

Clarion Operating, LLC

Part 2A of Form ADV

The Brochure

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This brochure provides information about the qualifications and business practices of Clarion Operating, LLC (“Clarion” or the “Firm”). If you have any questions about the contents of this brochure, please contact the Chief Compliance Officer, Janice Chan, at (212) 821-0170. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Registration as an investment adviser does not imply a certain level of skill or training.

Additional information about Clarion is also available on the SEC’s website at: www.adviserinfo.sec.gov.

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Advisory Business

Clarion is an investment firm, founded in 1999, and primarily owned by Marc A. Utay. Clarion primarily manages private equity focused Funds and will manage a special purpose company to hold life settlement assets for the life settlement focused Fund. Special purpose companies/vehicles may be organized to hold investments in portfolio companies for the private equity focused Fund. The private investment Funds, along with related special purpose companies/vehicles are referred to herein each as a “Fund” or collectively as the “Funds”. The private equity focused Funds are organized to make primarily control-oriented private equity investments in diversified middle-market portfolio companies generally located in the United States. The Fund with a life settlement focus will invest in or aggregate a portfolio of life insurance policies (or otherwise known as “Life Settlement Assets”). Life insurance policies will be purchased in the tertiary market or the secondary market from policy owners at a price greater than the cash surrender value but less than the face value of the policy’s benefit. The Funds are long-term investment vehicles that require certain lock-up periods.

As of December 31, 2011, Clarion managed approximately \$296,770,888 in assets on a discretionary basis on behalf of the Funds with a private equity focus. As of the date of this filing, Clarion is currently seeking commitments from investors for the life settlements Fund.

In managing the private equity focused Funds, Clarion formulates the investment objective, directs and manages the investment of the Funds’ assets, and provides periodic reports to investors in the Funds. Investment advice is provided directly to the Funds and not individually to the investors in the Funds. Clarion manages the assets of the Funds in accordance with the terms of the governing documents applicable to each Fund including a private placement memorandum and limited partnership agreement (each a “Governing Document” or collectively the “Governing

Documents”). Clarion anticipates that the life settlement focused Fund will be managed in accordance with the terms of the Governing Document.

Fees and Compensation

Clarion, or an affiliated entity, receives an annual management fee and carried interest from each Fund. Management fees are payable quarterly in advance at a rate ranging from 1.00% to 1.75% per year depending on the Fund and based on investor commitments during the investment period. After the end of the investment period and depending on the Fund, management fees are based on actively invested capital or commitments less aggregate returned contributions. The life settlement Fund will be subject to a minimum management fee of \$1 million per annum. Management fees may be waived at the discretion of the general partner of a Fund (each a “General Partner” or collectively the “General Partners”). With respect to the private equity focused Funds, Clarion may receive transaction fees, transaction termination fees, commitment fees, investment banking fees, portfolio company management fees, monitoring fees, advisory fees, and directors’ fees. Fifty percent of such fees will be applied to reduce the quarterly management fee. With respect to the life settlement focused Fund, Clarion will receive, in addition to management fees, an acquisition fee equal to \$20,000 per policy at the time of policy acquisition in connection with the evaluation and acquisition. An annual servicing fee of \$10,000 will be paid quarterly per policy as long as the policy is held by the Fund. The servicing fee will be used to fund expenses in connection with maintenance and disposition of the policy, updating life expectancy reports, and allocable compensation for the Company’s in-house personnel and operating costs for servicing the life settlement assets.

The Funds are subject to carried interest of up to 20% of profits on distributions derived from the disposition of investments after capital and preferred rate of return are distributed.

Detailed information regarding the fees charged to the Funds and lock-up periods are provided in the relevant Governing Document. In addition to the management fee and carried interest distributions, investors will bear indirectly the fees and expenses charged to the Funds. Those fees and expenses will vary by type of Fund but typically will include the following: audit and tax preparation fees, accounting fees, attorney fees, insurance fees, administrator expenses, annual meeting expenses, bank fees, expenses related to the due diligence of portfolio companies or life settlement assets, acquisition and servicing fees for life settlement assets, ongoing premium payments for life settlement assets, and other fees and expenses related to the respective Fund. Investors should review all fees charged by Clarion, its affiliates, and others to fully understand the total amount of fees to be paid by the Funds and, indirectly, the investors.

Performance Based Fees and Side-by-Side Management

The General Partner of each private equity Fund and certain partners of the General Partner of the life settlement Fund receive or will receive performance-based compensation in the form of a carried interest distribution of up to 20% from the relevant Fund. Performance-based compensation may create an incentive for Clarion to make more speculative investments and/or different decisions regarding the timing and manner of the realization of such investments for the

Funds than would be made in the absence of performance-based compensation. Clarion maintains a disciplined investment strategy in which due diligence is used to make investment decisions. Decisions involving the purchase and sale of investments involve the consent of the majority of the investment professionals.

