

**INVESTMENT ADVISER BROCHURE**

**CALTIVS CAPITAL MANAGEMENT, LP**

**Caltius Capital Management, LP  
11766 Wilshire Boulevard, Suite 850  
Los Angeles, CA 90025]  
[www.caltius.com](http://www.caltius.com)**

**February 14, 2011**

**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Caltius Capital Management, LP (“Adviser”). If you have any questions about the contents of this Brochure, please contact us at (310) 996-9585. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.**

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

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

## **TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>Advisory Business .....</b>	<b>2</b>
<b>Fees and Compensation .....</b>	<b>3</b>
<b>Performance-Based Fees and Side-By-Side Management .....</b>	<b>11</b>
<b>Types of Clients .....</b>	<b>12</b>
<b>Methods of Analysis, Investment Strategies and Risk of Loss.....</b>	<b>12</b>
<b>Disciplinary Information.....</b>	<b>26</b>
<b>Other Financial Industry Activities and Affiliations.....</b>	<b>26</b>
<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....</b>	<b>27</b>
<b>Brokerage Practices .....</b>	<b>28</b>
<b>Review of Accounts .....</b>	<b>30</b>
<b>Client Referrals and Other Compensation.....</b>	<b>30</b>
<b>Custody .....</b>	<b>31</b>
<b>Investment Discretion .....</b>	<b>31</b>
<b>Voting Client Securities.....</b>	<b>31</b>
<b>Financial Information.....</b>	<b>32</b>
<b>Supplemental Information About Certain Principals of Caltius Management .....</b>	<b>32</b>

## ADVISORY BUSINESS

Caltius is a private investment management firm, including a number of registered investment advisory entities and other organizations affiliated with Caltius Capital Management, LP (collectively, “**Caltius**”), that manages approximately \$975.4 million in private fund assets. Caltius commenced operations in June 1997.

Caltius Capital Management, LP, a Delaware limited partnership and a registered investment adviser (“**Adviser**” or “**Caltius Management**”), provides investment advisory services to Caltius’ private investment funds. Caltius Management commenced operations in November 2000.

The private investment funds for which Caltius Management provides investment advisory services are:

- Caltius Private Equity Partners I, LP (“**Caltius Equity I**”), formed in 1998 and no longer making new investments except for potential follow-on investments in portfolio companies.
- Caltius Equity Partners II, LP (“**Caltius Equity II Main Fund**”) and Caltius Equity Partners Executive II, LP (“**Caltius Equity II Executive Fund**”, and with the Caltius Equity II Main Fund, “**Caltius Equity II**”), each formed in 2006 and no longer making new investments except for completion of investments that were in process as of January 31, 2012 (the end of the investment period for Caltius Equity II as set forth in the limited partnership agreements for Caltius Equity II Main Fund and Caltius Equity II Executive Fund) and for potential follow-on investments in portfolio companies.
- Caltius Mezzanine Partners II, LP (“**Caltius Mezz II Main Fund**”) and Caltius Mezzanine Partners II-A LP (“**Caltius Mezz II Parallel Fund**”, and with Caltius Mezz II Main Fund, “**Caltius Mezz II**”), each formed in 2000 and no longer making new investments except for potential follow-on investments in portfolio companies.
- Caltius Partners III, LP (“**Caltius Mezz III Main Fund**”) and Caltius Partners Executive III, LP (“**Caltius Mezz III Executive Fund**”, and with Caltius Mezz III Main Fund, “**Caltius Mezz III**”), each formed in 2004 and no longer making new investments except for potential follow-on investments in portfolio companies.
- Caltius Partners IV, LP (“**Caltius Mezz IV Main Fund**”) and Caltius Partners Executive IV, LP (“**Caltius Mezz IV Executive Fund**” and with Caltius Mezz IV Main Fund, “**Caltius Mezz IV**”), each formed in 2008 and currently making investments in new portfolio companies.

Caltius Equity I and Caltius Equity II (the “**Caltius Equity Funds**”) primarily make private equity investments, while Caltius Mezz II, Caltius Mezz III and Caltius Mezz IV (the “**Caltius Mezz Funds**”) primarily make mezzanine debt investments (see “Methods of Analysis, Investment Strategies and “Risk of Loss”). The Caltius Equity Funds and the Caltius Mezzanine Funds, together with any parallel and alternative investment vehicles, are referred to herein

individually as a “**Fund**” and collectively as the “**Funds**”, and all Funds, together with any future private investment fund for which Caltius Management provides investment advisory services are referred to herein as the “**Private Investment Funds**.” The Funds and any other Private Investment Fund are private investment funds and invest through negotiated transactions in operating entities. Investors in Private Investment Funds participate in the overall investment program for the applicable Fund, but may be excluded from a particular investment due to legal, regulatory or other applicable constraints. Each Fund or its General Partner may have entered into, and in the future may enter into, side letters or other similar arrangements with certain investors that have the effect of establishing rights under, or altering or supplementing, the Fund’s limited partnership agreement.

Each Fund has a general partner that has the authority to manage the business and affairs of the Fund. The general partners of the Funds are as follows: LFE, L.L.C. (“**LFE**”) is the general partner of Caltius Equity I; CEP II, LP (“**CEP II**”) is the general partner of each of the Caltius Equity II partnerships; LUSB, LLC (“**LUSB**”) is the general partner of Caltius Mezz II Main Fund; Libra Investors III-A, LLC (“**LI III-A**”) is the general partner of Caltius Mezz II Parallel Fund; CP III, LP (“**CP III**”) is the general partner of each of the Caltius Mezz III partnerships; and CP IV, LP (“**CP IV**”) is the general partner of each of the Caltius Mezz IV partnerships (LFE, CEP II, LUSB, LI III-A, CP III and CP IV are referred to herein individually as a “**General Partner**”, and collectively as the “**General Partners**”).

Each General Partner’s investment advisory services to its Fund consists of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for such investments. Investments are made predominantly in non-public companies, although investments in public companies are permitted. From time to time, where such investments consist of portfolio companies, the senior principals or other personnel of the applicable General Partner or its affiliates may serve on, or act as observer to, such portfolio companies’ respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Fund.

The Adviser’s advisory services for each Fund are detailed in the applicable private placement memoranda and limited partnership agreements for such Fund and are further described below under “Methods of Analysis, Investment Strategies and Risk of Loss.” Each General Partner is registered under the Investment Advisers Act pursuant to the Adviser’s registration in accordance with SEC guidance. This Brochure also describes the business practices of each General Partner, which operate as a single advisory business together with the Adviser.

As of December 31, 2011, Caltius Management managed an aggregate of \$975,411,276 (unaudited) in client assets on a discretionary basis. Caltius Capital Management, LLC, a Delaware limited liability company (“**CCM**”), acts as the general partner of Caltius Management. Through CCM, Caltius Management is controlled by James B. Upchurch.

#### **FEES AND COMPENSATION**

In general, each General Partner receives a management fee and a carried interest in connection with advisory services, with each General Partner paying over the management fee to

Caltius Management in consideration for the services it provides while retaining its carried interest. General Partners or other Caltius entities or affiliates also may receive additional compensation in connection with management and other services performed for portfolio companies of Private Investment Funds and such additional compensation may offset in whole or in part the management fees otherwise payable to the General Partner. Investors in the Funds also bear certain fund expenses.

## **Management Fees**

The following describes generally the management fees payable by each Fund to its General Partner (see also the partnership agreement for each Fund). Such management fees, as and when received by each General Partner, generally are then paid over to Caltius Management in consideration for the services it provides to the General Partner.

### *Caltius Equity I and LFE*

Caltius Equity I will pay LFE, quarterly in advance, a management fee equal to 1.25% on an annual basis of the difference between (a) aggregate Fund investor capital commitments, and (b) the portion of fund commitments not drawn or drawn but returned to the partners of the Fund as a non-utilized portion of fund commitments or drawn and utilized but return to the partners of the Fund as a return of capital. The management fee will be payable until the Fund is dissolved or terminated (as described in the limited partnership agreement of the Fund). Installments of the management fee payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

The management fee will be reduced by an amount equal to 50% of all of the Fund's share of directors' fees, break-up fees (net of broken deal expenses), transaction fees, amendment fees or other fees paid to LFE, its affiliates or partners or employees of LFE or its affiliates, all can more particularly described in the partnership agreement for Caltius Equity I.

