in which such condition is satisfied. Where condition (i) is satisfied in a performance period but the payment of a performance fee (or any deferred performance fee from previous performance periods) in full would result in that condition failing, the Investment Manager shall be entitled to such a portion of such fee that does not result in the failure of the condition (i) above and the balance would be deferred to a future performance period.

Any performance fee (whether deferred or otherwise) shall be paid as soon as practicable after the end of the relevant performance period and, in any event, within 15 business days of the publication of the Company's audited annual financial statements relating to such period.

Effective from 19 September 2018

The Board of Directors approved an amendment, effective 19 September 2018, to the performance fee provisions. The amendment was to provide that where the payment of performance fee (or any deferred performance fee from previous performance periods) in full would result in the failure of condition (i) above, the Investment Manager shall only be entitled to 50 per cent. of such fee that does not result in the failure of condition (i) with the balance being deferred to a future performance period.

Notes to the Financial Statements continued
For the year ended 31 December 2019

4. FEES AND EXPENSES continued
If, during the last month of a performance period, the Shares have, on average, traded at a discount of 1 per cent. or more to the NAV per Share (calculated by comparing the middle market quotation of the Shares at the end of each business day in the month to the prevailing published NAV per Share (exclusive of any dividend declared) as at the end of such business day and averaging this comparative figure over the month), the Investment Manager shall (or shall procure that its Associate does) apply 50 per cent. of any Performance Fee paid by the Company to the Investment Manager (or its Associate) in respect of that performance period (net of all taxes and charges applicable to such portion of the Performance Fee) to make market acquisitions of Shares (the "Performance Shares") as soon as practicable following the payment of the Performance Fee by the Company to the Investment Manager (or its Associate) and at least until such time as the Shares have, on average, traded at a discount of less than 1 per cent. to the NAV per Share over a period of five business days (calculated by comparing the middle market quotation of the Shares at the end of each such business day to the prevailing published NAV per Share (exclusive of any dividend declared) and averaging this comparative figure over the period of five business days). The Investment Manager's obligation:

1) shall not apply to the extent that the acquisition of the Performance Shares would require the Investment Manager to make a mandatory bid under Rule 9 of the Takeover Code; and
2) shall expire at the end of the performance period which immediately follows the performance period to which the obligation relates.

During the year to 31 December 2019, the Performance Fee accrued was $13,569,601 (2018: $7,793,940). The Performance Fee payable as at 31 December 2019 was $21,363,541 (2018: $7,794,940 deferred).

The Performance Fee for a performance period shall be paid as soon as practicable after the end of the relevant performance period and, in any event, within three calendar months of the end of such performance period.

c) Directors
Each of the Directors is entitled to receive a fee from the Company at such rate as may be determined in accordance with the Articles. The Directors' remuneration is $70,000 per annum for each Director other than:

- the Chairman, who will receive an additional $30,000 per annum; and
- the Chairman of the Audit Committee, who will receive an additional $15,000 per annum.

A breakdown of Directors' fees is provided in the Directors' Remuneration Report on page 43.

d) Finance costs

	Year ended 31 December 2019 $000	Year ended 31 December 2018 $000
Interest paid	–	3
	–	3

Following the conversion of the C Shares, the amortisation of the C Share liability as at the conversion date, 30 September 2018, is shown as finance costs within the Statement of Comprehensive Income; the total of this amount is shown in Note 13.

5. TAXATION ON ORDINARY ACTIVITIES

It is the intention of the Directors to conduct the affairs of the Company so as to satisfy the conditions for approval of the Company by HMRC as an investment trust under section 1158 of the Corporation Tax Act 2010 (as amended) and pursuant to regulations made under section 1159 of the Corporation Tax Act 2010. As an investment trust, the Company is exempt from corporation tax on capital gains.

The current taxation charge for the year is different from the standard rate of corporation tax in the UK of 19 per cent.; the effective tax rate was 0 per cent. The differences are explained below.

	Year ended 31 December 2019			Year ended 31 December 2018		
	Revenue $000	Capital $000	Total $000	Revenue $000	Capital $000	Total $000
Total return on ordinary activities before taxation	**113,821**	**8,507**	**122,328**	69,946	200	70,146
Theoretical tax at UK corporation tax rate of 19% (2018: 19%)*	**21,626**	**1,616**	**23,242**	13,290	38	13,328
Effects of:						
Capital items that are not taxable	**–**	**(1,616)**	**(1,616)**	–	(38)	(38)
Disallowed expenses	**–**	**–**	**–**	699	–	699
Tax deductible interest distributions	**(21,626)**	**–**	**(21,626)**	(13,989)	–	(13,989)
Total tax charge	**–**	**–**	**–**	–	–	–

* The theoretical tax rate is calculated using a blended tax rate over the year.

At 31 December 2019, the Company had no unprovided deferred tax liabilities. At that date, based on current estimates and including the accumulation of net allowable losses, the Company had no unrelieved losses.

Deferred tax is not provided on capital gains and losses arising on the revaluation or disposal of investments because the Company meets (and intends to continue for the foreseeable future to meet) the conditions for approval as an Investment Trust company.

6. DIVIDENDS

Dividends paid during the year under review:

	Year ended 31 December 2019			Year ended 31 December 2018		
	Revenue $000	Capital $000	Total $000	Revenue $000	Capital $000	Total $000
In respect of the current year:						
First interim dividend of $0.0175 (2018: $0.0134) per Ordinary Share	**24,044**	**–**	**24,044**	12,306	–	12,306
Second interim dividend of $0.0175 (2018: $0.0175) per Ordinary Share	**24,044**	**–**	**24,044**	15,999	–	15,999
Third interim dividend of $0.0175 (2018: $0.0175) per Ordinary Share	**24,044**	**–**	**24,044**	18,837	–	18,837
In respect of the previous year ended 31 December 2018:						
Fourth interim dividend of $0.0175 per Ordinary Share	**22,804**	**1,240**	**24,044**	–	–	–
Second special dividend of $0.00177441 per Ordinary Share	**–**	**2,438**	**2,438**	–	–	–
In respect of the previous period ended 31 December 2017:						
Second interim dividend of $0.01 per Ordinary Share	**–**	**–**	**–**	7,572	47	7,619
Third interim dividend of $0.01 per Ordinary Share	**–**	**–**	**–**	9,143	–	9,143
Special dividend of $0.011 per Ordinary Share	**–**	**–**	**–**	10,136	–	10,136
	94,936	**3,678**	**98,614**	73,993	47	74,040

Set out below are the interim dividends paid or proposed on Ordinary Shares in respect of the financial year, which is the basis on which the requirements of Section 1159 of the Corporation Tax Act 2010 are considered.

