

1 **A novel human fetal lung-derived alveolar organoid model reveals mechanisms of surfactant**  
2 **protein C maturation relevant to interstitial lung disease**

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32 **Abstract**

33 Alveolar type 2 (AT2) cells maintain lung health by acting as stem cells and producing pulmonary  
34 surfactant<sup>1-3</sup>. AT2 dysfunction underlies many lung diseases including interstitial lung disease (ILD),  
35 in which some inherited forms result from mislocalisation of surfactant protein C (SFTPC) variants<sup>4,5</sup>.  
36 Disease modelling and dissection of mechanisms remains challenging due to complexities in deriving  
37 and maintaining AT2 cells *ex vivo*. Here, we describe the development of expandable adult AT2-like  
38 organoids derived from human fetal lung which are phenotypically stable, can differentiate into AT1-  
39 like cells and are genetically manipulable. We use these organoids to test key effectors of SFTPC  
40 maturation identified in a forward genetic screen including the E3 ligase ITCH, demonstrating that  
41 their depletion phenocopies the pathological SFTPC redistribution seen for the SFTPC-I73T variant.  
42 In summary, we demonstrate the development of a novel alveolar organoid model and use it to  
43 identify effectors of SFTPC maturation necessary for AT2 health.

44  
45 Despite its role in increasing the stability of pulmonary surfactant, SFTPC is not absolutely required  
46 for lung development and surfactant secretion<sup>5</sup>. However, its aberrant handling during intracellular  
47 trafficking and maturation results in toxic gain-of-function effects. This is demonstrated by the  
48 pathogenic variant I73T, which accumulates immature isoforms at the plasma membrane and causes  
49 heritable forms of pulmonary fibrosis<sup>6,7</sup>. Study of this variant in immortalised cells has suggested  
50 SFTPC trafficking into multivesicular bodies (MVBs) is indirect (via the plasma membrane) and  
51 requires its ubiquitination<sup>8</sup>. Despite the substituted amino acid (I73) lying on the opposite side of the  
52 membrane to the ubiquitinated site at K6, failure of ubiquitination appears to be the key determinant  
53 of SFTPC-I73T redistribution and the cause of AT2 dysfunction and consequently ILD. Immortalised  
54 cells can be used to generate hypotheses, but questions regarding mechanisms and key effectors of  
55 SFTPC trafficking can ultimately only be answered using genetically-manipulable physiological AT2  
56 cells which endogenously process surfactant.

57

58 AT2 organoids have been grown from human adult lungs and used as models of SARS-CoV-2  
59 infection<sup>9-11</sup>. Human adult AT2 organoids proliferate slowly and are difficult to genetically  
60 manipulate. AT2 organoids can also be derived from pluripotent stem cells (PSC-iAT2s)<sup>12-14</sup>. These  
61 cells can readily be genetically manipulated, but their differentiation is complicated, taking more than  
62 30 days<sup>15</sup>, and PSC-iAT2s can spontaneously dedifferentiate to other organ lineages<sup>14</sup>. AT2 cells have  
63 been derived from human fetal lungs, but these cells could neither be genetically manipulated nor  
64 maintained long-term in culture<sup>16</sup>. A complementary method for growing genetically-manipulable  
65 human AT2 cells would therefore be of great value for investigating surfactant trafficking and lung  
66 disease.

67

68 During human lung development the distal tip epithelial cells act as multipotent progenitors<sup>17,18</sup>. From  
69 ~15 pcw (post conception weeks) the human tips retain progenitor marker expression, but also  
70 upregulate markers of AT2 cells<sup>19</sup>. Immature AT2 cells appear in the tissue from 17 pcw<sup>19,20</sup>. We  
71 have recently shown that 16-22 pcw epithelial tip cells can be expanded as organoids and  
72 differentiated to AT2 cells<sup>19</sup>. However, the differentiated AT2 organoids were not proliferative,  
73 limiting their use for functional studies and genetic manipulation. We have now developed a highly  
74 robust, efficient, and scalable culture condition that induces the differentiation of 16-22 pcw fetal  
75 lung tip cells into mature AT2 cells which grow as expandable 3D organoids. Here, we characterise  
76 the fetal-derived AT2 organoids (hereafter fdAT2), showing that they are stable over long-term  
77 passaging, efficiently process and secrete surfactant, and can differentiate into AT1-like cells *in vitro*  
78 and in mouse lung transplantation assays. We use a forward genetic screen to identify candidate  
79 effectors of SFTPC trafficking which we validate using CRISPR interference (CRISPRi) in the fdAT2  
80 organoids. We demonstrate that trafficking of SFTPC requires ubiquitination by HECT domain E3  
81 ligases, particularly ITCH, and that their depletion phenocopies the redistribution seen for the  
82 pathological SFTPC<sup>I73T</sup> variant.

83



84 Our AT2 medium directly induces the differentiation of 16-22 pcw fetal lung tip cells into mature  
85 AT2 cells which grow as expandable 3D organoids (Fig. 1A; Extended Data Fig. 1A-C). The AT2  
86 organoids form within 3 weeks and can be split every week, for over 20 passages, while sustaining  
87 *SFTPC* promoter-GFP reporter and AT2 marker expression (Fig. 1B; Extended Data Fig. 1D,E). They  
88 retain these characteristics following cryopreservation and thawing. The fetal-derived AT2 (fdAT2)  
89 organoids show mature AT2 cell features including, genesis of lamellar bodies and production and  
90 secretion of mature forms of SFTPB and SFTPC (Fig. 1C-D; Extended Data Fig. 1F). The organoids  
91 express proteins required for surfactant production, such as LAMP3, ABCA3, and NAPSA, as well  
92 as typical AT2 markers HTII-280 and HOPX, whereas a fetal tip progenitor marker, SOX9 was not  
93 detected (Fig. 1E). Immature SFTPC is detectable at the plasma membrane in these cells, supporting  
94 our previous model of SFTPC trafficking (Fig. 3C) in which proprotein transits the cell surface before  
95 it is endocytosed and cleaved *en route* to later compartments<sup>8</sup> (Fig. 1F). In addition, the fdAT2  
96 organoids expressed cellular polarity markers ZO-1 and laminin, and proliferation marker, Ki67 (Fig.  
97 1E). Proliferation of the fdAT2 organoids was greatly reduced when FGF7 was removed from the  
98 medium (Extended Data Fig. 1G-I), suggesting that FGF7 is a key mitogen for these cells, consistent  
99 with recent mouse data<sup>21</sup>. These culture conditions induce the differentiation of 16-22 pcw lung  
100 epithelial progenitors into mature AT2 cells which maintain identity and function during prolonged  
101 passaging.

102  
103 To further investigate the maturity of fdAT2 organoids, we compared the transcriptome of four  
104 independent lines at early passage (fdAT2 early; at P1,4,6,7) and late passage (fdAT2 late; at  
105 P12,13,16,17) with those of pluripotent stem cell-derived 3D cultured induced AT2 (PSC-iAT2<sup>12</sup>),  
106 freshly-isolated and cultured adult AT2 cells<sup>13</sup> and 8-9 pcw and 16-20 pcw fetal lung tip progenitor  
107 organoids<sup>19</sup> (Fig. 1G). Our fdAT2 organoids clustered with other cultured AT2 cells, but were distinct  
108 from the fetal lung tip progenitors (PC1, Fig. 1G; Extended Data Fig. 2A). The fdAT2 organoids were  
109 transcriptionally closest to the PSC-iAT2 (Fig. 1G). The cultured adult AT2 cells sat between the

110 fdAT2 organoids and the freshly-isolated adult AT2 cells, indicating a culture-effect on the gene  
111 expression profile of adult AT2 cells<sup>22</sup> (Fig. 1G). A direct comparison of the fdAT2s and adult  
112 cultured AT2s revealed that the most significantly increased transcripts in fdAT2s are related to cell  
113 division (Extended Data Fig. 2B), consistent with their expandability. Importantly, the transcriptional  
114 profile of the fdAT2 organoids remained stable during the extended culture period, suggesting that  
115 expansion of these organoids does not affect AT2 cell identity/function (Fig. 1G; Extended Data Fig.  
116 2A,B).

117

118 To further characterise the fdAT2 organoids, we extracted AT2-specific differentially expressed  
119 genes (DEGs) by comparing AT2 cells from each source to 16-20 pcw fetal tip progenitor organoids  
120 (Fig. 1H;  $\log_2FC > 2$ ,  $P\text{-value} < 0.05$ ). Comparison of these DEGs identified gene expression profiles  
121 that distinguish the different AT2 cells. This showed that 51% of DEGs (4,083) are commonly shared  
122 across all AT2 cell sources (Fig. 1H; centre). Gene ontology (GO) analysis showed that these genes  
123 are related to cytoplasmic translation, protein transport, vesicle-mediated transport, and ER-Golgi  
124 vesicle-mediated transport (Extended Data Fig. 2C). Consistent with this, the fdAT2 organoids  
125 exhibited a gene expression profile related to surfactant protein synthesis (Fig. 1I). Our DEG analysis  
126 also identified subsets of genes that were partially shared, or uniquely expressed, in the different AT2  
127 cells (Fig. 1H; Extended Data Fig. 2C). For example, GO analysis for 532 DEGs that are shared by  
128 fdAT2 organoids and adult AT2 cells, but not by PSC-iAT2, showed terms associated with vesicle  
129 cytoskeletal trafficking, lipid storage, transmembrane transport, and lysosome localization (Fig. 1H,J;  
130 Extended Data Fig. 2C'). These GO terms are strongly correlated with the physiological surfactant-  
131 producing function of the AT2 cells (Fig. 1D-F) highlighting the utility of the fdAT2 organoids to  
132 study surfactant processing. By contrast, the fetal-derived and iPSC-derived AT2 organoids were  
133 missing 355 DEGs related to antigen processing and presentation via MHC class II and immune  
134 response that only the adult AT2 cells expressed (Fig. 1H,K; Extended Data Fig. 2C''), suggesting  
135 that immune function cannot be acquired in a cell-autonomous manner *in vitro*.

136

137 Next, we investigated how far the transcriptional state of the fdAT2 organoids resembles the PSC-  
138 iAT2. Their transcriptome is broadly similar (Fig. 1G, Extended data Fig. 2A). However, a direct  
139 comparison indicated >2000 DEGs (Extended Data Fig. 2D). Gene set enrichment analysis (GSEA)  
140 showed that the fdAT2 organoids were enriched with gene sets associated with surfactant metabolism  
141 compared to PSC-iAT2, although they share many pathways (Extended Data Fig. 2E-G). Overall,  
142 these data confirm that fdAT2 organoids strongly resemble adult AT2 cells at a transcriptional level  
143 and possess the capacity for mature surfactant protein production, trafficking, and secretion, while  
144 proliferating. However, the fdAT2 organoids lack immune response-related features. This may reflect  
145 some immaturity, or, more likely, the sterile environment in which they are grown; supported by the  
146 observation that adult AT2 gradually lose their immune signature when cultured (Fig. 1K, Extended  
147 Data Fig. 2A).

148

149 Adult AT2 cells function as facultative progenitors of lung alveoli that can self-renew and  
150 differentiate into alveolar type 1 (AT1) cells to replenish AT1 cells upon injury<sup>2,3</sup>. We investigated  
151 whether the fdAT2 organoids have the capacity to differentiate into AT1-like cells. The fdAT2  
152 organoids were treated with AT1 lineage-promoting conditions: 10% human serum medium on 2D  
153 for 2 weeks<sup>10</sup>, or 10 mM LATS-IN-1, an inhibitor of LATS1/2 kinases causing activated YAP  
154 signalling, in 3D for 1 week<sup>23</sup> (Fig. 2A-G). In both conditions, the fdAT2 organoids showed  
155 upregulation of AT1 fate markers, such as *AQP5*, *CAVI*, and *AGER*, and downregulation of *SFTPC*  
156 and *SFTPC-GFP* (Fig. 2C,D,F,G). Next, we tested whether the fdAT2 organoids could differentiate  
157 in a more physiological environment. We dissected adult mouse lungs and injected them with single-  
158 cells isolated from *SFTPC-GFP*;*EF1a*-RFP-expressing human fdAT2 organoids, followed by  
159 precision-cut lung slice (PCLS) culture for 1 week. The RFP<sup>+</sup> human cells were engrafted into the  
160 alveolar structure in the mouse PCLS and showed flattened nuclei, consistent with reports that AT1  
161 cells have flattened nuclear shape<sup>24</sup> (Fig. 2I-J; Supplementary Video 1). Scoring for the *SFTPC-GFP*

162 reporter and AT1/2 fate markers confirmed that nearly 100% of the RFP<sup>+</sup> cells co-expressed the AT1  
163 lineage markers, CAV1 and AGER, and rarely expressed the *SFTPC*-GFP reporter or SFTPC protein  
164 (Fig. 2H-K). Taken together, these data show that the human fdAT2 organoids are competent to  
165 differentiate to the AT1 cell lineage *in vitro* and in the mouse lung environment *ex vivo*.

