Company Showcase:

Zai Lab

Zai Lab is a commercial-stage biopharmaceutical company that was founded in March 2013 and has offices in China and the US. Zai Lab focuses on developing and in-licensing medicines that address diseases with a large unmet medical need in China and, to a lesser extent, in the global markets. The company is active in the fields of oncology, infectious and autoimmune diseases. Zai Lab is listed on Nasdaq in the US since its IPO in 2017.

Although China has a significant addressable market and sizable growth potential, the country has historically lacked access to many innovative therapies available in other parts of the world. What's more, its medicine development infrastructure has been underutilized. Zai Lab was built on the vision to make innovative therapies available in the substantial Chinese market.

In recent years, the Chinese government has focused on promoting local innovation through streamlining regulatory processes, improving medicine quality standards and fostering a favourable environment. Nevertheless, we perceive China as an unpredictable market and therefore for now, we do not put more than 5% of our assets under management at work in Chinese companies.

Strategy

Zai Lab has started with a well thought through short- and long-term strategy. The first step of this strategy allows the company to earn revenue through in-licensing high-potential and late-stage medicines from Western companies and to conduct the necessary duplication of a local phase 3 clinical trial for the medicines to be approved in China. The company is also actively involved in collaborating with leading research institutes and universities in China to be part of medical innovation in China.

This business model, which several firms in China have begun to copy, accelerated Zai Lab's growth as the company was rapidly perceived as the "Gateway to the Chinese market" for foreign biotech companies with promising medicine in the field of oncology.

Such a strategy does require, however, a good eye for valuable assets and strong execution. This strategy has paid off so far, with Zai Lab's most advanced in-licensed programs now hitting the market and displaying serious market penetration right after their launch.

In parallel to this partnership strategy, Zai Lab is also exploiting an in-house R&D engine to discover new medicine. After many years of R&D,

Zai Lab is expected to start testing in humans for its first two proprietary medicine candidates this year.

The Key Element: Samantha Du (CEO)

A native of Changchun, China, Samantha Du earned her PhD from the University of Cincinnati in 1994 and started her career at Pfizer in Groton, Connecticut. She was leading a global licensing team at the American pharma giant in 2000 when she was recruited to lead R&D at Chi-Med in China.

During Samantha Du's tenure as Chief Scientific Officer, Chi-Med made multiple medicine discoveries. One compound in particular – fruquintinib – went on to become the first home-grown cancer medicine approved in China in 2018. After spending 4 years at Chi-Med, and 3 years as head of healthcare investments at Sequoia China, the largest private equity firm in China, Samantha Du launched Zai Lab in 2014. At that time there were only 2 employees in the company.

Zai Lab went public on NASDAQ in 2017 for a record valuation of $1,4 billion shortly after in-licensing some already approved or late stage medicines from Western biotech companies. Zai Lab now has 800+ employees and is valued at roughly $5,3 billion.

Her strong leadership skills can be highlighted by the team she assembled with global experience and an extensive track record in navigating the regulatory process to develop and commercialize innovative medicines.

Partnership Focused Business Model

Since inception, Zai Lab has engaged in numerous partnerships. The vast majority of which are now starting to bear fruit.

Zai Lab has focused its attention on three therapeutic areas: oncology, infectious and autoimmune diseases. In both indications, Zai Lab has demonstrated its ability to team up with top global players as well as to strike good deals with very favourable deal terms.

