

**Form ADV Part 2A: Firm Brochure**

March 30, 2012

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Riverstone Investment Group LLC is an investment adviser that is registered with the United States Securities and Exchange Commission. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

**This brochure provides information about the qualifications and business practices of Riverstone Investment Group LLC. If you have any questions about the contents of this brochure, please contact us at (212) 993-0076. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Riverstone Investment Group LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## Material Changes

We are updating this Part 2A of Form ADV as part of an annual update. We filed our last annual update on March 31, 2011. In addition to the changes noted below that have occurred since our previous annual update, we have also made changes to information regarding our investment advisory clients throughout this Part 2A of Form ADV. We recommend that you read this Part 2A of Form ADV in its entirety.

### Section 1: Advisory Business

While several of our investment advisory clients are and continue to be managed through joint ventures with entities owned by The Carlyle Group, we currently oversee and manage our most recent client fund – Riverstone Global Energy and Power Fund V, L.P. – solely on our own, including providing for investment management functions and back-office administration. The joint venture relationship with The Carlyle Group with respect to the jointly-sponsored client funds and the provision of investment management services solely by us with respect to our most recent client fund are further discussed in Section 7: Other Financial Industry Activities and Affiliates and Section 11: Client Referrals and Other Compensation.

The amount of client assets that we manage on a discretionary basis, as of March 1, 2012, is \$17,998,125,588.

### Section 2: Fees and Compensation

Information relating to fees and compensation with respect to our most recent client fund – Riverstone Global Energy and Power Fund V, L.P. – is included in Section 2.

### Section 5: Method of Analysis, Investment Strategies and Risk of Loss

The risk factor described in Section 5 relating to hydraulic fracturing has been updated to reflect recent developments relating to such activities.

### Section 6: Disciplinary Information

The Securities and Exchange Commission (SEC) has been conducting an investigation into the use of placement agents in connection with investments by NYSCRF. The SEC has filed a civil complaint against certain individuals and entities, in which the SEC alleged violations of federal securities laws in connection with investments by NYSCRF. Neither Riverstone nor any of its employees has been named as a defendant in any action by the SEC. The SEC requested that our firm and Mr. Leuschen voluntarily provide certain information. Our firm and Mr. Leuschen cooperated with the SEC. In August 2011, the staff of the SEC's New York Regional Office informed Riverstone and Mr. Leuschen in writing that no action would be taken with respect to Riverstone or Mr. Leuschen in connection with matters covered by the SEC's investigation.

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### 1. Advisory Business

Founded in 2005, Riverstone Investment Group LLC is an investment advisory services firm specializing in investment management for private equity funds. The principal owner of our firm is Riverstone Holdings LLC. Senior Managing Directors Pierre F. Lapeyre, Jr. and David M. Leuschen are the owners of Riverstone Holdings LLC. Riverstone Investment Group LLC was formerly known as Riverstone Investment Services LLC.

Our firm offers investment advisory services to private equity funds (generally referred to in this ADV-2 as our clients or our client funds) sponsored by Riverstone Holdings LLC and, with respect to certain client funds, jointly with our joint venture partner, The Carlyle Group. We specialize in buyout, growth capital and other equity and debt investments in the energy and power sectors, and our advice encompasses most segments of the energy and power industry globally, including the following:

- exploration of oil and gas as well as other natural energy sources,
- midstream energy activities such as transportation of products and logistics associated with managing supply and demand across geographic regions and over time,

- electric generation (*i.e.*, the conversion of raw materials, primarily coal, natural gas and crude oil derivatives, into electricity),
- energy and power service, and
- renewable and alternative energy, including wind, biofuels, biomass, geothermal, hydroelectric, solar photovoltaic and solar thermal energy.

We oversee and manage certain of our existing sponsored investment funds, other investment vehicles and their investments through joint ventures with entities owned by The Carlyle Group. Specifically, these jointly-sponsored investment funds are:

- Carlyle/Riverstone Global Energy and Power Fund I, L.P.;
- Carlyle/Riverstone Global Energy and Power Fund II, L.P.;
- Carlyle/Riverstone Global Energy and Power Fund III, L.P.;
- Riverstone/Carlyle Global Energy and Power Fund IV, L.P.;
- Carlyle/Riverstone Renewable Energy Infrastructure Fund I, L.P.;
- Riverstone/Carlyle Renewable Energy and Alternative Energy Fund II, L.P.; and
- Other investment vehicles associated with the foregoing funds.

Our percentage ownership of the joint ventures with The Carlyle Group varies from fund to fund. The investment management functions for our existing jointly-sponsored funds (other than anti-money laundering review) are shared between our firm and Carlyle Investment Management, L.L.C., an SEC-registered investment adviser. We perform back office administration for all jointly-sponsored investment funds, while anti-money laundering functions for all of our existing jointly-sponsored investment funds are performed by The Carlyle Group, with a supervisory role played by us. Each of our existing jointly-sponsored investment funds has an investment committee composed of members of our firm and The Carlyle Group. The investment committee agrees on investment strategies and portfolio investments. Our firm's and The Carlyle Group's representation on the investment committee of our existing jointly-sponsored investment funds varies from fund to fund.

We also independently oversee and manage Riverstone Global Energy and Power Fund V, L.P., our most recent global energy and power-focused client fund, and its affiliated vehicles, including performing each of the functions described in the preceding paragraph (or, in the case of anti-money laundering functions, performed by a contracted service provider, with a supervisory role played by us).

Our firm tailors advisory services in accordance with each client's investment strategy as disclosed in its offering documents. We and our clients focus on buyout, growth capital and other equity and debt investments in the energy and power sectors. In addition,

certain of our professionals participate on investment committees in order to formulate investment strategies and render specialized investment advice. Our advisors strictly adhere to the investment strategy and restrictions set forth in each client's private offering materials.

We do not participate in wrap fee programs.

The amount of client assets that we manage on a discretionary basis, as of March 1, 2012, is \$17,998,125,588. We do not manage any client assets on a non-discretionary basis.

## **2. Fees and Compensation**

Our firm or our affiliates typically receive compensation from our clients based on a percentage of assets we manage and performance-based compensation in the form of "carried interest."

We assess a management fee on total and funded commitments to our client funds. We believe that the fees are set at rates that are consistent with industry standards. Currently, the fee ranges between 0.75% to 1.5% of the capital commitments (or, depending on the current stage in the term of the applicable client fund, total funded commitments) with respect to each of our clients.

Our firm, or one of our affiliates, receives a carried interest as performance-based compensation from each of our clients. Our carried interest currently ranges between 15% to 20%. The particular fees and compensation relevant to a private investment fund or other investment vehicle are disclosed to investors in the private offering materials for the relevant private offering.

From time to time, we or our affiliates may enter into side letters or other written understandings with individual investors that have the effect of establishing rights under, or altering or supplementing, the terms of a particular fund's partnership agreement. The altered terms sometimes include but are not limited to fees, transparency or redemption rights. Our firm and our affiliates do not impose a uniform schedule of management fees or performance-based compensation for all funds.

Our compensation is subject to waiver and reduction. Our firm, our affiliates and certain of our professionals may invest in investment vehicles advised by us. Our principals and employees are not subject to management fees or carried interest on their direct or indirect investment in our client funds. If our firm, our affiliates or our professionals are investing in an investment vehicle sponsored by us, any actual or potential fee waiver is disclosed to potential investors in the private offering materials for the particular investment vehicle.

### **Asset-Based Fees**

Our client funds pay management fees as described below. Investors in our clients indirectly pay the management fees by way of capital contributions to the funds

according to their capital commitments and their invested capital as described below. The following percentages represent an annual rate.

- **Carlyle/Riverstone Global Energy and Power Fund I, L.P.**
  - investors are no longer required to pay management fees with respect to this client fund.
- **Carlyle/Riverstone Global Energy and Power Fund II, L.P.**
  - during the commitment period, 1.5% of the investor's capital commitment;
  - after the commitment period, 1.5% of the investor's funded commitment, reduced proportionately by the acquisition cost of investments that the client no longer holds and the amount of any net writedowns associated with the portfolio of investments.
- **Carlyle/Riverstone Global Energy and Power Fund III, L.P.**
  - during the commitment period, 1.5% of the investor's capital commitment;
  - after the commitment period, 1.5% of the investor's funded commitment, reduced proportionately by the acquisition cost of investments that the client no longer holds and the amount of any net writedowns associated with the portfolio of investments.
- **Riverstone/Carlyle Global Energy and Power Fund IV, L.P.**
  - during the commitment period, the investor's management fee is a regressive rate structure based on the total amount invested in the client and parallel investment vehicles:
    - 1.5% with respect to the first \$5 billion of aggregate capital commitments;
    - 1.0% with respect to the portion of capital commitments in excess of \$5 billion;
  - after the commitment period, 0.75% of the investor's funded commitment, reduced proportionately by the acquisition cost of investments that the client no longer holds and the amount of any net writedowns associated with the portfolio of investments.
- **Riverstone Global Energy and Power Fund V, L.P.**
  - during the commitment period, 1.5% of the investor's capital commitment;
  - after the commitment period, 1.0% of the investor's funded commitment, reduced proportionately by the acquisition cost of investments that the client no longer

holds and the amount of any net writedowns associated with the portfolio of investments.

