

# NovaQuest Capital Management, L.L.C.

## Firm Brochure

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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 “NQCM” or the “Adviser”). If you have any questions about the contents of this brochure, please contact us at (919) 459-8616. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about NQCM is also available on the SEC’s website at <https://adviserinfo.sec.gov/>. NQCM’s CRD number is 160359.

NQCM is a registered investment adviser. Registration with the SEC as an investment adviser does not imply that NQCM possesses a certain level of skill or training.



## **Item 2 – Material Changes**

This summary of material changes reflects only the material changes since NQCM's filing on June 29, 2021. Such material changes include:

- Item 8 has been updated to reflect the addition of a dedicated animal health investment strategy.
- Item 10 has been updated to reflect the termination of NQCM's shared services agreement with QHP Capital, L.P. ("QHP") as of December 31, 2021.
- Schedules A and B have been updated to reflect certain changes in title and ownership structure.



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## Item 4 – Advisory Business

### A. General Description of Advisory Firm

For purposes of this brochure, the “Adviser” means NovaQuest Capital Management, L.L.C., a Delaware limited liability company, and/or (where the context permits) its affiliates that provide management or advisory services to and receive advisory fees and/or performance-based fees from the Clients (as defined below). Such affiliates are generally under common control with NQCM, may possess personnel and/or equity owners that are substantially identical to NQCM, and typically are formed for tax, regulatory, or other purposes in connection with the organization of a Client or to serve as the general partner (or equivalent function) of a Client.

NQCM was formed in 2010. The principal owner of NQCM is Sir Dennis Gillings, CBE, Ph.D. (“Gillings”), indirectly through his wholly owned corporation, PharmaBio Development, Inc. (“PBD”).

### B. Description of Advisory Services

The Adviser provides investment supervisory services to investment vehicles (collectively, the “Clients”) that are exempt from registration under the Investment Company Act of 1940, as amended (the “1940 Act”), and the securities of which are not registered under the Securities Act of 1933, as amended (the “Securities Act”). Certain Clients of the Adviser will include vehicles specially formed in order to meet tax, regulatory, or other requirements, through which investors invest in substantially the same portfolio as certain other Clients, or through which certain other Clients make individual portfolio investments.

In accordance with, and subject to, the Clients’ respective investment objectives and restrictions, the Clients primarily make (i) structured finance and related investments in companies with biopharmaceutical products that are in late-stage clinical development or commercialization stage and (ii) structured finance and equity investments in companies with animal health products that are in development stage. Investments are made principally in the biopharmaceutical and life sciences sectors, with a focus on both human and animal health.

### C. Availability of Tailored Advisory Services

The Adviser provides investment supervisory services to each Client in accordance with a separate management agreement with such Client (each, an “Advisory Agreement”), the limited partnership agreement (or analogous organizational document) of such Client, and/or side letters entered into with certain investors in a Client (collectively with the Advisory Agreement and organizational document, the “Governing Documents”). The Adviser’s advisory services generally consist of investigating, identifying, and evaluating investment opportunities; structuring, negotiating, and making investments in portfolio companies on behalf of the Clients; managing and monitoring the performance of such investments; and disposing of such investments. Investments in portfolio companies are generally effected through privately negotiated contracts and/or investment instruments, typically do not involve securities or involve unregistered securities, and generally are not leveraged.

Investment advice is provided directly to the Clients and not individually to the investors in the Clients. Services are provided to each Client in accordance with its Governing Documents. Investment restrictions for a Client, if any, are generally established in its Governing Documents.



D. Wrap Fee Programs

NQCM does not participate in wrap fee programs.

E. Client Assets Under Management

As of December 31, 2021, the Adviser manages \$2,249,172,000 in regulatory assets on a discretionary basis.



## Item 5 – Fees and Compensation

The Adviser generally receives Advisory Fees and carried interest from a Client, though certain Clients do not pay Advisory Fees, or pay Advisory Fees only indirectly through their investments in other Clients. A Client and/or its portfolio companies may also make other payments to the Adviser or its affiliates for services provided to the portfolio companies, which, in certain circumstances, may reduce the Advisory Fees payable to the Adviser. Additionally, in accordance with and subject to the Governing Documents of a Client, the Client typically bears certain out-of-pocket expenses incurred by the Adviser in connection with the services provided to the Client and/or its portfolio companies. Further details about fees and expenses are set forth in this Item 5. Please see Item 6 below for further details regarding carried interest that Clients pay.

### A. Advisory Fees

As compensation for investment supervisory services rendered to the Clients, the Adviser generally receives from each investor indirectly through the Client an advisory fee (each, an “Advisory Fee”), typically calculated based on committed capital or remaining invested capital, with respect to such Client. Advisory Fees paid by a Client may also be reduced by other fees or compensation received by the Adviser or its affiliates that relate to such Client’s activities and investments and/or by certain excess organizational or other expenses borne by such Client, as described in more detail below.

Certain investors in the Clients that are employees, business associates and other “friends and family” of the Adviser, its affiliates or their personnel (“Adviser Investors”) may not pay Advisory Fees in connection with their investment in a Client. Notwithstanding that Adviser Investors will generally not pay Advisory Fees, Adviser Investors will generally pay for their pro rata share of certain Client expenses or the pro rata portion of such Adviser Investors’ expenses will be allocated to the Adviser or the general partner of the applicable Client.

As each Client’s investors are aware, the precise amount of, and the manner and calculation of, the Advisory Fees for each Client’s investors are established by the Adviser and the general partner of the applicable Client, as modified by negotiations with investors in such Client, and are set forth in such Client’s Governing Documents and/or other documentation received by each investor prior to investment in such Client. In addition, the Adviser may enter into economic, fee-sharing, and/or other arrangements with respect to one or more Clients and/or certain investors therein, the rights of which generally will not be made available to other Clients or to other investors within such Client. The Advisory Fees and other fees and distributions described herein are generally subject to modification, waiver or reduction by the Adviser and/or the general partner of the applicable Client, both voluntarily and on a negotiated basis with select investors via side letter and/or other arrangements, which may not be disclosed to other investors in the same Client. The fee structures described herein may be modified from time to time. Fees may differ from one Client to another, as well as among investors in the same Client.

The Advisory Fees paid by a Client’s investors will generally be reduced by: (1) the amount of fees and expenses paid by such Client in connection with the organization of such Client that exceed a limit specified in such Client’s Governing Documents, (2) the amount of any placement agent fees paid by such Client, and/or (3) Portfolio Company Remuneration (as defined below), in each case, subject to and in accordance with the Governing Documents of the applicable Client. The amount and manner of such reduction, if any, is set forth in the Governing Documents of the applicable Client. To the extent a reduction relates to more than one Client, the Adviser will allocate the resulting Advisory Fee reduction



among the applicable Clients in its discretion in a manner determined to be fair and reasonable, subject to the applicable Governing Documents, including in proportion to their relative capital commitments, or, in the case of Portfolio Company Remuneration that relates to a portfolio company investment shared by more than one Client, in proportion to their relative investment amounts in the applicable portfolio company. If a Client does not pay any Advisory Fees, then any reduction in Advisory Fees will not benefit such Client. Without limiting the generality of the foregoing, to the extent Portfolio Company Remuneration relates to the allocable capital invested by a Client, co-investment vehicle, or third-party investor that does not pay Advisory Fees (or capital committed by a Client investor that does not pay Advisory Fees), such Portfolio Company Remuneration may be retained by the Adviser, in which case such amounts will not offset any Advisory Fee.

#### **B. Payment of Advisory Fees**

In accordance with and subject to each Client's Governing Documents, the Adviser generally charges Advisory Fees directly to Clients on a quarterly basis in advance. Such Advisory Fees may be deducted directly from Client assets or called as capital from such Client's investors. Accordingly, Advisory Fees paid by a Client are indirectly borne by investors in such Client.

#### **C. Other Fees and Expenses**

##### *Adviser Expenses*

As provided in a Client's Governing Documents and except as generally described below under "Client Expenses," the Adviser pays certain expenses and costs associated with the performance of its services, including office space, utilities, and telephone and other facilities of its business and salaries, employee benefits, fees and expenses of employees (exclusive of external attorneys, external accountants, and other specialized third-party consultants and professional services providers, and other than carried interest as described in Item 6 below), relating to the services and facilities provided by the Adviser to the Clients.

##### *Client Expenses*

Generally, except as otherwise set forth in the applicable Governing Documents, each Client will bear all fees, costs, and expenses incurred in furtherance of the activities of the Client, including, without limitation,

- (i) all fees, costs and expenses in connection with the start-up and organization of the Client, its general partner, and related entities, and the sale of interests in the Client, including any costs incurred in connection with compliance with any applicable regulatory requirements relating to the marketing or establishment of the Client (subject to any applicable cap under the Governing Documents);
- (ii) any placement fees, finder's fees, or commissions paid or payable by the Client, its general partner, the Adviser, or their affiliates in connection with the offer and sale of interests in the Client;
- (iii) corporate finance fees;



- (iv) any taxes, fees, or other governmental charges assessed against the Client;
- (v) all legal, tax, auditing, consulting, financing, accounting, administration, and other outside advisor fees and costs and expenses (including, without limitation, interest on money borrowed by the Client, its general partner, or the Adviser on behalf of the Client, registration expenses relating solely to the Client (and not its general partner or the Adviser), commissions and finders', brokerage, custodial, and other fees) 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);
- (vi) all expenses relating to any inquiry, litigation, investigation, proceeding, or audit, and any threatened inquiries, litigation, investigation, proceedings, or audit involving the Client, its general partner, or the Adviser related to the business or activities of the Client;
- (vii) expenses attributable to normal and extraordinary legal, consulting, financing, administration, custodial, tax advisory, auditing, and accounting services provided to the Client (including, without limitation, expense reimbursement for any investor advisory committee or similar body of such Client and expenses associated with the preparation of Client financial statements and reports to its investors, tax returns, and Schedule K-1s);
- (viii) fees and expenses attributable to "back office" support functions provided by third party service providers;
- (ix) subject to any applicable limitations under the Governing Documents, the Client's pro-rata share of premiums for insurance obtained by the Client to protect the Client, its general partner, the Adviser, their respective affiliates, the partners, members, directors, officers, employees, or agents of such persons, and the members of any investor advisory committee or similar body of such Client in connection with the activities of the Client;
- (x) indemnification expenses;
- (xi) all out of pocket fees and expenses relating to investment and disposition opportunities for the Client whether or not consummated or otherwise relating to the activities of the Client (including, without limitation, travel, legal, accounting, auditing, consulting, and other fees and expenses, subject to any limitations regarding air travel under the Governing Documents);
- (xii) brokerage fees and commissions and prime brokerage fees, custodial expenses, agent bank and other bank service fees, and other investment costs;
- (xiii) market data costs;
- (xiv) research-related expenses, including, without limitation, news and quotation equipment, software, and services;
- (xv) expenses incurred in connection with the managed distribution of marketable securities;
- (xvi) liquidation expenses;



(xvii) expenses incurred in connection with annual and special meetings of the Client's investors or from otherwise holding meetings with the Client's investors;

(xviii) expenses of any investor advisory committee or similar body of such Client, including expenses of outside counsel to such body; and

(xix) all other ordinary operating expenses, or non-recurring or extraordinary expenses attributable to the activities and operations of the Client.

In addition, the Adviser, from time to time, engages one or more fund administrators or similar service providers to perform certain functions in relation to the Clients, which services may include coordination of the Clients' legal entity management function, execution and recordkeeping associated with applicable tax elections and filings, support for the valuation process and investor correspondence, investor data management, and reporting requests as well as data collection required for various regulatory reporting with which the Clients are required to comply. In certain instances, employees of such service providers dedicate substantially all of their time to the Clients or spend all or a significant majority of their business time at the Adviser's offices. These expenses related to such service provider employees are borne by the Clients.

From time to time, the general partner (or equivalent person) of a Client may create "special purpose vehicles," "alternative investment vehicles," or similar structuring vehicles for purposes of accommodating certain tax, legal, regulatory, or other considerations of Client investors ("SPVs"). In the event an SPV is created, consistent with the Governing Documents of the Client, the SPV, and indirectly, the investors thereof, will typically bear all expenses related to its organization and formation and other expenses incurred solely for the benefit of the SPV. In addition, expenses of the types borne by a Client but associated with any feeder fund or similar vehicle organized to facilitate the participation of certain investors in the Client (including, without limitation, expenses of accounting and tax services) may be borne by the Client and indirectly, the investors thereof (even if such investors do not participate in any such feeder fund or similar vehicle).

NQCM makes relatively infrequent use of the services of broker-dealers to effect portfolio transactions for Clients; however, when NQCM uses a broker-dealer, applicable Clients will incur brokerage and other transaction costs. The Adviser's brokerage practices are discussed in Item 12.

#### *Co-Investment Vehicle Expenses*

As each Client's investors are aware, the Adviser will, from time to time, form a co-investment vehicle or other similar vehicle (a "Deal Co-investment Vehicle") in order to facilitate investment by the investors alongside a Client in connection with the consummation of a transaction. If a Deal Co-investment Vehicle is created, the investors in such vehicle generally bear all expenses related to its organization and formation and other expenses incurred solely for the benefit of the Deal Co-investment Vehicle. A Deal Co-investment Vehicle generally will bear its pro rata portion of expenses incurred in making a consummated investment. If a potential investment is not consummated, the expenses relating to such proposed but not consummated investment ("Dead Deal Costs") generally would be borne by the Client or Clients selected by the Adviser as proposed investors for such potential investment, rather than the Deal Co-investment Vehicle.



Dead Deal Costs may include, among other things, legal, accounting advisory, consulting, or other third-party expenses, any travel and travel-related and accommodation expenses, all fees, costs, and expenses of lenders, investment banks, and other financing sources in connection with arranging financing for a proposed investment, any break-up fees, reverse termination fees, topping, termination, or other similar fees, extraordinary expenses such as litigation costs and judgments and other expenses, and any deposits or down payments of cash or other property which are forfeited in connection with a proposed investment that is not consummated. In addition, the Adviser and its affiliates have discretion to (i) receive performance-based compensation, Advisory Fees, or similar fees from co-investors and (ii) collect customary fees in connection with actual or contemplated investments that are subject to co-investment arrangements.

### *Portfolio Company Remuneration*

In addition to the Advisory Fees and carried interest, the Adviser and its affiliates may receive a variety of other cash, equity, and other non-cash fees relating to the investment activities of a Client, its portfolio companies, and prospective portfolio companies including, without limitation, director's fees, transaction fees, consulting fees, commitment fees, monitoring fees, break-up fees, success fees, and other forms of remuneration (collectively, "Portfolio Company Remuneration"). The amount and timing of Portfolio Company Remuneration received by the Adviser or its affiliates are generally specified in the agreement or other documentation governing the applicable transaction.

From time to time, the Adviser will, in its discretion, disclose to an investor the amount of Portfolio Company Remuneration allocated to the Client in which such investor has invested in account statements or other similar periodic reports delivered to investors.

In many cases with respect to the implementation of the arrangements described above, there is not an independent third-party involved on behalf of the relevant portfolio company. Therefore, a conflict of interest exists in the determination of any such fees and other related terms in the applicable agreement with the portfolio company.

The payment of Portfolio Company Remuneration and reimbursements by portfolio companies and prospective portfolio companies will, in some, but not all, circumstances create a conflict of interest between the Adviser and its affiliates, and the Clients and their investors because the amounts of the Portfolio Company Remuneration and reimbursements are often substantial, and the Clients and their investors generally do not have a direct interest in these fees and reimbursements. The Adviser determines the amount and timing of the Portfolio Company Remuneration for the services provided and reimbursements in its own discretion, subject to agreements with sellers, buyers, and management teams, the board of directors of or lenders to portfolio companies, and/or third-party co-investors in its transactions, and the amount of such fees and reimbursements often will not (except in connection with the reductions described herein) be disclosed to investors in the Clients.

Portfolio Company Remuneration are often substantial and may be paid in cash, in securities of the portfolio companies, prospective portfolio companies or investment vehicles (or rights thereto) or otherwise. Although Portfolio Company Remuneration are in addition to the Advisory Fees, the Adviser will in some circumstances reduce the amount of Advisory Fees paid by the applicable Client in connection with the receipt of such Portfolio Company Remuneration in accordance with the Advisory Agreement and/or Governing Documents of the applicable Client. Generally, under the terms of the applicable Governing Documents, for purposes of calculating any Advisory Fee offset, Portfolio Company



Remuneration are net of out-of-pocket costs and expenses incurred by the Adviser in connection with consummated or unconsummated transactions or in connection with generating any such fees.