	Year ended 31 December 2019			Year ended 31 December 2018		
	Revenue $000	Capital $000	Total $000	Revenue $000	Capital $000	Total $000
First interim dividend of $0.0175 (2018: $0.134) per Ordinary Share	**24,044**	**–**	**24,044**	12,306	–	12,306
Second interim dividend of $0.0175 (2018: $0.0175) per Ordinary Share	**24,044**	**–**	**24,044**	15,999	–	15,999
Third interim dividend of $0.0175 (2018: $0.0175) per Ordinary Share	**24,044**	**–**	**24,044**	18,837	–	18,837
Fourth interim dividend of $0.0175 (2018: $0.0175) per Ordinary Share	**–**	**–**	**–**	22,804	1,240	24,044
Special dividend of $0.0128 (2018: $0.00177441) per Ordinary Share	**–**	**–**	**–**	–	2,438	2,438
	72,132	**–**	**72,132**	69,946	3,678	73,624

On 20 February 2020, the Board approved a fourth interim dividend, for the year ended 31 December 2019, of $0.0175 per Ordinary Share and a special dividend of $0.0128 per Ordinary Share, both payable on 27 March 2020. In accordance with IFRS, these dividends have not been included as a liability in these financial statements.

Notes to the Financial Statements continued

For the year ended 31 December 2019

7. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

	As at 31 December 2019 $000	As at 31 December 2018 $000
Investment portfolio summary		
Listed investments at fair value through profit and loss	**16,980**	–
Listed fixed interest investments at fair value through profit and loss	**19,656**	–
Unlisted investments at fair value through profit and loss	**–**	7,645
Unlisted fixed interest investment at fair value through profit and loss	**495,525**	274,500
Unlisted floating interest investments at fair value through profit and loss	**583,966**	725,120
	1,116,127	1,007,265

	Year ended 31 December 2019					
	Listed investments $000	Listed fixed interest investments $000	Unlisted investments $000	Unlisted fixed interest investments $000	Unlisted floating interest investments $000	Total $000
Investment portfolio summary						
Opening cost at beginning of year	**–**	**–**	**6,805**	**274,500**	**725,320**	**1,006,625**
Opening unrealised appreciation/ (depreciation) at beginning of year	**–**	**–**	**840**	**–**	**(200)**	**640**
Opening fair value at beginning of year	**–**	**–**	**7,645**	**274,500**	**725,120**	**1,007,265**
Movements in the year:						
Purchases at cost	**25,490**	**43,292**	**–**	**220,238**	**239,436**	**528,456**
Redemption and sales proceeds	**(15,696)**	**(25,270)**	**(6,805)**	**–**	**(380,390)**	**(428,161)**
Movement in unrealised appreciation/ (depreciation)	**3,436**	**(294)**	**(840)**	**787**	**(200)**	**2,889**
Realised gain on sale of investments	**3,750**	**1,928**	**–**	**–**	**–**	**5,678**
Closing fair value at the end of the year	**16,980**	**19,656**	**–**	**495,525**	**583,966**	**1,116,127**
Closing cost at end of year	**13,544**	**19,950**	**–**	**494,738**	**584,366**	**1,112,598**
Closing unrealised appreciation/ (depreciation) at end of year	**3,436**	**(294)**	**–**	**787**	**(400)**	**3,529**
Closing fair value at the end of the year	**16,980**	**19,656**	**–**	**495,525**	**583,966**	**1,116,127**

	Year ended 31 December 2018					
	Listed investments $000	Listed fixed interest investments $000	Unlisted investments $000	Unlisted fixed interest investments $000	Unlisted floating interest investments $000	Total $000
Investment portfolio summary						
Opening cost at beginning of year	–	–	123,487	224,151	222,000	569,638
Opening unrealised depreciation at beginning of year	–	–	(8)	–	–	(8)
Opening fair value at beginning of year	–	–	123,479	224,151	222,000	569,630
Movements in the year:						
Purchases at cost	–	–	–	150,000	508,788	658,788
Redemption proceeds	–	–	(116,682)	(99,651)	(5,468)	(221,801)
Movement in unrealised appreciation/ (depreciation)	–	–	848	–	(200)	648
Closing fair value at the end of the year	–	–	7,645	274,500	725,120	1,007,265
Closing cost at end of year	–	–	6,805	274,500	725,320	1,006,625
Closing unrealised appreciation/ (depreciation) at end of year	–	–	840	–	(200)	640
Closing fair value at the end of the year	–	–	7,645	274,500	725,120	1,007,265

Analysis of investment gains

	Year ended 31 December 2019 $000	Year ended 31 December 2018 $000
Realised gains on sale of investments	**5,678**	–
Movement in unrealised appreciation	**2,889**	648
	8,567	648

Transaction costs (incurred at the point of the transaction) incidental to the acquisition of investments totalled $nil (2018: $nil) and to the disposals of investments totalled $nil (2018: $nil) for the year. In addition, legal fees incidental to the acquisition of investments totalled $48,000 (2018: $192,000) as disclosed in Note 4, have been reflected in the capital column in the Statement of Comprehensive Income since they are capital in nature.

The Company is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following three levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level of the fair value hierarchy, within which the fair value measurement is categorised, is determined on the basis of the lowest level input that is significant to the fair value of the investment.

