

## **Part 2A of Form ADV: Firm Brochure**

### **St. Cloud Capital II, LLC**

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This brochure provides information about the qualifications and business practices of **St. Cloud Capital II, LLC** ("**St. Cloud**"). If you have any questions about the contents of this brochure, please contact us at **(310) 475-2700**. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "**SEC**") or by any state securities authority. **St. Cloud** has applied for registration as an investment adviser with the SEC. This registration does not, however, imply a certain level of skill or training of any of **St. Cloud's** personnel.

Additional information about **St. Cloud** also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**ITEM 2 MATERIAL CHANGES**

Not applicable. This is St. Cloud's initial ADV Part 2A brochure.

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## **ITEM 4**      **ADVISORY BUSINESS**

### **Overview**

St. Cloud Capital II, LLC ("St. Cloud") is a Delaware limited liability company. St. Cloud has been providing investment advisory services since 2001 and currently provides investment advisory services to St. Cloud Capital Partners II, L.P. (the "Fund"). St. Cloud's principal owners are those individuals disclosed as owning 25% or more of the adviser on ADV Part 1A, Schedule A.

St. Cloud is located in Los Angeles, California and focuses on investments throughout the United States. The Fund is a \$172 million private investment fund specializing in providing growth capital to lower middle market companies through both debt financing (generally 70% - 90% of investment amount) and equity financing (generally 10% - 30% of investment amount). The General Partner of the Fund is SCGP II, LLC (the "General Partner"). St. Cloud does not manage client assets on a non-discretionary basis.

St. Cloud identifies and recommends investment opportunities for the Fund; determines the amount of capital to commit to each investment; participates in the monitoring and evaluation of the Fund's investments; and makes recommendations to the General Partner of the Fund regarding purchase and/or sale of investments. St. Cloud's advisory personnel also serve as the principals of the General Partner.

St. Cloud may also provide investment advisory services to similar funds to be formed in the future.

### **Nature of St. Cloud's Clients**

St. Cloud provides investment management and administrative services to the Fund and its general partners. The Fund is a Delaware limited partnership that is a private investment fund not registered under the U.S. Investment Company Act of 1940 (the "**Investment Company Act**").

St. Cloud does not participate as manager in any wrap fee programs.

### **St. Cloud's Investment Mandates**

The terms upon which St. Cloud serves as investment manager of the Fund were established at the time the Fund was established and is set out in the management agreement with the Fund and the limited partnership agreement governing the Fund. These terms include restrictions on the types of securities and other assets in which the Fund may invest, the amount of assets that may be invested in any portfolio company or industry and the geographies in which the Fund may invest, among others.

## **ITEM 5**      **FEES AND COMPENSATION**

### **General**

St. Cloud receives a management fee from the fund as compensation for the investment management and administrative services St. Cloud provides to its Fund. The General Partner, an affiliate of St. Cloud, receives a carried interest out of the Fund's net realized gains. Management fees, carried interest allocations and/or any other compensation payable by the Fund were negotiated with the investors in the Fund at the time of formation.

St. Cloud may, from time to time, enter into side letter agreements or other arrangements with specific investors in the Fund whereby such investors receive rebates or reductions of management fees or other compensation otherwise payable with respect to their investments in St. Cloud.

**Management Fees**

St. Cloud receives periodic management fees from the Fund ranging from 1.5% to 2% of capital committed to, or the net asset value of, the Fund, during the commitment period and thereafter, respectively. Management fees are paid quarterly in advance. The General Partner can make capital calls on investors in the Fund for the amount of St. Cloud's management fees or pay them from available cash. Because the Adviser has registered as an investment adviser with the SEC under the Advisers Act, and this brochure is delivered only to qualified purchasers as defined in section 2(a)(51)(A) of the Investment Company Act, a fee schedule is not provided.

Management fees payable to St. Cloud by the Fund may be reduced by certain other compensation received by St. Cloud that relate to the Fund and its activities or by certain organizational, offering and other expenses borne by the Fund.

**Other Compensation**

St. Cloud or its affiliates may receive other compensation in connection with the Fund's portfolio activities. For example, St. Cloud may receive monitoring fees in exchange for providing portfolio companies with management, consulting and other services and may also receive financial advisory fees in connection with specific transactions. principals and employees of St. Cloud and its affiliates also receive directors' fees for serving on the boards of the Fund's portfolio companies. These directors' fees are generally offset against the Fund's management fees.