### *Caltius Equity II and CEP II*

The Caltius Equity II Main Fund and the Caltius Equity II Executive Fund each will pay CEP II, quarterly in advance, a management fee equal to 2.0% on an annual basis of (x) the aggregate amount of capital contributions plus the aggregate amount of unapplied waived management fee, less (y) the aggregate amount of investment contributions made for disposed investments or used to fund investments which have been completely written off and an allocable share of cost contributions, in each case as determined on the first day of the period with respect to which a determination is being made (with such determination being made on January 1 of each year with respect to payments for the first two quarters of the year and on July 1 of each year with respect to payments for the last two quarters of the year). The management fees for each Fund will be payable until all portfolio investments are distributed or until CEP II's relationship with the applicable Fund is terminated for other reasons (as described in the applicable limited partnership agreements of the Funds). Installments of the management fees payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

The management fee for the Caltius Equity II Main Fund will be reduced by 50% of such Fund's share of closing fees, commitment fees, funding fees, break-up fees, litigation proceeds, investment banking fees, placement fees, monitory fees, consulting fees, directors' fees and other similar fees paid by portfolio companies to partners or employees of Adviser or its affiliates, all as more particularly described in the partnership agreement for the Fund.

As permitted under the partnership agreements, CEP II may waive or agree to reduce the management fee. Any such waived or reduced portion of the management fee reduces the amount of capital CEP II would otherwise be required to contribute to the Fund. The limited partners of the Fund may be required to make a *pro rata* contribution according to their respective commitments to fund any contribution that would otherwise be required of CEP II in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration of investor capital contributions. Waived or reduced management fees are not subject to the management fee offsets described above. Due to waived or reduced management fees by CEP II and/or timing of receipt of compensation subject to offsets (as described above), it is possible that management fee offsets will not be fully realized by investors in the Fund, resulting in a net additional benefit to CEP II.

#### *Caltius Mezz II Main Fund and LUSB*

The Caltius Mezz II Main Fund will pay LUSB, quarterly in advance, a management fee equal to 1.25% of aggregate capital contributions to the Fund less the aggregate amount of any permanent write-downs on Fund investments to the extent distributions have not been made with respect thereto, as determined on the first day of the period with respect to which a determination is being made. The management fees will be payable until all portfolio investments are distributed or until LUSB relationship with the Fund is terminated for other reasons (as described in the limited partnership agreement of the Fund). Installments of the management fee payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

The management fee will be reduced by an amount equal to 80% of the Fund's share of break-up fees, transaction fees, directors' fees and other similar fees paid by portfolio companies to partners or employees of LUSB and its affiliates, all as more particularly described in the partnership agreement for the Fund.

#### *Caltius Mezz II Parallel Fund and LI III-A*

The Caltius Mezz II Parallel Fund will pay LI III-A, quarterly in advance, a management fee equal to 1.25% of aggregate capital contributions to the Fund less the aggregate amount of any permanent write-downs on Fund investments to the extent distributions have not been made with respect thereto, as determined on the first day of the period with respect to which a determination is being made. The management fees will be payable until all portfolio investments are distributed or until relationship with the Fund is terminated for other reasons (as described in the limited partnership agreement of the Fund). Installments of the management fee payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

The management fee will be reduced by an amount equal to 80% of the Fund's share of break-up fees, transaction fees, directors' fees and other similar fees paid by portfolio companies to partners or employees of LI III-A and its affiliates, all as more particularly described in the partnership agreement for the Fund.

#### *Caltius Mezz III and CP III*

The Caltius Mezz III Main Fund and the Caltius Mezz II Executive Fund each will pay CP III, quarterly in advance, a management fee equal to 2.0% on an annual basis of (x) the aggregate amount of capital contributions for investments, less (y) the aggregate amount of distributions to partners representing a return of investment contributions made for disposed investments and (with respect to the Main Fund only) the aggregate amount of investment contributions used to fund investments which have been written down (net of subsequent write-ups) at least 80% from the original cost thereof to the extent distributions have not been made with respect thereto, in each case as determined on the first day of the period with respect to which a determination is being made (with such determination being made on January 1 of each year with respect to payments for the first two quarters of the year and on July 1 of each year with respect to payments for the last two quarters of the year). The management fees for each Fund will be payable until all portfolio investments are distributed or until CP III's relationship with the applicable Fund is terminated for other reasons (as described in the applicable limited partnership agreements of the Funds). Installments of the management fees payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

The Caltius Mezz III Main Fund's management fee will be reduced by all of the Main Fund's share of break-up fees, transaction fees, directors' fees and other similar fees paid by portfolio companies to partners or employees of CP III or its affiliates, all as more particularly described in the partnership agreement for the Main Fund.

#### *Caltius Mezz IV and CP IV*

The Caltius Mezz IV Main Fund will pay CP IV, quarterly in advance, a management fee equal to 2.0% on an annual basis of aggregate Main Fund investor capital commitments. The Caltius Mezz IV Executive Fund will pay CP IV, quarterly in advance, a management fee equal to 1.0% on an annual basis of aggregate Executive Fund investor capital commitments. Investors participating in a closing of the Main Fund after August 1, 2008 bear the Main Fund management fee from August 1, 2008, and investors participating in a closing of the Executive Fund after August 1, 2008 bear the Executive Fund management fee from August 1, 2008. Upon the first day of the first calendar quarter after the earlier to occur of (i) the date when all Fund commitments have been invested or otherwise used to pay expenses of the Fund or (ii) August 1, 2013, (x) the Main Fund management fee will be reduced and will equal 2.0% of (a) the aggregate funded Main Fund Commitments plus the aggregate amount of unapplied waived management fee, if any, as reduced by (b) permanent write downs and distributions constituting returns of capital and (y) the Executive Fund management fee will be reduced and will equal 1.0% of (a) the aggregate funded Executive Fund Commitments plus the aggregated amount of unapplied waived management fee, if any, as reduced by (b) permanent write downs and

distributions constituting returns of capital. Management Fees are determined on the first day of the period with respect to which a determination is being made (with such determination being made on January 1 of each year with respect to payments for the first two quarters of the year and on July 1 of each year with respect to payments for the last two quarters of the year). The management fees will be payable until all portfolio investments are distributed or until CP IV's relationship with the Fund is terminated for other reasons (as described in the applicable limited partnership agreements of the Funds). Installments of the management fees payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

The Caltius Mezz IV Main Fund management fee will be reduced by all of the Main Fund's share of break-up fees, transaction fees, directors' fees and other similar fees paid by portfolio companies to partners or employees of CP IV or its affiliates, all as more particularly described in the partnership agreement for the Main Fund.

As permitted under the partnership agreements, CP IV may waive or agree to reduce the management fee. Any such waived or reduced portion of the management fee reduces the amount of capital Adviser would otherwise be required to contribute to the Fund. The limited partners of the Fund may be required to make a *pro rata* contribution according to their respective Commitments to fund any contribution that would otherwise be required of CP IV in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration of investor capital contributions. Waived or reduced management fees are not subject to the management fee offsets described above. Due to waived or reduced management fees by CP IV and/or timing of receipt of compensation subject to offsets (as described above), it is possible that management fee offsets will not be fully realized by investors in the Fund, resulting in a net additional benefit to CP IV.

## **Carried Interest**

Each General Partner receives a carried interest from the Fund or Funds for which it acts as general partner. The following generally describes the carried interest payable to each General Partner.

### *Caltius Equity I and LFE*

LFE will receive a carried interest with respect to Caltius Equity I equal to 20% of all realized profits (subject to an 8% compound preferred return), as more fully described in the partnership agreement for the Fund. The carried interest distributed to LFE is subject to a potential giveback at the end of life of the Fund if LFE has received excess cumulative distributions.

### *Caltius Equity II and CEP II*

CEP II will receive a carried interest with respect to the Caltius Equity II Main Fund equal to 20% of all realized profits (subject to an 8% compound preferred return), as more fully described in the Main Fund partnership agreement. The carried interest distributed to CEP II is



subject to a potential giveback at the end of life of the Fund if CEP II has received excess cumulative distributions.

No carried interest is payable with respect to the Caltius Equity II Executive Fund. It is expected that any future Private Investment Funds formed with respect to Caltius Equity II will have a similar fee structure as the Caltius Equity II Main Fund.

*Caltius Mezz II Main Fund and LUSB*

LUSB will receive a carried interest with respect to the Caltius Mezz II Main Fund equal to 20% of all realized profits (subject to an 8% compound preferred return), as more fully described in the partnership agreement for the Fund. The carried interest distributed to LUSB is subject to a potential giveback at the end of life of the Fund if LUSB has received excess cumulative distributions.