	Year ended 31 December 2019			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Investment portfolio summary				
Listed investments at fair value through profit and loss	**16,980**	**–**	**–**	**16,980**
Listed fixed interest investments at fair value through profit and loss	**19,656**	**–**	**–**	**19,656**
Unlisted investments at fair value through profit and loss	**–**	**–**	**–**	**–**
Unlisted fixed interest investment at fair value through profit and loss	**–**	**2,025**	**493,500**	**495,525**
Unlisted floating interest investments at fair value through profit and loss	**–**	**–**	**583,966**	**583,966**
	36,636	**2,025**	**1,077,466**	**1,116,127**
Liquidity/money market funds	**291,025**	**–**	**–**	**291,025**
Total	**327,661**	**2,025**	**1,077,466**	**1,407,152**

	Year ended 31 December 2018			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Investment portfolio summary				
Listed investments at fair value through profit and loss	–	–	–	–
Listed fixed interest investments at fair value through profit and loss	–	–	–	–
Unlisted investments at fair value through profit and loss	–	–	7,645	7,645
Unlisted fixed interest investment at fair value through profit and loss	–	–	274,500	274,500
Unlisted floating interest investments at fair value through profit and loss	–	–	725,120	725,120
	–	–	1,007,265	1,007,265
Liquidity/money market funds	359,808	–	–	359,808
Total	359,808	–	1,007,265	1,367,073

Notes to the Financial Statements continued

For the year ended 31 December 2019

7. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS continued

Level 3 financial assets at fair value through profit or loss

A reconciliation of fair value measurements in Level 3 is set out below.

	Year ended 31 December 2019			
	Unlisted investments $000	Unlisted fixed interest investments $000	Unlisted floating interest investments $000	Total $000
Opening balance	**7,645**	**274,500**	**725,120**	**1,007,265**
Purchases	**–**	**219,000**	**239,436**	**458,436**
Redemptions*	**(6,805)**	**–**	**(380,390)**	**(387,195)**
Change in unrealised (depreciation)/appreciation	**(840)**	**–**	**(200)**	**(1,040)**
Closing balance at 31 December 2019	**–**	**493,500**	**583,966**	**1,077,466**

	Year ended 31 December 2018			
	Unlisted investments $000	Unlisted fixed interest investments $000	Unlisted floating interest investments $000	Total $000
Opening balance	123,479	224,151	222,000	569,630
Purchases	–	150,000	508,788	658,788
Redemptions*	(116,682)	(99,651)	(5,468)	(221,801)
Change in unrealised appreciation/(depreciation)	848	–	(200)	648
Closing balance at 31 December 2018	7,645	274,500	725,120	1,007,265

* Redemptions are the proceeds received from the repayment of investments.

There were no transfers between levels during the year.

Valuation techniques

Unrealised gains and losses recorded on Level 1 financial instruments are reported in net gains on investments at fair value on the Statement of Comprehensive Income. The fund administrator utilises quoted prices in active markets that they have access to and the Investment Manager verifies the quoted prices on Bloomberg.

Unrealised gains and losses recorded on Level 2 and 3 financial instruments are reported in net gains on investments at fair value on the Statement of Comprehensive Income. Level 2 and level 3 financial instruments are fair valued using inputs that reflect management's best estimate of what market participants would use in pricing the assets or liabilities at the measurement date. Consideration is given to the risk inherent in the valuation techniques and the risk inherent in the inputs of the model.

Level 3 financial instruments are fair valued using a discounted cash flow methodology. For capped royalty investments, discount rates are applied to the consensus forecasts or the manager's forecast for sales of the underlying products to determine fair value. The significant unobservable input used in the fair value measurement of the Company's level 3 investments is the discount rate used to discount future cash flows from borrowers. Significant increases (decreases) in the discount rate would result in a significantly lower (higher) fair value measurement. The Investment Manager believes 10 per cent. is an appropriate threshold for determining a reasonably possible change in fair value.

The Company's unlisted investments are all classified as Level 3 investments. The fair values of the unlisted investments have been determined principally by reference to discounted cash flows. The significant unobservable input used is detailed below:

	As at 31 December 2019					
Assets	**Fair value at Level 3 financial assets at fair value through profit or loss $000**	**Valuation technique**	**Unobservable input**	**Discount rate**	**Fair value sensitivity to a 100bps decrease in the discount rate $000**	**Fair value sensitivity to a 100bps increase in the discount rate $000**
Akebia	**40,000**	**Discounted cash flow**	**Discount rate**	**10.9%**	**41,103**	**38,941**
Amicus	**150,000**	**Discounted cash flow**	**Discount rate**	**11.3%**	**153,937**	**146,211**
BDSI	**60,000**	**Discounted cash flow**	**Discount rate**	**11.5%**	**61,670**	**58,398**
BMS	**149,896**	**Discounted cash flow**	**Discount rate**	**10.4%**	**154,172**	**145,803**
Epizyme	**12,500**	**Discounted cash flow**	**Discount rate**	**10.7%**	**12,888**	**12,129**
Global Blood Therapeutics	**41,250**	**Discounted cash flow**	**Discount rate**	**9.9%**	**42,705**	**39,865**
Lexicon Pharmaceuticals	**124,500**	**Discounted cash flow**	**Discount rate**	**10.4%**	**127,451**	**121,649**
Novocure	**150,000**	**Discounted cash flow**	**Discount rate**	**10.4%**	**153,433**	**146,681**
OptiNose US	**44,000**	**Discounted cash flow**	**Discount rate**	**12.4%**	**45,174**	**42,871**
Sarepta Therapeutics	**175,000**	**Discounted cash flow**	**Discount rate**	**10.1%**	**180,112**	**170,094**
Sebela	**130,320**	**Discounted cash flow**	**Discount rate**	**12.6%**	**131,630**	**128,728**
Tesaro	**–**	**–**	**–**	**–**	**–**	**–**
Limited partnership interest in BioPharma III*	**–**	**–**	**–**	**–**	**–**	**–**

	As at 31 December 2018					
Assets	**Fair value at Level 3 financial assets at fair value through profit or loss $000**	**Valuation technique**	**Unobservable input**	**Discount rate**	**Fair value sensitivity to a 100bps decrease in the discount rate $000**	**Fair value sensitivity to a 100bps increase in the discount rate $000**
Akebia	–	–	–	–	–	–
Amicus	150,000	Discounted cash flow	Discount rate	11.1%	154,883	145,337
BDSI	–	–	–	–	–	–
BMS	64,409	Discounted cash flow	Discount rate	8.1%	69,483	59,606
Epizyme	–	–	–	–	–	–
Global Blood Therapeutics	–	–	–	–	–	–
Lexicon Pharmaceuticals	124,500	Discounted cash flow	Discount rate	10.1%	128,336	120,826
Novocure	150,000	Discounted cash flow	Discount rate	10.6%	154,486	145,699
OptiNose US	–	–	–	–	–	–
Sarepta Therapeutics	–	–	–	–	–	–
Sebela	188,711	Discounted cash flow	Discount rate	11.7%	191,900	185,622
Tesaro	322,000	Discounted cash flow	Discount rate	11.4%	331,488	312,943
Limited partnership interest in BioPharma III*	7,645	n/a	n/a	n/a	n/a	n/a

* The BioPharma III fair value balance as at 31 December 2018 represents a receivable. BioPharma III made a distribution for $7,645,000 on 31 January 2019. For this reason, no valuation technique is applicable.

