

INVESTMENT ADVISER BROCHURE

ARSENAL CAPITAL MANAGEMENT LP

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This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Arsenal Capital Management LP (“Arsenal Capital Management”). If you have any questions about the contents of this Brochure, please contact us at (212) 771-1717. 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 authority.

Arsenal Capital Management is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). However, such registration does not imply a certain level of skill or training.

Additional information regarding Arsenal Capital Management is also available on the SEC’s website at www.adviserinfo.sec.gov.

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ADVISORY BUSINESS

Arsenal Capital Partners is a private investment management firm, including other organizations affiliated with Arsenal Capital Management LP (collectively, “**Arsenal**”), that manages approximately \$812 million in private fund assets. Arsenal commenced operations in October 2000.

Arsenal Capital Management LP (“**Arsenal Capital Management**”), a Delaware limited partnership and a registered investment adviser, together with its affiliated investment advisers, Arsenal Capital Investment LLC (“**Fund I GP**”), Arsenal Capital Investment II LP (“**Fund II GP**,”) and Arsenal Capital Investment III LP (“**Fund III GP**” and together with Fund I GP, and Fund II GP the “**General Partners**,” the General Partners together with Arsenal Capital Management, the “**Advisers**”), provides investment advisory services to private investment funds. Additionally, one or more direct or indirect wholly-owned subsidiaries of Arsenal Capital Management may provide due diligence or similar services to Arsenal Capital Management in connection with the investment advisory services that it provides. Each General Partner is registered under the Investment Advisers Act pursuant to Arsenal Capital Management’s registration in accordance with SEC guidance. This Brochure also describes the business practices of each General Partner, which operate as a single advisory business together with Arsenal Capital Management.

In its capacity as the management company of Arsenal Capital Partners LP, a Delaware limited partnership (“**Main Fund I**”), Arsenal Capital Partners Qualified Purchaser Fund LP, a Delaware limited partnership (“**QP Fund I**”), and Arsenal Capital Partners Qualified Purchaser Fund B LP (“**QP-B Fund I**”) and Arsenal Capital Executive Fund LP, a Delaware limited partnership (“**Executive Fund I**” and, together with Main Fund I, QP Fund I, QP-B Fund I, any other parallel investment vehicles and any alternative investment vehicles, “**Fund I**”), Arsenal Capital Management has the authority to manage the business and affairs of Fund I. Fund I GP is the general partner of each of Main Fund I, QP Fund I, QP-B Fund I and Executive Fund I.

In its capacity as the management company of Arsenal Capital Partners II LP, a Delaware limited partnership (“**Main Fund II**”), Arsenal Capital Partners QP II LP, a Delaware limited partnership (“**QP Fund II**”), and Arsenal Capital Partners QP II-B LP (“**QP-B Fund II**”), a Delaware limited partnership, and Arsenal Capital Partners II Executive Fund LP, a Delaware limited partnership (“**Executive Fund II**” and, together with Main Fund II, QP Fund II, QP-B Fund II and any other parallel investment vehicle and any alternative investment vehicles, “**Fund II**”), Arsenal Capital Management has the authority to manage the business and affairs of Fund II. Fund II GP is the general partner of each of Main Fund II, QP Fund II, QP-B Fund II and Executive Fund II.

In its capacity as the management company of Arsenal Capital Partners III LP, a Delaware limited partnership (“**Main Fund III**”) and Arsenal Capital Partners III-B LP (“**Fund III-B**” and, together with Main Fund III and any other parallel investment vehicle and any alternative investment vehicles, “**Fund III**”, and together with Fund I and Fund II, each a “**Fund**” and, collectively, the “**Funds**”, and, the Funds together with the any future private investment fund managed by Arsenal Capital Management, the “**Private Investment Funds**”),

Arsenal Capital Management has the authority to manage the business and affairs of Fund III. Fund III GP is the general partner of each of Main Fund III and Fund III-B.

The Funds (and any future Private Investment Funds) are private equity funds and invest through negotiated transactions in operating entities. Arsenal Capital Management's investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for such investments. Investments are made predominantly in non-public companies, although investments in public companies are permitted. From time to time, where such investments consist of portfolio companies, the senior professionals or other personnel of Arsenal Capital Management or its affiliates may serve on such portfolio companies' respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Funds.

Arsenal Capital Management's advisory services for the Private Investment Funds are detailed in the applicable private placement memoranda and limited partnership agreements and are further described below under "Methods of Analysis, Investment Strategies and Risk of Loss." Investors in Private Investment Funds participate in the overall investment program for the applicable fund, but may be excused from a particular investment due to legal, regulatory or other applicable constraints. The Funds or the Advisers have entered into side letters or other similar agreements with certain investors that have the effect of establishing rights under or altering or supplementing the Funds' limited partnership agreements.

Arsenal Capital Management is controlled by its general partner, Arsenal Capital Group LLC, a Delaware limited liability company ("**Arsenal UGP**"), which is controlled by its board of managers which consist of Jeffrey B. Kovach and Terrence M. Mullen (collectively, the "**Senior Partners**"). As of December 31, 2011, Arsenal Capital Management managed approximately \$812 million in client assets on a discretionary basis.

FEES AND COMPENSATION

In general, Arsenal Capital Management receives management fees ("**Management Fee**") in connection with its advisory services. Other Arsenal entities or affiliates receive additional compensation in connection with management and other services performed for portfolio companies of Private Investment Funds and such additional compensation generally will offset in whole or in part the management fees otherwise payable to Arsenal Capital Management. Investors in the Funds also bear certain fund expenses.