- **Carlyle/Riverstone Renewable Energy Infrastructure Fund I, L.P.**
  - investors are no longer required to pay management fees with respect to this client fund.
- **Riverstone/Carlyle Renewable Energy and Alternative Energy Fund II, L.P.**
  - during the commitment period, 1.5% of the investor's capital commitments;
  - after the commitment period, 1.0% of the investor's funded amounts for investments that the client holds, reduced proportionately by the amount of any net writedowns associated with the portfolio of investments.

Occasionally, we provide investors in our client funds or third parties (including third parties whose participation might add value to the investment in terms of consummating, operating or exiting the investment) the opportunity to participate in investment vehicles sponsored by us that will invest in certain of our portfolio companies alongside our client funds. Such investment vehicles typically are required to invest and dispose of their investment in the applicable portfolio companies at the same time and on the same terms as the applicable client fund making the investment. Investors in such investment vehicles are often charged a fee expressed as a percentage of capital commitments or capital contributions made by such investors. Currently, such fees in these investment vehicles are generally 1% of an investor's capital commitments or capital contributions.

### **Performance-Based Compensation**

After returning all capital contributions to investors and subject to any writedowns associated with our clients' investment portfolios, our client funds will distribute to our firm or our affiliates a certain percentage of the profits of each realized investment, which is commonly referred to as "carried interest." Please see below for the applicable carried interest with respect to each client.

- **Carlyle/Riverstone Global Energy and Power Fund I, L.P.**
  - distributes 20% of realized gains to our affiliate only after investors receive a 9% compound, cumulative annual preferred return on capital contributions.
- **Carlyle/Riverstone Global Energy and Power Fund II, L.P.**
  - distributes 20% of realized gains to our affiliate only after investors receive a 9% compound, cumulative annual preferred return on capital contributions.
- **Carlyle/Riverstone Global Energy and Power Fund III, L.P.**

- distributes 20% of realized gains to our affiliate only after investors receive an 8% compound, cumulative annual preferred return on capital contributions.
- **Riverstone/Carlyle Global Energy and Power Fund IV, L.P.**
  - distributes 20% of realized gains to our affiliate only after investors receive an 8% compound, cumulative annual preferred return on capital contributions.
- **Riverstone Global Energy and Power Fund V, L.P.**
  - distributes 20% of realized gains to our affiliate only after investors receive an 8% compound, cumulative annual preferred return on capital contributions.
- **Carlyle/Riverstone Renewable Energy Infrastructure Fund I, L.P.**
  - distributes 15% of realized gains to our affiliate only after investors receive a 7% compound, cumulative annual preferred return on capital contributions.
- **Riverstone/Carlyle Renewable Energy and Alternative Energy Fund II, L.P.**
  - distributes 20% of realized gains to our affiliate only after investors receive an 8% compound, cumulative annual preferred return on capital contributions.

Each year, we charge management fees approximately five months in advance of June 30 and again approximately five months before December 31. Investors in our client funds pay these fees to our clients pursuant to capital calls made by our clients.

For the co-investment vehicles described above where fees paid by investors are based on capital commitments, such fees are paid concurrently with each investor's initial capital contribution. For the co-investment vehicles described above where fees paid by investors are based on capital contributions, such fees are paid concurrently with each investor's capital contributions from time to time.

We also receive performance-based compensation or carried interest from our clients. We receive a carried interest from our clients when distributions occur to investors in such clients under the circumstances described above. As a result, we do not receive carried interest on a regularly scheduled basis.

In connection with our advisory services, clients bear all of their own expenses (ordinary and extraordinary). The enumerated lists below are detailed but do not include every possible expense a client may incur. The expense arrangements summarized below are set out in the private offering materials for each sponsored private investment fund.

We may offset some of the investment-related expenses listed below against the management fees.

## **Organizational Expenses**

Our clients pay for expenses related to their organization, including:

- legal expenses,
- accounting expenses,
- filing expenses and fees incurred in connection with organizing and establishing the fund client and its affiliates, and
- expenses incurred in connection with marketing and offering of interests in the fund and its affiliates (including travel expenses, and printing costs or other similar amounts, incurred in connection with the offering of interests in our fund client and its affiliates).

Our clients generally have a cap on the expenses listed above, and our affiliates, typically the general partner of a client fund, bear expenses in excess of these caps.

## **Operational Expenses**

Our clients also pay for expenses related to their operation, such as:

- fees, costs and expenses directly related to the purchase, holding and sale of the client fund's investments,
- expenses of any administrators, custodians, counsel and accountants (including the audit and certification fees and costs of printing and distributing reports to the client fund's investors),
- any insurance, indemnity or litigation expense,
- out-of-pocket expenses of the client fund's investor advisory committee,
- certain taxes,
- any fees or other governmental charges levied against the client fund, and
- expenses for transactions not completed, including amounts payable to third parties and all fees and expenses of lenders, investment banks and other financing sources in connection with arranging financing for transactions that are not consummated, and any deposits or draw-down payments that are forfeited in connection with unconsummated transactions.

We allocate the expenses among the applicable clients and the applicable investments of each client in a fair and reasonable manner.

## **Investment-Related Expenses**

In addition, our clients may incur expenses in connection with an investment, such as:

- topping fees,
- break-up fees,
- organizational fees,
- set-up fees,
- monitoring fees,
- directors' fees,
- investment banking fees,
- underwriting fees, and
- syndication fees.

We allocate the expenses among the applicable clients and the applicable investments of each client in a fair and reasonable manner. Because we render advice to private equity funds, and investments are made on a negotiated basis, opportunities for trade executions are rare. In these circumstances, our clients will pay brokerage fees. Please see Section 9 for further details.

Our client funds pay their asset-based management fees in advance. Should our management services be terminated prior to the complete rendering of services for the period, we would refund to the relevant clients an amount of their management fees pro rated from the date of our termination to the end of the period to which the advance fee covered. The relevant clients would then refund such amount to their investors based on the amount of management fees paid by them. Our firm or a client fund may terminate our advisory agreement upon advance notice.

From time to time, our affiliates may cause our client funds to make distributions to them in amounts sufficient to permit the payment of the tax obligations of our affiliates and their direct and indirect owners in respect of allocations of income related to their carried interest. These advances will reduce any amounts of carried interest that we and our affiliates later receive until these advances are restored to the client fund. In the event that the prior advances are greater than the actual amount of carried interest to which our affiliates are entitled upon a final distribution by a fund client, we and our affiliates must repay any outstanding balances to the client fund through a “clawback” mechanism.

Neither our firm nor any of our principals, affiliates or employees receives any transaction-based compensation for the sale of securities of our client funds to investors in those client funds.

We may receive certain fees in connection with the portfolio investments of our client funds. Please see Section 11 for a discussion of those arrangements.

### **3. Performance-Based Fees and Side-By-Side Management**

Our firm or our affiliates receive performance-based compensation in the form of carried interest from each of our clients. Please see Section 2 for a detailed explanation of our performance-based compensation. The existence of the carried interest may create an incentive for our firm or our affiliates to make riskier or more speculative investments on behalf of our clients than would be the case in the absence of these arrangements, although our commitment of capital to our client funds should reduce this incentive.

### **4. Types of Clients**

All of our clients are private equity funds. Our clients rely on certain exclusions from the definition of “investment company” in the Investment Company Act of 1940, as amended. Accordingly, none of our client funds are registered as investment companies with the SEC.

Our firm determines in its sole discretion any requirements for entering into an investment advisory contract with a client fund or otherwise opening or maintaining an account, including whether a private fund is large enough to implement its desired investment program.

### **5. Method of Analysis, Investment Strategies and Risk of Loss**

In managing our client funds, we employ methods of analysis and investment strategies suitable for each fund’s investment objective.

#### **Investment Strategies**

We employ various investment strategies, including investing in energy and power companies as well as renewable energy companies.

Our firm, on behalf of our clients, invests in companies with a broad range of enterprise values, as either controlling or strategic minority positions. In minority investments, we seek on behalf of our clients to negotiate varying degrees of control over certain key areas of corporate governance, including capital spending, external financing and major corporate transactions, as well as controls over exits.