166

167 Our data indicate that the fdAT2 organoids self-renew, differentiate to AT1 cells and display a mature  
168 surfactant synthesis profile during prolonged passaging. They are amenable to lentiviral transduction  
169 and therefore represent a physiological system to study mechanisms of fundamental AT2 function  
170 and dysfunction in disease.

171

172 The commonest pathogenic variant of SFTPC, I73T, mislocalises to the plasma membrane and causes  
173 AT2 dysfunction via a toxic gain-of-function effect leading to ILD<sup>6,7</sup>. We were able to reproduce this  
174 cell surface phenotype in the fdAT2 organoids by viral transduction of HA-SFTPC variants (Fig.  
175 3A,B). Ubiquitinated SFTPC is recognised by the ESCRT machinery and trafficked to late  
176 compartments. We previously showed that the disease-causing SFTPC-I73T mutant is no longer  
177 ubiquitinated, resulting in its relocalisation via recycling and saturated endocytosis of immature  
178 isoforms<sup>8</sup> (Fig. 3C). To identify the ubiquitination machinery required for ESCRT recognition of  
179 SFTPC, we performed a targeted forward genetic screen (Fig. 3D). We predicted that depletion of  
180 key effectors of SFTPC ubiquitination would phenocopy the I73T variant by causing SFTPC  
181 accumulation at the plasma membrane. HeLa cells stably expressing GFP-SFTPC and Cas-9 were  
182 transduced with a subgenomic ubiquitome sgRNA library<sup>25</sup>, and cells with increased surface-  
183 localised pro-SFTPC when compared with untransduced controls were harvested at day 7 or 14  
184 (Extended Data Fig. 3A,B). Transduced cells were also sorted for total SFTPC (GFP-high) to ensure  
185 that any cells accumulating C-terminally cleaved SFTPC at the cell surface (and thus missing the  
186 antibody epitope) were not overlooked (Extended Data Fig 3C,D).

187

188 The most enriched gRNA in d7 cell surface SFTPC-high cells targeted Itchy E3 Ubiquitin Protein  
189 Ligase (*ITCH*) (Fig. 3E; Extended Data Fig. 3A; Extended Data Table 4). Guide RNAs targeting the  
190 ESCRT machinery components Hepatocyte Growth Factor-Regulated Tyrosine Kinase Substrate  
191 (*HRS*) and VPS28 Subunit of ESCRT-I (*VPS28*), K63-chain specific Ubiquitin E2 Conjugating  
192 Enzyme E2 N (*UBE2N*) and the early endosome Rab5-specific GEF RAB Guanine Nucleotide  
193 Exchange Factor 1 (*RABGEF1*) were also enriched; supporting our previous data that SFTPC transits  
194 early endosomal compartments before K63-ubiquitination, recognition by the ESCRT complex and  
195 transit into MVBs. These hits largely overlapped with the GFP-defined sort which also included  
196 gRNAs targeting *ITCH* and ESCRT machinery (Extended Data Fig. 3C). Enrichment of gRNAs for  
197 sumoylation-related Ubiquitin Conjugating Enzyme E2 I (*UBE2I*), Ubiquitin Like Modifier  
198 Activating Enzyme 2 (*UBA2*) and Protein Inhibitor Of Activated STAT 1 (*PIAS1*) was noted in both  
199 screens. *ITCH* remained highly enriched in the d14 sort, though other specific hits (e.g. *HRS*, *VSP28*,  
200 *UBE2N*) were lost likely due to their fundamental roles in trafficking and thus cellular toxicity when  
201 depleted (Extended Data Fig. 3A,B).

202

203 Initial validation of *ITCH*, SUMOylation components and positive controls *HRS* and *UBE2N*  
204 (Extended Data Fig. 4A) revealed that individual depletion resulted in marked cell surface GFP-  
205 SFTPC localisation (Extended Data Fig. 4B). Enrichment of full length SFTPC was more modest  
206 (Extended Data Fig 4C,D), suggesting that a proportion of surface-localised SFTPC is C-terminally  
207 cleaved. We used RT-qPCR to test the hypothesis that SUMOylation hits reflected changes in global  
208 transcription<sup>26</sup>, rather than SFTPC trafficking (Extended Data Fig. 4E) and based on these data  
209 SUMOylation was not investigated further.

210

211 *ITCH* is a HECT-type E3 ligase whose WW domains recognise cytosolic proline rich consensus  
212 sequences, typically PPxY which is present within the N-terminal tail of SFTPC<sup>27</sup>. Depletion of *ITCH*  
213 in clonal GFP-SFTPC expressing HeLa lines did not affect *SFTPC* transcription (Fig. 3F, I), but

214 markedly increased plasma membrane resident SFTPC (Fig. 3G, H, J). Immunoblotting revealed an  
215 excess of full-length (\*), partially cleaved (\*\*), and fully C-terminally cleaved (\*\*\*) species,  
216 suggesting that ITCH depletion inhibits trafficking at/beyond the location of the final C-terminal  
217 cleavage which is thought to be at the MVB limiting membrane<sup>8,28</sup> (Fig. 3I). We confirmed that  
218 SFTPC resides largely in LAMP3<sup>+</sup> (late) compartments in control cells. Following ITCH depletion,  
219 SFTPC localised to EEA1<sup>+</sup> early endosomes and MICALL1<sup>+</sup> recycling endosomes, consistent with  
220 failure of MVB entry and recycling to the plasma membrane (Fig. 3J). In rescue experiments,  
221 restoration of ITCH in knockout cells reversed SFTPC mislocalisation (Extended Data Fig. 5). These  
222 data suggest that ITCH is required for SFTPC trafficking and that ITCH depletion causes  
223 relocalisation of SFTPC to the plasma membrane, phenocopying SFTPC-I73T.

224

225 Having identified ITCH as an E3 ligase required for SFTPC maturation using HeLa cells, we wanted  
226 to determine whether ITCH also regulated endogenous SFTPC trafficking in primary AT2 cells. We  
227 therefore used CRISPRi to genetically deplete fdAT2 organoids of ITCH and UBE2N, as well as the  
228 HECT domain E3 ligase, NEDD4-2, which has been reported to play a role in SFTPC ubiquitination  
229 and maturation<sup>29,30</sup>. *NEDD4-2* was not isolated in our screen likely due to its relative lack of  
230 expression in HeLa (~20% that of *ITCH*; [www.ebi.ac.uk/gxa](http://www.ebi.ac.uk/gxa)), but it is expressed in fdAT2 at a  
231 similar level to *ITCH* (Extended Data Fig. 2H).

232

233 CRISPRi-expressing fdAT2 organoids were transduced with a gRNA for each gene and silencing  
234 induced<sup>31</sup> (Fig. 4A). Approximately 50% of organoids expressed both the CRISPRi and gRNA after  
235 5 days of induction (Fig. 4B and Extended Data Fig. 6A,B). The toxicity of silencing ubiquitin ligases  
236 precluded sorting the double-positive population for RNA extraction, so the 40-60% overall gene  
237 depletion likely reflects complete gene depletion in dual-positive organoids (Fig. 4C). The knock-  
238 down effects reversed completely if organoids were recovered without silencing (-TMP/-dox) (Fig.  
239 4D,E bottom panel 'recovery').

240

241 Global inhibition of K63-ubiquitination and more targeted inhibition of ubiquitination (via *UBE2N*  
242 or *NEDD4-2* depletion respectively) resulted in massive accumulation of intracellular SFTPC with  
243 partial relocation to the plasma membrane (Fig. 4E top and middle rows). *ITCH* depletion resulted  
244 in a similar, but exaggerated, phenotype to that of *NEDD4-2* depletion, and dual-knockdown further  
245 exacerbated the intracellular and cell surface SFTPC accumulation. The cell surface relocation  
246 likely reflects both active recycling of C-terminally cleaved protein and an excess of full-length  
247 protein, which is detectable by flow cytometry (Fig. 4F and Extended Data Fig. 6C). Depletion of  
248 SFTPC ubiquitin ligases in human fdAT2 organoids results in mislocalisation of the endogenous  
249 SFTPC.

250

251 *ITCH* deficiency causes lung interstitial inflammatory infiltrates in humans and mouse models<sup>32,33</sup>  
252 thought to result from multisystem autoimmune disease. We predicted an additional alveolar  
253 epithelial phenotype if *ITCH* is important for SFTPC maturation *in vivo*. Staining for pro-SFTPC  
254 revealed intracellular accumulation and an altered distribution in *Itch* deficient (*Itch*<sup>a18H/a18H</sup>) mouse  
255 alveolar epithelium. Numerous, smaller pro-SFTPC puncta are consistent with failure of trafficking  
256 to late compartments, seen as large puncta in the wild-type mice (Fig. 4G).

257

258 We conclude that intracellular trafficking of SFTPC requires K63 ubiquitination mediated by the  
259 HECT domain E3 ligases including *ITCH* and, to a lesser extent, *NEDD4-2*. Inhibiting ubiquitination  
260 phenocopies the redistribution of the pathogenic SFTPC-I73T variant, reinforcing the importance of  
261 this post-translational modification in maintaining AT2 health.



262 We have derived an expandable AT2 organoid model from fetal lung tip progenitor cells and  
263 demonstrated its use in investigating mechanisms of AT2 biology relevant to disease. FdAT2  
264 organoids acquire features of mature adult AT2 cells, including lamellar body formation, mature  
265 surfactant protein secretion, and the ability to differentiate to AT1 cells (Figs. 1,2). In contrast to  
266 human adult lung-derived AT2 organoids<sup>9-11</sup>, the fdAT2 organoids readily expand, can be passaged  
267 multiple times and cryopreserved without compromising their identity. Their transcriptome is similar  
268 to that of PSC-iAT2 (Fig. 1G), but they can be derived in a more straightforward and timely fashion.  
269 They are also amenable to genetic manipulation, enabling us to investigate key SFTPC trafficking  
270 effectors using CRISPRi (Figs. 3,4).

271

272 Complete trafficking and maturation of SFTPC is required for AT2 health; misfolding variants are  
273 retained in early compartments and cause ER stress<sup>34,35</sup> whereas mistrafficking isoforms, exemplified  
274 by SFTPC-I73T, mislocalise due to a trafficking block and failure of ubiquitination<sup>8,35,36</sup>. Both  
275 mutation types result in AT2 cell dysfunction and heritable forms of interstitial lung disease. These  
276 phenotypes have been confirmed in animal models<sup>37-39</sup>, but mechanistic work on AT2 dysfunction in  
277 physiological human *ex vivo* models has been highly challenging. We combined a forward genetic  
278 screen with genetic manipulation of fdAT2 organoids to investigate intracellular SFTPC trafficking  
279 via the plasma membrane (Fig. 1D). We confirm that ubiquitination is required for normal SFTPC  
280 trafficking and identify the E3 ligase ITCH as a novel effector of SFTPC processing. Although there  
281 can be redundancy between family members, the observation that individual depletion of either ITCH  
282 or NEDD4-2 (expressed at similar levels in human AT2 cells) yields a phenotype close to that of dual  
283 depletion (Fig. 4E) suggests they may play complementary roles. We further confirmed altered  
284 SFTPC handling in *Itch* deficient mice (fig 4G).

285

286 FdAT2 organoids are an attractive genetic model for understanding fundamental mechanisms of AT2  
287 cell biology in health, and modelling inherited disorders and environmental insults which perturb



288 their function. They also represent a useful cell source to investigate cellular and molecular  
289 mechanisms of AT2 to AT1 cell lineage differentiation during human lung development and repair.

