

INVESTMENT ADVISER BROCHURE

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**Important Disclosure:**

This brochure dated February 14, 2012 provides information about the qualifications and business practices of Sterling Investment Partners Advisers, LLC (“**Sterling Advisers**”). If you have any questions about the contents of this brochure, please contact us at 203.226.8711 or our Chief Compliance Officer at [macey@sterlinglp.com](mailto:macey@sterlinglp.com). Sterling Advisers is registered as an investment adviser with the United States Securities and Exchange Commission (“**SEC**”) under the Investment Advisers Act of 1940 (the “**Advisers Act**”). Registration as an investment adviser does not imply that Sterling Advisers or its employees possess a certain level of skill or training. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

Additional information about Sterling Advisers also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**ITEM 2. MATERIAL CHANGES**

Sterling Investment Partners Advisers, LLC is registering as an investment adviser. This is its first ADV Part 2.

In the future, this Item 2 will contain a summary of any material changes to our disclosure since our last annual update. We expect to update this brochure no less than annually.

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#### ITEM 4. ADVISORY BUSINESS

Sterling Advisers, an investment adviser registered with the SEC, is a Delaware limited liability company formed in December 1999.

Each of M. William Macey, Jr., Douglas L. Newhouse, Charles Santoro and William L. Selden (the “**Principals**”) is a principal owner of Sterling Advisers.

Sterling Advisers provides investment advisory services to four private equity funds, Sterling Investment Partners L.P. (“**Fund I**”), Sterling Investment Partners Side-by-Side L.P. (“**SBS Fund I**”), Sterling Investment Partners II, L.P. (“**Fund II**” and together with Fund I the “**Principal Funds**”), and Sterling Investment Partners Side-by-Side II, L.P. (“**SBS Fund II**”, and together with SBS I the “**SBS Funds**”; the Principal Funds and the SBS Funds each an “**Existing Fund**” and collectively the “**Existing Funds**” and together with any future private investment fund to which Sterling Advisers provides investment advisory services the “**Funds**”). The general partner of each Existing Fund is owned by the Principals.

Each Fund is a private equity fund and invests in operating businesses through negotiated transactions. Sterling Advisers’ investment advisory services to the Funds consist of sourcing, evaluating and conducting due diligence with respect to investment opportunities, negotiating investments, managing and monitoring investments, working with management teams to build and improve portfolio companies, and achieving dispositions for such investments. The Funds invest primarily in non-public companies, although the Funds may invest in public companies subject to any limits set forth in each Fund’s Governing Documents (as defined below). In addition, the Funds may hold securities of a public company in the event that a portfolio company goes public or is acquired in a transaction in which the consideration received by the Funds includes securities of a public company. When investing in portfolio companies, the Principals and other professionals of Sterling Advisers serve on such portfolio companies’ respective boards of directors, generally until the Fund exits the investment. In addition, Sterling Advisers consults with the board of directors and management of the Funds’ portfolio companies on important business and financial matters, including but not limited to: (i) developing and implementing corporate strategy; (ii) budgeting future corporate investments; (iii) acquisitions and divestitures; and (iv) subsequent debt and equity financings.

Sterling Advisers provides its advisory services to the Funds in accordance with the investment objectives, investment guidelines and restrictions set forth in the relevant Fund’s confidential private placement memorandum, limited partnership agreement, investment management agreement and other formation and operating documents pertaining to the Fund (collectively, the “**Governing Documents**”). Sterling Advisers’ advisory services for each Fund are detailed in the Fund’s Governing Documents and are further described below under “Item 8. Methods of Analysis, Investment Strategies and Risk of Loss.” The general investment guidelines and restrictions applicable to any particular Fund are negotiated and fixed at the time that the particular Fund is formed, although there may be subsequent revisions with the consent of the Fund’s limited partners. In accordance with common industry practice, the general partner of a Fund has in certain instances entered into “side letters” or side agreements with certain investors in a Fund whereby the general partner (an affiliate of Sterling Advisers) may grant individual investors specific rights, benefits, or privileges not set forth in the Governing Documents. See

“Item 8. Methods of Analysis, Investment Strategies and Risk of Loss—Risk of Loss—Side Letters”. Investors in each Fund (known as “limited partners”) participate in the Fund’s overall investment program, but may be excused from a particular investment due to legal, regulatory or other applicable constraints.

As of September 30, 2011, Sterling Advisers’ manages client assets on a discretionary basis in the amount of approximately \$926.9 million, which assets consist of capital invested by the Existing Funds, at fair market value (as estimated by Sterling Advisers), and remaining capital commitments to the Existing Funds. The capital invested by the Existing Funds consists of investments in private companies, for which no public market values exist. As a result, the fair market value of the capital invested by the Existing Funds represents an estimate of the fair market value of unrealized investments in accordance with Fair Value Measurements and Disclosures (FASB ASC Topic 820). There can be no assurance that the ultimate realized value of an investment will equal its unrealized value. Sterling Advisers does not manage client assets on a non-discretionary basis.

No individualized investment advice is provided to any particular limited partner of any Fund.

## ITEM 5. FEES AND COMPENSATION

### *Management Fees and Carried Interest*

As the investment adviser or manager to a Fund, Sterling Advisers typically charges advisory fees as described in the relevant Fund's Governing Documents. The fees payable to Sterling Advisers may vary from fund to fund and may be different from the fees and compensation payable in respect of any prior or successor fund. All investors should review the Governing Documents of the relevant Fund in conjunction with this brochure for complete information on the fees and compensation payable with respect to that particular Fund.

Sterling Advisers generally receives from each Principal Fund a management fee ("**Management Fee**") equal to 2.0% of the aggregate capital commitment during the initial investment period, and, during the period from the end of the initial investment period until the end of the term of the Fund, a Management Fee equal to 2.0% of invested capital minus (a) distributions constituting the cost basis return of capital, (b) unrealized portfolio investments that have been written off in their entirety, and (c) writedowns on portfolio investments that have been written-down by more than 50% of cost (the amounts in clauses (a), (b) and (c) collectively "**Distributions and Writedowns**"); however, in connection with an extension of the investment period of Fund II, for the period from November 18, 2011 until the earlier of (a) the initial payment to Sterling Advisers or an affiliate of a management fee by a new Fund or (b) November 18, 2012 (the end of the investment period) (the earlier of (a) or (b) the "**Reset Date**"), the Management Fee is reduced to the greater of (i) 1.75% of Fund II's aggregate capital commitments or (ii) 2.0% of invested capital minus Distributions and Writedowns. After the Reset Date, Sterling Advisers expects that the Management Fee for Fund II will revert to 2.0% of invested capital minus Distributions and Writedowns.

The general partner of each Principal Fund, which is an affiliate of Sterling Advisers, receives performance based compensation, which is referred to as a "**Carried Interest**", of approximately 20% of calculated net proceeds and is payable only when and if certain threshold amounts are returned to limited partners in accordance with the applicable Fund's limited partnership agreement. The Carried Interest distributed to the general partner is subject to a potential "clawback" at the end of the life of the Fund if the general partner has received excess cumulative distributions. The Principals and employees of Sterling Advisers and their related entities do not pay the Management Fee or Carried Interest. Limited partners of the SBS Funds do not pay a Management Fee or Carried Interest. The SBS Funds are offered to a select group of individuals, including employees of Sterling Advisers and current and former executives of the Fund's portfolio companies, whose participation is generally expected to be beneficial to the Funds or their portfolio companies. For a discussion of potential conflicts of interest that may exist, please see "Item 6. Performance-Based Fees and Side-by-Side Management", "Item 8. Methods of Analysis, Investment Strategies and Risk of Loss—Potential Conflicts of Interest" and "Item 11—Code of Ethics—Participation or Interest in Client Transactions" below. As permitted under Fund II's limited partnership agreement, the general partner may waive or agree to a reduction of amounts of the Management Fee, and any waived or reduced portion of such Management Fee reduces the amount of capital contributions the general partner would otherwise be required to contribute to the Fund. Any waived portion of a Management Fee

installment may be treated as a deemed capital contribution by the general partner in respect of the general partner's capital commitment.

In addition to the Management Fee and the Carried Interest paid to the general partners, Sterling Advisers generally receives from each portfolio company of the Funds an annual monitoring fee, as well as certain advisory fees in connection with the portfolio company's financings, acquisitions and dispositions (including the Funds' initial acquisition of the portfolio company, equity and any debt provided by the Funds and the Funds' disposition of the portfolio company). Certain of these fees, generally those received in connection with the acquisition, divestiture and monitoring of portfolio companies, offset future Management Fees. For portfolio investments made by Fund II after November 18, 2011, 80% of Fund II's allocable portion of such fees received by Sterling Advisers offset future Management Fees. For portfolio investments made by Fund II prior to November 18, 2011, 50% of such fees offset future Management Fees. With respect to Fund I, 50% of such fees offset Management Fees paid during the period Fund I paid Management Fees. Portfolio company advisory fees that do not offset future Management Fees generally consist of advisory fees related to financings and post initial investment acquisitions by portfolio companies. In addition, Sterling Advisers is generally reimbursed by each portfolio company for its out-of-pocket expenses incurred in connection with its activities on behalf of the portfolio company.