Our clients’ investments may include buyouts of non-core assets or operating subsidiaries of large corporations, build-up and consolidation plays, growth capital investments, and strategic industry partnerships. We source investments worldwide.

We vary the investment programs within the energy and power sectors according to our clients' needs. Among all of our clients we may engage in any combination of the following:

- Investing in the energy and power sectors, such as:
  - investing in restructuring of energy and power companies,
  - investing in renewable energy companies,
  - investing in utility companies, and
  - investing in oil and natural gas companies,
- investing in equity and equity-related securities,
- investing in debt securities, including, among others:
  - debt instruments made in connection with an investment in equity or equity-related securities,
  - debt investments with a view to a restructuring in which we anticipate that our client will receive an equity interest,
  - debt investments intended to facilitate consummation of an equity investment, and
  - debt investments that are equity-related investments,
- investing in non-U.S. securities,
- investing in emerging markets,
- investing in small capitalization companies,
- royalty interests or mineral production payments,
- borrowing/leveraging, including short-term bridge loans (on an unsecured basis),
- hedging equity, credit, currency, commodity price and/or interest rate exposure, and
- investing in or with other partnerships and entities.

Most of the above strategies involve medium to long-term investment in equity or debt securities with some investment in swaps, commodities and property interests.

From time to time, we may need to make short-term investments on behalf of clients for cash management purposes that may include investments in bank depository products, commercial paper and government securities. Other investments may take the form of

privately negotiated investment instruments including unregistered equity and debt from both foreign and domestic issuers.

We describe material risks relevant to our investment strategies below.

## **Methods of Analysis**

With respect to each of our clients, we use our extensive industry expertise and relationships with key players in the industry to thoroughly evaluate and investigate the fundamentals of our investment prospects. We also have significant experience in conducting due diligence, valuation and all other aspects of deal execution, including financial and legal structuring, accounting and compensation design. We draw upon our extensive network of relationships with industry-focused professional advisory firms to assist with due diligence in other areas such as regulatory risk, contractual liabilities, accounting, tax, employee benefits, environmental, engineering and insurance.

Our firm, on behalf of a client, will make an investment in a company only after a comprehensive review of:

- a target company's management team,
- industry dynamics,
- competitors and competing technologies,
- the quality of a company's assets, products and services,
- the company's competitive position and strategy,
- financial statements,
- off-balance sheet and contingent liabilities,
- debt capacity and financing needs,
- equity and debt market perspectives,
- environmental, political and regulatory risks, and
- economic risk, exit alternatives and return potential.

We analyze and evaluate investment opportunities using conventional financial measures, regardless of the sector or the development stage of the portfolio company. We work with the management teams of target companies to analyze past and present results, create a thorough operating plan and assess the organizational and capital resources necessary to improve the target company's performance as well as exit alternatives.

Our approach to portfolio monitoring and development requires a close working relationship with senior management of our clients' portfolio companies, a clear blueprint for portfolio companies' growth and an incentive plan to ensure the organization's commitment to success. Working together with management, we expect to create value through:

- carefully reviewing capital investments,
- redirecting capital spending and operating priorities as necessary,
- optimizing asset portfolios through acquisitions and divestitures,
- adopting cost management efforts,
- adding appropriate personnel, or
- completing value-creating acquisitions.

Despite our thorough research and analysis, investing in any security involves a risk of loss that any clients and investors in our clients must be prepared to bear. The following is a detailed explanation of some of the significant risks associated with the investment strategies we employ.

Certain general risks associated with an investment in any client fund we advise include:

- *Investment Judgment and Market Risk.* The success of our investment programs depends, in large part, on correctly evaluating the future price movements of potential investments. We cannot guarantee that we will be able to accurately predict these price movements and that our investment programs will be successful.
- *Highly Competitive Market for Investment Opportunities.* The activity of identifying, completing and realizing attractive private equity investments is highly competitive and involves a high degree of uncertainty. The availability of investment opportunities generally will be subject to market conditions. Our clients compete for investments with other private equity investors, as well as companies, public equity markets, individuals, financial institutions and other investors. Furthermore, over the past several years, private equity funds have an unprecedented amount of capital available for private equity investment. Additional funds with similar objectives may be formed in the future by other unrelated parties. It is possible that competition for appropriate investment opportunities may increase, thus reducing the number of investment opportunities available to our clients and adversely affecting the terms upon which investments can be made. There is no assurance that we will be able to locate, consummate and exit investments that satisfy our clients' rate of return objectives or realize upon their values, or that our clients will be able to invest fully their committed capital.

- *Financial Markets and Regulatory Change.* The instability pervading global financial markets has heightened the risks associated with the investment activities and operations of investment funds, including those resulting from a reduction in the availability of credit and the increased cost of short-term credit, a decrease in market liquidity and an increased risk of bankruptcy of third parties with which we work. Market disruptions over the recent years and the increase in capital being allocated to investment funds and other alternative investment vehicles have led to increased scrutiny and regulation over the investment fund and asset management industry. In addition, the laws and regulations affecting business continue to evolve unpredictably. Laws and regulations applicable to our clients, especially those involving taxation, investment and trade, can change quickly and unpredictably in a manner adverse to our clients' interests.
- *Risk of Limited Number of Investments.* We anticipate that our clients may participate in a limited number of investments. As a consequence, the aggregate return of our clients may be substantially adversely affected by the unfavorable performance of even a single investment.
- *Investments Longer than Term.* We, on behalf of a client fund, may make investments that may not be advantageously disposed of prior to the date the client fund will be dissolved, either by expiration of our client's term or otherwise.
- *Uncertainty of Financial Projections.* Our firm or our affiliates will generally establish the capital structure of portfolio companies on the basis of financial projections for these portfolio companies. Projections are only estimates of future results which rely on assumptions made at the time of the projections. There can be no assurance that we can attain these projected results, and actual results may vary significantly from the projections. In addition, general economic conditions, which are not predictable, can have a material adverse impact on the reliability of the projections.

The following is a description of some important risks associated with the investment strategies that we employ. The following explanation of certain risks is not exhaustive, but rather highlights the significant risks involved in our investment strategies. We do not use every strategy listed below when managing each client fund's assets, but rather we use various combinations of strategies that depend on each client fund's circumstances and investment goals.

- *Investments in Oil and Natural Gas.* Our firm, on behalf of our clients, may invest in oil and natural gas companies. The following is a description of some of the risks associated with this type of investment.
  - *Volatility of Oil and Natural Gas Prices.* The performance of certain investments of our clients is substantially dependent upon prevailing prices of oil and natural gas. Historically, the markets for oil and natural gas have been volatile, and these markets are likely to continue to be volatile in the future. Prices for oil and natural gas are subject to wide fluctuation in response to relatively minor changes

in the supply of and demand for oil and natural gas and a variety of additional factors that are beyond our control. These factors include:

- market uncertainty,
  - the level of consumer product demand,
  - the refining capacity of oil purchasers,
  - weather conditions,
  - domestic and foreign governmental regulations,
  - the price and availability of alternative fuels,
  - political conditions in the Middle East and other oil producing regions,
  - actions of the Organization of Petroleum Exporting Countries,
  - the foreign supply of oil and natural gas,
  - the price of foreign imports, and
  - overall economic conditions.
- *Drilling, Exploration and Development Risks.* Our firm, on behalf of our clients, may invest in businesses that engage in oil and gas exploration and development, a speculative business involving a high degree of risk. Oil and gas drilling may involve unprofitable efforts, not only from dry holes, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs.

Acquiring, developing and exploring for oil and natural gas involves many risks. These risks include:

- encountering unexpected formations or pressures,
- premature declines of reservoirs,
- blow-outs,
- equipment failures and other accidents in completing wells and otherwise,
- cratering,
- sour gas releases,
- uncontrollable flows of oil,

- natural gas or well fluids,
- adverse weather conditions, and
- pollution, fires, spills and other environmental risks.

In addition, in making these investments, we must rely on estimates of oil and gas reserves. The process of estimating oil and gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. As a result, these estimates are inherently imprecise.