**Other Expenses**

The Fund will typically pay all legal, accounting, and filing expenses incurred in connection with organizing and establishing the Fund and the General Partner, and the marketing and offering of interests in the Fund, including legal, accounting, filing and other out-of pocket expenses of organizing and raising capital, travel and accommodations, printing expenses and other similar costs, fees, and expenses. Investors in the Fund will typically receive a reduction in management fees with respect to offering and organizational expenses in excess of specific amounts as described in the offering materials, disclosure documents and/or governing documents.

In addition, the Fund will typically pay broken deal expenses and all expenses related to the operation of the Fund, including fees, costs, and expenses directly related to the purchase, holding, and sale of investments, expenses of any consultants, counsel, and accountants, any insurance, indemnity, or litigation expense, custody fees, brokerage fees (if any), certain taxes, expenses of any advisory committee established in respect of the Fund and its members, costs of any information meetings of the Fund's investors, and any fees or other governmental charges levied against the Fund. Out-of-pocket expenses associated with completed investments by the Fund are generally reimbursed by the portfolio company or capitalized as part of the acquisition price of the relevant transaction.

Neither St. Cloud nor any of its supervised persons accept compensation for the sale of securities or other investment products.

**ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT****Performance-Related Compensation**

Neither St. Cloud nor its supervised persons accept performance-based fees. The Fund's General Partner receives carried interest allocations from the Fund of 20% of the net realized returns of each portfolio investment. Carried interest allocations are subject to certain hurdles and/or claw-backs.

**ITEM 7 TYPES OF CLIENTS**

St. Cloud provides advisory services to the Fund and may in the future provide advisory services to similar funds organized by its principals. The Fund is a qualified purchaser under the Investment Company Act and an accredited investor under the Securities Act of 1933. The investors in the Fund include:

- High net worth individuals;
- Pension and profit-sharing plans (other than plan participants);
- Charitable organizations, including foundations and endowments;
- Corporations or other businesses not listed above;
- Financial institutions (e.g., banks)
- State or municipal government entities, such as employee retirement plans; and
- Commingled investment vehicles (e.g., group trusts, funds, partnerships, limited liability companies, etc.) consisting of one or more of the above clients

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

### **Investment Size, Type, Diversification and Targeted Returns**

St. Cloud manages \$172 million in capital commitments in its current fund. St. Cloud seeks to finance lower middle market companies typically with revenues between \$10 million and \$100 million that have the potential for significant improvement in free cash flow generation. St. Cloud targets industry sectors where it has strong expertise, such as manufacturing, consumer and computer services and food/beverage production and distribution. The Fund opportunistically invests in a wide range of transaction types including, without limitation to, expansion-oriented buyouts, management buyouts, recapitalizations and strategic acquisitions, or companies seeking organic growth. A typical portfolio investment is in the range of \$3 million to \$15 million. This investment target size is consistent with the prior experience of the principals of St. Cloud and fits well within the mezzanine opportunities of many of their strongest investment sourcing relationships. In addition, in the experience of the principals, investments below \$15 million tend to be privately negotiated with little or no competition with respect to terms and pricing. St. Cloud believes that development of a portfolio of 15-20 lower middle market investments could imply the closing of approximately three to six transactions annually, which compares favorably to the prior experience of St. Cloud's principals. In addition, St. Cloud believes that a portfolio of 15-20 lower middle market investments in both public and private companies should diversify the Partnership's holdings against a loss from a single investment materially impacting its consolidated returns.

Mezzanine financings, which represent 70% to 90% of total investments by the Fund, are typically modeled with annual current interest payments to the Fund of between 8% to 14% of the amount financed, plus an additional return based upon up-front commitment and closing fees of 2% to 3% and the potential for appreciation of common stock, warrants or other equity instruments acquired in connection with such mezzanine investments. The remaining 10% to 30% of investments will be made in the form of common and preferred stock.

The Fund targets investments that are reasonably expected, in the judgment of the principals, to achieve a minimum Gross IRR (calculated before transaction costs, management fees and carried interest) of 25%. There is no guaranty that St. Cloud will find such investment opportunities on terms acceptable to it or, that even if discovered that the Fund's investments will in fact meet this target, or that the Fund's investments will be profitable at all.

