

# **NovaQuest Capital Management, L.L.C.**

## **Form ADV Part 2A**

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**This brochure provides information about the qualifications and business practices of NovaQuest Capital Management, L.L.C. (referred to herein as “NovaQuest”). If you have any questions about the contents of this brochure, please contact us at (919) 459-8620. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about NovaQuest is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**REGISTRATION WITH THE SEC AS AN INVESTMENT ADVISER DOES NOT IMPLY THAT NOVAQUEST OR ANY OF THE PRINCIPALS OR EMPLOYEES OF NOVAQUEST POSSESS A PARTICULAR LEVEL OF SKILL OR TRAINING IN THE INVESTMENT ADVISORY BUSINESS OR ANY OTHER BUSINESS.**

## **Item 2 - Material Changes**

This Item 2 discusses only material changes since NovaQuest filed its most recent annual updating amendment on March 29, 2018.

Accordingly, this updated Brochure includes the following changes, among others that recipients should consider:

- Item 4 provides an update to the value of assets managed as of December 31, 2018 on a discretionary basis.

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#### **Item 4 - Advisory Business**

NovaQuest Capital Management, L.L.C. (“NovaQuest”) is an investment manager focused on life sciences and healthcare through its biopharma product finance and private equity strategies. NovaQuest’s biopharma product finance strategy (“NovaQuest Product Finance”) specializes in investments in the global biopharmaceutical sector, where its principal focus is investing in late-stage clinical assets and commercial phase biopharmaceutical products and devices. NovaQuest’s private equity strategy (“NovaQuest Private Equity”) seeks to grow leading businesses in healthcare services or products. The founding partners of NovaQuest have worked together since 2000, initially for Quintiles Transnational Corp. (“Quintiles” and following its merger with IMS Health, Inc., “IQVIA”) managing PharmaBio Development, Inc. (“PharmaBio”), a former subsidiary of Quintiles (now IQVIA). NovaQuest was formed as a separate Delaware limited liability company in November, 2010. The principal owners of NovaQuest are Ron Wooten, Dennis Gillings, Ph.D. and PharmaBio (which is 100% owned by Dennis Gillings).

NovaQuest Product Finance’s investment advisory business is principally focused on structured investments in biopharmaceutical products and devices. NovaQuest Product Finance primarily makes investments in late-stage clinical assets and commercial phase biopharmaceutical products and devices, owned by global biopharmaceutical corporations. NovaQuest Product Finance plans to make most investments on a side-by-side basis with the biopharmaceutical corporations in their development and commercialization programs. NovaQuest Product Finance seeks to invest in the biopharmaceutical companies’ high value asset programs. These are product programs in which the biopharmaceutical companies have invested and typically will continue to invest (hence side-by-side). NovaQuest Product Finance may also make direct investments in biopharmaceutical companies of varying sizes as a way to derive returns from their products and manage risk.

NovaQuest Private Equity’s investment advisory business is principally focused on making investments in life sciences and healthcare companies. NovaQuest Private Equity investment advisory business works with the respective management teams in order to scale and position these companies for future growth, strategic acquisition, or a sale to a financial or other buyer. Investment opportunities will include companies that are experiencing meaningful expansion, driven by the market opportunity and the strong growth drivers in healthcare and life sciences. NovaQuest Private Equity’s investment advisory business will typically seek control oriented positions in companies but will also consider minority positions with significant governance rights.

NovaQuest provides the discretionary investment advisory services described above to multiple private investment funds (collectively, the “NovaQuest Funds”). Generally, a related person of NovaQuest acts as the general partner of each NovaQuest Fund, and NovaQuest serves as investment adviser to each NovaQuest Fund. References to NovaQuest in this brochure include, as the context requires, affiliates through which

NovaQuest provides investment advisory services or that act in any capacity referenced in the previous sentence.

NovaQuest tailors its advisory services to the specific investment objectives and restrictions of each NovaQuest Fund set forth in such NovaQuest Fund's limited partnership agreement, confidential private placement memorandum, investment management agreement and/or other governing documents (collectively, the "Governing Documents"). Investors and prospective investors of each NovaQuest Fund should refer to the Governing Documents of the applicable NovaQuest Fund for complete information on the investment objectives and investment restrictions with respect to such NovaQuest Fund. There is no assurance that any of the NovaQuest Funds' investment objectives will be achieved.

In accordance with common industry practice, one or more of the NovaQuest Funds and/or their general partners may enter into "side letters" or similar agreements with certain investors pursuant to which the general partner grants the investor specific rights, benefits, or privileges that are not made available to investors generally. Such "side letters" or similar agreements generally are disclosed only to investors in the applicable NovaQuest Fund that have separately negotiated with NovaQuest for the right to review such "side letters" or similar agreements.

NovaQuest does not participate in any wrap fee programs.

NovaQuest manages the assets of the NovaQuest Funds on a discretionary basis in accordance with the terms and conditions of each NovaQuest Fund's Governing Documents. As of December 31, 2018, NovaQuest manages \$2,074,333,000 in regulatory assets on a discretionary basis.