- *Regulatory Risks.* Federal, state, local and other laws and regulations can substantially impact the performance of certain investments of our clients. Regulations may place restrictions on production and permitting of companies in which our clients invest. In addition, changes in taxes, deductions, royalties and other amounts payable to governments or governmental agencies may also impact our clients' investments. To comply with the regulations, the companies in which our clients invest may need to obtain and maintain numerous permits, approvals and certificates from various federal, state and local governmental authorities. These companies may incur substantial costs. Their costs of compliance may increase if existing laws, including environmental and tax laws, and regulations are revised or reinterpreted, or if new laws and regulations become applicable to their operations. Moreover, the portfolio companies' operations and properties are subject to numerous federal, state, local and non-U.S. laws and regulations relating to environmental protection. These laws and regulations may impose substantial liabilities for the companies' failure to comply with them or for any contamination resulting from their operations. Future environmental laws and regulations, such as proposed legislation regulating climate change, may negatively impact the oil and natural gas industry.
- *Risks Relating to Hydraulic Fracturing Activities.* Several of our portfolio companies engage in hydraulic fracturing, which is a practice in the oil and natural gas industry that involves the injection of water, sand and chemicals under pressure into rock formations to fracture the surrounding rock and stimulate the production of hydrocarbons, particularly natural gas, from tight formations. The hydraulic fracturing process is typically regulated by state oil and gas commissions, but the U.S. Environmental Protection Agency has asserted federal regulatory authority over certain hydraulic fracturing activities involving diesel under the federal Safe Drinking Water Act. In addition, legislation is pending in Congress to amend the federal Safe Drinking Water Act to repeal an exemption from regulation for hydraulic fracturing, provide for federal regulation of hydraulic fracturing and require the reporting and public disclosure of chemicals used in the fracturing process. The U.S. Department of Interior is developing proposed federal regulations to require the disclosure of the chemicals used in the fracturing process on public lands. Further, federal agencies and congressional committees are conducting studies and investigations of hydraulic fracturing

practices. At the state level, some states have adopted, and other states are considering adopting, regulations that could restrict hydraulic fracturing in certain circumstances or otherwise require the public disclosure of chemicals used in the hydraulic fracturing process.

If these or any other new laws or regulations that significantly restrict hydraulic fracturing are adopted, such laws or regulations could make it more difficult or costly for, or even prohibit, our portfolio companies to perform fracturing to stimulate production from tight formations as well as make it easier for third parties opposed to the hydraulic fracturing process to initiate legal proceedings based on allegations that specific chemicals used in the fracturing process could adversely affect groundwater. Such developments could materially adversely affect our portfolio companies' revenues and results of operations and result in the potential for adverse judgments against our portfolio companies. In addition, if hydraulic fracturing is regulated at the federal level, our portfolio companies' fracturing activities could become subject to additional permitting and financial assurance requirements, more stringent construction specifications, increased monitoring, reporting and recordkeeping obligations, plugging and abandonment requirements, and attendant permitting delays and potential increases in costs. Restrictions on hydraulic fracturing could also reduce the amount of, or prevent our portfolio companies from accessing, oil and natural gas that our portfolio companies are ultimately able to produce from their reserves.

- *Oil Shale Exploration and Extraction.* Our clients may, at times, invest in portfolio companies that engage in oil shale exploration and extraction. Exploration and development operations in oil shale extraction are subject to environmental regulations (further discussed below, see *Environmental Matters*), which could result in additional costs and operational delays. Future changes in environmental regulation, if any, could negatively affect the operations of portfolio companies involved in oil shale exploration and extraction. In addition, portfolio companies involved in oil shale exploration and extraction incur substantial expenditures to acquire oil shale properties, establish reserves through drilling and analysis, develop processes to extract oil, and develop the processing facilities and infrastructure at a site chosen for oil shale production. Portfolio companies cannot be sure they will acquire or discover sufficient quantities or adequate quality of oil from oil shale or that they will be able to obtain enough funds required for development on a timely basis.

Significantly, oil shale exploration, development and operating activities are inherently hazardous. Any liabilities that a portfolio company engaged in oil shale exploration and extraction might incur may exceed any insurance policy limits, and it is possible that certain of their liabilities and hazards may be uninsurable.

Finally, if a portfolio company's exploration and extraction properties experience any title defects, the portfolio company may be required to compensate other parties or reduce its interest in the affected property. Also, the investigation and

resolution of title issues would divert the company's focus away from ongoing exploration and development programs.

- *Offshore Operations.* Certain companies in which our clients invest conduct offshore operations. Their operations and financial results could be significantly impacted by conditions in some of these areas, such as the Gulf of Mexico. As a result of this activity, they are vulnerable to the risks associated with operating offshore, such as:
  - repatriation,
  - transparency issues,
  - hurricanes and other adverse weather conditions,
  - oil field service costs,
  - availability of oil fields,
  - terrorist attacks,
  - remediation and other costs resulting from oil spills,
  - lack of infrastructure, and
  - failure of equipment or facilities.
- *Investments in the Utility Industry.* Our firm, on behalf of our clients, may make certain investments in electric utility industries both in the United States and abroad.
  - *Effects of Ongoing Changes in the Utility Industry.* In many regions, including the United States, the electric utility industry is experiencing increasing competitive pressures, primarily in wholesale markets, as a result of consumer demand, technological advances, greater availability of natural gas and other factors. A number of countries, including the United States, are considering or implementing methods to introduce and promote retail competition. To the extent competitive pressures increase and the pricing and sale of electricity assume more characteristics of a commodity business, the economics of independent power generation projects into which a client may invest may come under increasing pressure. Deregulation is fueling not only the current trend toward consolidation among domestic utilities, but also the disaggregation of many vertically integrated utilities into separate generation, transmission and distribution businesses. As a result, additional significant competitors could become active in the independent power industry. In addition, independent power producers may find it increasingly difficult to negotiate long-term power sales agreements with solvent utilities, which may affect the profitability and financial stability of independent power projects.

We cannot give any assurance that:

- the existing regulations applicable to electric utility portfolio companies will not be revised or reinterpreted;
  - new laws and regulations will not be adopted or become applicable to electric utility companies;
  - the technology and equipment selected by the companies to comply with current and future regulatory requirements will meet these requirements;
  - the companies' business and financial conditions will not be materially and adversely affected by future changes in, or reinterpretation of, laws and regulations (including the possible loss of exemptions from laws and regulations) or any failure to comply with current and future laws and regulations; or
  - regulatory agencies or other third parties will not bring enforcement actions in which they disagree with regulatory decisions made by other regulatory agencies.
- *Changes in Environmental Laws and Regulations.* Certain companies in which our clients invest are subject to a number of environmental laws and regulations that are currently in effect, including those related to the handling, disposal, and treatment of hazardous materials. Changes in compliance requirements or the interpretation by governmental authorities of existing requirements may impose additional costs, all of which could have an adverse impact on these companies.
  - *Operational Risk.* The utility industry is subject to various operational risks, including:
    - incidents relating to property damages,
    - equipment failures, and
    - personal injuries.

These incidents may expose utility companies to potential claims beyond the scope of their insurance coverage.

- *Weather Conditions.* Weather conditions directly influence the demand for electricity. Significant fluctuations in temperatures could have a material impact on energy sales for any given period. Milder temperatures reduce demand for electricity and have a corresponding effect on utility companies' revenues. In addition, severe storms, such as hurricanes and ice storms, could cause damage to a utility company's facilities that may require additional costs to repair and have a material adverse impact on the company's results of operations, cash flows or financial position.

- *Disruption of Supplies.* Disruption in the delivery of fuel could limit utility companies' ability to operate their facilities. In addition, the supply markets for coal, natural gas and uranium are subject to price fluctuations, availability restrictions and counterparty default. It is not possible to predict the ultimate cost or availability of these commodities. Any of these costs could have a material adverse effect on the companies' financial results.
- *Start-Up, Venture Capital and Technology-Related Investments.* Our firm, on behalf of our clients, may invest in portfolio companies that:
  - are at a conceptual or early stage of development or that may have little or no operating history;
  - may offer services or products that are not yet developed or ready to be marketed or that have no established market;
  - may be operating at a loss or have significant fluctuations in operating results;
  - may be engaged in a rapidly changing business; and
  - may need substantial additional capital to set up infrastructure, hire management and personnel, develop product prototypes, support expansion or achieve or maintain a competitive position.

Our firm, on behalf of our clients, may make significant investments in companies in rapidly changing high-technology fields.

- *Risks of Start-Up, Venture Capital and Technology-Related Investments.* Our firm, on behalf of our clients, may invest a significant portion of its assets in the securities of smaller, less-established companies, including start-up ventures with qualified management teams. Investments in these companies may involve greater risks than are generally associated with investments in more established companies. These companies may have shorter operating histories (or no operating history) on which to judge future performance and, in many cases, if operating, will have negative cash flow. There is also no guarantee that management teams of start-up ventures in which we invest will be able to successfully execute the business plan of the company. Additionally, to the extent there is any public market for the securities held by our client, these securities may be subject to more abrupt and erratic market price movements than those of larger, more-established companies. Less established companies tend to have lower capitalizations and fewer resources, and, therefore, often are more vulnerable to financial failure. We cannot give any assurance that any losses will be offset by gains (if any) realized on a client's other assets.