Management Fees

Main Fund I, QP Fund I and QP-B Fund I

Each of Main Fund I, QP Fund I and QP-B Fund I will pay Arsenal Capital Management, quarterly in advance, a Management Fee equal to 1.5% on an annual basis of such Fund's capital contributions used to make investments, less distributions made to such Fund's limited partners constituting a return of investment contributions and the aggregate amount of permanent write-downs. Executive Fund I does not pay a Management Fee.

Arsenal Capital Management will apply (i) 80% of any breakup fees, (ii) 50% of any transaction fees”, and (iii) 50% of any monitoring fees, (collectively “**Fund I Supplemental Fees**”) received in respect of Fund I by Fund I GP, Arsenal Capital Management or any of the managers, members, officer, investment professionals or employees of Arsenal Capital Management or the Fund I GP (collectively, “**Fund I Arsenal Persons**”), to reduce the applicable Management Fee for the quarterly period immediately following the quarterly period in which such Fund I Supplemental Fees were received by Fund I Arsenal Persons. In the event that the aggregate amount of such Fund I Supplemental Fees to be applied against the applicable Management Fee exceeds the Management Fee for such period, such excess will be carried forward to reduce the Management Fee payable in future periods. Following the termination of the obligation by Fund I to make further payments to Arsenal Capital Management in respect of such Management Fee, all remaining such Fund I Supplemental Fees will be retained by Arsenal Capital Management and shall not be subject to offset or rebate. Due to reduced Management Fees by Arsenal Capital Management and/or the timing or receipt of compensation subject to offsets (as described above), it is possible that Management Fee offsets will not be fully realized by investors in Fund I, resulting in a net additional benefit to Arsenal Capital Management. Additionally, as further described below, certain operating professionals who provide consulting services to (or operational projects with respect to) certain Fund I portfolio companies as employees, operational consultants, or in a “seconded” capacity may receive reasonable compensation for such services provided, and such reasonable compensation generally will not result in additional offsets to the Management Fee.

Main Fund II, QP Fund II and QP-B Fund II

Each of Main Fund II, QP Fund II and QP-B Fund II will pay Arsenal Capital Management, quarterly in advance, a Management Fee equal to 2% on an annual basis of the limited partners investment contributions that have not been disposed of or completely written off to zero, plus the aggregate amount of unrecouped capital contributions used to provide bridge financing to a Fund II portfolio company. The Management Fee percentage will be reduced to 1.5% effective upon the earlier of (i) the expiration of the commitment period, and (ii) the earlier of Arsenal Capital Management or Fund II GP commences the operation of a new private equity investment fund with objectives substantially similar to those of the Fund II.

The Management Fee may be reduced by an amount determined by Fund II GP. In the event of such reduction, the amount of capital contributions Fund II GP would otherwise be required to contribute to Fund II will be reduced by an equivalent amount, and the amount of such reduction instead shall be contributed by the applicable Fund II limited partners *pro rata* based upon their respective capital commitments. Waived management fees are not subject to the Management Fee offsets described below.

Arsenal Capital Management will apply (i) 80% of any breakup fees, (ii) the Applicable Fund II Offset Percentage of any transaction fees and (iii) the Applicable Fund II Offset Percentage of any monitoring fees, (collectively “**Fund II Supplemental Fees**”) received by Fund II GP, Fund II UGP, Arsenal Capital Management and each of their respective managers, partners, members, officers, investment professionals and employees in their capacities as such (collectively, “**Fund II Arsenal Persons**”), from portfolio companies in respect of Fund II’s investment in such portfolio companies to reduce the Management Fee for the quarterly period

immediately following the quarterly period in which the Fund II Supplemental Fee was received by a Fund II Arsenal Person, in each case after giving effect to any Management Fee waiver, as discussed above. In the event that the aggregate amounts of any Fund II Supplemental Fees to be applied against the applicable Management Fee exceeds the Management Fee for the immediately succeeding quarterly period, such excess shall be carried forward to reduce the Management Fee payable in following quarterly periods. To the extent any such excess remains unapplied upon termination of the applicable Fund, each limited partner in such Fund shall receive from Fund II GP its *pro rata* share of such unapplied excess, unless such limited partner has previously notified such Fund in writing of its irrevocable election not to receive its *pro rata* share of such excess. Additionally, as further described below, certain operating professionals who provide consulting services to (or operational projects with respect to) certain Fund II portfolio companies as employees, operational consultants, or in a “seconded” capacity may receive reasonable compensation for such services provided, and such reasonable compensation generally will not result in additional offsets to the Management Fee. For purposes of this Brochure, the “**Applicable Fund II Offset Percentage**” means (x) 50%, until an aggregate of \$25 million of monitoring fees and transaction fees have been received, and (x) 80% thereafter.

Notwithstanding the foregoing, if Fund II and an existing or subsequent investment fund formed by Fund II GP or any of its members and/or other investors have co-invested (or committed to co-invest) in a portfolio company or potential portfolio company, for the purpose of calculating reductions in the Management Fee, any fees of the type included in the definition of “Fund II Supplemental Fees,” will be allocated between Main Fund II, QP Fund II and QP-B Fund II and such other funds in proportion to the cost of securities in such portfolio company or potential portfolio company held (or committed to be held) by each or in such other manner as Fund II GP and the governing bodies of such other funds and/or investors may mutually agree.

