

## Item 1. Cover



PNC Mezzanine Management Corp.  
Form ADV, Part 2A  
February 1, 2012

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This Brochure provides information about the qualifications and business practices of PNC Mezzanine Management Corp. If you have any questions about the contents of this Brochure, please contact us at 412-762-7035. 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.

Additional information about PNC Mezzanine Management Corp. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

PNC Mezzanine Management Corp. may refer to itself as a "registered investment adviser." You should be aware that registration with the SEC or a state securities authority does not imply a certain level of skill or training.

**Item 2. Material Changes**

Not applicable.

## **IMPORTANT NOTE ABOUT THIS BROCHURE**

*This Brochure is not:*

- *an offer or agreement to provide advisory services to any person*
- *an offer to sell interests (or a solicitation of an offer to purchase interests) in any PNC Mezzanine Fund (as defined below)*
- *a complete discussion of the features, risks or conflicts associated with any PNC Mezzanine Fund*

*As required by the Investment Advisers Act of 1940, as amended (“Advisers Act”), PNC Mezzanine Management Corp. (“PNC Mezzanine Management” or the “Firm”) provides this Brochure to current and prospective clients and may also, in its discretion, provide this Brochure to current or prospective investors in a PNC Mezzanine Fund, together with other relevant offering materials, such as the PNC Mezzanine Fund’s private placement memorandum (“PPM”), prior to, or in connection with, such persons’ investment in the PNC Mezzanine Fund. Additionally, this Brochure is available through the SEC’s Investment Adviser Public Disclosure website.*

*Although this publicly available Brochure describes investment advisory services and products of PNC Mezzanine Management, persons who receive this Brochure (whether or not from PNC Mezzanine Management) should be aware that it is designed solely to provide information about PNC Mezzanine Management as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from information provided in relevant offering materials. More complete information about each PNC Mezzanine Fund is included in relevant offering materials, certain of which may be provided to current and eligible prospective investors only by PNC Mezzanine Management. To the extent that there is any conflict between discussions herein and similar or related discussions in any offering materials, the relevant offering materials shall govern and control.*

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## **Item 4. Advisory Business**

### The Company

PNC Mezzanine Management Corp. is a wholly owned subsidiary of The PNC Financial Services Group, Inc. (“PNC”). The Firm was founded in 2005 and registered as an investment adviser with the SEC in 2012. As of December 31, 2011, the Firm had approximately \$294,300,000 of assets under management on a discretionary basis.

### Investment Management Services

PNC Mezzanine Management provides investment management services to certain pooled investment vehicles that are excepted from the definition of an “investment company” under the Investment Company Act of 1940, as amended (“Investment Company Act”) and for which an affiliate of PNC Mezzanine Management serves as the general partner (the “PNC Mezzanine Funds” or “Funds”). The Firm currently provides investment management services to PNC Mezzanine Partners III, L.P. (“Mezzanine Fund III”). In addition, the Firm manages the mezzanine investments of PNC Equity Partners, L.P. (“Equity Fund I”)<sup>1</sup> as well as proprietary mezzanine investments of PNC and/or its subsidiaries.

PNC Mezzanine Funds seek to provide investors with current return and long-term capital gains by pursuing mezzanine and structured equity investments in profitable, middle market companies engaged in leveraged buyouts, recapitalizations, restructurings and growth financings. The Firm specializes in private equity and mezzanine investing, and intends to invest principally in subordinated debt securities with an equity component. The Firm may also invest in preferred stock, common stock or other equity securities of an issuer. The Firm’s typical investment ranges from \$10 million to \$30 million, in companies having at the time of investment \$25 million to \$250 million in annual revenues and approximately \$5 million to \$40 million of operating cash flow.

Investments for the PNC Mezzanine Funds are managed in accordance with the Fund’s particular investment objectives, strategies and guidelines and are not tailored to the individualized needs of any particular investor in a PNC Mezzanine Fund. Information about each PNC Mezzanine Fund, and the particular investment objectives, strategies, guidelines and risks associated with an investment, is included in the offering materials of each PNC Mezzanine Fund, including the PPM and limited partnership agreement, which are made available to investors only through PNC Mezzanine Management or another authorized party.

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<sup>1</sup> Incline Management Corporation (d/b/a Incline Equity Partners), which is managed by former employees of an affiliate of the Firm, manages the equity investments of Equity Fund I.

## **Item 5. Fees and Compensation**

### Compensation

An affiliate of the Firm serves as the general partner of a PNC Mezzanine Fund and, in that role, may receive management fees and a performance allocation in connection with the investment management and/or other services provided to the PNC Mezzanine Funds. In summary, the general partner to a PNC Mezzanine Fund generally will receive the following: (1) during the initial investment period, a management fee equal to a percentage of the aggregate capital commitments in the PNC Mezzanine Fund and, thereafter, a management fee equal to a percentage of invested capital outstanding (*i.e.*, remaining capital under management); and (2) a performance allocation that is calculated based upon a percentage of the PNC Mezzanine Fund's return on its invested capital (*i.e.*, carried interest). Details of these fees, if applicable, are described in more detail in a PNC Mezzanine Fund's offering materials. For an additional discussion regarding performance allocations, please refer to Item 6 – *Performance-Based Fees and Side-by-Side Management*.