## **Item 5 - Fees and Compensation**

### *Compensation and Fee Schedules*

All investors and prospective investors should review the Governing Documents of each NovaQuest Fund for complete information on the fees and compensation payable in connection with a particular NovaQuest Fund. Different clients of NovaQuest may be subject to different management fees and performance-based compensation arrangements. In limited circumstances, the advisory fees payable to NovaQuest by individual investors in the NovaQuest Funds may be negotiable and/or waived. Investors and prospective investors in each NovaQuest Fund should note that similar advisory services may (or may not) be available from other investment advisers for similar or lower fees. All clients (and their investors) are "qualified purchasers" as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the "Company Act"), and therefore NovaQuest has not included specific fee information in response to this Item.

### *Deduction of Fees; Timing of Payments; Termination*

As a general matter, NovaQuest will charge and deduct advisory fees directly from the NovaQuest Funds pursuant to the terms of the Governing Documents. Payment of advisory fees is generally made quarterly in advance and in accordance with the terms of the Governing Documents. Please refer to the Governing Documents of each of the NovaQuest Funds for complete information on the timing of advisory fee payments.

Upon termination of any investment management agreement, any prepaid, unearned fees will be promptly refunded (determined on a pro rata basis based on the number of days elapsed in the applicable payment period), and any earned, unpaid fees will be due and payable.

### *Other Fees and Expenses*

In addition to the fees payable to NovaQuest and its affiliated entities, clients of NovaQuest, including the NovaQuest Funds (and therefore, indirectly, the limited partners of such NovaQuest Funds), may incur certain charges imposed by third parties and other expenses as set forth in the Governing Documents attributable to each client. Such expenses may include corporate finance fees; any taxes, fees or other governmental charges; all costs and expenses incurred in connection with investigating, acquiring, holding and disposing of securities (including merger fees payable to third parties and whether or not any such purchase or sale is consummated); all expenses relating to any litigation, investigation, proceeding or audit, and any threatened litigation, investigation, proceedings or audit related to the business or activities of the client; expenses attributable to normal and extraordinary legal, consulting, financing, administration, custodial, tax advisory, auditing and accounting services provided to the client (including, without limitation, expenses associated with the preparation of financial statements and tax returns); fees and expenses attributable to “back office” support functions provided by third party service providers, insurance premiums, indemnification expenses, agent bank and other bank service fees and other investment costs, market data costs, research-related expenses, including, without limitation, news and quotation equipment, software and services, expenses incurred in connection with the managed distribution of marketable securities; liquidation expenses, reasonable expenses incurred in connection with annual meetings of the partners of the NovaQuest Funds and reasonable expenses of the limited partner advisory committees of the NovaQuest Funds, including reasonable expenses of outside counsel to such committees. The types of other fees and expenses incurred may vary among clients of NovaQuest. All investors and prospective investors in a NovaQuest Fund should review the Governing Documents of the applicable NovaQuest Fund for complete information on the charges and expenses payable with respect to a particular NovaQuest Fund. Clients of NovaQuest may also periodically incur brokerage expenses as described under “*Brokerage Practices*” below.

From time to time, NovaQuest or the general partner of one or more NovaQuest Funds may be required to decide how costs and expenses are to be allocated among one or more NovaQuest Funds and/or the general partner and NovaQuest. Generally, the majority of expenses incurred are for the benefit of a specific NovaQuest Fund, the general partner or

NovaQuest, and therefore are allocated directly to such entity. In limited instances, expenses may relate to multiple NovaQuest Funds and/or the general partner of a NovaQuest Fund and NovaQuest. In these instances, NovaQuest and/or the general partner has the sole discretion to make allocations of such expenses. However, a conflict of interest may arise where the general partner or NovaQuest may bear some of the expense. The general partner or NovaQuest, as applicable, will make these allocations in a manner that it determines, in good faith, to be fair and equitable, notwithstanding its interest in the outcome.

#### *Transaction-Based Compensation*

NovaQuest does not receive any compensation as broker or agent for the sale of securities or other investment products to any NovaQuest Fund. Please refer to the subsection titled “*Economic Benefits Received from Third Parties*” below for information on other types of compensation that NovaQuest may receive with respect to investments by the NovaQuest Funds.

### **Item 6 - Performance-Based Fees and Side-by-Side Management**

#### *Performance-Based Fees*

All NovaQuest Funds, except certain co-investment vehicles, are subject to performance-based compensation arrangements, generally through the payment of “carried interest” to an affiliate that serves as general partner to a NovaQuest Fund. A related entity of NovaQuest, as general partner of each NovaQuest Fund, will typically receive certain allocations calculated and charged based on a share of capital gains on or capital appreciation of the assets of such NovaQuest Fund. Such performance-based allocation arrangements comply with Rule 205-3 under the Investment Advisers Act of 1940 (together with all rules and regulations promulgated thereunder, the “Advisers Act”) to the extent required thereunder. Any share of profits allocated or distributed to a general partner or affiliate of a NovaQuest Fund is separate and distinct from the advisory fees charged by NovaQuest to such NovaQuest Fund for advisory services.

Arrangements regarding performance-based allocations received by related persons of NovaQuest may create an incentive for NovaQuest to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement.