The discount rate at each reporting date is estimated with consideration to the underlying sales projections and analysis of the credit worthiness of the borrowers. Estimates of future product sales are determined through models driven by several factors that include the potential size of the market, the product's market share over time, and the price for the product. In determining the discount rates, the Investment Manager also gives consideration to market rates, including risk free rates and corporate borrowing rates.

Notes to the Financial Statements continued

For the year ended 31 December 2019

8. TRADE AND OTHER RECEIVABLES

Current assets	As at 31 December 2019 $000	As at 31 December 2018 $000
Listed fixed interest income receivable	**26**	–
Unlisted fixed interest income receivable	**3,061**	2,864
Unlisted floating interest income receivable	**3,938**	17,079
Interest accrued on liquidity/money market funds	**429**	694
US floating interest income receivable from BPCR Ongdapa	**8,417**	–
Share issue cost receivable	**–**	466
Other debtors	**335**	345
	16,206	21,448
Non-current assets		
US floating interest income receivable from BPCR Ongdapa	**–**	988
Total	**16,206**	22,436

9. CASH AND CASH EQUIVALENTS

	As at 31 December 2019 $000	As at 31 December 2018 $000
Cash at bank	**5,613**	3,764
Liquidity/money market funds	**291,025**	359,808
	296,638	363,572

10. TRADE AND OTHER PAYABLES

Current liabilities	As at 31 December 2019 $000	As at 31 December 2018 $000
Performance fee payable	**20,633**	–
Management fees accrual	**3,496**	3,194
Share issue costs	**–**	1
C Share conversion costs	**–**	22
Accruals	**375**	2,240
	24,504	5,457
Non-current liabilities		
Deferred performance fee	**731**	7,794
	25,235	13,251

11. RETURN PER ORDINARY SHARE

Revenue return per Ordinary Share is based on the net revenue after taxation of $113,821,000 (2018: $69,946,000) and 1,373,932,067 (2018: 989,147,473) Ordinary Share, being the weighted average number of Ordinary Shares for the year.

Capital return per Ordinary Share is based on net capital gains for the year of $8,507,000 (2018: $200,000) and on 1,373,932,067 (2018: 989,147,473) Ordinary Shares, being the weighted average number of Ordinary Shares for the year.

There is no dilution effect and therefore there is no difference between the diluted total net assets per Ordinary Share and the basic total net assets per Ordinary Share.

12. NET ASSET VALUE PER ORDINARY SHARE

The basic total NAV per Ordinary Share of $1.0217 (2018: $1.0044) is based on the net assets attributable to shareholders at 31 December 2019 of $1,403,736,000 (2018: $1,380,022,000) and Ordinary Shares of 1,373,932,067 (2018: 1,373,932,067), being the number of Ordinary Shares in issue at 31 December 2019 and 31 December 2018.

There is no dilution effect and therefore no difference between the diluted total net assets per Ordinary Share and the basic total net assets per Ordinary Share.

13. C SHARES

	Year ended 31 December 2019 $000	Year ended 31 December 2018 $000
Balance at beginning of the year	–	–
Gross proceeds of C Share issue	–	163,782
C Share issue costs	–	(3,275)
Amortisation of C Share liability*	–	3,895
Balance of C Share liability converted to Ordinary Shares	–	(164,402)
Balance at end of the year	–	–

* The amortisation of C Share liability represents the net return from the C Share, per the Statement of Comprehensive Income.

On 16 April 2018, the Company issued 163,782,307 C Shares, raising gross proceeds of $163,782,000. These C Shares were admitted to the Official List of TISE and to trading on the Specialist Fund Segment of the LSE on 16 April 2018.

For shareholder resolutions in respect of amendments to the Articles or in respect of a winding up of the Company, each class of Shares will vote as a separate class. For all other resolutions, the holders of Ordinary Shares and each class of C Shares shall vote as one class.

Under IAS 32 'Financial Instruments: Presentation', these C Shares met the definition of a financial liability rather than equity instrument and were presented in the financial statements as a liability of the Company carried at amortised cost.

On 29 October 2018, the C Shares were converted to Ordinary Shares on the basis of a conversion ratio of 0.98984 Ordinary Shares for every C Share which gave a conversion rate of 989 Ordinary Shares for every 1,000 C Shares held.

The table below gives a summary of the movements in net assets of the C Share pool up to the date of conversion:

	Period ended 30 September 2018 C Share pool $000
Balance at beginning of the year	–
Gross proceeds of C Shares issue	163,782
C Share issue costs	(3,275)
Net income	4,669
Expenses	(995)
Net gains on investments at fair value	196
Currency exchange gains	25
Value of C Shares on conversion date	164,402

Represented by:

	As at 30 September 2018 C Share pool $000
Investment at fair value through profit or loss	148,315
Trade and other receivables	1,103
Cash and cash equivalents	15,621
Trade and other payables	(637)
Value of C Shares on conversion date	164,402

14. SHARE CAPITAL

	Year ended 31 December 2019		Year ended 31 December 2018	
	Number of shares	$000	Number of shares	$000
Issued and fully paid:				
Ordinary Shares of $0.01:				
Balance at beginning of the year	**1,373,932,067**	**13,739**	914,252,831	9,143
Ordinary Shares issued on conversion of C Shares – 29 October 2018	–	–	162,118,260	1,621
Ordinary Share issue – 5 November 2018	–	–	297,560,976	2,975
Balance at end of the year	**1,373,932,067**	**13,739**	1,373,932,067	13,739

Notes to the Financial Statements continued

For the year ended 31 December 2019

14. SHARE CAPITAL continued

Total voting rights at 31 December 2019 were 1,373,932,067 (2018: 1,373,932,067). For shareholder resolutions in respect of amendments to the Articles or in respect of a winding up of the Company, each class of shares will vote as a separate class. For all other resolutions, the holders of Ordinary Shares and each class of C Shares shall vote as one class.