Types of Clients

Clarion provide advisory services to the private equity focused Funds and will provide advisory services to the company purchasing the life settlement assets for the life settlement focused Fund. The minimum capital commitment for an investment in a Fund is outlined in the relevant Governing Document and is generally \$5.0 million. However, Clarion or the General Partner of the relevant Fund has discretion to accept less than the minimum capital commitment.

Investors will be required to make certain representations when investing in a Fund through the execution of a subscription agreement and other documents. Interests in the Funds are not registered under the Securities Act of 1933, as amended, and such Funds are not registered under the Investment Company Act of 1940, as amended. Accordingly, interests in the Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements either in private transactions within the US or in offshore transactions.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategies

Clarion serves as an investment adviser to the private equity Funds with the strategy of making control-oriented private equity investments. Clarion will serve as the investment adviser for the life settlement Fund. Each of the Funds is managed according to the terms of the relevant Governing Document.

Private Equity Focused Funds

With respect to the private equity focused Funds, Clarion seeks to make primarily control-oriented private equity investments in a diversified portfolio of middle-market companies in industries such as business services, healthcare services, specialty financial services, consumer products, specialty retail, and media and entertainment. The Firm focuses on equity investments in the range of \$15-\$50 million with enterprise values of \$50-\$200 million. Clarion considers and uses a range of investment structures including leverage buyouts, growth equity, and recapitalizations.

Clarion performs extensive due diligence with top-tier advisors to identify companies that fit the private equity focused Funds' investment profile. The Firm uses its extensive deal structuring experience to identify risks inherent in each investment to make informed investment decisions. Clarion develops working relationships with management teams whose character, culture, and organization are conducive to forming true, long-term partnerships. The Firm works closely with management and seeks to align interests with management both economically and strategically. At

the initial investment stage, Clarion and the management team work together to formulate strategic and operating plans.

Life Settlements Focused Fund

The life settlements focused Fund's investment strategy is to achieve attractive risk-adjusted returns through direct acquisitions of US senior universal life insurance policies. At its most fundamental level, investing in secondary insurance policies means purchasing life insurance policies in the secondary market from policy owners at a price greater than the cash surrender value but less than the face value of the policy's benefit. Purchasers then hold the policies, continuing to pay the premiums and asset management costs until the individual policies mature in order to ultimately collect the policy's face value upon the insured's mortality.

The Fund seeks stable risk-adjusted returns through a buy and hold strategy defined by a disciplined value investment approach using proprietary pricing analytics, institutional portfolio-balancing standards, thorough diligence and closing mechanics, and rigorous portfolio management and risk monitoring using proprietary software. The individuals performing the diligence process will examine candidate policies from the following perspectives: i) economic policy value, ii) policy origination, including policy application review, insurable interest confirmation, and policy premium financing, and iii) policy ownership, including an investigation of the full chain of title.

Overview of Risks

Acquiring an interest in the Funds involves a number of risks. An investment in the Funds may be deemed a speculative investment and is not intended as a complete investment program. It is designed for sophisticated investors who fully understand and are capable of bearing the risk of an investment in the Funds. No guarantee or representation is made that the Funds will achieve their investment objective or that investors will receive a return of their capital.

All investing involves a risk of loss and the investment strategies offered by Clarion could lose money over short or long periods. The descriptions contained below include an overview of the material risks related to Clarion's investment strategies. Investors should carefully review the Governing Document for each Fund to understand all relevant risks and potential conflicts of interest prior to making an investment.

Material Risks Related to the Private Equity Focused Funds

- Dependence on key personnel.

The success of each Fund will depend on the financial and managerial expertise of the principals of Clarion. Any loss of one or more individuals could have a material adverse effect on the performance of the Funds. With respect to management at the portfolio company level, many portfolio companies rely on the services of a limited number of key individuals, the loss of any one of whom could significantly adversely affect the portfolio company's performance. While in

all cases Clarion will monitor portfolio company management, management of each portfolio company will have day-to-day responsibility of such portfolio company.

- Financial market fluctuations.

Investments in portfolio companies subject the Funds to the general risks associated with the underlying businesses, including market conditions, changes in regulatory requirements, interest rate and currency fluctuations, general economic downturns, domestic and foreign political situations, and other factors.

- Illiquidity of investments.