### *Allocation of Expenses*

From time to time the Adviser will be required to decide whether certain fees, costs, and expenses should be borne by the Adviser, a Client, a portfolio company, co-investors and/or a third-party (each, an “Allocable Party”) and if so, how such fees, costs, and expenses should be allocated among the relevant Allocable Parties. Certain fees, costs and expenses may be the obligation of one particular Allocable Party and may be borne by such Allocable Party, or fees, costs and expenses may be allocated among multiple Allocable Parties. The Adviser allocates fees, costs, and expenses in accordance with a Client’s Governing Documents. To the extent not addressed in the Governing Documents of a Client, the Adviser will make allocation determinations among Allocable Parties on a fair and reasonable manner using its good faith judgment, notwithstanding its interest (if any) in the allocation (which such methodologies may include pro rata allocation based on the respective capital commitments of a Client, pro rata allocation based on the respective investment (or anticipated investment) of an Allocable Party in an investment, relative benefit received by an Allocable Party, or such other equitable method as determined by the Adviser in its sole discretion). The Adviser will make any corrective allocations and take any mitigating steps if it determines in its sole discretion that such corrections are necessary or advisable. Notwithstanding the foregoing, the portion of an expense allocated to a Client for a particular service may not reflect the relative benefit derived by such Client from that service in any particular instance.

There may be occasions when one Allocable Party (the “Payor Allocable Party”) pays an expense common to multiple Allocable Parties (the “Allocated Parties”) (e.g., legal expenses for a transaction in which multiple Clients and/or co-investors participate). On such occasions, each Allocated Party will reimburse the Payor Allocable Party for its share of such expense, generally without interest, promptly after the payment is made by the Payor Allocable Party. In addition, there may be occasions where a Client procures borrowing through a subscription line or credit facility in order to make an investment, syndicating out a portion of the investment to another Allocable Party. Subject to the Governing Documents, the borrowing Client will bear the entire cost of interest from the borrowing, even though the investment may ultimately be made by other Allocable Parties. Furthermore, while highly unlikely, it is possible that one of the Allocated Parties could default on its obligation to reimburse the Payor Allocable Party.

### *Portfolio Company Expense Reimbursement*

As each Client’s investors are aware, a portfolio company will typically reimburse the Adviser for expenses (including without limitation travel and travel-related expenses (including first or business class commercial airline travel, black car, accommodations and meals), entertainment expenses (including, as applicable, closing dinners and mementos, cars and meals, social and entertainment events with portfolio company management, customers, clients, brokers and services providers), expenses relating to training programs, meetings or other events (to the extent such programs, meetings or events are attended by portfolio company personnel), expenses relating to hiring portfolio company personnel (including background checks, recruiting and relocation expenses), indemnification expenses, certain legal expenses and similar out-of-pocket expenses as well as consulting fees and other cash and non-cash compensation) incurred by the Adviser in connection with its performance of services for such portfolio company; such reimbursed expenses are generally not included in the definition of “Portfolio Company Remuneration” (or similar defined term) under the terms of the applicable Governing Documents, and such



reimbursements do not reduce Advisory Fees. Because certain expenses are paid for by a Client and/or its portfolio companies or, if incurred by the Adviser, are reimbursed by a Client and/or its portfolio companies, the Adviser may not necessarily seek out the lowest cost options when incurring (or causing a Client or its portfolio companies to incur) such expenses.

Portfolio company expense reimbursements are determined by the Adviser in its discretion, subject to negotiations with sellers, buyers, and management teams, the board of directors of or lenders to portfolio companies, and/or third-party co-investors in its transactions. There is generally not an independent third-party involved on behalf of the relevant portfolio company; therefore, a conflict of interest exists in the determination of any such reimbursement terms in the applicable agreement with the portfolio company.

D. [Prepayment of Advisory Fees](#)

Advisory Fees are generally paid in advance. Upon the termination of an Advisory Agreement for a Client, any prepaid, unearned Advisory Fees will be promptly refunded to investors in such Client (determined on a pro rata basis relative to the number of days elapsed in the applicable billing period), and any earned, unpaid Advisory Fees will become due and payable.

E. [Additional Compensation and Conflicts of Interest](#)

NQCM neither accepts nor permits any of its supervised persons to accept compensation for the sale of securities or other investment products.



## **Item 6 – Performance-Based Fees and Side-By-Side Management**

The Adviser generally earns performance-based compensation from Clients (other than Deal Co-investment Vehicles) in the form of “carried interest” allocations, which are effectively allocations of a portion of Clients’ realized gains on portfolio investments (generally subject to a performance threshold). Performance-based compensation is indirectly borne by the investors in a Client. Certain Clients and investors in such Clients may incur lower or no rates of performance-based compensation. Such performance-based compensation has the potential to create an incentive to recommend investments that are riskier or more speculative than would be the case absent this performance-based compensation. The payment of performance-based compensation by some (but not all) Clients or the payment of performance-based compensation at varying rates has the potential to create an incentive for the Adviser to disproportionately allocate time, services, or functions to Clients paying performance-based compensation at a higher effective rate, or to allocate investment opportunities to such Clients.

Generally, and except as otherwise set forth in the Governing Documents of the Clients, this conflict is mitigated, at least in part, by (i) certain limitations on the ability of the Adviser to establish new investment funds; (ii) contractual provisions requiring certain Clients to purchase and sell investments contemporaneously with other Clients; and/or (iii) contractual provisions and policies and procedures setting forth investment allocation requirements. Conflicts of interest for certain Clients may also be referred to investor advisory committees (or similarly functioning bodies), which are composed of representatives of investors in a Client and generally charged with resolving conflicts of interest referred to it by the Adviser.



## **Item 7 – Types of Clients**

The Adviser currently provides investment supervisory services to the Clients. Investment advice is provided directly to the Clients (subject to the direction and control of the general partner of each Client, if applicable) and not individually to investors in any Client.

Interests in the Clients are offered pursuant to applicable exemptions from registration under the Securities Act and the 1940 Act. Investors in the Clients are generally “qualified purchasers” as defined in the 1940 Act, and may include, among others, high net worth individuals, single family offices, multiple family offices, institutional investors, pension and profit-sharing plans, university endowments, sovereign wealth funds, operating corporations, funds of funds, and other legal entities.

The Adviser does not set a minimum Client size, but generally establishes minimum investment commitments for a Client’s investors. The Adviser may, from time to time and in its sole discretion, permit investments below the minimum amounts set forth in the Governing Documents or offering documents of a Client.



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

### A. Methods of Analysis and Investment Strategies

NQCM provides investment advisory services to Clients generally consisting of investigating, identifying, and evaluating structured finance and related investment opportunities in late clinical development stage and commercial state biopharmaceutical products and structured finance and equity investments in development stage animal health products; structuring, negotiating, and making investments in portfolio companies developing such products; managing and monitoring the performance of such portfolio companies and products; and exiting, or managing and monitoring the exit of such investments. NQCM, through milestone payment, royalty payment, and other constructs, generally seeks to contractually provide for the “self-liquidation” of its portfolio investments that are not structured as equity, debt, or other similar securities. When prudent and consistent with the investment objectives and restrictions of its Clients, NQCM reserves the right to make investments to hedge illiquid long equity exposure, foreign currency exposure, interest rate exposure, credit risk exposure, or other investment risks.

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

### B. Risk of Loss

Although all investments in securities involve risk of loss that investors must be prepared to bear, NQCM’s significant investment strategies and significant methods of analysis involve the following material risks.

#### *Risks Related to Biopharmaceutical Product Development*

If a product in which a Client invests or in which it makes a product finance investment does not successfully reach a return-generating milestone (for example, regulatory approval for marketing in the United States or another jurisdiction or successful proof of concept in phase II clinical development), the Client may be unable to recover its investment or realize any return from such investment.

A Client may make product finance investments or direct investments in products that are undergoing development or clinical trials and have not yet reached development milestones that trigger a payment to the Client; for example, a product may not have received marketing approval by any regulatory authority. Such products will be required to undergo significant development activities and non-clinical and clinical tests to obtain regulatory approval and progression through other development milestones such as proof of concept. The Client may not be able to recover its investment or realize any return if a product fails to reach such milestones or is otherwise discontinued by the company sponsoring the development of such product. 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. The results of pre-clinical and clinical testing of a product under development may not necessarily indicate the results that will be obtained from later or more extensive testing, and the product



may experience significant setbacks in advanced clinical trials. Clinical trials might be delayed or halted for various reasons, including (but not limited to):

- The product does not achieve a statistically or clinically significant measure of efficacy;
- Regulatory approval to commence the trial is not received or is delayed;
- Patients experience severe side effects or serious adverse events during treatment;
- Patients do not enroll in the clinical trial at expected rates;
- The occurrence of a negative findings from animal studies or other clinical studies conducted in the later stages of drug development (for example drug-drug interactions or carcinogenicity);
- The product or clinical trial protocol is modified during testing;
- The development plan or strategy is delayed, amended or changed; and
- The product is discontinued in development because of changes in the market environment (for example, issues arising from a competitive product) or other for other reasons at the sole determination by the company sponsoring the development of such product.

Any delays in completing or commencing clinical trials will increase costs and slow down the development and approval process of the products and, therefore, delay the obtention of necessary regulatory approvals with respect to the products. Any such delays could adversely affect a Client's ability to achieve returns on its investment.

A Client, or a company sponsoring the development of a product in which the Client invests or in which it makes a product finance investment, may decide to abandon the development of a product before it receives regulatory approval. It is possible that product development or commercialization activities could be terminated due to drug safety reasons, resulting in losses for the Client. It is also possible that a counterparty may cease development or commercialization activities on a product for other reasons. Individual investments may or may not have contractual protections to insulate the Client from losses arising from such cessations of development or commercialization. Such a decision to cease product development or inability to continue to fund product development generally could result in a loss of the Client's investment prior to the receipt of royalty or milestone payments or may prevent the Client from generating a positive return on any such investment.

The successful development of a product in which a Client invests or in which it makes a product finance investment may be substantially dependent upon the company sponsoring its development and/or commercialization clinical trials. A Client's product finance investments may include oversight rights, but NQCM does not expect Clients to assume primary responsibility or control over the development and/or commercialization under such investment arrangements. The development and commercialization will generally be the responsibility of the company sponsoring the product, or another third party, and a Client's ability to intervene in such trials or development will be limited. The failure of a company sponsoring the product or another third party to successfully conduct and manage the product's development and clinical trials may result in the loss of the Client's investment or may prevent it from generating a positive return on any such investment.



## *Risks Related to the Animal Health Sector*

The animal health industry is highly competitive, with numerous participants including standalone animal health businesses, the animal health businesses of large pharmaceutical companies, specialty animal health businesses and companies that mainly produce generic products. There are also many new start-up companies competing in the animal health industry. Competitive pressures can arise from, among other things, relative safety and efficacy product profiles, relative demand growth, number of competitive products being introduced into a particular segment, price reductions, the ability of participants to capitalize on economies of scale, and the relative ability to access newer technologies.

The markets for animal health products are regularly affected by the introduction and/or broader market acceptance of newly developed or alternative products that address the species and indications targeted by such products. Technological breakthroughs by competitors may render obsolete a company's products or significantly reduce or eliminate the market for such products.

Over the past several years, changes in regulations and market demand have reflected an increased consumer sentiment for clean proteins and dairy products (i.e., those produced without the use of antibiotics, hormones, or other products intended to increase animal production). There are two classes of antibiotics used in animal health: shared-class, or medically important, antibiotics, which are used to treat infectious disease caused by pathogens that occur in both humans and animals; and animal-only antibiotics, which are used to treat infectious disease caused by pathogens that occur in animals only. Concerns that the use of antibiotics in food animal production may lead to increased antibiotic resistance of human pathogens have resulted in increased regulation and changing market characteristics. In December 2013, the U.S. Food & Drug Administration (the "FDA") announced final guidance establishing procedures for the voluntary phase-out in the U.S. over a three-year period of the use of shared-class antibiotics in animal feed for growth promotion in food animal production. The guidance allows for continued use of shared-class antibiotics in food-producing animals under the supervision of a veterinarian for treatment, control, and, under certain circumstances, for prevention of disease. The FDA indicated that it took this action to help preserve the efficacy of shared-class antibiotics to treat infections in humans. As part of those efforts, stricter guidelines governing the administration of shared-class antibiotics came into effect. As of January 1, 2017, under the FDA guidance and the related rule known as the Veterinary Feed Directive, the use of shared-class antibiotics in the water or feed of food-producing animals requires written authorization by a licensed veterinarian. In addition, other countries have passed restrictions or bans on antibiotic use. Other countries have placed restrictions or bans on the use of specific antibiotics in certain food-producing animals. Antibiotic resistance concerns will likely continue to result in additional restrictions or bans, expanded regulations, or public pressure to further reduce the use of antibiotics in food animals, increased demand for antibiotic-free protein, or changes in the market acceptance or regulatory treatment of ionophores, any of which could materially adversely affect investments made by the Client.

While competition from producers of generic products has not historically been as fierce in the animal health sector as in the human health sector, animal health companies nevertheless depend on patents and regulatory data exclusivity periods to provide them with exclusive marketing rights for some of their products. Patents for individual products expire at different times based on the date of the patent filing (or sometimes the date of patent grant) and the legal term of patents in the jurisdictions where such patents are obtained. The extent of protection afforded by our patents varies from jurisdiction to jurisdiction and is limited by the scope of the claimed subject matter of the patents, the term of the patent, and the availability and enforcement of legal remedies in the applicable jurisdiction. As a



company's patents for a brand name product expire, competitors may begin to introduce generic or other alternatives, and as a result, the company may face competition from lower-priced alternatives. Generic competitors have become relatively more aggressive in recent years in terms of launching products before patent rights expire. Moreover, because of attractive pricing, sales of generic products are an increasing percentage of overall animal health sales in certain regions. It is possible that product pricing and the effect of generic competition in the animal health sector may in the future more closely resemble the dynamics at play in the human health sector, particularly as distribution channels and reimbursement mechanics (such as pet insurance) change.

From time to time, unanticipated safety, quality, or efficacy concerns arise for animal health products, whether or not scientifically or clinically supported, leading to product recalls, withdrawals, or suspended or declining sales, as well as product liability and other claims. Regulatory actions based on such safety, quality, or efficacy concerns could affect all or a significant portion of a product's sales and could adversely affect one or more investments made by the Client.

Sales of certain animal health products could be materially adversely affected by the outbreak of disease carried by food animals, which could lead to the widespread death or precautionary destruction of food animals as well as the reduced consumption and demand for animal protein. Additionally, outbreaks of disease carried by food animals may reduce regional or global sales of certain animal-derived food products or result in reduced exports of such products, either due to heightened export restrictions or import prohibitions. Outbreaks of various diseases in recent years, including avian influenza, foot-and-mouth disease, bovine spongiform encephalopathy ("mad cow" disease) and porcine epidemic diarrhea virus, have negatively affected sales of some animal health products, and similar outbreaks in the future could reduce sales of animal health products in which the Client is invested. The discovery of additional cases of any of these, or new, diseases may result in additional restrictions on animal protein, reduced herd or flock sizes, or reduced demand for animal protein, any of which may have an adverse effect on the Client's investments.

The animal health industry and the demand for various animal health products can be affected by weather conditions, varying weather patterns, and weather-related pressures from pests, such as ticks. Production animal producers, in particular, depend on the availability of natural resources, including large supplies of fresh water. Animal health and producers' ability to operate could be adversely affected if they experience a shortage of fresh water due to human population growth or floods, droughts, or other weather conditions. In the event of adverse weather conditions or a shortage of fresh water, veterinarians or production animal producers may purchase fewer animal health products. Additionally, heat waves may cause stress in animals and lead to increased vulnerability to disease, reduced fertility rates, and reduced milk production. Droughts can threaten pasture and feed supplies by reducing the quality and amount of forage available to grazing livestock, while climate change may increase the prevalence of parasites and diseases that affect production animals. Adverse weather conditions may also materially and adversely affect the aquaculture business. Changes in water temperatures could affect the timing of reproduction and growth of various fish species, as well as trigger the outbreak of certain water borne diseases.