On 29 October 2018, 162,118,260 Ordinary Shares were issued following the conversion of the C Shares for a consideration of $164,402,000 representing the value of the C Share asset pool; the balance of C Shares were redeemed.

On 5 November 2018, a further issue of 297,560,976 Ordinary Shares took place, raising gross proceeds of $305,000,000.

15. SUBSIDIARY

The Company formed a wholly-owned subsidiary, BPCR Ongdapa Limited (“BPCR Ongdapa”), incorporated in Ireland on 5 October 2017 for the purpose of entering into a purchase, sale and assignment agreement with a wholly-owned subsidiary of Royalty Pharma for the purchase of a 50 per cent. interest in a stream of payments acquired by Royalty Pharma from Bristol-Myers Squibb (“BMS”). In accordance with IFRS 10, the Company is exempt from consolidating a controlled investee as an investment trust. Therefore, the Company’s investment in BPCR Ongdapa is recognised at fair value through profit and loss. The registered address for BPCR Ongdapa is BPCR Ongdapa Limited, 2 Grand Canal Square, Grand Canal Harbour, Dublin, Ireland. The aggregate amount of its capital reserves as at 31 December 2019 is $1 (2018: $1) and the profit and loss for the year ended 31 December 2019 is nil (2018: nil).

16. RECONCILIATION OF TOTAL RETURN FOR THE YEAR BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	Year ended 31 December 2019 $000	Year ended 31 December 2018 $000
Total return for the year before taxation	**122,328**	70,146
Capital gains	**(8,555)**	(610)
Decrease/(increase) in trade receivables*	**5,764**	(16,931)
Increase in trade payables*	**11,983**	10,638
Finance costs – C Share amortisation	**–**	3,895
Cash generated from operations	**131,520**	67,138

* For the year ended 31 December 2019, the increase does not differ from trade and other payables (2018: difference due to $1,000 of share issue costs forming part of financing activities). For the year ended 31 December 2019, the decrease does not differ from trade and other receivables (2018: difference due to $466,000 of share issue costs forming part of financing activities).

Analysis of net cash and net debt

Net cash	At 1 January 2019 $000	Cash flow $000	Exchange movement $000	At 31 December 2019 $000
Cash and cash equivalents	**363,572**	**(66,922)**	**(12)**	**296,638**

Net cash	At 1 January 2018 $000	Cash flow $000	Exchange movement $000	At 31 December 2018 $000
Cash and cash equivalents	350,822	12,788	(38)	363,572

There is no debt in the Company and so no debt table is shown.

17. FINANCIAL INSTRUMENTS

The Company’s financial instruments include its investment portfolio, cash balances, trade receivables and trade payables that arise directly from its operations. Adherence to the Company’s investment policy is key in managing risk. Refer to the Strategic Overview on pages 22 to 24 for a full description of the Company’s investment objective and policy.

The Investment Manager monitors the financial risks affecting the Company on an ongoing basis and the Directors regularly receive financial information which is used to identify and monitor risk. All risks are actively reviewed and monitored by the Board. Details of the Company’s principal risks can be found in the Strategic Report on pages 25 to 28.

The main risks arising from the Company’s financial instruments are:
i) market risk, including price risk, currency risk and interest rate risk;
ii) liquidity risk; and
iii) credit risk.

(i) Market risk

Market risk is the risk of loss arising from movements in observable market variables. The fair value of future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. The Investment Manager assesses the exposure to market risk when making each investment decision and these risks are monitored by the Investment Manager on a regular basis and the Board at quarterly meetings with the Investment Manager.

Market price risk

The Company is exposed to price risk arising from its investments whose future prices are uncertain. The Company's exposure to price risk comprises movements in the value of the Company's investments. See Note 7 above for investments that fall into Level 3 of the fair value hierarchy and refer to the description of valuation policies in Note 2(d). The nature of the Company's investments, with a high proportion of the portfolio invested in unlisted debt instruments, means that the investments are valued by the Company after consideration of the most recent available information from the underlying investments. The Company's portfolio is diversified among counterparties and by the sectors in which the underlying companies operate, minimising the impact of any negative industry-specific trends.

The table below analyses the effect of a 10 per cent. change in the fair value of investments. The Investment Manager believes 10 per cent. is the appropriate threshold for determining whether a material change in market value has occurred.

	As at 31 December 2019		As at 31 December 2018	
	Fair value $000	10 per cent. increase/decrease in market value $000	Fair value $000	10 per cent. increase/decrease in market value $000
Akebia	**40,000**	**4,000**	–	–
Amicus Senior Secured Loan	**150,000**	**15,000**	150,000	15,000
BioPharma III	**–**	**–**	7,645	765
Biodelivery Sciences International Equity	**16,979**	**1,698**	–	–
Biodelivery Sciences International Loan	**60,000**	**6,000**	–	–
BMS Purchased Payments (BPCR Ongdapa)	**149,896**	**14,990**	64,409	6,441
Convertible bonds	**19,656**	**1,966**	–	–
Epizyme	**12,500**	**1,250**	–	–
Global Blood Therapuetics	**41,250**	**4,125**	–	–
Lexicon Senior Secured Loan	**124,500**	**12,450**	124,500	12,450
Novocure Senior Secured Loan	**150,000**	**15,000**	150,000	15,000
OptiNose US	**44,000**	**4,400**	–	–
OptiNose US warrants	**2,026**	**203**	–	–
Sebela Senior Secured Loan	**130,320**	**13,032**	188,711	18,871
Sarepta Therapeutics	**175,000**	**17,500**	–	–
Tesaro Senior Secured Loan	**–**	**–**	322,000	32,200
Total	**1,116,127**	**111,614**	1,007,265	100,727

The Board manages the risks inherent in the investment portfolio by ensuring full and timely reporting of relevant information from the Investment Manager. Investment performance and exposure are reviewed at each Board meeting.

Currency risk

Currency risk is the risk that fair values of future cash flows from a financial instrument fluctuate because of changes in foreign exchange rates.

At 31 December 2019, the Company held cash balances in GBP of £nil ($nil) (2018: £245,000, ($312,000)) and in Euro of €3,000 ($4,000) (2018: €1,000, ($2,000)).