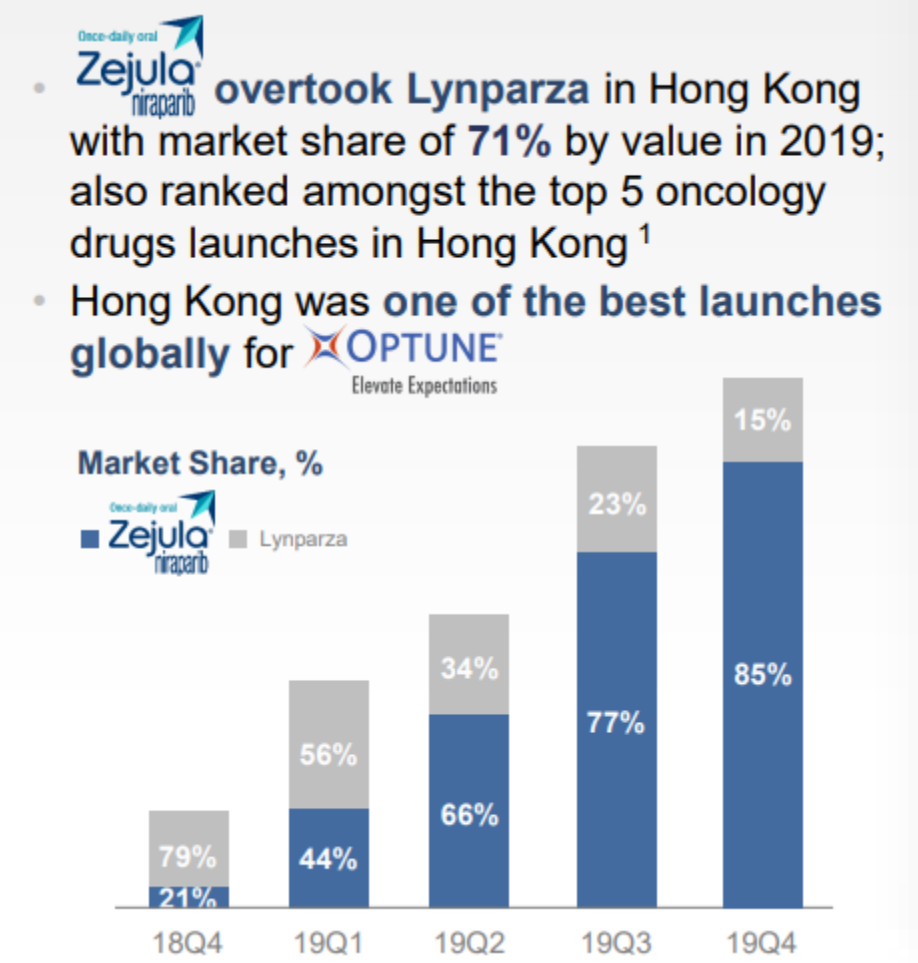
Let's take the example of Zejula (niraparib). Zejula is a PARP inhibitor used to treat ovarian cancer and is also being investigated to treat other types of cancers such as non-small cell lung cancer or breast cancer. In 2016, Zai Lab in-licensed Zejula from Tesaro for China, Hong Kong and Macau rights. In 2017, top-15 pharma company Takeda also licensed Zejula from Tesaro for Japan, Korea, Taiwan, Russia and Australia rights.

The chart below compares the deal details for Zejula for both Zai Lab and Takeda:

	Zai Lab	Takeda
Upfront Payment	$15 million upfront	$100 million upfront
Milestone Payment	$50 million milestone payment	$240 million milestone payment
Royalties	Royalties in the mid-to-high teens on net sales of Niraparib in China.	Double-digit royalties
Rights owned	China, HK and Macau right	Japan, Korea, Taiwan, Russia and Australia right
Indications	All indications excluding prostate cancer. (Janssen owns the prostate cancer indication in China.)	All indications in Japan, and all indications excluding prostate cancer in Korea, Taiwan, Russia and Australia.

Zai Lab in-licensed Zejula in September 2016, only three months after Tesaro released the pivotal phase 3 trial, and the FDA approved it in March 2017. According to the chart, Zai Lab pays a much lower price comparing with Takeda.

Zejula has already finalized a phase 3 clinical trial in China which proved the product did not have any differences in efficacy between the Chinese and US population. Zejula has been approved in China in January 2020 as a Category 1 medicine, which means it belongs to the most innovative medicines category, and thus, the medicine benefits from faster approval timelines in China. The medicine is produced in China by Zai Lab. Currently, the company is also performing clinical trials in combination with the new class of immuno-oncology medicines for the treatment of ovarian cancer, gastric cancer and non-small cell lung cancer.



Another sign of Zai Lab's ability to deliver on its promises was highlighted when Zejula was first launched in Hong Kong in 2018. Zejula is competing with a well-established product called Lynparza (Olaparib) from AstraZeneca that was launched in Hong Kong 18 months prior to Zejula. Only 3 quarters were enough for Zai Lab to become the best-selling PARP inhibitor in Hong Kong with a 71% market share by value in 2019.

Zai Lab has recently launched Zejula in mainland China. During a recent call with Zai Lab management, Billy Cho (CFO) confirmed the company's sales targets for 2020 despite the impact of the pandemic on Q1 results.