With respect to the NovaQuest Funds, an affiliate of NovaQuest in its capacity as the general partner of the NovaQuest Fund is eligible to receive carried interest, ultimately calculated based upon a percentage of the relevant NovaQuest Fund’s return on its invested capital across its entire portfolio. Certain of NovaQuest’s investment professionals and other personnel participate in the carried interest paid to the general partner of one or more NovaQuest Funds as a result of their ownership (or other interest) in such general partners. Accordingly, NovaQuest and its personnel, including personnel involved in the management of one or more NovaQuest Funds may have differing pecuniary interests with respect to different NovaQuest Funds.

These differing pecuniary interests may create conflicts of interests with respect to the allocation of time, resources and investment opportunities, as NovaQuest and its personnel may have an incentive to favor funds in which they have a greater pecuniary interest. However, NovaQuest's fiduciary obligations to act in the best interest of its clients, as well as its contractual obligations to NovaQuest Funds obligate NovaQuest and its personnel to meet certain professional standards of care, mitigate potential conflicts of interest that may exist with respect to NovaQuest's allocation of time, resources and investment opportunities based on differing compensatory or pecuniary interests. These and other potential conflicts may also be addressed through limited partner advisory committees (each, an "LPAC") comprised of investors in a NovaQuest Fund. These LPACs are established through the NovaQuest Funds' Governing Documents and are authorized to act on behalf of the relevant NovaQuest Fund for certain purposes under the Advisers Act and the relevant Governing Documents. In particular, LPAC members may be called upon to review, and determine whether or not to approve or consent to, various transactions or other potential conflicts that may arise. The existence and use of an LPAC may mitigate, but does not eliminate conflicts of interest.

#### *Side-by-Side Management*

NovaQuest may provide concurrent advisory services to NovaQuest Funds that may be subject to different performance-based compensation arrangements. If NovaQuest or an affiliate is entitled to receive a higher percentage of the net profits of the account of one NovaQuest Fund than the percentage that NovaQuest or an affiliate receives from another NovaQuest Fund, then NovaQuest may have an incentive to favor, or to allocate certain riskier or more speculative investments to, the NovaQuest Fund that is subject to the higher percentage.

To mitigate potential conflicts of interest, the allocation of commitments and investment decisions with respect to each NovaQuest Fund are made by NovaQuest with respect to all NovaQuest Funds in accordance with NovaQuest's investment allocation policy, which takes into account multiple criteria, including: (i) the investment objectives, strategies, guidelines and restrictions of each NovaQuest Fund, (ii) the relevant allocation of investment opportunity provisions in a NovaQuest Fund's Governing Documents, (iii) differences with respect to available capital (e.g., current or anticipated capital available for investment, including anticipated follow-on investments, if applicable), size, and remaining life of the NovaQuest Fund; (iv) potential conflicts of interest, including whether a NovaQuest Fund has an existing investment in the opportunity in question; (v) the nature of the investment opportunity, including the size, minimum investment amounts and source of the opportunity; (vi) current and anticipated market conditions; (vii) portfolio diversification; and (viii) tax, legal or regulatory considerations.

Please refer to the Governing Documents of each NovaQuest Fund for complete information on the specific "performance-based fee" arrangements of each NovaQuest Fund.



Certain members of NovaQuest own an entity that is eligible to receive performance-based compensation from PharmaBio upon the achievement of certain performance benchmarks by investments currently held by PharmaBio. This vehicle will not receive any compensation with respect to future investments made by PharmaBio.

## **Item 7 - Types of Clients**

### *Types of Clients and Investment Vehicles*

NovaQuest provides advice to the NovaQuest Funds. The limited partners of the NovaQuest Funds may include high net worth individuals, corporations, funds of funds, financial institutions, endowments, foundations, trusts, estates, sovereign wealth funds, and public and private pension and profit sharing plans.

NovaQuest or its related persons may also establish certain NovaQuest Funds (“Feeder Funds”) to address certain tax or regulatory requirements. Each Feeder Fund, if formed, would be a limited partner of a NovaQuest Fund and interests in such Feeder Fund would be held by the investors who elect to participate in the NovaQuest Fund through such Feeder Fund. In addition, NovaQuest may (i) form other alternative investment vehicles or special purpose vehicles (collectively, “AIVs”) formed for the purpose of facilitating certain investments by one or more NovaQuest Funds and/or investors, (ii) form other investment vehicles to invest in parallel with a NovaQuest Fund for select investors in order to comply with securities laws or to address tax, legal or regulatory issues (collectively, “Parallel Funds”) or (iii) form one or more investment vehicles for the purpose of managing co-investments (“Co-Investment Funds”). Investors and prospective investors should review the Governing Documents of the applicable NovaQuest Fund for more complete details on any Feeder Fund, Parallel Fund or Co-Investment Fund established to invest in or alongside a NovaQuest Fund and such NovaQuest Fund’s ability to make investments through AIVs.

### *Minimum Investment Requirements*

The NovaQuest Funds are generally offered only to “qualified purchasers” as defined in Section 2(a)(51) of the Company Act, and are therefore not required to register as investment companies under the Company Act in reliance upon certain available exemptions.