290

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314

315 **Author contributions**

316 Conceptualisation, KL, ENR, PJJ, SJM, ELR, JAD; Methodology, Investigation, and Validation, KL,  
317 ENR, DS, DJHVB, JRE, LEM, JAD; Resources, LEM, PJJ; Software and Formal Analysis, KL,  
318 ENR, DJHVB; Writing – Original Draft KL, ENR; Writing – Review & Editing, JHL, PJJ, SJM,  
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322

323 **Figure legends**

324

325 **Fig. 1. Human fetal-derived alveolar type 2 organoids show similar surfactant protein**  
326 **production, trafficking, and secretion to adult AT2 cells.** (A) Experimental scheme and culture  
327 medium for derivation and establishment of fdAT2 organoids from human fetal lungs at 16-22 pcw.  
328 (B) Bright-field images of two independent fdAT2 organoid lines at P3, which were established from  
329 19 pcw fetal lung tissue. (C) Uptake of lysotracker green DND-26 that stains acidic compartments  
330 within an fdAT2 organoid line at P14, showing the accumulation of lamellar bodies (acidic lysosome-  
331 related organelles). (D) Electron microscopy showing the presence of lamellar bodies with  
332 characteristic concentric lamellar membranes. Scale bar, 2  $\mu\text{m}$ . (E) Immunofluorescence images of  
333 fdAT2 organoids using surfactant protein production-associated markers including mature SFTPC  
334 and SFTPB, LAMP3, NAPSA, and ABCA3, plus typical alveolar type 2 cell-lineage markers HTII-  
335 280 and HOPX, epithelial cell polarity markers E-cadherin, pan-Laminin, and ZO1, and a  
336 proliferation marker, KI67. \*Asterisk (yellow) indicates apical lumen. Organoids were at p10-15.  
337 DAPI (blue), nuclei. Scale bars, 50  $\mu\text{m}$ . (F) Flow cytometric analysis of cell surface proSFTPC in 9  
338 pcw lung tip progenitor organoids and 21 pcw fdAT2 organoids as measured by C-terminal SFTPC  
339 antibody which recognises the full-length protein. (G) Principal component analysis (PCA) plot of  
340 transcriptomic profiles of the fdAT2 organoids at early and late passages (fdAT2; Early and Late),  
341 lung tip progenitor organoids from 7-9 pcw and 16-22 pcw, and other alveolar type 2 cells that were  
342 previously reported, PSC-iAT2, adult AT2 cells cultured or freshly isolated from adult human lung<sup>2,3</sup>.  
343 (H) Venn diagram illustrating the number and the proportion of unique or shared genes from AT2  
344 cells of different sources. The genes for each AT2 cell type that were differentially expressed  
345 compared to fetal 16-22 pcw tip progenitor organoids were included ( $\log_2\text{FC} > 2$ ,  $P\text{-value} < 0.05$ ;  
346 Extended Data Table 2). (I-K) Heatmap of DEGs associated with typical AT2 cell fate (I), trafficking  
347 (J), and immune response (K). A list of trafficking-related genes was selectively obtained following

348 gene ontology (GO) analysis for the GO terms; lipid storage, membrane transport, lysosome  
349 localisation, vesicle-cytoskeleton trafficking; see also Extended Data Fig. 2C.

350

351 **Fig. 2. Alveolar type 1 cell fate differentiation of AT2 organoids under *in vitro* and *ex vivo***  
352 **culture conditions.** (A-D) Alveolar type 1 cell (AT1) fate differentiation of fdAT2 organoids in 10%  
353 human serum-containing medium on 2D culture. Experimental scheme of AT1 differentiation (A), a  
354 bright-field image of AT2 organoids upon AT1 differentiation (B), qRT-PCR analysis of AT1  
355 markers *AQP5*, *CAV1*, and *AGER*, and an AT2 marker, *SFTPC* (C), and immunofluorescence  
356 imaging with *CAV1*, E-cadherin,  $\beta$ -actin, and DAPI (nuclei) (D). For RT-qPCR, data were  
357 normalised to fdAT2 organoids; mean  $\pm$  SD, n = 3 independent repeats (\*p<0.05, \*\*p<0.01; unpaired  
358 t-test (two-tailed)). (E-G) AT1 differentiation of *SFTPC*-GFP-expressing fdAT2 organoids in a  
359 culture medium containing YAP signalling agonist, 10  $\mu$ M LATS-IN-1, in the absence of Wnt  
360 agonists, in 3D organoid culture. Experimental scheme of AT1 differentiation (E), qRT-PCR analysis  
361 of AT1 markers *AQP5*, *CAV1*, and *AGER*, and an AT2 marker, *SFTPC* (F), and immunofluorescence  
362 imaging with *CAV1*, *AGER*, and DAPI (nuclei) (G). For RT-qPCR, data were normalised to fdAT2  
363 organoids; mean  $\pm$  SD, n=3 independent repeats (\*p<0.05, \*\*p<0.01; unpaired t-test (two-tailed)).  
364 (H) Explant culture of mouse precision-cut lung slices (PCLS) upon injecting *SFTPC*-GFP; *EF1a*-  
365 RFP human fdAT2 organoids. Organoids were dissociated and  $2 \times 10^5$  single cells mixed with 100  $\mu$ l  
366 of 50% matrigel and directly injected into each lobe of the lungs. PCLS of 150  $\mu$ m thickness were  
367 cultured for 1 week in 10% fetal bovine serum-containing medium. Three independent lines of fdAT2  
368 organoids were used for the explant culture (16402, 16587, 16392). (I-K) Immunofluorescence  
369 images of PCLS showing engrafted and AT1 differentiated human cells. RFP+ cells were monitored  
370 by a combination of cell type marker antibodies against *SFTPC* (I,J), and *CAV1* (I) or *AGER* (J).  
371 DAPI, nuclei. Scale bars, 50  $\mu$ m. Quantitation (K) of AT1-lineage positive human cells in the  
372 explants, by measuring the proportion of AT2 (*SFTPC*) and AT1 markers (*CAV1* and *AGER*) co-

373 localising with RFP (n = 53, SFTPC/CAV1 cells; n = 56, SFTPC/AGER cells; 6 lung slices from 3  
374 biological replicates).

375

376 **Fig. 3: A forward genetic screen confirms the importance of ubiquitination in SFTPC**  
377 **trafficking and identifies the E3 ligase ITCH as required for SFTPC maturation.** (A)

378 Immunofluorescence of proSFTPC localisation in organoids expressing HA-SFTPC-WT or HA-  
379 SFTPC-I73T for 10 days. Scale bar 10  $\mu\text{m}$  / 5  $\mu\text{m}$  in zoomed inserts. (B) Quantification of cell surface

380 SFTPC in organoids expressing HA-SFTPC-WT or HA-SFTPC-I73T as measured by SFTPC C-  
381 terminal antibody, expressed as fold change in mean fluorescence intensity; mean  $\pm$  SEM, n=3

382 independent repeats (\* =  $p < 0.05$ , one-sample t-test). (C) Schematic of WT and pathogenic I73T  
383 variant SFTPC trafficking. After trafficking from early compartments to the plasma membrane, both

384 WT and I73T are endocytosed and the C terminus cleaved in early endosomes. Onward trafficking  
385 into multivesicular bodies (MVBs) then lamellar bodies (LBs) is dependent upon further cleavage

386 and ubiquitination; this fails in the I73T variant and results in recycling of partially cleaved isoforms  
387 to the plasma membrane. (D) Schematic of ubiquitome forward genetic screen strategy. HeLa cells

388 stably expressing eGFP-SFTPC-WT and Cas9 were infected with a lentiviral ubiquitome sgRNA  
389 library consisting of 1,119 genes with 10 guides per gene. Transduced cells were selected with

390 puromycin to generate a mutant cell pool. Day 7 post transduction, cells enriched for cell surface pro-  
391 SFTPC (as measured by a C-terminal antibody) or total GFP were isolated by FACS. These cells

392 underwent a further enrichment sort at day 14. Genomic DNA was extracted from sorted cells and an  
393 unsorted control and genes with the highest gRNA representation identified by high-throughput

394 sequencing. (E) MAGeCK score demonstrating relative enrichment of each gene for the day 7 cell  
395 surface SFTPC high population. (F) Relative expression of *SFTPC* and *ITCH* in control and *ITCH*

396 knockout (KO) HeLa cells as measured by RT-qPCR and normalised to GAPDH; mean  $\pm$  SEM, n=3  
397 independent repeats (\*\*\*)= $p < 0.001$ , two-sided student's t-test with non-equal variance). (G, H) Flow

398 cytometry of cell surface SFTPC signal as measured by SFTPC C-terminal (C-term) antibody in

399 control vs ITCH knockout lines and quantification of mean fluorescence intensity; mean  $\pm$  SEM,  
400 n=10 independent repeats (\*\*\*) =  $p < 0.001$ , one-sample t-test). (I) Immunoblotting of lysates from  
401 control or ITCH knockout cells using an SFTPC N-terminal (Npro) and ITCH antibody (\* = full  
402 length species (-/+ palmitoylation), \*\* = partially C-terminal cleaved intermediate, \*\*\* = fully C-  
403 terminally cleaved intermediate). (J) Live cell imaging and colocalisation of GFP-SFTPC with  
404 LAMP3, MICAL-L1 and EEA1 by immunofluorescence in control and ITCH knockout cells. Scale  
405 bar, 10  $\mu$ m.

406

407 **Fig. 4: ITCH depletion alters SFTPC localisation in fetal lung-derived AT2 organoids.** (A)  
408 Schematic of the inducible CRISPR interference (CRISPRi) system in fdAT2 organoids. CRISPRi  
409 organoid lines were generated by lentiviral transduction of AT2 cells with KRAB-dCas9-DHFR  
410 followed by sorting for RFP-positive cells. Cells were replated and expanded for 12 days before  
411 transduction with relevant sgRNA lentivirus. Approximately 10 days later the CRISPRi system was  
412 activated with doxycycline (dox) and trimethoprim (TMP). 5 days after induction, organoids were  
413 analysed by qPCR, flow cytometry and confocal microscopy. Dox and TMP were subsequently  
414 removed for 14 days to allow for recovery of gene expression. (B) Representative images showing  
415 morphology of control organoids and those transduced with KRAB-dCas9-DHFR (RFP) +/- gRNA  
416 (GFP). Scale bar = 400  $\mu$ m (C-D) Relative expression of *UBE2N*, *ITCH*, and *NEDD4-2* following  
417 CRISPRi induction (C) and 14-day recovery (D) (representative data from 3 (*ITCH/UBE2N*) or 1  
418 (*NEDD4-2*) experiments, each performed in triplicate). Expression level was normalised to organoids  
419 expressing non-targeting control gRNAs. (E) proSFTPC localisation in CRISPRi-depleted  
420 (knockdown; kd) and recovered organoids by immunofluorescence (top panels: equal microscope  
421 settings illustrate accumulation of pro-SFTPC protein; middle panels: exposure altered to visualise  
422 subcellular localisation). Scale bar = 10  $\mu$ m / 5  $\mu$ m zoomed inserts. (F) Quantification of cell surface  
423 SFTPC signal measured by flow cytometry using SFTPC C-terminal antibody, expressed as fold

424 change in mean fluorescence intensity. (G) Intracellular localisation of SFTPC in wild-type or Itch  
425 knockout mice.

426

427 **Extended Data Fig. 1. Characterization of AT2 organoids.** (A) Derivation and establishment of  
428 fdAT2 organoids from lung tip progenitor cells (upper panel), or proximal airway progenitors (lower  
429 panel) of human fetal lungs at 22 pcw. Upper panel: The isolated tip progenitor cells were  
430 immediately transduced and selected based on *SFTPC*-GFP and EF1a-TagRFP after 48 h of  
431 transduction; *SFTPC*-GFP and EF1a-TagRFP reporter positive cells were efficiently expanded into  
432 fdAT2 organoids when grown in AT2 medium for 3 weeks. Lower panel: Proximal airway cells were  
433 immediately transduced with *SCGB3A2*-GFP, EF1a-TagRFP reporter lentivirus and the airway  
434 progenitor cells were selectively isolated by *SCGB3A2*-GFP after 48h of transduction; *SCGB3A2*-  
435 GFP, *EF1a*-TagRFP reporter positive cells and expanded into small AT2-like organoids when grown  
436 in AT2 medium for 3 weeks, but efficiently formed airway organoids when grown in airway medium  
437 for the same period. Scale bar, 50  $\mu$ m (B) Size of organoids expanded from tip progenitors (*SFTPC*-  
438 GFP<sup>+</sup>) or proximal airway progenitors (*SCGB3A2*-GFP<sup>+</sup>) in AT2 medium was measured; mean  $\pm$  SD,  
439 n=50 (\*\*\*\*p<0.0001; unpaired t-test (two-tailed)). (C) Expression of mature SFTPC protein in  
440 organoids expanded from tip progenitors or airway progenitors in AT2 medium. DAPI, nuclei. Scale  
441 bar, 50  $\mu$ m. (D) Cultured fdAT2 organoids at early and late passages, stably expressing *SFTPC*  
442 promoter-driven GFP (*SFTPC*-GFP). Two independent lines of AT2 organoids at P3 and P17, and  
443 P4 and P20. Scale bars, 50  $\mu$ m. (E) qRT-PCR analysis of alveolar type 2 cell lineage markers,  
444 *NKX2.1*, *SFTPC*, *ABCA3*, and *LAMP3*, in 7-9 pcw and 16-22 pcw tip progenitor organoids, and  
445 fdAT2 organoids at P12, P20, and P21. Data were normalised to 7-9 pcw tip organoids; mean  $\pm$  SD,  
446 n=3 independent repeats (\*p<0.05, \*\*p<0.01, \*\*\*p<0.001; One-way ANOVA with Tukey multiple  
447 comparison post-test). (F) Immunoblot of mature forms of SFTPC and SFTPB in human fetal lung  
448 tip progenitor-derived organoids at 7-9 pcw and 16-22 pcw, respectively, and the fdAT2 organoids.  
449 Two independent replicates were used. (G - I) FdAT2 organoids were cultured in the AT2 medium



450 for 2 weeks, in the presence (control) or absence of FGF7 (-FGF7) and AT2 lineage markers were  
451 measured by qRT-PCR (H) after 7 and 14 days of culture. Data were normalised to AT2 organoids  
452 cultured in the AT2 medium containing FGF7 (control); mean  $\pm$  SD, n=3 independent repeats (\*p <  
453 0.05, \*\*p < 0.01, \*\*\*p < 0.001; one-way ANOVA with Tukey multiple comparison post-test). (I)  
454 Mature SFTPC protein expression was visualised with a proliferation marker, KI67, and E-cadherin  
455 by immunofluorescence staining, at 14 days of culture. DAPI, nuclei. Scale bar, 50  $\mu$ m.

