

NovaQuest Capital Management, L.L.C.

Form ADV Part 2A

4208 Six Forks Road, Suite 920
Raleigh, NC 27609
Telephone: (919) 459-8620

www.nqcapital.com

March 20, 2013

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

Additional information about NovaQuest is also available on the SEC’s website at www.adviserinfo.sec.gov.

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

Item 2 - Material Changes

This brochure, has been updated versus the initial brochure dated as of February 14, 2012. None of the modifications were considered material changes.

Minor modifications include:

- Edits to further clarify types of investments that NovaQuest may invest in. This modification was made to the 2nd paragraph under Item 4 - Advisory Business.
- An update to the value of assets managed as of December 31, 2012 on both a discretionary and non-discretionary basis. This modification was made to the last paragraph under Item 4 - Advisory Business.
- The addition of an expense that clients of NovaQuest, including the NovaQuest Funds (and therefore, indirectly, the limited partners of such NovaQuest Funds), may incur. This modification was made to the Other Fees and Expenses section under Item 5 - Fees and Compensation.
- An update to the delivery date of audited financials to investors from 120 days after the end of the fiscal year to 90 days after the end of the fiscal year. This modification was made to the 2nd paragraph under Item 15 - Custody.

Item 3 - Table of Contents

ITEM 4 - ADVISORY BUSINESS	4
ITEM 5 - FEES AND COMPENSATION	5
ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT	6
ITEM 7 - TYPES OF CLIENTS	7
ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS	8
ITEM 9 - DISCIPLINARY INFORMATION	11
ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS	11
ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING	12
ITEM 12 - BROKERAGE PRACTICES	13
ITEM 13 - REVIEW OF ACCOUNTS	14
ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION	15
ITEM 15 - CUSTODY	16
ITEM 16 - INVESTMENT DISCRETION	16
ITEM 17 - VOTING CLIENT SECURITIES	16
ITEM 18 - FINANCIAL INFORMATION	17

Item 4 - Advisory Business

NovaQuest Capital Management, L.L.C. (“NovaQuest”) is a private equity firm that specializes in investments in the global biopharmaceutical sector, where its principal focus is investing in late-stage clinical assets and commercial phase biopharmaceutical products and devices. The NovaQuest investment team has worked together since 2000, initially for Quintiles Transnational Corp (“Quintiles”) managing PharmaBio Development, Inc. (“PharmaBio”), a former subsidiary of Quintiles. NovaQuest was formed as a separate Delaware limited liability company in November, 2010. The principal owners of NovaQuest are Ron Wooten, Dennis Gillings, Ph.D. and PharmaBio.

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

NovaQuest currently provides the discretionary investment advisory services described above to a private investment fund, but may in the future provide such services to multiple private investment funds (collectively, the “NovaQuest Funds”). Generally, a related person of NovaQuest acts as the general partner of each NovaQuest Fund, and NovaQuest serves as investment adviser to each NovaQuest Fund. References to NovaQuest in this brochure include, as the context requires, affiliates through which NovaQuest provides investment advisory services or that act in any capacity referenced in the previous sentence.

NovaQuest also provides certain investment management and administrative services to PharmaBio, in connection with the portfolio of investments made by PharmaBio prior to November, 2010. These services are expected to include the provision of investment advice on a non-discretionary basis to the management of PharmaBio.

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

In accordance with common industry practice, one or more of the NovaQuest Funds and/or their general partners may enter into “side letters” or similar agreements with certain investors pursuant to which the general partner grants the investor specific rights, benefits, or privileges that are not made available to investors generally.

NovaQuest does not participate in any wrap fee programs.

NovaQuest manages the assets of the NovaQuest Funds on a discretionary basis in accordance with the terms and conditions of each NovaQuest Fund’s Governing Documents, and provides non-discretionary management services to PharmaBio. As of December 31, 2012, NovaQuest manages \$431 million in regulatory assets on a discretionary basis, and \$96.5 million on a non-discretionary basis.

Item 5 - Fees and Compensation

Compensation and Fee Schedules

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

Deduction of Fees; Timing of Payments; Termination

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

NovaQuest invoices PharmaBio on a quarterly basis in respect of an annual asset-based management fee, payable in advance, for the services provided by NovaQuest.