*Caltius Mezz II Parallel Fund and LI III-A*

LI III-A will receive a carried interest with respect to the Caltius Mezz II Parallel Fund equal to 20% of all realized profits (subject to an 8% compound preferred return), as more fully described in the partnership agreement for the Fund. The carried interest distributed to LI III-A is subject to a potential giveback at the end of life of the Fund if has received excess cumulative distributions.

*Caltius Mezz III and CP III*

CP III will receive a carried interest with respect to the Caltius Mezz III Main Fund equal to 20% of all realized profits (subject to an 8% compound preferred return) determined with respect to each investment, as more fully described in the partnership agreement for the Main Fund. The carried interest distributed to CP III is subject to a potential giveback at the end of life of the Fund if CP III has received excess cumulative distributions determined across all Fund investments.

No carried interest is payable with respect to the Caltius Mezz III Executive Fund. It is expected that any future Private Investment Funds formed with respect to Caltius Mezz III will have a similar fee structure as the Caltius Mezz III Main Fund.

*Caltius Mezz IV and CP IV*

CP IV will receive a carried interest with respect to the Caltius Mezz IV Main Fund equal to 20% of all realized profits (subject to an 8% compound preferred return) determined with respect to each investment, as more fully described in the applicable partnership agreement. The carried interest distributed to CP IV is subject to a potential giveback at the end of life of Caltius Mezz IV Main Fund if CP IV has received excess cumulative distributions determined across all Fund investments.

No carried interest is payable with respect to the Caltius Mezz IV Executive Fund. It is expected that any future Private Investment Funds formed with respect to Caltius Mezz IV will have a similar fee structure as the Caltius Mezz IV Main Fund.

## **Expenses**

### *Caltius Equity I and LFE*

In addition to the management fees and carried interest payable to LFE, Caltius Equity I bears certain expenses. As more fully set forth in the partnership agreement for the Fund, the Fund bears all expenses incurred in connection with the business and activities of the Fund to the extent not paid by portfolio companies, including without limitation legal, investment consulting, auditors' and tax accountants' fees, insurance costs, transactional costs, broken deal expenses, and other expenses incurred associated with the acquisition, holding and dispositions of investments such as travel costs and extraordinary fees and expenses, but not LFE's ordinary administrative and overhead expenses related to managing the Fund and monitoring investments (including salaries, rent and equipment and administrative expenses (except that the partnership agreement for the Fund permits the Fund to reimburse LFE and its affiliates for the cost of providing tax and accounting services to the Fund)). Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

### *Caltius Equity II and CEP II*

In addition to the management fees and carried interest payable to CEP II, Caltius Equity II bears certain expenses. As more fully set forth in the partnership agreements for the Caltius Equity II Main Fund and the Caltius Equity II Executive Fund, each Fund bears all expenses relating to the Fund's activities, investments and business to the extent not paid by portfolio companies, including without limitation all expenses attributable to acquiring, holding and disposing of investments (including interest on money borrowed, and brokerage, finders', custodial and other fees); legal, accounting, auditing, insurance, travel, litigation and indemnification, judgments and settlements, consulting, financing, appraisal, filing and tax preparation expenses; expenses of the Caltius Equity II Main Fund advisory board; broken deal expenses; expenses of partner meetings; and any taxes or other governmental charges levied against the Fund, but not ordinary overhead and administrative expenses of the Fund incurred by CEP II or its affiliates in connection with maintaining and operating their offices (including salaries, rent and equipment expenses). Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

### *Caltius Mezz II Main Fund and LUSB*

In addition to the management fees and carried interest payable to LUSB, Caltius Mezz II Main Fund bears certain expenses. As more fully set forth in the partnership agreement for the Fund, the Fund bears all expenses relating to the Fund's activities, investments and business to the extent not paid by portfolio companies, including without limitation all expenses attributable to acquiring, holding and disposing of investments (including interest on money borrowed; brokerage, finders', custodial and other fees; and costs and expenses for insurance, litigation and indemnification, and judgments and settlements); legal, accounting, auditing, consulting,

financing, and tax preparation expenses; broken deal expenses; expenses of partner meetings; and any taxes or other governmental charges levied against the Fund, but not ordinary overhead and administrative expenses of the Fund incurred by LUSB or its affiliates in connection with maintaining and operating their offices (including salaries, rent and equipment expenses). Brokerage fees may be incurred in accordance with the practices set forth in “Brokerage Practices.”

#### *Caltius Mezz II Parallel Fund and LI III-A*

In addition to the management fees and carried interest payable to LI III-A, Caltius Mezz II Parallel Fund bears certain expenses. As more fully set forth in the partnership agreement for the Fund, the Fund bears all expenses relating to the Fund’s activities, investments and business to the extent not paid by portfolio companies, including without limitation all expenses attributable to acquiring, holding and disposing of investments (including interest on money borrowed; brokerage, finders’, custodial and other fees; and costs and expenses for insurance, litigation and indemnification, and judgments and settlements); legal, accounting, auditing, consulting, financing, and tax preparation expenses; broken deal expenses; expenses of partner meetings; and any taxes or other governmental charges levied against the Fund, but not ordinary overhead and administrative expenses of the Fund incurred by LI III-A or its affiliates in connection with maintaining and operating their offices (including salaries, rent and equipment expenses). Brokerage fees may be incurred in accordance with the practices set forth in “Brokerage Practices.”

#### *Caltius Mezz III and CP III*

In addition to the management fees and carried interest payable to CP III, Caltius Mezz III bears certain expenses. As more fully set forth in the partnership agreements for Caltius Mezz III Main Fund and Caltius Mezz III Executive Fund, each Funds bears all expenses relating to the Fund’s activities, investments and business to the extent not paid by portfolio companies, including without limitation all expenses attributable to acquiring, holding and disposing of investments (including interest on money borrowed; brokerage, finders’, custodial and other fees; and costs and expenses for litigation and indemnification, and judgments and settlements); insurance; legal, accounting, auditing, consulting, financing, filing and tax preparation expenses; expenses of the Caltius Mezz III Main Fund advisory board; broken deal expenses; expenses of partner meetings; and any taxes or other governmental charges levied against the Fund, but not ordinary overhead and administrative expenses of the Fund incurred by CP III or its affiliates in connection with maintaining and operating their offices (including salaries, rent and equipment expenses, external technical and marketing consulting services unrelated to a specific proposed or existing investment and travel expenses) to the extent not borne or reimbursed by a portfolio company. Brokerage fees may be incurred in accordance with the practices set forth in “Brokerage Practices.”

#### *Caltius Mezz IV and CP IV*

In addition to the management fees and carried interest payable to CP IV, Caltius Mezz IV bears certain expenses. As more fully set forth in the partnership agreements for Caltius Mezz IV Main Fund and Caltius Mezz IV Executive Fund, each Fund bears all expenses relating to the

Fund's activities, investments and business to the extent not paid by portfolio companies, including without limitation all expenses attributable to acquiring, holding and disposing of investments (including interest on money borrowed; brokerage, finders', custodial and other fees; and costs and expenses for litigation and indemnification, and judgments and settlements); insurance; legal, accounting, auditing, consulting, financing, finders', appraisal, filing and tax preparation expenses; expenses of the Caltius Mezz IV Main Fund advisory board; broken deal expenses; expenses of partner meetings; and any taxes or other governmental charges levied against the Fund, but not ordinary overhead and administrative expenses of the Fund incurred by CP IV or its affiliates in connection with maintaining and operating their offices (including salaries, rent, equipment expenses, external technical and marketing consulting services unrelated to a specific proposed or existing investment and travel expenses to the extent not borne or reimbursed by a portfolio company). Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

### **Other Information**

Generally, each General Partner may exempt certain investors in Private Investment Funds from payment of all or a portion of Management Fees and/or carried interest, including the General Partner itself and any other person designated by the General Partner. Any such exemption from fees and/or carried interest may be made by a direct exemption, a rebate by the General Partner and/or its affiliates, or through other Private Investment Funds which co-invest with the Fund.

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

Principals or other employees of Caltius may receive a portion of the management fees, carried interest or other compensation received by a General Partner or its affiliates.

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described under "Fees and Compensation," CEP II, CP III and CP III each receives a carried interest allocation on certain realized profits in the related main Fund for which it serves as general partner but not with respect to the related executive Fund. This practice could present a conflict of interest because the General Partner has an incentive to favor accounts for which the General Partner receives a performance-based fee. The Adviser seeks to address this potential conflict of interest by causing the main Fund and the executive Fund to invest, to the extent practicable, in the same portfolio companies at the same time and on the same terms on a pro rata basis based on relative commitment sizes of the Funds.

