

**Item 1- Cover Page****J.C. FLOWERS & Co. LLC**

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This brochure provides information about the qualifications and business practices of J.C. Flowers & Co. LLC. If you have any questions about the contents of this brochure, please contact us at (212) 404-6800. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

J.C. Flowers & Co. LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information about which you determine to hire or retain such an adviser.

Copies of this Brochure may be requested by contacting Kristi Touris at 212-404-6827 or ktouris@jcfc.com. Additional information about J.C. Flowers & Co. LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2 – Material Changes:** This Brochure does not reflect any material changes from the annual update filed on March 31, 2011.

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**Item 4 – Advisory Business**

- A. J.C. Flowers & Co. LLC (“JCF”, “JCF&Co” or the “Firm”), a Delaware limited liability company, provides investment advisory services to various private partnerships and other private investment vehicles (each, a “Fund” or a “Client”)<sup>1</sup>, including identifying, evaluating, structuring and negotiating prospective investments, managing portfolio companies post-acquisition and advising the Funds with respect to disposition opportunities. An affiliate of JCF&Co generally serves as the general partner (or similar managing body) of each Fund.

Interests in the Funds are only offered to qualified investors via private placement.

Mr. J. Christopher Flowers (“Mr. Flowers”) founded JCF&Co’s advisory business in 1998. Mr. Flowers is the Firm’s principal owner.

- B. JCF&Co provides discretionary advisory services that generally seek to generate long-term capital appreciation by making privately negotiated and open market investments in the equity and debt securities of financial services companies. Financial services companies generally include banks, insurance and reinsurance companies, asset management and brokerage houses, consumer and commercial finance businesses, mortgage originators and guarantors, and other companies and firms providing supporting technology or services for financial services companies.
- C. Each Fund has a set of specific guidelines which are set forth in the governing documents of the applicable Fund and its offering documents. These guidelines may provide for limits on the size, concentration, geography, type of security and/or terms of the Fund’s investments.

JCF&Co may further tailor its advisory services to the specific needs of a Client as may be necessary, appropriate or negotiated on a case-by-case basis.

- D. The Registrant does not participate in wrap fee programs.
- E. As of December 31, 2011, JCF&Co managed approximately \$10,250,420,000 of regulatory assets under management on a discretionary basis.

**Item 5 – Fees and Compensation**

- A. JCF&Co’s fee and compensation arrangements may vary among the Funds. The specific terms of such arrangements are set forth in each Fund’s written agreement with JCF&Co or the general

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<sup>1</sup> “Fund” or “Client” means a private investment fund to which JCF provides investment advice and/or invests on a discretionary or nondiscretionary basis. The individuals and other persons that invest in the JCF&Co-sponsored private investment funds are generally referred to herein as “investors.” Unless otherwise expressly stated herein, the terms “Fund” and “Client” do not include “investors.”

partner, as applicable.

As compensation for its services, JCF&Co typically receives a management fee (the "Management Fee") from each Fund. Generally, prior to the earliest of (i) the expiration of a Fund's commitment period, (ii) the date on which capital commitments have been fully drawn down and (iii) the date on which a management fee becomes payable by investors in a successor fund, the Management Fee is based on a percentage of the aggregate capital commitments of the Fund's third party investors. Thereafter, the Management Fee is generally based on a lower percentage of the Fund's aggregate invested capital. The terms of the Management Fee may vary among the Funds, but the fee typically ranges from 1.0% to 1.5% per annum of committed or invested capital, as applicable.

In addition to the Management Fee, in connection with the affairs of a Fund, JCF&Co may receive from actual or prospective portfolio companies, the Fund or their respective affiliates (i) monitoring fees, organization fees, set-up fees, financial advisory fees, transaction fees and other similar fees, (ii) cash and non-cash directors' fees, (iii) certain management fees payable with respect to co-investment capital and (iv) termination, break-up and topping fees. The Fund's Management Fee may be offset, or reduced, by a portion of such other fees. The Management Fee may be further reduced, waived or rebated at the sole discretion of JCF&Co.

JCF may have a conflict of interest to the extent that it has an opportunity to earn a fee in connection with an acquisition, disposition or co-investment. However, JCF believes that the Management Fee offset provisions described above and the substantial equity commitment by JCF and its affiliates in the Funds substantially mitigates this potential conflict. In addition, any fees paid to JCF by a portfolio company or a Fund are required to be on an arm's-length basis and on terms that are no less favorable to the Fund or portfolio company than would be obtained in a transaction with an unaffiliated party.