Feed, fuel, transportation, and other relevant costs for production animal producers may increase or animal protein prices or sales may decrease, either of which trends could lead to a reduction in demand for production animal health products. In the companion animal segment, concerns about the financial resources of pet owners could cause veterinarians to alter their treatment recommendations in favor of lower-cost alternatives, which could result in a decrease in sales of certain companion animal health products, particularly in developed countries where there is a higher rate of pet ownership. Rising costs



or reduced income for consumers could have a material adverse effect on certain of the Client's investments in companion animal health products.

Changing distribution channels may affect the companion animal health product market. In most markets, pet owners generally purchase animal health products directly from veterinarians. However, pet owners increasingly have the option to purchase animal health products from other sources, such as online retailers, "big-box" retail stores, or other over-the-counter distribution channels. This trend has been demonstrated, for example, by the significant shift away from the veterinarian distribution channel for flea and tick products. Pet owners also could decrease their reliance on, and visits to, veterinarians as they rely more on internet-based animal health information. Many companion animal health companies market their companion animal prescription products primarily through the veterinarian distribution channel, and so could be adversely affected by any material shift away from that channel. It is also possible that pet owners could substitute human health products for animal health products if human health products are deemed to be lower-cost alternatives.

Legislation has been proposed in the U.S. in the past, and may be proposed again in the U.S. or in other jurisdictions in the future, that also may affect the distribution channels for companion animal health products. For example, legislation has been proposed that could require veterinarians to provide pet owners with written prescriptions and disclosure that the pet owner may fill prescriptions through a third party, which may further reduce the number of pet owners who purchase their animal health products directly from veterinarians. Such requirements could also lead to increased use of generic alternatives. Some states already have regulations requiring veterinarians to provide prescriptions to pet owners upon request and the American Veterinary Medical Association has policies to encourage that practice.

Animal health product companies necessarily are required to evaluate their existing and new products in animals in order to register their products. Animal testing in certain industries has been the subject of adverse publicity, advocacy, and controversy. Some organizations have attempted to ban animal testing or encourage the adoption of new regulations applicable to animal testing. If any such attempts are successful in the future, the research and development efforts of animal health companies could be materially adversely affected.

#### *Risks Related to Product Commercialization and Market Acceptance*

If the products in which a Client invests or in which it makes a product finance investment are not successfully commercialized, the Client may lose some or all of its investment in such product. Even if a product in which the Client invests or in which it makes a product finance investment is approved for sale, the value of a product, and the Client's ability to receive future royalty or other contingent payments, will depend on the market acceptance and demand for the product. Market acceptance of and demand for any product by physicians, healthcare payors, patients, and the medical community will depend on a number of factors, including (but not limited to):

- the clinical indications for which the product is approved;
- the extent and effectiveness of the Fund's marketing efforts or the marketing efforts of the product's sponsor;
- the acceptance by physicians and patients of the product as safe and effective;
- the withdrawal of approval or limitations on sales imposed by regulatory authorities;



- the cost of treatment relative to alternative treatments;
- the extent to which the product is approved for inclusion on formularies of hospitals and managed care organizations;
- whether the product is designed under physician treatments as a first-line therapy or as a second- or third-line therapy;
- the existence of product liability claims with respect to the product or similar products;
- the availability of adequate reimbursement by third parties;
- the limitations on use imposed by risk management programs;
- the availability of adequate supplies of the product in the supply chain to meet the demand of physicians and patients;
- the projected timing and introduction of the product;
- the pricing of the product;
- the ease of administration of the product; and
- the prevalence and severity of side effects, or the perception of such side effects or other safety issues, either in the product or similar products.

Products that compete with a product in which a Client invests or in which it makes a product finance investment may negatively affect the Client's ability to realize a positive return on its investment. Even if a product in which the Client invests or in which it makes a product finance investment is approved for sale and is introduced into the market, such product may face intense competition from a competing product, including generics, which may be safer, more effective, more effectively marketed, or have lower prices. A competing product, to the extent it has advantages, or perceived advantages, over a product in which a Client invests or in which it makes a product finance investment, may render the product in which the Client invests or in which it makes a product finance investment obsolete or less competitive, resulting in reduced sales or removal from the market. A reduction in sales or removal from the market could substantially reduce royalty or other payments that the Client 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.

Significant safety issues could arise for a product in which a Client has made an investment or in which it has made a product finance investment, which could negatively affect the Client's ability to realize a positive return on its investment. A product in which the Client has invested or in which it has made a product finance investment may receive regulatory approval based on data obtained in controlled clinical trials of limited duration. Following regulatory approval, a product may have new safety issues reported. If such an event occurs, the product's conditions of use may be required to be amended or have its indication narrowed, or such a product may require additional warnings or precautions on its label. The occurrence of any of these could reduce the product's market acceptance. If serious safety issues arise, the product could be withdrawn from the market by the company sponsoring the product or regulatory authorities. Safety issues affecting suppliers' or competitors' products also may reduce the market acceptance of a product in which the Client has invested or in which it has made a product finance investment. Any of these consequences could limit the Client's ability to recover its investment or receive any positive return.



Difficulties, disruptions or delays in manufacturing, inability or difficulty in obtaining raw materials, or components needed to produce a product or failure to comply with manufacturing regulations may limit supply of the products in which a Client invests, and products in which it makes a product finance investment, and limit the sale of such products. The products in which a Client invests, or in which the Client makes a product finance investment, will be manufactured by the biopharmaceutical company that sponsors the product or by a third party with which the sponsor has contracted. 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 Client invests, or in which the Client makes a product finance investment, this could delay indefinitely the sales of products in which the Client invests, or in which the Client has made a product finance investment. Further, if the manufacturer is unable, for any reason, to obtain components or raw materials necessary to manufacture a product in which the Client invests, or in which the Client makes a product finance investment, then sales of the product may be delayed indefinitely. If a product in which the Client invests, or in which the Client has made a product finance investment, experiences marketing or supply delays, the Client may not be able to recover its investment or receive any positive return.

#### *Other Biopharmaceutical Product-Related Risks*

Products or companies in which a Client invests, and products in which it makes a product finance investment, may be the target of product liability claims. Although such companies carry insurance against product liability claims, any such exposure faced by a company in which the Client invests or that sponsors a product in which the Client invests, or in which it makes a product finance investment, could negatively affect the development of its products and, therefore, negatively affect the Client's value. Furthermore, there is an inherent risk of product liability lawsuits related to the testing of biopharmaceutical products. Regardless of merit or eventual outcome, liability claims may result in:

- Inability to develop one or more of the products or the decision to abandon the development of one or more of the products;
- Inability to sell rights and interests in the products and negative effects on royalty or other future payments on the products that the Client is entitled to receive;
- Injury to the biopharmaceutical company's and the Client's reputations;
- Withdrawal of clinical trial participants;
- Significant litigation costs expended by a company in which the Client invests; and
- Substantial monetary awards to or costly settlements with clinical trial participants and patients paid by a company in which the Client invests.

The loss of patent protection or invalidation of intellectual property may prevent the companies in which a Client invests, or the counterparties to the product finance investments of the Client, from selling their products or the products in which the Client invests or makes a product finance investment from being sold.

Many of the products in which Clients invest, or in which a Client makes a product finance investment, will require patent or other intellectual property protection. To the extent the intellectual property related to a product in which the Client invests or makes a product finance investment, or a product sold



by a company in which the Client invests, is challenged, invalidated or circumvented or to the extent it does not allow that product to compete with other products effectively, the return on the Client's investment may be adversely affected. Additionally, to the extent another company claims that a product in which a Client invests, directly or indirectly, infringes upon their intellectual property, resolving such infringement claim can be costly and time consuming and may require the product to be subject to a license agreement. A successful claim of patent or other intellectual property infringement could result in an injunction preventing the manufacture, sale or use of a product in which the Client has invested or in which it has made a product finance investment. Any of these occurrences could have an adverse effect on the Client's ability to generate a positive return on its investment.

A prolonged economic downturn could adversely affect sales of products in which a Client invests, or in which the Client makes a product finance investment, or the prospects of companies in which the Client invests. While pharmaceuticals have not generally been sensitive to overall economic cycles, a prolonged economic downturn coupled with rising unemployment (and potentially with a corresponding increase in the uninsured and underinsured population) could lead to a decreased utilization of drugs, adversely affecting the sales volume of products in which Clients invest or products sold by the companies in which a Client invests.

#### *Biopharmaceutical Industry Concentration*

NQCM focuses on investments in entities in the biopharmaceutical and life sciences industries, and specifically those developing late-stage clinical or commercial stage biopharmaceutical products. NQCM also focuses on investments in entities in the animal health industry, specifically those developing animal health products. Accordingly, Clients do not enjoy the reduced risks of a portfolio broadly diversified across industries or sectors. A concentrated investment focus is inherently riskier and could cause Client portfolio investments to be more susceptible to particular economic, political, regulatory, technological, or industry conditions or occurrences as compared with investment portfolio that is more diversified or has a broader industry focus. A Client may, therefore, be subject to more volatility and a greater risk of loss than an investor with a more broadly diversified portfolio. In addition, Clients generally participate in a limited number of investments; as a consequence, the aggregate return of such Client may be significantly affected by the performance of even a single investment.

Clients' investments will 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 invests could have a significant adverse effect on its performance. Further, Client investment strategies depend, 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 Clients' return on investments or limit opportunities for future investments. Furthermore, there can be no assurance that a Client will be successful in its efforts to identify investment opportunities that satisfy its investment strategy and diversification goals or that it will be permitted to invest, or invest in the amounts desired, in such opportunities.

#### *Risks of Perception of Clients as Competitors*

A Client may enter into arrangements whereby it takes on some of the risk of the potential success or failure of the products in which it invests and arrangements whereby it invests directly in biopharmaceutical companies and products. These investments may limit the Client's ability to invest in



other products or companies in the same industries or industry segments because companies may believe that, through its investment in competing products or companies, the Client is in competition with them. This could prevent the Client from making investments in companies or products that NQCM views as attractive investment opportunities.

#### *Biopharmaceutical Industry Regulatory Risk*

The biopharmaceutical industry, including the animal health industry, is heavily regulated. Governmental agencies throughout the world, but particularly in the United States, Europe, and Japan, heavily regulate the drug and other product development and approval process. Even after approving a product, a government may require a company (or the company may act voluntarily) to limit the product's scope of prescription or withdraw the product from the market based on safety concerns. Additionally, regulatory agencies may impose requirements for product labeling and advertising, regulations regarding manufacturing practices, and post-marketing reporting obligations. Governments throughout the world are seeking, or may seek, to contain healthcare costs. Any changes in laws, regulations, or policies that have a negative effect on the ability of biopharmaceutical companies to conduct clinical trials, continue to sell the products in which a Client has invested, or earn an acceptable return on such products could adversely affect the Client's return on existing investments or limit its opportunities for future investments.

#### *Healthcare Reform Risk*

There is significant interest among policy makers and government and private payors in the United States and foreign jurisdictions in promoting changes in healthcare systems to contain healthcare costs and improve the overall quality of care and wellness. For example, on March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act, which Congress modified pursuant to the Health Care and Education Reconciliation Act of 2010 (collectively, the "Act"). The Act expanded insurance coverage to more individuals, which could have a negative effect on the pharmaceutical industry. Among the aspects of the Act that may have an adverse effect on Clients are (i) mandatory annual fees on pharmaceutical manufacturers, (ii) discounts of 50% on brand name prescription drugs for certain Medicare Part D beneficiaries (i.e., those who are required to pay 100% of their prescription drug costs during the temporary "gap" from Medicare coverage until their prescription drug costs reach the threshold for catastrophic coverage by Medicare), (iii) an approval process for generic biologics and granting exclusive marketing rights to original manufacturers for 12 years, (iv) increased drug rebates to the Medicaid program, and (v) disclosure requirements for financial relationships between various healthcare entities.

Within the United States, the pharmaceutical industry has been a particular focus of both state and federal governments' reform efforts. Other than reform measures adopted in the Act, proposed reforms include, but are not limited to, the following:

- increasing regulation of pharmaceutical sales representatives;
- restricting direct to consumer advertising and off-label uses;
- limiting manufacturers' access to marketing data;
- authorizing the importation of drugs from Canada and other foreign countries to lower pharmaceutical costs to U.S. consumers;



- price discounts, formularies or rebates to government healthcare programs; and
- allowing government healthcare programs to negotiate prescription drug prices directly with manufacturers.

While NQCM cannot predict which legislative or regulatory proposals will be adopted or what affect the adopted proposals, including the Act, may have on the biopharmaceutical companies in which Clients invest, the pendency, approval, or implementation of such proposals could decrease Clients' anticipated returns or adversely affect their investment opportunities with other companies.

### *Risks of Structured Finance Investments*

NQCM expects to negotiate agreements on behalf of its Clients that provide for the payment of royalties or milestone-based payments to the Client that are calculated by reference to the performance of a company that sponsors a product in which the Client invests, or in which the Client makes a product finance investment. The amount of royalties payable to the Client may depend on certain financial measures applicable to a company that sponsors a product in which the Client invests, or in which the Client makes a product finance investment, such as pass-through revenues, foreign revenues, revenues from particular products, services or operations, operating margins, or sales returns and allowances. The milestone triggering a payment to the Client may also depend on certain financial measures or results achieved related to the product in which the Client has invested, or in which it has made a product finance investment. As a result, the Client may be required to incur significant expenses to monitor and audit the compliance by a company sponsoring a product in which the Client has invested, or in which it has made a product finance investment, with royalty and/or milestone-based payment obligations to the Client.

### *Competition Risk*

The activity of identifying, completing and realizing a return on attractive investments is highly competitive and involves a high degree of uncertainty. There can be no assurance that the Adviser will be able to identify and complete investments which satisfy Clients' investment objectives, or realize the value of such investments, or that any Client will be able to invest fully its commitments. A Client must compete for investment opportunities against various other groups, including industry participants and other investment firms.

### *Risk of Growth-Oriented Investments*

NQCM Client investments may be in growth-oriented companies, some with little or no operating history, and such companies may be principally dependent on a single product, or a limited number of products, for financial success. Such investments involve a high degree of business and financial risk that can also result in substantial losses. Some of these companies may operate at a loss, or with substantial variations in operating results from period to period. Some of these companies may need substantial additional capital to support additional research and development activities, expansion, or to achieve or maintain a competitive position, and a Client may be dependent on third parties' willingness to provide such capital. 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. Such companies may have limited markets or financial resources, and they may be dependent on a limited management team. As a result of such limitations, these companies may be subject to more abrupt and erratic fluctuations than more established



companies, and because they generally have fewer resources, they may be more susceptible to financial failure.

### *Risk of Non-Structured Finance Investments*

In addition to making structured product finance investments, Clients may also directly invest in or provide financing to biopharmaceutical companies. For such investments, a Client may receive a return in the form of equity securities, such as common stock, preferred stock, or warrants, or a fixed return such as royalties with guaranteed minimum payments. Any investment by a Client in a biopharmaceutical company would subject it to the risks identified above as well as other significant risks inherent in the business of the company and to trends affecting the equity markets as a whole. A Client's investment directly in companies may involve minority investments where the Client may not be able to control or effectively influence the business or affairs of such companies, and companies in which the Client invests may have economic or business interests or goals that are inconsistent with those of the Client.

Investments directly in companies may also be subject to limited liquidity. A Client may take large positions in companies, which could result in a lack of liquidity and price volatility, particularly if the Client needed to buy or sell a large number of shares at a particular time. Additionally, some of a Client's public investments may be in small and micro-cap companies, the shares of which may not trade as readily and the prices of which may fluctuate more widely than the shares of larger companies. Investments in private companies also are subject to risks relating to the transferability of the Client's interests due to a lack of a trading market and other transfer restrictions.

### *Equity Investments Risk*

A portion of a Client's investments may be in equity or equity-related investments that by their nature involve business, financial, market, and/or legal risks. While such investments offer the opportunity for significant capital gains, they also involve a high degree of risk that may result in substantial losses. Equity securities generally involve a high degree of risk and will be subordinate to the debt securities and other indebtedness of the issuers of such equity securities. There can be no assurance that the Client will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Prices of equity investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic developments, may significantly affect the results of the Client's activities. Unprecedented levels of illiquidity and negative price volatility for various types of assets and securities have occurred in the world financial markets and may or may not recur or continue for an indefinite period of time. Moreover, a variety of unanticipated political and economic disruptions and changes, including those in Europe and the United States, have adversely affected the capital markets.