## TYPES OF CLIENTS

Caltius Management provides investment advice to Private Investment Funds. Private Investment Funds may include investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in Private Investment Funds may include individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of Caltius Management and its affiliates.

The Caltius Funds generally have minimum investment amounts ranging from \$100,000 to \$5,000,000 for third party investors (which minimum investment amounts may be waived by the General Partners of such Funds). Fund interests are generally offered and sold either solely to qualified purchasers (or qualified knowledgeable Caltius personnel) or solely to accredited investors who are also qualified clients (or qualified knowledgeable Caltius personnel).

## METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### Caltius Equity Funds

#### General

The Caltius Equity Funds have been established by Caltius to principally make private equity investments in lower middle market companies located in the Western U.S. The Caltius Equity Funds' investment activities are managed by James Upchurch, President and Chief Executive Officer; Garrick Ahn, Managing Director; and Michael Morgan, Managing Director (together the "**Equity Principals**").

The key elements of the Caltius Equity Funds' investment selection and sourcing are outlined below:

- **Lower Middle Market, California and Western U.S. Focus.** The Caltius Equity Funds will seek to invest in companies with enterprise values generally between \$10 million and \$50 million (the "**Target Market**") located primarily in California and the Western U.S.
- **Transaction Sourcing.** Caltius has developed a network of relationships to generate investment opportunities with more favorable transaction dynamics, including executives with prior ties to Caltius (its "**Executive Network**"), the Caltius' affiliated mezzanine funds ("**Caltius Mezzanine**"), senior lenders, larger private equity firms, and small intermediaries/business brokers.
- **Focus on Leading Companies In Attractive Industries.** The Caltius Equity Funds seek to invest in companies that have defensible market positions in attractive industries, solid growth prospects, and strong potential to benefit from a Fund's post-investment involvement.

The key elements of Caltius' investment process are outlined below:

- **Transaction Sourcing.** The Caltius Equity Funds seek to generate numerous investment opportunities in order to allow the Funds to be more selective in the transactions it pursues.
- **Transaction Structuring.** The Caltius Equity Funds seek to leverage its sourcing network by deploying capital in multiple ways including control investments, recapitalizations and growth capital investments with significant minority ownership positions. Caltius believes this structuring flexibility increases the number of investment opportunities available to the Funds.
- **Post-Investment Value Creation Focus.** The Caltius Equity Funds' strategy is to remain actively involved with their portfolio companies, focusing on enhancing their quality, size and scale of operations.
- **Exit Timing and Process.** The exact timing of an exit is evaluated in an effort to maximize returns, while balancing potential risks. Once an exit decision is made, an investment banking firm typically is engaged to manage an auction sale process in an effort to maximize value. Alternatively, where appropriate, the Caltius Equity Funds may work with portfolio companies to identify strategic acquirors and negotiate sales at attractive multiples through preemptive bids.

#### *Investment Selection and Sourcing*

The Caltius Equity Funds' selection and sourcing strategy is to: (i) target the Lower Middle Market where the Funds believe inefficiencies may continue to exist; (ii) exploit these inefficiencies to generate transaction flow through its unique sourcing network; and (iii) invest in leading companies that are in attractive industry categories and possess strong potential that can be tapped through the Fund's proactive post-investment involvement.

#### **Target Market**

Caltius believes there is a significant opportunity to invest in the Target Market, especially in California and the Western U.S., due to the following:

- **Number of Investment Opportunities.** Caltius believes that the Target Market includes a large number of companies.
- **Underserved California and Western U.S. Markets.** Caltius believes that the Target Market opportunity is more attractive in California and the Western U.S. than the U.S. as a whole, in part because the Fund believes that the Western U.S. has fewer institutionally-funded equity sponsors relative to other regions in the U.S., creating favorable transaction sourcing dynamics and investment opportunities at attractive valuations.
- **Multiple Arbitrage Potential.** Caltius believes that enterprise value multiples are lower in the Target Market relative to those seen in larger transactions. By focusing on increasing the quality and size of its portfolio companies, the Caltius Equity Funds seek

to exploit this structural characteristic of the capital markets to generate significant exit multiple expansion.

### **Transaction Sourcing**

The Caltius Equity Funds have built a base of transaction sourcing relationships including their Executive Network, Caltius Mezzanine, larger private equity firms, lenders, business brokers and investment banks.

Distinctive features of the Caltius Equity Funds' referral network are its relationships with (i) its Executive Network and (ii) its affiliate, Caltius Mezzanine. To complement deal flow generated by the Executive Network and Caltius Mezzanine, the Caltius Equity Funds also market to more traditional transaction sources such as large private equity funds that refer smaller transactions to groups such as the Caltius Equity Funds, lenders, smaller intermediary/business brokers and investment banks.

### **Leading Companies in Attractive Industry Categories**

The Caltius Equity Funds typically seek to invest in companies with the following characteristics:

- Defensible market positions due to brand recognition, high service quality or barriers to entry;
- Identifiable avenues of organic and acquisition growth (where appropriate);
- Cost and balance sheet improvement opportunities created by operating leverage and aggressive working capital management; and/or
- Proven management teams committed to partnering with Caltius Equity Funds.

Many Lower Middle Market companies have: (i) underdeveloped strategic plans, (ii) management strength in certain functional areas but lacking the experience and depth of larger company executives, (iii) unsophisticated financial and management reporting infrastructure and systems, and/or (iv) limited access to capital for organic and/or acquisition growth initiatives. For this reason the Caltius Equity Funds, as part of their investment selection process, also evaluates whether or not a company has the potential to benefit from the significant post-investment value creation actions a Caltius Equity Fund may employ (see Investment Process, Post-Investment Value Creation Focus).

The Caltius Equity Funds typically will seek to invest in the following industry categories: business services, consumer products, consumer services, healthcare services and light manufacturing. Caltius believes that in general, companies within these industry categories: (i) have recurring revenue streams, (ii) benefit from favorable macroeconomic, demographic or regulatory trends that increase growth prospects, (iii) operate in highly fragmented sectors, (iv) are less sensitive to economic cycles, and/or (v) require minimal capital investment.

## *Investment Process*

### **Transaction Screening and Due Diligence**

The Caltius Equity Funds seek to generate numerous investment opportunities in order to allow the Funds to be more selective in the transactions they pursue. Deal opportunities are then initially reviewed by Fund personnel and typically discussed informally within the Fund prior to periodic transaction review meetings (“**Deal Reviews**”). If a reviewing Equity Principal deems a deal to be of interest, a brief written summary is prepared so that it can be more fully vetted within the Fund at the Deal Reviews.

Due to the Caltius Equity Funds’ investment screening criteria, most new additions to the deal log are terminated after a brief discussion during Deal Reviews. Assuming all Equity Principals agree that a Fund should further pursue a deal, Fund personnel will then schedule and conduct a meeting with the target company’s management as part of initial due diligence.

After the initial management meeting, the Equity Principals will reconvene to discuss the results of diligence completed to date and to again consider the various aspects of the deal. Assuming a deal remains unanimously attractive to the Equity Principals, the Fund will seek to submit a non-binding written proposal to the target company. The specifics of such proposal are typically designed to help create an appropriate capital structure at a reasonable valuation and to align the Fund’s interests with those of company management through appropriate co-investment and incentive programs. If the proposal is accepted, detailed due diligence commences. The Fund’s business due diligence process typically revolves around multiple interactions with the target company’s management team and key staff.

In addition to the detailed business due diligence conducted by the Equity Principals and investment staff, the Fund typically utilizes outside accounting, background, legal and insurance due diligence advisors on each transaction. When appropriate, the Fund may also engage other consulting firms such as specific industry consultants or human resource evaluators and members of its Executive Network. Upon completion of due diligence, a memorandum (“**IC Memo**”) is then compiled and presented to the Fund’s investment committee. The IC Memo summarizes the key aspects of the proposed transaction including a report of due diligence findings, the proposed final capital structure, and targeted returns. The Fund will only proceed with executing a definitive purchase agreement and closing the proposed transaction if it is unanimously approved by the Fund’s investment committee, which is comprised of the Equity Principals.