Main Fund III and Fund III-B

Each of Main Fund III and Fund III-B will pay Arsenal Capital Management, quarterly in advance, an annual Management Fee equal to 2.0% of the aggregate capital commitments of the limited partners. Effective upon the earlier of (i) the expiration of the commitment period, (ii) the earlier of the date Arsenal Capital Management or Fund III GP (A) commences the operation of a new private equity investment fund with investment objectives substantially similar to those of Fund III and (B) closes on aggregate capital commitments in excess of 50% of the aggregate capital commitments of Fund III in connection with such a new private equity investment fund, provided that such new private equity investment fund ultimately has aggregate capital commitments exceeding 80% of the aggregate capital commitments of Fund III, and (iii) upon the occurrence of certain other events as described in the applicable Partnership agreement, the Management Fee shall be reduced to, in the cases of clauses (i) and (iii), an annual amount equal to 2% (or in the case of clause (ii), or commencing with the date described in clause (ii) if the events described in clauses (i) or (iii) previously occurred, 1.5%) of the limited partners percentage of the sum of (A) the aggregate amount of investment contributions with respect to investments that have not been disposed of or completely written off to zero, plus (B) the aggregate amount of unrecouped capital contributions used to provide bridge financings to Fund III portfolio companies.

The Management Fee may be further reduced by an amount determined by Fund III GP. In the event of such reduction, the amount of capital contributions Fund III GP would otherwise be required to contribute to Fund III will be reduced by an equivalent amount, and the amount of such reduction instead shall be contributed by the applicable Fund III limited partners *pro rata* based upon their respective capital commitments. Waived management fees are not subject to the Management Fee offsets described below. Due to any such waiving of Management Fees and/or timing of receipt of compensation subject to offsets (as described below), it is possible that Management Fee offsets will not be fully realized by investors in Fund III, resulting in an additional benefit to Arsenal Capital Management.

Unless otherwise approved by the Fund III advisory board, Arsenal Capital Management will apply all of the limited partners' percentage of (i) any break up fees (ii) any transaction fees, and (iii) any monitoring fees ("**Fund III Supplemental Fees**") earned by Fund III GP, Fund III UGP, Arsenal Capital Management and any of their respective managers, partners, members, officers, investment professional employees and other employees in their capacities as such (collectively, "**Fund III Arsenal Persons**"), to reduce the Management Fee for the quarterly period immediately following the quarterly period in which such Fund III Supplemental Fee was received by a Fund III Arsenal Person on behalf of Arsenal Capital Management, in each case after giving effect to any Management Fee waiver, as discussed above. In the event that the aggregate amounts of any Fund III Supplemental Fees to be applied against the applicable Management Fee exceeds the Management Fee for the immediately succeeding quarterly period, such excess shall be carried forward to reduce the Management Fee payable in following quarterly periods. To the extent any such excess remains unapplied upon termination of the applicable Fund, each limited partner in such Fund shall receive from Fund III GP its *pro rata* share of such unapplied excess, unless such limited partner has previously notified Fund III in writing of its irrevocable election not to receive its *pro rata* share of such excess. Additionally, as further described below, certain operating professionals who provide consulting services to (or operational projects with respect to) certain Fund III portfolio companies as employees, operational consultants, or in a "seconded" capacity may receive reasonable compensation for such services provided, and such reasonable compensation generally will not result in additional offsets to the Management Fee.

Notwithstanding the foregoing, if Fund III and an existing or subsequent investment fund formed by Fund III GP or any of its members and/or other investors have co-invested (or committed to co-invest) in a portfolio company or potential portfolio company, for the purpose of calculating reductions in the Management Fee, any fees of the type included in the definition of "Fund III Supplemental Fees," will be allocated between Main Fund III and Fund III-B and such other funds in proportion to the cost of securities in such portfolio company or potential portfolio company held (or committed to be held) by each or in such other manner as Fund III GP and the governing bodies of such other funds and/or investors may mutually agree.

Other Information

The Funds and other Private Investment Funds invest on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the Partnership Agreement, over the terms of the Funds (or the relevant Private Investment Fund, as applicable) and investors generally are not permitted to withdraw or redeem interests in the

Funds (or other relevant Private Investment Fund, as applicable). The Senior Partners and other employees and partners of the Advisers may receive a portion of the Management Fee, Carried Interest (as defined below) or other compensation received by Arsenal Capital Management or its affiliates. The Advisers reserve the right to waive all or a portion of any Management Fee and/or Carried Interest payable by limited partners of their respective Funds or other Private Investment Funds.

In addition to the Management Fee payable to Arsenal Capital Management, the Funds bear certain expenses. As set forth in the applicable limited partnership agreements, the Funds may bear all expenses to the extent not paid by portfolio companies, including legal, accounting, investment banking, travel, consulting, research, brokerage, finder's fees, custody, transfer, registration, insurance, advisory board, interest, taxes, conferences or meetings with limited partner(s), extraordinary expense and other similar fees and expenses. Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

As mentioned above, certain operating professionals who provide consulting services to (or operational projects with respect to) the Funds' portfolio companies as employees, operational consultants, or in a "seconded" capacity may receive reasonable compensation for such services provided, and such reasonable compensation generally will not result in additional offsets to the Management Fee.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Arsenal Capital Management does not receive a carried interest allocation ("**Carried Interest**") for its advisory services to the Funds. Rather, each of the General Partners receives a Carried Interest equal to 20% of all aggregate realized net profits from the applicable Fund after satisfaction of an 8%, compounded annually, preferred return to the limited partners of such Fund, in each case as more fully described in the applicable Limited Partnership agreement. If any General Partner receives Carried Interest distributions during the life of the applicable Fund which are, in the aggregate, in excess of 20% of such Fund's cumulative net profits, then such excess Carried Interest distributions will be subject to repayment by such General Partner. Other than Executive Fund I, the Advisers do not advise Private Investment Funds not subject to a Carried Interest, although the respective General Partners may waive Carried Interest with respect to certain affiliated limited partners in the applicable Fund. Executive Fund I is not subject to Carried Interest. This practice could present a conflict of interest because Arsenal Capital Management has an incentive to favor accounts that are subject to Carried Interest. Arsenal Capital Management seeks to address this potential conflict of interest by causing such parallel investment fund to invest, to the extent practicable, in the same portfolio companies at the same time and on the same terms on a *pro rata* basis, based on relative commitment sizes of the applicable parallel investment funds, with the applicable Fund.