The Funds will invest in instruments where there is likely to be no actively traded market. Moreover, many of the Fund's investments may be held by relatively few other investors. Under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer or of the asset, the Funds may find it more difficult to sell such instruments when Clarion believes it advisable to do so or may be forced to sell them at prices lower than if the instruments were widely held. Thus, the range of disposal strategies available to the Funds may be further limited. Finally, dispositions of investments may be subject to contractual and other limitations on transfer, or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms obtainable upon a disposition.

- Difficulty locating suitable investments.

The activity of identifying, completing, and realizing attractive investments is highly competitive and involves a high degree of uncertainty. Clarion faces competition from numerous competitors in all fields of activity. The Firm will be competing for investments with a variety of other investment vehicles, as well as individuals, financial institutions, and other institutional investors. Additional Funds with similar investment objectives may be formed in the future by other unrelated parties. There can be no assurance that the Firm will be able to locate and complete investments which satisfy the investment objectives or that it will be able to invest fully the Funds' available capital.

- Nature of the Funds' investments.

The Funds' investments may be in equity or equity-related investments which by their nature involve business, financial, market, and/or legal risks. While such investments offer the opportunity for significant capital gains, they also involve a high degree of risk that can result in substantial losses. There can be no assurance that Clarion will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. The securities owned by the Funds are not publicly traded and are required to be fair valued by Clarion. When estimating fair value, Clarion will apply a methodology based on its best judgment that is appropriate in light of the nature, facts and circumstance of the investments. Valuations are subject to multiple levels of review for approval and ensuring that portfolio investments are fairly valued is an important focus of Clarion.

Material Risks Related to the Life Settlements Focused Fund

- Illiquidity of assets.

The secondary market for life insurance is relatively illiquid and it is often difficult to sell policies at attractive prices, if at all. The Firm may be limited in its ability to liquidate assets in the Fund if it needs to do so. Investors may experience a loss if life insurance policies must be disposed of under less than optimal circumstances.

- Changes to various regulations.

Life settlement activities are subject to numerous state insurance laws, which may result in conflicting and/or overlapping requirements. It is possible that future changes in state and federal statutes, laws and regulations will make it more difficult, or even impossible, for individuals or entities to invest in life settlements.

- Fraud.

If an insured has made any material misrepresentation on his/her application for life insurance, there is a heightened risk that the insurance company will contest or successfully rescind or void the related policy, although an issuing insurance company may have limited or no ability, depending upon the state of issuance, to raise such claims after the expiration of the applicable contestability period.

- Contestability/rescission.

It is possible that the life insurance policies may be subject to actions for rescissions by the issuing insurance companies even after the expiration of the contestability periods. Should any such claims be successful, investors may lose some or the entire amount invested in the Fund. Even if such claims are unsuccessful, significant amounts may need to be expended in defending such claims thereby reducing the amounts available to pay interest and principal due on interests in the Fund.

- Longevity/mortality

In addition to risks in the manner in which the life settlements were originated, another principal risk to investors is the uncertainty regarding the date of death of an insured. Life expectancies are projected from the medical records of the insured and actuarial data based upon the historical experience of similarly situated persons. The Fund will hire an outside actuarial company to provide life expectancy projections projected from the medical records. It is impossible to predict with certainty any insured's life expectancy. If the insured lives longer than any or all of the life expectancy appraisals predict, then the amounts available to pay interests in the Fund could be diminished due to the additional time during which premiums will be needed to be paid in order to keep the policy in force. If the period for too many policies exceeds beyond the maturity date for interests in the Fund, then policies may have to be liquidated instead of receiving death benefits,

and the market value of such life insurance policies may be significantly less than the related death benefits.

- Increases in cost of insurance.

Insurers levy cost of insurance charges against the policy and pass on a portion of their expenses to operate their business and administer their life insurance policies in the form of policy charges borne by each policyholder. In the event an insurer experiences significantly higher than anticipated mortality rates or expenses associated with operation and/or policy administration, the insurer has the right to increase the charges to each of its policy owners, except for those policies in which the level of premiums is guaranteed. In the event of material increases to the policy charges, it is possible that additional premium payments will be required to maintain the insurance policy in force.

- Carrier-credit risk.

The Company will be subject to the credit risk associated with viability of life insurance companies that issue the life insurance policies. The insolvency of any such life insurance company or a downgrade in the ratings of such life insurance company could have a material adverse impact on the value of the related policies, the collectability of the related death benefits, cash surrender value, or other amounts agreed to be paid by the life insurance company. Any such insolvency or impairment of the life insurance company could materially and adversely affect the Company and the value and marketability of the interests.

- Changes in tax policies.