### *Investments in Non-U.S. Companies*

NQCM may make product finance or company investments with companies, the principal executive offices or corporate headquarters of which are, at the time of initial investment, outside of the United States or make product finance investments the sponsor of which is seeking approval in countries other than the United States. Such investments may involve greater risks than similar investments in the United States. In particular, the value of a Client's non-U.S. product finance and company investments may be significantly affected by changes in currency exchange rates, which may be volatile. Additional risks include: (a) risks of economic dislocations in the host country; (b) greater difficulty of enforcing legal rights



in a foreign jurisdiction; (c) differences between the U.S. and non-U.S. markets, including potential price volatility in and relative illiquidity of some non-U.S. markets; (d) the absence of uniform accounting, auditing and financial reporting standards, practices, and disclosure requirements and differences in government supervision and regulation; (e) certain legal, economic, and political risks, including potential exchange control regulations, potential restrictions on foreign investments, and repatriation of capital and the risks associated with political, economic, or social instability, diplomatic developments and the possibility of expropriation or confiscatory taxation; (f) the possible imposition of non-U.S. taxes on income and gains recognized with respect to such investments; and (g) 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. There can be no assurance that the Adviser will be able to evaluate the risks accurately or that adverse developments with respect to such risks will not adversely affect the value or realization of investments that are held by a Client in certain countries.

#### *Currency and Exchange Rates*

Certain of NQCM's investments and the income they generate may be denominated in foreign currencies. Changes in currency exchange rates may adversely affect the value of those investments in a Client's base currency, the interest and dividends they produce, and any gains and losses realized on their sale.

#### *Lack of Control in Minority Investments*

A Client's investments may, in certain circumstances, represent a minority position in a portfolio company, without power individually to exert significant control over such portfolio companies' boards of directors and management. In such cases, a Client will rely significantly on the existing management and boards of directors of such companies, which may include representatives of other investors with whom the Client is not affiliated and whose interests or views may conflict with the interest of the Client and/or the views of NQCM.

#### *Service on Boards, Etc.*

NQCM will sometimes 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, NQCM employees 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 the Adviser and Client assets to regulatory action and/or claims by a portfolio company, its security holders, and its creditors. In addition, a Client may be prohibited from selling publicly traded securities of a portfolio company if NQCM is in possession of material non-public information relative to such entity. While NQCM intends to manage its investments in a manner that minimizes 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 Clients.

#### *Counterparty Risk*

NQCM may make product finance investments on behalf of Clients whereby royalty or milestone-based payments are structured as general obligations of the counterparty rather than secured liens. Accordingly, such investments are dependent upon the creditworthiness of the counterparty in respect of the counterparty's ability to meet the product finance payment obligations. A Client, from time to time,



may make such product finance investments with small or micro-cap pharmaceutical companies. In order to meet future product finance payments, such small or micro-cap pharmaceutical companies may be dependent on continuing access to additional capital. Due to the unprecedented levels of illiquidity and volatility that have occurred in the world financial markets in recent years, which may or may not recur or continue for an indefinite amount of time, such access to additional capital is difficult to predict. As such, a small or micro-cap pharmaceutical company could lack sufficient financial resources to may product finance payments and default on its obligations. While NQCM intends to structure any such product finance investments in a manner that manages the risk of default, there can be no assurance that adverse developments with respect to such default risk will not adversely affect the value or realization of such product finance investment.

#### *Reliance on Projections*

NQCM's investment recommendations are based on regulatory, commercial, financial, and other projections. Those projections are estimates of future results and depend on various assumptions. Actual results may vary from projections, and the projected performance results of Clients' investments may not be attained. Various factors that cannot be predicted, including general economic conditions and changes in debt markets, changes in legislation, changes in regulatory process, and others, may materially and adversely affect NQCM's strategy and Clients' performance.

#### *Contingent Liabilities on Disposition of Portfolio Investments*

In connection with the disposition of an investment other than a structure financing investment in a portfolio company, Clients may be required to make representations about the business and financial affairs of such portfolio company, and to indemnify the purchasers of such investment if those representations are inaccurate. A Client's general partner (or equivalent person) will establish reserves as appropriate to provide for such contingent liabilities. If the amount of such contingent liabilities exceeds the reserves and other assets of such Client, the Client's investors may be required to repay to the Client or to pay to creditors of the Client distributions previously received by them.

#### *Adverse Consequences of Ownership of Controlling Interest in Portfolio Companies*

Although rare, a Client may own a controlling stake in a portfolio company which, depending upon the amount of equity owned by the Client, contractual arrangements between the portfolio company and the Client, and other relevant factual circumstances, could result in an extension to one year of the 90-day bankruptcy preference period with respect to payments made to the Client to satisfy debts or other contractual obligations. In addition, because of its equity ownership, representation on the board of directors, and/or contractual rights, a Client may be thought to control, participate in the management of, or influence the conduct of portfolio companies. These factors could expose the assets of the Client to claims by a portfolio company, its other security holders, its employees, its creditors, or governmental agencies. These factors could make it easier for any claims of a Client against the portfolio company to be subordinated or recharacterized as equity interests compared to similar claims of third parties.

#### *ERISA Obligations*

Recent court decisions have found that, when an investment fund owns 80% or more (or under certain circumstances less than 80%) of a portfolio company, such fund (and any other 80%-owned portfolio companies of such fund) might be found liable for certain pension liabilities of such a portfolio company



to the extent the portfolio company is unable to satisfy such liabilities. Although NQCM intends to manage each Client's investments to minimize any such exposure, a Client may, from time to time, invest in a portfolio company that has unfunded pension fund liabilities, including structuring the investment in a manner such that the Client may own an 80% or greater interest in such a portfolio company. If such Client (or other 80%-owned portfolio companies of such Client) were deemed to be liable for such pension liabilities, this could have a material adverse effect on the operations of the Client and the companies in which such Client invests. The status of this risk may change over time as applicable case law and guidance develops.

#### *Financial Market Fluctuations; Political Measures*

The Clients' investment programs are intended to extend over a period of years, during which the business, economic, political, regulatory, and technology environment within which a Client operates may undergo substantial changes. General fluctuations in the market prices of securities may affect the value of the Clients' investments, and instability in the securities markets will also likely increase the risks inherent in the Clients' investments. There can be no assurance that such economic and market conditions will be favorable in respect of both investment and disposition activities.

#### *Cybersecurity Risk*

Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject, particularly operating companies in attractive industries such as healthcare. To the extent that a portfolio company is subject to cyber-attack or other unauthorized access is gained to a portfolio company's systems, such portfolio company may be subject to substantial losses in the form of stolen, lost or corrupted (i) customer data or payment information; (ii) customer or portfolio company financial information; (iii) portfolio company software, contact lists or other databases; (iv) portfolio company proprietary information or trade secrets; (v) confidential clinical trial data or other data relating to patients; or (vi) other items. In certain events, a portfolio company's failure or deemed failure to address and mitigate cybersecurity risks may be the subject of civil litigation or regulatory or other action. Any of such circumstances could subject a portfolio company, or the relevant Client, to substantial losses. In addition, if a cyber-attack or other unauthorized access is directed at NQCM or one of its service providers holding its financial or investor data, then NQCM, its affiliates, or Clients may also be at risk of loss, despite efforts to prevent and mitigate such risks under NQCM's policies and any policies adopted at portfolio companies.

#### *Material Non-Public Information; Other Regulatory Restrictions*

As a result of the operations of NQCM and its related person, NQCM may come into possession of confidential or material non-public information. Therefore, NQCM may have access to material, non-public information that may be relevant to an investment decision to be made for a Client. Consequently, a Client may be restricted from initiating a transaction or selling an investment which, if such information had not been known to it, may have been undertaken on account of applicable securities laws or NQCM's internal policies.

Similarly, anti-money laundering, anti-boycott, and economic and trade sanction laws and regulations in the United States and other jurisdictions may prevent NQCM or Clients from entering into transactions with certain individuals or jurisdictions. The United States Department of the Treasury's Office of Foreign Assets Control ("OFAC") and other governmental bodies administer and enforce laws, regulations, and



other pronouncements that establish economic and trade sanctions on behalf of the United States. Among other things, these sanctions may prohibit transactions with or the provision of services to, certain individuals or portfolio companies owned or operated by such persons, or located in jurisdictions identified from time to time by OFAC. Additionally, antitrust laws in the United States and other jurisdictions give broad discretion to the U.S. Federal Trade Commission, the United States Department of Justice, and other U.S. and non-U.S. regulators and governmental bodies to challenge, impose conditions on, or reject certain transactions. In certain circumstances, antitrust restrictions relating to one Client's acquisition of a portfolio company may preclude other Clients from making an attractive acquisition or require one or more other Clients to sell all or a portion of certain portfolio companies owned by them.

As a result of any of the foregoing, a Client may be adversely affected because of NQCM's inability or unwillingness to participate in transactions that may violate such laws or regulations, or by remedies imposed by any regulators or governmental bodies. Any such laws or regulations may make it difficult or may prevent a Client from pursuing investment opportunities, require the sale of part or all of certain portfolio companies on a timeline or in a manner deemed undesirable by NQCM, or may limit the ability of one or more portfolio companies to conduct their intended business in whole or in part. Consequently, there can be no assurance that any Client will be able to participate in all potential investment opportunities that fall within its investment objectives.

#### *Market Disruption, Health Crises, Terrorism and Geopolitical Risk*

Clients are subject to the risk that war, terrorism, global health crises, pandemics, and other related geopolitical events may lead to increased short-term market volatility and have adverse long-term effects on world economies and markets generally, as well as adverse effects on issuers of securities and the value of a Client's investments. War, terrorism, and related geopolitical events, as well as global health crises and pandemics, have led, and in the future may lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally. Those events as well as other changes in world economic and political conditions also could adversely affect individual issuers or related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment, and other factors affecting the value of a Client's investments.

#### *United Kingdom Exit from the EU*

The United Kingdom left the European Union on January 31, 2020 (commonly referred to as "Brexit"). From January 1, 2021, European Union laws ceased to apply in the United Kingdom. However, many European Union laws have been transposed into English law and these transposed laws will continue to apply until such time that they are repealed, replaced, or amended. Depending on the terms of any future agreement between the European Union and the United Kingdom on financial services, substantial amendments to English law may occur, and it is impossible to predict the consequences on a Client and its investments. Such changes could be materially detrimental to investors.

Although one cannot predict the full effect of Brexit, it could have a significant adverse effect on the United Kingdom and European and global macroeconomic conditions, and could also lead to prolonged political, legal, regulatory, tax, and economic uncertainty. This uncertainty is likely to continue to affect the global economic climate and may affect opportunities, pricing, availability and cost of bank financing, regulation, values, or exit opportunities of companies or assets based, doing business, or having service



or other significant relationships in, the United Kingdom or the European Union, including companies or assets held or considered for prospective investment by a Client.

The future application of European Union-based legislation to the private fund industry in the United Kingdom and the European Union will ultimately depend on how the United Kingdom renegotiates the regulation of the provision of financial services within and to persons in the European Union. There can be no assurance that any renegotiated terms or regulations will not have an adverse effect on a Client and its investments, including the ability of the Client to achieve its investment objectives. Brexit may result in significant market dislocation, heightened counterparty risk, an adverse effect on the management of market risk and, in particular, asset and liability management due in part to redenomination of financial assets and liabilities, an adverse effect on the ability of the Adviser and its affiliates to manage, operate, and invest in a Client and increased legal, regulatory, or compliance burden for the Adviser, its affiliates, and/or its Clients, each of which may have a negative effect on the operations, financial condition, returns, or prospects of a Client.

Areas where the uncertainty created by the United Kingdom's withdrawal from the European Union is relevant include, but are not limited to, trade within Europe, foreign direct investment in Europe, the scope and functioning of European regulatory frameworks (including with respect to the regulation of alternative investment fund managers and the distribution and marketing of alternative investment funds), industrial policy pursued within European countries, immigration policy pursued within European Union countries, the regulation of the provision of financial services within and to persons in Europe, and trade policy within European countries and internationally. The volatility and uncertainty caused by the withdrawal may adversely affect the value of a Client's investments and the ability to achieve the investment objective of a Client.

#### *Absence of Investment Company Act Registration*

No Client has registered, and no Client intends to register, with the SEC as an investment company pursuant to the 1940 Act, in reliance upon an exemption available to privately offered investment companies and, accordingly, the provisions of the 1940 Act are not applicable to Clients. If the SEC or a court of competent jurisdiction were to find that a Client is required to have, but in violation of the 1940 Act had failed to, register as an investment company, possible consequences include, but are not limited to, the following: (i) the SEC could apply to a district court to enjoin the violation; (ii) the Client's investors could sue the Client and recover any damages caused by the violation; and (iii) any contract to which the Client is party that is made in, or whose performance involves, a violation of the 1940 Act would be unenforceable by any party to the contract unless a court were to find that under the circumstances enforcement would produce a more equitable result than non-enforcement and would not be inconsistent with the purposes of the 1940 Act. If a Client were subjected to any or all of the foregoing, the Client would be materially and adversely affected.

#### *The Alternative Investment Fund Managers Directive*

The implementation of the Directive 2011/61/EU on Alternative Investment Fund Managers (the "Directive" or "AIFMD") may have an adverse effect on the continued operation of a Client when interests in the Client are offered to or placed with investors in any European Economic Area ("EEA") Member State. The Directive applies to the manager of any investment fund (an "AIF") that is not authorized under the Undertakings for Collective Investment in Transferable Securities Directive or does not otherwise fall



within a relevant exclusion under the Directive. The implementation of the Directive may have an adverse effect on the continued operation of Clients in at least the following ways.

The extent to which the Adviser can market a Client to investors who are domiciled or have a registered office in any EEA Member State may be more restricted than was the case before the Directive came into force. This could limit a Client's ability to attract investors based in those EEA Member States, resulting in a reduction in the overall amount of capital raised by the Client which limits, in turn, the range of investment strategies and investments that the Clients are able to pursue and make.

The Adviser will be required to comply with additional initial disclosure, annual reporting, and regulatory filing requirements in relation to Clients and in certain EEA Member States it may be required to comply with registration requirements, including the requirement to appoint a depositary or an entity to carry out some of the depositary duties under the Directive. Compliance with these requirements may result in additional costs to a Client, reducing the returns for investors. The need to comply with the registration requirements may also delay the fundraising process, in turn reducing the speed with which the Adviser can deploy the capital raised.

The Directive imposes certain requirements and restrictions on a Client when the Client acquires control of an EEA portfolio company. The EEA portfolio company requirements will include the requirement to make certain notifications and disclosures where a Client acquires or disposes of shares in an EEA portfolio company. The restrictions will include restrictions on the extent to which the Client can bring about or support distributions, acquisition of shares, or reductions in the capital of an EEA portfolio company. These requirements and restrictions may limit the use of certain investment and realization strategies, such as dividend recapitalization and reorganizations. These requirements and restrictions may also place the Adviser and the Client at a disadvantage as against competitors that do not use a fund structure or whose funds have not been marketed in any EEA Member State. In addition, compliance with these requirements and restrictions may result in additional costs to the Client, reducing the returns for investors.

#### *Increased Scrutiny of Private Fund Management Firms; Changes in Laws or Regulations*

There has been, and will likely continue to be, significant discussion of increased regulation and/or oversight of the private fund management industry by regulators, legislators, media, and public commentators. If such increased regulation or increased scrutiny is ultimately effected, there can be no assurance that it will not adversely affect NQCM or the investment performance of its Clients. Increased regulation or increased regulatory or governmental scrutiny also could delay or endanger consummation of investment transactions by NQCM for its Clients. In addition, changes in laws or regulations not specifically directed at the private equity industry also may adversely affect the performance of NQCM's investment strategies.

#### *Tax Legislation Adversely Affecting Manager Employees and Other Service Providers*

The Adviser's ability to achieve the investment objectives of a Client depends to a substantial degree on its ability to retain and motivate its investment professionals and other key personnel, and to recruit talented new personnel. The Adviser's ability to recruit, retain, and motivate its professionals is dependent on its ability to offer highly attractive incentive compensation. Under the Internal Revenue Code, gains in respect of the Adviser's right to carried interest will be subject to a three year "holding period" in order to be classified as "long term capital gains," while the corresponding holding period



requirement with respect to Client investors is one year. Enactment of any additional legislation or further guidance with respect to income of the Adviser from a Client could cause the Adviser's investment professionals to incur a material increase in their tax liability. This might make it more difficult for the Adviser to incentivize, attract and retain these professionals, which may have an adverse effect on the Adviser's ability to achieve the investment objectives of a Client.