TYPES OF CLIENTS

Arsenal Capital Management provides investment advice to Private Investment Funds, including the Funds. Private Investment Funds may include investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in

Private Investment Funds may include individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of Arsenal Capital Management and its affiliates.

The Funds generally have a minimum investment amount of between \$5 million (in the case of Fund I) and \$10 million (in the case of each of Fund II and Fund III) for third-party investors. Such minimum investment amount may be waived by Arsenal Capital Management, but generally will not be less than \$100,000. In the case of Main Fund I and Main Fund II, interests are offered and sold solely to accredited investor who are also qualified clients (or qualified knowledgeable Arsenal personnel). In the case of QP Fund I, QP-B Fund I, QP Fund II, QP-B Fund II, Main Fund III and Fund III-B, interests are offered and sold solely to qualified purchasers who are also qualified clients (or qualified knowledgeable Arsenal personnel).

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

General

Arsenal primarily makes control investments in growing lower-middle-market companies in which Arsenal believes there are opportunities to create value post-acquisition. More specifically, Arsenal principally seeks to invest within the specialty industrials, healthcare and financial services sectors.

Within its targeted sectors, Arsenal seeks to invest in growing, niche market-leading companies that provide specialized and / or technical products or services with competitive and defensible market positions and sustainable cash flow. Following acquisition, Arsenal uses its team of investment and operating professionals to apply a prioritized growth and improvement investment strategy designed to accelerate growth, mitigate risks, and improve businesses. Arsenal works collaboratively with management teams to set a clear strategy and drive well-resourced execution. Finally, Arsenal works to sell its companies to buyers, particularly strategic buyers, seeking acquisition candidates.

Arsenal typically invests in established businesses with enterprise values ranging from \$50 million to \$250 million. Arsenal seeks to invest in specific industry segments within the specialty industrials, healthcare and financial services sectors that it has identified as attractive for long-term growth, cash flow generation, and sustainable profitability. Arsenal has a team, which it believes consists of professionals with investment and transaction acumen, industry knowledge within the healthcare, specialty industrials and financial services sectors, and operating capabilities that it leverages from investment sourcing to exit.

There can be no assurance that Arsenal Capital Management will achieve the investment objectives of the Funds and a loss of investment is possible.

Investment and Operating Strategy

Middle Market Focus. Arsenal is focused on sectors of the lower middle market, which is composed of thousands of established companies with revenues between \$50 million and \$500 million. Arsenal believes that a significant number of these middle-market businesses have

reached their near-term potential due to resource, process, or operating skill limitations. Further, Arsenal believes that a large number of these companies also have high growth prospects and significant potential for improvement. Arsenal believes it can identify a number of such companies that can be purchased at reasonable valuations. Arsenal seeks to apply its capabilities and resources to address many of the limitations of these companies.

Targeted Industry Focus. Arsenal's primary target industries of specialty industrials, healthcare and financial services contain segments that, in Arsenal's opinion, generally exhibit attractive growth, limited cyclicalities, reasonable levels of competition, and manageable risks. Arsenal actively targets businesses that provide specialty products and services and deliver high value add solutions to their customers. These specialty sectors are typically comprised of many niche businesses and generally have higher margins and barriers to entry than commodity sectors.

Within the lower middle market, Arsenal seeks to invest in the specialty industrials, healthcare and financial services sectors which in Arsenal's opinion generally exhibit attractive growth, limited cyclicalities, reasonable levels of competition and manageable risks.

Specialty industrials companies in the lower middle market are differentiated by having significant customer intimacy, sustainable and continued product innovation capabilities, and proprietary products, services or technologies that provide value-added solutions to customers. Arsenal believes that many specialty industrials businesses operate in fragmented and regional markets which offer consolidation opportunities as well as options to enter high growth regions, such as Asia. Arsenal's segments of interest include specialty chemicals, specialty materials, and commercial and industrial services.

Healthcare is a large sector with numerous segments, many with distinct growth and structural attributes. Arsenal believes that the complexity, fragmentation and rapid innovation in the sector generate attractive investment opportunities. Arsenal concentrates on healthcare investment opportunities in service and product companies primarily within the business & information services, pharmaceutical & life sciences services and medical device solutions segments.

Financial Services is characterized by significant complexity stemming from exposure to capital and market cycles, changing regulatory environment and constant innovation in service models. Arsenal believes that the constant uncorrelated cycles within financial services frequently create attractive opportunities for investors with differentiated and deep sector insights, the ability to identify and attract strong management talent, and the resources to add value to businesses during the ownership period. Arsenal's interest is primarily in "asset light" business services segments, where business models are driven by differentiation in service offering, preferential access to markets, unique application of information technology, and/or superior intellectual property or productivity of human capital.

Investment Parameters.