456

457 **Extended Data Fig. 2. Comparative transcriptomic analysis of fetal-derived AT2 organoids**  
458 **with other AT2 sources.** (A) Heatmap analysis of the top 2,000 most variable genes across all  
459 samples. (B) GO analysis of genes highly enriched in the fdAT2 organoids compared to the cultured  
460 adult AT2 cells. (C, blue) GO analysis of DEGs shared between AT2 cells of different origin,  
461 including fdAT2 organoids, PSC-iAT2, and cultured and freshly isolated adult AT2 cells; related to  
462 Fig. 1H. 4,083 genes commonly shared by all AT2 fate cell types. (C', red) genes shared by fdAT2  
463 organoids and cultured and/or freshly isolated adult AT2 cells (C'', cyan) genes shared by cultured  
464 and freshly isolated adult AT2 cells. (D) Volcano plot describing the direct comparison of fdAT2  
465 organoids and PSC-iAT2. 1,855 and 832 genes were differentially enriched in AT2 organoids and  
466 PSC-iAT2, respectively (logFC > 2, P-value < 0.05; related to Extended Data Table 3). (E and F)  
467 Gene set enrichment analysis (GSEA) of surfactant metabolism and signalling pathway-associated  
468 gene sets between fdAT2 organoids and PSC-iAT2. (G) Heatmap of a gene set associated with  
469 surfactant metabolism from REACTOME. Green box, fdAT2 organoids. (H) Relative expression of  
470 E3 ligases *ITCH* and *NEDD4-2* in AT2 cells and tip progenitor organoids. .

471

472 **Extended Data Fig. 3. A forward genetic screen identifies candidate proteins involved in SFTPC**  
473 **processing and trafficking.** (A-B) Flow cytometry gating strategy and MAGECK relative  
474 enrichment scores for genes whose depletion results in increased cell surface SFTPC (A, day 7 and  
475 B, day 14) or increased total eGFP-SFTPC (C, day 7 and D, day 14) post-transduction with



476 ubiquitome sgRNA library. Genes highlighted red (BAP1,TRIM33 and PHF10) are commonly  
477 enriched but non-specific transcription-related hits from forward genetic screens.

478

479 **Extended Data Fig. 4. Initial validation of screen hits.** (A) Schematic of screen hit validation  
480 strategy. HeLa cells stably expressing GFP-SFTPC-WT and Cas9 were transfected with plasmids  
481 containing sgRNAs against specific genes for hit validation. Three guides for each gene were pooled  
482 for transfection. Cells underwent puromycin selection for 48 hours to select for transfected cells. (B-  
483 C) Knockout pools assessed for cell surface SFTPC enrichment by live cell confocal microscopy (B)  
484 and flow cytometry (C). Scale bar = 10  $\mu$ m. (D) Quantification of full-length cell surface SFTPC as  
485 measured by C-terminal antibody and expressed as mean fluorescence intensity. Mean  $\pm$  SEM, n=3  
486 independent repeats (\*p < 0.05, \*\*p < 0.01,\*\*\*p<0.001; paired two-tailed Student's *t*-test). (E)  
487 Relative expression of *SFTPC* mRNA in GFP-SFTPC-Cas9 control cells and UBE2I, UBA2, and  
488 PIAS1 knockout pools (representative result of 3 independent repeats).

489

490 **Extended Data Fig. 5. Restoration of ITCH expression in knockout cells reverses SFTPC**  
491 **mislocalisation.** Control and ITCH knockout HeLa cells transfected with *HA-ITCH* were assessed  
492 for relative *ITCH* mRNA expression (A), GFP-SFTPC localisation (B) and cell surface full-length  
493 SFTPC protein by flow cytometry (C&D). Scale bar = 10  $\mu$ m. Mean  $\pm$  SEM, n=3 independent repeats  
494 (\*\*=p<0.005, one-way ANOVA with *post-hoc* Tukey tests).

495

496 **Extended Data Fig. 6. Flow cytometry gating strategy and cell-surface SFTPC measured during**  
497 **CRISPRi knockdown and recovery.** (A) Flow cytometry dot plots of sgRNA positive (y-axis) and  
498 CRISPRi-RFP (x-axis) positive populations in organoids transduced with sg non-targeting (NT),  
499 sgUBE2N, sgITCH, or sgNEDD4-2 at cell harvesting (5 days post induction of CRISPRi system).  
500 (B) (top panel) Flow cytometry dot plots of sgRNA positive (y-axis) and CRISPRi-RFP (x-axis)  
501 positive populations for cells transduced with both sgITCH and sgNEDD4-2 (5 days post induction

502 of CRISPRi system). The population was first gated for GFP and RFP positive cells. The resulting  
503 population (outlined) was gated for BFP positive cells (bottom panel). (C) Flow cytometry of cell  
504 surface SFTPC as measured by C-terminal antibody (detecting full length protein) during knockdown  
505 (kd) and following rescue when compared with organoids expressing non-targeting control gRNAs.

506

507 **Extended Data Table 1. Multiple comparison of transcriptomes of alveolar type 2 cells of**  
508 **different origins.** Transcriptional comparison between fdAT2 organoids with other AT2 cells.

509

510 **Extended Data Table 2. Transcriptomic comparison of AT2 cells compared to those of fetal 16-**  
511 **22 pcw tip progenitor organoids.** The genes for each cell type were differentially extracted from  
512 those of fetal late tip progenitor organoids ( $\log_{2}FC > 2$ ,  $P$ -value  $< 0.05$ ).

513

514 **Extended Data Table 3. Direct comparison of transcriptomes of fetal-derived AT2 organoids**  
515 **and PSC-iAT2.** Transcriptional comparison between fdAT2 organoids with PSC-iAT2.

516

517 **Extended Data Table 4.** Full list of enriched genes in ubiquitome forward genetic screens at day 7  
518 and day 14.

519

520

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- 609
- 610

611 **Methods and protocols**

612

613 Details of primary antibodies, expression plasmids, primers, guide RNA, and sample information are included  
614 in supplementary table 1.

615

616 **Material Availability**

617 Human organoid lines used in the study are available from the Dr Emma L Rawlins ([elr21@cam.ac.uk](mailto:elr21@cam.ac.uk)) with  
618 a completed Materials Transfer Agreement.

619

620 **Mouse tissue**

621 6-10 week-old C57BL/6 mice were used for the ex vivo AT1 differentiation experiments. All procedures were  
622 approved by the University of Cambridge Animal Welfare and Ethical Review Body and carried out under a  
623 UK Home Office License (PPL: PP3176550) in accordance with the Animals (Scientific Procedures) Act 1986.  
624 Mice were bred and maintained under specific-pathogen-free conditions at the Gurdon Institute of the  
625 University of Cambridge.

626 Twelve-week old animals homozygous for a null allele of *Itch* (*Itch*<sup>a18H/a18H</sup>, B6.C3H(101)-  
627 In(2a;Itch)18H/LmatMmjax MMRRC stock #65285) have been previously described (Hustad et al., 1995;  
628 Cattanaach BM et al, 1987). For this line, the *a*<sup>18H</sup> allele was backcrossed to C57BL/6J for 27 generations.  
629 Therefore, age- and gender-matched C57BL/6J mice were used as controls (*Itch*<sup>+/+</sup>) in the indicated  
630 experiments. All mice were cared for in accordance with the National Institute of Health's Guide for the Care  
631 and Use of Laboratory Animals (8th ed., Washington, DC: 2011) and the University of South Carolina's  
632 Institutional Animal Care and Use Committee approved all experimental protocols.

633

634 **Human embryonic and fetal lung tissues**

635 Human embryonic and fetal lung tissue was provided from terminations of pregnancy from Cambridge  
636 University Hospitals NHS Foundation Trust under permission from NHS Research Ethical Committee  
637 (96/085) and the MRC/Wellcome Trust Human Developmental Biology Resource (London and Newcastle,  
638 University College London (UCL) site REC reference: 18/LO/0822; Project 200591; [www.hdbr.org](http://www.hdbr.org)). Sample  
639 age ranged from 7-9<sup>1</sup> and from 16-22 weeks of gestation (post-conception weeks; pcw). Sample gestation was

640 determined by external physical appearance and measurements. Samples had no known genetic abnormalities.  
641 Sample gender was unknown at the time of collection and was not determined. All collected samples were  
642 included in the study.

643

#### 644 **Derivation and *in vitro* culture of human alveolar type 2-like organoids**

645 Distal edges of 16~22 pcw human fetal lung tissue, typically measuring 0.5 cm x 1~3 cm, were sectioned and  
646 fragmented into smaller pieces. Fragments were dissociated with 0.125 mg/ml Collagenase (Merck, C9891),  
647 1 U/ml Dispase (Thermo Fisher Scientific, 17105041), and 0.1 U/ $\mu$ l DNase (Merck, D4527) in a rotating  
648 incubator for 1 hr at 37°C. After rinsing in washing buffer containing 2% FBS in cold PBS the cells were  
649 filtered through a 100  $\mu$ m strainer. Cells were treated with RBC lysis buffer (BioLegend, 420301) at room  
650 temperature for 5 min, rinsed and incubated with EpCAM (CD326) microbeads (Miltenyi Biotec; 130-061-  
651 101) to isolate EpCAM<sup>+</sup> epithelial cells containing mostly tip epithelial cells. These cells were embedded in  
652 matrigel (Corning, 356231) and cultured in 24-well plates in alveolar type 2 differentiation medium (AT2  
653 medium): Advanced DMEM/F12 supplemented with 1x GlutaMax, 1 mM HEPES and  
654 Penicillin/Streptomycin, 1X B27 supplement (without Vitamin A), 1X N2 supplement, 1.25 mM N-  
655 acetylcysteine, 50 nM Dexamethasone (Merck, D4902), 0.1 mM 8-Bromoadenosine 3'5'-cyclic  
656 monophosphate (cAMP; Merck, B5386), 0.1 mM 3-Isobutyl-1-methylxanthine (IBMX; Merck, 15679), 50  
657  $\mu$ M DAPT (Merck, D5942), 100 ng/ml recombinant human FGF7 (PeproTech, 100-19), 3  $\mu$ M CHIR99021  
658 (Stem Cell Institute, University of Cambridge), 10  $\mu$ M A83-01 (Tocris, 2939), and 10  $\mu$ M Y-27632 (Merck,  
659 688000). Medium was replaced every 2 days and cultures maintained for 2 weeks until the initial AT2 organoid  
660 colonies formed in the matrigel droplet. Organoids were typically passaged at a 1 to 3 ratio weekly by gently  
661 breaking into small fragments.

662 For SFTPC-GFP, or SCGB3A2-GFP<sup>2</sup> reporter cell isolation, the isolated tip progenitor cells or proximal  
663 airway cells were immediately transduced and selected based on *SFTPC*-GFP or *SCGB3A2*-GFP with *EF1a*-  
664 TagRFP reporter expression by flow cytometry, after 48 h of transduction and cultured for 3 weeks in the AT2  
665 medium. As a control, proximal airway progenitors were immediately selected based on *SCGB3A2*-GFP after  
666 48 h of transduction, and cultured in airway medium: Advanced DMEM/F12 medium supplemented with 1X  
667 B27, 1X N2, 1.25 mM N-acetylcysteine, 100 ng/mL FGF10, 100 ng/mL FGF7, 50 nM Dexamethasone, 0.1  
668 mM cAMP, 0.1 mM IBMX, and 10  $\mu$ M Y-27632.



669

## 670 **Immortalised cell culture and cell line derivation**

671 HeLa cells were cultured in DMEM (Sigma-Aldrich, D6429) + 10% fetal bovine serum (FBS) (Sigma-  
672 Aldrich). Plasmid DNA was introduced using liposomal transfection with FuGene 6 (Promega) or  
673 lipofectamine LTX (ThermoFisher).

674 Clonal GFP-SFTPC-expressing HeLa cell lines were derived as previously described<sup>3</sup>. A pool stably  
675 expressing Cas9 was generated by lentiviral transduction of the pHRSIN-Cas9 vector and selection of  
676 transduced cells using hygromycin (2 µg/ml; Invitrogen 10687010).

677 For initial CRISPR screen validation, gene-specific deplete pools were obtained by transducing HeLas with  
678 pKLV-pU6-esgRNA(modified BbsI)-pPGK-Puro2ABFP containing 3 gRNAs per gene and transduced cells  
679 selected with puromycin (1 µg/ml; Alfa Aesar J61278). *ITCH* depleted clonal lines were subsequently derived  
680 by single cell sorting into 96 well plates before expansion and screening by RT-qPCR. Experiments were  
681 performed on a minimum of 3 clonal lines derived from different gRNAs to ensure findings did not reflect off-  
682 target effects.