### *Coronavirus Outbreak Risks*

The global outbreak of the 2019 novel coronavirus ("COVID-19"), together with resulting restrictions on travel and quarantines imposed, has meaningfully disrupted the global economy and markets. Although the long-term economic fallout of COVID-19 is difficult to predict, it has contributed, and is likely to continue to contribute, to market volatility and is also likely to lead to an economic slowdown given the disruption to supply chains across sectors and industries worldwide, which may reduce private equity activity more generally and materially and adversely affect Clients and their portfolio companies. The continuing COVID-19 pandemic may adversely affect Clients' ability to dispose of their investments as buyers retrench from pursuing investment opportunities due to the prolonged economic uncertainty. The applicability, or lack thereof, of force majeure provisions could also come into question in connection with contracts that Clients and/or their portfolio companies have entered into, which could ultimately work to their detriment. If the COVID-19 pandemic is present and continuing in jurisdictions in which NQCM has operations or investments, it could adversely affect the ability of NQCM to operate effectively, including the ability of personnel to function, communicate, and travel to the extent necessary to carry out Clients' investment strategies and objectives. In addition, in response to the COVID-19 outbreak, several industry conference sponsors and venues have suspended or cancelled events due to concerns over the spread of COVID-19. Events have also been affected by the implementation of U.S. federal and state and non-U.S. governmental actions, as well as voluntary and involuntary travel restrictions. Attendance by NQCM and its employees at industry conferences and events is an important component of NQCM's investment-sourcing strategy. Private and governmental efforts to prevent the further spread of COVID-19 through travel restrictions and cancellation or suspension of industry events may adversely affect NQCM's ability to source potential investment opportunities for Clients and to gain meaningful insights in order to properly evaluate the risk/reward potential of making specific investments. Clients and their portfolio companies may also suffer losses and other adverse effects if travel and other COVID-19-related disruptions continue for an extended period of time. In addition, the spread of COVID-19 among NQCM personnel has the potential to significantly affect NQCM's ability to properly oversee the affairs of Clients.

### C. Conflicts of Interest

In the case of all conflicts of interest, the Adviser's determination as to which factors are relevant, and the resolution of such conflicts, subject to the applicable Governing Documents, will be made using the Adviser's best judgment, but in its sole discretion. In resolving conflicts, the Adviser considers various factors, including the interests of the applicable Clients with respect to the immediate issue and/or with respect to their longer-term courses of dealing. Certain procedures for resolving specific conflicts of interest are set forth below. When conflicts arise, the following factors generally mitigate, but will not eliminate, conflicts of interest:

- (1) The Adviser will consider the appropriateness of an investment from the viewpoint of a Client;
- (2) Many important conflicts of interest will generally be resolved by set procedures, restrictions, or other provisions contained in the Governing Documents for the Clients;



- (3) Generally, each Client has established an advisory committee, composed principally of representatives of investors not affiliated with the Adviser. The advisory committees meet as required to consult with the Adviser as to certain potential conflicts of interest. On any issue involving actual conflicts of interest, the Adviser will be guided by its good faith discretion;
- (4) When the Adviser deems appropriate, unaffiliated third parties may be used to help resolve conflicts, such as the use of an investment banker to opine as to the fairness of a purchase or sale price;
- (5) The Adviser has adopted and implemented certain policies and procedures designed to reduce certain conflicts of interest; and
- (6) Prior to subscribing for interests in a Client, each investor receives information relating to significant potential conflicts of interest arising from the proposed activities of the Client.

As a general matter, NQCM will devote such time, personnel, and internal resources as are necessary to conduct the business affairs of its Clients in an appropriate manner, as required by the relevant Governing Documents, although the Clients and their respective investments will place varying levels of demand on these over time. In the ordinary course of NQCM conducting its activities, the interests of a Client are expected to conflict with the interests of NQCM, one or more other Clients, portfolio companies, or their respective affiliates in certain circumstances. Certain of these conflicts of interest are discussed herein. As a general matter, NQCM will determine all matters relating to structuring transactions and Client operations using its best judgment considering all factors it deems relevant, but in its sole discretion, subject in certain cases to the required approvals by the advisory committees or other relevant bodies of the relevant Clients.

From time to time, NQCM will be presented with investment opportunities that would be suitable for more than one Client. In determining which Clients should participate in such investment opportunities, the Adviser is subject to conflicts of interest with respect to the investors in such Clients. Except as required by the relevant Governing Documents, NQCM is not obligated to recommend any investment to any particular Client. Investments by more than one Client of NQCM in a portfolio company or biopharmaceutical product sponsored by a portfolio company also have the potential to raise the risk of using assets of a Client of NQCM to support positions taken by other Clients of NQCM.

NQCM must first determine which Clients will, or are required to, participate in the relevant investment opportunity. NQCM generally assesses whether an investment opportunity is appropriate for a particular Client based on the Client's Governing Documents, as well as factors including, but not limited to investment objectives, strategies, and structure. Prior to making any allocation to a Client of an investment opportunity, the Adviser determines what additional factors may restrict or limit the offering of an investment opportunity to a Client, including: (i) the Adviser may be required to offer an investment opportunity to one or more Clients; (ii) the Adviser may offer an investment opportunity related to an investment previously made by a Client to such Client, to the exclusion of, or resulting in a limited offering to, other Clients; and (iii) the Adviser may determine that certain Clients or investors in such Clients should be excluded from an allocation due to specific legal, regulatory, and contractual restrictions. Once the Adviser identifies the Clients that are eligible to participate in a particular investment, the Adviser, in its discretion, determines how to allocate such investment opportunity among the Clients. In allocating an investment opportunity the Adviser may consider some or all of a wide range of factors which include,



but are not necessarily limited to, one or more of the following: conflicts provisions, investment and operating guidelines, transaction sourcing (and with respect to an investment opportunity originated by a third-party, the relationship of a particular Client to or with such third party); each Client's liquidity and reserves; diversification limitations (including the actual, relative, or potential exposure of a Client to the type of investment opportunity in terms of its existing portfolio), tax, legal, contractual, and regulatory considerations, lender covenants and other limitations, any "ramp-up" period of a newly established Client; amount of capital available for investment by each Client as well as each Client's projected future capacity for investment, each Client's targeted rate of return, the stage of development of a prospective portfolio company and anticipated holding period, composition of each Client's portfolio and each Client's investment concentration parameters (including, without limitation, parameters such as geography, issuer, volatility, leverage, or other similar risk metrics), minimum or maximum dollar thresholds, the suitability as a follow-on investment for a current portfolio company of a Client, the availability of other suitable investments for each Client, cash flow considerations, asset class restrictions, industry targets and other allocations, the seniority of an investment and other capital structuring criteria, and other relevant factors, including risk considerations. For example, a newly organized Client generally will seek to purchase a disproportionate number of investments until it is substantially invested. NQCM will determine the allocation of investment opportunities among Clients in a manner that it believes is fair and equitable to its Clients under the circumstances over time consistent with NQCM's obligations and reserves the right to take into consideration factors such as those set forth above. However, the application of the factors set forth above will often result in allocation on a non-pro rata basis and there can be no assurance that a Client will participate in all investment opportunities that fall within its investment objectives. Allocation determinations are inherently subjective and give rise to conflicts of interest due to the inherent biases in the process. For example, in allocating an investment opportunity among Clients with differing fee, expense, and compensation structures, the Adviser has an incentive to allocate investment opportunities to the Clients from which the Adviser or its related persons derive, directly or indirectly, higher fees, compensation, or other benefits. Notwithstanding the foregoing, the Adviser will not allocate investment opportunities among the Clients based, in whole or in part, on (i) the relative fee structure or amount of fees paid by any Client or (ii) the profitability of any Client.

In addition, principal executive officers, partners, employees, and other personnel of the Adviser invest indirectly in and may be permitted to invest directly in Clients and therefore participate indirectly in investments made by the Clients in which they invest. Such interests will vary Client by Client and may create an incentive to allocate particularly attractive investment opportunities to the Client in which such personnel hold a greater interest. The existence of these varying circumstances presents conflicts of interest in determining how much, if any, of certain investment opportunities to offer to a Client.

Following such determination of allocation among Clients, NQCM will determine if the amount of an investment opportunity in which one or more Clients will invest exceeds the amount that would be appropriate for such Clients (after taking into account any portion of the opportunity allocated by contract to certain participants in the applicable deal, such as co-sponsors, consultants, and advisers to the Adviser and/or the Clients or management teams of the applicable portfolio company, certain strategic investors and other investors whose allocation is determined by the Adviser to be in the best interest of the applicable Client) and NQCM reserves the right to offer any such excess to one or more potential co-investors, including third parties and persons other than investors in the Client (e.g., consultants, joint venture partners, persons associated with a portfolio company), as determined by the Clients' Governing Documents and NQCM's procedures regarding allocation. There may be circumstances where an amount that could have otherwise been invested by a particular Client is instead allocated to one or more co-investors. NQCM's procedures permit it to take into consideration a variety of factors in making such



determinations, including, but not limited to its own interests and/or one or more of the following: expressed interest in co-investment opportunities; expertise of the prospective co-investor in the industry to which the investment opportunity relates; perceived ability to quickly execute on transactions; tax, regulatory, securities laws, and/or other legal considerations (e.g., qualified purchaser or qualified institutional buyer status); confidentiality concerns that may arise in connection with providing the prospective co-investor with specific information relating to the investment opportunity; perceived ease of process in coordinating or completing the investment with the prospective co-investor or co-investors similar thereto; NQCM's perception of whether the investment opportunity may subject the prospective co-investor to legal, regulatory, reporting, or other burdens that make it less likely that the prospective co-investor would act upon the investment opportunity if offered or would impair NQCM's ability to execute the relevant transaction in the desired time or on desired terms; size of the investment allocation and practicality of dividing it up among multiple co-investors; lender requirements; perceived public relations and reputational benefits or costs; existence of a formal or informal strategic relationship with the prospective co-investor; and whether NQCM believes that allocating investment opportunities to an investor or person will help establish, recognize, strengthen, and/or cultivate relationships that have the potential to provide longer-term benefits to the relevant portfolio company, other portfolio companies, the relevant Clients, and/or NQCM. Although NQCM reserves the right to consider a prospective co-investor's willingness to invest in future Clients, such willingness generally will not be the sole determining factor considered by NQCM in identifying co-investors.

Subject to the requirements of any applicable Governing Documents, NQCM reserves the right to grant certain third-party investors the opportunity to evaluate specified amounts of prospective co-investments in NQCM portfolio companies or product investments or otherwise to have priority in co-investment opportunities. Furthermore, decisions regarding whether and to whom to offer co-investment opportunities and terms of the co-investment will be made by NQCM in its sole discretion. No investor in a Client has a right to participate in any co-investment opportunity and investing in a Client does not give an investor any rights, entitlements, or priority to co-investment opportunities. Co-investment opportunities typically will be offered to some and not to other Client investors and investors may be offered a smaller amount of co-investment opportunities than originally requested or an investor may be offered fewer co-investment opportunities than other investors in the same Client with the same, larger, or smaller capital commitments. As a result, the consideration of the factors set forth above will likely result in certain investors receiving multiple opportunities to co-invest while others expressing interest in co-investments have the potential to receive none. Each co-investment opportunity (should any exist) is likely to be different and allocation of each such opportunity will be dependent upon the facts and circumstances specific to that unique situation (e.g., timing, industry, size, geography, asset class, projected holding period, exit strategy, and counterparty). Additionally, non-binding acknowledgements of interest in co-investment opportunities do not require the Adviser to notify the recipients of such acknowledgements if there is a co-investment opportunity. However, the Adviser from time to time agrees to give particular investors, Clients, or other third parties priority access to co-investment opportunities. The existence of such priority co-investment access rights could affect the Adviser's decision to offer certain opportunities for co-investment and could limit the ability of Clients or their investors to be offered certain co-investment opportunities.

When and to the extent that employees and related persons of NQCM and its affiliates make capital investments in or alongside certain Clients, NQCM and its affiliates are subject to potentially conflicting interests in connection with these investments. There can be no assurance that any Client's return from a transaction would be equal to and not less than another Client participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.



The factors above are not listed in order of importance or priority and the Adviser is not required to, and does not, consider all of the factors described above in any particular investment and some factors may be more or less important depending upon the nature of the particular investment and attendant circumstances. The Adviser's exercise of its discretion in allocating investment opportunities with respect to a particular investment among the persons, including the Clients, potential co-investors, Adviser Investors and third parties, and in the manner discussed above, often will not result in proportional allocations among such persons, and such allocations likely will be more or less advantageous to some such persons relative to others. For example, the Adviser may be incentivized to offer a co-investment opportunity to certain persons over others based on its economic arrangement with such persons (including, for example, whether the Adviser and/or the applicable general partners are entitled, under arrangements made with certain potential co-investment parties, to additional Advisory Fees and/or carried interest based on the availability of co-investment opportunities offered to such parties). While NQCM will allocate investment opportunities in a manner that it believes is fair and equitable to its Clients under the circumstances over time and considering relevant factors, there can be no assurance that a Client's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made, will be as favorable as they would be if the potential conflicts of interest to which NQCM expects to be subject, discussed herein, did not exist.

In the event the Adviser determines to offer an investment opportunity co-investors, there can be no assurance that the Adviser will be successful in offering a co-investment opportunity to a potential co-investor, in whole or in part, that the closing of such co-investment will be consummated in a timely manner, that the co-investment will take place on the terms and conditions that will be preferable for the Client or that expenses incurred by the Client with respect to the syndication of the co-investment will not be substantial. An investment that is not syndicated to co-investors as originally anticipated could significantly reduce a Client's overall investment returns. Further, it is possible that a potential co-investment party may experience financial, legal, or regulatory difficulties and may, from time to time, have economic, tax, regulatory, contractual, or other business interests or goals that are inconsistent with those of a Client and as a result, may take a different view from the Adviser as to appropriate strategy for an investment or may be in a position to take a contrary action to a Client's investment objective. In the event that the Adviser is not successful in offering a co-investment opportunity to potential co-investors, in whole or in part, the Client may consequently hold a greater concentration and have exposure in the related investment opportunity than was initially intended and would bear the entire portion of any fees, costs, and expenses related to such investment, which could make the Client more susceptible to fluctuations in value resulting from adverse economic and/or business conditions with respect thereto. An investment that is not syndicated to co-investors as originally anticipated could significantly reduce a Client's overall investment returns.

In addition, to the extent the Adviser has discretion over a secondary transfer of interests in a Client pursuant to such Client's Governing Documents, or is asked to identify potential purchasers in a secondary transfer, the Adviser will do so in its sole discretion, generally taking into account the following factors: (i) the Adviser's evaluation of the financial resources of the potential purchaser, including its ability to meet capital contribution obligations; (ii) the Adviser's perception of its past experiences and relationships with the potential purchaser, including its belief that the potential purchaser would help establish, recognize, strengthen and/or cultivate relationships that may provide indirectly longer-term benefits to current or future Clients and/or the Adviser and the expected amount of negotiations required in connection with a potential purchaser's investment; (iii) whether the potential purchaser would subject the Adviser, the applicable Client, or their affiliates to legal, regulatory, reporting, public relations, media or other burdens;



(iv) a potential purchaser's investment into another Client (including any commitment into a future Client); (v) requirements in such Client's Governing Documents; and (vi) such other facts as it deems appropriate under the circumstances in exercising such discretion.