Other key aspects of St. Cloud's investment strategy include: (i) seeking to maintain a broad and deep transaction flow to select optimal investment opportunities; (ii) targeting investments of \$3 million to \$15 million in order to create a diversified portfolio of 15 to 20 companies; (iii) diversifying the portfolio across different sectors within the lower middle market; (iv) preservation of capital through rigorous covenants, collateral coverage and due diligence procedures; and (v) closely

monitoring investments and working to maximize value to the Partnership through active investment oversight.

### **Focus on the Underserved Lower Middle Market**

St. Cloud believes financing opportunities for lower middle market companies are less efficient than those for larger companies and generally provide for more attractive pricing in a less competitive environment. Within the lower middle market segment, St. Cloud continually sees a high demand for value-added mezzanine capital driven by a combination of conservative bank lenders and expansive equity investors. The imbalance between mezzanine supply and demand in the lower middle market results in an attractive risk/reward investment opportunity for a disciplined mezzanine investor targeting this underserved niche. Additionally, many of these companies possess strong business fundamentals with identifiable opportunities to enhance value and, when providing growth capital, St. Cloud's strategic focus helps to reinvigorate management. These favorable market conditions are created by the following factors:

#### Less efficient sales and/or financing process

- Owners often seek advice from small intermediaries, accountants and lawyers, rather than large regional or top tier investment banks.
- Many small, family owned businesses are driven by internal considerations such as succession or estate planning. As a result, these owners often ignore outside factors such as capital markets, company dynamics and industry cycles when deciding to restructure, refinance, share equity or sell, and look to value-added investors for assistance.
- Small companies typically do not have the people or infrastructure to efficiently handle the information requirements of a traditional auction process.
- Lower middle market public companies often have a need for mezzanine capital as a result of an inability to reasonably price secondary offerings or "PIPEs" to fund growth and/or acquisition based strategies.

Owners can be emotionally attached to their business creating a reluctance to sell or share equity in their company, which typically creates discomfort and uncertainty during a transaction. St. Cloud has the experience, patience and creativity to deal with a continually changing financing or sales process that larger funds and strategic buyers tend to avoid.

#### Large and underserved market

There are more than 152,000 companies in the U.S. with revenues between \$10 million and \$100 million compared to approximately 19,000 companies in the U.S. with revenues above \$100 million. However, the majority of mezzanine capital is targeted for larger companies. This imbalance creates an attractive investment environment for St. Cloud.

#### Factors other than price are important to lower middle market companies

- Approach and style. Entrepreneurs and/or executives of closely held companies are often protective of their business and are not comfortable with all potential financiers. As a result, patience, style, creativity, location and personal approach of the mezzanine lender is often required to gain the confidence of these stakeholders during the negotiation process.
- Industry experience. Prior industry experience helps articulate a sensible and thoughtful approach toward the due diligence process as well as a growth plan for the business, both of which provide credibility during the negotiation process.
- Structural flexibility. Issues such as the ongoing role of the incumbent management team, their ownership percentage and the company's capital structure can be particularly relevant. St. Cloud's emphasis on operations and lower dilution is generally attractive to owners and executives.

#### Operating improvements are easier to identify and implement in smaller companies

While larger businesses tend to have professional managers in most senior positions, small businesses tend to be run by entrepreneurs or less experienced management. Frequently, these companies have outgrown the skill sets, resources or focus of the owner. Executives often have less perspective related to the multi-disciplinary resources required to effectively scale their business including production planning, marketing programs, sales organizations, information reporting systems, and overall financial structuring and financing opportunities. Prior to closing, St. Cloud evaluates a target company's operations and identifies opportunities for improvements previously overlooked or not fully realized by the incumbent stakeholder.

#### Limited access to public capital and bank financing

Purchase price multiples for lower middle market companies are typically lower (3 to 4 times EBITDA vs. 6 times plus for larger and more mature entities) and less affected by the capital markets than larger companies since high yield debt and public equity markets are only available to a limited number of small companies. Also, in the commercial banking market, fewer institutions are interested in lending to smaller companies. As a result of fewer financing options, lower middle market companies can be financed with attractive pricing.