Within its target sectors, Arsenal seeks companies that typically exhibit some or all of the following characteristics:

- Defensible market leading positions in niche segments,
- Significant growth potential through organic and strategic acquisition avenues,
- Opportunities to improve efficiency, reduce costs and improve margins
- Options to expand the value-added component of the company's offering, and
- Global market and supply chain opportunities.

Collaborative / Multidisciplinary Approach. Arsenal believes that its team of investment and operating professionals has the skills and experience necessary to create advantages throughout the investment process. This team combines industry-specific knowledge and relationships, experience in managing and improving businesses, and functional resources to support management teams. Arsenal strives to work in a coordinated manner designed to improve the efficiency and effectiveness of execution in all phases of the investment cycle.

Source and Complete Investments. Arsenal professionals engage in leveraging their broad network of relationships within Arsenal's targeted industries to access high-quality deal flow. In addition, industry expertise creates advantages in diligence, strategy formulation, and value assessment through an improved understanding of key business drivers, competitive and structural dynamics, and potential opportunities and risks. Arsenal incorporates this industry and operating knowledge into its disciplined valuation approach, carefully balancing the risks and opportunities identified with respect to a given investment and making sure they are appropriately reflected in a reasonable valuation.

Employ a Prioritized Growth and Improvement Program. Prior to acquisition, Arsenal identifies and prioritizes what it believes are the key value creators and holdbacks for a particular investment. Arsenal will not make an investment if it does not believe that there is an opportunity for Arsenal to create significant value post-acquisition. The Arsenal team works in active collaboration with management teams of portfolio companies to address these value creators and holdbacks. This process is often enabled by an Arsenal assessment and strengthening of the management team and improvement of a company's business processes. In any given investment, Arsenal looks to: (i) accelerate growth, (ii) mitigate key risks, and (iii) fundamentally improve businesses.

Capture Value on Exit. Arsenal's realization process begins prior to acquisition with the development of an investment strategy to guide the business toward attractive exits. With its experience in its focus industries, Arsenal believes it is equipped to understand the acquisition interests and criteria of strategic buyers and strives to take a proactive approach to developing relationships with these buyers that could ultimately lead to attractive exits.

Arsenal seeks to take a conservative approach to the amount of leverage in the capital structures of its portfolio companies so that they can invest in growth and improvement initiatives that will fundamentally improve cash flow and build long-term value. Arsenal believes that conservative leverage also provides additional downside protection, allowing companies greater flexibility as well as an ability to address unforeseen issues. Once Arsenal determines that a company has sufficiently improved but still has significant upside, Arsenal often seeks to appropriately recapitalize the business and return capital to investors.

Risks of Investment

The Funds and their investors bear the risk of loss that Arsenal Capital Management's investment strategy entails. The risks involved with Arsenal Capital Management's investment strategy and an investment in the Funds include, but are not limited to the following.

Business Risks. The Funds' investment portfolios will consist primarily of securities issued by privately held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

Future and Past Performance. The performance of the Advisers' prior investments is not necessarily indicative of the Funds' future results. While the Advisers intend for the Funds to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that the targeted internal rates of return will be achieved. On any given investment, loss of principal is possible.

Investment in Junior Securities. The securities in which the Funds will invest may be among the most junior in a portfolio company's capital structure and, thus, subject to the greatest risk of loss. Generally, there will be no collateral to protect an investment once made.

Concentration of Investments. The Funds will participate in a limited number of investments and may seek to make several investments in one industry or one industry segment. As a result, the Funds' investment portfolios could become highly concentrated, and the performance of a few holdings may substantially affect aggregate returns. Furthermore, to the extent that capital raised is less than the targeted amounts, the Funds may invest in fewer portfolio companies and thus be less diversified.

Lack of Sufficient Investment Opportunities. It is possible that the Funds will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring private equity transactions is highly competitive and involves a high degree of uncertainty. However, Fund limited partners will be required to pay annual management fees during the respective Fund's commitment period based on the entire amount of their commitments.

Illiquidity; Lack of Current Distributions. An investment in the Funds should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains, if any, on successful investments are realized. The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating the Funds (including the annual management fee payable to Arsenal Capital Management) may exceed its income, thereby requiring that the difference be paid from the applicable Fund's capital.

Leveraged Investments. The Funds may make use of leverage by incurring or having a portfolio company incur debt to finance a portion of an investment in a given portfolio company.

Leverage generally magnifies both opportunities for gain and risks of loss from a particular investment. The use of leverage will also result in interest expense and other costs to the Funds that may not be covered by distributions made to the Funds or appreciation of investments. In addition, this leverage could accelerate and magnify declines in the value of the Funds' investments in the leveraged portfolio companies in a down market. In the event any portfolio company cannot generate adequate cash flow to meet debt service, the Funds may suffer a partial or total loss of capital invested in such portfolio company, which could adversely affect the returns of the Funds. Furthermore, the companies in which the Funds invest generally will not be rated by a credit rating agency.

Restricted Nature of Investment Positions. Generally, there will be no readily available market for a substantial number of the Funds' investments, and hence, most of the Funds' investments will be difficult to value. Certain investments may be distributed in-kind to the Fund limited partners.

Reliance on the General Partner and Portfolio Company Management. Control over the operation of the Funds will be vested entirely with the Advisers, and future profitability will depend largely upon the business and investment acumen of Advisers. The loss of service of one or more of the Senior Partners could have an adverse effect on the Funds' abilities to realize their investment objectives. Fund limited partners generally have no right or power to take part in the management of the Funds, and as a result, the investment performance of the Funds will depend entirely on the actions of the Advisers. Although the Advisers will monitor the performance of each Fund investment, it will primarily be the responsibility of each portfolio company's management team to operate the portfolio company on a day-to-day basis. Although the Funds generally intend to invest in companies with strong management, there can be no assurance that the existing management of such companies will continue to operate a company successfully.