Our firm, on behalf of our clients, may also make significant investments in companies in rapidly changing high-technology fields. The technology industry is characterized by rapid change, evidenced by rapidly changing market conditions and participants, new competing products and improvements in

existing products. Accordingly, energy technology companies may face special risks of product obsolescence. Additionally, technology companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and service capabilities and a larger number of qualified managerial and technical personnel. There can be no assurance that products sold by portfolio companies will not be rendered obsolete or adversely affected by competing products or that portfolio companies will not be adversely affected by other challenges inherent in the sector.

- *Investments in Renewable Energy.*
  - *Uncertainty of Renewable Energy Market.* The market for renewable energy products is emerging and rapidly evolving, and its future success is uncertain. If renewable energy technology proves unsuitable for widespread commercial deployment or if demand for renewable energy products fails to develop sufficiently, our clients' portfolio companies could be unable to generate enough revenue to achieve and sustain profitability. In addition, demand for renewable energy products in the markets and geographic regions a client targets may not develop or may develop more slowly than anticipated. Many factors will influence the widespread adoption of renewable energy technology and demand for renewable energy products, including the cost-effectiveness, performance and reliability of renewable energy technology and availability of government subsidies and incentives.
  - *Competition from Fossil Fuels and Other Non-Renewable Energy Resources.* The performance of certain investments of a client will be substantially dependent upon prevailing prices of oil and natural gas. As energy derived from fossil fuels and other non-renewable sources becomes more expensive, the value of renewable energy and renewable energy technology increases as well. Conversely, if new oil, coal or natural gas deposits or other non-renewable sources are found, or if the cost of producing energy from these non-renewable sources decreases significantly for other reasons, the attractiveness of renewable energy sources would likely decrease.

Historically, the markets for oil and natural gas have been volatile, and these markets are likely to continue to be volatile in the future. Prices for oil and natural gas are subject to wide fluctuation in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors that are beyond our control. These factors include:

- the level of consumer product demand,
- the refining capacity of oil purchasers,
- weather conditions,

- domestic and foreign governmental regulations,
- the price and availability of alternative fuels,
- political conditions in the Middle East,
- actions of the Organization of Petroleum Exporting Countries,
- the foreign supply of oil and natural gas,
- the price of foreign imports, and
- overall economic conditions.

In addition, recent technological progress in pollution control equipment for coal-fired generation plants may make it feasible for utilities to continue to operate those plants under newly mandated clean air regulations. Coal is plentiful in the United States and continued use of coal in electric generation facilities will also apply pressure to the cost of renewable energy.

- *Weather and Climatological Risks.* Certain renewable energy companies may be particularly sensitive to weather and climate conditions. For example, portfolio companies specializing in hydroelectric power may be subject to variations in precipitation and the flow of the watersheds upon which their power plants are situated. An extended drought in a region where a portfolio company operates could reduce the operating effectiveness of the portfolio company and its assets. Likewise, companies focused on wind and solar energy also are subject to variations in weather patterns.
- *High Capital Costs for Certain Renewable Energy Investments.* Renewable energy projects typically involve relatively high levels of capital investment. These up-front expenditures involve a certain degree of risk. For example, geothermal power projects are characterized by high capital investment for exploration, drilling wells (including exploration wells which may not result in useful production) and installation of plants. Accordingly, geothermal exploration runs the risk of not finding a useable heat resource after expending effort on early reconnaissance and surface exploration equipment. A client may not achieve a return on investment in other renewable energy companies with similar high capital costs also as quickly as with cheaper fossil fuel power plants.
- *Challenges from Natural Resource Activists.* Renewable energy projects will be subject to siting requirements that are similar in many respects to those applicable to fossil fuels plants. Although a renewable energy plant is not likely to face the level of environmental or security issues that conventional fossil fuels and nuclear plants face, natural resource activists may challenge proposals to site a renewable energy plant in many favorable locations based on alleged disturbances to natural habitats for wildlife and adverse aesthetic impacts.

In addition to the above risks that relate to specific segments of the energy and power sectors, there are some important risks associated with investments related to the energy and power sectors generally.

- *Environmental Matters.* Environmental laws, regulations and regulatory initiatives play a significant role in the energy and power industry and can have a substantial impact on investments in this industry. For example, global initiatives to minimize pollution have played a major role in the increase in demand for natural gas and alternative energy sources, creating numerous new investment opportunities. Conversely, required expenditures for environmental compliance have adversely impacted investment returns in a number of segments of the industry. The energy and power industry will continue to face considerable oversight from environmental regulatory authorities. Our firm seeks to evaluate carefully the expected impact of environmental compliance on all potential investments. Our firm, on behalf of our clients, may invest in portfolio companies that are subject to changing and increasingly stringent environmental and health and safety laws, regulations and permit requirements.

There can be no guarantee that we will be able to identify all costs and risks regarding compliance with environmental laws and regulations. New and more stringent environmental and health and safety laws, regulations and permit requirements or stricter interpretations of current laws or regulations could impose substantial additional costs on portfolio companies or potential investments. Compliance with current or future environmental requirements does not ensure that the operations of the portfolio companies will not cause injury to the environment or to people under all circumstances or that the portfolio companies will not incur additional unforeseen environmental expenditures. Moreover, failure to comply with any these requirements could have a material adverse effect on a portfolio company. There can be no assurance that portfolio companies will at all times comply with all applicable environmental laws, regulations and permit requirements. Past practices or future operations of portfolio companies could also result in material personal injury or property damage claims.

- *Regulatory Approvals and Related Portfolio Company Matters.* Our clients may require the consent or approval of applicable regulatory authorities in order to acquire or hold particular portfolio companies. A portfolio company could be materially and adversely affected as a result of statutory or regulatory changes or judicial or administrative interpretations of existing laws and regulations that impose more comprehensive or stringent requirements on the company. Moreover, additional regulatory approvals, including without limitation, renewals, extensions, transfers, assignments, reissuances or similar actions, may become applicable in the future due to a change in laws and regulations, a change in the companies' customer(s) or for other reasons. We cannot give any assurance that our clients or any portfolio company will be able to:
  - obtain all required regulatory approvals that they do not yet have or that they may require in the future;

- obtain any necessary modifications to existing regulatory approvals; or
- maintain required regulatory approvals.

A portfolio company's delay in obtaining or failure to obtain and maintain in full force and effect any regulatory approvals could result in additional costs to a portfolio company. In connection with the regulatory approval, licensing or review processes for any portfolio company, disclosures and other undertakings may be required from or in respect of the existing or prospective owners of the portfolio company, potentially including our clients.

- *Non-U.S. Investments.* Our firm, on behalf of our clients, may invest in portfolio companies located or operating principally outside of the United States. Non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to:
  - currency exchange matters, such as fluctuations in the rate of exchange between the U.S. dollar and the various non-U.S. currencies in which a client's non-U.S. investments are denominated, and costs associated with conversion of investment principal and income from one currency into another;
  - differences between the U.S. and non-U.S. securities markets, including potential price volatility in and relative illiquidity of some non-U.S. securities markets;
  - the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation;
  - certain economic and political risks, including potential exchange control regulations and restrictions on non-U.S. investment and repatriation of capital, nationalization of business enterprises, the risks of political, economic or social instability, the possibility of substantial rates of inflation and the possibility of expropriation or confiscatory taxation;
  - the possible imposition of non-U.S. taxes on income and gains recognized with respect to these securities; and
  - less developed laws regarding corporate governance, fiduciary duties and the protection of investors, and other differences in applicable legal systems, including the possibility that our clients may experience difficulty in asserting legal claims or obtaining legal remedies in non-U.S. jurisdictions.
- *Reliance on Portfolio Company Management.* Each portfolio company's management team is responsible for the day-to-day operations. Although our firm or our affiliates are responsible for monitoring the performance of each investment and generally intend to invest in companies operated by strong management, there can be no assurance that the existing management team, or any successor, will be able to operate the portfolio company in accordance with our clients' plans and/or objectives.