- B. The general partner of a Fund generally causes the Management Fee to be paid to JCF by or on behalf of a Fund by (i) requiring investors in the Fund to make capital contributions, (ii) withholding from investment proceeds that would otherwise be distributable to investors in the Fund or (iii) causing the Fund to borrow money.
- C. Each Fund typically bears and is charged with the costs and expenses of its operations, including without limitation (i) fees and expenses of administrators, custodians, attorneys, accountants and other professionals (including audit fees and the costs of preparing, printing and distributing financial and tax reports), (ii) out-of-pocket fees and expenses incurred in holding, developing, negotiating, structuring and disposing of actual portfolio investments, including, without limitation, any financing, legal, accounting, advisory, consulting and travel expenses, (iii) out-of-pocket fees and expenses incurred in developing, negotiating and structuring prospective or potential portfolio investments that are not ultimately made, including, without limitation, any financing, legal, accounting, advisory, consulting and travel expenses, (v) interest on and fees

and expenses arising out of all borrowings, including the arrangement thereof, (vi) fees and expenses incurred in connection with any litigation, including D&O liability or other insurance costs, and any other indemnification or other extraordinary expense or liability relating to the affairs of the Fund, (vii) expenses of liquidating the Fund, (viii) registration expenses and taxes (with certain exceptions), fees or other governmental charges levied against or payable by the Fund and all expenses incurred in connection with any tax audit, investigation, settlement or review of the Fund, (ix) the expenses of any committee of investor representatives organized by the general partner, and any firm retained to determine the fair market value of unrealized portfolio investments and (x) the expenses of any “feeder fund” affiliated with the Fund.

A Fund generally pays the out-of-pocket expenses incurred in connection with the organization of the Fund and the general partner up to a certain amount, as well as any placement fees associated with the offering of the Fund’s interests. However, 100% of all placement fees and organizational expenses above a certain amount, or “cap”, are offset against, or reduce, the Management Fee on a dollar-for-dollar basis.

- D. Typically, the Management Fee is paid no more frequently than semi-annually. In the event JCF&Co does not provide services for the full management fee period, the Management Fee is typically required to be returned to the investors in the applicable Fund. In general, the amount of fees returned is calculated based on the number days remaining in the applicable period.
- E. Neither JCF&Co nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

JCF&Co’s fee and compensation arrangements vary among the Funds. The specific terms of such arrangements are set forth in each Fund’s written agreement with JCF&Co or the general partner, as applicable.

Each Fund’s general partner (including affiliates thereof, the “general partner”) typically charges a performance-based fee (referred to as “carried interest”). Before carried interest is charged, 100% of a Fund’s proceeds are distributed to limited partners until each investor has received, first, a return of its realized capital, costs and share of any writedowns, and second, a preferred return thereon, generally an 8% per annum cumulative annually compounded rate of return. Thereafter, 80% of a Fund’s proceeds are distributed to the general partner and 20% are distributed to limited partners until the general partner has received 20% of the aggregate profits. Finally, any remaining proceeds are distributed 20% to the general partner and 80% to limited partners. If, following the Fund’s termination and the distribution of all of its assets, (i) cumulative distributions to any limited partner, less such investor’s realized capital and costs, do not equal or exceed the applicable preferred return on such investor’s realized capital and costs or (ii) aggregate distributions of carried interest to the general

partner with respect to any limited partner exceeds the prescribed percentage of profit distributions to such investor plus such carried interest, the general partner is required to refund carried interest received with respect to such limited partner in an amount equal to the lesser of (i) the greater of (x) an amount necessary to cause the investor to receive the full preferred return and (y) the excess profit distributions received by the general partner and (ii) the after-tax amount of carried interest distributions received by the general partner.

The carried interest is structured subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. Accordingly, JCF seeks to ensure that investors in a Fund that is directly or indirectly assessed a carried interest satisfy the qualifications of Rule 205-3, and have been advised of the terms of such performance-based fees and the associated risks.

Third party investors in all Funds are charged carried interest, although a general partner may, in its sole discretion, waive or reduce an investor’s obligation to pay carried interest. Such variation in charges could create an incentive to favor carry-paying investors over those for which the carried interest has been waived in the allocation of investment opportunities. Each Fund’s governing documents set forth specific procedures designed to ensure that investors are treated fairly, and to prevent this conflict from unduly influencing the allocation of investment opportunities among them.

In addition, the carried interest may create an incentive for the general partner to make riskier or more speculative investments on behalf of a Fund than it would otherwise make in the absence of such performance-based arrangement. However, the JCF investment team, including Mr. Flowers, has invested substantial amounts in the Funds, which should reduce this incentive.