Projections. Projected operating results of a company in which a Fund invests normally will be based primarily on financial projections prepared by such company's management. In all cases, projections are only estimates of future results that are based upon assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material impact on the reliability of projections.

Need for Follow-On Investments. Following an initial investment in a given portfolio company, a Fund may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company. There is no assurance that a Fund will make follow-on investments or that a Fund will have sufficient funds to make all or any of such investments. Any decision by a Fund not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment or may result in a lost opportunity for such Fund to increase its participation in a successful operation.

Non-U.S. Investments. The Funds may invest in portfolio companies that are organized or have substantial sales or operations outside of the United States, its territories, and possessions. Such investments may be subject to certain additional risks due to, among other

things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be given effect during the terms of the Funds), the application of complex U.S. and foreign tax rules to cross-border investments, possible imposition of foreign taxes on the Funds and/or the Fund limited partners with respect to applicable Fund's income, and possible foreign tax return filing requirements for the Funds and/or the Fund limited partners.

Public Company Holdings. The Funds' investment portfolios may contain securities issued by publicly held companies. Such investments may subject the Funds to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the Funds to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members, including the Advisers, if serving in such capacity, and increased costs associated with each of the aforementioned risks.

Director Liability. The Funds will often obtain the right to appoint a representative to the board of directors of the companies in which they invest. Serving on the board of directors of a portfolio company exposes the Funds' representatives, and ultimately the Funds, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability.

Conflicts of Interest

During the commitment period of the Funds, all appropriate investment opportunities will be pursued by Arsenal Capital Management principals through the Funds, subject to certain limited exceptions. Without limitation, Arsenal Capital Management principals currently manage several other investments similar to those in which the Funds may be investing, and may direct certain relevant investment opportunities to those investments. Arsenal Capital Management's principals and Arsenal Capital Management's investment staff will continue to manage and monitor such investments until their realization. Such other investments that Arsenal Capital Management's principals may control may potentially compete with companies acquired by the Funds. Arsenal Capital Management's principals may and likely will focus their investment activities on other opportunities and areas unrelated to the Funds' investments, subject to limitations set forth in the Fund Agreements.

From time to time, Arsenal Capital Management will be presented with investment opportunities that would be suitable not only for the Funds, but also for other Private Investment Funds and other investment vehicles operated by advisory affiliates of Arsenal Capital Management. In determining which investment vehicles should participate in such investment opportunities, Arsenal Capital Management and its affiliates are subject to conflicts of interest among the investors in such investment vehicles. Arsenal Capital Management attempts to resolve such conflicts of interest in light of its obligations to investors in its Private Investment Funds and the obligations owed by Arsenal Capital Management's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among the Funds, other Private Investment Funds and such investment vehicles in a fair and

equitable manner. Where necessary, Arsenal Capital Management consults and receives consent to conflicts from an advisory board consisting of limited partners of the applicable Fund and such other investment vehicles.

Because each of the General Partner's Carried Interest is based on a percentage of net realized profits, it may create an incentive for each of the General Partners to cause the applicable Fund to make riskier or more speculative investments than would otherwise be the case. Additionally, since Arsenal Capital Management is permitted to retain certain Supplemental Fees (as described under "Fees and Compensation") in connection with the Funds' investments, it could have a conflict of interest in connection with approving certain transactions.

DISCIPLINARY INFORMATION

Arsenal Capital Management and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Arsenal is affiliated with other Arsenal Capital Management investment advisers registered with the SEC under the Advisers Act pursuant to Arsenal's registration in accordance with SEC guidance. These affiliated investment advisers operate as a single advisory business together with Arsenal and serve as managers or general partners of private investment funds and other pooled vehicles and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Arsenal Capital Management has adopted the Arsenal Code of Ethics and Securities Trading Policy and Procedures (the "**Code**"), which sets forth standards of conduct that are expected of Arsenal principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Arsenal personnel to report their personal securities transactions, prohibits or requires pre-clearance for Arsenal personnel from directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits Arsenal personnel from directly or indirectly acquiring beneficial ownership of securities with limited exceptions, without first obtaining approval from the Arsenal Chief Compliance Officer. A copy of the Code will be provided to any investor or prospective investor upon request to Pilar Lorente, the Arsenal Chief Compliance Officer, at (212) 771-1717. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client's interests in client eligible investments.

Arsenal Capital Management and its affiliated persons may come into possession, from time to time, of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, Arsenal Capital Management and its affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of Arsenal Capital Management.

Accordingly, should Arsenal Capital Management or any of its affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, Arsenal Capital Management would be prohibited from communicating such information to clients, and Arsenal Capital Management will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of Arsenal personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Funds.

Principals and employees of Arsenal Capital Management and its affiliates may directly or indirectly own an interest in Private Investment Funds, including the Funds or certain co-investment vehicles. To the extent that co-investment vehicles exist, such vehicles may invest in one or more of the same portfolio companies as the Funds. Principals, certain operating partners and employees of Arsenal Capital Management and its affiliates may also hold interests in portfolio companies of the Funds as a result of their relationships with such portfolio companies subject to the conflict of interest rules described above.