### **Transaction Structuring**

The Caltius Equity Funds believe there are many quality companies that require investment capital where the owner is not willing to sell a controlling interest. The Caltius Equity Funds seeks to exploit this fact and their broad market coverage of the Lower Middle Market, especially in the Western U.S., by maintaining a flexible approach to structuring investments. The most common investment structures utilized by the Caltius Equity Funds have included control transactions, growth financings and recapitalizations.



The Caltius Equity Funds typically structures their investments as (i) preferred and common equity in control investments, and (ii) convertible preferred stock or junior subordinated debt with nominally priced warrants or free common stock in significant minority investments. The structures employed in significant minority investments are designed to provide returns through a cash or pay-in-kind (“PIK”) coupon and equity upside along with downside protection through seniority and liquidation preference to the company’s common equity. The Funds typically require board seats and negative control provisions in these investments which require Fund approval on specified strategic, operating and financial decisions. Additionally, the Funds may require affirmative covenants that require minimum levels of operating performance and triggers or put rights to ensure the ability to force a liquidity event within a specified period. In certain situations, Caltius may seek the right to appoint a majority of the board of directors if certain operating performance targets are not achieved.

### **Post-Investment Value Creation Focus**

The Caltius Equity Funds seeks to work closely with its portfolio companies to develop value creation initiatives designed to enhance each company’s quality, size and growth profile. In support of these initiatives, two or more Managing Directors will typically serve on a portfolio company’s board of directors, and the Fund may seek to appoint a member of its Executive Network or additional executives with relevant industry expertise to a company’s board where appropriate.

The Caltius Equity Funds seeks to focus on the following value driving activities with their portfolio companies: developing and implementing strategic plans and growth strategies, upgrading or augmenting management teams where appropriate, improving infrastructure and financial reporting systems, identifying add-on acquisition opportunities, and positioning the company for sale through a sophisticated auction process.

### **Caltius Mezz Funds**

#### **General**

The Caltius Mezz Funds intend to make mezzanine investments of up to \$75 million in lower middle market companies located in the United States (although the Funds also may make senior debt and/or equity investments and may invest in companies located outside the United States). These investments are expected to be in a broad range of industries with non-capital intensive businesses, such as consumer services/products, business services and light manufacturing. Caltius focuses on the underserved “non-sponsored” market, which Caltius believes has less competition than the “sponsored” market, allowing for more attractive pricing characteristics and enhanced equity upside. In addition, Caltius believes it has significant experience investing with private equity sponsors and will selectively invest in sponsored transactions. Caltius generally expects to be the lead mezzanine investor in its investments.

The Caltius Mezz Funds will seek to build a portfolio that will generate high current returns and provide meaningful upside through equity participation. The Funds will continue to

focus on capital preservation through rigorous credit analysis and due diligence, transaction structuring and active ongoing involvement with portfolio companies.

## **Investment and Operating Strategy**

### *Investment Strategy*

**Focus on the lower middle market.** The Caltius Mezz Funds expect to continue the strategy utilized by prior Caltius funds of investing in the lower middle market, defined as small to medium sized companies with enterprise values of \$25 million to \$250 million. Caltius believes that the capital markets historically have not focused on this segment of the market, leading to what Caltius views as a shortage of capital for smaller companies. Caltius believes the inefficiency or absence of capital within the target market is due, in large part, to most capital providers being too large to focus on small transactions. Caltius believes it benefits from this reduced competition in the lower middle market by completing transactions at lower leverage multiples than in markets where there is an abundance of capital.

**Provide customized and flexible financing solutions.** The Caltius Mezz Funds will seek to structure customized financing solutions to support a diverse range of transaction types, including: acquisition financing, growth capital, dividend recapitalizations, management buyouts and sponsored buyouts.

**Investments in both non-sponsored and sponsored transactions.** The Caltius Mezz Funds will seek to make some of its investments in non-sponsored companies (i.e., companies that do not have a private equity fund as a significant investor). In these non-sponsored transactions, Caltius believes it has benefited from less competition and structuring and pricing advantages because many senior lenders and mezzanine lenders have a preference towards backing equity sponsored transactions and avoiding non-sponsored transactions. In addition to investments in non-sponsored transactions, the Fund expects to invest in companies with equity sponsors. In an effort to reduce the risks associated with change-of-control situations, the Fund's preference to provide acquisition and growth capital to existing portfolio companies of equity sponsors, but the Fund may also invest in change-of-control situations. The sponsored transactions in which the Fund invests may involve more complex situations where Caltius' skills and experience may add value.

**Focus on service oriented, non-capital intensive businesses.** The Caltius Mezz Funds typically utilize a cash flow oriented investment approach that is expected to result in a portfolio of predominantly non-capital intensive businesses. When reviewing transactions, the Funds seeks to differentiate between capital intensive and non-capital intensive businesses by defining financial risk based on cash flow as opposed to EBITDA. Caltius believes that companies with lower capital expenditure requirements often can better withstand adverse economic environments than businesses with larger capital expenditure requirements. Consequently, by investing in a diversified portfolio of service oriented, non-capital intensive businesses, Caltius believes its portfolio may enjoy greater financial flexibility with less portfolio volatility. Furthermore, because senior lenders may prefer to finance asset heavy companies instead of service oriented businesses, there may be a lack of attractive capital available for service oriented, non-capital intensive businesses. Caltius believes that this absence of capital and financing

alternatives could increase the number of investment opportunities and allow the Fund to achieve better pricing and lower levels of risk.

**Pursue companies with superior exit options.** The Caltius Mezz Funds expect to favor investments that allow for multiple exit opportunities, giving each Fund flexibility in its exit strategy depending upon the portfolio company's performance. These exit opportunities may include a sale of the company in its entirety, a partial sale of a division or other assets (thereby allowing for a debt pay down while retaining the potential for equity upside), a recapitalization, or a refinancing. By focusing on companies with superior exit options, Caltius believes it may experience (i) enhanced downside protection; (ii) more frequent liquidity events; and (iii) superior equity upside with higher overall returns.

**Credit-oriented approach.** Caltius seeks to maintain rigorous underwriting standards with a focus on capital preservation. Caltius seeks to invest in companies with many of the following characteristics:

- Favorable industry dynamics and stable competitive environment
- Consistent historical operating performance
- Customer and end-market diversity
- Moderate capital expenditure and working capital requirements
- Low leverage measured by debt to cash flow ratios
- Meaningful market share and distinct competitive advantages
- Proven and properly incentivized management

### *Investment Process*

The Caltius Mezz Funds will seek to utilize a systematic investment process that capitalizes on a combination of deal flow from an established and diverse referral network, investment structuring, due diligence and credit analysis, and portfolio company involvement.

**Investment Origination.** By virtue of Caltius being an active participant in the same market since 1997 and the investing experience of Caltius' professionals, Caltius believes it enjoys, and will continue to utilize, a large network of relationships with deal sources (intermediaries, investment banks, senior lenders, equity sponsors, attorneys, accountants, industry executives and other deal sources). The key elements of Caltius' current deal sourcing strategy include:

- 1) Geographic coverage:** In addition to maintaining its strong referral network in California, Caltius professionals visit major U.S. cities throughout the year, leveraging conferences, trade shows, and company visits in these major cities.
- 2) Finding or creating non-sponsored/non change-of-control transactions:** These types of transactions have included shareholder dividends, equity cash-out transactions, refinancings, management buyouts, acquisition financings and internal growth/working capital financings.

**3) Utilizing tracking and data mining capabilities:** Caltius seeks to utilize its contact management and deal-flow databases to identify key referral sources and develop focused efforts to deepen relationships with these key deal sources. Caltius also has been able to identify target transaction types, industries and geographies.

**4) Developing referral programs:** Caltius seeks to develop programs with financial institutions and intermediaries for referring investment opportunities.

**5) Utilizing online marketing:** Caltius utilizes the internet through website updates and blast emails describing noteworthy events such as new investments and deal realizations.

**6) Leveraging executive partners:** Executives of current and past portfolio companies are investors in the Caltius' executive Funds. Caltius seeks to leverage these relationships to create deal flow, assist in evaluating potential investment opportunities and serve as references to prospective portfolio company management teams.

**Investment Selection and Approval Process.** The Caltius Mezz Funds seek to utilize a methodical approach to their investment selection and approval process, which is focused on assuring the preservation of the Fund's capital. The most common reasons for rejecting investment opportunities are: insufficient or volatile historical cash flow generation, an absence of a sustainable competitive advantage, an inappropriate capital structure, cyclical end-market demand and poor exit prospects. The general steps involved include:

***Investment Analysis:*** After completing an initial review of an investment opportunity, fund personnel internally distribute information outlining the transaction. The information summarizes the business, industry, competitive dynamics, financial performance, transaction structure and strengths/weaknesses gathered from the initial review of the materials received. The information is then reviewed at a deal meeting in which members of the Fund team contributes his or her relevant market knowledge and experience, at which point the group concludes whether or not to pursue the transaction further.