- *Risks in Effecting Operating Improvements.* In some cases, the success of our clients' investment strategy will depend, in part, on the ability of our firm to restructure and effect improvements in the operations of a portfolio company. The activity of identifying and implementing restructuring programs and operating improvements at portfolio companies entails a high degree of uncertainty. We cannot give any assurance that we will be able to successfully identify and implement these restructuring programs and improvements.
- *Investment in Restructurings.* Our firm or our affiliates may make investments in restructurings that involve portfolio companies that are experiencing or are expected to experience financial difficulties. These financial difficulties may never be overcome and may cause portfolio companies to become subject to bankruptcy proceedings. These types of investments could, in certain circumstances, subject our clients to certain additional potential liabilities that may exceed the value of our clients' original investment therein. For example, under certain circumstances, a lender who has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of its actions. In addition, under certain circumstances, payments to our clients and distributions by our clients to the investors may be reclaimed if any payment or distribution is later determined to have been a fraudulent conveyance, preferential payment or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, investments in restructurings may be adversely affected by statutes relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims or re-characterize investments made in the form of debt as equity contributions.
- *Currency and Exchange Rate Risks.* A portion of our clients' investments, and the income received by our clients with respect to these investments, may be denominated primarily in foreign currencies. However, the books of our clients will be maintained, and contributions to and distributions from our clients generally will be made, in U.S. dollars. Accordingly, changes in currency exchange rates may adversely affect the dollar value of investments and the amounts of distributions, if any, to be made by our clients. In addition, our clients will incur costs in converting investment proceeds from one currency to another.
- *Hedging Policies and Commodities Price Risks.* In connection with certain investments, our firm, on behalf of a client, or a client's portfolio companies may employ hedging techniques designed to reduce the risks of adverse movements in commodities prices, interest rates, securities prices and currency exchange. While these transactions may reduce certain risks, the transactions themselves may entail certain other risks. Thus, while a client may benefit from the use of these hedging mechanisms, unanticipated changes in commodity prices, interest rates, securities prices or currency exchange rates may result in a poorer overall performance for a client than if there had not been any hedging transactions.

- *Use of Derivatives and Other Specialized Techniques.* Companies in the energy and power industry engage in derivatives transactions to insulate against changes in commodities prices. Our firm, on behalf of a client, or a client's portfolio companies may engage in other derivative or similar transactions as described above. These transactions may involve the purchase and sale of commodities or commodity futures, the use of forward contracts, swap agreements, put and call options, floors, collars or other arrangements. Those instruments may be difficult to value, may be illiquid and may be subject to wide swings in valuation caused by changes in the price of commodities or other underlying assets. Derivative instruments may trade principally on markets organized outside the United States. Markets for these instruments may be illiquid, highly volatile and subject to interruption. Suitable hedging instruments may not continue to be available at reasonable cost.

The investment techniques related to derivative instruments are highly specialized and may be considered speculative. These techniques often involve forecasts and complex judgments regarding relative price movements and other economic developments. The success or failure of these investment techniques may turn on small changes in exogenous factors not within the control of portfolio companies, our firm or our clients. For all the foregoing reasons, the use of derivatives and related techniques can expose a client and its portfolio companies to significant risk of loss.

- *Regulatory Changes Relating to the Swaps and Foreign Exchange Markets.* Subject to certain exceptions, the Wall Street Transparency and Accountability Act of 2010 is expected to:
  - require swaps accepted for clearing by a derivatives clearing organization or for trading through a designated contract market or swaps-execution facility to be so cleared and traded;
  - require margin for almost all swap transactions;
  - subject traders with a "substantial position" in swaps to registration and regulation requirements as a "major swap participant" or "swap dealer;" and
  - impose position limits on swaps either individually or in the aggregate with respect to positions in commodity-futures contracts.

Due to the requirements imposed by the Wall Street Transparency and Accountability Act of 2010, our client funds may experience increased transaction costs to pay for the clearing, execution and segregation obligations. In addition, margin requirements may increase once margin is set by collateral debt obligations with input from the Commodity Futures Trading Commission, which may limit our clients' ability to engage in leverage and limit their return. The application of position limits to swap contracts may also limit our clients' ability to concentrate in any particular contract or exposure to an underlying commodity and may negatively impact their ability to take advantage of current market trends or conditions.

If a client fund is deemed to (1) enter into swaps as its ordinary course of business, (2) be a market maker for any type of swaps, (3) maintain a “substantial position” in any type of swap for speculative purposes or (4) otherwise create counterparty risk that could have serious adverse consequences on the financial stability of the United States, the client may be deemed to be a swap dealer (in the case of (1) or (2)) or a “major swap participant” (in the case of (3) or (4)). If the client is deemed to be a swap dealer or a “major swap participant,” the client may be required to register with the Commodity Futures Trading Commission as such and would be subjected to a number of regulatory requirements that would significantly impact the client and its returns. If it were required to register as a swap dealer or major swap participant, in addition to the recordkeeping, back-office and reporting requirements, the client would be subject to margin collection requirements for swaps that are not cleared, capital requirements, disclosure obligations and special duties to governmental entities. These requirements may increase the potential liability of the client when trading swaps and impact the client’s ability to deploy its capital in the most productive manner. The scope of the above concepts is currently unclear as is the extent to which it will impact the client and its operations.

- *Lending and Credit Risk.* From time to time, our firm, on behalf of our clients, may make either long-term or short-term (bridge financing) loans to certain portfolio companies on both secured and unsecured bases. These types of loans are subject to credit and interest rate risks. “Credit risk” relates to an issuer defaulting in the payment of principal and/or interest on an instrument. It is often difficult to fully assess credit risk, which may change over the life of an instrument. “Interest rate risk” refers to the risks associated with market changes in interest rates. In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Finally, in the case of bridge financings, for reasons not always in our control, a long-term securities issuance or other refinancing may not occur, and the bridge loans may remain outstanding. In this event, the interest rate on these loans or the terms of these interim investments may not adequately reflect the risk associated with our client’s unsecured position.
- *Public Company Holdings.* Our clients’ investment portfolio may contain securities issued by publicly held companies or their affiliates. These investments may subject a client to risks that differ in type and degree from those involved with investments in privately held companies. These risks include, without limitation:
  - greater volatility in the valuation of these companies,
  - increased obligations to disclose information regarding these companies,
  - limitations on the ability of a client to dispose of these securities at certain times,
  - delays in our clients’ sale of securities to complete the SEC’s registration process,

- increased likelihood of shareholder litigation against these companies' board members or significant shareholders, and
- increased costs associated with each of the above-listed risks.
- *Non-Controlling Investments.* We, on behalf of a client, may make a non-controlling investment in certain portfolio companies. Therefore, we may have a limited ability to protect our client's position in these portfolio companies. However, we will seek appropriate shareholder rights to protect our clients' interests.

We, on behalf of our clients, may co-invest with third parties through joint ventures or other entities. These investments may involve risks in connection with third-party involvement, including the possibility that a joint-venture party may have financial difficulties resulting in a negative impact on an investment, may have economic or business interests or goals that are inconsistent with those of our clients or may be in a position to take (or block) action in a manner contrary to our clients' investment objectives. In those circumstances, these third parties may receive compensation arrangements relating to these investments, including incentive compensation arrangements.

Although we do not primarily recommend any single type of security, we focus on equity and debt securities of energy and power companies. Accordingly, we encourage our clients as well as their investors to consider all of the risk factors we have described above. Please refer to Section 5 regarding risk factors related to our investment strategies. Any investment can be risky, and our clients and investors in our clients must be prepared to assume any potential loss.

## **6. Disciplinary Information**

Neither our firm nor any management person has been involved in any investment-related criminal or civil actions in a domestic, foreign or military court.

Neither our firm nor any management person has been subject to an administrative proceeding before the Securities and Exchange Commission, any other federal regulatory agency, any foreign financial regulatory authority or any self-regulatory organization.

In 2008, the Office of the Attorney General of the State of New York commenced an investigation into the use of placement agents by a number of private equity and hedge funds in connection with investments by New York State Common Retirement Fund (NYSCRF). Our firm and its principals cooperated voluntarily with the Attorney General's investigation. On June 11, 2009, our firm resolved the Attorney General's investigation. According to the agreement between our firm and the Attorney General, we agreed to make a payment of \$30 million to New York State as restitution for the benefit of NYSCRF, and we agreed to adopt the Attorney General's Public Pension Fund Reform Code of Conduct. On December 9, 2009, David M. Leuschen, a Senior Managing Director of our firm, reached a resolution with the Attorney General. According to the supplemental agreement between Mr. Leuschen and the Attorney

General, Mr. Leuschen and our firm agreed to make a \$20 million payment as restitution for the benefit of NYSCRF.

The Securities and Exchange Commission (SEC) also has been conducting an investigation into the use of placement agents in connection with investments by NYSCRF. The SEC has filed a civil complaint against certain individuals and entities, in which the SEC alleged violations of federal securities laws in connection with investments by NYSCRF. Neither Riverstone nor any of its employees has been named as a defendant in any action by the SEC. The SEC requested that our firm and Mr. Leuschen voluntarily provide certain information. Our firm and Mr. Leuschen cooperated with the SEC. In August 2011, the staff of the SEC's New York Regional Office informed Riverstone and Mr. Leuschen in writing that no action would be taken with respect to Riverstone or Mr. Leuschen in connection with matters covered by the SEC's investigation.