#### *Timing of Payments; Termination.*

Management Fees are payable not more than six months in advance through capital calls made by each Principal Fund to its limited partners, although all or a portion of the Management Fee may be paid out of a limited partner's share of the Principal Fund's Current Income, Disposition Proceeds, income from Temporary Investments (as such terms are defined in the Fund's Governing Documents) and any other cash otherwise available for distribution by the Fund.

Upon termination of the advisory agreement with a Fund, any prepaid unearned fees will be refunded (adjusted on a pro rata basis).

#### *Other Fees and Expenses*

All expenses attributable to the organization of the Funds and the sale of interests to the limited partners of each Fund (the "**Organizational Expenses**") are allocated pro rata according to the capital commitments of the partners of each Fund. At a Fund's initial closing date, the Fund reimburses the general partner for all organizational expenses incurred by the general partner or any of its affiliates (including Sterling Advisers) allocated to the Funds, up to a specified amount, with the general partner of such Fund bearing any Organizational Expenses in excess of such amount.

In addition to the Management Fee and Carried Interest payable to the general partner, each Fund bears all other costs and expenses of the Fund that are not reimbursed by portfolio companies, including, without limitation, legal, auditing, consulting, financing, accounting and custodian fees and expenses; its allocable share of directors' and officers' insurance covering Sterling Advisers' and its and the Funds' partners, officers and managers; out of pocket expenses incurred in connection with transactions not consummated; expenses of the members of a limited

partner advisory committee composed of representatives of the Fund's limited partners; other expenses associated with the acquisition, holding and disposition of its investments, including extraordinary expenses (such as litigation, if any) and any taxes, fees or other governmental charges levied against the Fund. Expenses and liabilities incurred in connection with an investment opportunity or potential investment opportunity, including without limitation due diligence and indemnity expenses, are allocated among the Funds pro rata according to the amount invested by each Fund in such investment opportunity or, in the case of an unconsummated portfolio investment, pro rata according to the amount to be invested by each Fund in such opportunity. Sterling Advisers is responsible for certain of its overhead expenses, including salaries and employee benefits, rent, utilities and general office expenses.

The Funds may incur other fees and charges imposed by brokers and other third parties, such as investment banking fees, underwriting fees, wire transfer fees, electronic fund fees, fund administration service provider fees, other fees and taxes on brokerage accounts and securities transactions, and all costs that may otherwise be authorized by the Fund's Governing Documents or approved by a majority in interest of the limited partners or the limited partner advisory committee. See "Item 12. Brokerage Practices" below for further discussion of the factors that Sterling Advisers considers in selecting or recommending broker-dealers for Fund transactions and determining the reasonableness of their compensation.



## **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described under “Item 5. Fees and Compensation” above, affiliates of Sterling Advisers that act as general partners of the Funds are entitled to receive a Carried Interest allocation on certain realized profits in the Funds. The SBS Funds are not charged Carried Interest. While this practice could present a conflict of interest, Sterling Advisers does not believe this arrangement poses a conflict of interest in practice because each SBS Fund co-invests alongside its respective Principal Fund on an approximate pro rata basis based on committed capital and the percentage of the Funds’ investment in each portfolio company represented by the SBS Funds is de minimis – less than 2%.

The Principals and certain employees of Sterling Advisers receive the Carried Interest received by the general partners of the Funds.

Performance-based fees or Carried Interest allocation arrangements received by Sterling Advisers related persons may create an incentive for Sterling Advisers to make more speculative portfolio investments on behalf of the Fund than it would otherwise make in the absence of such performance-based arrangement. Sterling Advisers, however, subjects each prospective investment to a comprehensive due diligence process and an approval procedure that includes approval by the Principals, and each of the Principals has a significant investment in the Funds. In addition, if distributions are made of property other than cash, the amount of any such distribution will be accounted for at the fair market value of such property, as determined by the general partner in accordance with procedures specified in the Fund’s limited partnership agreement. An independent appraisal generally will not be required and is not expected to be obtained.

## ITEM 7. TYPES OF CLIENTS

Sterling Advisers provides investment advice to the Existing Funds and may, in the future, provide investment advice to other Funds (*i.e.*, investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment companies under the Investment Company Act of 1940 (the **Investment Company Act**)). The investors participating in the 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 Sterling Advisers and their affiliates. In general, Sterling Advisers requires that each limited partner in a Fund be an “accredited investor” as defined in Regulation D under the Securities Act of 1933 (the “**Securities Act**”) and, in most cases, a “qualified purchaser” as defined by the Investment Company Act.

Investors in the Funds are requested to refer to the Governing Documents of the applicable Fund for complete information on the minimum investment requirement for participation in that Fund. The stated minimum commitment to each Fund (other than the SBS Funds) has typically been \$5 million, although the general partner of the Fund maintains discretion to waive, increase or reduce the minimum investment commitment required for the Fund and has done so in the past. There is no stated minimum commitment to either SBS Fund.

Sterling Advisers does not currently manage individual investment accounts.

## **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### *General*

The Funds seeks to achieve significant long-term capital appreciation by acquiring and building “middle market” companies that Sterling Advisers believes have strong, sustainable competitive advantages and significant opportunities for value creation. The Funds’ investment strategy and methods of analysis, and the risks associated with investing in the Funds, including the risk of total loss of capital, are disclosed to investors in the private placement memorandum for their respective Fund, which was provided to prospective investors at the time such investors were contemplating participating in the respective Fund. There can be no assurance that Sterling Advisers will achieve the investment objectives of the Funds.

### *Investment Strategy and Methods of Analysis*

Key aspects of Sterling Advisers’ investment strategy and process for indentifying, analyzing, acquiring and building companies include:

- Focus on Middle Market Companies. Sterling Advisers defines a middle market company as one with revenues of \$50 million to \$500 million and EBITDA of \$10 million to \$40 million.
- Preferred Partner to Management, Preferred Buyer to Sellers. Sterling Advisers seeks to be the preferred partner to management teams based on its track record of building companies and rewarding successful performance. Similarly, Sterling Advisers seeks to be a preferred acquirer to sellers based on its history of closing transactions as expected and on a timely basis.
- Consistent Value Creation Process. Sterling Advisers seeks to consistently employ a value creation process focused on:
  - *Carefully applying its investment criteria to all investment opportunities.* Sterling Advisers has developed a set of investment criteria that it applies to all investment opportunities. These criteria include financial characteristics, sustainable competitive advantages evidenced by factors such as market leadership and barriers to entry, considerations with respect to risk such as customer recurring demand and diversification, management strength, and prospects for value creation. Sterling Advisers uses these criteria to identify opportunities that it believes have the potential to deliver attractive returns. Sterling Advisers’ disciplined adherence to its investment criteria allows it to consistently and quickly assess opportunities. Key industries that Sterling Advisers focuses on include business services, industrial and consumer value-added distribution, niche manufacturing, and transportation and logistics.
  - *Developing an investment thesis for each company.* Based on thorough due diligence and dialogue with management, Sterling Advisers develops an investment thesis that represents its vision for the investment. The investment thesis is unique to each investment. A team of Sterling Advisers’ investment professionals, typically

consisting of at least two partners and one other professional, work on each investment opportunity Sterling Advisers determines to pursue. This team leads the development and refinement of the investment thesis that represents the vision for the investment, and leads the due diligence process with respect to the investment.

In addition to confirming the investment thesis and growth opportunities, Sterling Advisers' due diligence process focuses on the company's market position and sustainable competitive advantages, and seeks to identify material risks facing the company. To support its due diligence efforts, Sterling Advisers supplements the expertise of its investment professionals with the expertise of its operating partners and additional external resources, which include market research consultants, industry consultants, attorneys, accountants, insurance consultants and background check investigatory firms. Sterling Adviser's due diligence process typically includes assessment of a target's industry, competitive position and investment thesis, based in part on in-depth, blind interviews of a substantial number of customers, as well as analysis of business model fundamentals and key operational drivers, quality of earnings and historical cash flows, and key risk factors.

- *Translating Sterling Advisers' investment thesis into defined steps to build the portfolio company, as well as to reduce risk.* Sterling Advisers seeks to convert its investment thesis into an action plan, and continually works with management to implement the plan through a process designed to drive growth initiatives and operating improvements, while also reducing risk. Each plan is tailored to the unique opportunities and needs of the specific portfolio company. Examples of steps to grow companies and drive operating improvements include strategic and add-on acquisitions and mergers, domestic and international expansion, improved information technology systems, productivity and capacity improvements to facilities, and management team development and upgrades.

Sterling Advisers augments its capabilities through its operating partners, who are executives with substantial operating and financial experience. Sterling Advisers' operating partners work closely with Sterling Advisers to execute specific initiatives at portfolio companies, and often assist Sterling Advisers in the due diligence process.