Clients from time to time invest in conjunction with an investment being made by other Clients, or in a transaction where another Client has already made an investment. Where multiple Clients invest at the same, different, or overlapping levels of a portfolio company's capital structure, there is a potential for conflicts of interest in determining the terms of each such investment. Questions may arise subsequently as to whether payment obligations and covenants should be enforced, modified, or waived, or whether debt should be refinanced or restructured. In troubled situations, decisions including whether to enforce claims, or whether to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any workout or restructuring may raise conflicts of interest, particularly with respect to Clients that have invested in different securities within the same portfolio company. Management and operational decisions made by certain Clients may, at times, be in direct conflict with other Clients that have invested in the same portfolio company that do not have the same level of control or influence over the portfolio company. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, Clients may or may not provide such additional capital, and if provided, each Client generally will supply such additional capital in such amounts, if any, as determined by NQCM in its sole discretion. In addition, a conflict arises in allocating an investment opportunity if the potential investment target could be acquired by either a Client or a portfolio company of another Client, because the Adviser may be incentivized to favor one Client or Client portfolio company over another. In addition, there may be differences in timing of entry into, or exit from, a portfolio company for reasons such as differences in strategy, existing portfolio, or liquidity needs. In addition, when more than one Client of the Adviser (or its affiliates) invests in the same portfolio company, there can be no assurance that such parties will dispose of investments at the same time and on the same terms. Because of the different legal rights associated with debt and equity of the same portfolio company, NQCM expects to face a potential conflict of interest in respect of the advice it gives to, and the actions it takes on behalf of one Client versus another Client (*e.g.*, the terms of debt instruments, the enforcement of covenants, the terms of recapitalizations, and the resolution of workouts or bankruptcies). If a Client incurs any indebtedness with another Client on a joint and several basis, the applicable general partner (or equivalent person) is expected to enter into one or more agreements that provide each Client with a right of contribution, subrogation, or reimbursement. In administering, or seeking to reinforce, these agreements, NQCM expects to be subject to potential conflicts of interest, for example between a Client with a reimbursement obligation and a Client seeking reimbursement. In certain circumstances Clients are expected to be prohibited from exercising (or NQCM may deem it appropriate to refrain from exercising) voting or other rights in order to mitigate the relevant potential conflicts, notwithstanding the fact that the investments of one Client or the other may be subject to creditor claims regarding subordination of interests.

Potential conflicts are expected to arise when and to the extent a Client makes investments in conjunction with an investment being made by another Client, or if it were to invest in the securities of a company in which another Client has already made an investment. A Client may not, for example, invest through the same investment vehicles, have the same access to credit, or employ the same hedging or investment strategies as other Clients. This will likely result in differences in price, terms, leverage, and associated costs. Further, there can be no assurance that the relevant Client and the other Clients with which it co-invests will exit such investment at the same time or on the same terms. These variations in timing may be detrimental to a Client. NQCM and its affiliates may occasionally express inconsistent views of commonly held investments or of market conditions more generally, including in instances where



different investment professionals express different views regarding the same investment. There can be no assurance that the return on one Client's investments will be the same as the returns obtained by other Clients participating in a given transaction. Given the nature of the relevant conflicts there can be no assurance that any such conflict can be resolved in a manner that is beneficial to both Clients. In that regard, actions taken for one or more Clients may adversely affect other Clients.

From time to time the Adviser will, in its discretion, enter into transactions with investors in one or more Clients, co-investors, Adviser Investors, or third parties to dispose of, or "sell down," all or a portion of certain investments held by one or more Clients. In exercising its discretion to select the purchasers of such investments, the Adviser will comply with the requirements set forth in the Governing Documents of the applicable Clients, or to the extent not addressed in the Governing Documents of the applicable Clients, the Adviser may consider some or all of the factors listed above under "Allocation of Co-Investment Opportunities". The sales price for such transactions will be mutually agreed to by the Adviser and such purchasers; however, determinations of sales prices involve a significant degree of judgment by the Adviser and the Adviser is not obligated to solicit competitive bids for such sales transaction or to seek the highest available price. Furthermore, subject to the Governing Documents, the Adviser may charge (or may decide not to charge) a purchasing party interest costs for the time period between the closing of the applicable Client's investment in a portfolio company to the date of the transfer of interests in such portfolio company to the applicable purchasing party. There can be no assurance, in light of the performance of the investment following such a transaction, that such transaction will ultimately prove to be the most profitable or advantageous course of action for the applicable Clients.

The Clients, from time to time, co-invest with third parties through partnerships, joint ventures, or other similar entities or arrangements. These investments may involve risks that would not otherwise be present in investments where a third party is not involved. Such risks include, among other things, the possibility that the third party may have differing economic or business goals than those of the Client, or that the third party may be in a position to take actions that are inconsistent with the investment objectives of the Clients. There may also be instances where the Clients will be liable for the actions of such third-party co-investors. There can be no assurance that the return of a Client participating in a transaction with a third party would be equal to and not less than another Client participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

Subject to any relevant restrictions or other limitations contained in the Governing Documents of the Clients, NQCM will allocate fees and expenses in a manner that it believes is fair and equitable to its Clients under the circumstances over time and considering such factors as it deems relevant, but in any case, in its sole discretion. In exercising such discretion, NQCM expects to be faced with a variety of potential conflicts of interest.

As a general matter, Client expenses typically will be allocated among all relevant Clients or co-investment vehicles eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual, or similar restrictions, expense allocation decisions will generally be made by NQCM or its affiliates using their reasonable judgment, considering such factors as they deem relevant, but in their sole discretion. The allocations of such expenses may not be proportional, and any such determinations involve inherent matters of discretion, for example, in determining whether to allocate pro rata based on number of Clients or co-investment vehicles receiving related benefits or proportionately in accordance with asset size, or in certain circumstances determining whether a particular expense has greater benefit to a Client or NQCM. Clients may have different expense reimbursement terms, including with respect to



Advisory Fee offsets, which could result in the Clients bearing different levels of expenses with respect to the same investment.

As a result of certain Client investments, NQCM and/or its affiliates may have the right to appoint portfolio company board members (including current or former NQCM personnel or persons serving at their request), or to influence their appointment, and to determine or influence a determination of their compensation. From time to time, portfolio company board members approve amounts payable to NQCM and/or its affiliates. Except to the extent such amounts are subject to the Governing Documents' offset provisions, they will be in addition to any Advisory Fees or carried interest paid by a Client to NQCM.

Additionally, a portfolio company typically will reimburse NQCM or service providers retained at NQCM's discretion for expenses (including without limitation travel expenses) incurred by NQCM or such service providers in connection with its performance of services for such portfolio company. This subjects NQCM and its affiliates to conflicts of interest because the Clients generally do not have an interest or share in these reimbursements, and the amount of such reimbursements over time is expected to be substantial. NQCM determines the amount of these reimbursements for such services in its own discretion, subject to its internal reimbursement policies and practices. Although the amount of individual reimbursements typically is not disclosed to investors in any Client, their effect may be reflected in each Client's audited financial statements, and any fee paid or expense reimbursed to NQCM or such service providers generally is subject to (i) agreements with or review by sellers, buyers, and management teams; and (ii) the review and supervision of the board of directors of or lenders to portfolio companies and/or third-party co-investors in its transactions. These factors help to mitigate related potential conflicts of interest.

Client investments in securities and structured finance arrangements generally are illiquid, are not traded on an exchange or in an established market, and/or have no readily determinable market value. The fair market value of such investments will be determined by NQCM or its affiliates in accordance with the respective Client's Governing Documents. When estimating fair value, the Adviser will apply a methodology based on its best judgment that is appropriate in light of the nature, facts, and circumstance of the investments. Valuations are subject to review for approval by the Valuation Committee of NQCM, and ensuring that portfolio investments are fairly valued is an important focus of NQCM. However, the process of valuing securities for which reliable market quotations are not available is based on inherent uncertainties and the resulting values may differ from values that would have been determined had an active market existed for such securities and differs from the prices at which such securities may ultimately be sold. The valuation of certain illiquid assets is inherently subjective and subject to increased risk that the information utilized to value the asset or to create the price models may be inaccurate or subject to other error. Third-party pricing information will not always be available regarding certain Client assets. Accordingly, the fair market value of an investment may not reflect the price at which the investment could be sold in the market, and the difference between fair market value and the ultimate sales price could be material. With respect to Clients, the exercise of discretion in valuation by NQCM will give rise to conflicts of interest, as valuations affect NQCM's track record. As a result, NQCM or one of its affiliates could be incentivized to influence the valuation of investments.

Although uncommon, NQCM reserves the right from time to time to cause a Client to enter into a transaction whereby the Client purchases securities from, or sells securities to, other Clients managed by NQCM, or co-investment vehicles. Such transactions raise potential conflicts of interest, including when the investment of one Client supports the value of portfolio companies owned by another Client. Conflicts of interest also arise because, by not exposing such buy and sell transactions to market forces, a Client may not receive the best price otherwise possible, or the Adviser may have an incentive to improve the



performance of one Client by selling an underperforming asset to another Client in order, for example, to earn fees. These conflicts are heightened to the extent the relevant securities are illiquid or do not have a readily ascertainable value, and there generally can be no assurance that the price at which such transactions are entered into represent what would ultimately be the underlying investment's fair value. Additionally, in connection with such transactions, the Adviser, its affiliates and/or their professionals (i) will, from time to time, have significant investments, or intentions to invest, in the Client that is selling and/or purchasing such an investment or (ii) otherwise have a direct or indirect interest in the investment (such as through certain other participations in the investment). The Adviser and its affiliates generally receive management or other fees in connection with their management of the relevant Clients involved in such a transaction, and generally are entitled to share in the investment profits of the relevant Clients. The Adviser's Chief Compliance Officer will be responsible for confirming that the Adviser (i) considers its respective duties to each Client, (ii) determines whether the purchase or sale and price or other terms are comparable to what could be obtained through an arm's length transaction with a third party on commercially reasonable terms, and (iii) obtains any required approvals of the transaction's terms and conditions. In addition, to the extent required by the relevant Governing Documents or otherwise in the sole discretion of NQCM, NQCM reserves the right but is not obligated to seek to mitigate such conflicts by seeking the opinion of an unaffiliated third party (including the use of a consultant or investment banker to opine as to the fairness of a purchase or sale price) or by obtaining the consent of the relevant Clients (including, where authorized, the consent of each Client's investor advisory committee) to such transactions.

Section 206 under the Investment Advisers Act, as amended (the "Advisers Act"), regulates principal transactions among an investment adviser and its affiliates, on the one hand, and the clients thereof, on the other hand. Very generally, if an investment adviser or an affiliate thereof proposes to purchase a security from, or sell a security to, a client (what is commonly referred to as a "principal transaction"), the adviser must make certain disclosures to the client of the terms of the proposed transaction and obtain the client's consent to the transaction. In connection with the Adviser's management of the Clients, the Adviser and its affiliates may engage in principal transactions. The Adviser has established certain policies and procedures to comply with the requirements of the Advisers Act as they relate to principal transactions, including that disclosures required by Section 206 of the Advisers Act be made to the applicable Clients regarding any proposed principal transactions and that any required prior consent to the transaction be received.

Although NQCM generally structures Clients to avoid cross-guarantees and other circumstances in which one Client ultimately bears liability for all or part of the obligations of another Client, in certain circumstances lenders and other market parties negotiate for the right to face only select Clients, which may result in a single Client being solely liable for other Clients' shares of the relevant obligation and/or joint and several liability among Clients. In such cases, if one Client defaults on the arrangements, the other Clients may be held responsible for the defaulted amount. However, in such case, NQCM intends to cause the relevant other Clients to enter into a back-to-back guarantee, indemnification, or similar reimbursement arrangement, although the Client undertaking the obligation in the first instance generally will not receive compensation for being primarily liable under these arrangements.

The Adviser manages some Clients that have investment objectives similar to each other. The Adviser expects that it or its personnel will in the future establish one or more additional investment Clients with investment objectives substantially similar to, or different from, those of the current Clients. The Adviser may give advice or take actions with respect to, the investments of one or more Client that may not be



given or taken with respect to other Clients with similar investment programs, objectives or strategies. As a result, Clients with similar strategies will not hold the same securities or achieve the same performance.

In addition, it is expected that employees of the Adviser responsible for managing a particular Client will have responsibilities with respect to other Clients managed by the Adviser, including Clients raised in the future or to proprietary investments made by the Adviser and/or its principals of the type made by a Client. Conflicts of interest arise in allocating time, services or functions of these officers and employees.

The Adviser will, from time to time, consider, and reject an investment opportunity on behalf of one Client and, the Adviser or an affiliate of the Adviser may subsequently determine to have another Client make an investment in the same company. A conflict of interest arises because one Client will, in such circumstances, benefit from the initial evaluation, investigation and due diligence undertaken by the Adviser on behalf of the original Client considering the investment. In such circumstances, the benefitting Client or Clients will not be required to reimburse the original Client for expenses incurred in connection with researching such investment.

In addition, the Adviser receives and generates various kinds of portfolio company data and other information, including related to financial, industry, market, business operations, trends, budgets, customers, suppliers, competitors, and other metrics. This information may, in certain instances, include material non-public information received or generated in connection with efforts on behalf of one Client's investment (or prospective investment) in a portfolio company. As a result, the Adviser is better able to anticipate macroeconomic and other trends, and otherwise develop investment strategies. The Adviser is likely in the future enter into information sharing and confidentiality arrangements with portfolio companies and other sources of information that may limit the internal distribution and use of such data. The Adviser is likely in the future in certain instances to use this information in a manner that may provide a material benefit to the Adviser, its affiliates, or to certain other Clients without compensating or otherwise benefitting the Client or Clients from which such information was obtained. In addition, the Adviser may have an incentive to pursue investments in portfolio companies based on the data and information expected to be received or generated. The Adviser is likely in the future to utilize such information to benefit the Adviser, its Affiliates or certain Clients in a manner that may otherwise present a conflict of interest but does not intend to specifically disclose such conflicts to the relevant Clients.

The Adviser and its affiliates may from time to time also enter into formal or informal arrangements with portfolio investments to facilitate the sharing of data and/or data analytics. Subject to applicable legal, regulatory, and contractual requirements, these information sharing arrangements are designed to allow the Adviser, the Clients, and the Clients' portfolio companies to better discern economic or other trends and developments. The Adviser believes that all Clients benefit from these arrangements in ways that would be impossible without the ability to aggregate data from across the Adviser's businesses and the Clients' portfolio companies. However, information sharing may involve conflicts of interest between the Clients and/or between the Clients and the Adviser. For example, data analytics based on inputs from one portfolio company may inform business decisions by other portfolio investments, or investment decisions by the Adviser and its affiliates, without the source of the data being directly compensated. The Adviser and its affiliates may utilize such data outside of Client activities in a manner that may provide a material benefit to the Adviser, without directly compensating or otherwise benefiting the Clients. As a result, the Adviser may have an incentive to pursue investments (on its own behalf or on behalf of the Clients) based on the data that may be accessible as a result of owning such investments, and/or to utilize such data in a manner that benefits the Adviser and/or investments held by other Clients.



Investments to finance follow-on acquisitions may present conflicts of interest, including determination of the terms of the new financing as well as the allocation of the investment opportunities in the case of follow-on acquisitions by one Client in a portfolio company in which another Client has previously invested. Conflicts of interest arise, including determinations of whether existing investors are being cashed out at a price that is higher or lower than market value and whether new investors are paying too high or too low a price for the company or purchasing securities with terms that are more or less favorable than the prevailing market terms.

In certain circumstances, current or former NQCM personnel may serve in temporary, interim, full-time, or part-time roles at a portfolio company, or may provide services to a portfolio company as a secondee or in similar capacities, while maintaining certain benefits, support services, or indicia of employment at NQCM. Under such arrangements, NQCM and/or the relevant portfolio company may pay all or a portion of the personnel costs of such employee, or supervise or oversee such employee. All or a portion of any such compensation and incentives may be borne by the Client, directly or indirectly, via its ownership interest in such portfolio company. These arrangements have the potential to create conflicts of interest, in that amounts paid by a portfolio company in connection with secondee relationships will not result in additional offsets to the Advisory Fees. Due to the nature of secondee relationships, which are often initiated to meet a temporary portfolio company need, the arrangements between such employees and the related portfolio company are expected to change over time, and in many cases will be terminated when the portfolio company is sold. Employees may or may not return to NQCM at the end of such secondee arrangement.