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

Other Fees and Expenses

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

Transaction-Based Compensation

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

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

Performance-Based Fees

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

Arrangements regarding performance-based allocations received by related persons of NovaQuest may create an incentive for NovaQuest to recommend investments that may

be riskier or more speculative than those that would be recommended under a different fee arrangement.

Side-by-Side Management

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

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

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

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

Item 7 - Types of Clients

Types of Clients and Investment Vehicles

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

NovaQuest and/or its affiliates may establish certain alternative investment vehicles, parallel funds and/or special purpose vehicles (collectively, "AIVs") for the purpose of

addressing tax, regulatory and/or structural issues, and/or facilitating certain investments by one or more NovaQuest Funds and/or investors. Prospective investors are requested to refer to the Governing Documents of the applicable NovaQuest Fund for complete details on any Feeder Fund that may be established by such NovaQuest Fund and such NovaQuest Fund's ability to make investments through AIVs.

Minimum Investment Requirements

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

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

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

Investment Strategy

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

Methods of Analysis

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

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

Material Risks and Risk of Loss

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

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

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

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

Manufacturing biopharmaceutical products is difficult, complex and highly regulated. If manufacturing problems occur or if regulatory authorities determine that the manufacturer has violated regulations or if they deny, restrict, suspend or revoke approval

for the manufacture of a product in which a NovaQuest client has invested, or in which such client makes a structured investment, this could delay indefinitely the sales of such product.

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

Importance of Certain Strategic Relationships. Part of the NovaQuest investment strategy includes maintaining a contractual relationship with Quintiles to be the preferred provider of commercialization and related services for certain of the arrangements in which it invests. The preferred but non-exclusive relationship that certain NovaQuest Funds have with Quintiles is primarily governed by a preferred provider agreement and a services agreement. If either party terminates either agreement or both agreements prior to the end of the investment period of a NovaQuest Fund, NovaQuest's ability to identify and source potential investments for such NovaQuest Fund may be adversely affected, which may result in fewer investments in assets in which the NovaQuest Fund would otherwise invest. Additionally, Quintiles is expected to assist NovaQuest in performing due diligence on potential investments, which assistance may not be available if the relationship changes between NovaQuest and Quintiles.

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

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

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

Item 9 - Disciplinary Information

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

Item 10 - Other Financial Industry Activities and Affiliations

Registered Broker-Dealers

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

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

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

Relationships with Related Persons

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

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

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

Selection or Recommendation of Other Advisers

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

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

Code of Ethics

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

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

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

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

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

Participation or Interest in Client Transactions; Personal Trading

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

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

Item 12 - Brokerage Practices

Discretionary Brokerage

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

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

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

Research and Soft Dollar Benefits

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

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

Client Referrals

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

Trade Aggregation

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

Item 13 - Review of Accounts

Review of Client Accounts

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

NovaQuest, including the Partners and Principals of NovaQuest. Members of the NovaQuest investment committee meet regularly to determine and review overall investment objectives, risk tolerance and other information relevant to the NovaQuest Funds.

Reports to Clients

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

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

Item 14 - Client Referrals and Other Compensation

Economic Benefits Received from Third Parties

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

Third Party Compensation for Client Referrals

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

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

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

Item 15 - Custody

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

It is NovaQuest's policy to cause each NovaQuest Fund with assets over which NovaQuest is deemed to have "custody" to be audited annually and distribute audited financial statements, prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), to investors no later than 90 days after the end of each fiscal year. In addition, upon the final liquidation of any such NovaQuest Fund, NovaQuest will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such NovaQuest Fund to all investors promptly after completion of the audit.

Item 16 - Investment Discretion

Subject to the investment objectives, policies and restrictions of each NovaQuest Fund as set forth in the Governing Documents of such NovaQuest Fund, NovaQuest has discretionary authority to determine the type, amount and price of securities and investments to be bought and sold on behalf of each NovaQuest Fund. NovaQuest generally enters into a written management agreement with each NovaQuest Fund granting such authority. NovaQuest does not have discretionary authority with respect to the investment portfolio of PharmaBio.

Item 17 - Voting Client Securities

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

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

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

Item 18 - Financial Information

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