Typically at least two of Sterling Advisers' investment professionals, and frequently one of its operating partners, serve on the board of directors of a portfolio company, and a Principal usually serves in the role of Chairman. Sterling Advisers generally takes a "hands-on" approach to managing and monitoring investments, continually providing guidance and strategic advice and adjusting the initial investment thesis and action plan as appropriate, supplementing formal board meetings and regularly scheduled calls to discuss the action plan and financial performance with frequent, informal conversations with the managers and operating partners involved in each company. Each portfolio company's progress is generally discussed at the regularly scheduled meetings of Sterling Advisor's investment professionals.

- *Continuously managing its monetization strategy.* Sterling Advisers continually manages its monetization strategy for each portfolio company. The ultimate timing

and method of divestiture varies based on a number of factors, including the portfolio company's historic and anticipated performance, progress in achieving Sterling Advisers' investment thesis, industry trends, financial and M&A market conditions, the state of the general economy, near term versus potential future returns to investors, and other factors. Sterling Advisers typically contemplates a wide variety of alternatives to achieve liquidity, including outright sales to third parties, public equity offerings and recapitalizations. Sterling Advisers typically targets a holding period for portfolio companies of five years, but portfolio companies may be held for shorter or longer periods.

### *Risk of Loss*

An investment in the Funds involves a high degree of risk, with the possibility of partial or total loss of capital, and limited partners must be prepared to bear partial or total capital losses that might result from portfolio investments. The risks for each Fund include, but are not limited to, the following:

*No Assurance of Investment Return.* Sterling Advisers cannot provide assurance that it will be able to successfully source, complete and exit portfolio investments, that targeted returns for the Fund's investment objective will be achieved, or that an investor will receive return of its capital. An investment in the Fund should only be considered by persons who can afford a loss of their entire investment. An investment in the Fund requires a long-term commitment, with no certainty that the Fund will realize its rate of return objectives or that capital loss will not occur. Past performance of investment entities managed by Sterling Advisers and its affiliates is not necessarily indicative of future results.

*Operating and Financial Risks of Portfolio Companies.* Companies in which the Fund invests could deteriorate as a result of, among other factors, an adverse development in their business, a change in the competitive environment, an economic downturn or unexpected litigation or adverse regulatory proceedings. As a result, companies which Sterling Advisers expected to be stable may operate at a loss or have significant variations in operating results and may require substantial additional capital to support their operations or to maintain their competitive position, which may not be available on favorable terms or at all. This may result in a weak financial condition, financial distress or bankruptcy.

*Use of Leverage.* The Fund's portfolio companies have a significant degree of leverage, as a result of which recessions, operating problems and other general business and economic risks may have a pronounced effect on the profitability or survival of such companies. Moreover, any rise in interest rates may significantly increase portfolio company interest expense, which could result in an inability to service debt levels. If a portfolio company cannot generate adequate cash flow to meet debt obligations, the Fund may suffer a partial or total loss of capital invested in the portfolio company. In addition, there can be no guarantee that debt facilities will be available, or available at commercially attractive rates, throughout the term of the Fund's ownership of the portfolio company or when due for refinancing, and that the portfolio company may be exposed to materially less favorable terms or rates upon a refinancing.

*Risk of Limited Number of Investments.* The Fund will participate in a limited number of portfolio investments and, as a consequence, the aggregate return of the Fund may be substantially adversely affected by the unfavorable performance of any single investment.

*Financial Market Fluctuations.* General fluctuations in prevailing acquisition multiples, public market equity valuations and interest rates may adversely affect the value of the portfolio investments held by the Fund. Instability in interest rates and valuation metrics may also increase the risks inherent in the Fund's portfolio investments.

*Illiquid and Long-Term Investments.* Although portfolio investments by the Fund occasionally may generate some current income, the return of capital and the realization of gains, if any, from a portfolio investment generally will occur only upon the partial or complete disposition of such portfolio investment. While a portfolio investment may be sold at any time, it generally is not expected that this will occur for a number of years after the portfolio investment is made, and as a result there can be no assurance that the Fund will be able to dispose of portfolio companies through sale, public offering or otherwise on favorable terms, and there is a risk that disposition of such investments may require a lengthy time period or may result in distributions in-kind to investors. The Fund may not be able to dispose of certain portfolio investments prior to the date the Fund will be dissolved, either by expiration of the Fund's term or otherwise, and in such circumstances there can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds to the limited partners will occur.

*Contingent Liabilities Upon Disposition.* In connection with the disposition of a portfolio investment, the Fund may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of any business, and may be responsible for the content of disclosure documents under applicable securities laws. As a result, the Fund may also be required to indemnify the purchasers of such portfolio investment or underwriters to the extent that any such representations or disclosure documents turn out to be inaccurate. These arrangements may result in the incurrence of contingent liabilities, which would be borne by the Fund. In that regard, limited partners may be required to return amounts distributed to them to fund Fund obligations, including indemnity obligations. Furthermore, under the Delaware Revised Uniform Limited Partnership Act, each limited partner that receives a distribution from the Fund in violation of such Act will, under certain circumstances, be obligated to recontribute such distribution to the Fund. In addition, the Fund may sell portfolio investments in public offerings. Such offerings can give rise to liability if the disclosure relating to such sales proves to be inaccurate or incomplete.

*Indemnification.* The Fund is required to indemnify Sterling Advisers, its general partner, their affiliates and their members, partners, officers, directors, shareholders and employees for liabilities incurred in connection with the affairs of the Fund. Such liabilities may be material and have an adverse effect on the returns to the limited partners. The indemnification obligation of the Fund would be payable from the assets of the Fund, including the unpaid capital commitments of the limited partners. If the assets of the Fund are insufficient, the Fund may recall distributions previously made to the limited partners, subject to certain limitations set forth in the Fund's partnership agreement. Sterling Advisers has purchased liability insurance to protect indemnified parties, the allocable cost of which is reimbursed by the Fund. Members of

the Fund's limited partner advisory committee are also entitled to the benefit of certain indemnification and exculpation provisions, as set forth in the Fund's partnership agreement.

*Absence of Recourse.* The Fund's partnership agreement includes exculpation, indemnification and other provisions that will limit the circumstances under which its general partner, Sterling Advisers and others can be held liable to the Fund. In addition, the Fund's partnership agreement contains provisions that, subject to applicable law, (i) reduce or eliminate the duties, including fiduciary and other duties, to which the general partner would otherwise be subject; (ii) waive duties or consent to conduct of the general partner that might not otherwise be permitted pursuant to such duties; and (iii) limit the remedies of limited partners with respect to breaches of such duties. Additionally, certain service providers to the Fund, the general partners, Sterling Advisers, their respective affiliates and other persons, including, without limitation, the members of the Fund's limited partner advisory committee, the Principals and other investment professionals, and placement agents, finders and advisers, may be entitled to exculpation and indemnification. As a result, the limited partners may have a more limited right of action in certain cases than they would in the absence of such limitations.

*Reliance on Portfolio Company Management.* Each portfolio company's day-to-day operations are the responsibility of such company's management team. Although Sterling Advisers is responsible for monitoring the performance of each portfolio investment, there can be no assurance that the existing management team, or any successor, will be able to operate the portfolio company to achieve the Fund's plans and projected investment returns.

*Control Position Risk.* The Fund primarily makes investments that allow the Fund to acquire control or exercise influence over management and the strategic direction of portfolio investments, and the Fund typically designates a majority of the members of the board of directors of each portfolio company. The exercise of control over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management and other types of liability in which the limited liability characteristic of business operations generally could be ignored. The exercise of control over a portfolio investment could expose the assets of the Fund to claims by such portfolio companies, its shareholders and its creditors. While the Fund's general partner intends to manage the Fund in a manner that will minimize the exposure of these risks, the possibility of successful claims cannot be precluded.

*Risk of Fraud in a Portfolio Company.* Although Sterling Advisers performs significant due diligence with respect to each portfolio investment, the risk of fraud cannot be eliminated. In the event of fraud by any company in which the Fund invests, the Fund may suffer a partial or total loss of capital invested in that company. There can be no assurance that any such losses will be offset by gains (if any) realized on the Fund's other portfolio investments.

*Non-U.S. Investments.* The Fund may invest a portion of its capital commitments in portfolio companies with substantial operations outside the United States. Non-U.S. operations involve certain factors not typically associated with investing in companies primarily operating in the United States, including risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various foreign currencies in which the portfolio company's non-U.S. operations are denominated; (ii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and

less 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, the risks of political, economic or social instability and the possibility of expropriation or confiscatory taxation; (iv) the possible imposition of foreign taxes on income and gains recognized from such operations or distributions therefrom; and (v) differences in applicable legal systems, including the possibility that the Fund may experience difficulty in asserting legal claims or obtaining legal remedies in foreign jurisdictions. In addition, non-U.S. jurisdictions in which the Fund's portfolio companies may operate may have similar laws, regulations and market and business conditions to those described with respect to the U.S. herein and accordingly, similar potential risks would apply. There can be no assurance that adverse developments with respect to such risks will not adversely affect the Fund's portfolio companies operating outside the United States.