Finally, if distributions are made in kind, the amount of any such distribution will be accounted for at the fair market value of the distributed property as determined in accordance with procedures specified in each Fund’s governing documents.

#### **Item 7 – Types of Clients**

JCF’s Clients are generally pooled investment vehicles that are exempt from registration under the Investment Company Act of 1940, as amended. Investors in the Funds include high net worth individuals, pension plans, endowments, trusts, sovereign wealth funds, financial institutions and other U.S. and non U.S. corporations.

In general, the minimum initial investment in a Fund is \$10 million, although lesser amounts may be accepted in the discretion of the general partner.

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

- A. JCF&Co’s investment strategy seeks to generate long-term capital appreciation by making privately negotiated and open market investments in the equity and debt securities of financial services companies. Financial services companies generally include banks, insurance and

reinsurance companies, asset management and brokerage houses, consumer and commercial finance businesses, mortgage originators and guarantors, and other companies and firms providing supporting technology or services for financial services companies. Generally the Funds acquire such securities with a view to holding them for the medium to long term.

Through its network of relationships across the global financial services industry, JCF&Co seeks to identify potential investments that meet the Funds' investment criteria. JCF's due diligence process is designed to enable its team to evaluate potential investments, including by assessing a potential portfolio company's strengths, weaknesses, and opportunities, developing a view on its value and prospective return, meeting the management team and identifying potential transactional issues. JCF's analysis typically focuses on the target company's (i) business model and competitive environment, (ii) financial structure and performance, (iii) business plan and opportunities for value creation, (iv) management team capabilities and (v) potential for attractive exit opportunities. JCF may seek to leverage the resources of its advisors and the skills of certain portfolio company employees to complement its due diligence process. JCF's investment analysis methods may include fundamental, technical gain/loss forecast models, cash-flow models, sensitivity analysis, charting, fundamental, technical and cyclical analysis.

An investment in a Fund involves a high degree of risk, and is suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in the Fund and for which the Fund does not represent a complete investment program. There can be no assurance any Fund will meet its investment objectives or otherwise be able to carry out its investment program successfully or that an investor will receive a return of its capital. In addition, there can be no assurance that any Fund will be able to generate returns for investors or that returns will be commensurate with the risks of the Fund's investments. A Fund investment should only be made by persons that can afford a loss of their entire investment.

- B. There are significant risks inherent in the strategy of investing in financial services companies. Certain of these risks are summarized below. However, prospective investors should carefully consider all of the risks related to investing in a Fund that are set forth in the private placement memorandum or other offering document for the applicable Fund.

Each Fund's portfolio investments are concentrated in the financial services industry. Concentration in a single industry may involve risks greater than those generally associated with more diversified funds, including significant fluctuations in returns.

Financial services companies have asset and liability structures that are essentially monetary in nature and are directly affected by many factors, including domestic and international economic and political conditions, broad trends in business and finance, legislation and regulation affecting the national and international business and financial communities, monetary and fiscal policies, interest rates, inflation, currency values, market conditions, the availability and cost of

short-term or long-term funding and capital, the credit capacity or perceived creditworthiness of customers and counterparties, and the level and volatility of trading markets. A change in any of these factors could adversely impact the value of financial instruments held by and the balance sheets of financial services companies.

The profitability of the financial services industry may be adversely affected by a worsening of general economic conditions in domestic and international markets and by monetary, fiscal or other policies that are adopted by various governmental authorities and international bodies. Factors such as the liquidity of the global financial markets, the volatility of financial instruments, investor sentiment, and the availability and cost of credit may significantly affect the activity levels of customers with respect to size, number and timing of transactions. A change in any of these factors could lead to a decline in the volume of transactions that financial services companies execute for their customers and decrease their overall profitability.

The financial services industry is extremely competitive. Technological advances and the growth of e-commerce have made it possible for non-financial institutions to offer products and services that have been traditionally offered by financial services institutions. It is expected that competitive conditions in the industry will continue to intensify.

Financial services companies operate in a highly regulated environment and are subject to extensive legal and regulatory restrictions and limitations and to supervision, examination and enforcement by regulatory authorities. Failure to comply with any of these laws, rules or regulations, some of which are subject to interpretation and may be subject to change, could result in a variety of adverse consequences, including civil penalties, fines, license suspension or termination of deposit insurance. In addition, in order to comply with banking laws, rules and regulations, a Fund may be required to invest in a manner that may not be as advantageous as the manner of making investments that are not subject to such laws, rules and regulations. Further, investments in financial services companies often require the approval of various regulatory bodies and there is no guarantee that such approvals will be obtained.