PNC Mezzanine Management provides or pays directly the expenses of its operations for management of Mezzanine Fund III, including salaries, bonuses and benefits, office facilities, back office support, accounting, management/finance functions, marketing, travel and other management related costs. PNC Mezzanine Management is reimbursed for these costs pursuant to a Management Agreement between the general partner and PNC Mezzanine Management. In fact, as PNC Mezzanine Management is an affiliate of the sponsoring limited partner of Mezzanine Fund III, the actual management fee payable by the sponsoring limited partner is reduced on a dollar-for-dollar basis by these PNC Mezzanine Management expenses. PNC Mezzanine Management is neither paid a management fee nor reimbursed for ordinary overhead and administrative expenses in connection with the management services provided to Equity Fund I or with respect to the Firm's management of the proprietary mezzanine investments of PNC and/or its subsidiaries. However, PNC Mezzanine Management may be reimbursed for certain out-of-pocket expenses from the portfolio companies in which Equity Fund I or PNC and/or its subsidiaries have invested. PNC Mezzanine Management may also be reimbursed for such out-of-pocket expenses from investors in proportion to the cost of their respective investments.

Management fees, performance allocations and/or any other compensation payable to the Firm or its affiliates by a PNC Mezzanine Fund and its investors are generally negotiated with the PNC Mezzanine Fund (or its investors) and may depend on, among other factors, the amount of capital committed to the PNC Mezzanine Fund by an investor.

### Other Fees and Expenses

Clients of PNC Mezzanine Management (including, indirectly, investors in a PNC Mezzanine Fund) may bear certain other fees, expenses and costs (in addition to the management fees and performance allocation discussed above) which are incidental or related to the maintenance of the PNC Mezzanine Fund or the buying, selling and holding

of investments, including, but not necessarily limited to: (1) the fees and expenses of professional advisers such as legal counsel (including unreimbursed legal fees in connection with acquiring investments or proposed investments on behalf of the PNC Mezzanine Fund and disposing of those investments), administrators, custodians, consultants, bookkeeping and accountants (including audit and certification fees and the expenses associated with the preparation of the PNC Mezzanine Fund's financial statements and tax returns); (2) any taxes, fees or other governmental charges levied against the PNC Mezzanine Fund; (3) expenses associated with the preparation, printing and distribution of reports to the limited partners of the PNC Mezzanine Fund and costs associated with any meeting of the PNC Mezzanine Fund's advisory board or investment committee or any advisory board fees; (4) investment banking and similar consulting and professional fees associated with the acquisition, holding and disposition of investments, including broken deal expenses, brokerage and other transaction costs, and extraordinary expenses (such as litigation, if any); (5) any insurance, indemnity or litigation expenses relating to the PNC Mezzanine Fund's activities; and (6) all other costs incurred in connection with the administration of the PNC Mezzanine Fund or otherwise that may be authorized by the PNC Mezzanine Fund's PPM or limited partnership agreement. For an additional discussion regarding brokerage fees, commissions and other related transactions costs and expenses, please refer to Item 12 – *Brokerage Practices*.

#### Billing

The general partner of a PNC Mezzanine Fund makes capital calls on investors for their pro rata share of Fund expenses (including management fees) on a semi-annual basis. However, management fees are payable by a PNC Mezzanine Fund less than six months in advance. Following the dissolution of a PNC Mezzanine Fund, the general partner of the PNC Mezzanine Fund will, in accordance with the limited partnership agreement, make a final allocation of all items of income, gain, loss and expense. After the payment or provision for payment of all liabilities and obligations of a PNC Mezzanine Fund, the remaining assets, if any, will, in accordance with the limited partnership agreement, be distributed among the investors.

### **Item 6. Performance-Based Fees and Side-by-Side Management**

In addition to the compensation discussed in Item 5 – *Fees and Compensation*, an affiliate of PNC Mezzanine Management, in its capacity as the general partner of a PNC Mezzanine Fund, may be eligible to receive a performance allocation, or “carried interest.” Performance allocations are calculated based upon a percentage of a PNC Mezzanine Fund's return on its invested capital. Any performance allocation will be paid in accordance with Section 205(3) of the Advisers Act, or Rule 205-3 thereunder.