Zai Lab's Product Pipeline

Zai Lab's current late stage partnered pipeline consists of 10 late stage medicines for the treatment of many diseases in the field of oncology and

infectious diseases, with many value inflection points ahead for the company.

Together with Novocure, Zai Lab is providing the first ever medical device approved for the treatment of specific brain tumors known as glioblastoma. The device, called Optune, is worn on the patient's affected area on their head and emits a small electric current that disrupts division of tumor cells leading to tumor shrinkage. This device has been approved in the US for the treatment of glioblastoma and mesothelioma and has now gained approval in Greater China for glioblastoma. Zai Lab is currently seeking approval in other diseases to help as many patients as possible.

After signing another deal with Deciphera in June 2019, Zai Lab is now in the last phase of development with Ripretinib for the treatment of gastrointestinal and stromal tumors in China, Hong Kong, Macau and Taiwan.

In April, Zai Lab announced its latest deal with biotech company Regeneron. The collaboration encompasses the global clinical development for REGN1979, starting with the ongoing, potentially pivotal clinical trial in B-cell non-Hodgkin lymphoma (B-NHL). If REGN1979 is approved, Zai Lab will leverage its capabilities to commercialize REGN1979 in Greater China. REGN1979 is the most advanced investigational bispecific monoclonal antibody from Regeneron.

Also important to note is the proprietary discovery pipeline that Zai Lab is currently developing in immuno-oncology and oncology. Management has issued a guidance that 1-2 of these medicine candidates should enter clinical testing this year.

Financials and Milestones for 2020

Zai Lab has always been able to raise financing on favorable terms. The company has a cash runway of 2,5 years when not taking into account any future revenue. However, increasing revenues from Zejula and Optune should extend the cash runway.

Total net proceeds raised since inception	$959.2 million
Cash, cash equivalents, and short-term investments *(as of December 31, 2019)*	$276.4 million
Additional cash proceeds from January 2020 follow-on offering	$281.3 million
Net loss in 2018	$139.1 million
Net loss in 2019	$195.1 million
Total use of proceeds to date *(from inception till December 31, 2019)*	$408 million

Since its IPO in 2017, Zai Lab has transitioned from the preferred partner for medicine licensing in China to becoming a fully integrated biopharmaceutical company. Zai Lab now has a commercial footprint underlined by two product launches in Greater China this year. Zai Lab remains a gateway into China for Western medicine companies with innovative assets resulting in 7 in-licensing deals since 2018, of which 6 involve global co-development rights.

Aescap 2.0 first invested in Zailab in January 2018 at a share price around $23 and expanded the position at levels of $16. Today the company's share price is trading at $74. Ever since we have invested in the company, its management has delivered on their promises well before - or within - the timelines communicated.

Best regards on behalf of the Aescap 2.0 team,

Patrick J. H. Krol
Portfolio Manager Aescap 2.0

About Aescap 2.0

Aescap 2.0 is an open-end fund investing in public biotech companies that develop and market next generation medical treatments. Within its focused portfolio of around 18 companies it diversifies over different diseases, development phases and geographies. Companies are selected for their growth potential ('earning power') and limited risk (technological and financial). Investors can enter and exit the fund twice a month.

The selection of companies in our portfolio is based on 'high conviction' - extensive fundamental analyses combined with intense interaction with management and relevant experts. The fund's performance is fueled by stock picking and an active buy and sell discipline. Biotech stocks are known for their very low correlation and high volatility, caused by media, macro-events and short-term speculative investors. This creates an ideal setting for a high conviction fund manager to invest in undervalued companies with a great mid- and long-term earning power. The fund has an average annual net performance target of 20%+ over the mid-term (4-5 years)

5-star Morningstar rating:

Morningstar has rated Aescap 2.0 as a 5-star investment fund, the highest possible rating given. Morningstar's rating has become the industry's leading standard for determining a fund's performance (risk/reward) relative to other funds. To rate a fund, Morningstar takes into account the long-term performance (3+ years) and only the top 10% best performing funds will receive a 5-star rating.

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Aescap 2.0 • Barbara Strozzilaan 101 • 1083 HN Amsterdam • The Netherlands

Tel. + 31 20 570 29 40 • E-mail: pkrol@aescap.com