#### **Maintain a Broad and Deep Flow of Investment Opportunities**

St. Cloud believes a key to successful mezzanine investing is having a sufficiently large volume of investment opportunities from which to select. The benefits of a broad and deep transaction flow are numerous. At the most basic level, St. Cloud's ability to select from a large number of investment opportunities enhances the Partnership's ability to maximize the risk/reward profile of its portfolio. The benefits of a deep transaction flow extend beyond the ability to be selective, as the principals have found reviewing a steady stream of transactions to be the most effective method of staying abreast of mezzanine market conditions. Additionally, the principals are able to quickly eliminate transactions, which do not meet the Partnership's initial requirements allowing St. Cloud to focus its efforts on qualified and closeable transactions.

St. Cloud's proactive deal sourcing typically encompasses:

#### Businesses owned by families or entrepreneurs

In the experience of the principals, decisions by family or entrepreneur owners to sell or bring in strategic growth capital are often driven by: (i) recognition that the skill sets required to run and grow the business exceed those of the current owner, absent outside strategic advice and counsel; (ii) difficulty in providing additional equity capital required to support or grow the business; and (iii) a desire for liquidity to assist in retirement or generational transition. However, in the experience of the Principals, factors in addition to price often influence the sales/financing decision, including flexibility in structure and the ability to maintain an ongoing role or ownership position in the company.

#### Acquisitions by or orphans of private equity firms

St. Cloud's deal sourcing network includes the private equity community that often include mezzanine financing as part of the structure used while purchasing or recapitalizing businesses. Also, many sponsor groups that formerly invested in the lower middle market have raised increasingly larger funds and have discontinued their original small company strategy. These firms often make decisions to exit older and smaller portfolio companies that require a disproportionate amount of time relative to the profit potential of their larger investments.

#### Thinly traded public companies

Many public companies are not of sufficient scale to thrive under public ownership. Financial reporting requirements and regulatory responsibilities have become increasingly complex and costly, thereby making public ownership a burden. In addition, under public ownership, a focus on short-term earnings may be in conflict with the longer-term interests of the business. Finally, without a reasonable level of analyst coverage, it is difficult to generate the visibility with public investors that



are required for an acceptable float and share price. An investment by St. Cloud can assist such a company's efforts to attain financial stability and enhance growth and market value.

### **Lower Risk Investment Opportunity**

St. Cloud believes that mezzanine investing is lower risk than traditional private equity and buyout investments. The nature of the Fund's investments generally provide for priority in repayment over straight equity investments, often include collateral coverage, and typically produce a current yield. In addition, St. Cloud's mezzanine debt investment strategy emphasizes capital preservation (of the principal portion of the investment). Finally, despite the lower risk investment profile, St. Cloud's first fund has produced strong returns over the last ten years by being opportunistic and utilizing creative structures to achieve substantial returns on the equity features of its investments, in addition to the repayment of principal and interest.

### **Risk of Loss**

Investing in any securities involves a risk of loss that the Fund and investors in the Fund must be prepared to bear. St. Cloud's significant investment strategy and methods of analysis involve the following risks:

Dependence of Key Personnel: The success of the investment will be highly dependent on the expertise and performance of St. Cloud's principals. The loss of one or more of these individuals could have a material adverse effect on St. Cloud's investment strategy and the Fund's performance. The Principals are under no contractual obligation to remain with the St. Cloud.

Illiquidity of Investments: Many of the Fund's investments will be highly illiquid. There can be no assurance that the Fund will be able to realize these investments at attractive prices or otherwise be able to effect a successful realization or exit strategy. Dispositions of these investments may require a lengthy time period or may result in distributions in-kind to investors in the Fund.

General Nature of the Fund's Investments: A substantial portion of the Fund's investments will be in mezzanine investments, which 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 St. Cloud will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Prices and market movements of the Fund's investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Fund's activities and the value of the Fund's investments. As a result, the Fund's performance over a particular period may not necessarily be indicative of the results that may be expected in future periods.

A portion of the Fund's investments may involve under-performing companies or companies identified by St. Cloud as being in need of additional capital. The financial condition of such companies may be weak or their balance sheets highly leveraged, and any investment in them may involve a high degree of risk.

Difficulty of Locating Suitable Investments: Identification of attractive investment opportunities is difficult and involves a high degree of uncertainty. Furthermore, the availability of investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate. Competition for opportunities is expected to be substantial.