In general, the minimum investment commitment required of a limited partner to participate in a NovaQuest Fund is \$10,000,000, subject to the discretion of the general partner of each NovaQuest Fund to accept a lesser amount. Investors are requested to refer to the Governing Documents of each NovaQuest Fund for complete information on minimum investment requirements for participation in a particular NovaQuest Fund.

## **Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss**

### *NovaQuest Product Finance Investment Strategy*

As discussed in Item 4 above, NovaQuest Product Finance's investment advisory business is principally focused on structured investments in biopharmaceutical products. NovaQuest Product Finance primarily makes investments in late-stage clinical assets and commercial phase biopharmaceutical products, contracting with global biopharmaceutical corporations to invest in development and commercialization programs.

### *NovaQuest Product Finance Methods of Analysis*

NovaQuest Product Finance analyzes potential investments in biopharmaceutical products, including small molecules and biologics, from early clinical development through commercialization, using proprietary research, industry experience and expertise. NovaQuest conducts a thorough analysis and extensive due diligence with respect to each potential investment by reviewing, among other factors: product, clinical, regulatory or commercial risk; probabilities of asset success; sales forecasts; investment capital commitment and cash flows; royalty rates; and risk-adjusted return requirements.

Investments may be made using a range of instruments or contractual arrangements, including equity and debt securities, as well as interests in structured investment contracts and other product-based financing arrangements involving development milestones (and associated payments), as well as royalty financing. As a general matter, NovaQuest is extensively involved in the structuring of such investments.

### *NovaQuest Private Equity Investment Strategy*

As discussed in Item 4 above, NovaQuest Private Equity's investment advisory business is principally focused on investments in life sciences and healthcare companies. NovaQuest Private Equity will work with the respective management teams in order to scale and position these companies for future growth, strategic acquisition or a sale to a financial or other buyer. NovaQuest Private Equity looks to invest in growing life sciences and healthcare companies that help reduce the total cost of care, fulfill un-met medical needs, reduce unnecessary procedures, improve efficacy (therapeutics or prevention) and/or improve the quality of life of patients. Investment opportunities are companies with a growth trajectory that are experiencing meaningful expansion, driven by the market opportunity and the strong growth drivers in life sciences and healthcare.

### *NovaQuest Private Equity Methods of Analysis*

The NovaQuest Private Equity team analyzes the healthcare and life sciences market, in addition to target sub-sectors, to determine which areas best provide attractive investment opportunities during specific cycles. The research process may include analyzing NovaQuest Private Equity value add, segment size, growth drivers, supply chain trends, regulatory impact, competitive landscape, acquisition trends, among other factors.

### *Material Risks and Risk of Loss*

The task of identifying investment opportunities and managing such investments is difficult. There can be no assurance that NovaQuest will be able to identify, make and/or realize any particular investment, or that any NovaQuest client will be able to generate positive returns. Investing in the NovaQuest Funds, or the investments made by NovaQuest on behalf of other clients, involves a risk of loss that investors should be prepared to bear. Investors in the NovaQuest Funds are requested to refer to the Governing Documents of the applicable NovaQuest Fund for complete information on investment strategies employed by such NovaQuest Fund and the corresponding risks associated with such investment strategies. Investors in the NovaQuest Funds should carefully consider, among other factors, the following material risks involved with NovaQuest's investment strategies.

### *Risks Applicable to NovaQuest Product Finance*

Risks Associated with Investments in Biopharmaceutical Companies and Products. NovaQuest may make structured direct or indirect investments in products that will be required to undergo significant development activities, non-clinical and clinical tests to obtain regulatory approval and progression through other development milestones. If a product fails to reach such milestones or is otherwise discontinued by the company sponsoring the development of such product, any client of NovaQuest that is directly or indirectly invested in such product (or its development) may not be able to recover its investment or realize any return. Products that may appear to be promising at early stages of development may not achieve milestones later in development for a number of reasons or may otherwise be discontinued by the company sponsoring the development of such product in spite of achieving such milestones. Clinical trials might be delayed or halted for various reasons.

NovaQuest may make a substantial investment to support the development and commercialization of a product, and either NovaQuest or the company sponsoring the product may decide to abandon the product at any point during product development or clinical trials. Further, a client of NovaQuest may not have sufficient funds to continue to support a product in which it has invested or in which it has made a structured direct or indirect investment during product development or clinical trials.

Even if a product in which NovaQuest invests or in which it makes a structured investment is approved for sale, the value of a product, and the ability of a NovaQuest client to receive future royalty or other contingent payments, will depend on the market acceptance and demand for the product. Such product may face intense competition from a competing product which may be safer, more effective, more effectively marketed or have lower prices. A reduction in sales or removal from the market could substantially reduce royalty or other payments which the client of NovaQuest is entitled to receive and could result in a loss of all or a portion of its investment or may prevent it from generating a positive return on any such investment.

Manufacturing biopharmaceutical products is difficult, complex and highly regulated. If manufacturing problems occur or if regulatory authorities determine that the manufacturer has violated regulations or if they deny, restrict, suspend or revoke approval for the manufacture of a product in which a NovaQuest client has invested, or in which such client makes a structured investment, this could delay indefinitely the sales of such product.