683 For *ITCH* rescue experiments, 4 silent mutations were introduced into the *ITCH* cDNA sequence in the region  
684 of the gRNA by site-directed mutagenesis (GAA CGG CGG GTT GAC AAC ATG -> GAG CGG CGG GTA  
685 GAT AAT ATG) before transfection to ensure the integrated CRISPR-Cas9 in the *ITCH* knockout cells did  
686 not also edit the transiently transfected plasmid.

687 To determine the efficacy of candidate CRISPRi gRNAs, HeLas were transduced with pLenti-tetON-KRAB-  
688 dCas9-DHFR-EF1a-TagRFP-2A-tet3G and sorted by FACS. Expression was induced with TMP and dox for  
689 5 days before cells harvested for RNA and RT-qPCR.

690

## 691 **Alveolar type 1 (AT1) lineage differentiation of AT2 organoids *in vitro* and *ex vivo***

692 For *in vitro* AT1 differentiation, AT2 organoids were dissociated into single cells and 1 x 10<sup>5</sup> cells were  
693 replated on matrigel-coated 12-well dishes and cultured either 1) in an AT1-promoting medium<sup>4</sup> containing  
694 10% human serum for 2 weeks or 2) in medium<sup>5</sup> containing the LATS1 and 2 inhibitor LATS-IN-1 (10 mM,  
695 Cambridge Bioscience, CAY36623) and in the absence of CHIR99021 for a week. Cells were analysed by RT-  
696 qPCR and immunofluorescence.

697 AT1 lineage differentiation of AT2 organoids was performed in an *ex vivo* mouse lung explant. Prior to the *ex*  
698 *vivo* culture of precision-cut lung slices (PCLS)<sup>6</sup>, AT2 organoids expressing *SFTPC*-GFP<sup>+</sup> and TagRFP<sup>+</sup> were  
699 dissociated into single cells,  $2 \times 10^5$  cells mixed with 100  $\mu$ l 50% matrigel and directly injected into each lung  
700 lobe using an 18G needle. Mouse lung lobes were sectioned into 150  $\mu$ m PCLS using a Leica VT1200s  
701 vibratome. Following *ex vivo* culture in DMEM/F12 medium supplemented with 2% v/v penicillin-  
702 streptomycin, 10% FBS and 1 mM cAMP for one week, the PCLS were subjected to immunofluorescence  
703 analysis.

704

### 705 **Lentivirus production and viral transduction**

706 Lentivirus was produced using HEK293T cells. For pHR SIN and pKLV vectors (for the forward genetic  
707 screen),  $5 \times 10^5$  cells were plated in one well of a 6-well plate 24 hr before transfection with 0.67 $\mu$ g  
708 pCMVR8.91 (Gag-Pol), 0.33 $\mu$ g pMD2G (VSV-G) and 1 $\mu$ g pHR SIN/pKLV (with gene of interest) and media  
709 was changed the next day. Virus was collected after 48 hr and filtered through a 0.45 $\mu$ m filter. For pLenti  
710 vectors for the CRISPRi experiments and generating SFTPC-GFP reporter line,  $2 \times 10^5$  /  $8 \times 10^5$  cells (<10kb  
711 / >10kb plasmid, respectively) were plated into a 10cm dish 24 hr before transduction with 5/10 $\mu$ g plasmid of  
712 interest, 3/6 $\mu$ g pPAX2, 2/3 $\mu$ g pMD2.G and 2/3 $\mu$ g pAdvantage and media was changed the next day. Virus was  
713 collected after 48 hr and filtered through a 0.45  $\mu$ m filter before being concentrated with Lenti-X (Takara bio)  
714 (3:1 supernatant to lenti-X) overnight at 4°C, spun at 1,500 g for 45 min in a cold centrifuge and the pellet  
715 resuspended such that virus was 100X concentrated.

716 Transduction of HeLa cells was typically achieved by adding 500  $\mu$ l viral supernatant to  $2 \times 10^5$  cells in a 6-  
717 well plate, centrifuging at 600 x g for 1 hr and incubating overnight before refreshing the media. Antibiotic  
718 selection was added 48 hr after transduction.

719

### 720 **Genetic manipulation of organoids**

721 To create transduced organoid lines, single-cell dissociated AT2 organoids were infected with lentivirus  
722 overnight at 37°C then embedded into matrigel and cultured in the medium for another 48-72 before  
723 fluorescence sorting to enrich for transduced cells. For the reporter system, pHAGE plasmids were modified  
724 by insertion of EGFP or EF1a-promoter TagRFP (EF1a-TagRFP) cassettes into the human *SFTPC* promoter

725 (2.2 kb; chr8:22,433,535-22,435,769). For the HA-SFTPC lines, HA-SFTPC-WT or I73T were cloned into  
726 pLenti-tetON-EF1a-tagRFP-2A-tet3G by Gibson assembly.

727 For CRISPRi, the organoids were initially transduced with doxycycline- inducible lentivirus<sup>7</sup> containing  
728 dCAS9 protein fused with 5' KRAB and 3' DHFR, and EF1a-TagRFP vector Post-sorting, organoids were  
729 expanded before being transduced with lentivirus harbouring U6 promoter driven guide RNAs and EF1a-  
730 EGFP-CAAX, with the relevant guides<sup>8</sup>. For activation of the CRISPRi system, doxycycline (2 µg/ml, Merck,  
731 D9891) and trimethoprim (10 nmol/l, Merck, 92131) were added to the medium for 5 days. For rescue  
732 experiments, doxycycline and trimethoprim were removed from the media for 14 days and organoids passaged  
733 where necessary before harvesting. CRISPRi experiments were carried out in two biologically independent  
734 lines.

735

### 736 **CRISPR screen**

737 The forward genetic screen was undertaken using a ubiquitome gRNA library consisting of approximately  
738 1,119 genes with 10 guides per gene<sup>9</sup>. The Cas9 activity of the HeLa-Cas9 line was confirmed by transducing  
739 with pKLV encoding β-2 microglobulin gRNA and assessing loss of MHC class I from the plasma membrane  
740 by flow cytometry (with >80% loss considered acceptable). The amount of virus required for an MOI of 0.3  
741 was determined by transducing 1x10<sup>6</sup> cells with varying amounts (25-400 µl) lentivirus and assessing BFP  
742 positivity by flow cytometry at 72 hr post transduction. For the screen, 20 million cells were transduced to  
743 ensure 500-fold coverage and puromycin selection commenced at 48 hr post transduction. After 5 days of  
744 selection, cells were harvested with 10mM EDTA and stained using the SFTPC BRICHOS domain antibody.  
745 Cells most highly enriched for BRICHOS signal or GFP (approx. 1%) were collected; half were harvested for  
746 genomic DNA extraction and half kept in culture for a further 7 days. This population underwent a further sort  
747 and the BRICHOS or GFP enriched population harvested. Genomic DNA was extracted using a Qiagen  
748 Puregene Core Kit (#1042601). Lentiviral gRNA inserts were amplified in a two-step PCR reaction as  
749 previously described (Menzies et al, 2018), cleaned with AMPure XP magnetic beads (Beckman Coulter  
750 A63881) and sequenced by MiniSeq (Illumina).

751

### 752 **Flow cytometry**

753 HeLa cells were detached using 10 mM EDTA and organoids dissociated to single cells before being washed  
754 with PBS and centrifuged at 500 g for 3 min to pellet. Non-specific staining was blocked with 10% FBS in  
755 PBS for 30 min then cells pelleted by centrifugation and incubated with primary antibody on ice for 30 min.  
756 Following two rounds of washing with PBS by centrifugation, cells were incubated with AF647-conjugated  
757 secondary antibodies for 30 min on ice, washed twice and filtered through 50 µm filters. Samples were  
758 analysed on a Fortessa (BD bioscience) flow cytometer and further analysis undertaken using FlowJo software  
759 (10.0.0).

760 Flow cytometric sorting of single-cell dissociated organoids transduced with fluorescent markers was  
761 performed using a sorter (SH800S or BD FACSMelody) and analysed using FlowJo.

762

### 763 **Immunoblotting**

764 For immunoblotting, cells were subjected to triton lysis, SDS-PAGE electrophoresis, and immunoblotting as  
765 previously described<sup>10</sup>. Membranes were incubated overnight with primary antibody at 4°C before washing  
766 and incubating with secondary antibody (1:20,000 IRDye® conjugated, various) for 1 hour at room  
767 temperature. Membranes were visualised using a Li-Cor Odyssey imaging system.

768

### 769 **Immunofluorescence staining**

770 For immunostaining of HeLa cells, cells grown on coverslips were fixed with 4% PFA for 30 min, blocked with  
771 10% FBS for 30 min then permeabilized for 30 min with 0.1% triton. Cells were incubated with primary  
772 antibodies diluted in a blocking buffer overnight at 4°C. After washing with PBS and incubated with Alexa-  
773 fluor conjugated secondary antibodies (1:500, various, Thermo Fisher) for 1 hr at room temperature before  
774 staining with DAPI (1µg/ml, Merck, D9542) and mounting with Prolong Gold antifade (Invitrogen P36934).

775 For paraffin embedding (Figure 4), organoids were seeded onto 0.4 µm transwell inserts (Greiner Bio-One  
776 662641) embedded in 50% matrigel. Organoids were fixed with 4% PFA for 30 min before the membrane was  
777 released from the insert using a scalpel and embedded between layers of HistoGel (EpreDia HG-4000-012)  
778 before paraffin embedding. Samples were deparaffinised and rehydrated using sequential passes through  
779 xylene (x3) then ethanol (100%, 70%, 50%, 0%) then antigen retrieval undertaken by boiling slides in sodium  
780 citrate buffer (10mM sodium citrate, 0.05% tween 20 pH 6.0) for 10 minutes. Samples were blocked using 1%  
781 BSA, 0.1% tween then incubated with primary antibodies overnight and Alexa-fluor conjugated secondary

782 antibodies (1:500, various, ThermoFisher) for 1 hr at room temperature before staining with DAPI, and  
783 mounting with prolong gold antifade. Imaging was undertaken using a Zeiss LSM880 with airyscan and Zen  
784 black software.

785 For whole-mount immunostaining of organoids and 2D AT1-like cells (Figures 1 and 2), the matrigel was  
786 completely removed from the cultured organoids using cell recovery solution (Corning, 354253) then fixed  
787 with 4% PFA for 30 min on ice. After rinsing in PBS washing solution containing 0.2% (v/v) Triton X-100  
788 and 0.5% (w/v) BSA, the samples were incubated in permeabilization/blocking solution containing 0.2% (v/v)  
789 Triton X-100, 1% (w/v) BSA, and 5% normal donkey serum (Strattech Scientific, 017-000-121-JIR) in PBS,  
790 overnight at 4°C. Samples were then incubated with primary antibody at 4°C overnight, washed and incubated  
791 with secondary antibody for 1 hour at room temperature. Nuclei were counterstained using DAPI. Prior to the  
792 organoid imaging, step-wise treatments of 10%, 25%, 50%, and 97% (v/v) 2'-2'-thio-diethanol (TDE, Merck,  
793 166782) were followed for clearing. Images were taken using a Leica SP8 confocal microscope or Zeiss  
794 LSM880 with airyscan and Zen black software.

795 For lysosomal fluorescence, organoids incubated with LysoTracker at 37°C for 2 hr (Cell Signaling  
796 Technologies, 8783S) and immediately imaged under a fluorescence microscope.

797

### 798 **Quantitative RT-PCR**

799 Total RNA was isolated using an RNeasy kit (Qiagen, 74004) including an optional DNase digestion step.  
800 Typically 500 ng RNA was used as the starting template to create cDNA using a high capacity cDNA reverse  
801 transcription kit (Applied Biosystems, 4368814) and heating samples to 25°C for 10 min, 37°C for 2 h and  
802 85°C for 5 min. RT-qPCR was undertaken in 96 well plates using 4.5µl 1:10 cDNA and 10.5 µl of a master  
803 mix containing (Sigma-Aldrich, S4438) or SYBR Green PCR Master Mix (Applied Biosystems, 4309155).  
804 Primer sequences are listed in Supplementary Table 1. Plates were run on a BioRad RT PCR machine typically  
805 using the following programme: 95°C 2 min, 40x (95°C for 30 sec, 55°C for 30 sec, 72°C for 30 sec), 95°C  
806 for 30 sec.