## **7. Other Financial Industry Activities and Affiliates**

Neither our firm nor any of our directors, officers or principals is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Neither our firm nor any of our directors, officers or principals is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above.

### Relationships with Pooled Investment Vehicles

Our firm or our affiliates, along with our joint venture partners, sponsor, manage and serve as general partners of the following client funds, as well as certain investment vehicles formed to invest alongside these client funds:

- Carlyle/Riverstone Global Energy and Power Fund I, L.P.,
- Carlyle/Riverstone Global Energy and Power Fund II, L.P.,
- Carlyle/Riverstone Global Energy and Power Fund III, L.P.,
- Riverstone/Carlyle Global Energy and Power Fund IV, L.P.,
- Riverstone Global Energy and Power Fund V, L.P.,
- Carlyle/Riverstone Renewable Energy Infrastructure Fund I, L.P., and
- Riverstone/Carlyle Renewable Energy and Alternative Energy Fund II, L.P.

Please see Sections 3, 7 and 8 for a description of the conflicts of interest that may arise in these relationships and how we manage them.

### Relationships with Investment Advisers

We are affiliated with the following investment adviser, which is our related person:

- Riverstone Europe LLP (registered with the Financial Services Authority in the United Kingdom)

We do not have any related person who is:

- a broker-dealer, municipal securities dealer, or government securities dealer or broker,
- a futures commissions merchant, commodity pool operator, or commodity trading adviser,
- a banking or thrift institution,
- an accountant or accounting firm,
- a lawyer or law firm,
- an insurance company or agency,
- a pension consultant, or
- a real estate broker or dealer.

We do not recommend or select unaffiliated investment advisers for our clients, receive compensation directly or indirectly from unaffiliated advisers that create a material conflict of interest, or have other business relationships with them that create a material conflict of interest.

Our firm and our joint venture partner, The Carlyle Group, form partnerships or limited liability companies that serve as the general partners to certain of our client funds. Our firm and our joint venture partner also provide investment management services to those jointly-sponsored client funds pursuant to investment management agreements. Our firm forms partnerships or limited liability companies that serve as the general partners to our other client funds that are not jointly-sponsored with The Carlyle Group and provides investment management services to those other client funds pursuant to investment management agreements.

These relationships and related management or other fees are further disclosed in the private offering materials of each fund client. See Sections 3 and 8 for a discussion of the conflicts of interests that arise as a result of these relationships (including, the performance-based compensation that our firm or our affiliates may receive and certain trade allocation issues).

## **8. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Our firm has established a code of ethics that sets forth standards of ethical conduct for our professionals. This code addresses standards of treating clients ethically, potential conflicts of interest and personal trading by our firm and our affiliates and professionals. In addition, we have established policies and procedures that address, among other things, potential conflicts of interest that might arise in the management of the client funds that we sponsor.

Our policies prohibit our employees from purchasing or selling, directly or indirectly, any security while in possession of material, non-public information regarding the security, whether or not this information was obtained in the course of employment. Our employees also may not discuss material, non-public information with anyone outside of our firm and our affiliates. Our firm generally prohibits our employees from trading in equity or debt securities in the energy or power sectors, except that (1) employees may trade in energy- or power-related mutual funds and (2) we do allow employees to trade in energy exchange-traded funds (ETFs), commodity interests, and royalty trusts, only after receiving pre-clearance from our chief compliance officer or his/her designee. In addition, prior to investing in shares of initial public offerings or private placements, an employee must first pre-clear the trade with our chief compliance officer or his/her designee. Subject to certain exceptions, we also prohibit our employees from investing “away” from a particular client in investments that could be substantially identical to investments that the client would make during a commitment period.

Our employees are not permitted to take for their own advantage an opportunity that rightfully belongs to our firm, our affiliates or our client funds, are prohibited from using corporate property, information or position for personal gain, and may not compete directly or indirectly with our firm, our affiliates or our client funds.

Our employees and control persons must certify annually that they have read and agree to comply in all respects with our Code of Ethics and that they have disclosed or reported all personal securities transactions, holdings and accounts required to be disclosed or reported by our Code of Ethics.

Additionally, our Code of Ethics provides for a range of sanctions, as deemed appropriate by our senior management, should anyone violate the Code of Ethics. These sanctions include, but are not limited to, a warning, fines, disgorgement, suspension, or termination of employment.

The paragraphs above only represent a summary of key provisions in our Code of Ethics. We will provide a copy of our entire Code of Ethics to any prospective client, any client or any investor in our client funds upon request.

Under certain circumstances, we may recommend to clients, or buy or sell for client accounts, securities in which we or our affiliates have a material financial interest.

Because our affiliates or our joint-venture partners are the general partners of our client funds, we have a material interest that could create conflicts that must be managed.

Since our client funds may be subject to different fee structures and we may receive a carried interest from one client fund sooner than from another client fund, there may be a conflict of interest on how we allocate portfolio investments between various client funds. We have instituted a number of allocation policies in order to mitigate those conflicts. When a core private investment fund which we advise has invested or committed 75% of its committed capital pursuant to its limited partnership agreement, we may establish a new core private investment fund. In general, the new core private investment fund may co-invest with the existing client fund going forward until the existing client fund has invested or committed 90% of its committed capital, after which point the new client fund may make investments without being required to share them with the existing client fund. To the extent that an investment opportunity is appropriate for both the existing client fund and the new client fund, we expect that both funds should invest on the same terms and conditions, with allocations made between the funds on a basis that the investment committee of each of the client funds determines in good faith to be fair and reasonable. In certain cases, the organizational and charter documents of a client fund may require the investor advisory committee to approve fund allocations between various client funds. In the absence of this requirement, we will seek to allocate investments and investment opportunities on a fair and reasonable basis.

Additionally, for other investment vehicles sponsored by us to invest alongside our client funds in specific portfolio companies, the allocation of the investment opportunity to such vehicles is sometimes dictated by the investment limitations of the corresponding client fund. In circumstances where an entire investment could be made by the applicable client fund, we may still allocate a portion of such investment to one or more other investment vehicles if we believe in our good faith judgment that the full investment would unreasonably limit the diversification of the applicable client fund or that a particular strategic co-investor would add value to the investment in terms of consummating, operating or exiting the investment.

In the unlikely event that we cause one client fund to purchase an investment from another client fund (known as a cross trade), there may be a conflict of interest in how we allocate that trade. If we intend to engage in any cross trade, the investment committees of both relevant funds will review their respective fund's charter and organizational documents to determine if there are any prohibitions or restrictions on cross trades, and the nature of those restrictions. In addition, the investor advisory committee of each fund must approve the cross trade prior to its execution. Our firm or our affiliates will document the reason for the decision to effect a cross trade, including the price and any potential transaction-cost savings. In any case, neither our firm nor any affiliate may charge any commissions to either client fund.

In addition, our client funds may buy from or sell to our firm or affiliates. This could potentially create a conflict of interest between our firm and a client fund because we have an incentive to negotiate more favorable terms for us or our affiliates at the expense of our client. As a result, we are subject to client notice and consent obligations in

connection with the operation of the private investment funds for which we act as investment manager if those transactions are deemed to be “principal transactions.” We have established policies and procedures that address these principal transactions and the client funds’ investment guidelines, limited partnership agreements and charter documents typically establish the terms of any principal transactions or restrict principal transactions. To the extent that a client fund may engage in principal transactions with our firm or our affiliate, our client receives disclosure of the potential for principal transactions and the process for approving them.

Most importantly, we establish an investor advisory committee for each client fund to review and resolve conflicts of interest, including with respect to principal transactions. If we intend for a client to engage in a principal transaction, we will notify the client’s investor advisory committee of the transaction and must obtain written approval from the investor advisory committee before we proceed with the principal transaction. We also review the client’s organizational documents to determine the procedures to be followed to approve principal transactions. In the absence of required consent, we will not proceed with the transaction.

Without the approval of our chief compliance officer, our employees may not buy and sell for themselves securities that they also buy and sell for our clients. We do not permit any of our principals or employees to trade in any account any equity or debt security in a company in the energy or power sector. Our firm, together with our affiliates, has the obligation to invest certain amounts in or alongside our client funds on generally the same terms and conditions as the client funds or their investors (except with respect to fees and carried interest payable to our firm), as part of our negotiated sponsor commitment. In certain of our client funds, our firm and our affiliates have an option to invest up to an additional 10% in the aggregate of any investment made by such client funds, which additional amount has been negotiated with investors in these funds.

## **9. Brokerage Practices**

Because we render advice to private equity funds, and investments are made on a negotiated basis, opportunities for trade executions are rare. On those rare occasions that our firm executes trades on behalf of its clients, our professionals must demonstrate compliance with broker selection, recordkeeping and other requirements related to trading, including “best execution.”