Limited Number of Investments Concentrated in a Single Industry. The NovaQuest Funds will each make a limited number of investments with respect to products and companies in the biopharmaceutical industry. The NovaQuest Funds' investments will not be highly diversified and may, therefore, be subject to more volatility and a greater risk of loss than a broadly diversified portfolio. The investments made by NovaQuest may be difficult to value or transfer to a third party. Consequently, the unfavorable performance of the biopharmaceutical industry as a whole or even a single product in which a client of NovaQuest invests could have a significant impact on its performance. Further, the NovaQuest investment strategy depends, in part, on spending by biopharmaceutical companies to develop, commercialize and market their products. Economic factors, industry trends and mergers and consolidations in the biopharmaceutical industry that affect such spending by biopharmaceutical companies could adversely affect the return on investments made by NovaQuest or limit opportunities for future investments. Furthermore, there can be no assurance that NovaQuest will be successful in its efforts to identify investment opportunities that satisfy its investment strategy and diversification goals for each client or that it will be permitted to invest, or invest in the amounts desired, in such opportunities.

Importance of Certain Strategic Relationships. NovaQuest maintains a contractual relationship with IQVIA to be the preferred provider of commercialization and related services for certain of the arrangements in which it invests. The preferred but non-exclusive relationship that each NovaQuest Funds has with IQVIA is primarily governed by preferred provider agreements and services agreements between IQVIA and each NovaQuest Fund. Additionally, IQVIA may assist NovaQuest in performing due diligence on potential investments, which assistance may not be available if the relationship changes between NovaQuest and IQVIA.

Non-U.S. Investments. NovaQuest may invest in companies whose principal executive offices or corporate headquarters are, at the time of initial investment, outside of the United States or invest in products, or make structured investments in products, that are being sponsored by companies outside of the United States or seeking approval in countries other than the United States. Such investments may involve greater risks than investing in U.S. companies or products being sponsored by U.S. companies for approval in the United States. In particular, the value of investments in non-U.S. products and companies may be significantly affected by changes in currency exchange rates, risks of economic dislocations in the host country, greater difficulty in enforcing legal rights, the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and differences in government supervision and regulation,

potential exchange control regulations, potential restrictions on foreign investments and repatriation of capital, the risks associated with political, economic or social instability, diplomatic developments, the possibility of expropriation or confiscatory taxation, and the possibility that anti-fraud and anti-insider trading legislation in these countries may be rudimentary and the concept of fiduciary duty on the part of the management or directors of companies to shareholders may be limited.

Investments Longer than Term. NovaQuest may make investments on behalf of a NovaQuest Fund that may not be disposed of advantageously prior to the date that such NovaQuest Fund will be dissolved, by expiration of the NovaQuest Fund's term or otherwise. Such NovaQuest Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

#### *Risks Applicable to NovaQuest Private Equity*

Focused Investment Strategy. NovaQuest Private Equity will be focused on investments in entities in the life sciences and healthcare industries such as pharmaceutical and outsourcing services, information technology, biopharmaceuticals, medical devices, and healthcare services (both public and private) and will not enjoy the reduced risks of a broadly diversified portfolio. A specific investment focus is inherently riskier and could cause a NovaQuest Fund's investment to be more susceptible to particular economic, political, regulatory, technological or industry conditions or occurrences compared with a fund, or a portfolio of funds, that is more diversified or has a broader industry focus. A NovaQuest Fund may, therefore, be subject to more volatility and a greater risk of loss than a broadly diversified portfolio. In addition, NovaQuest Funds will participate in a limited number of investments and, as a consequence, the aggregate return of such NovaQuest Funds may be significantly affected by the performance of even a single investment.

Nature of Growth-Stage Investments. NovaQuest Private Equity investments may be in growth-oriented companies, some with little or no operating history. While early-stage investments offer the opportunity for significant capital gains, such investments involve a high degree of business and financial risk that can result in substantial losses. Many of these companies will operate at a loss, or with substantial variations in operating results from period to period. Many of these companies will need substantial additional capital to support additional research and development activities, expansion or to achieve or maintain a competitive position. Such companies may face intense competition, including from companies with greater financial resources, more extensive development, manufacturing, marketing and service capabilities and a larger number of qualified managerial and technical personnel. Any given investment made by a NovaQuest Fund may prove worthless and there is a risk that investors could lose their entire investment.

Risks Associated with Investments in Life Sciences and Healthcare Companies. The success of NovaQuest Private Equity's portfolio companies may be dependent upon obtaining and maintaining certain government approvals. Companies in the life sciences and healthcare industries typically require the approval of agencies such as the Food and

Drug Administration prior to marketing their products or services to the public. The approval process is very lengthy and very costly, and there can be no guarantee that a portfolio company will obtain or maintain the necessary approvals for its products or services. If a portfolio company is unable to obtain or maintain these approvals, the portfolio company may experience significant adverse effects, which in turn could negatively affect the performance of a NovaQuest Fund. Moreover, the current regulatory framework may change or additional regulations may arise at any stage during the ownership of a portfolio company, which may affect the company's ability to obtain or maintain approval of its products or services.