807

### 808 **Bulk RNA-sequencing**

809 For AT2 organoid bulk RNA-sequencing, RNA libraries of four biological lines of AT2 organoids at early  
810 (P1,4,6,7) and late (P12,13,16,17) passage were generated using an RNeasy kit (Qiagen, 74004) including the

811 optional DNase digestion step. The quality of the RNA libraries was validated on Agilent 2200 TapeStation  
812 before sequencing on an Illumina NovaSeq 6000 at Novogene (novogene.com). A comparison between the  
813 RNA sequencing data of AT2 organoids and publicly available data of fetal organoid types and other alveolar  
814 cell types was performed: fetal early tip progenitor organoids GSM5393370 and GSM5393371; fetal late tip  
815 progenitor organoids<sup>11</sup> GSM5393372 and GSM5393373; PSC-iAT2s<sup>12</sup> GSM5578511, GSM5578512 and  
816 GSM5578513; cultured adult AT2 cells<sup>12</sup> GSM5578508, GSM5578509 and GSM5578510; freshly isolated  
817 adult AT2 cells<sup>13</sup> GSM2537127, GSM2537128 and GSM2537129. The raw RNA sequencing data was run by  
818 a bioinformatics pipeline, nf-core/rnaseq<sup>14</sup>. A list of differentially expressed genes was extracted using the  
819 counted reads and R package edgeR<sup>15</sup> version 3.40.2. GO biological processes term enrichment, KEGG  
820 pathway, and gene set enrichment analysis were performed using DAVID<sup>16</sup> and R package fgsea<sup>17</sup> packages.  
821 Sequencing data have been deposited at GEO: GSE237359.

822

### 823 **Electron microscopy**

824 Whole organoids were fixed with 2% PFA, 2.5% glutaraldehyde, 0.1 M cacodylate buffer, pH 7.4. Organoids  
825 were secondarily fixed with 1% osmium tetroxide/1.5% potassium ferrocyanide and then incubated with 1%  
826 tannic acid in 0.1 M cacodylate buffer to enhance membrane contrast. Organoids were washed with water  
827 before being dehydrated using increasing percentages of ethanol (70%, 90%, 100%). Samples were embedded  
828 in beam capsules in CY212 Epoxy resin and resin cured overnight at 65°C. Ultrathin sections were cut using  
829 a diamond knife mounted to a Reichart ultracut S ultramicrotome. Sections were collected onto pikoform-  
830 coated slot grids and stained using lead citrate. Sections were viewed on a FEI Tecnai transmission electron  
831 microscope at a working voltage of 80 kV.

832

### 833 **Bioinformatic and statistical analysis**

834 Statistical analysis of CRISPR screen sequencing data was performed using MAGeK<sup>18</sup>. Of note, the calculated  
835 significance of a gene is not necessarily directly proportional to its biological significance; relative gRNA  
836 efficiency and lethal phenotypes generated from knockdowns may preclude enrichment of other genes of  
837 functional relevance.

838 Data expressed as mean  $\pm$  standard deviation (SD) or standard error of mean (SEM) from at least three  
839 independent experiments. Each statistical test is described in the figure legends. Graphpad Prism software  
840 (version 9.5.1) was used for statistical analysis and data visualisation.

841

#### 842 **Code Availability**

843 No new code was generated for use in this manuscript. Any additional information required to re-run the code  
844 and repeat the analyses reported can be requested from the corresponding authors.

845

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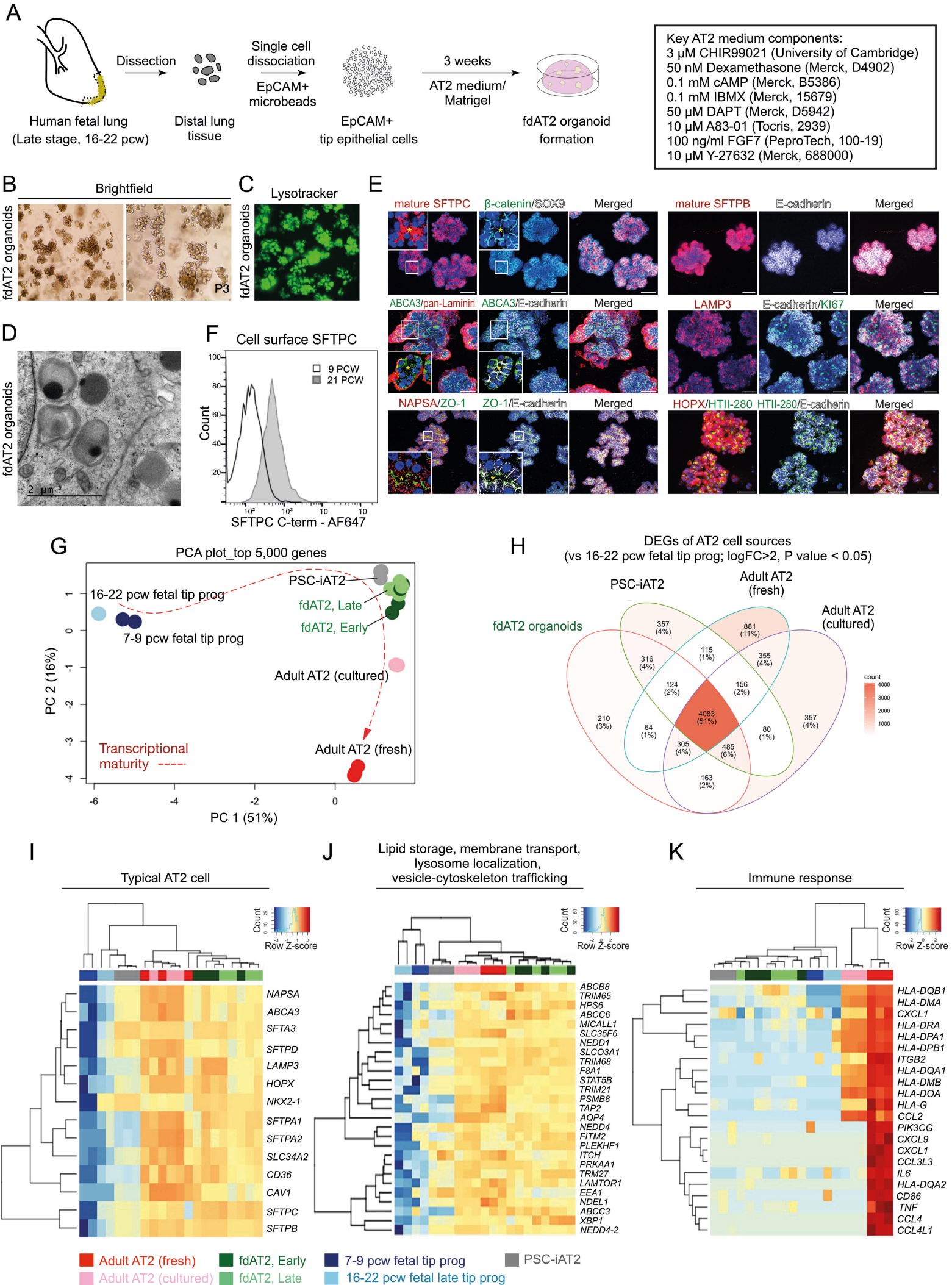


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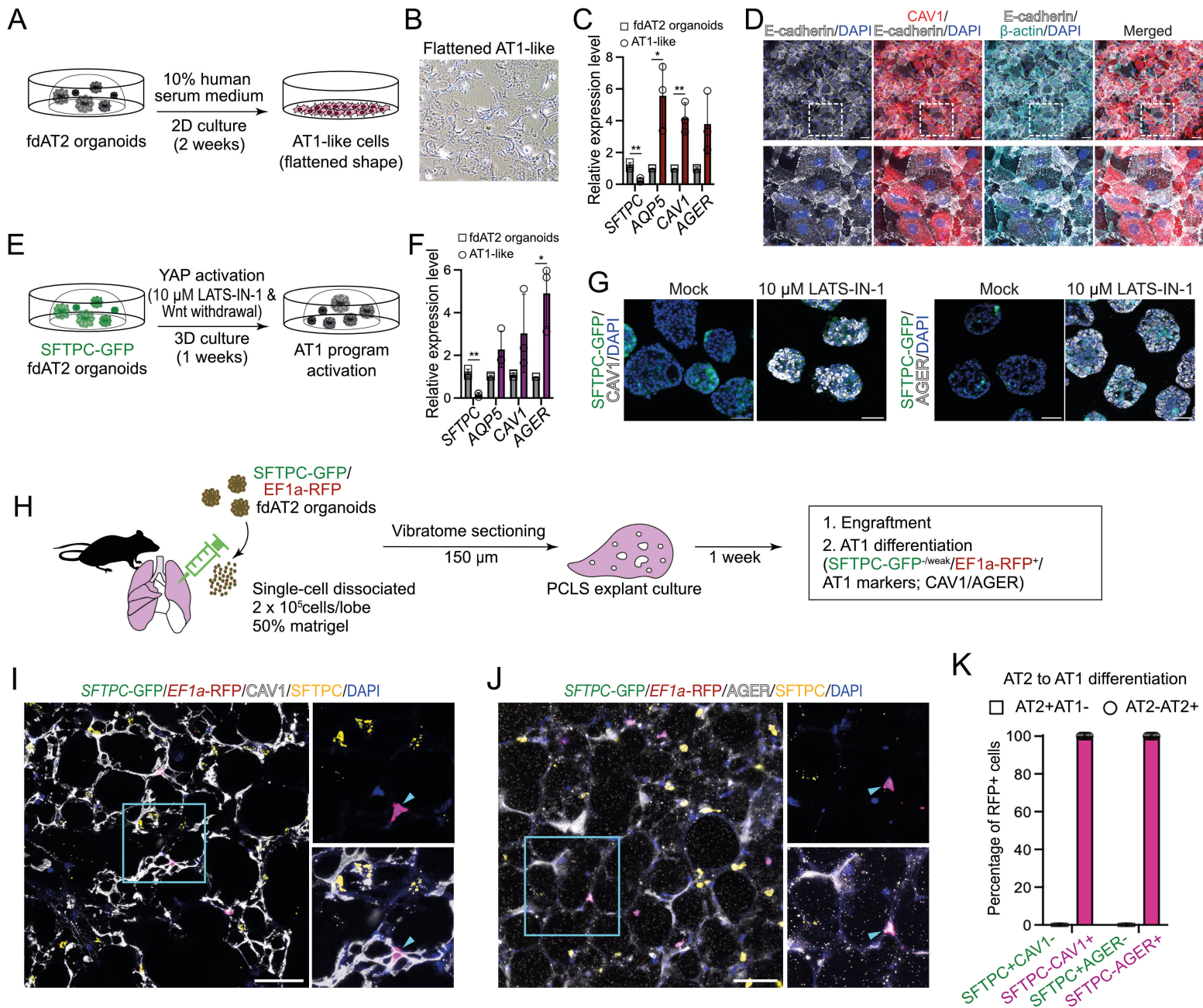
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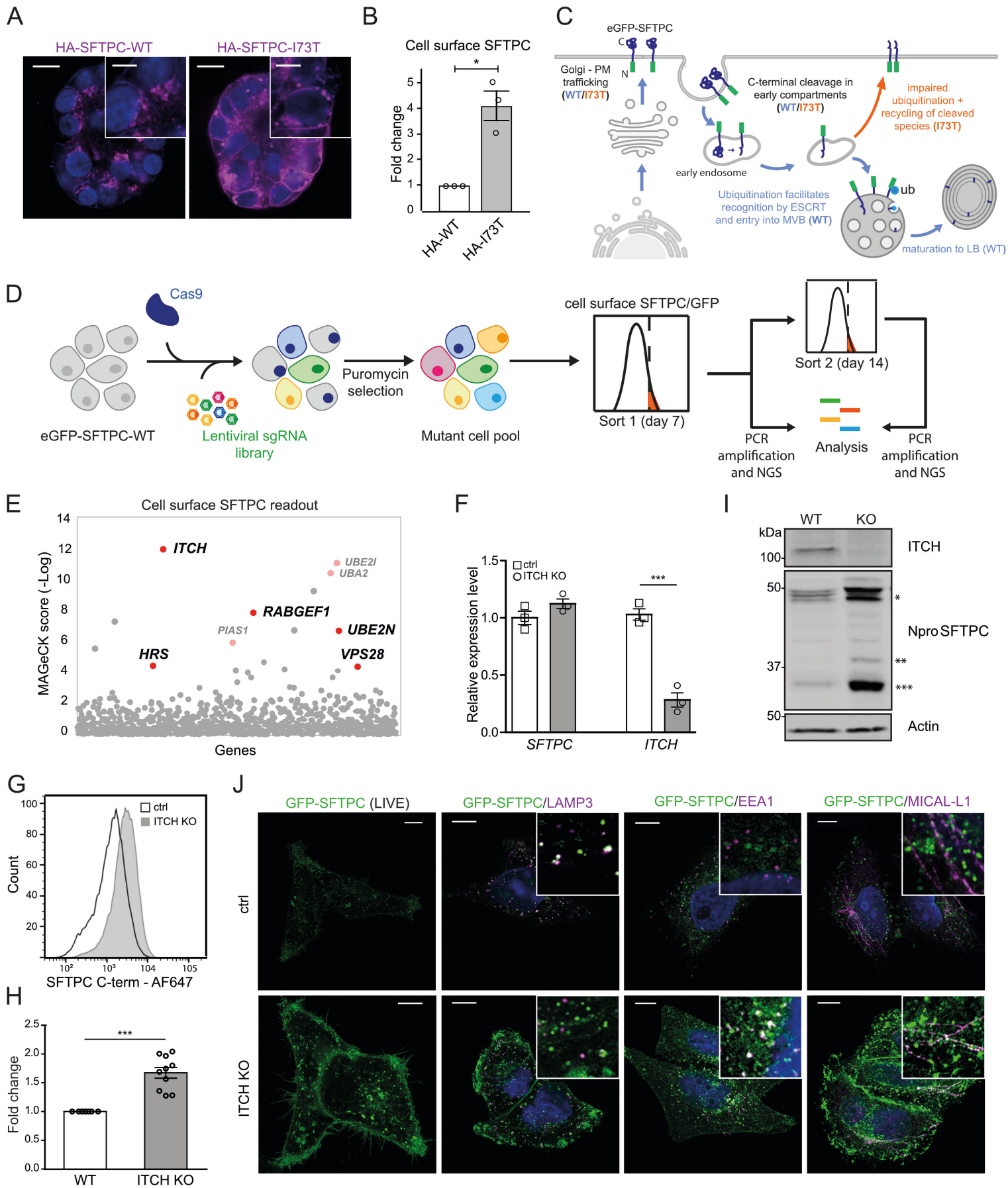