The Fund expects to qualify for the benefits of the US – Ireland tax treaty (the “Treaty”) and not be engaged in a trade or business in the US through a permanent establishment within the meaning of the Treaty. There will be significant adverse US tax consequences to the Fund and US investors if the Fund does not qualify for the Treaty or if it is treated as having a US permanent establishment.

Disciplinary Information

Clarion and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to an evaluation of the Firm or its employees.

Other Financial Industry Activities and Affiliations

The Firm provides investment advice to the private equity Funds and will provide investment advice to the company that purchases the life settlement assets for the Fund with a life settlement focus. The General Partners of the Funds are affiliated with Clarion by common ownership. Otherwise, Clarion and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Clarion has adopted a Code of Ethics pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), which is predicated on the principle that Clarion owes a fiduciary duty to the Funds. Accordingly, employees of Clarion must disclose or avoid activities, interests, and relationships that run contrary (or appear to run contrary) to the best interest of the Funds.

Clarion endeavors to maintain current and accurate records of personal securities accounts of its employees in an effort to monitor all such activity. Generally, employees may not purchase or sell securities that are also held by the Funds, and must seek pre-approval from the CCO before purchasing certain securities. Clarion’s Code of Ethics is available for review and will be provided to any investor or prospective investor upon request by contacting the CCO, Janice Chan, at (212) 821-0170.

Clarion, certain employees, or a related entity will have an investment in each Fund. For example, the General Partner for each Fund is 100% owed by Clarion and related persons. Therefore, Clarion, its employees, or a related entity participate in transactions effected for Funds. The foregoing relationships, fees, and any other actual or potential conflicts of interest arising therefrom are disclosed in the relevant Governing Document.

Employees of the Firm may serve on the boards of certain portfolio companies and, in that capacity, will be required to make decisions that consider the best interests of such portfolio companies and their respective shareholders. In certain circumstances, for example in situations involving bankruptcy or near-insolvency of a portfolio company, actions that may be in the best interests of the portfolio company may not be in the best interests of the Funds, and vice versa. Accordingly, in these situations, there will be conflicts of interest between such individual’s duties as an employee of Clarion and such individual’s duties as a director or officer of such portfolio company. In evaluating these situations, the Firm will consider all circumstances before coming to a decision.

Brokerage Practices

The private equity focused Funds invest in privately-issued securities of portfolio companies. The special purpose company related to the life settlement focused Fund will make investments in life settlement assets and does not trade in the public securities markets. Thus, commissions are not ordinarily payable in connection with Fund investments.

To the limited extent Clarion transacts in public securities it intends to select brokers based upon the broker’s ability to provide best execution for the Funds. Clarion is generally authorized to make the following determinations, subject to the Fund’s investment objectives and restrictions, without obtaining prior consent from the relevant Fund or any of its investors: (1) which securities or other instruments to buy or sell; (2) the total amount of securities or other instruments to buy or sell; (3) the executing broker or dealer for any transaction; and (4) the commission rates or commission equivalents charged for transactions.

Review of Accounts

Private Equity Focused Funds

All investments are carefully reviewed and approved by the Investment Committee which is comprised of all members of the investment team and the CFO. Portfolio companies are continuously reviewed on ad-hoc basis by Clarion's investment team.

Life Settlement Focused Fund

The co-heads of the Longevity products group will review the accounts daily.

Clarion provides written quarterly and annual reports to each investor in the Fund. The quarterly report includes a summary of recent investment activities, valuations, and Fund financial statements. Clarion also provides audited financial statements to investors annually and holds an annual investor meeting.

Client Referrals and Other Compensation

During a fundraising cycle for a Fund, Clarion may compensate placement agents or solicitors who introduce new investors that commit capital. The amount paid to a placement agent/solicitor is based on a percentage of the capital raised and/or retainer and all placement fees will be fully disclosed to investors referred by placement agents.

Custody

Clarion is generally deemed to have custody of each of the Funds' assets pursuant to Rule 206(4)-2 under the Advisers Act. The Firm complies with that Rule by providing that each of the Funds are subject to an annual audit, and the audited financial statements are distributed to each investor within 120 days of the end of each Funds' fiscal year.

Investment Discretion

Clarion generally has discretionary authority to determine, without obtaining specific consent from the Funds or its investors, the investments and amount to be bought or sold. Any limitations on authority are included in the Funds' Governing Documents.

The Funds may enter into separate agreements, commonly referred to as "side letters", with certain investors, to waive certain terms, or allow such investors to invest on different terms than those specifically described in relevant Governing Documents. Under certain circumstances, side letters can create preferences or priorities for such investors with respect to other investors.

Voting Client Securities

The Funds do not invest in securities that issue proxies. Therefore, Clarion does not vote proxies on behalf of the Funds.

Financial Information

Clarion has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.