*Additional Capital.* The Fund's portfolio companies may require additional capital in the event of an economic downturn, changes in the competitive environment, unexpected litigation or adverse regulatory proceedings or otherwise. In addition, building portfolio companies through add-on or strategic acquisitions has often been a significant element of Sterling Advisers' investment thesis, which may require the Fund to invest additional capital. There can be no assurance that the Fund will have sufficient funds to make additional investments or the ability to do so, or that the portfolio company will be able to obtain such needed capital from third parties on favorable terms or at all. Any decision by the Fund not to make follow-on investments or its inability to make them, or the portfolio company's inability to obtain additional capital from third parties on favorable terms, may have a substantial negative impact on a portfolio company in need of such an investment. If additional capital is obtained from third parties, the Fund's interest in the portfolio company may be diluted or otherwise materially adversely affected.

*No Market for Limited Partnership Interests/Transferability Restrictions.* The limited partners interests (the "**Interests**") in the Fund have not been registered under the Securities Act or applicable securities laws of any state or non-U.S. jurisdiction. Therefore, the Interests cannot be resold unless subsequently registered under the Securities Act and other applicable laws or an exemption from such registration is available. There is no public market for the Interests and none is expected to develop; therefore it may be difficult to value the Interests. A limited partner will not be permitted to assign or otherwise transfer its Interests in whole or in part without the prior written consent of the Fund's general partner, which may be given or withheld in the general partner's sole discretion. Limited partners may not withdraw capital from the Fund, except in certain limited circumstances. Consequently, limited partners may not be able to liquidate their investments prior to the end of the Fund's term. Limited partners must be prepared to bear the risks of owning Interests and contributing capital for an extended period of time.

*Reinvestment.* In general, capital returned to the partners of the Fund from the disposition of a portfolio investment within one year of making the portfolio investment may be retained and reinvested (or recalled for reinvestment) by the Fund's general partner or used (or recalled for use) by the Fund's general partner for any purpose permitted under the Fund's partnership agreement to fund portfolio investments of the Fund. Capital contributions for Management Fees, Fund expenses and Organizational Expenses may be recycled out of distributions and,



accordingly, due to such recycling a partner may, in certain circumstances, be required to fund an aggregate amount in excess of its capital commitment during the term of the Fund.

*Material, Non Public Information.* By reason of their responsibilities in connection with their business activities (such as serving as a director of a portfolio company), the Principals and other personnel of Sterling Advisers may (i) acquire confidential or material non-public information that they will not be able to use for the benefit of the Fund or (ii) be restricted from initiating transactions in certain securities. Accordingly, the Fund may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell securities of a publicly-traded portfolio investment that it otherwise might have sold.

*Side Letters.* The Fund may enter into side letters or other writings with certain limited partners in connection with their admission, without the approval of any other limited partner, which has the effect of establishing rights under or altering or supplementing the terms of the Fund's Governing Documents. Such rights or terms in any such side letter or other similar agreement may include, without limitation: (i) excuse rights applicable to particular investments (which may increase the percentage interest of other limited partners in, and contribution obligations of other limited partners with respect to, such investments); (ii) the general partner's agreement to extend certain information rights or additional reporting to such limited partner, including, without limitation, to accommodate special regulatory or other circumstances of such limited partner; (iii) modification of the confidentiality obligations of such limited partner; (iv) the general partner's agreement to consent to certain transfers by such limited partner or other exercises by the general partner of its discretionary authority under the Fund's partnership agreement for the benefit of such limited partner; (v) restrictions on, or special rights of such limited partner with respect to, the activities of the general partner; (vi) other rights or terms necessary in light of particular legal, regulatory or public policy characteristics of such limited partner; (vii) additional obligations, and restrictions of the Fund with respect to the structuring of any portfolio investment (including with respect to alternative investment vehicles); (viii) preferential access to co-investment opportunities; and (ix) certain adjustments with respect to certain economic provisions. Any rights or terms so established in a side letter with a limited partner will govern solely with respect to such limited partner and will not require the approval of any other limited partner notwithstanding any other provision of the Fund's partnership agreement.

*Risks in Effecting Operating Improvements.* The success of the Fund's investment strategy will often depend, in part, on the ability of the Fund to effect improvements in the operations of a portfolio company. Identifying and implementing operating improvements at portfolio companies entails substantial uncertainty. There can be no assurance that the Fund will be able to successfully effect such improvements.

#### *Potential Conflicts of Interest*

There will be occasions when a Fund's general partner and its affiliates (including Sterling Advisers) may encounter potential conflicts of interest in connection with the Fund. Each Fund's partnership agreement contains provisions that, subject to applicable law, reduce or modify the duties, including fiduciary and other duties, to the Fund and the limited partners to which the Fund's general partner and its affiliates (including Sterling Advisers) would otherwise

be subject, provisions that waive or consent to conduct on the part of the general partner and its affiliates (including Sterling Advisers) that might not otherwise be permitted pursuant to such duties, and provisions that limit the remedies of limited partners with respect to breaches of such duties. If any matter arises that the general partner determines in its good faith judgment constitutes an actual conflict of interest, the general partner may take such actions as may be necessary or appropriate, within the confines of the Fund's partnership agreement, to address the conflict (and upon taking such actions the general partner will be relieved of any responsibility for such conflict and be deemed to have satisfied its fiduciary duties with respect to such conflict). By acquiring an Interest in the Fund, each limited partner will be deemed to have acknowledged the existence of any such actual or potential conflicts of interest and to have waived any claim with respect to any liability arising from the existence of any such conflict of interest. Sterling Advisers and its partners, members, directors, officers, and employees may in the future engage in further activities that may result in additional conflicts of interest not addressed below. The following discussion describes certain potential conflicts of interest:

*Carried Interest.* The existence of the general partner's Carried Interest, which is based on a percentage of net realized profits, may create an incentive for Sterling Advisers and the general partner to make more speculative portfolio investments on behalf of the Fund than it would otherwise make in the absence of such performance-based arrangement. In addition, if distributions are made of property other than cash, the amount of any such distribution will be accounted for at the fair market value of such property, as determined by the general partner in accordance with procedures specified in the Fund's partnership agreement. An independent appraisal generally will not be required and is not expected to be obtained.

*Fees from Portfolio Companies.* Sterling Advisers and its affiliates enter into management agreements with portfolio companies at the time of acquisition, which may be subsequently amended, pursuant to which Sterling Advisers and its affiliates receive certain cash fees from portfolio companies in connection with the making of the portfolio investment and in respect of services provided by Sterling Advisers in connection with the monitoring, financing or disposition of portfolio investments (e.g., transaction, directors', management, advisory and other similar fees). Sterling Advisers negotiates the terms of the management agreement with the management teams of the portfolio companies it is acquiring, lenders to such companies and/or significant co-investors, if any. Such management teams may not have, or may not exercise, negotiating leverage in the negotiation of the fees and other terms of such management agreements. While Sterling Advisers believes its fee arrangements are reasonable in relation to the services provided, and while the portfolio companies' lenders and any co-investors may impose limits on the fees charged and/or paid on a current basis, there can be no assurance that these fees are on an "arms-length" basis. As described in "Item 5. Fees and Compensation," certain of such fees offset future Management Fees. Except to the extent of such offsets, the Fund's net return on portfolio investments could be reduced by the amount by which payment of such fees, taking into account tax deductibility, increases a portfolio company's net debt at disposition. Any such reduction in net return would also reduce the Carried Interest payable to an affiliate of Sterling Advisers. Nevertheless, Sterling Advisers could have an incentive to charge such fees for a number of reasons, including because the fees generally are paid immediately, and because such fees, together with Management Fees, may be the only return Sterling Advisers and its affiliates receive in the event that the Fund does not generate sufficient returns to pay Carried Interest.

Valuation of Unrealized Investments. The capital invested by the Funds generally consists of investments in private companies, for which no public market values exist. As a result, the fair market value of the capital invested by the Funds represents an estimate of the fair market value of unrealized investments in accordance with Fair Value Measurements and Disclosures (FASB ASC Topic 820). These valuations are subject to review at year end by the Fund's auditors and limited partner advisory committee. Sterling Advisers could have an incentive to establish a higher value for unrealized investments in order to show a stronger investment performance, particularly when it is engaged in raising a new private investment Fund. In addition, Sterling Advisers may have an incentive to establish higher valuations of portfolio investments in order to avoid a write-down that would reduce the amount of invested capital on which Management Fees are paid after the end of the Fund's investment period. There can be no assurance that the ultimate realized value of an investment will equal its unrealized value.