The currency exposures (including non-financial assets) of the Company as at 31 December 2019:

	Cash $000	Investments $000	Other net assets/ (liabilities) $000	Total $000
Sterling	**–**	**–**	**–**	**–**
Euro	**4**	**–**	**–**	**4**
US dollar	**296,634**	**1,116,127**	**(9,230)**	**1,403,531**
Total	**296,638**	**1,116,127**	**(9,230)**	**1,403,535**

Notes to the Financial Statements continued

For the year ended 31 December 2019

17. FINANCIAL INSTRUMENTS continued

(i) Market risk continued

Currency risk continued

The currency exposures (including non-financial assets) of the Company as at 31 December 2018:

	Cash $000	Investments $000	Other net assets/ (liabilities) $000	Total $000
Sterling	312	–	(52)	260
Euro	2	–	–	2
US dollar	363,258	1,007,265	9,237	1,379,760
Total	363,572	1,007,265	9,185	1,380,022

A 10 per cent. increase in the Sterling exchange rate would have increased net assets by $nil (2018: $10,000 increase). A 10 per cent. decrease would have decreased net assets by the same amount (2018: decreased by the same amount).

Interest rate risk

Interest rate risk is the risk that fair value of future flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate movements may potentially affect future cash flows from:

- investments in floating rate securities, unquoted loans and purchased payments; and
- the level of income receivable on cash deposits and liquidity funds.

The Lexicon, Novocure, OptiNose US, Sarepta Therapeutics and the convertible bond have a fixed interest rate and therefore are not subject to interest rate risk. At 31 December 2019, the Lexicon, Novocure, OptiNose US, Sarepta Therapeutics and convertible bond represented 8.87 per cent., 10.69 per cent., 3.13 per cent., 12.47 per cent. and 1.40 per cent. of the Company's net assets, respectively (2018: 9.02 per cent., 10.87 per cent., nil per cent., nil per cent. and nil per cent).

The Tesaro, Sebela, Epizyme, Akebia, Amicus and GBT loans, BMS Purchased Payments and cash and cash equivalents, including investments in liquidity funds, have a floating rate of interest. At 31 December 2019, these represented nil per cent., 9.29 per cent., 0.89 per cent., 2.85 per cent., 9.29 per cent., 10.69 per cent., 2.94 per cent., 10.68 per cent. and 21.14 per cent. of the Company's net assets, respectively (2018: 23.33 per cent., 13.67 per cent, nil per cent., nil per cent., 10.87 per cent., nil per cent., 4.67 per cent, and 26.35 per cent.).

A 100 basis point increase or decrease in interest rates associated with the limited partnership interest in BioPharma III would not have materially impacted net income for the year ended 31 December 2019 (2018: not material).

(ii) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At 31 December 2019, the Company had cash and cash equivalents, including investments in liquidity funds with balances of $296,638,000 (2018: $363,572,000) and maximum unfunded commitments of $319,386,000 (2018: $75,591,000–$95,591,000).

The Company maintains sufficient liquid investments through its cash and cash equivalents to pay accounts payable, accrued expenses and ongoing expenses of the Company. Liquidity risk is manageable through a number of options, including the Company's ability to issue debt and/or equity and by selling all or a portion of an investment in the secondary market.

(iii) Credit risk

This is the risk the Company's trade and other receivables will not meet their obligations to the Company. While the Company will often seek to be a secured lender for each debt asset, there is no guarantee that the relevant borrower will repay the loan or that the collateral will be sufficient to satisfy the amount owed. All of the Company's investments are senior secured investments as detailed in the Investment Manager's Report on pages 12 to 16.

When the Investment Manager makes an investment, the creditworthiness of the counterparty is taken into account so as to minimise the risk to the Company of default. Creditworthiness is assessed on an ongoing basis and changes to a counterparty's risk profile are monitored by the Investment Manager on a regular basis, and discussed with the Board at quarterly meetings.

The Company's maximum exposure to credit risk at any given time is the fair value of its investment portfolio and the non-current accrued income from its subsidiary. At 31 December 2019, the Company's maximum exposure to credit risk was $1,124,544,000 (2018: $1,008,253,000). The Company's concentration of credit risk by counterparty can be found in the Investment Manager's Report contained on pages 12 to 16.

Capital management

The Company's primary objectives in relation to the management of capital are:

- to ensure its ability to continue as a going concern;
- to ensure that the Company conducts its affairs to enable it to continue to meet the criteria to qualify as an investment trust; and
- to maximise the long-term shareholder returns in the form of sustainable income distributions through an appropriate balance of equity capital and debt.

The Company is subject to externally imposed capital requirements:

- as a public company, the Company has a minimum share capital of £50,000.

The Company has complied with all the above requirements during this financial year.

18. RELATED PARTY TRANSACTIONS

The amount incurred in respect of management fees during the year ended 31 December 2019 was $14,023,000 (2018: $10,765,000), of which $3,496,000 was outstanding at 31 December 2019 (2018: $3,194,000). The amount due to the Investment Manager for performance fees for the year ended 31 December 2019 was $21,364,000 (2018: $7,794,000), all of which was outstanding at 31 December 2019 (2018: $7,794,000).

The amount incurred in respect of Directors' fees during the year ended 31 December 2019 was $395,000 (2018: $330,000), of which $nil was outstanding at 31 December 2019 (2018: $nil).

The Shared Services Agreement was entered into by and between RP Management, LLC, an affiliate of Pharmakon Advisors, L.P., and the Investment Manager on 30 November 2016 and deemed effective as of 1 January 2016. Under the terms of the Shared Services Agreement, the Investment Manager will have access to the expertise of certain Royalty Pharma employees, including its research, legal and compliance, and finance teams.

On 18 December 2019, the Company and BioPharma Credit Investments V (Master) LP ("BioPharma V"), a fund managed by the Investment Manager, entered into a definitive senior secured term loan agreement with Global Blood Therapeutics (Nasdaq: GBT). The Company will invest up to $82,500,000 ($41,250,000 in the first tranche and up to an additional ($41,250,000 by 31 December 2020) and BioPharma V will invest an additional $67,500,000. The loan will mature in December 2025 and will bear interest at three-month LIBOR plus 7.00 per cent. per annum subject to a 2.00 per cent. floor along with a one-time additional consideration of 1.50 per cent. of the total loan amount payable upon funding and an additional 2.00 per cent. payable upon the repayment of the loan. The Company funded the first tranche on 20 December 2019. In 2019, the Company recorded interest of $113,438 (2018: $nil). The outstanding balance as at 31 December 2019 was $41,250,000 (2018: $nil).