The Fund then performs research and analysis on each potentially attractive transaction.

***Due Diligence:*** Typically upon executing an exclusive letter of intent, the Fund begins a due diligence process that is customized to each transaction. Key due diligence findings are discussed on a real-time basis with members of the Fund's investment committee.

***Investment Approval:*** The principal results of due diligence efforts are compiled in an investment memorandum that is used as the basis for investment review and approval. Each investment in the Fund will require unanimous approval of the Fund's investment committee.

***Documentation:*** While the fund uses outside legal counsel to document each transaction, fund personnel remain actively involved in the documentation process through negotiation of business related issues and review of document iterations.

**Customized Structuring.** The Caltius Mezz Funds typically will customize structures to meet the unique attributes of each transaction. Investments are expected predominantly to take the form of a debt security, often with equity participation rights. In certain transactions, The Fund occasionally may provide “bridge senior” loans (short term senior debt with a maturity of less than two years or senior debt that converts to mezzanine pricing within two years). The Fund may later reinvest the capital invested in these bridge senior loans so long as the bridge senior debt has been repaid within two years of its original investment. As part of a mezzanine transaction, the Fund also may make equity co-investments structured as common and/or preferred stock. These equity co-investments are typically a small percentage of the Fund’s overall investment.

### **Involvement with Portfolio Companies**

The Caltius Mezz Funds seek to maintain active post-closing involvement with portfolio companies. Monitoring activities generally include: (i) monthly analysis of financial performance and covenant compliance; (ii) contact with key management team members; (iii) board of director meeting participation (through board observation rights); and (iv) periodic site visits.

### **Value Realization**

Certain of the Caltius Mezz Funds’ investments are redeemed or sold prior to maturity. These early realizations typically arise as a result of a transaction such as an asset sale, a sale of the company or a recapitalization/refinancing. When a Fund exits a debt investment prior to maturity as a result of a transaction other than a company sale, it may retain some or all of any equity securities associated with that investment, allowing for continued equity upside potential.

## **Risks of Investment**

### **Caltius Equity Funds**

*Business Risks.* Each Caltius Equity Fund’s investment portfolio will consist primarily of securities issued by privately-held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

*Future and Past Performance.* The performance of Caltius Equity Funds’ prior investments is not necessarily indicative of a Fund’s future results. While the General Partner of each Caltius equity Fund intends for the Fund to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that the targeted IRR will be achieved. On any given investment, loss of principal is possible.

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

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

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

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

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

*Reliance on General Partner and Portfolio Company Management.* Control over the operation of a Caltius Equity Fund will be vested entirely with the General Partner, and a Fund's future profitability will depend largely upon the business and investment acumen of the Equity Principals. The loss of service of one or more of the Equity Principals could have an adverse effect on the Fund's ability to realize its investment objectives. Investors generally have no right or power to take part in the management of the Fund, and as a result, the investment performance of the Fund will depend entirely on the actions of CEP II. Although CEP II will monitor the performance of each Fund investment, it will primarily be the responsibility of each portfolio company's management team to operate the portfolio company on a day-to-day basis. There can be no assurance that the existing management of such companies will continue to operate a company successfully.

*Projections.* Projected operating results of a company in which a Caltius Equity Fund invests normally will be based primarily on financial projections prepared by each company's management. In all cases, projections are only estimates of future results that are based upon assumptions made at the time the projections are developed. There can be no assurance that the

results set forth in the projections will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.

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

*Non-U.S. Investments.* A Caltius Equity Fund may invest in portfolio companies that are organized and or have substantial sales or operations outside of the United States, its territories, and possessions. Such investments may be subject to certain additional risk due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be given effect during the term of the Fund), the application of complex U.S. and foreign tax rules to cross-border investments, possible imposition of foreign taxes on the Fund and/or the Partners with respect to the Fund's income, and possible foreign tax return filing requirements for the Fund and/or the Partners.

*General Partner's Carried Interest.* The fact that a General Partner's carried interest is based on a percentage of net profit, may create an incentive for a General Partner to cause a Fund to make riskier or more speculative investments than would otherwise be the case.

*Director Liability.* A Caltius Equity Fund will often obtain the right to appoint a representative to the board of directors of the companies in which it invests. Serving on the board of directors of a portfolio company exposes the Fund's representatives, and ultimately the Fund, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability.

## **Caltius Mezz Funds**

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

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

*Leveraged Nature of Mezzanine Investments.* The portfolio companies in which the Caltius Mezz Funds will invest may be highly leveraged, thereby increasing the degree of credit risk inherent in each investment. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to finance future operations and capital needs or to pay principal and interest on a Fund's investments when due. The leveraged capital structure of portfolio companies will increase the exposure of a Fund's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates. A Fund's investments may be unsecured and subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured and bear floating interest rates. In the event any portfolio company cannot generate adequate cash flow to meet debt service, a Fund may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of the Fund. Furthermore, the companies and securities in which a Fund will invest generally will not be rated by a credit rating agency.

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

*Lack of Sufficient Investment Opportunities.* It is possible that a Fund will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring mezzanine transactions is highly competitive and involves a high degree of uncertainty. However, investors will be required to pay annual management fees during the commitment period based on the entire amount of their commitments. See "Fees and Compensation."

*Illiquidity; Long-Term Investments.* An investment in a Caltius Mezz Fund should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. Although most Fund investments are expected to generate current income, such investments may take several years from the date of the initial investment to reach a state of maturity when realization of the investments can be achieved. Furthermore, the expenses of operating a Fund (including the annual management fee payable to a General Partner) may exceed its income, thereby requiring that the difference be paid from the Fund's capital. It is anticipated that there will be no public market for all or a portion of the securities held by a Fund at the time of their acquisition. The Fund will generally not be able to sell its securities publicly unless their sale is registered under the applicable securities laws, or unless an exemption from such registration is available. In addition, in some cases a Fund may be prohibited from selling securities for a period of time.

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



*Reliance on the General Partner and Portfolio Company Management.* Control over the operation of the Caltius Mezz Funds will be vested entirely with the General Partner of the Funds, and the Funds' future profitability will depend largely upon the business and investment acumen of the members of its investment committee, Michael Kane, Greg Howorth and James Upchurch (the "**Mezz Founders**"). The loss of service of one or more of the Mezz Founders could have an adverse effect on the Caltius Mezz Funds' ability to realize its investment objectives. Investors generally have no right or power to take part in the management of the Funds, and as a result, the investment performance of the Caltius Mezz Fund will depend entirely on the actions of the General Partner of the Funds. Although the General Partner will monitor the performance of each Caltius Mezz Fund investment, it will primarily be the responsibility of each portfolio company's management team to operate the portfolio company on a day-to-day basis. Although the Caltius Mezz Funds generally intend to invest in companies with strong management or recruit strong management to such companies, there can be no assurance that the existing management of such companies will continue to operate a company successfully.

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

*Conflicting Investor Interests.* Investors may have conflicting investment, tax, and other interests with respect to their investments in a Caltius Mezz Fund, including conflicts relating to the structuring of investment acquisitions and dispositions. Conflicts may arise in connection with decisions made by a General Partner regarding an investment that may be more beneficial to one investor than another, especially with respect to tax matters. In structuring, acquiring and disposing of investments, the General Partner will consider the investment and tax objectives of a Fund and its partners as a whole, not the investment, tax, or other objectives of any investor individually.

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

*Non-U.S. Investments.* The Caltius Mezz Funds may invest in portfolio companies that are organized or have substantial sales or operations outside of the United States, its territories, and possessions. Such investments may be subject to certain additional risk due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be given effect during the term of a Fund), the application of complex U.S. and non-U.S. tax rules

to cross-border investments, possible imposition of non-U.S. taxes on the Fund and/or the investors with respect to a Fund's income, and possible non-U.S. tax return filing requirements for the Fund and/or the investors.

Additional risks include: (a) risks of economic dislocations in the host country; (b) less publicly available information; (c) less well-developed regulatory institutions; and (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

*General Partner's Carried Interest.* The fact that the a General Partner's carried interest is based on a percentage of net profits, may create an incentive for the General Partner to cause a Fund to make riskier or more-speculative investments than otherwise would be the case.