The Funds and other Private Investment Funds may invest together with other private investment funds advised by an affiliated adviser of Arsenal Capital Management in the manner set forth in the relevant partnership agreements. Arsenal Capital Management will determine the allocation of investment opportunity in a manner that it believes is fair and equitable to its clients consistent with Arsenal Capital Management's obligations and may take into consideration factors such as the following: the client's investment restrictions and objectives (including those set forth in the relevant client's governing documents, where applicable), strategy, risk profile, time horizon, tax sensitivity, tolerance for turnover, asset composition and cash level and applicable regulatory restrictions.

Arsenal Capital Management and its affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in the Funds, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, the Funds, even though their investment objectives may be the same or similar. The operative documents and investment programs of certain vehicles sponsored by Arsenal (the "**Reference Funds**") may restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such Reference Funds or may give priority with respect to investments to such Reference Funds. Some of these restrictions could be waived by investors (or their representatives) in such Reference Funds.

From time to time, the General Partners (or any future General Partners) may borrow funds on behalf of their respective Funds or (or future Private Investment Funds) and contribute such borrowed amounts to their respective Funds (or future Private Investment Fund) as a special capital contribution for investment, to be redeemed at a later date. Interest in connection with such borrowing is borne by the limited partners consistent with the applicable partnership agreement (or other governing document). In borrowing on behalf of the Funds or a Private Investment Fund, the General Partners are subject to conflicts of interest between repaying their obligations and retaining such borrowed amounts for the benefit of their respective Funds or Private Investment Fund. The General Partners will engage in such borrowings in a manner they

believes to be fair and equitable to their respective Funds or Private Investment Fund, and consistent with the General Partners' obligations to their respective Funds and the applicable partnership agreements (or other governing document).

BROKERAGE PRACTICES

The Advisers focuses on securities transactions of private companies and generally purchase and sell such companies through privately-negotiated transactions in which the services of a broker-dealer may be retained. However, the Advisers may also distribute securities to investors in the Funds or sell such securities, including through using a broker-dealer, if a public trading market exists. Although the Advisers do not intend to regularly engage in public securities transactions, to the extent they do so, they follow the brokerage practices described below.

If the Advisers sell publicly traded securities on behalf of any of the Funds, they are responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by such persons. In such event, the Advisers will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, the Advisers may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the broker being considered; and (iv) responsiveness to requests for trade data and other financial information.

The Advisers has no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or "posted" commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although Arsenal Capital Management generally seeks competitive commission rates, it may not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with the Advisers seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although the Advisers generally do not make use of such services at the current time and has not made use of such services since its inception. Such research services could include economic research, market strategy research, industry research, company research, fixed income data services, computer-based quotation equipment and research services and portfolio performance analysis. As a general matter, research provided by these brokers would be used to service all of the Advisers' Private Investment Funds. However, each and every research service may not be used for the benefit of each and every Private Investment Fund managed by the Advisers, and brokerage commissions paid by one Private Investment Fund may apply towards payment for research services that might not be used in the service of such Private Investment Fund. Research services may be shared between Arsenal Capital Management and its affiliates.

The Advisers will employ no agreement or formula for the allocation of brokerage business on the basis of research services; however, the Advisers may, in their discretion, cause

the Private Investment Funds to pay such brokers a commission for effecting portfolio transactions in excess of the amount of commission another broker adequately qualified to effect such transactions would have charged for effecting such transactions. This may be done where the Advisers have determined in good faith that such commission is reasonable in relation to the value of brokerage and research services received. In reaching such a determination, the Advisers would not be required to place or attempt to place a specified dollar value on the brokerage or research services provided by such broker.

The Advisers will periodically determine which brokers have provided research that has been helpful in the management of Private Investment Funds. To the extent consistent with the Advisers' goal to obtain best execution for their clients, the Advisers may seek to place a portion of the trades that they direct with the brokers who are identified through this process.

To the extent that the Advisers allocate brokerage business on the basis of research services, they may have an incentive to select or recommend broker-dealers based on the interest in receiving such research or other products or services, rather than based on the Private Investment Funds' interest in receiving the most favorable execution.

The Advisers do not anticipate engaging in significant public securities transactions; however, to the extent that the Advisers engages in any such transactions, orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for Private Investment Funds are completed independently, the Advisers may also purchase or sell the same securities or instruments for several Private Investment Funds simultaneously. From time to time, the Advisers may, but are not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or "batched" to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Private Investment Fund of the Advisers is favored over any other Private Investment Fund. When an aggregated order is filled in its entirety, each participating Private Investment Fund generally will receive the average price obtained on all such purchases or sales made during such trading day.

When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata* basis to each Private Investment Fund participating in such buy or sell order in accordance with the amount of securities originally requested for such Private Investment Funds.

Each Private Investment Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. Exceptions to *pro rata* allocations are permissible provided they are fair and equitable to Private Investment Funds over time.

REVIEW OF ACCOUNTS

The investments made by the Private Investment Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, Arsenal Capital Management closely monitors companies in which the Private Investment Funds invest, and the Arsenal Chief Compliance

Officer periodically checks to confirm that each Private Investment Fund is maintained in accordance with its stated objectives.

The Funds will provide to their limited partners (i) annual GAAP audited and quarterly unaudited financial statements, (ii) annual tax information necessary for each limited partner's tax return and (iii) annual reports providing a narrative summary of the status of each portfolio company investment.

CLIENT REFERRALS AND OTHER COMPENSATION

Arsenal Capital Management and / or its affiliates may provide certain business or consulting services to companies in the Funds' portfolio including as operational consultants to, or in a "seconded" capacity to such companies and may receive reasonable compensation for such services provided. As described in the applicable limited partnership agreement, this compensation may, in many cases, offset a portion of the Management Fees paid by the Funds. However, in other cases (*e.g.*, reimbursements for out of pocket expenses directly related to a portfolio company), these fees may be in addition to Management Fees. See "Fees and Compensation."