The disturbances in the United States and global financial markets that began in 2008 illustrated the possibility of extraordinary and unprecedented uncertainty and instability in such markets. There can be no assurances that conditions in the global financial markets will not adversely affect one or more of a Fund's portfolio companies, its access to capital or leverage or its overall performance.

- C. There are significant risks and potential conflicts of interest inherent in investing in private pooled investment funds. Certain of these risks and potential conflicts of interest are summarized below. However, prospective investors should carefully consider all of the risks and potential conflicts of interest related to investing in a Fund that are set forth in the private placement memorandum or other offering document for the applicable Fund.



**Investment Risks**

**No Assurance of Investment Return.** There can be no assurance that any Fund will be able to generate returns for its investors or that the returns will be commensurate with the risks of investing in the type of investments in which such Fund participates. Accordingly, an investment in a Fund should only be considered by persons who can afford a loss of their entire investment. **There can be no assurance that projected or targeted returns for any Fund will be achieved.**

**Role of JCF&Co Professionals.** The success of each Fund will depend in part upon the skill and expertise of Mr. Flowers and JCF&Co's investment professionals and, where applicable, the management of portfolio companies. There can be no assurance that Mr. Flowers or any such other professionals will continue to be associated with JCF&Co throughout the life of any Fund and a loss of the services of Mr. Flowers and other key personnel could impair JCF&Co's ability to provide services to a Fund.

**Reliance on the General Partner and Investment Advisor of the Fund.** The general partner and investment adviser of a Fund will have exclusive responsibility for a Fund's activities, and, other than as may be set forth in a Fund's governing documents, investors will not be able to make investment or any other decisions concerning the management of a Fund.

**Material Risk Relating to Methods of Investment Analysis.** JCF seeks to conduct reasonable and appropriate analysis and due diligence of its investments based on the facts and circumstances applicable to each investment. The objective of such analysis and due diligence is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment, to identify possible risks associated with that investment and to prepare a framework that may be used from the date of an acquisition to drive operational achievement and value creation. When conducting due diligence and making an assessment regarding an investment, JCF relies on available resources, including information provided by the target of the investment and, in some circumstances, third-parties. As a result, the due diligence process may at times be subjective. Accordingly, JCF cannot be certain that due diligence investigations with respect to any investment opportunity will reveal or highlight all relevant facts (including fraud) that may be necessary or helpful in evaluating such investment opportunity, including the existence of contingent liabilities.

**Market Conditions and Financial Market Fluctuations.** A lack of liquidity in the capital markets may make it significantly more difficult for sponsors like JCF&Co to obtain favorable financing for investments, and the financing that is available may be on much less favorable terms than had been prevailing in the past. General fluctuations in the market prices of securities may affect the value of the investments held by a Fund. Instability in the securities markets may also increase the risks inherent in a Fund's investments.

**Highly Competitive Market for Investment Opportunities.** The activity of identifying, completing and realizing attractive investments is highly competitive, and involves a high degree

of uncertainty. There can be no assurance that a Fund will be able to locate, consummate and exit investments that satisfy its rate of return objectives or realize upon their values or that it will be able to invest fully its committed capital.

**Illiquid and Long-Term Investments.** Investment in a Fund may require a long-term commitment with no certainty of return. Many of a Fund's investments will be highly illiquid, and there can be no assurance that a Fund will be able to realize on such investments in a timely manner. Although investments may occasionally generate some current income, the return of capital and the realization of gains, if any, from an investment generally will occur only upon the partial or complete disposition or refinancing of such investment.

**Use of Leverage.** A Fund's investments may involve varying degrees of leverage, as a result of which recessions, operating problems and other general business and economic risks may have a more pronounced effect on the profitability or survival of such companies. Moreover, any rise in interest rates may significantly increase investment interest expense, causing losses and/or the inability to service debt levels. If a portfolio company cannot generate adequate cash flow to meet debt obligations, a Fund may suffer a partial or total loss of capital invested in a portfolio company.

**Controlling Interests.** Because of its equity ownership, representation on the board of directors and/or contractual rights, a Fund may often be considered to control, participate in the management of or influence the conduct of portfolio companies. Under certain circumstances such ownership or roles could be used by third parties as the basis for such parties to assert claims against the Fund or its affiliates whether or not there is any actual liability on such basis. If these liabilities were to arise, a Fund may suffer a significant loss.