*Non-controlling Investments.* The Caltius Mezz Fund anticipate that they will principally hold debt obligations and other non-controlling interests in portfolio companies and, therefore, will have a limited ability to protect a Fund's position in such portfolio companies. However, the General Partner will seek appropriate creditor and shareholder rights to help protect the Fund's interest.

*Director Liability.* In certain circumstances, a Caltius Mezz Fund may receive the right to appoint a representative to the board of directors of the companies in which it invests. Serving on the board of directors of a portfolio company exposes the Fund's representatives, and ultimately the Fund, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability.

*Uncertain Economic and Political Environment.* The current global economic and political climate is one of uncertainty. Prior acts of terrorism in the United States, the threat of additional terrorist strikes and the fear of a prolonged global conflict have exacerbated volatility in the financial markets and can cause consumer, corporate, and financial confidence to weaken, increasing the risk of a "self-reinforcing" economic downturn. A climate of uncertainty may reduce the availability of potential investment opportunities and increases the difficulty of modeling market conditions, reducing the accuracy of the financial projections. Furthermore, such uncertainty may have an adverse effect upon the portfolio companies in which the Fund makes investments.

## **Conflicts of Interest**

During the commitment period for a Fund, the Adviser will pursue all appropriate investment opportunities exclusively through that Fund, subject to certain limited exceptions, as more fully described in the applicable partnership agreements and private placement memoranda for that Fund. However, the Adviser may manage several other investment funds and investments similar to those in which that Fund will be investing, and may direct certain relevant investment opportunities to those investment funds and investments. In addition, the Adviser may spend a portion of its business time and attention pursuing investment opportunities that do

not fall within the investment objectives of the Fund for other investment funds and other than on behalf of the Fund. The Adviser's investment staff will continue to manage and monitor such investment funds and investments, although the Adviser expects that the time required to do so will be less than will be spent on Fund matters. The significant investment of the Adviser's principals in the Fund, as well as the interest of the Adviser's principals in the carried interest, are intended to align, to some extent, the interest of the Adviser's principals with the interest of the other investors in the Fund, although the Adviser's principals have economic interests in such other investment funds and investments as well and receive management fees and carried interests relating to these interests. Such other investment funds and investments that the Adviser's principals may control may compete with the Fund or companies acquired by the Fund. Following the commitment period, the Adviser's principals may and likely will focus their investment activities on other opportunities and areas unrelated to the Fund's investments.

From time to time, a Fund will be presented with investment opportunities that would be suitable not only for that Fund, but also for other Private Investment Funds and other investment vehicles operated by advisory affiliates of the Adviser. In determining which investment vehicles should participate in such investment opportunities, The Adviser and its affiliates are subject to conflicts of interest among the investors in such investment vehicles. The Adviser attempts to resolve such conflicts of interest in light of its obligations to investors in its Private Investment Funds and the obligations owed by the Adviser's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among the Fund, other Private Investment Funds and such investment vehicles in a fair and equitable manner. Where appropriate, the Adviser consults and receives consent to conflicts from an advisory committee consisting of limited partners of the Fund and such other investment vehicles.

Because each General Partner's carried interest is based on a percentage of net realized profits, it may create an incentive for the General Partner to cause a Fund to make riskier or more speculative investments than would otherwise be the case. Also, for CEP II, CP III and CP IV, each General Partner may receives a carried interest allocation on certain realized profits in its main Fund but not with respect to its Executive Fund. This practice could present a conflict of interest because the General Partner has an incentive to favor accounts for which we receive a performance-based fee. We seek to address this potential conflict of interest by causing the main Fund and the executive Fund to invest, to the extent practicable, in the same portfolio companies at the same time and on the same terms on a pro rata basis based on relative commitment sizes of the applicable Funds.

#### **DISCIPLINARY INFORMATION**

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

#### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Caltius Management is affiliated with other Caltius investment advisers registered with the SEC under the Advisers Act. These advisers are CP IV, LP, a Delaware limited liability company; CP III, LP, a Delaware limited partnership; LUSB, LLC, a Delaware limited liability

company; Libra Investors III-A, LLC, a Delaware limited liability company; CEP II, LP, a Delaware limited partnership; and LFE, L.L.C., a Delaware limited liability company. These affiliated investment advisers serve as managers or general partners of private investment funds and other pooled vehicles and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

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

Caltius Management has adopted the Caltius Code of Ethics and Securities Trading Policy and Procedures (the “**Code**”), which sets forth standards of conduct that are expected of Caltius principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Caltius personnel to report their personal securities transactions, prohibits or requires pre-clearance for Caltius personnel from directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits Caltius personnel from directly or indirectly acquiring beneficial ownership of securities with limited exceptions, without first obtaining approval from the Caltius Chief Compliance Officer. A copy of the Code will be provided to any investor or prospective investor upon request to Robert G. Morrish, the Caltius Chief Compliance Officer, at (310) 996-9585. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client’s interests in client eligible investments.

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

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

Principals and employees of Caltius Management and its affiliates may directly or indirectly own an interest in Private Investment Funds, including the Fund or certain co-investment vehicles. To the extent that co-investment vehicles exist, such vehicles may invest in one or more of the same portfolio companies as the Fund.

The Funds and other Private Investment Funds may invest together with other private investment funds advised by an affiliated adviser of Caltius Management in the manner set forth in the applicable Fund partnership agreement. Caltius Management will determine the allocation of investment opportunity in a manner that it believes is fair and equitable to its clients consistent

with each General Partner's obligations and may take into consideration factors such as the following: conflicts provisions in the relevant Caltius fund operating documents, investment and operating guidelines, diversification limitations, tax and regulatory considerations, minimum dollar limits, the need for a Caltius fund to maintain capital availability for potential follow-on investments in existing portfolio companies and other relevant factors, including risk.

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

From time to time, a General Partner may borrow funds on behalf of its Fund or the Private Investment Funds and contribute such borrowed amounts to the Fund (or relevant Private Investment Fund, as applicable) as a special capital contribution for investment, to be redeemed at a later date. Interest in connection with such borrowing is borne by the Fund (or the relevant Private Investment Fund, as applicable) as a the Fund expense, consistent with the applicable partnership agreement (or other governing document) and the expense policy described under "Fees and Compensation." In borrowing on behalf of a Fund or a Private Investment Fund, a General Partner is subject to conflicts of interest between repaying its obligations and retaining such borrowed amounts for the benefit of the Fund or Private Investment Fund, as applicable. A General Partner will effect such borrowings in a manner it believes to be fair and equitable to the Fund or Private Investment Fund, as applicable, and consistent with the General Partner's obligations to the Fund and the applicable partnership agreement (or other governing document).

#### **BROKERAGE PRACTICES**

Each General Partner focuses on securities transactions of private companies and generally purchases and sells such companies through privately-negotiated transactions in which the services of a broker-dealer is not required. However, a General Partner may also distribute securities to investors in the Fund or sell such securities, including through using a broker-dealer, if a public trading market exists. Although each General Partner does not intend to regularly engage in public securities transactions, to the extent it does so, it follows the brokerage practices described below.

If a General Partner sells publicly traded securities for the Fund, it is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the General Partner. In such event, the General Partner will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, a General Partner may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm

being considered; and (iv) responsiveness to requests for trade data and other financial information.

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

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

General Partners will employ no agreement or formula for the allocation of brokerage business on the basis of research services; however, a General Partner may, in its discretion, cause the Private Investment Funds to pay such brokers a commission for effecting portfolio transactions in excess of the amount of commission another broker adequately qualified to effect such transactions would have charged for effecting such transactions. This may be done where a General Partner has determined in good faith that such commission is reasonable in relation to the value of brokerage and research services received. In reaching such a determination, a General Partner would not be required to place or attempt to place a specified dollar value on the brokerage or research services provided by such broker.

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

To the extent that a General Partner allocates brokerage business on the basis of research services, it may have an incentive to select or recommend broker-dealers based on the interest in receiving such research or other products or services, rather than based on its Private Investment Funds’ interest in receiving most favorable execution.

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

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

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

#### **REVIEW OF ACCOUNTS**

The investments made by the Private Investment Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, Caltius Management monitors companies in which the Private Investment Funds invest, and the Caltius Chief Compliance Officer periodically checks to confirm that each Private Investment Fund is maintained in accordance with its stated objectives.