Allocation of Co-Investment Opportunities. From time to time certain limited partners that have indicated an interest in receiving co-investment opportunities and have co-investment capabilities are offered co-investment opportunities in portfolio investments of the Fund. This allocation of co-investment opportunities may present a conflict of interest as Sterling Advisers may have an interest in offering such opportunities to limited partners as an incentive to invest in a future private investment Fund advised by Sterling Advisers or an affiliate. See "Item 12. Brokerage Practices" for information on how Sterling Advisers allocates co-investment opportunities.

Other Activities. The Principals and Sterling Advisers' other investment professionals anticipate devoting a majority of their business time to the Fund's investment program during its commitment period and will devote such time as may be necessary to conduct the other business affairs of the Fund in an appropriate manner. However, the Principals and other investment professionals will participate in other activities, including fund raising and activities with respect to future private investment Funds with respect to which they would receive Management Fees and Carried Interest. In addition, in the case of any future private investment Fund, other activities will include monitoring the portfolio investments of the Existing Funds. Sterling Advisers believes that the significant investment of the Principals in the Funds, as well as the Principals' interest in the Carried Interest with respect to the Funds, operate to align, to some extent, the interest of the Principals with the interest of the investors in the Funds.

Diverse Limited Partner Group. The limited partners may have conflicting investment, tax and other interests with respect to their investments in the Fund. The conflicting interests of individual limited partners may relate to or arise from, among other things, the nature of portfolio investments made by the Fund, the structuring or the acquisition of portfolio investments and the timing of disposition of portfolio investments. As a consequence, conflicts of interest may arise in connection with the decisions made by the Fund's general partner, including with respect to the nature or structuring of portfolio investments that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring portfolio investments appropriate for the Fund, its general partner will consider the investment and tax objectives of the Fund and the partners as a whole, not the investment, tax or other objectives of any limited partner individually.

Certain limited partners will have representatives on the Fund's limited partner advisory committee. The limited partner advisory committee will have a role in certain matters regarding the Fund, including with respect to certain conflicts of interest, in each case as provided in the Fund's partnership agreement. The Fund's partnership agreement provides that to the fullest extent permitted by law, (i) none of the members of the limited partner advisory committee, nor the limited partners and/or investors in any parallel fund on behalf of whom such members act as representatives, if applicable, shall owe any duties (fiduciary or otherwise) to any other limited partner in respect of the activities of the limited partner advisory committee, other than the duty to act in good faith; and (ii) in taking or omitting to take any action, a member of the limited partner advisory committee may act solely in the interests of the limited partners and/or investors in the parallel funds, which it represents, if applicable, and the same shall not be deemed (in and of itself) to violate its duty of good faith. Furthermore, members of the limited partner advisory committee may have various business and other relationships with Sterling Advisers and its partners, employees and affiliates. The presence of these other relationships may influence their decisions as members of such committee.

*Related Party Transactions.* From time to time, Sterling Advisers recommends to portfolio companies that they utilize the services of qualified persons who are relatives of the Principals where in Sterling Advisers' judgment there is a professional competency to perform services for the portfolio companies. Sterling Advisers' Code of Ethics provides that a Principal will recuse himself from any decision regarding the engagement of any of his family members by a portfolio company. Sterling Advisers believes that any compensation payable to these persons is reasonable and comparable to compensation that would be paid to unrelated third parties; however, there can be no assurance that this is the case.

*Lending Relationships.* Certain limited partners in the Fund, or their affiliates, are entities that are in the business of providing debt financing to companies. This may influence Sterling Advisers in deciding whether to select such lending entities to provide debt financing to a portfolio company. Moreover, these lenders may also serve as lenders to portfolio companies of other Funds, or they or their affiliates may be limited partners in other Funds. These other relationships may influence Sterling Adviser in deciding whether to select such entity to provide debt financing to a portfolio company. Notwithstanding the foregoing, Sterling Advisers generally allocates opportunities to such lenders based on its assessment of which lending relationship would be in the best interests of the portfolio company.

**ITEM 9. DISCIPLINARY INFORMATION**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of our company or the integrity of our management. Sterling Advisers and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this brochure.

**ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

The Principals are managing members of the general partner of each of the Existing Funds. Certain principals and related persons of Sterling Advisers may spend a substantial portion of their business time on one or more of the Funds as may be required pursuant to the terms of such Fund's Governing Documents. Investors should refer to the Governing Documents of the relevant Fund for complete information on the requisite time commitments of Sterling Advisers' related persons to the Funds.

## ITEM 11. CODE OF ETHICS

Sterling Advisers adheres to a strict Code of Ethics (the “**Code**”) that sets forth standards of conduct that are expected of Sterling Advisers’ Principals and employees and addresses conflicts that may arise from personal trading and outside business activities. The Code subjects each employee to appropriate restrictions on activities and securities trading, and provides information on certain prohibited transactions, Sterling Advisers’ internal review and compliance procedures, including quarterly and annual reporting requirements, and rules of business conduct, all intended to prevent or detect potential conflicts of interest. The Code also includes policies and procedures to prevent the misuse of material non-public information in Sterling Advisers’ possession. Strict compliance with the Code and applicable securities laws is a basic condition of employment with Sterling Advisers and each employee is obligated to individually read and retain a copy of the Code as well as certify that he or she has read and understands the Code. Sterling Advisers reviews compliance with the Code on an ongoing basis, and employees may be subject to disciplinary actions as severe as dismissal for certain infractions.

Sterling Advisers 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, Sterling Advisers 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, including the Funds. Accordingly, should Sterling Advisers or any of its affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, they would be prohibited from using such information on behalf of the Funds or disclosing it to the Funds’ limited partners, and they will have no responsibility or liability for failing to use or disclose such information. Similar restrictions may be applicable as a result of Sterling Advisers’ personnel serving as directors of public companies and may restrict disposition of such companies’ securities by the Funds.

All employees are required to submit an initial, and thereafter annual, holdings report as well as quarterly transaction reports or equivalent brokerage statements, detailing securities (as defined in the Code) held, purchased or sold during the relevant period. In addition, all employees must pre-clear securities trades in an initial public offering or a private placement, to ensure that potential conflicts of interest are adequately identified and addressed in a timely manner, and in securities maintained on Sterling Advisers’ restricted list, which consist of securities of public companies that Sterling Advisers has determined its employees should not be trading, generally because Sterling Advisers may be in possession of material non-public information relating to such company.

The requirements of the Code to report and pre-clear trades do not apply to (i) purchases or sales in any discretionary managed account over which an employee has no direct or indirect influence or control, or ability to direct any investment decision, (ii) purchases that are part of any automatic dividend reinvestment plan or direct investment program, (iii) purchases effected upon the exercise of rights issued by an issuer pro-rata to all holders of a class of securities to the extent such rights were acquired from such issuer, and sales of such rights, and (iv) purchases and sales of open-end mutual funds, money market funds, direct obligations of the U.S. federal

government, municipal securities, bank certificates of deposits, bankers acceptances, commercial paper and repurchase agreements.

The Code includes, among other things, requirements that all employees:

- Conform their business conduct to applicable state and federal laws and regulations;
- Report gifts valued in excess of \$500 from any actual or potential supplier of goods or services to Sterling Advisers or the Funds;
- Obtain pre-approval before making a political contribution to any state or local political candidate or public official
- Obtain pre-approval before giving or receiving entertainment that exceeds \$500 in value per person to or from a person that is conducting or is expected to conduct business with Sterling Advisers or the Funds within a one year period, other than entertainment received at networking events, seminars and conferences attended in the ordinary course of business;
- Obtain pre-approval of any outside business activities that involve a time commitment that could reasonably be expected to have an adverse effect on the employee's work at Sterling Advisers or conflict with the limited partnership agreement of any Fund or provide for material compensation to the employee; and
- Obtain pre-approval before serving as an officer, partner, director or employee of another company or business; as a member of the board of directors or trustees of any business organization; or on a creditors' committee, other than in the course of his or her employment with Sterling Advisers or as a service to a civic or charitable organization.

The Code prohibits employees from, among other things:

- Making political contributions on behalf of or in the name of Sterling Advisers;
- Rebating or paying any part of the compensation received from Sterling Advisers as an employee to any person, firm, or corporation, directly or indirectly, in a manner that creates or appears to create a conflict of interest; and
- Accepting, directly or indirectly from any person, corporation, or association, other than Sterling Advisers, compensation of any nature as a bonus, commission, fee or other material consideration from any portfolio company of the Funds (except for written contractual arrangements with portfolio companies that are made with the approval of the Principals).

Sterling Advisers has also adopted a compliance program, which includes, among other things, a records retention and communication policy, an information security program intended to protect the confidentiality of the information retained by Sterling Advisers and policies designed to ensure compliance with applicable laws and regulations.



Investors can request a copy of the Code by writing to Sterling Investment Partners Advisers, LLC, Suite 300, 285 Riverside Avenue, Westport, CT, 06880, Attn: Chief Compliance Officer.