## Figure 2

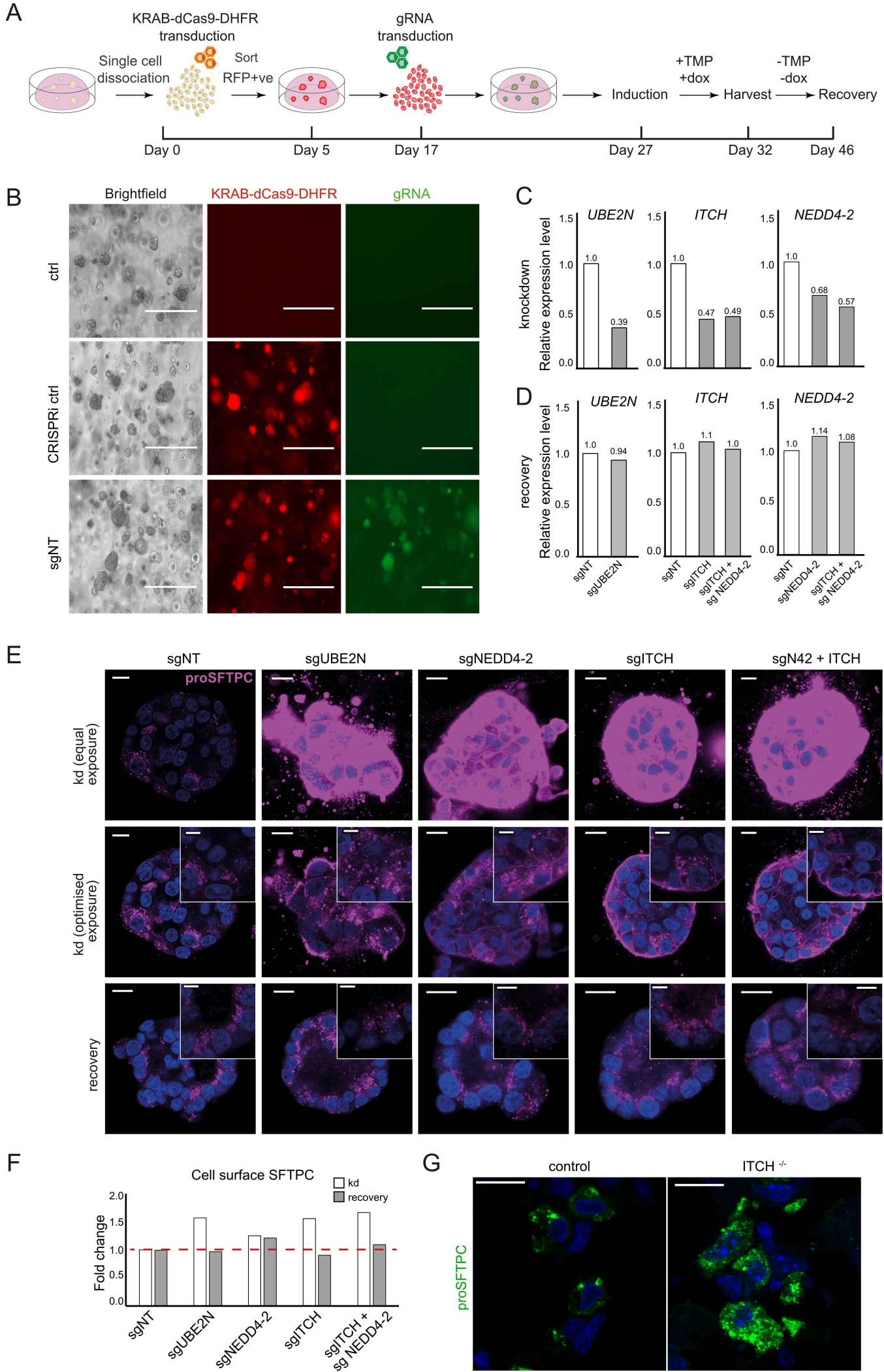




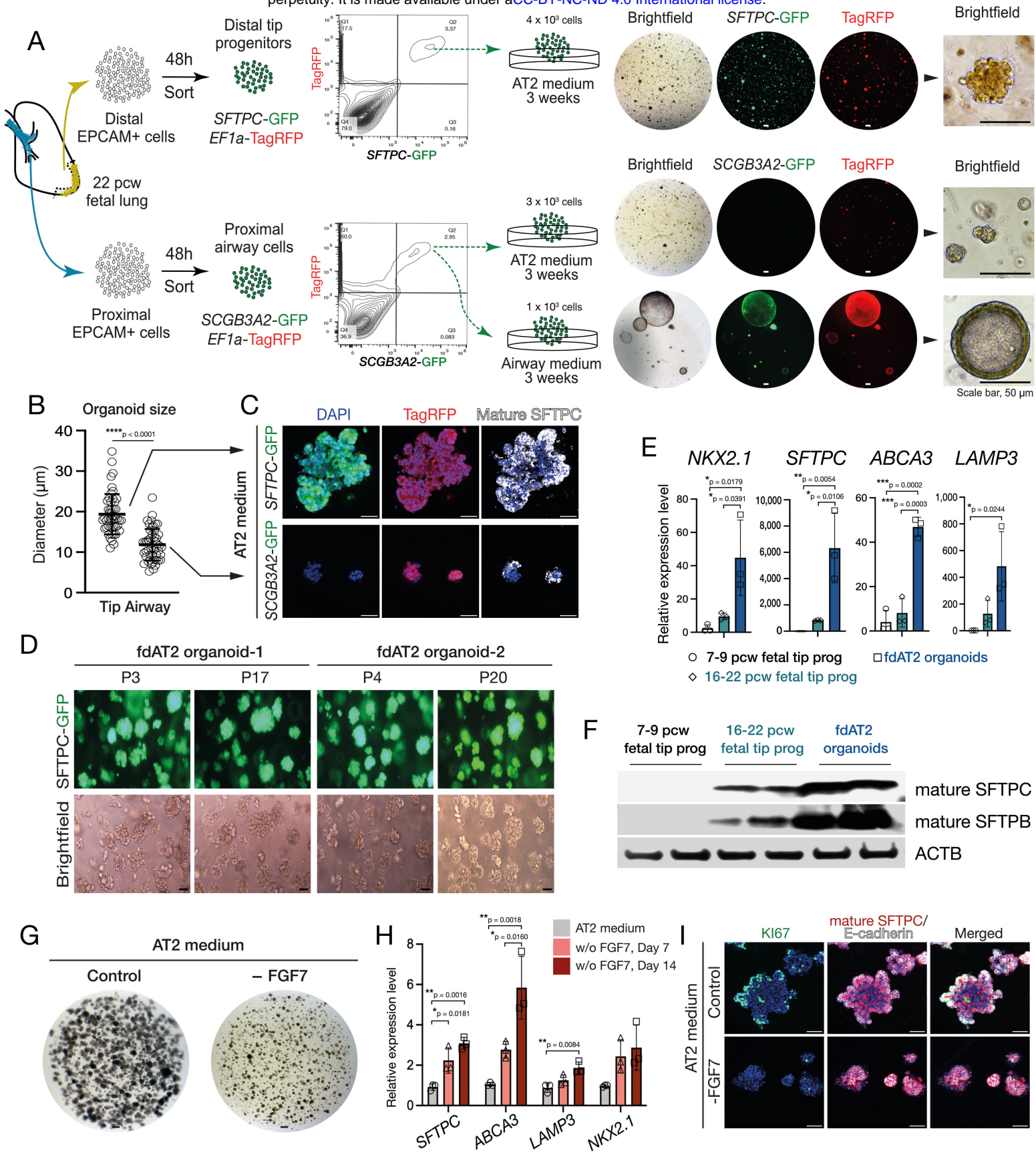
## Figure 3



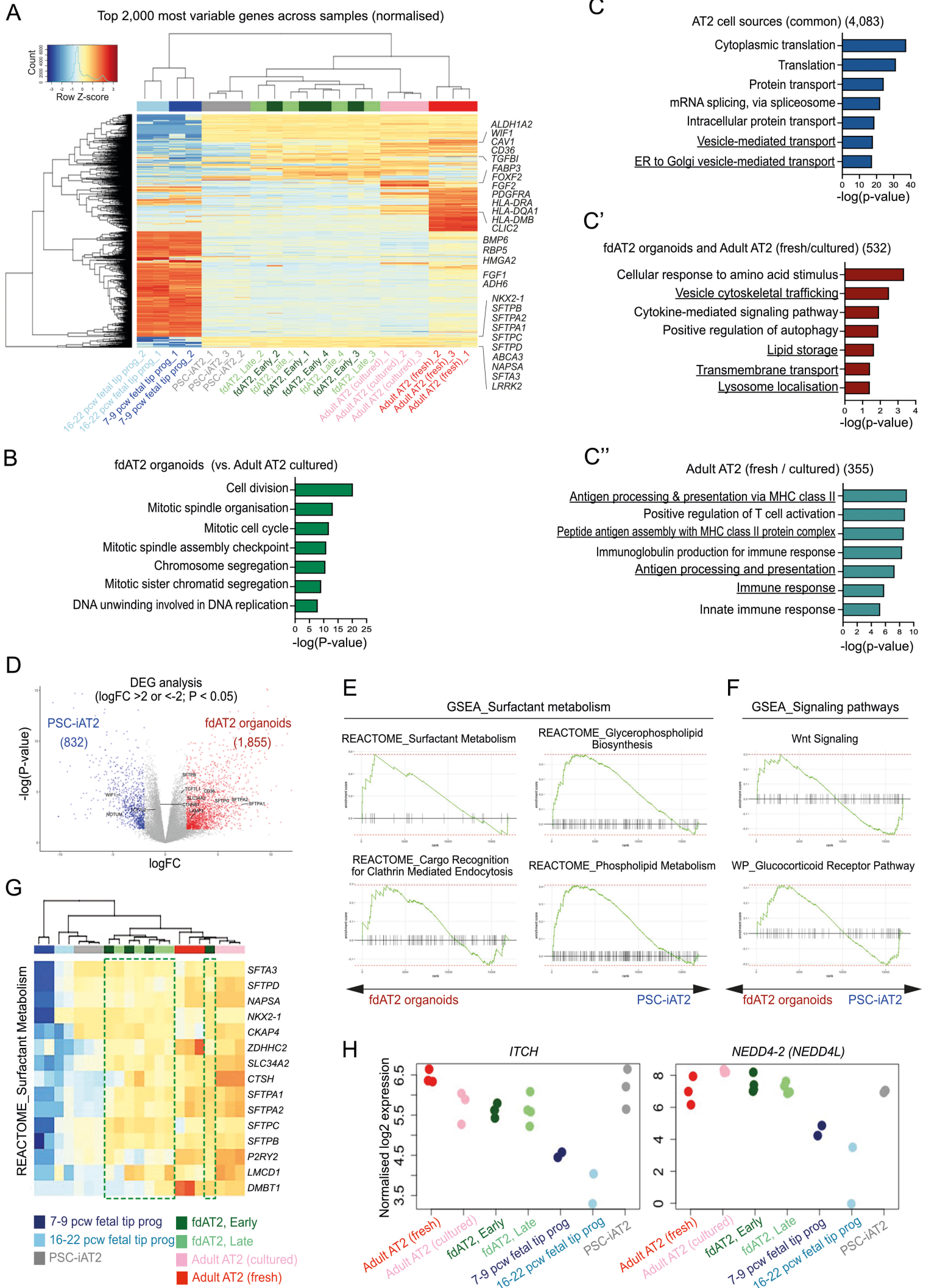
## Figure 4





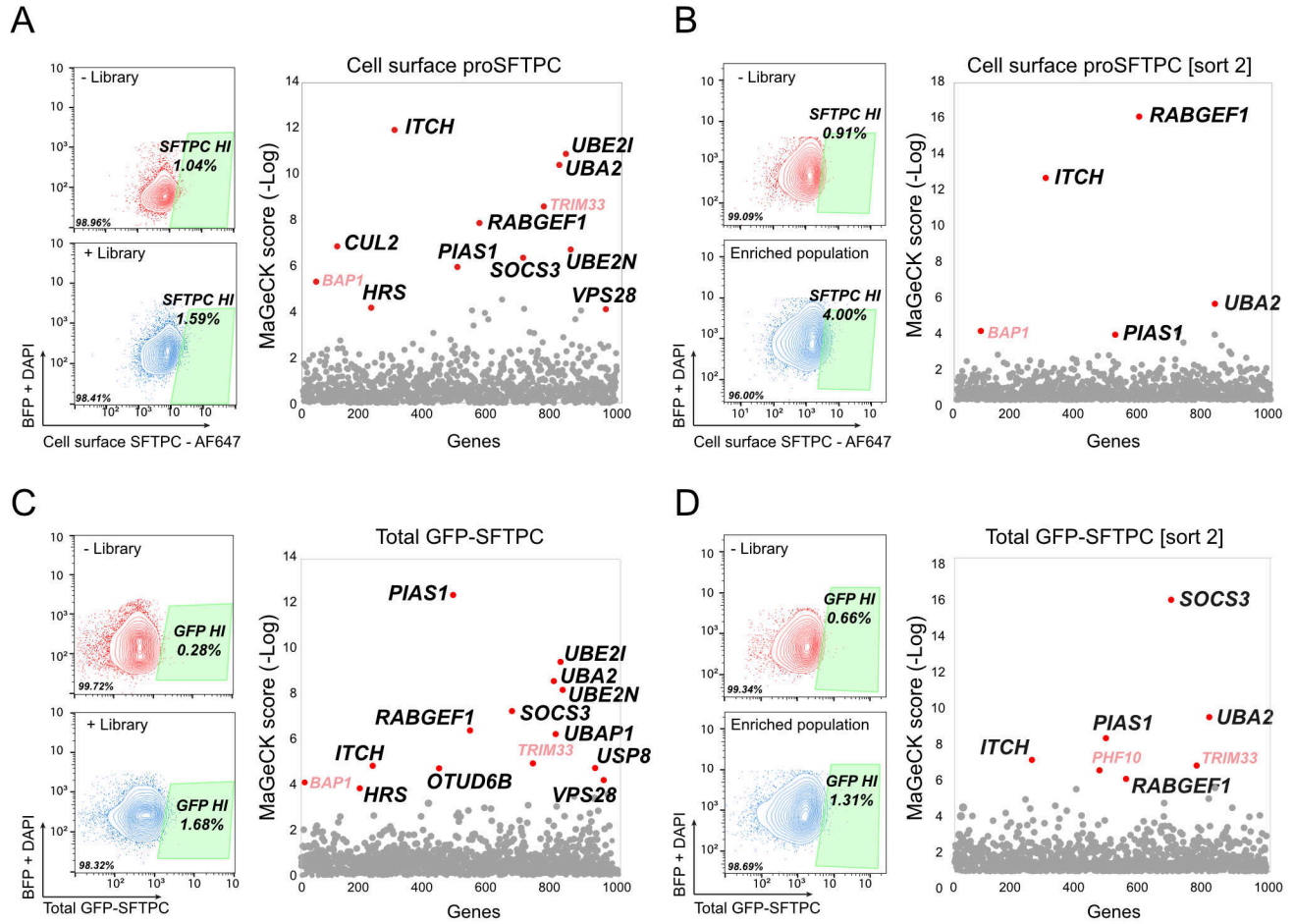


## Extended Data Figure 2





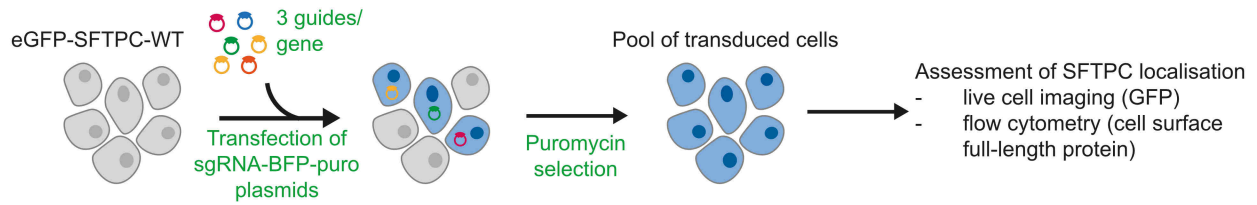
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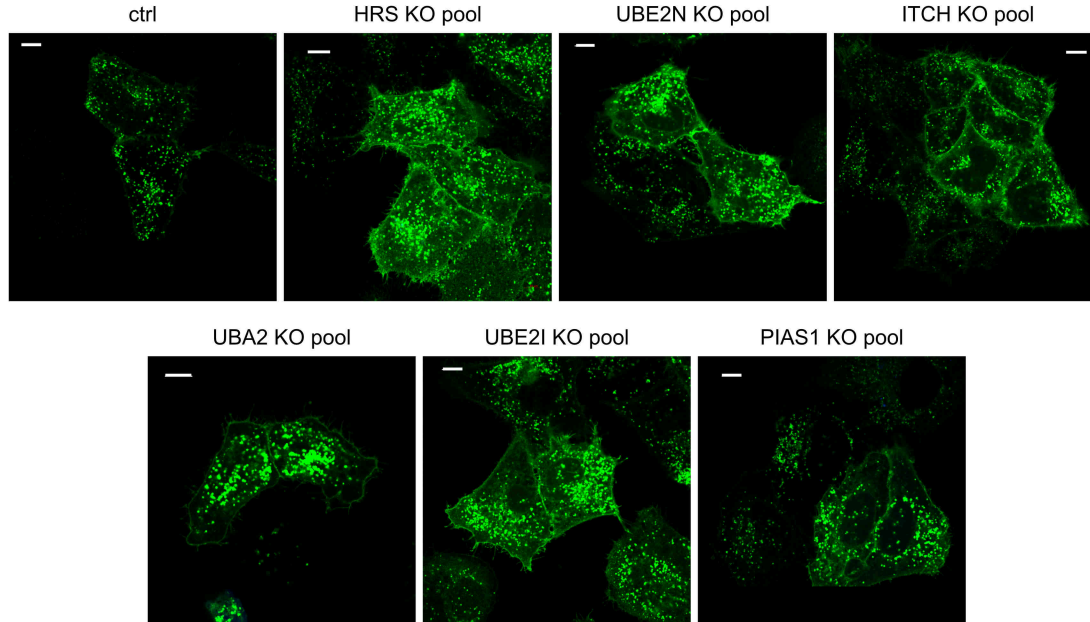