NQCM, its affiliates, and equity holders, officers, principals and employees of NQCM and its affiliates reserve the right to buy or sell securities or other instruments that NQCM has recommended to a Client, subject to the provisions of applicable compliance policies and procedures. In addition, officers, partners, and employees reserve the right to buy securities in transactions offered to but rejected by a Client. A conflict of interest may arise because such investing personnel will, for some investments, benefit from the evaluation, investigation, and due diligence undertaken by the Adviser on behalf of the Client. In such circumstances, the investing personnel will not share or reimburse the relevant Client and/or the Adviser for any expenses incurred in connection with the investment opportunity. In addition, officers and employees may also buy securities in other investment vehicles (including private equity funds, hedge funds, real estate funds, and other similar investment vehicles) which may include potential competitors of the Clients. The investment policies, fee arrangements, and other circumstances of these investments may vary from those of the Clients. The transactions described above are subject to the policies and procedures set forth in the Adviser's Code of Ethics and investors will not benefit from any such investments. Such transactions are subject to any restrictions in the applicable Client's Governing Document and any policies and procedures of NQCM.

Because there is a fixed investment period after which capital from investors in a Client generally may only be drawn down in limited circumstances and because Advisory Fees are, at certain times during the life of a Client, based upon capital invested by such Client, this fee structure creates an incentive to deploy capital when NQCM may not otherwise have done so.

Pursuant to the Governing Documents, the general partner of certain Clients may be required to return excess amounts of Carried Interest as a "clawback". General partners of other Clients have taken advantage of deemed contribution mechanisms that also would create an effective "clawback" situation in the event of an overall realized Client loss. These clawback obligations may create an incentive for the general partner to defer disposition of one or more investments or delay the liquidation of a Client if the



disposition and/or liquidation would result in a realized loss to the Client or would otherwise result in a clawback situation for the general partner.

In addition, the general partner is incentivized to hold on to investments that have poor prospects for improvement in order to receive ongoing Advisory Fees in the interim and, potentially, a more likely or larger Carried Interest distribution if such asset's value appreciates in the future. This incentive is increased by the presence of the clawback obligation of the general partner.

The Governing Documents of certain Clients permit the general partner of each such Client to cause such Client to distribute such general partner's share of securities resulting from an investment disposition by such Client to such general partner or its affiliates (including managing directors and employees) in kind, while disposing of limited partners' share of such securities and distributing the net cash proceeds of such sale of securities to the limited partners. This ability creates conflicts of interest between the general partners and the limited partners of the applicable Client, for the reasons described herein. The general partners are particularly incentivized to receive distributions of in-kind of securities that it expects to increase in value, and in cases where the increase occurs, if the limited partners received cash distributions instead of in-kind distributions, the limited partners will be denied the benefits of that increase had the Client retained the securities and the general partner will receive more value from the securities than it would have had its carried interest been paid in cash. In the event the general partner, or its affiliates, receive such a distribution, the general partner will generally act in its own interest with respect to its share of securities and may determine to sell the distributed securities (which may include selling its securities prior to the time at which the investor sells its distributed securities), or hold on to the distributed securities for such time as the general partner shall determine. The ability of the general partner to act in its own interest with respect to such distributed shares creates a conflict of interest between the general partner or affiliate, as an adviser to the Client, and the Client.

The Adviser may compete against, or engage in business with (*i.e.*, through co-investments and joint ventures) another investment adviser with which the Adviser or its affiliates or a member of their personnel has a relationship or from which the Adviser or its affiliates or their personnel otherwise derives financial or other benefit.

Officers, principals, employees, and other related persons of the Adviser and its affiliates may make capital investments in or alongside certain Clients, and therefore have additional conflicting interests in connection with these investments. In addition, Clients may from time to time invest in securities of companies in which officers, principals, employees, and other related persons of the Adviser and its affiliates have previously invested for their own accounts. While the significant interests of the officers and employees of the Adviser generally aligns the interest of such persons with the Clients, such persons may have differing interests from the Client with respect to such investments (for example, with respect to the availability and timing of liquidity), creating conflicts of interest. There can be no assurance that the return of a Client participating in a transaction would be equal to and not less than another Client participating in the same transaction or that it would have been as favorable as it would have been had such conflicts not existed.

The Clients may from time-to-time borrow funds or enter into other financing arrangements for various reasons, including to pay Client expenses, to pay management fees, to make or facilitate new or follow-on investments (including borrowings pending receipt of capital contributions from investors), to make payments under hedging transactions, or to cover any shortfall resulting from an investor's default or exclusion. If a Client borrows in lieu of calling capital to fund the acquisition of an investment, the



borrowing would be used for all limited partners in such Client on a pro-rata basis, including the general partner. In addition, credit facilities for certain Clients are available to provide borrowed funds directly to the portfolio companies of such Clients, in which case such borrowed Clients would be guaranteed by such Clients.

To the extent the Client uses borrowed funds in advance or in lieu of capital contributions, the Client's investors generally make correspondingly later capital contributions, but the Client will bear the expense of interest on such borrowed funds. As a result, the Client's use of borrowed funds will affect the calculation of net performance metrics (to the extent that they measure investor cash flows) and generally make net IRR calculations higher than they otherwise would be without Client-level borrowing as these calculations generally depend on the amount and timing of capital contributions. It is expected that the interest will accrue on any such outstanding borrowings at a lower rate than any preferred return, which will begin accruing when capital contributions to fund such investments, or repay borrowings used to fund such investments, are actually made to the relevant Client. Thus, while the Client will bear the expense of borrowed funds, such borrowings can also increase the carried interest received by the Client's general partner by decreasing the amount of distributions from the Client that are required to be made to Client investors in satisfaction of any preferred return. The general partner therefore has a conflict of interest in deciding whether to borrow funds because the general partner may receive disproportionate benefits from such borrowings.

In addition, the batching of capital calls may amplify the magnitude of potential defaults by investors as a result of there being fewer but larger capital calls. To the extent a subscription facility is due upon demand by a lender (such as upon an event of default or otherwise), such a demand may be issued at an inopportune time at which liquidity is generally constrained, potentially resulting in greater defaults as a result of such liquidity constraints and/or investors facing similar capital calls in multiple funds and being unable to satisfy all such demands simultaneously. Moreover, the existence of a subscription facility may impair an investor's ability to transfer its interest in a Client as a result of restrictions imposed on such transfers by the lender.

Borrowing by the Client will generally be secured by capital commitments made by the Limited Partners to the Client and/or by the Client's assets, and documentation relating to such borrowing may provide that during the continuance of a default under such borrowing, the interests of the investors may be subordinated to such Client-level borrowing. Moreover, tax-exempt investors should note that the use of borrowings by the Client may cause the realization of Unrelated Business Taxable Income.

The Adviser reserves the right to enter into side letters or similar arrangements with certain investors in a Client providing such investors with different or preferential rights or terms, including but not limited to different fee structures (including discounted or rebated compensation terms), information rights, specialized reporting, priority co-investment rights, or targeted co-investment amounts, and liquidity or transfer rights. Except when required by Governing Documents, other investors will not receive copies of side letters or related provisions, and as a general matter, the other investors have no recourse against a Client, the relevant general partner (or equivalent person), or any of their affiliates in the event that certain investors have received additional and/or different rights and/or terms as a result of such side letters. As a consequence of one or more limited partners being excused or excluded, or from regulatory or other factors limiting their participation in investments, the aggregate returns realized by participating limited partners could be adversely affected in a material manner by the unfavorable performance of particular investments.



The investors in the Clients are expected to include U.S. taxable and tax-exempt entities, and institutions from jurisdictions outside of the United States. Such investors often have conflicting investment, tax and other interests with respect to their investments in a Client. The conflicting interests among the investors generally relate to or arise from, among other things, the nature of investments made by a Client, the structuring of the acquisition of investments and the timing of the disposition of investments. As a consequence, conflicts of interest arise in connection with decisions made by the Adviser or its affiliates, including with respect to the nature or structuring of investments, that are more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for a Client, the Adviser and its affiliates will consider the investment and tax objectives of the applicable Client, not the investment, tax, or other objectives of any investor individually.

The Advisers and/or its affiliates may engage in business opportunities arising from a Client's investment in a portfolio company (for example, without limitation, entering into a joint venture with a portfolio company or making a proprietary investment in a portfolio company). This creates a conflict of interest, as such interests are a benefit arising from the Client's investment and may vary from the applicable Client's interest (*e.g.*, whether to make a follow-on investment and, if so, how much should be allocated to the Client).

The Adviser and its affiliates have in the past and may, from time to time, hire part-time or full-time employees (including interns) who are relatives of, or are otherwise associated with an investor, portfolio company, former portfolio company, investment target, or service provider. Although the Adviser uses reasonable care to mitigate any potential conflicts of interest with respect to each particular situation, there is no guarantee the Adviser can control all such conflicts of interest and there may be a continuing appearance of a conflict of interest.

Services required by a Client (including some services historically provided by the Adviser or its affiliates to the Clients) may, for certain reasons including efficiency and economic considerations, be outsourced in whole or in part to third parties or licensed software, in each case in the discretion of the Adviser or its affiliates. This can create a conflict of interest because the Adviser and its affiliates have an incentive to outsource such services at the expense of the Clients to, among other things, leverage the use of Adviser personnel. Such services may include, without limitation, deal sourcing, asset management, information technology, licensed software, depository, data processing, client relations, administration, custodial, marketing and marketing-reviews, accounting, valuation, legal, human resources, client services, compliance, corporate secretarial and tax support, director services and other similar services. Outsourcing may not occur universally for all Clients and accordingly, certain costs may be incurred by a Client for a third-party service provider that is not incurred for comparable services by other Clients. The decision by the Adviser to initially perform a service for a Client in-house does not preclude a later decision to outsource such services (or any additional services) in whole or in part to a third-party service provider in the future and the Adviser has no obligation to inform such Clients or investors of such a change. In addition, certain internal service providers (such as internal accountants) may "shadow" or otherwise review the reports of other services provided by such third parties. The costs and expenses of any such third-party service providers will be borne by the relevant Clients.

If a service provider provides services to a Client on the property of the Adviser, such Client may also be responsible for any overhead, rent, or other fees, costs, and expenses charged by the Adviser in connection with an on-site arrangement.



The Adviser and/or its affiliates may engage certain service providers to provide services to the Adviser, the Clients and/or the portfolio companies, including services during the due diligence and acquisition process. Such service providers are, in certain circumstances, investors in a Client or affiliates of such investors and may include, for example, investment or commercial bankers, outside legal counsel pension consultants and/or other investors who provide services (including mezzanine and/or lending arrangements). The engagement of any such service provider may be concurrent with an investor's admission to a Client, or during the term of such investor's investment in the Client. This creates a conflict of interest, as the Adviser may give such investor preferred economics or other terms with respect to its investment in a Client, or may have an incentive to offer such investor co-investment opportunities that it would not otherwise offer to such investor. In addition, the Adviser will have a conflict of interest in recommending the retention or continuation of a service provider to the Clients or a portfolio company if such recommendation, for example, is motivated by a belief that the service provider will continue to invest in Clients or will provide the Adviser information about markets and industries in which the Adviser operates. The Adviser generally has an incentive to recommend the products or services of certain investors or prospective investors in the Clients to the Clients or their portfolio companies for use or purchase, even though the products or services recommended may not necessarily be the best available to the Clients or the portfolio companies.

The Adviser may in its discretion contract directly with, or recommend to a Client or to a portfolio company thereof (in response to a solicitation for a recommendation or otherwise), that it contract for services with a related person of the Adviser or an affiliate (including but not limited to a portfolio company of a Client). When making such a recommendation, the Adviser, because of its financial or other business interest, has an incentive to recommend the related or other person even if another person is more qualified to provide the applicable services and/or can provide such services at a lesser cost, creating a conflict of interest.

Additionally, employees of the Adviser or its affiliates, and/or their family members or relatives may have ownership, employment, or other economic or other interests in certain service providers. These relationships can influence the Adviser in determining whether to select or recommend such service provider to perform services for a Client or a portfolio company. Although the Adviser selects service providers that it believes will enhance portfolio company performance (and, in turn, the performance of the relevant Client(s)), there is a possibility that the Adviser, because of financial, business interest, or other reasons, may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person.

Certain other service providers to the Adviser, the Clients and/or the portfolio companies, or affiliates of such service providers, also provide goods or services to or have business, personal, financial, or other relationships with the Adviser, its affiliates, or their respective portfolio companies. Such service providers (or their employees) may also source investment opportunities, be co-investors or commercial counterparties or entities in which the Adviser and/or the Clients have an investment, and payments by a Client and/or such portfolio companies may indirectly benefit the Adviser and/or such Client.

The Adviser, its personnel, the Clients and the portfolio companies of the Clients will, from time to time, engage common service providers. In certain circumstances, the service provider may charge varying rates or engage in different arrangements for services provided to the Adviser, its personnel, the Clients, and/or the portfolio companies. As a result, the Adviser or its personnel may receive a more favorable rate on services provided to it by such a common service provider than those payable by the Clients and/or the portfolio company, or may receive a discount on services even though the Clients and/or the portfolio



companies receive a lesser, or no, discount. This creates a conflict of interest between the Adviser and its personnel, on the one hand, and the Clients and/or portfolio companies, on the other hand, in determining whether to engage such service providers, including the possibility that the Adviser will favor the engagement or continued engagement of such persons if it, or its personnel, receives a benefit from such service providers, such as lower fees, that it would not receive absent the engagement of such service provider by the Clients and/or the portfolio companies. Neither the Clients nor investors in the Clients will receive the benefit of any such favorable rate or discount provided to the Adviser, its personnel, or its affiliates, and the Advisory Fee paid by any Client will not be reduced in connection with such favorable rate or discount.

In addition, service providers often charge varying amounts or may have different fee arrangements for different types of services provided. For instance, fees for various types of work often depend on the complexity of the matter, the expertise required, and the time demands of the service provider. As a result, to the extent the services required by the Adviser or its affiliates differ from those required by the Clients and/or its portfolio companies, the Adviser and its affiliates will pay different rates and fees than those paid by the Clients and/or its portfolio companies.

The Adviser or its affiliates engage certain service providers (including law firms) on behalf of the Clients and personnel of such service provider may in the future be seconded to the Adviser or its affiliates on a temporary basis, pursuant to various arrangements including at cost or at no cost. The Adviser is, from time to time, a beneficiary of these arrangements as well. Such personnel may provide services in respect of multiple matters, including in respect of matters related to the Adviser, its affiliates and/or portfolio companies and in any such circumstance the benefits or costs of any such personnel will be allocated in the Adviser's discretion taking into consideration the usage of such personnel. In such circumstances, a conflict of interest exists because the Adviser or its affiliates have an incentive to select one service provider over another on the basis that the Adviser or its affiliates may receive the benefit of seconded employees from such service provider, particularly where the compensation and expenses for such personnel during the secondment is borne by the service provider and not the Adviser or its affiliates.

The Adviser and the Clients will generally engage common legal counsel and other service providers in a particular transaction, including a transaction in which there may be conflicts of interest. Members of the law firms engaged to represent the Clients may be investors in a Client and may also represent one or more portfolio companies or investors in a Client. In the event of a significant dispute or divergence of interest between Clients, the Adviser and/or its affiliates, the parties may engage separate counsel in the sole discretion of the Adviser and its affiliates, and in litigation and other circumstances separate representation may be required.

Employees of the Adviser from time to time serve as directors of, or observers on boards with respect to, certain portfolio companies. While conflicts of interest may arise in the event that such employee's fiduciary duties as a director conflicts with those of the Client, it is expected that the interests will be aligned. In addition, to the extent an employee serves as a director on the board of more than one portfolio company, such employees' fiduciary duties among the two portfolio companies may create a conflict of interest. Such employees are required to remit any remuneration they may receive as directors to NQCM, which in turn is generally obligated to offset its Advisory Fees. In addition, employees of the Adviser may in the future, on occasion leave the employment of the Adviser or its affiliates and become an officer or employee of a portfolio company.



Decisions made by a director may subject the Adviser, its affiliate, or a Client to claims they would not otherwise be subject to as an investor, including claims of breach of duty of loyalty, securities claims, and other director-related claims. In general, the Clients will indemnify the Adviser and their partners, principals, and employees from such claims.

In addition, the employees of the Adviser serving as directors may make decisions for a portfolio company that negatively affect returns received by a Client investing in the portfolio company.

On occasion, employees of the Adviser may also be asked to serve as directors of, or observers with respect to, certain entities in which a Client has fully exited its ownership interest and/or following the termination of such employee's employment with the Adviser. In such circumstances, any compensation or fees received by such former employee is not subject to the Advisory Fee offset described above, or otherwise shared with the Clients and/or investors.