NovaQuest Funds may invest in companies that will need to obtain patents for their products, both in the U.S. and in other countries. The patent protection of the intellectual property of healthcare technology companies in many countries is highly uncertain and involves complex legal, scientific and factual issues. The policy regarding allowable claimed subject matter of life sciences or healthcare technology patents varies from jurisdiction to jurisdiction.

Service on Boards, Etc. NovaQuest Private Equity will generally seek to obtain observation or visitation rights or the right to designate directors to serve on the boards of directors of portfolio companies. In addition, NovaQuest employees or operational advisors may serve, from time to time, as officers or directors of portfolio companies. The foregoing rights and activities, especially in light of new statutes and regulations relating to corporate governance and increased scrutiny of corporate boards, could expose NovaQuest, its affiliates, and the assets of a NovaQuest Fund to regulatory action and/or claims by a portfolio company, its security holders, and its creditors. In addition, a NovaQuest Fund may be prohibited from selling publicly traded securities of a portfolio company if NovaQuest is in possession of material non-public information relative to such entity. While NovaQuest Private Equity intends to manage its investments in a way that will minimize exposure to these risks, the possibility of successful claims or adverse regulatory action cannot be eliminated, and such events may have a significant adverse effect on NovaQuest Funds.

Reliance Upon Portfolio Company Management. Although NovaQuest Private Equity may seek representation on the board of directors of each of the portfolio companies or otherwise provide management and strategic planning assistance, NovaQuest Private Equity may not have an active role in the day-to-day management of the companies in which it invests. To the extent that the senior management of a portfolio company performs poorly, or if a key manager of a portfolio company terminates employment, NovaQuest Private Equity's investment in such company could be adversely affected.

Risk of Absence of Exit Opportunity. Investments are subject to the risk that the applicable NovaQuest Fund will be unable to dispose of such investments by sale or other disposition at attractive prices or otherwise be unable to complete a realization or an "exit" strategy. It is likely that many of the investments made by such NovaQuest Fund will be in securities for which there is no public market. The NovaQuest Fund may also be prohibited by contractual or legal requirements from selling such securities for a

period of time, or the investments themselves may be of such a type as to require a substantial length of time to liquidate.

#### **Item 9 - Disciplinary Information**

NovaQuest and its principals have not been the subject of any material legal proceeding required to be disclosed in response to this item.

#### **Item 10 - Other Financial Industry Activities and Affiliations**

##### *Registered Broker-Dealers*

Neither NovaQuest nor any of its management persons are registered as a broker-dealer or a registered representative of a broker-dealer. In addition, NovaQuest and its management persons are not affiliated with any broker-dealer.

##### *Registered Futures Commission Merchants, Commodity Pool Operators and Commodity Trading Advisors*

Neither NovaQuest nor any of its management persons are registered as a registered futures commission merchant, commodity pool operator or commodity trading advisor.

##### *Relationships with Related Persons*

As discussed in the subsection titled “*Participation or Interest in Client Transactions and Personal Trading*,” NovaQuest and its related persons are, directly or indirectly, the general partners, limited partners and/or managing members of the general partner of each of the NovaQuest Funds. NovaQuest and its related persons manage multiple NovaQuest Funds. This can create conflicts in the allocation of time, resources and investment opportunities among the NovaQuest Funds. Please refer to the Governing Documents of the relevant NovaQuest Fund for complete information on the requisite time commitments (if any) of NovaQuest and its related persons to the NovaQuest Funds and the allocation of investment opportunities among the NovaQuest Funds. Please also refer to the description of NovaQuest’s investment allocation policy described in the subsection “*Side-by-Side Management*” above.

The management committee of NovaQuest (the “Management Committee”) includes certain persons who are not members or employees of NovaQuest and the majority of whose business activities are not related to NovaQuest. Some of these members of the Management Committee may be supervised persons of other investment advisers, and may advise other private equity funds with investment objectives similar to or the same as those of the NovaQuest Funds. Such other private equity funds may be in a position to compete with the NovaQuest Funds for investment opportunities. All supervised persons of NovaQuest are subject to the NovaQuest Code of Ethics, as described below.

In addition, Dr. Dennis Gillings (“Gillings”), who holds a controlling interest in PharmaBio, and his affiliates (collectively, “Gillings Affiliates”) may engage in a broad spectrum of activities and are and may be affiliated with other entities and have business

affiliations, interests and activities in addition to those connected with the NovaQuest Funds. Such affiliations, interests and activities may be similar or different from those of the NovaQuest Funds. By way of example and without limitation, Gillings is the Co-founder and non-Executive Chair of GHO Capital Partners LLP (“GHO Capital”). GHO Capital is a specialist healthcare investment adviser based in London that focuses on mid-market specialist opportunities in European healthcare businesses. Investors and prospective investors should be aware that there may be occasions when Gillings Affiliates could encounter potential conflicts of interest in connection with a NovaQuest Fund’s activities.