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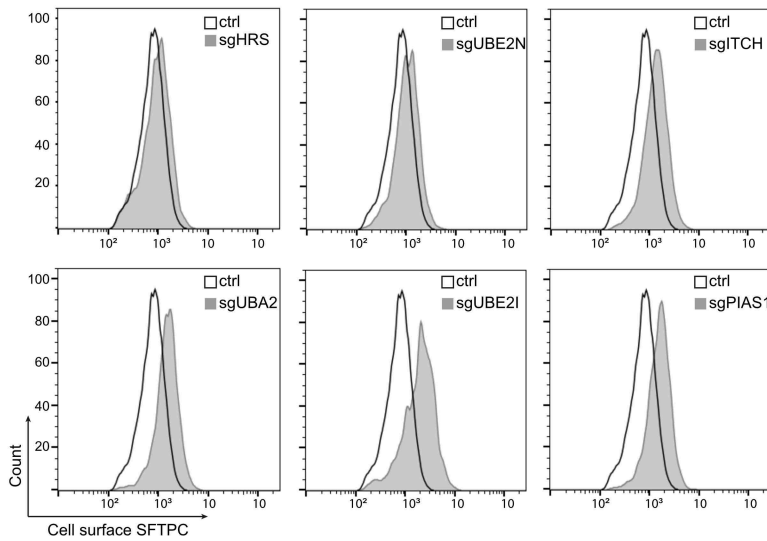
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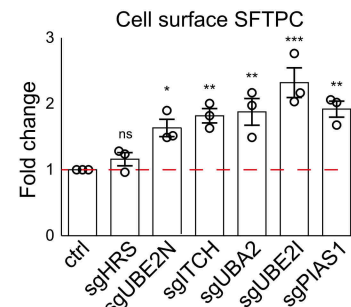
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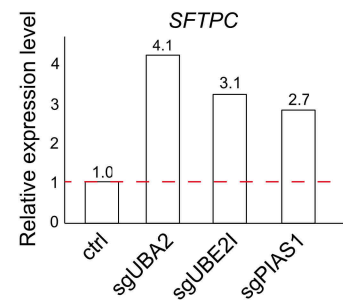
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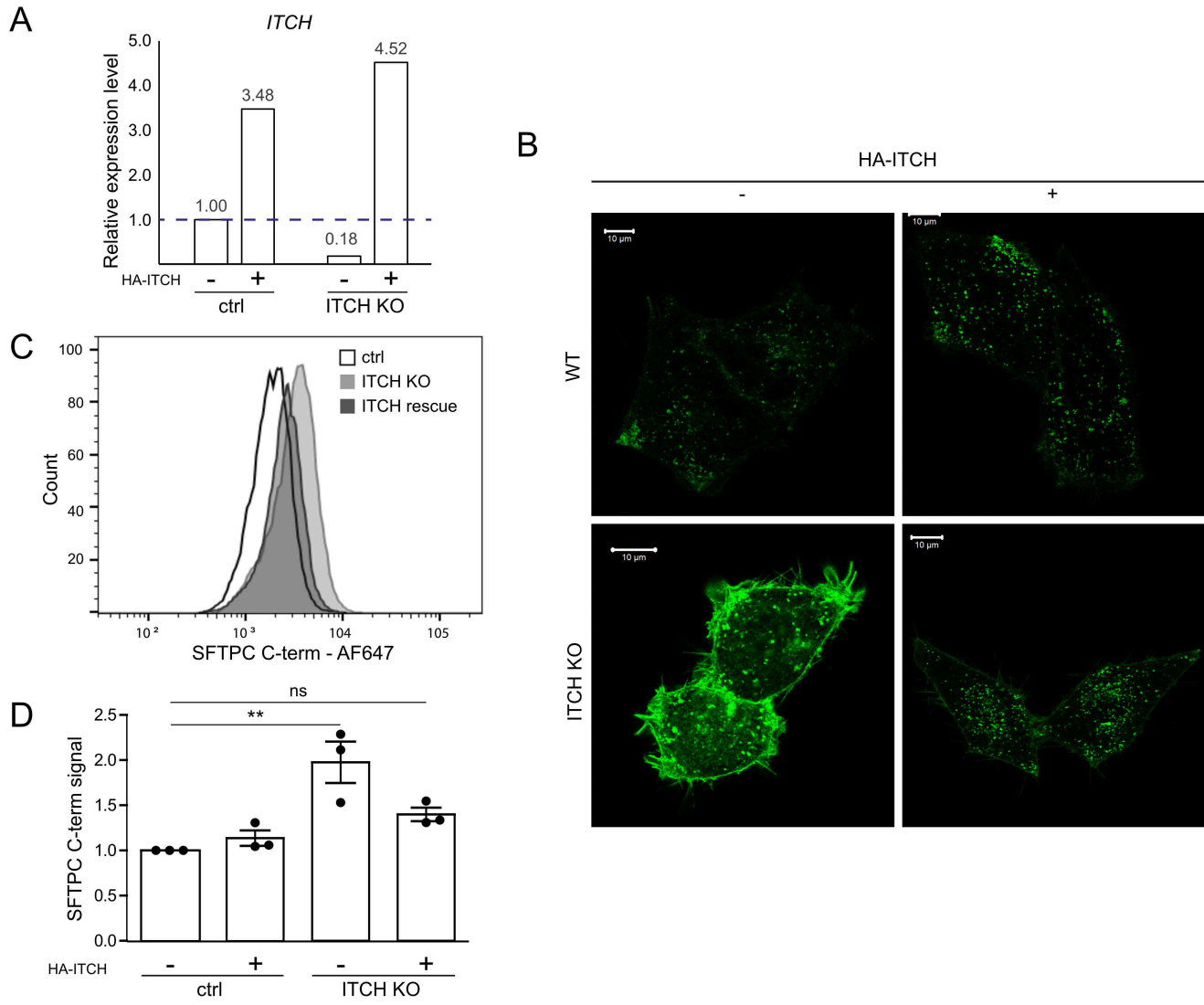
**D**



**E**



## Extended Data Figure 5



## Extended Data Figure 6