From time to time, Arsenal Capital Management may enter into solicitation arrangements pursuant to which it compensates third parties for referrals that result in a potential investor becoming a limited partner in a Fund or other Private Investment Fund. Any fees and expenses payable to any such placement agents will borne by Arsenal Capital Management indirectly through an offset against the Management Fee. Arsenal Capital Management has entered into a solicitation arrangement with each of Forbes Private Capital Group and Farrell Marsh & Company (collectively, the "**Placement Agents**"), pursuant to which it compensates each Placement Agent for referrals that result in a potential investor becoming a limited partner in a Fund or in another Private Investment Fund. Any fees and expenses payable to any Placement Agent or any other placement agent engaged by an Adviser will be paid by the applicable Fund but borne by such Adviser indirectly through an offset against the Management Fee. From time to time, Arsenal Capital Management or its affiliates may engage other placement agents to solicit investments from potential investors in Private Investment Funds.

CUSTODY

Arsenal Capital Management maintains custody of the Funds' assets held in the applicable Fund's name with the following qualified custodians: **JP Morgan Chase Bank NA**.

INVESTMENT DISCRETION

Arsenal Capital Management has discretionary authority to manage investments on behalf of the Funds. Arsenal Capital Management assumes this discretionary authority pursuant to the terms of the limited partnership agreements and powers of attorney executed by the limited partners in the Funds. As a general policy, Arsenal Capital Management does not allow clients to place limitations on this authority. Pursuant to the terms of the applicable partnership agreement, however, Fund I GP, Fund II GP, and Fund III GP may enter into "side letter" arrangements with certain limited partners whereby the terms applicable to such limited partner's

investment in the applicable Fund may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons.

VOTING CLIENT SECURITIES

Arsenal Capital Management has adopted the Arsenal Proxy Voting Policies and Procedures (the “**Proxy Policy**”) to address how it will vote proxies, as applicable, for the Funds’ (and any Private Investment Fund’s) portfolio investments. The Proxy Policy seeks to ensure that Arsenal Capital Management votes proxies (or similar instruments) in the best interest of the Funds, including where there may be material conflicts of interest in voting proxies. Arsenal Capital Management generally believes its interests are aligned with those of the Funds’ investors through the principals’ beneficial ownership interests in the Funds and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that Arsenal Capital Management may address the conflict using several alternatives, including by seeking the approval or concurrence of the applicable Fund’s advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, the applicable Fund’s advisory board may approve Arsenal Capital Management’s vote in a particular solicitation. Arsenal Capital Management does not consider service on portfolio company boards by Arsenal Capital Management personnel or Arsenal Capital Management’s receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by Arsenal Capital Management when voting proxies on behalf of the applicable Fund. If you would like a copy of the Arsenal Capital Management’s complete Proxy Policy or information regarding how Arsenal Capital Management voted proxies for particular portfolio companies, please contact Pilar Lorente, the Arsenal Chief Compliance Officer, at (212) 771-1717, and it will be provided to you at no charge.

FINANCIAL INFORMATION

Arsenal Capital Management does not require prepayment of management fees six months or more in advance or have any other events requiring disclosure under this item of the Brochure.

SUPPLEMENTAL INFORMATION ABOUT CERTAIN SENIOR PARTNERS OF ARSENAL CAPITAL MANAGEMENT

Jeffrey B. Kovach

Educational Background and Business Experience

Mr. Kovach is a Partner and co-founder of Arsenal Capital Partners. Prior to co-founding Arsenal in 2000, he was at Thomas H. Lee Partners, where Mr. Kovach worked on a variety of growth buyout transactions, in the manufacturing, financial services and media industries. Prior to joining Thomas H. Lee, Mr. Kovach worked in the High Yield and Leveraged Finance groups at Merrill Lynch & Co. He graduated, magna cum laude, with an A.B. in Economics from Dartmouth College and attended the Tuck School of Business at Dartmouth College.

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Kovach.

Other Business Activities

Mr. Kovach is not engaged in any investment-related business outside of his roles with Arsenal and its affiliated investment advisers.

Additional Compensation

Mr. Kovach does not receive any additional compensation that is required to be disclosed.

Supervision

As a Partner of Arsenal, Mr. Kovach is responsible for implementing and overseeing the investment strategy of the clients of Arsenal. Mr. Kovach is not directly subject to the supervision of any individual other than Terrence M. Mullen.

Terrence M. Mullen

Educational Background and Business Experience

Mr. Mullen is a Partner and co-founder of Arsenal Capital Partners. Prior to co-founding Arsenal in 2000, he was a principal at Thomas H. Lee Partners, where he invested in manufacturing, services and media companies. He also worked in the Investment Banking Division of Morgan Stanley & Co. Mr. Mullen graduated with a B.B.A. in Finance and Economics from the University of Notre Dame and an M.B.A. from Harvard Business School.

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Mullen.

Other Business Activities

Mr. Mullen is not engaged in any investment-related business outside of his roles with Arsenal and its affiliated investment advisers.

Additional Compensation

Mr. Mullen does not receive any additional compensation that is required to be disclosed.

Supervision

As a Partner of Arsenal, Mr. Mullen is responsible for implementing and overseeing the investment strategy of the clients of Arsenal. Mr. Mullen is not directly subject to the supervision of any individual other than Jeffrey B. Kovach.