*Participation or Interest in Client Transactions*

As managing members of the general partners of each of the Funds and investors in the Funds, Sterling Advisers' related persons have indirect beneficial interests in the securities owned by the Funds and will share in any profits and losses generated by the Funds' investments. Sterling Advisers' related persons are not permitted to have direct ownership in any portfolio investment prior to the Fund that acquired the portfolio investment no longer holding the portfolio investment, except that such persons may (i) receive options or other equity grants for service as a director where all non-executive directors are issued options or equity and (ii) purchase securities in such portfolio investment in open market transactions. Persons serving as operating partners on behalf of Sterling Advisers (*i.e.*, persons with operating experience that assist portfolio companies at the request of Sterling Advisers but who are not employees of Sterling Advisers or the Funds) (i) may purchase securities of portfolio companies to which they provide assistance with the prior approval of the Principals and (ii) are compensated by the portfolio companies to which they provide services and generally participate in such portfolio companies' incentive equity programs.

While Sterling Advisers endeavors at all times to act in the best interests of the Funds, investors in the Funds should be aware that Sterling Advisers' affiliates' receipt of Carried Interest from the Funds creates a potential conflict of interest with respect to such transactions. See "Item 6. Performance-Based Fees And Side-By-Side Management".

## **ITEM 12.       BROKERAGE PRACTICES**

Sterling Advisers focuses on investing in private companies, and generally purchases and sells such companies through privately-negotiated transactions in which the services of a broker-dealer may be retained. However, in the event that a Fund portfolio company goes public, is acquired in a transaction in which the consideration includes publicly traded securities, or a public trading market otherwise exists, Sterling Advisers may also distribute publicly-traded securities to investors in the Fund or sell such securities through a broker-dealer or otherwise. Although Sterling Advisers does not intend to regularly engage in public securities transactions, to the extent it does so, it follows the brokerage practices described below.

If Sterling Advisers sells publicly-traded securities for the Funds, Sterling Advisers, in selecting a broker to execute such sale, considers a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reliability, integrity and reputation of the firm being considered; and (iv) responsiveness. In addition, the Funds are permitted to distribute publicly-traded securities that are freely tradeable to its limited partners; if that happens, the limited partners, and not Sterling Advisers, would choose the broker dealer(s) through whom the limited partners dispose of these securities. Fees and/or commissions payable are negotiated by Sterling Advisers and are allocated pro rata among the limited partners of the relevant Fund.

Sterling Advisers has no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular Fund 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 minimize the expenses incurred in effecting transactions on behalf of the Funds. Although Sterling Advisers generally seeks competitive commission rates, it will 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.

Although Sterling Advisers receives economic research, market strategy research, industry research and company research from brokerage firms, such research has not, and Sterling Advisers does not expect that such research in the future will be, a basis for selecting a broker-dealer to execute trades in public securities on behalf of one or more Funds.

As discussed above, Sterling Advisers does not anticipate engaging in significant public securities transactions. However, to the extent that it engages in such transactions, Sterling Advisers may place orders with broker dealers to purchase or sell the same securities or instruments for several Funds simultaneously. 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 Fund is favored over any other Fund. Specifically, when an aggregated order is filled in its entirety, each participating 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 Fund participating in

such buy or sell order in accordance with the amount of securities originally requested for such Fund.

Sterling Advisers also from time to time assists the Funds' portfolio companies in choosing investment banking firms to assist in the sale of the portfolio company or its debt or equity securities. In advising the portfolio company, Sterling Advisers uses reasonable diligence and considers the full range and quality of a broker's services, including the broker's knowledge of and experience in the industry in which the portfolio company participates, the broker's knowledge and relationship with prospective buyers, and Sterling Adviser's assessment of the broker's skills and experience in assisting in managing the process and negotiating with prospective buyers.

As described in "Item 6. Performance-Based Fees and Side-By-Side Management," investments in portfolio companies are allocated between Fund II and SBS II based on the aggregate capital commitments of each Fund. The Governing Documents for Fund II provide that if prior to the earlier of the end of Fund II's investment period or Fund II being fully invested (as defined in Fund II's Governing Documents), Sterling Advisers or an affiliate has organized a new private investment Fund, such new Fund may only invest in any new investment opportunity once Fund II (and SBS II) have collectively invested a specified amount in such investment opportunity, subject to limited exceptions.

Sterling Advisers' may allow limited partners of the Funds, lenders to portfolio companies and, on occasion, others, such as Sterling Advisers' operating partners, to co-invest in portfolio companies on the same economic terms as the Funds. Co-investment by limited partners of the Funds generally occurs when the size of the aggregate investment in the portfolio company (including potential add-on investment) exceeds the amount that Sterling Advisers considers appropriate for the Funds (which is generally in the range of 10% of committed capital). Sterling generally allocates such co-investment opportunities taking into consideration the following factors: the limited partner's expressed interest in co-investing generally and specific level of interest in the particular investment opportunity, the length of time the limited partner requires to review the opportunity relative to the length of time available to Sterling Advisers to respond to the opportunity, the total amount of co-investment capital required relative to the amount the limited partner has expressed an interest in co-investing, the number of limited partners interested in the co-investment opportunity, and relevant industry experience or other expertise that the limited partner may provide. If, after taking into account the forgoing factors, there are multiple limited partners interested in co-investing, Sterling Advisers generally attempts to allocate such co-investment based on the size of the interested limited partners' commitments to the Fund investing in the transaction, taking into account any minimum size for such co-investments expressed by the limited partners. The Governing Documents generally provide discretion to Sterling Advisers in allocating co-investments. Lenders often request the ability to make a modest co-investment in connection with their providing loans for the acquisition of a portfolio company by the Funds. Sterling Advisers believes allowing such co-investment is in the best interest of the Funds as it more closely aligns the interests of the lender and the Funds with respect to the portfolio company. Regarding co-investment in a transaction by others, such as operating partners, such co-investment is generally based on Sterling Advisers' view that the co-investor could provide useful expertise or services to the portfolio company, or otherwise

could be advantageous to the portfolio company. See “Item 8. Methods of Analysis, Investment Strategies and Risk of Loss—Conflicts of Interest.”

Due to the nature of the investments the Funds make, Sterling Advisers does not enter into soft dollar arrangements.

### **ITEM 13. REVIEW OF ACCOUNTS**

Sterling Advisers manages the portfolio investments of the Funds. Sterling Advisers does not manage individual advisory accounts or hold itself out as providing financial planning or similarly termed services. Sterling Advisers employs professionals dedicated to monitoring and reviewing the Funds' investment portfolio on a regular basis. Because the investments made by the Funds are generally private, illiquid and long-term in nature, the review process is not directed toward a short-term decision to dispose of securities. Sterling Advisers professionals, including the Principals, generally hold regular weekly meetings at which the Funds' portfolio investments are reviewed, including performance, material developments and other significant matters that could reasonably have a material effect on a portfolio investment. Generally, at least two of Sterling Advisers' investment professionals, including at least one Principal, serve as members of the board of directors of each portfolio company. In addition, the Principals and other professionals employed by Sterling Advisers assigned to each portfolio company supplement formal board meetings with frequent, informal conversations and/or regularly scheduled calls with the managers and operating partners involved in the company to discuss the financial performance, operations and action plan for the company.

Investors in the Funds receive annual audited financial statements of their Fund and quarterly unaudited financial statements of their Fund, together with a brief discussion of each portfolio company and its operations during the period. In addition, investors in the Funds are invited to the Funds' annual investor meeting, during which senior managers of most portfolio companies make presentations to the investors.

Outside tax, accounting and legal professionals are engaged on an as-needed basis to assist with year-end financial and tax reporting and other complex administrative issues. The Funds are subject to annual audits by a nationally-recognized Public Company Accounting Oversight Board (PCAOB)-registered independent auditor.

#### **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

No person other than the Funds provides any compensation or material economic benefit (including sales awards or prizes) to Sterling Advisers for providing investment advice or other advisory services to Sterling Advisers' clients. Sterling Advisers' employees are required to report gifts, favors, preferential treatment or other special arrangement having a value in excess of \$500 from any supplier of goods or services to Sterling Advisers or the Funds.

In the past, affiliates of Sterling Advisers have entered into agreements with placement agents in connection with the marketing of the Principal Funds. Sterling Advisers or its affiliates expect to enter into similar agreements or arrangements in connection with the marketing of future private investment Funds. Placement agent fees were borne by investors in the Funds, but reduced the Management Fee paid by the investors. Details of how the costs of any such placement agent arrangement were borne were set forth in a written agreement with the placement agent and disclosed to the clients or investors through inclusion in the Governing Documents of the relevant Fund and in the private placement memorandum pursuant to which Interests in the Fund were offered. Investors should be aware that the receipt of compensation by a placement agent or third party solicitor may create a conflict of interest, and may affect the judgment of the placement agent or solicitor, when making a recommendation for an investment in the Funds advised by Sterling Advisers.

As described under "Item 5. Fees and Compensation" above, Sterling Advisers receives certain fees from portfolio companies.