Our firm seeks the most advantageous terms for fund trades. While trade price is often a significant quantitative factor in determining best execution, it is not the sole determinative factor. When placing orders with brokers for execution, we also evaluate qualitative execution factors, such as:

- available prices and rates of commissions or other compensation to brokers,
- efficiency of execution, bearing in mind the size of the order and characteristics of the security (for example, liquid vs. illiquid),

- financial responsibility of the broker-dealer, and
- the ability of the broker-dealer to execute block trades.

When selecting brokers for underwriting transactions, we consider a different set of factors, such as:

- expertise in a particular industry,
- potential network for selling securities,
- past success with public offerings, and
- potential underwriting discount.

Research and Other Soft Dollar Benefits. We may receive unsolicited research from brokers, dealers, and banks through which we execute portfolio trades. In circumstances in which we use such research, the quality and ability to receive research may factor into the selection of brokers, dealers and banks executing portfolio trades. We do not have any agreements in place that would require that we give any specified amount of brokerage to any broker-dealer.

Referrals in Selecting or Recommending Broker-Dealers. We do not receive referrals for clients from any broker-dealers. In limited circumstances, we may use a broker where a division or affiliate of the broker may have referred or may refer investors to our clients. We may be deemed to have a potential conflict of interest in receiving referrals in that we may have an incentive to select those brokers. In order to mitigate such a conflict, we focus on the criteria set forth above when selecting brokers.

Directed Brokerage. As our clients are all private investment funds managed by us, we select all broker-dealers and do not permit our clients to direct brokerage.

Aggregation of Trades – Policies and Procedures Because we render advice to private equity funds, and investments are made on a negotiated basis, opportunities for trade aggregation are rare with respect to different funds.

However, in addition to the limited partnerships that serve as the core private investment funds advised by our firm, we may create parallel and alternative investment vehicles, as well as feeder funds that invest directly or indirectly in the core fund or parallel and alternative vehicles, to the extent these structures are consistent with applicable law and the core fund's organizational documents. Generally, a parallel investment vehicle will invest and divest proportionally in the same investments, and on virtually the same terms and conditions and at the same time, as the core private investment fund, subject to any limitations in the parallel investment vehicle's organizational documents. We may establish alternative investment vehicles for tax reasons to permit certain investors to make investments outside of the core private investment fund, which investments

generally will function as if made by the core fund on a substantially equivalent economic basis.

### Results of Aggregating Trades

Ultimately, clients can benefit when we aggregate trades because we get volume discounts on execution costs. On the other hand, situations may occur where one client could be disadvantaged because:

- the average price received for an aggregate order may be worse than what a client would have received had it traded a smaller quantity of shares on its own, or
- the investment activities we conduct for other clients may result in, among other things, multiple clients needing to dispose of commonly held securities or other common investment positions at the same time.

When we do not aggregate trades, our clients pay higher execution costs than they would had we aggregated the trades.

## **10. Review of Accounts**

Our firm's professionals serve on the investment committees for the private investment funds for which we act as adviser, and they routinely monitor their portfolio investments. Their reviews focus on operations, financial performance and strategic direction of each portfolio company owned by the client funds. The investment committee as a whole performs comprehensive reviews quarterly, and a subset of the investment committee monitors each portfolio investment more frequently to ensure compliance with its stated objective.

In addition, the investment committee reviews the valuations of client funds' investments that are non-marketable securities.

Investors in our client funds receive written financial reports, including information relevant to each investor's fund investment and a description of the fund's investments, on a quarterly basis. Investors in our clients also receive audited financial statements of the funds in which they are invested, valuations of all the fund's investments and tax information necessary for the completion of U.S. tax returns on an annual basis.

In addition to the information provided to all of our client funds' investors, we may arrange to provide certain investors of our clients with additional information or more frequent reports that other investors will not receive.

## **11. Client Referrals and Other Compensation**

Our firm may, at times, receive an economic benefit from non-clients for providing advisory services to our client funds. For instance, when we conduct certain private equity-related transactions on behalf of our clients, we might receive fees from portfolio companies in which our clients are invested. From these relationships, we may receive:

- transaction fees (e.g., advisory fees we charged to any portfolio company and organizational or success fee we received in connection with any fund investment),
- monitoring fees,
- investment banking, underwriting, and/or syndication fees,
- break-up fees, and/or
- directors' fees (including in-kind compensation).

We apply a portion of those fees we receive in these cases to reduce the management fees payable by the applicable client and its investors. The operating agreements of each of our client funds set out the terms of these arrangements, which may vary from client fund to client fund.

We do not have any placement or "finders" arrangements for referrals of client funds. However, our affiliates have entered into placement or "finders" arrangements for soliciting investors of our client funds, including with certain affiliates of The Carlyle Group, our joint venture partner, with respect to our jointly-sponsored client funds. Our client funds disclose in their offering documents that they may enter into these arrangements. In addition, our clients generally require investors to acknowledge any fee payments relating to solicitation arrangements.

## **12. Custody**

Due to our access to client funds and authority to deduct fees and other expenses from a client's account and services by our affiliates as general partners of our client funds, we are deemed under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, to have custody of our clients' funds.

We utilize the services of a bank or other qualified custodian (as defined under Rule 206(4)-2) to hold all assets of any of our clients. We also ensure that the qualified custodian maintains these funds in accounts that contain only clients' funds and securities, under our name as agent or trustee for the clients.

Our firm also maintains custody of uncertificated securities acquired directly from the issuers in private placements and deposits other funds and securities with its qualified custodian. We give our clients notice in writing of the name and address of the qualified

custodian(s) used and the manner in which the assets are maintained, promptly upon the opening of the account and after any change in the information.

While Rule 206(4)-2 generally requires an investment adviser to ensure that a qualified custodian sends account statements to clients at least quarterly, we are not subject to this requirement because all private equity funds managed by us are subject to audit at least annually by an independent auditor that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. In these cases, we distribute audited financial statements to all limited partners of our client funds within 120 days of the end of the fiscal year of the fund.

### **13. Investment Discretion**

Our firm accepts discretionary authority to manage our clients' securities accounts. Despite this broad authority, we are committed to adhering to the investment strategy and program set forth in each of our client fund's private offering materials and/or investment management agreement. These documents cover matters such as the types and amounts of securities of which a client's portfolio will consist, portfolio allocation limitations and the degree of risk assumed by a client's portfolio. Before accepting the discretionary authority inherent in managing our client funds, we carefully review the investment strategies and investment programs set out in our client funds' offering documents.

### **14. Voting Client Securities**

#### Proxy Voting Policies and Procedures

We have implemented proxy voting policies and procedures in accordance with securities laws and our fiduciary obligations to our clients. We strive to vote client proxies in a manner consistent with each client's best interests.

Our firm votes proxies in accordance with guidelines in effect from time to time. We generally expect to vote proxies in accordance with the recommendations of company management. Generally, we will cast proxy votes in favor of proposals that:

- maintain or strengthen the shared interests of shareholders and management,
- increase shareholder value,
- maintain or increase shareholder influence over the issuer's board of directors and management,
- maintain or enhance the independence of the board of directors, and
- maintain or increase the rights of shareholders.

We will generally cast proxy votes against proposals having the opposite effect of those items listed above, particularly where we believe that a proposal will have a dilutive effect on the value of the underlying security. In addition, we will vote against a proposal or recommendation of management if we determine that such a vote is in the best interests of our client.

Prior to voting, we will determine whether an actual or potential conflict of interest with our firm or any other interested person exists in connection with the proposal(s). If an actual or potential conflict is found to exist, we will engage a reputable non-interested party to independently review our vote recommendation and to confirm that our vote recommendation is in the best interest of the client under the circumstances. If the independent non-interested party determines that our vote recommendation is not in the best interest of a client under the circumstances, then we will vote in the manner suggested by the independent non-interested party.

It is always possible that, after appropriate analysis, we may decide that declining to cast a vote at all is in the best interest of our client.

A copy of the proxy voting policy and procedures is provided to each client fund and delivered to each investor upon investment in a client fund. A copy is also available upon request. We provide information regarding any proxies actually voted by us to any client and any investor of a client fund upon the request of the client or the investor.

In limited situations, we may not have the authority to vote on certain clients' securities. In these cases, clients may contact us, at any time, with questions about a particular proxy solicitation.

## **15. Financial Information**

The instruction to include a balance sheet for our firm's most recent fiscal year is not applicable to us.

We do not believe any financial condition exists that is reasonably likely to impair our ability to meet contractual commitments to our clients.

Our firm has never been the subject of a bankruptcy petition.