In connection with co-investment opportunities, some co-investors (which may include one or more investors in the Clients) are often provided with the opportunity to serve on (or participate as an observer in meetings of) the board of directors or board of advisors of the applicable portfolio company. Positions on board of directors or board of advisors of such portfolio companies provide such co-investors with voting rights, access to information and the ability to potentially influence the operations and decision-making of the portfolio company that are not available to other investors in the Clients. In certain cases, co-investors have contractual rights that require the approval of the co-investors for certain major actions relating to the applicable portfolio company, such as a sale of the company or the issuance of additional equity by the company. Such rights may limit the ability of the Adviser to take actions with respect to the portfolio company that the Adviser considers to be in the best interests of the Clients.

Generally, each Client has established an advisory committee, consisting of representatives of investors. A conflict of interest may exist when some, but not all limited partners are permitted to designate a member to the advisory committee. The advisory committee may also have the ability to approve conflicts of interests with respect to the Adviser and the applicable Client, which could be disadvantageous to the investors, including those investors who do not designate a member to the advisory committee. Representatives of the advisory committee may have various business and other relationships with the Adviser and its partners, employees and affiliates. These relationships may influence the decisions made by such members of the advisory committee.

In addition, members of one Client's advisory committee may also be a member of another Client's advisory committee. In such instances, a conflict of interest exists because the Clients on which such overlapping advisory committee members may have conflicting interests and such advisory committee members may be requested to provide their consent with respect to such conflicts of interest and will not recuse themselves from any such vote.

The Governing Documents of a Client establish complex arrangements among the Clients, the Adviser, investors, and other relevant parties. From time to time, questions may arise regarding certain parties' rights and obligations in certain situations, some of which may not have been contemplated upon the negotiation and execution of such documents. In some instances, the operative provisions of the Governing Documents, if any, may be broad, unclear, general, conflicting, ambiguous, and vague and may allow for multiple reasonable interpretations. In other instances, there may not be a directly applicable provision. While the Adviser will construe the relevant provisions in good faith and in a manner consistent



with its fiduciary duty and legal obligations, the interpretations used may not be the most favorable to a Client or its investors.

The Adviser and its personnel have in the past and may, from time to time in the future, receive certain intangible and/or other benefits and/or perquisites arising or resulting from their activities on behalf of a Client, including benefits and other discounts provided from service providers. For example, airline travel or hotel stays incurred as Client expenses may result in “miles” or “points” or credit in loyalty/status programs to the Adviser and/or its personnel, and such benefits, rewards and/or amounts (whether or not *de minimis* or difficult to value), will exclusively benefit the Adviser and/or such personnel even though the cost of the underlying service is being borne by the Clients, its investors and/or the portfolio companies. Any such benefits, rewards and/or amounts will not be subject to the offset arrangements described above or otherwise shared with such Client, its investors and/or the portfolio companies. In addition, airline travel incurred as a Client expense for an Adviser personnel travelling for appropriate Client-related purposes (including, without limitation, travel related to a portfolio company, a prospective portfolio company or other Client-related matter) may benefit such Adviser personnel to the extent the trip also serves a personal purpose.

The Adviser may, in its discretion, have, and may, in its discretion, cause the Clients and/or their portfolio companies to have, ongoing business dealings, arrangements, or agreements with persons who are former employees or executives of the Adviser. The Clients and/or their portfolio companies may bear, directly or indirectly, the costs of such dealings, arrangements, or agreements. In such circumstances, there may be a conflict of interest between the Adviser and the Clients (or their portfolio companies) in determining whether to engage in or to continue such dealings, arrangements or agreements, including the possibility that the Adviser may favor the engagement or continued engagement of such persons even if a better price and/or quality of service could be obtained from another person.

Investors may be introduced to the Adviser, or may be brought in a Client, by a third-party consultant from which the Adviser or a Related Person purchase products and to which the Adviser or a Related Person may make payments, including in connection with conferences sponsored or hosted by the third-party consultant.

The Adviser has in the past and may, from time to time in the future, cause one or more Clients to purchase, and/or bear premiums, fees, costs, and expenses (including any expenses or fees of insurance brokers) for insurance to insure the applicable Clients, the applicable general partner, the Adviser and/or their respective directors, officers, employees, agents, representatives, members of the advisory committee and other indemnified parties, against liability in connection with the activities of the Clients. This may include a portion of any premiums, fees, costs, and expenses for one or more “umbrella” or other insurance policies maintained by the Adviser that cover one or more Clients and/or the Adviser (including their respective directors, officers, employees, agents, representatives, members of the advisory committee, and other indemnified parties). The Adviser will make judgments about the allocation of premiums, fees, costs, and expenses for such “umbrella” or other insurance policies among one or more Clients, and/or the Adviser on a fair and reasonable basis, and may make corrective allocations should it determine subsequently that such corrections are necessary or advisable. There can be no assurance that a different allocation would not result in a Client bearing less (or more) premiums, fees, costs and expenses for insurance policies.

The Governing Documents of certain Clients permit each such Client’s general partner to withhold information from certain limited partners or investors in such Client in certain circumstances. For



instance, information will typically be withheld from limited partners that are subject to Freedom of Information Act or similar requirements. The general partner will often elect to withhold certain information to such limited partners for reasons relating to the general partner's public reputation or overall business strategy, despite the potential benefits to such limited partners of receiving such information.



**Item 9 – Disciplinary Information**

The Adviser has no material legal or disciplinary events to disclose.



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

### *Broker-Dealer Registration*

Neither the Adviser nor any of its management persons is, or has any application pending to register as, a registered broker-dealer or registered representative of a broker-dealer.

### *Commodities-Related Registration*

Neither the Adviser nor any of its management persons is, or has any application pending to register as, a registered futures commission merchant, commodity pool operator, commodity trading advisor, or associated person of any such entities.

### *Material Relationships or Arrangements with Industry Participants*

The Adviser and its related persons are, directly or indirectly, the general partners, limited partners, and/or managing members of the general partner of each Client. The Adviser may manage multiple Clients, which can create conflicts of interest in the allocation of time, resources, and investment opportunities among those Clients. For a description of any material conflicts of interest created by these relationships, please see Item 6 and Item 8.

As described in Item 4, Gillings is the principal owner of NQCM. Gillings and his affiliates (collectively, “Gillings Affiliates”) 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 NQCM. Such affiliations, interests, and activities may be similar or different from those of NQCM and its Clients. By way of example and without limitation, Gillings is (i) the majority owner of QHP Capital, L.P. and (ii) the Co-founder and Non-Executive Chair of GHO Capital Partners LLP (“GHO”). QHP is a specialist healthcare investment adviser based in Raleigh, NC that focuses on lower middle market opportunities to acquire control positions in tech-enabled pharmaceutical services companies. QHP spun out of NQCM in 2021. GHO is a specialist healthcare investment adviser based in London, United Kingdom that focuses on mid-market opportunities in European healthcare businesses.

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

The Adviser does not select or recommend other investment advisers for its Clients.



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

### **A. Code of Ethics**

NQCM has adopted a written Code of Ethics that is applicable to various of NQCM's supervised persons and certain other persons (collectively, "Covered Persons"). The Code of Ethics, which is designed to comply with Rule 204A-1 under the Advisers Act, establishes requirements for personal trading in certain securities by Covered Persons, including certain trade pre-clearance obligations. Under the Code of Ethics, Covered Persons are also required to file certain periodic reports with NQCM's Chief Compliance Officer as required by Rule 204A-1. The Code of Ethics is designed to help the Adviser detect and prevent potential conflicts of interest. Covered Persons who violate the Code of Ethics may be subject to remedial actions, up to and including termination of employment. Covered Persons are also required to promptly report any violation of the Code of Ethics of which they become aware. Covered Persons are required to annually certify compliance with the Code of Ethics. A copy of the Code of Ethics is available to any Client or prospective Client upon written request to Jacob Comer, Chief Compliance Officer of NQCM, at [jacob.comer@nqcapital.com](mailto:jacob.comer@nqcapital.com).

### **B. Participation or Interest in Client Transactions**

Due in part to the fact that potential investors in a Client (including purchasers of an investor's interests in a secondary transaction) or a co-investment opportunity may ask different questions and request different information, the Adviser may provide certain information to one or more prospective investors that it does not provide to all prospective investors or existing Client investors.

### **C. Contemporaneous Trading**

If NQCM makes an allocation decision for more than one Client, NQCM will document the rationale for such allocation. The Chief Compliance Officer will periodically review allocation decisions to ensure that allocations are made in a fair and equitable manner.



## **Item 12 – Brokerage Practices**

The Clients primarily make structured finance investments related to biopharmaceutical products; accordingly, the Adviser expects that investments in publicly traded securities will occur with limited frequency. However, in order to satisfy its fiduciary duties to the Clients, the Adviser has adopted written policies designed to address issues that might arise with respect to acquiring, holding, and disposing of publicly traded securities.

### *Selection of Brokers and Dealers*

For each Client, the Adviser has sole discretion over the purchase and sale of investments (including the size of such transactions) and the broker or dealer, if any, to be used to effect any acquisition or disposition of publicly traded securities. In effecting each transaction for a Client involving a broker-dealer, the Adviser generally seeks “best execution” for the transaction. “Best execution,” in this context, means the obtention for a Client account of the lowest total cost (in purchasing a security) or highest total proceeds (in selling a security), taking into account all relevant circumstances of the transaction and the reputability and reliability of the executing broker or dealer. Best execution is not limited solely to the consideration of the best available commission rate.

In selecting brokers, the Adviser may consider various relevant factors, including, without limitation, pricing terms offered by the broker, the ability of the broker to deliver prompt and reliable execution, the size and type of the transaction, the market for the securities to be transacted, the broker’s familiarity with the securities to be transacted, the broker’s operational efficiency, the broker’s financial stability, the broker’s policies regarding confidentiality, the overall value and quality of the broker’s services and other factors determined to be relevant.

The Adviser does not make arrangements with specific brokers or dealers to receive research or other services beyond transaction execution in exchange for brokerage commissions from Clients’ transactions (so-called “soft dollar” arrangements). In selecting brokers, the Adviser does not consider whether it receives client referrals from brokers or other third parties. The Adviser does not recommend, request or require Clients to execute transactions through specified brokers.

The Adviser periodically evaluates the overall reasonableness of the brokerage commissions and negotiated terms paid to or made with broker-dealers with respect to Client transactions by, among other things, seeking to compare such commissions and terms with the commission rates and negotiated terms being charged by and entered into with other comparable broker-dealers. In addition, the Adviser periodically monitors broker-dealers to assess the overall quality of the execution effected on behalf of the Adviser for each Client.

### *Aggregation of Trades*

If applicable, the Adviser generally will aggregate (or bunch) the orders of more than one Client for the purchase or sale of the same publicly traded security in order to obtain more favorable execution terms. In such circumstances, the Adviser generally will aggregate trade orders so that each participating Client receives the average price for each execution of a transaction. The Adviser employs this practice because larger transactions may enable it to obtain better overall prices, including lower commission costs or mark-ups or mark-downs. The Adviser and its affiliates may combine orders on behalf of Clients with orders for other Clients for which it or its affiliates have trading authority, or in which it or its affiliates



have an economic interest. In such cases, the Adviser and its affiliates generally aggregate trade orders for publicly traded securities so that each participating Client will receive the average price for each execution of a transaction.

If an order for more than one Client for a publicly traded security cannot be fully executed, allocation shall be made based upon the Adviser's procedures for allocation of investment opportunities, as described in Item 8.



### **Item 13 – Review of Accounts**

The investments made by Clients are generally private, illiquid, and long-term in nature, and are frequently self-liquidating. Accordingly, the Adviser's review process is not directed toward a short-term decision to dispose of securities. However, the Adviser closely monitors the portfolio companies and products of the Clients and generally maintains ongoing oversight of such portfolio companies and products. Portfolio companies and products are reviewed on an ongoing basis by investment professionals and on a periodic basis by the Adviser's Chief Compliance Officer (to ensure compatibility with Client investment objectives and restrictions).

Client investors typically receive, among other information, a copy of audited financial statements of such Client on an annual basis, as well as unaudited financial reports on a quarterly basis. The Adviser may, from time to time and in its sole discretion, provide additional information relating to such Client to one or more Client investors as it deems appropriate.



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

The Adviser and its personnel do not receive compensation from any person other than Clients for providing investment advisory services to such Clients. For details regarding economic benefits provided to the Adviser by non-clients, including a description of related material conflicts of interest and how they are addressed, please see Item 8.

While not a Client solicitation arrangement, the Adviser from time to time engages one or more persons to act as a placement agent for a Client in connection with the offer and sale of interests to certain potential investors. Such persons generally will receive a fee in an amount equal to a percentage of the capital commitments for interests made by such potential investors to such Client that are subsequently accepted. Such fees are generally borne by the Adviser, either directly or as an Advisory Fee offset. As some Clients do not pay Advisory Fees, any such reduction will not benefit such Clients.



**Item 15 – Custody**

Not applicable.



## **Item 16 – Investment Discretion**

Investment advice is provided directly to the Clients (subject to the direction and control of the general partner of such Client, if applicable) and not individually to the investors in the Clients. Advisory services are provided to each Client in accordance with its Governing Documents. Investment restrictions for a Client, if any, are generally established in its Governing Documents.



## Item 17 – Voting Client Securities

The Adviser has established written policies and procedures setting forth the principles and procedures by which the Adviser votes or gives consent with respect to securities owned by the Clients ("Votes"). The guiding principle by which the Adviser votes all Votes is to vote in the best interests of each Client by maximizing the economic value of the relevant Client's holdings, taking into account the relevant Client's investment horizon, the contractual obligations under the relevant Advisory Agreements or comparable documents, and any other relevant facts and circumstances the Adviser determines to be appropriate at the time of the vote. The Adviser does not permit voting decisions to be influenced in any manner that is contrary to, or dilutive of, this guiding principle.

The Adviser votes marketable securities (and votes proxies and considers consents and waivers with respect to privately held securities) as to which it has discretionary authority pursuant to its proxy voting policy (which is available to Clients upon request). It is the Adviser's general policy to vote or give consent on all matters presented to security holders in any Vote. However, the Adviser reserves the right to abstain on any particular Vote or otherwise withhold its vote or consent on any matter if, in the judgment of the Adviser's Chief Compliance Officer or the relevant Adviser investment professional, the costs associated with voting such Vote outweigh the benefits to the relevant Clients or if the circumstances make such an abstention or withholding otherwise advisable and in the best interests of the relevant Clients.

Clients generally cannot direct the Adviser's proxy voting.

All Voting decisions initially are referred to the Adviser's Chief Compliance Officer or appropriate investment professional for a voting decision. In most cases, the Adviser's Chief Compliance Officer or investment professional covering the particular investment will make the decision as to the appropriate vote for any particular Vote. In making such decision, he or she may rely on any of the information and/or research available to him or her. If the investment professional is making the Voting decision, the investment professional will inform the Chief Compliance Officer of any such Voting decision, and if the Chief Compliance Officer does not object to such decision as a result of his or her conflict of interest review, the Vote will be voted in such manner.

The Adviser's Chief Compliance Officer has the responsibility to monitor Votes for any conflicts of interest, regardless of whether they are actual or perceived. All Voting decisions will require a mandatory conflict of interest review by the Adviser's Chief Compliance Officer in accordance with established policies and procedures, which will include consideration of whether the Adviser or any investment professional or other person recommending how to vote has an interest in how the Vote is voted that may present a conflict of interest. In addition, all Adviser investment professionals are expected to perform their tasks relating to the voting of Votes in accordance with the principles set forth above, according the first priority to the best interest of the relevant Clients. The Adviser's Chief Compliance Officer will use his or her best judgment to address any such conflict of interest and ensure that it is resolved in accordance with his or her independent assessment of the best interests of the Clients.

Where the Adviser's Chief Compliance Officer deems appropriate in his or her sole discretion, unaffiliated third parties may be used to help resolve conflicts. In this regard, the Adviser's Chief Compliance Officer shall have the power to retain independent fiduciaries, consultants, or professionals to assist with Voting decisions and/or to delegate voting or consent powers to such fiduciaries, consultants or professionals.



Clients may obtain a copy of NQCM's proxy voting policy, as well as information about how the Adviser voted their securities, by contacting the Chief Compliance Officer at [jacob.comer@nqcapital.com](mailto:jacob.comer@nqcapital.com).



**Item 18 – Financial Information**

Not applicable.



#### **Item 19 – Requirements for State-Registered Advisers**

Not applicable.