On 13 December 2019, the Company and BioPharma V entered into a definitive senior secured term loan agreement with Sarepta Therapeutics (Nasdaq: SRPT). The Company will invest up to $350,000,000 in two tranches ($175,000,000 in the first tranche and up to an additional $175,000,000 by 31 December 2020) and BioPharma V will invest up to an additional $150,000,000. The loan will mature in December 2023 and will bear interest at 8.50 per cent. per annum along with a one-time additional consideration of 1.75 per cent. of the total loan amount payable upon funding and an additional 2.00 per cent. payable upon the repayment of the loan. In 2019, the Company recorded interest of $495,833. The Company funded the first tranche on 20 December 2019 (2018: $nil). The outstanding balance as at 31 December 2019 was $175,000,000 (2018: $nil).

On 11 November 2019, the Company and BioPharma V entered into a definitive senior secured term loan agreement for up to $100,000,000 with Akebia (Nasdaq: AKBA). The Company's share of the transaction will be up to $50,000,000 and the Company initially invested $40,000,000 on 25 November 2019. The loan will mature in November 2024 and will bear interest at LIBOR plus 7.50 per cent. per annum along with a one-time additional consideration of 2.00 per cent. of the total loan amount. In 2019, the Company recorded interest of $390,556 (2018: $nil). The outstanding balance as at 31 December 2019 was $40,000,000 (2018: $nil).

On 4 November 2019, the Company and BioPharma V entered into a definitive senior secured term loan agreement for up to $70,000,000 with Epizyme (Nasdaq: EPZM). The Company's share of the transaction will be up to $35,000,000 and the Company initially invested $12,500,000 on 18 November 2019. The loan will mature in November 2024 and will bear interest at LIBOR plus 7.75 per cent. per annum along with a one-time additional consideration of 2.00 per cent. of the total loan amount. On 4 November 2019, Royalty Pharma, an affiliate of Pharmakon Advisors, announced an agreement to purchase future royalties on tazemetostat net sales outside of Japan owned by Eisai Co. for $330,000,000 and a separate $100,000,000 equity investment directly in Epizyme. Pablo Legorreta, a principal of Pharmakon and RP management was named to the Epizyme board of directors. In 2019, the Company recorded interest of $148,958 (2018: $nil). The outstanding balance as at 31 December 2019 was $12,500,000 (2018: $nil).

Notes to the Financial Statements continued

For the year ended 31 December 2019

18. RELATED PARTY TRANSACTIONS continued

On 12 September 2019, the Company and BioPharma V, entered into a definitive senior secured note purchase agreement for the issuance and sale of senior secured notes in an aggregate original principal amount of up to $150,000,000 by OptiNose US. OptiNose US is a wholly-owned subsidiary of OptiNose (Nasdaq: OPTN), a commercial-stage specialty pharmaceutical company. The Company's share of the transaction will be up to $82,500,000 and the Company will initially invest $44,000,000. Senior secured notes in an aggregate original principal amount of up to $150,000,000 will be issued and sold in up to four tranches, each maturing in September 2024 and bearing interest at 10.75 per cent. per annum along with a one-time additional consideration of 0.75 per cent. of the aggregate original principal amount of senior secured notes which the Company and BioPharma V are committed to purchase under the facility and approximately 800,000 warrants exercisable into common stock of OptiNose. The Company funded $44,000,000 of the first tranche on 12 September 2019. Senior secured notes in an aggregate original principal amount of $30,000,000 will be issued, sold and purchased by February 2020, subject to the achievement of a certain sales milestone. Two additional tranches of senior secured notes, in an aggregate original principal amount of $20,000,000 each, will be available for issuance and sale at OptiNose's option, subject to the achievement of certain sales milestones, prior to August 2020 and February 2021. In 2019, the Company recorded interest of $1,458,417 (2018: $nil). The outstanding balance as at 31 December 2019 was $44,000,000 (2018: $nil).

On 7 February 2018, the Company entered into a senior secured term loan agreement for $150,000,000 with Novocure Limited (NASDAQ: NVCR) ("Novocure"). The $150,000,000 loan will mature in February 2023 and bears interest at 9.0 per cent. per annum. Novocure used $100,000,000 of the net proceeds to entirely prepay the $100,000,000, 10.0 per cent. coupon loan made by BioPharma III Holdings, LP ("BioPharma III") in 2015 that was scheduled to mature in 2020. The Company is a limited partner in BioPharma III and therefore received a distribution of approximately $46,000,000 from BioPharma III as a result of the prepayment from Novocure. In 2019, the Company recorded interest of $13,688,000 (2018: $12,263,000). The outstanding balance as at 31 December 2019 was $150,000,000 (2018: $150,000,000).

On 8 December 2017, the Company's wholly-owned subsidiary BPCR Ongdapa entered into a purchase, sale and assignment agreement with RPI Acquisitions (Ireland) Limited ("RPI Acquisitions"), an affiliate of Royalty Pharma, for the purchase of a 50 per cent. interest in a stream of Purchased Payments acquired by RPI Acquisitions from Bristol-Myers Squibb through a purchase agreement dated 14 November 2017. As a result of the arrangements, RPI's subsidiary and the Company's subsidiary are each entitled to the benefit of 50 per cent. of the Purchased Payments under identical economic terms. The Purchased Payments are linked to tiered worldwide sales of Onglyza and Farxiga, diabetes agents marketed by AstraZeneca, and related products. The Company is expected to fund $140,000,000 to $160,000,000 between 2018 and 2020, determined by product sales and will receive payments from 2020 through 2025 estimated to yield a return in the high single-digits per annum. The Company advanced $85,687,000 to RPI Acquisitions in 2019 (2018: $64,409,000) for the Purchased Payments. In 2019, the Company recorded interest of $8,417,000 (2018: $988,000).