**ITEM 15. CUSTODY**

Each Fund is a pooled investment vehicle, and custody of such Fund's assets is maintained in compliance with applicable rules and regulations set forth in the Advisers Act. Where required, cash and securities are maintained at a financial institution meeting the definition of qualified custodian under the Advisers Act. In addition, the financial statements of each Fund are audited by a nationally-recognized Public Company Accounting Oversight Board (PCAOB)-registered independent auditor and the Governing Documents of each Fund require the financial statements to be distributed to investors within 120 days of the applicable fiscal year-end of the respective Fund.

## **ITEM 16. INVESTMENT DISCRETION**

Subject to the investment objectives, policies and restrictions of each Fund as set forth in the Governing Documents of such Fund, Sterling Advisers has discretionary authority to determine the type, amount and price of securities and investments to be bought and sold on behalf of each Fund, including the selection of, and commissions paid to, broker-dealers. Pursuant to the terms of the Principal Funds' Governing Documents, however, the Funds may enter into "side letter" arrangements with certain limited partners whereby the terms applicable to such limited partner's investment in the 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.



## ITEM 17. VOTING CLIENT SECURITIES

Each Fund is a pooled investment vehicle and the general partner of such Fund votes the securities held by the Fund on all matters coming before the holders of such securities. The general partner votes the securities in a manner that serves the best interests of the Fund, as determined by the general partner in its discretion, taking into account relevant factors, including but not limited to (i) the impact on the value of the securities; (ii) the anticipated costs and benefits associated with the proposal; (iii) the effect on liquidity; and (iv) current industry and business practices. As the Funds are generally the majority owners of the Funds' portfolio companies and generally have the right to nominate a majority of the board of directors (principally employees of Sterling Advisers), matters are generally not put to a vote of the stockholders of a portfolio company unless required by law or Sterling Advisers has determined that a vote is in the best interests of the portfolio company and the Funds.

In accordance with SEC requirements, Sterling Advisers has adopted Proxy Voting Policies and Procedures (the "**Policy**") to address how the general partner of Fund will vote proxies, as applicable, for the Fund's portfolio investments. The Policy seeks to ensure that the general partner vote proxies (or similar instruments) in the best interest of the Fund, including when there may be material conflicts of interest in voting proxies. Sterling Advisers believes that the interests of the general partner are generally aligned with the Fund's investors through the Principals' beneficial ownership interests in the Fund and therefore will not seek investor approval or direction when voting proxies. In the event, however, there is or may be a conflict of interest between the general partner or its affiliates and the Funds in voting proxies, the Policy provides that the general partner may address the conflict using several alternatives, including by seeking the approval or concurrence of the Fund's limited partner advisory committee on the proposed proxy vote or through other alternatives set forth in the Policy. Additionally, the limited partner advisory committee may be asked to approve the Fund's vote in a particular solicitation. Sterling Advisers does not consider service on portfolio company boards by its personnel or Principals or the 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 Policy sets forth certain specific proxy voting guidelines the Fund's general partner follows when voting proxies on behalf of the Fund.

A copy of the Policy or information regarding how the Fund's general partner voted proxies for particular portfolio companies whose securities are publicly traded will be provided to clients or prospective clients at no charge upon request to the Chief Compliance Officer at (203) 226-8711.

**ITEM 18. FINANCIAL INFORMATION**

Sterling Advisers does not require prepayment of Management Fees six months or more in advance. Sterling Advisers is not aware of having any financial condition that is reasonably likely to impair its ability to meet contractual requirements to the Funds. Sterling Advisers has never filed for bankruptcy protection.

**Brochure Supplement for Sterling Investment Partners Advisers, LLC  
M. William Macey, Jr.**

**285 Riverside Avenue  
Suite 300  
Westport, CT 06880-4806**

**This brochure supplement provides information about M. William Macey, Jr. that supplements the Sterling Advisers brochure. You should have received a copy of that brochure. Please contact Michael A. Barr at 203-226-8711 or barr@sterlinglp.com if you did not receive Sterling Advisers' brochure or if you have questions about the contents of this supplement.**

**Educational Background and Business Experience**

Mr. Macey co-founded Sterling Ventures Limited (“**Sterling Ventures**”), the predecessor to Sterling Advisers, in 1991. Mr. Macey is a Managing Partner of Sterling Advisers and the general partner of each Existing Fund. Prior to co-founding Sterling Ventures, Mr. Macey was a Managing Director and Head of U.S. Corporate Finance at the Asian Oceanic Group, a Hong Kong-based merchant bank, from 1990 to 1991. From 1983 to 1990, Mr. Macey was a member of the M&A group of Smith Barney, Harris Upham & Co., most recently as a Managing Director. Prior to joining Smith Barney, Mr. Macey served as an Associate in the Corporate Department of Holme Roberts & Owen LLP from 1981 to 1982 and the Corporate Department of Cravath, Swaine & Moore LLP from 1978 to 1980. Mr. Macey earned a B.A. degree from Dartmouth College and a J.D. degree from Yale Law School. Mr. Macey was born in 1953.

**Disciplinary History**

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

**Other Business Activities**

Mr. Macey is not engaged in any investment-related business or any other business or occupation outside of his roles with Sterling Advisers and the general partners of the Funds.

**Additional Compensation**

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

**Supervision**

As a Managing Partner of Sterling Advisers, Mr. Macey is part of a team that is responsible for sourcing, analysis, structuring, financing and dispositions of the Funds' transactions. Mr. Macey is not subject to the direct supervision of any other individual, although Charles Santoro (203-226-8711), a Managing Partner of Sterling Advisers, oversees his compliance with Sterling Advisers' policies and procedures.

**Brochure Supplement for Sterling Investment Partners Advisers, LLC  
Douglas L. Newhouse**

**285 Riverside Avenue  
Suite 300  
Westport, CT 06880-4806**

**This brochure supplement provides information about Douglas L. Newhouse that supplements the Sterling Advisers brochure. You should have received a copy of that brochure. Please contact Michael A. Barr at 203-226-8711 or barr@sterlinglp.com if you did not receive Sterling Advisers' brochure or if you have questions about the contents of this supplement.**

**Educational Background and Business Experience**

Mr. Newhouse co-founded Sterling Ventures, the predecessor to Sterling Advisers, in 1991. Mr. Newhouse is a Managing Partner of Sterling Advisers and the general partner of each Existing Fund. Prior to co-founding Sterling Ventures, Mr. Newhouse was a founder and Managing Director of Middex Capital Corp., a private-equity organization focused on middle-market operating companies. From 1980 to 1988, Mr. Newhouse served in various capacities in the Corporate Finance Department at Lehman Brothers Inc., most recently as Senior Vice President. From 1979 to 1980, Mr. Newhouse served as Vice President of the Matuschka Group in Munich, Germany. Mr. Newhouse earned a B.A. degree from Cornell University and an M.B.A. from the University of Chicago. Mr. Newhouse was born in 1953.

**Disciplinary History**

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

**Other Business Activities**

Mr. Newhouse is not engaged in any investment-related business or any other business or occupation outside of his roles with Sterling Advisers and the general partners of the Funds.

**Additional Compensation**

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

**Supervision**

As a Managing Partner of Sterling Advisers, Mr. Newhouse is part of a team that is responsible for sourcing, analysis, structuring, financing and dispositions of the Funds' transactions. Mr. Newhouse is not subject to the direct supervision of any other individual, although M. William Macey, Jr. (203-226-8711), Chief Compliance Officer for Sterling Advisers, oversees his compliance with Sterling Advisers' policies and procedures.

**Brochure Supplement for Sterling Investment Partners Advisers, LLC  
Charles W. Santoro**

**285 Riverside Avenue  
Suite 300  
Westport, CT 06880-4806**

**This brochure supplement provides information about Charles W. Santoro that supplements the Sterling Advisers brochure. You should have received a copy of that brochure. Please contact Michael A. Barr at 203-226-8711 or barr@sterlinglp.com if you did not receive Sterling Advisers' brochure or if you have questions about the contents of this supplement.**

**Educational Background and Business Experience**

Mr. Santoro joined Sterling Ventures, the predecessor to Sterling Advisers, in 1998. Mr. Santoro is a Managing Partner and co-founder of Sterling Advisers and Managing Partner of the general partner of each Existing Fund. Prior to joining Sterling Ventures, Mr. Santoro served in various positions with PaineWebber, Inc. from 1995 to 2000, most recently as Managing Director and Vice Chairman of Investment Banking from 1996 to 2000, where he also worked with that firm's chairman and president to develop and implement its merchant banking strategy, including PaineWebber's affiliation and investment in Fund I. From 1991 to 1995, Mr. Santoro was a Managing Director of Smith Barney, Inc. in charge of the firm's Multi-Industry Group and New Business Development Group. From 1991 to 1993, Mr. Santoro was a Managing Director and head of Smith Barney International's cross-border investment banking activities in New York and London, where he also sat on Smith Barney International's Board of Directors. Mr. Santoro joined Morgan Stanley Inc.'s M&A Department in 1984, where he last served as Operations Officer and Vice President of Morgan Stanley's U.K. and Continental European M&A Department. Mr. Santoro earned a B.A. degree from Columbia University in 1982 and an M.B.A. from Harvard Business School in 1984. Mr. Santoro was born in 1959.