Certain members of the Management Committee may run other businesses and work on other projects, may possess interests in other business ventures and engage in other investment activities of any kind for their own accounts, and may serve as directors or in similar capacities of other companies or organizations. Such members of the Management Committee are not expected to participate in the day-to-day management of NovaQuest, and the outside activities of such persons are not expected to materially interfere with the fulfillment of such persons’ duties to NovaQuest.

#### *Selection or Recommendation of Other Advisers*

NovaQuest does not recommend or select other investment advisers for its clients and does not receive compensation from such advisers in a manner that would create a material conflict of interest. NovaQuest does not have other business relationships with other advisers that create a material conflict of interest.

### **Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

#### *Code of Ethics*

NovaQuest has adopted a Code of Ethics under Rule 204A-1 of the Advisers Act expressing NovaQuest’s commitment to ethical conduct. NovaQuest’s Code of Ethics describes its fiduciary duties and responsibilities to its clients, and sets forth, among other things, NovaQuest’s (i) policies on receipt of gifts by employees and campaign contributions and (ii) practice of monitoring the personal securities transactions of supervised persons with access to client investment recommendations. Under NovaQuest’s Code of Ethics, all supervised persons have a duty to act in the best interests of the clients of NovaQuest and potential conflicts and violations of the Code of Ethics must be promptly reported to NovaQuest’s Chief Compliance Officer (“CCO”). All supervised persons must acknowledge the terms of the Code of Ethics annually, or as amended.

To supervise compliance with its Code of Ethics, NovaQuest requires that anyone associated with its advisory business with access to information concerning advisory recommendations provide annual securities holdings reports and quarterly brokerage statements (or equivalent quarterly transaction reports) to the firm’s CCO. The CCO (or a designee) monitors all transactions by employees in order to identify any pattern of



conduct that may evidence conflicts or potential conflicts with the principles and objectives of the Code of Ethics, or other inappropriate behavior.

In an effort to prevent inappropriate securities transactions by NovaQuest's personnel, the CCO expects to maintain and make available a list of restricted securities which may not be traded by persons subject to the Code of Ethics without obtaining the prior written approval of the CCO.

NovaQuest will provide a complete copy of its Code of Ethics to any client or prospective client upon request.

#### *Participation or Interest in Client Transactions; Personal Trading*

As general partners, limited partners and/or managing members of the general partners of each of the NovaQuest Funds, NovaQuest and its related persons have indirect beneficial interests in the securities owned by the NovaQuest Funds and will share in any profits and losses generated by the NovaQuest Funds' investments. The Code of Ethics contains policies and procedures designed to prevent improper practices with respect to such transactions, and compliance with the Code of Ethics by NovaQuest and its employees is the primary method employed by NovaQuest to address the conflicts of interest that arise with respect to these transactions.

NovaQuest may cause a NovaQuest Fund to engage in "cross transactions" via the purchase or acquisition of a security from, or the sale or transfer of a security to, another client of NovaQuest, provided that the transfer is consistent with NovaQuest's fiduciary obligations to each NovaQuest Fund participating in the cross transaction. NovaQuest has a potentially conflicting division of loyalties and responsibilities regarding both parties to any cross transactions. Where required by applicable law, any such transaction will be approved in advance by the client in accordance with Section 206(3) of the Advisers Act.

### **Item 12 - Brokerage Practices**

#### *Discretionary Brokerage*

NovaQuest invests primarily in private equity investments, although a NovaQuest Fund may acquire, sell or distribute public securities on occasion (for example, where a client receives shares of a company as part of a general distribution or initial public offering). Subject to the investment objectives, policies and restrictions of each client or NovaQuest Fund, as set forth in such NovaQuest Fund's Governing Documents, NovaQuest will generally have discretionary authority to select the broker or dealer to be used to execute transactions in securities on behalf of such client and negotiate the commission cost to be paid.

In selecting brokers, NovaQuest's primary consideration will be to obtain the most favorable net result for the relevant NovaQuest client under the circumstances, which may not involve the lowest possible commission cost. In selecting broker-dealers to

effect securities transactions, NovaQuest seeks to obtain best execution by considering factors including, but not limited to, the price and size of the order, the trading characteristics of the securities involved, the value of research provided by each broker, the broker's execution abilities, commission rates, and financial responsibility and responsiveness. The applicability of specific criteria will vary depending upon the nature of the transaction, the market in which it is executed, and the extent to which it is possible to select from among multiple brokers or dealers.

#### *Research and Soft Dollar Benefits*

NovaQuest does not engage in soft dollar arrangements with respect to securities transactions for its clients.

Any research services and/or other products or services that are provided to NovaQuest by brokers and dealers may be used for the benefit of all clients of NovaQuest and do not necessarily benefit solely the client from which the commissions were generated. The receipt of research and/or other products or services is not directly connected to the recommendation of brokerage services to a NovaQuest client, but does create a potential conflict of interest of which investors should be aware in assessing NovaQuest's choice of broker-dealers.

#### *Client Referrals*

Subject to NovaQuest's obligation to seek best execution of all transactions for its clients, NovaQuest may consider referrals of investors in determining its selection of broker-dealers. Accordingly, NovaQuest may have an incentive to select or recommend a broker-dealer based on its interest in receiving investor referrals. Any such determinations will be made in accordance with NovaQuest's fiduciary obligations to its client and NovaQuest's compliance policies and procedures.