On 4 December 2017, the Company and BioPharma Credit Investments IV, S.àr.L. ("BioPharma IV"), a fund managed by the Investment Manager, entered into a definitive term loan agreement for up to $200,000,000 with Lexicon Pharmaceuticals (NASDAQ: LXRX), a fully integrated biopharmaceutical company ("Lexicon"). The loan is secured by substantially all of Lexicon's assets, including its rights to Xermelo® and sotagliflozin. The $200,000,000 loan will be available in two tranches, each maturing in December 2022 and bearing interest at 9.0 per cent. per annum. The first $150,000,000 was available immediately and an additional tranche of $50,000,000 was available for draw by March 2019 at Lexicon's option if net Xermelo sales were greater than $25,000,000 in the preceding quarter. The Company funded $124,500,000 of the first tranche on 18 December 2017 and Lexicon has not drawn the second tranche. In 2019, the Company recorded interest of $11,361,000 (2018: $11,361,000). The outstanding balance as at 31 December 2019 was $124,500,000 (2018: $124,500,000).

On 21 November 2017, the Company and BioPharma IV entered into a definitive loan agreement for up to $500,000,000 with Tesaro (NASDAQ: TSRO), an oncology-focused biopharmaceutical company ("Tesaro"). Under the terms of the transaction, the Company funded $222,000,000 of the $300,000,000 first tranche on 6 December 2017 and committed to invest up to $148,000,000 of the $200,000,000 second tranche by 20 December 2018 at Tesaro's option with BioPharma IV committing to invest up to $130,000,000 in parallel with the Company acting as collateral agent. The Company funded $100,000,000 of the second tranche on 29 June 2018 and assigned its remaining $48,000,000 commitment to other investors. The loan has a term of seven periods and is secured by Tesaro's US rights to ZEJULA® and VARUBI®. The first $300,000,000 tranche bears interest at LIBOR plus 8 per cent. and the second tranche bears interest at LIBOR plus 7.5 per cent. The LIBOR rate is subject to a floor of 1 per cent. and certain caps. Each tranche of the loan is interest-only for the first two periods, amortises over the remaining term, and can be prepaid at Tesaro's discretion, at any time, subject to prepayment fees. In the period to 30 June 2019, the Company recorded interest of $2,191,000 (2018: $11,194,000). Following its acquisition by GlaxoSmithKline, Tesaro repaid the $500,000,000 loan on 23 January 2019. The Company received a payment of $369,953,000 on its $322,000,000 share of the loan, including the make-whole and prepayment premium totalling $45,762,000. The outstanding balance as at 30 June 2019 was $nil (2018: $322,000,000).

On 27 March 2017, the Company acquired a limited partnership interest in BioPharma III for $153,482,000. In 2019, the Company recorded $nil (2018: $9,045,000 of investment income and repayments of $nil (2018: $116,682,000). The Company also recorded net gain on investments at fair value of $nil (2018: $848,000). On 31 January 2019, the limited partnership interest in BioPharma III was disposed of in full at a cost of $6,804,967. The outstanding balance as at 31 December 2019 was $nil (2018: $7,645,000).

BioPharma III, BioPharma IV, and RPI Acquisitions are related entities of the Company due to a principal of the Investment Manager having significant influence over each of these entities.

19. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

At 31 December 2019, there were outstanding commitments of up to $319,386,000 (2018: $75,591,000–$95,591,000) in respect of investments (see Note 18 for further details).

20. SUBSEQUENT EVENTS

On 30 January 2020, the Company sold $11 million face value of convertible notes held in the portfolio at a price of 98 cents.

On 7 February 2020, the Company and BioPharma V entered into a definitive senior secured term loan agreement with Collegium Pharmaceutical (Nasdaq: COLL). The Company will invest $165,000,000 and BioPharma V will invest an additional $35,000,000. The loan will mature in January 2024 and will bear interest at three month LIBOR plus 7.50 per cent. per annum subject to a 2.00 per cent. floor along with a one-time additional consideration of 2.50 per cent. of the loan amount payable upon funding. The Company funded the term loan on 13 February 2020.

On 11 February 2020, the Company, along with BioPharma V, received a notice of issuance from OptiNose US, Inc. to request the second tranche of $30,000,000 of senior secured notes as the achievement of certain sales milestones was met. The Company's share of the second tranche was $16,500,000 and the Company funded on 13 February 2020.

On 20 February 2020, the Board approved a fourth interim dividend, for the year ended 31 December 2019, of $0.0175 per Ordinary Share and a special dividend of $0.0128 per Ordinary Share, both payable on 27 March 2020.

On 20 February 2020, the Company made the final purchased payment to BPCR Ongdapa for $12,136,000 related to the agreement dated 14 November 2017 with Bristol-Myers Squibb.

Glossary of Terms and Alternative Performance Measures (APM)

Net Income per Ordinary Share

Net income per share is the net revenue for the year divided by the number of ordinary shares outstanding.

NAV per Ordinary Share

Net Asset Value (NAV) is the value of total assets less liabilities. The NAV per share is calculated by dividing this amount by the number of ordinary shares outstanding.

Premium (discount) to NAV per Ordinary Share

As stock markets and share prices vary, an investment trust's share price is rarely the same as its NAV. When the share price is lower than the NAV per share it is said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and it is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, it is said to be trading at a premium.

Return per Ordinary Share

Revenue return per Ordinary share is based on the net revenue after taxation divided by the weighted average number of Ordinary Shares for the year.

Capital return per Ordinary Share is based on net capital gains divided by weighted average number of Ordinary Shares for the year.

Ongoing charges

Ongoing charges are the Company's expenses expressed (excluding and including performance fee) as a percentage of its average monthly net assets and follows the AIC recommended methodology. Ongoing charges are different to total expenses as not all expenses are considered to be operational and recurring.

Corporate Information

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Stephanie Léouzon

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Shareholder Information

Key dates

March	Annual results announced Payment of fourth interim dividend
May	Annual General Meeting
June	Company's half-year end Payment of first interim dividend
September	Half-yearly results announced Payment of second interim dividend
December	Company's year end Payment of third interim dividend

Frequency of NAV publication

The Company's NAV is released to the LSE and TISE on a monthly basis and is published on the Company's website.

Annual and Half-yearly Report

Copies of the Company's Annual and Half-yearly Reports, stock exchange announcements and further information on the Company can be obtained from the Company's website www.bpcruk.com.

Identification codes

SEDOL:	BDGKMY2
ISIN:	GB00BDGKMY29
TICKER:	BPCR
LEI:	213800AV55PYXAS7SY24

Contacting the Company

Shareholder queries are welcomed by the Company. While any queries regarding your shareholding should be directed to the Registrar, shareholders who wish to raise any other matters with the Company may do so using the following contact details:

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Chairman – chairman@bpcruk.com
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