Risks Associated with Foreign Investments: Although the Fund intends to invest principally in companies headquartered in the United States, the Fund may from time to time invest in non-U.S. portfolio companies. Investing outside the United States may involve substantially greater risks than

investing in the United States. In particular, the value of the Fund's investments in foreign securities may be affected by changes in currency exchange rates, which may be volatile.

**Need for Additional Investments:** The Fund may be called upon to provide follow-on funding for its portfolio companies or have the opportunity to increase its investment in portfolio companies. There can be no assurance that the Fund will be able to make such additional investments or that the Fund will have sufficient funds to do so. Any decision not to make such additional investments or the inability to make them may have a substantial negative impact on a portfolio company in need of such an investment or may diminish the Fund's ability to influence the portfolio company's future development.

**Conflicts of Interest:** Because St. Cloud, the Fund and the General Partner are related persons, the management fee payable to St. Cloud has not been established on the basis of an arm's-length negotiation among the Fund, the General Partner and St. Cloud.

Additional risk factors applicable to investors in the Fund are available in the Fund's private placement memorandum and other offering documents.

#### **ITEM 9 DISCIPLINARY INFORMATION**

Neither St. Cloud nor any of its executive officers, members of its investment committees or portfolio management committees or other "management persons" as defined in Form ADV has been subject to the legal or disciplinary events related to this Item or otherwise is required to disclose any event required by this Item.

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

St. Cloud has relationships with persons in the financial industry, but these relationships do not create conflicts of interest with the Fund. The Fund has made a portfolio investment in National Holdings, Inc., which is a holding company for National Securities Corporation, a U.S. registered broker-dealer and a member of FINRA. Several related persons of St. Cloud are registered representatives or approved persons of National Securities Corporation, but St. Cloud does not conduct client business on behalf of its client with National Securities Corporation.

In addition, consistent with the requirements under its fund formation documents, Board of Director fees paid by National Holdings, Inc. to principals of St. Cloud are reduced from the Fund's management fees.

The Fund has made a portfolio investment in COR Securities Holdings, Inc. which is a holding company for Legent Clearing, LLC, a U.S. registered broker-dealer and a member of FINRA. Several related persons of St. Cloud are registered representatives or approved persons of Legent Clearing, LLC, but St. Cloud does not conduct client business on behalf of its client with Legent Clearing, LLC.

As required, any affiliated investment advisers are specifically disclosed in Section 7.A. on Schedule D of Form ADV, Part 1.

#### **ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

##### **Code of Ethics**

St. Cloud has adopted a Code of Ethics (the "Code") in accordance with Rule 204A-1 of the Advisers Act.

The policies and procedures set forth in the Code recognize that as an investment adviser, St. Cloud is in a position of trust and confidence with respect to St. Cloud's Fund and has a duty to place the interests of St. Cloud's Fund before the interests of St. Cloud and its Employees, which duty includes an obligation to address or mitigate both conflicts of interest and the appearance of any conflicts of interest. The Code sets out standards of business and personal conduct for each Employee and addresses conflicts that arise from personal trading by such persons and provides for disciplinary sanctions for Code violations. The Code also recognizes that as an investment adviser registered under the Advisers Act, St. Cloud has a further obligation to comply with the provisions of the Advisers Act as well as the other U.S. federal securities laws.

The Code includes a code of conduct adopted by St. Cloud which requires Employees to: (i) act with integrity, honesty, competence, and in an ethical manner when dealing with the public, regulators, clients, investors, prospective investors and their fellow Employees; (ii) adhere to the highest standards with respect to any potential material conflicts of interest with the Fund; and (iii) preserve the confidentiality of information that they may obtain in the course of St. Cloud's business and use such information properly and not in any way adverse to the interests of the Fund, subject to the legality of using such information.

Under the Code and Firm Policy, employees are prohibited from trading in securities of any company while in possession of material, non-public information regarding the company. The Code also includes a personal securities transaction and holdings reports. All Employees must report to St. Cloud periodically their personal securities transactions and holdings. Employees must obtain pre-clearance before purchasing securities in any initial public offering, private placement, or other limited offering. Otherwise, no pre-clearance of personal securities transactions in publicly traded securities is required. St. Cloud's chief compliance officer will monitor Access Persons' personal securities transactions to ensure that no transactions raise the appearance of potential trading on non-public information.