**Minority Investments.** A Fund may invest in securities where it is not a lead or organizing investor. In such cases, a Fund may not be able to exert significant influence or protect its position in a portfolio company. A Fund will be significantly reliant on the existing management and board of directors of such portfolio companies and may be exposed to risks related to third party co-investors. For example, the board and/or third party co-investors may include representation of other financial investors with whom a Fund is not affiliated or other third parties whose interests may be contrary to a Fund's investment objectives and may conflict with such Fund's interests.

**Investments Longer than Term.** A Fund may make investments which may not be advantageously disposed of prior to the date such Fund will be dissolved, either by expiration of its term or otherwise. In addition, there can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds to investors will occur.

**Risk of Limited Number of Investments.** A Fund may participate in a limited number of investments and, as a consequence, the aggregate return of such Fund may be substantially

adversely affected by the unfavorable performance of even a single investment. In addition, other than as set forth in the applicable Fund's governing documents, investors have no assurance as to the degree of diversification of a Fund's investments.

**Non-U.S. Investments.** JCF's Funds may invest in businesses outside the United States. Investing in non-U.S. securities involves risks relating to (i) currency exchange matters, including fluctuations in the rates of exchange and costs associated with currency conversion; (ii) differences between the U.S. and foreign securities markets, including potential price volatility in and relative liquidity of some foreign securities markets, absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and varying degrees of government supervision and regulation; (iii) certain economic, social and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital; and (iv) the possible imposition of foreign taxes on income and gains recognized with respect to such securities. In addition, laws and regulations of foreign countries may impose restrictions that would not exist in the U.S. and may require financing and structuring alternatives that differ significantly from those customarily used in the U.S.

**Legal, Tax and Regulatory Risks.** Legal, tax and regulatory changes could occur during the term of a Fund that may adversely affect such Fund. There is a material risk that regulatory agencies in the United States, Europe, or elsewhere may adopt burdensome laws (including tax laws) or regulations, or changes in law or regulation, or in the interpretation or enforcement thereof, which are specifically targeted at the private equity industry, or other changes that could adversely affect private equity firms and the funds they sponsor, including a Fund.

**Absence of Regulatory Oversight.** Notwithstanding that JCF&Co is registered as an investment adviser under the Advisers Act, and that the Funds may be considered similar in some ways to investment companies, the Funds are not required and do not intend to register as such under the Investment Company Act of 1940 and, accordingly, investors are not afforded the protections of such Act.

**Indemnification.** Each Fund generally will be required to indemnify its general partner, its investment adviser, their affiliates and each of their respective members, officers, directors, employees, consultants, advisors, senior advisors, stockholders, shareholders, partners and other persons who serve at the request of its general partner on behalf of the relevant Fund for liabilities incurred in connection with the affairs of such Fund. Where applicable, members of an investment committee of investors unaffiliated with JCF&Co of such Fund will also be entitled to the benefit of certain indemnification and exculpation provisions as set forth in the applicable Fund's governing documents. As a result of the provisions contained in the governing agreement of a Fund, investors in such Fund may in certain cases have a more limited right of action against the general partner than it would in the absence of such limitations.

**Failure to Make Capital Contributions.** If a limited partner fails to pay when due installments of its commitment to a Fund, and the capital contributions made by non-defaulting investors and borrowings by the Fund are inadequate to cover the defaulted capital contribution, a Fund may be unable to pay its obligations when due. As a result, the Fund may be subjected to significant penalties that could materially adversely affect the returns to the investors (including non-defaulting investors).

**Diverse Investor Group.** Investors may have conflicting investment, tax and other interests with respect to their investments in a Fund. As a consequence, conflicts of interest may arise in connection with decisions made by the general partner or investment adviser of a Fund, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to limited partners' individual tax situations.

**No Market for Interests; Restrictions on Transfers.** Interests in the Funds have not been registered under the Securities Act, or applicable securities laws of any U.S. state or the securities laws of any other jurisdiction and, therefore, cannot be resold unless they are subsequently registered under the Securities Act and any other applicable securities laws or an exemption from such registration is available. There is no public market for the interests in the Funds and one is not expected to develop. An investor will not be permitted to directly or indirectly assign, sell, pledge, exchange or transfer any of its interests or any of its rights or obligations with respect to its interests without the prior written consent of the general partner of the applicable Fund, which consent may be given or withheld in accordance with the governing documents of the applicable Fund. Withdrawals from the Funds are generally not permitted, and there most likely will be little or no near-term cash flow available to investors as a result of owning the interests. Investors must be prepared to bear the risks of owning interests in the Funds for an extended period of time.