#### *Trade Aggregation*

Although NovaQuest does not often trade in public securities, in such circumstances NovaQuest will, to the extent possible, generally place a combined order for two or more advisory clients engaged in the purchase or sale of the same security if, in its good faith determination, joint execution would be consistent with its duty to seek best execution, consistent with the terms of the participating clients' Governing Documents, and otherwise in the best interests of such clients.

### **Item 13 - Review of Accounts**

#### *Review of Client Accounts*

NovaQuest will continuously monitor portfolio investments on behalf of each client. Investments are reviewed in the context of each client's stated investment objectives and guidelines as set forth in the Governing Documents of each NovaQuest Fund or the management agreement governing the relationship between NovaQuest and the client. The investment monitoring is typically undertaken by the management team of

NovaQuest, including the Partners and employees of NovaQuest. Members of NovaQuest's investment committees meet regularly to determine and review overall investment objectives, risk tolerance and other information relevant to the NovaQuest Funds.

#### *Reports to Clients*

The general partner of each NovaQuest Fund, or an administrator appointed by such general partner, distributes quarterly and annual written reports to their respective limited partners. Annual reports generally contain an individual capital account statement as of the end of such fiscal year, a listing of investments held by the NovaQuest Fund and the audited financial statements of the NovaQuest Fund. The quarterly reports generally contain unaudited financial statements of the NovaQuest Fund for the fiscal quarter.

Investors are requested to refer to the Governing Documents of each NovaQuest Fund for further information on the reports provided by a particular NovaQuest Fund to its investors.

### **Item 14 - Client Referrals and Other Compensation**

#### *Economic Benefits Received from Third Parties*

As is discussed in “*Fees and Compensation*” above, NovaQuest and its affiliates, members or employees may from time to time receive compensation with respect to a client's portfolio investments in the form of directors' fees, consulting fees, commitment fees, monitoring fees, break-up fees and other remuneration (including any options, warrants or other equity securities). To mitigate potential conflicts of interest, NovaQuest will generally offset such benefits against the advisory fees payable from a client or otherwise remit such benefits to the client in accordance with the applicable NovaQuest Fund's Governing Documents (for example, by reducing certain expenses that would otherwise be payable by such client in respect of certain investments).

#### *Third Party Compensation for Client Referrals*

NovaQuest and related entities of NovaQuest may enter into cash compensation arrangements with unaffiliated placement agents or other third parties for introducing investors to a NovaQuest Fund. Any sales charge associated therewith will ultimately be payable by NovaQuest and/or its related entities, either directly or through an offset of the advisory fee payable by the relevant NovaQuest Fund to NovaQuest. An investor will not be charged any additional amount or bear any additional charges as a result of an introduction through a placement agent or other unaffiliated third party. Moreover, as described above, NovaQuest may consider referrals of investors to the NovaQuest Funds in determining its selection of third party service providers.

NovaQuest endeavors at all times to put the interests of the NovaQuest Funds first as part of NovaQuest fiduciary duty. Nevertheless, the receipt of compensation by the

placement agents creates a potential conflict of interest, and may affect the judgment of placement agents when making referrals to NovaQuest and the NovaQuest Funds.

#### **Item 15 - Custody**

NovaQuest will not have physical possession of any client assets (other than certain privately offered securities to the extent permitted by the Advisers Act). Nevertheless, NovaQuest will generally be deemed to have custody of the assets of the NovaQuest Funds as a result of its position as an affiliate of the general partner of each NovaQuest Fund.

It is NovaQuest's policy to cause each NovaQuest Fund that is subject to rule 206(4)-2 under the Advisers Act to be audited annually and distribute audited financial statements, prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), to investors no later than 90 days after the end of each fiscal year. In addition, upon the final liquidation of any such NovaQuest Fund, NovaQuest will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such NovaQuest Fund to all investors promptly after completion of the audit.

#### **Item 16 - Investment Discretion**

Subject to the investment objectives, policies and restrictions of each NovaQuest Fund as set forth in the Governing Documents of such NovaQuest Fund, NovaQuest has discretionary authority to determine the type, amount and price of securities and investments to be bought and sold on behalf of each NovaQuest Fund. NovaQuest generally enters into a written management agreement with each NovaQuest Fund granting such authority.

#### **Item 17 - Voting Client Securities**

NovaQuest has adopted policies and procedures regarding the voting of proxies as required under Rule 206(4)-6 under the Advisers Act. These policies and procedures are designed to ensure that proxies received with respect to securities in client accounts for which NovaQuest exercises voting discretion are voted in the best interests of such clients and that NovaQuest maintains records of its proxy voting in compliance with the Advisers Act.

Unless otherwise instructed by a client, NovaQuest will vote client proxies consistent with guidelines that NovaQuest has adopted and that NovaQuest believes reflect the best interests of its clients, after taking into consideration all relevant facts and circumstances at the time of the vote.

NovaQuest will provide to any client or prospective client at no cost a copy of its voting policies and procedures and information regarding how such client's proxies have been voted in the past.

**Item 18 - Financial Information**

NovaQuest has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.