Mr. Santoro serves as a director of Interline Brands, Inc., an NYSE-listed company.

**Disciplinary History**

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

**Other Business Activities**

Mr. Santoro is not engaged in any investment-related business or any other business or occupation outside of his roles with Sterling Advisers and the general partners of the Funds.

**Additional Compensation**

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

## **Supervision**

As a Managing Partner of Sterling Advisers, Mr. Santoro is part of a team that is responsible for sourcing, analysis, structuring, financing and dispositions of the Funds' transactions. Mr. Santoro is not subject to the direct supervision of any other individual, although M. William Macey, Jr. (203-226-8711), Chief Compliance Officer for Sterling Advisers, oversees his compliance with Sterling Advisers' policies and procedures.

**Brochure Supplement for Sterling Investment Partners Advisers, LLC  
William L. Selden**

**285 Riverside Avenue  
Suite 300  
Westport, CT 06880-4806**

**This brochure supplement provides information about William L. Selden that supplements the Sterling Advisers' brochure. You should have received a copy of that brochure. Please contact Michael A. Barr at 203-226-8711 or barr@sterlinglp.com if you did not receive Sterling Advisers brochure or if you have questions about the contents of this supplement.**

**Educational Background and Business Experience**

Mr. Selden co-founded Sterling Ventures, the predecessor to Sterling Advisers, in 1991. Mr. Selden is a Managing Partner of Sterling Advisers and the general partner of each Existing Fund. Prior to co-founding Sterling Ventures, Mr. Selden was a Managing Director of Shearson Lehman Brothers, Inc. Prior to joining Shearson Lehman, Mr. Selden served as Vice President at Bankers Trust Co. from 1973 to 1977, Vice President at Eastdil Realty, Inc. from 1977 to 1980, Chief Financial Officer at Sunbelt Communications, Inc. from 1980 to 1981 and as Vice President of the Real Estate Group at Lehman Brothers, Inc. from 1981 to 1984. Mr. Selden earned a B.A. degree from Dartmouth College and an M.B.A. from the Columbia University. Mr. Selden also served as a Captain in the U.S. Army. Mr. Selden was born in 1947.

**Disciplinary History**

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

**Other Business Activities**

Mr. Selden is not engaged in any investment-related business or any other business or occupation outside of his roles with Sterling Advisers and the general partners of the Funds.

**Additional Compensation**

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

**Supervision**

As a Managing Member of Sterling Advisers, Mr. Selden is part of a team that is responsible for sourcing, analysis, structuring, financing and dispositions of the Existing Funds' transactions. Mr. Selden is not subject to the direct supervision of any other individual, although M. William Macey, Jr. (203-226-8711), Chief Compliance Officer for Sterling Advisers, oversees his compliance with Sterling Advisers' policies and procedures.

**Brochure Supplement for Sterling Investment Partners Advisers, LLC  
Michael A. Barr**

**285 Riverside Avenue  
Suite 300  
Westport, CT 06880-4806**

**This brochure supplement provides information about Michael A. Barr that supplements the Sterling Advisers brochure. You should have received a copy of that brochure. Please contact Michael A. Barr at 203-226-8711 or barr@sterlinglp.com if you did not receive Sterling Advisers' brochure or if you have questions about the contents of this supplement.**

**Educational Background and Business Experience**

Mr. Barr joined Sterling Advisers in 2001, where he serves as a Principal of Sterling Advisers and the general partner of each Existing Fund. Prior to joining Sterling Advisers, Mr. Barr served as Vice President of Finance of Wellsteads, Inc. from 1999 to 2001, where he was responsible for all financial functions for this start-up company. From 1998 to 1999, Mr. Barr was an Associate in the Corporate Finance Department of Lehman Brothers, Inc. and from 1993 to 1996 an Auditor at Arthur Andersen, L.L.P. Mr. Barr earned a B.A. degree from Claremont McKenna College and an M.B.A. from The Wharton School at the University of Pennsylvania. Mr. Barr was born in 1971.

**Disciplinary History**

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

**Other Business Activities**

Mr. Barr is not engaged in any investment-related business or any other business or occupation outside of his roles with Sterling Advisers and the general partners of the Funds.

**Additional Compensation**

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

**Supervision**

Mr. Barr is subject to the supervision of the Managing Partners of Sterling Advisers, Messrs. Macey, Newhouse, Santoro and Selden. In addition, M. William Macey, Jr. (203-226-8711), Chief Compliance Officer for Sterling Advisers, oversees his compliance with Sterling Advisers' policies and procedures.



**Brochure Supplement for Sterling Investment Partners Advisers, LLC  
William Russell**

**285 Riverside Avenue  
Suite 300  
Westport, CT 06880-4806**

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**Educational Background and Business Experience**

Mr. Russell joined Sterling Advisers in 2006, where he serves as a Principal of Sterling Advisers and the general partner of each Existing Fund. Prior to joining Sterling Advisers, Mr. Russell served as a Vice President at Lehman Brothers, Inc., from 2001 to 2006, where he worked in both the Financial Sponsors and Global Mergers & Acquisitions groups. From 1996 to 1999 Mr. Russell worked at Deloitte Consulting. Mr. Russell earned a B.A. degree from Hamilton College and an M.B.A. from Harvard Business School, and was a Fulbright Scholar in Singapore. Mr. Russell was born in 1972.

**Disciplinary History**

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

**Other Business Activities**

Mr. Russell is not engaged in any investment-related business or any other business or occupation outside of his roles with Sterling Advisers and the general partners of the Funds.

**Additional Compensation**

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

**Supervision**

Mr. Russell is subject to the supervision of the Managing Members of Sterling Advisers, Messrs. Macey, Newhouse, Santoro and Selden. In addition, M. William Macey, Jr. (203-226-8711), Chief Compliance Officer for Sterling Advisers, oversees his compliance with Sterling Advisers' policies and procedures.

**Brochure Supplement for Sterling Investment Partners Advisers, LLC  
Joseph J. Gault**

**285 Riverside Avenue  
Suite 300  
Westport, CT 06880-4806**

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**Educational Background and Business Experience**

Mr. Gault joined Sterling Advisers in 2007, where he serves as a Vice President of Sterling Advisers and the general partner of each Existing Fund. Prior to joining Sterling Advisers, Mr. Gault served as an Associate at Lehman Brothers, Inc. in Corporate Finance and in the Office of the Chairman & CEO from 2003 to 2007. Mr. Gault earned a B.A. degree from Dartmouth College and is currently attending the M.B.A. program at Columbia University. Mr. Gault was born in 1980.

**Disciplinary History**

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

**Other Business Activities**

Mr. Gault is not engaged in any investment-related business or any other business or occupation outside of his roles with Sterling Advisers and the general partners of the Funds.

**Additional Compensation**

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

**Supervision**

Mr. Gault is subject to the supervision of the Managing Members of Sterling Advisers, Messrs. Macey, Newhouse, Santoro and Selden. In addition, M. William Macey, Jr. (203-226-8711), Chief Compliance Officer for Sterling Advisers, oversees his compliance with Sterling Advisers' policies and procedures.

**Brochure Supplement for Sterling Investment Partners Advisers, LLC  
James Soldano**

**285 Riverside Avenue  
Suite 300  
Westport, CT 06880-4806**

**This brochure supplement provides information about James Soldano that supplements the Sterling Advisers brochure. You should have received a copy of that brochure. Please contact Michael A. Barr at 203-226-8711 or barr@sterlinglp.com if you did not receive Sterling Advisers' brochure or if you have questions about the contents of this supplement.**

**Educational Background and Business Experience**

Mr. Soldano joined Sterling Advisers in 2010, where he serves as a Vice President of Sterling Advisers and the general partner of each Existing Fund. Prior to joining Sterling Advisers, Mr. Soldano attended The Wharton School at the University of Pennsylvania, where he obtained an M.B.A. degree. From 2005 to 2008, Mr. Soldano was an Associate at Sterling Advisers and the general partners of each Existing Fund. Mr. Soldano earned a B.A. degree from Princeton University and an M.B.A. from The Wharton School at the University of Pennsylvania. Mr. Soldano was born in 1980.

**Disciplinary History**

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

**Other Business Activities**

Mr. Soldano is not engaged in any investment-related business or any other business or occupation outside of his roles with Sterling Advisers and the general partners of the Funds.

**Additional Compensation**

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

**Supervision**

Mr. Soldano is subject to the supervision of the Managing Members of Sterling Advisers, Messrs. Macey, Newhouse, Santoro and Selden. In addition, M. William Macey, Jr. (203-226-8711), Chief Compliance Officer for Sterling Advisers, oversees his compliance with Sterling Advisers' policies and procedures.