The Code restricts Employees' ability to conduct activities outside the firm that may conflict with the interests of the Fund, restricts employees' ability to make political donations and provides for the imposition of sanctions for Code violations.

St. Cloud's Chief Compliance Officer receives and reviews securities transaction and holdings reports and employee certifications submitted pursuant to the Code to determine that any personal trading conducted by Employees and other covered persons is consistent with requirements and restrictions set forth in the Code and does not otherwise indicate any appearance of the misuse of material non-public information or other improper trading activities.

The Code is available upon written request of St. Cloud's Fund and their current or prospective investors.

### **Principal Transactions**

In accordance with the requirements of the Advisers Act and with St. Cloud's internal compliance policies and procedures, St. Cloud and its affiliates will not, as principal, sell a security to, or buy a security from, any Fund or other St. Cloud client, except as allowed in the Fund's legal documents. As a general matter, St. Cloud and its related persons do not recommend securities to clients, or buy or sell securities for client accounts, at or about the same time that St. Cloud or its related persons buys or sells the same securities for St. Cloud's or the related person's own account.

## **ITEM 12      BROKERAGE PRACTICES**

As a general matter, St. Cloud invests through private transactions that do not involve payments to any broker-dealers. The chief compliance office must be consulted prior to any exceptions to this policy. St. Cloud recognizes that it has a duty to obtain “best execution” for any securities transactions made for the Fund that are executed through a registered broker-dealer.

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

##### **Review of Accounts**

Currently, the only account under the supervision of St. Cloud is the portfolio of the Fund. The Fund’s accounts and investment positions are monitored by St. Cloud personnel on a regular and current basis. St. Cloud’s Investment Committee meets as necessary to review general portfolio composition, investment opportunities, market conditions, potential conflicts, and recent trading activities.

##### **Reports to Investors**

Investors in the Fund generally receive quarterly reports, which will include capital balance and Fund performance statistics. Investors also will receive annual audited financial statements for the Fund. Audited financial statements are distributed to Fund investors within 90 days of year end.

Investors in the Fund may request additional information relating to the Fund and, to the extent such information is readily available or may be obtained without unreasonable effort or expense, St. Cloud generally will provide such investors with the information requested. Investors that request and receive such information will consequently possess information regarding the business and affairs of the Fund that may not be known to other investors. As a result, certain investors may be able to take actions on the basis of such information which, in the absence of such information, other investors do not take.

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

Not Applicable.

#### **ITEM 15      CUSTODY**

Under Rule 206(4)-2 of the Advisers Act (the “Custody Rule”), the General Partner of the St. Cloud Fund is deemed to have custody of the Fund’s assets. To comply with the Custody Rule, the St. Cloud Fund prepares annually, and on liquidation, financial statements audited by an auditing firm registered with the Public Company Accounting Oversight Board and distributes those statements within 90 days of year end (or promptly upon liquidation) to fund investors.

The St. Cloud Fund uses a qualified custodian (an FDIC insured bank) to hold Fund cash. If a fund makes investments that are not covered by an exception for private securities, it will engage a qualified custodian to hold their securities. The funds advised by St. Cloud will receive statements from any custodians appointed as well as from the adviser itself.

#### **ITEM 16      INVESTMENT DISCRETION**

St. Cloud, through the Fund’s General Partner, has discretionary authority based on its management agreements with the Fund and the limited partnership agreements that govern the Fund. The terms upon which St. Cloud serves as investment manager of the Fund is established at the time the Fund is established and is generally set out in the management agreement and/or limited partnership agreement, and disclosed in the offering documents for the Fund, as applicable. These terms, potentially restrict St. Cloud’s advice concerning investment in certain securities or types of securities, geographies, industries and leverage. Typically, the governing documents of the Fund

contain only limited investment restrictions and only limited requirements as to diversification of fund investments, either by geographic region or asset type.

**ITEM 17        VOTING CLIENT SECURITIES**

St. Cloud does not generally hold publicly traded securities and typically invests in mezzanine debt securities. Thus, it is not required to establish a proxy voting policy. In managing the investment portfolios of its client(s), St. Cloud or the Fund's General Partner, as applicable, will exercise all rights accorded to it under its investment instruments, including voting rights where applicable.

**ITEM 18        FINANCIAL INFORMATION**

Not required.