Each Fund typically will provide to its limited partners (i) annual GAAP audited financial statements, (ii) quarterly unaudited financial statements for the first three calendar quarters, and (iii) annual tax information necessary for each limited partner’s tax return. (See the partnership agreement for the applicable Fund for more information.)

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

Caltius Management and/or its affiliates may provide certain business or consulting services to companies in the Fund’s portfolio and may receive compensation from these companies in connection with such services. As described in the Partnership Agreement, this compensation may, in many cases, offset a portion of the Management Fees paid by the Fund. However, in other cases (*e.g.*, reimbursements for out of pocket expenses directly related to a portfolio company), these fees may be in addition to Management Fees. See “Fees and Compensation.”

From time to time, Caltius Management may enter into solicitation arrangements pursuant to which it compensates third parties for referrals that result in a potential investor becoming a limited partner in the Fund or other Private Investment Fund. Any fees and expenses payable to any such placement agents will be borne by Caltius Management indirectly through an offset against the Management Fee.

### **CUSTODY**

Each General Partner maintains custody of its related Fund's assets held in the Fund's name with the following qualified custodians: Merrill Lynch Pierce Fenner & Smith Incorporated; and US Bank.

### **INVESTMENT DISCRETION**

Each General Partner has discretionary authority to manage investments on behalf of the Fund. As a general policy, General Partners do not allow clients to place limitations on this authority. Pursuant to the terms of the applicable partnership agreement, however, a General Partner 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. Each General Partner assumes this discretionary authority pursuant to the terms of the applicable partnership agreements and powers of attorney executed by the limited partners of the Fund.

### **VOTING CLIENT SECURITIES**

Each General Partner and Caltius Management have adopted the Caltius Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how it will vote proxies, as applicable, for the Fund's (and any Private Investment Fund's) portfolio investments. The Proxy Policy seeks to ensure that each General Partner votes proxies (or similar instruments) in the best interest of its Fund(s), including where there may be material conflicts of interest in voting proxies. The General Partners generally believe their respective interests are aligned with those of the Fund's investors through the principals' beneficial ownership interests in the Fund(s) and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that each General Partner may address the conflict using several alternatives, including by seeking the approval or concurrence of its Fund's advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, a Fund's advisory board may approve a General Partner's vote in a particular solicitation. General Partners do not consider service on portfolio company boards by Caltius personnel or the General Partner's receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by a General Partner when voting proxies on behalf of the Funds. If you would like a copy of Caltius' complete Proxy Policy or information regarding how a General Partner voted proxies for particular portfolio companies, please contact Robert G. Morrish, the Caltius Chief Compliance Officer, at (310) 996-9585, and it will be provided to you at no charge.



## **FINANCIAL INFORMATION**

None of the General Partners requires prepayment of management fees six months or more in advance or have any other events requiring disclosure under this item of the Brochure.

### **SUPPLEMENTAL INFORMATION ABOUT CERTAIN PRINCIPALS OF CALTIUS MANAGEMENT**

#### **James B. Upchurch**

##### *Educational Background and Business Experience*

James B. Upchurch, 53, is President and Chief Executive Officer of Caltius. Prior to founding Caltius, he was the President of U.S. Bancorp Libra and its predecessor, Libra Investments, an investment banking firm focused on the sale, trading and placement of debt securities. Previously, he was a Portfolio Manager for high yield bonds at Columbia Savings and Loan Association and, prior thereto, was employed by American Continental Corporation. Mr. Upchurch began his career as a Certified Public Accountant at KPMG. He received his B.S. from Northern Arizona University.

##### *Disciplinary History*

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

##### *Other Business Activities*

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

##### *Additional Compensation*

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

##### *Supervision*

As President and Chief Executive Officer of Caltius, Mr. Upchurch is part of a team that is responsible for implementing and overseeing the investment strategy of both the Caltius Equity Funds and the Caltius Mezz Funds. Mr. Upchurch is not subject to the direct supervision of any other individual, although Robert G. Morrish, Chief Compliance Officer for Caltius, oversees his compliance with the Adviser's policies and procedures.

#### **Garrick Ahn**

##### *Educational Background and Business Experience*

Garrick Ahn, 43, Managing Director, joined Caltius in 1999 and works with the Caltius Equity Funds. Previously, he was an Associate at Bastion Capital, responsible for sourcing,

executing and managing investments. Prior to Bastion Capital, he spent two years as a strategy consultant with McKinsey & Company focused on assisting Fortune 500 companies with strategy development and implementation of operational improvement initiatives. Mr. Ahn began his career with Morgan Stanley & Co. in the Equity Capital Markets Group. He received his B.S. and M.S. in Electrical and Computer Engineering from Johns Hopkins University and an M.B.A. from Harvard Business School.

#### *Disciplinary History*

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

#### *Other Business Activities*

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

#### *Additional Compensation*

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

#### *Supervision*

As a Managing Director of Caltius, Mr. Ahn is part of a team that is responsible for implementing and overseeing the investment strategy of the Caltius Equity Funds. Mr. Ahn is not subject to the direct supervision of any other individual, although Robert G. Morrish, Chief Compliance Officer for Caltius, oversees his compliance with the Adviser's policies and procedures.

### **Michael J. Morgan**

#### *Educational Background and Business Experience*

Michael J. Morgan, 43, Managing Director, joined Caltius in 1999 and works with the Caltius Equity Funds. Previously, he was with Salomon Smith Barney as an Associate in their Financial Sponsor Coverage Group, responsible for executing equity, debt and mergers and acquisitions transactions for the portfolio companies of large private equity firms. Prior to Salomon Smith Barney, he spent two years at Kline Hawkes & Co., responsible for executing late stage growth equity investments in companies located primarily in California, and for the two years prior to Kline Hawkes & Co., worked at Continental Illinois Venture Corporation (now CIVC Partners), a middle market private equity firm based in Chicago, IL. Mr. Morgan received his B.A. in Economics from the University of Pennsylvania and an M.B.A. from the UCLA Anderson School of Management where he was a Venture Capital Fellow.

#### *Disciplinary History*

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

#### *Other Business Activities*

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

#### *Additional Compensation*

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

#### *Supervision*

As a Managing Director of Caltius, Mr. Morgan is part of a team that is responsible for implementing and overseeing the investment strategy of the Caltius Equity Funds. Mr. Morgan is not subject to the direct supervision of any other individual, although Robert G. Morrish, Chief Compliance Officer for Caltius, oversees his compliance with the Adviser's policies and procedures.

### **Michael A. Kane**

#### *Educational Background and Business Experience*

Michael A. Kane, 50, is a Managing Director of Caltius and works with the Caltius Mezz Funds. Mr. Kane joined Caltius in 1997. Previously, he was a Managing Director of Richard C. Blum and Associates, responsible for managing Building and Construction Capital Partners, L.P., a private equity fund focused on the building and construction industries. Prior to Richard C. Blum and Associates, he spent seven years with the Industrial Finance Division of General Electric Capital Corporation, focused on making loans to companies in various sectors. Mr. Kane began his career with Metropolitan Life Insurance in the private placements group. He received his undergraduate degree, M.B.A. and a Masters in Accounting from Rice University.

#### *Disciplinary History*

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

#### *Other Business Activities*

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

#### *Additional Compensation*

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

### *Supervision*

As a Managing Director of Caltius, Mr. Kane is part of a team that is responsible for implementing and overseeing the investment strategy of the Caltius Mezz Funds. Mr. Kane is not subject to the direct supervision of any other individual, although Robert G. Morrish, Chief Compliance Officer for Caltius, oversees his compliance with the Adviser's policies and procedures.

## **Gregory J. Howorth**

### *Educational Background and Business Experience*

Gregory J. Howorth, 46, is a Managing Director of Caltius and works with the Caltius Mezz Funds. Previously, he was with FINOVA Capital as a senior credit officer responsible for pre-screening transactions in FINOVA's Corporate Finance Group. Prior to FINOVA Capital, he worked at Heller Financial for eight years and was responsible for underwriting cash flow based senior and subordinated debt transactions for California-based equity sponsors. Mr. Howorth received his B.S. from the University of Southern California.

### *Disciplinary History*

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

### *Other Business Activities*

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

### *Additional Compensation*

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

### *Supervision*

As a Managing Director of Caltius, Mr. Howorth is part of a team that is responsible for implementing and overseeing the investment strategy of the Caltius Mezz Funds. Mr. Howorth is not subject to the direct supervision of any other individual, although Robert G. Morrish, Chief Compliance Officer for Caltius, oversees his compliance with the Adviser's policies and procedures.