#### **Potential Conflicts of Interest**

Investors should be aware that there will be occasions when JCF&Co and its affiliates may encounter potential conflicts of interest in connection with a Fund. Certain potential conflicts of interest are summarized below or described elsewhere herein. However, prospective investors should carefully consider all of the potential conflicts of interest and other risks related to investing in a Fund that are set forth in the private placement memorandum or other offering document for the applicable Fund.

**Carried Interest.** As described in Item 6, carried interest may create an incentive for the general partner of a Fund to make riskier or more speculative investments on behalf of such Fund than would be the case in the absence of this arrangement.

**Other Fees.** As described in Item 5, JCF&Co and its related persons may receive, from prospective portfolio companies, actual portfolio companies or their respective affiliates,

monitoring fees, organization fees, set-up fees, financial advisory fees, transaction fees and other similar fees, either in cash or securities, termination, break-up and topping fees, and cash and non-cash directors' fees, including any such fees payable in the form of warrants, options, derivatives and other rights in respect of securities owned by the Funds and otherwise. Investors will receive the benefit of certain such fees only as set forth in the governing documents of the applicable Fund.

**Allocation of Investment Opportunities.** Generally, JCF&Co and its investment professionals are not required to allocate all investment opportunities that may be suitable for a Fund to that Fund. Mr. Flowers may, from time to time, be presented with investment opportunities involving an investment in a financial services company that falls within the investment objectives of the Funds, on the one hand, and are appropriate for a current or former portfolio company of a Fund, on the other, and Mr. Flowers will present such opportunities on a basis that Mr. Flowers determines in good faith to be fair and equitable, but Mr. Flowers shall not be obligated to present any such investment opportunity to the Fund rather than to any such other entity. The general partner of a Fund may permit one or more strategic investors to invest in transactions in which the Fund invests if the general partner determines in good faith that their investment would be beneficial in consummating the Fund's investment (including where an investor can invest or commit to invest a significant amount of capital in a short period of time), successfully operating the portfolio company or its assets, disposing of the investment or otherwise adding value to the investment because of certain skills or attributes of the strategic investor. The general partner may also give investors in a Fund or third parties the right to co-invest in particular investment, including where a portion of the equity required would unreasonably limit diversification.

**Material, Non-Public Information.** By reason of their responsibilities in connection with their other activities, JCF&Co professionals may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. The Funds will not be able to act upon any such information. Due to these restrictions, JCF&Co may not be able to initiate a transaction on behalf of a Fund that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

**Side Letters.** The general partner of a Fund may enter into side letters or other similar agreements with certain investors in connection with their admission to such Fund without the approval of any other investor. Such side letters or other similar agreements may alter and/or supplement the terms of the Fund's governing documents in a manner that makes the terms applicable to such investors more favorable than those applicable to other investors. Such rights or terms in any such side letter may include, without limitation, (i) fee arrangements with respect to such investors; (ii) excuse rights applicable to particular investments; (iii) reporting obligations of the applicable general partner; (iv) waiver of certain confidentiality obligations; (v) consent of the applicable general partner to certain transfers by such investor; (vi) special rights

with respect to co-investment; or (vii) rights or terms necessary in light of particular legal, public policy or regulatory characteristics of an investor.

**Principal Ownership Interests.** From time to time, JCF&Co may recommend that a Fund acquire or sell securities in which a JCF&Co related person has a pre-existing direct or indirect interest. In addition, a JCF&Co related person may acquire or sell securities that are recommended to a Fund or in which a Fund has a pre-existing direct or indirect interest. A potential conflict of interest could arise in that the interested JCF&Co related person could benefit from the Fund's actual or potential investment in, or sale of, the applicable security. Alternatively, the JCF&Co related person could benefit from an investment or divestiture opportunity that would otherwise have been available to the Fund. JCF&Co has policies and procedures in place that are designed to mitigate these types of conflicts of interest, but there can be no assurances that such policies and procedures will be effective. See Section 11 below for further information.

#### **Item 9 – Disciplinary Information**

JCF&Co does not have any disclosure applicable to this Item.

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

- A. Neither JCF&Co nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither JCF&Co nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.
- C. J.C. Flowers & Co. UK Ltd ("JCF UK"), a subsidiary of JCF&Co, renders investment sub-advisory services to JCF&Co, primarily with respect to investment opportunities in Europe. JCF UK is registered with the UK Financial Services Authority pursuant to the United Kingdom's Financial Services Act of 1986.

Because JCF&Co's investment strategy is focused on the financial services industry, the Funds have portfolio investments in various types of financial institutions, including commercial and investment banks, asset management and brokerage houses, insurance and reinsurance companies, some of which provide investment advisory services. Specifically, JCF&Co, the Funds and Mr. Flowers personally have meaningful investments in existing and former portfolio companies. As described in Item 8, investment opportunities that may be appropriate for the Funds may be allocated in whole or in part to such entities.

- D. JCF&Co does not recommend or select other investment advisers for its Clients.

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

- A. JCF&Co has adopted a Code of Ethics (the “Code”) to ensure that the Firm fulfills its role as a fiduciary to the Funds. The Code requires that JCF&Co personnel and certain associated persons generally act in the best interests of the Funds to the exclusion of contrary interests, act in good faith and in an ethical manner and identify and manage conflicts of interest to the extent they arise. JCF&Co personnel are also required to comply with applicable provisions of the federal securities laws and make prompt reports of any actual or suspected violations of such laws by JCF&Co or its personnel. In addition, the Code sets forth formal policies and procedures with respect to the personal securities trading activities of JCF’s personnel. The Code requires that personnel pre-clear certain public and private personal securities transactions, report all personal securities transactions on at least a quarterly basis and provide JCF&Co with a summary of personal securities holdings at least annually. The Code also addresses confidentiality and insider trading, and expressly prohibits personnel from disseminating material nonpublic information or using such information to inappropriately benefit any party through securities trading activities. Personnel are required to provide a written certification as to their compliance with the Code on an annual basis.

Copies of JCF’s Code will be provided to any existing or prospective investor upon request.

- B. From time to time, consistent with a Fund’s investment objectives and subject to satisfaction of the policies and procedures set forth in the Code, the Fund’s governing documents and applicable law, JCF&Co may recommend that a Fund acquire or sell securities in which a JCF&Co related person has a pre-existing direct or indirect interest, and an affiliate of JCF may cause the Fund to effect the recommended transaction. If the recommended transaction is not effected, the Fund may be required to bear the expenses of having evaluated the transaction. A potential conflict of interest could arise in that the interested JCF&Co related person could benefit from such a purchase or sale of the applicable security by a Fund. However, the Code is designed to identify and manage conflicts of interest to the extent they arise in connection with such transactions, and to ensure that the Firm fulfills its role as a fiduciary to the Funds. In particular, the Code requires that JCF&Co generally act in the best interests of the Funds, in good faith and in an ethical manner. Certain terms of the Funds’ governing documents and the equity participation of JCF&Co related persons in the Funds further mitigate such conflicts.
- C. From time to time, subject to satisfaction of the policies and procedures set forth in the Code, the Fund’s governing documents and applicable laws, a JCF&Co related person may acquire or sell securities that are recommended to a Fund or in which a Fund has a pre-existing direct or indirect interest. A potential conflict of interest could arise in that the interested JCF&Co related person could benefit from the Fund’s ownership of, or subsequent sale of, the applicable security. However, the Code is designed to identify and manage conflicts of interest to the extent they arise in connection with the personal securities transactions and other investment activities of JCF&Co related persons, and to ensure that the Firm fulfills its role as a fiduciary to

the Funds. In particular, the Code requires that JCF related persons abide by policies and procedures in connection with their personal securities trading activities, and such activities are monitored under the Code to ensure compliance with such policies and procedures.

- D. From time to time, in appropriate circumstances and subject to satisfaction of the policies and procedures set forth in the Code and the Fund's governing documents, JCF&Co personnel and other related persons may co-invest in a Fund investment at the same time as and on a side-by-side basis with the Fund's limited partners and other investors. JCF&Co believes that this common industry practice does not give rise to a material conflict of interest, and that any potential conflicts of interest are addressed by the Code and the Funds' governing documents.

#### **Item 12 – Brokerage Practices**

- A. As noted above, JCF&Co primarily invests in private securities, and does not frequently engage in the high volume trading of public securities. Therefore, JCF&Co is generally not in a position to select a broker-dealer for the Funds' transactions.
1. JCF&Co does not have any soft dollar arrangements.
  2. In the private equity context, client referrals are not relevant to JCF&Co's selection or recommendation of broker-dealers.
  3. JCF&Co does not engage in directed brokerage arrangements.
- B. In the private equity context, aggregation of the purchase or sale of securities for multiple client accounts is generally not relevant.

#### **Item 13 – Review of Accounts**

- A. JCF&Co's investment professionals monitor and review the Funds' portfolio investments on an ongoing basis, including, for example, by participating in board meetings and management calls, reviewing annual and interim financial statements, and making ad hoc on-site visits. Each Fund's financial accounts are maintained and monitored by a dedicated Fund controller under the supervision of JCF&Co's CFO and Director of Finance. In addition, each Fund's financial statements are audited on an annual basis by an independent third-party accounting firm.
- B. Mr. Flowers, in conjunction with JCF's investment committee, regularly supervises and monitors the investment activities of each Fund.
- C. Audited financial statements are provided to investors in each Fund, generally within 120 days of the end of the Fund's fiscal year (see Item 15 – Custody). Unaudited financial statements and investor-specific account statements are generally provided to investors in each Fund within 45-60 days of the end of such Fund's fiscal quarter.



Written reports describing each Fund's portfolio investments are generally provided to the applicable investors on a semi-annual basis. In addition, each Fund's investors are invited to participate in an annual investor meeting at which JCF&Co reports on the Fund's portfolio investments and performance. Finally, JCF&Co may hold investor update calls from time to time in appropriate circumstances.

Certain investors may have the right to obtain, or may request, information relating to a Fund and, to the extent such information is readily available or may be obtained without unreasonable effort or expense, JCF&Co generally will provide such investors with the information requested. Accordingly, such investors may possess information regarding the business and affairs of a Fund that may not be known to other investors. As a result, certain investors may be able to take actions on the basis of such information which, in the absence of such information, other investors do not take.

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

- A. Other than the compensation described in Items 5, 6 and 8 of this Brochure, no one other than JCF's Clients provide an economic benefit to JCF&Co. for providing investment advice or other advisory services.
- B. Neither JCF&Co nor any of its related persons compensates any person who is not a supervised person for Client referrals. However, from time to time, in the context of organizing a Fund, JCF&Co may compensate one or more placement agents for referrals of Fund investors. A prospective investor solicited by a placement agent or other third party will be advised of any such arrangement, including the receipt of fees.

#### **Item 15 – Custody**

In connection with the management of investments for certain investors, JCF&Co. may have, or may be deemed to have, custody of certain funds or securities of the Funds. Rule 206(4)-2 (the "Custody Rule") of the Advisers Act defines custody as holding client securities or assets or having any authority to obtain possession of them, including the authority to withdraw funds or securities from a client's accounts or ownership of or access to client funds or securities (such as through fee deductions). With the exception of certain assets, which are defined as "privately offered securities" under the Custody Rule, all Fund assets are held in custody by unaffiliated broker/dealers or banks acting in the capacity as "qualified custodians".

In accordance with the Custody Rule, JCF's CFO is responsible for ensuring that the Funds' securities, other than cash and "privately offered securities," are held only with a qualified custodian. JCF's CFO is also responsible for arranging for annual independent audits of the Funds by a major accounting firm within 120 days of the Funds' fiscal year end and for obtaining audited financial statements prepared in accordance with GAAP. JCF&Co generally arranges for the delivery of such audited financial statements to investors within 120 days of the Funds' fiscal year end.

**Item 16 – Investment Discretion**

Typically, JCF&Co provides investment advice to the Funds on a discretionary basis. An affiliate of JCF&Co, usually the general partner, accepts discretionary investment authority for each Fund. Generally this discretion is subject only to the investment guidelines set forth in the Fund's governing agreements.

**Item 17 – Voting Client Securities**

- A. JCF&Co accepts authority to vote the securities held by the Funds. JCF's Proxy Voting Committee, which consists of several managing directors, together with the Firm's Chief Compliance Officer, seeks to ensure that client securities are voted in accordance with the applicable Fund's best interests and in the interest of maximizing shareholder value. JCF&Co has also instituted a Proxy Voting Policy that is followed by the Proxy Voting Committee in order to identify and manage conflicts of interest and to ensure that JCF does not enter default proxy votes in favor of a portfolio company's management. Generally, the CCO reviews all proxy materials in order to identify potential conflicts of interest. If the CCO determines that JCF&Co or an individual Proxy Voting Committee member has a material conflict of interest (or potential conflict) with respect to any issues presented by the proxy, the CCO shall conduct a conflict analysis and mitigation. Similarly, in the event that it is determined that refraining from voting is in the best interest of a Fund's limited partners, JCF will refrain accordingly. The steps to mitigate a potential conflict may include: consulting with legal counsel, disclosing the conflict to the Fund's investor advisory committee (as described in the Fund's governing documents) and requiring any conflicted individual to recuse himself from the determination as to how to vote the proxy.

Upon request, an investor may obtain a copy of JCF's Proxy Voting Policy as well as information about how JCF&Co voted any proxies on the Fund's behalf.

- B. See Item 17.A above.

**Item 18 – Financial Information**

- A. JCF&Co does not have any disclosure applicable to this Item.
- B. JCF&Co does not have any financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients.
- C. JCF&Co has never been the subject of a bankruptcy petition.