The existence of a carried interest in a PNC Mezzanine Fund may create an incentive for PNC Mezzanine Management to make more speculative investments on behalf of PNC Mezzanine Funds than it would otherwise make in the absence of such performance allocation. However, the conflict of interest associated with a carried interest is mitigated by (1) the requirement that invested capital and related expenses for a particular investment be returned to investors before the general partner of a PNC Mezzanine Fund

benefits from its carried interest from such investment; (2) the general partner's capital commitment to the PNC Mezzanine Fund; and (3) a claw-back feature pursuant to which the general partner will contribute to the Fund an amount, if any, by which total distributions to the general partner on account of its carried interest exceed a percentage of the Fund's net profits, calculated in a manner set forth in the limited partnership agreement.

## **Item 7. Types of Clients**

As discussed in Item 4 – *Advisory Business*, PNC Mezzanine Management provides discretionary investment management services to the PNC Mezzanine Funds, which are pooled investment vehicles excepted from the definition of “investment company” under the Investment Company Act. PNC Mezzanine Management may also manage proprietary mezzanine investments of PNC and/or its subsidiaries.

## **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

### Methods of Analysis and Investment Strategies

As discussed in Item 4 – *Advisory Business*, PNC Mezzanine Funds seek to provide investors with current return and long-term capital gains by pursuing mezzanine and structured equity investments in profitable, middle market companies engaged in leveraged buyouts, recapitalizations, restructurings and growth financings. The Firm specializes in private equity and mezzanine investing, and intends to invest principally in subordinated debt securities with an equity component. The Firm may also invest in preferred stock, common stock or other equity securities of an issuer. The Firm's typical investment ranges from \$10 million to \$30 million, in companies with \$25 million to \$250 million in annual revenues and approximately \$5 million to \$40 million of operating cash flow.

PNC Mezzanine Management will employ the investment strategy developed successfully by its principals over their tenure in the mezzanine market. The key elements of PNC Mezzanine Management's current investment strategy include:

- Sourcing the majority of transactions in situations where competition is limited as a result of relationships and reputation;
- Applying a disciplined investment and diligence process driven by the credit quality of each opportunity while emphasizing equity upside;
- Working actively with portfolio companies before and after the transaction closes;
- Emphasizing those industry segments in which the principals of PNC Mezzanine Management have experience; and
- Focusing on transactions in the relatively inefficient lower middle market.



### Material Investment Risks

PNC Mezzanine Management's investment activities involve a high degree of risk with no certainty of any return of capital. Although mezzanine securities are senior to common stock and other equity securities in the capital structure, they may be subordinated to senior debt and are usually unsecured. Highly leveraged portfolio companies are intrinsically more sensitive to declines in revenues and to increases in interest rates and other expenses. Portfolio companies may face intense competition, changing business and economic conditions or other developments which may adversely affect their performance. The ability of a PNC Mezzanine Fund to influence a company's affairs and to protect its investments, especially during periods of financial distress or following an insolvency, is likely to be substantially less than that of senior creditors. The debt securities in which a PNC Mezzanine Fund will invest may not always be protected by financial covenants or limitations upon additional indebtedness, may have limited liquidity and may not be rated by a credit rating agency. A PNC Mezzanine Fund's investment returns are expected to be driven by the following factors: return of principal, receipt of interest and fees and returns on equity components of investments, including warrants. There can be no assurance that a portfolio company will generate sufficient cash necessary to service its debt obligations or that the entire principal amount of a PNC Mezzanine Fund's investment will be repaid. A PNC Mezzanine Fund's investments may be subject to early redemption features, refinancing options, prepayment options or similar provisions which, in each case, could result in the issuer repaying the principal on an obligation held by the PNC Mezzanine Fund earlier than expected. In addition, depending on fluctuations of the equity markets, warrants and other equity securities may become worthless.

As a result of these factors, as well as other risks inherent in any investment, there can be no assurance that a PNC Mezzanine Fund will meet its investment objective or otherwise be able to successfully carry out its investment program. The following does not purport to be a comprehensive summary of all the risks associated with an investment in a PNC Mezzanine Fund. In addition to the risks identified below, investors in a PNC Mezzanine Fund may be subject to additional risks, including the lack of liquidity for interests of a PNC Mezzanine Fund, as set forth in the applicable PPM and other offering materials of the PNC Mezzanine Fund. Clients of PNC Mezzanine Management, as well as investors in a PNC Mezzanine Fund, should be prepared to incur losses.

*Competitive Mezzanine Environment* – The activity of identifying, completing and realizing attractive mezzanine investments involves a significant degree of uncertainty, and PNC Mezzanine Funds will compete with strategic buyers and other investors, including other mezzanine funds, private equity funds, direct investment firms and merchant banks, for investment opportunities. There can be no assurance that a PNC Mezzanine Fund will be able to locate and complete investments that satisfy its rate of return objectives or realize upon their values or that it will be able to invest fully its commitments.

*Lack of Diversification and Reliance on Portfolio Company Management* – A PNC Mezzanine Fund will invest in a limited number of investments. Therefore, the aggregate

return of a PNC Mezzanine Fund may be adversely affected by the negative performance of a relatively few investments. A PNC Mezzanine Fund does not have fixed guidelines for diversification by industry, and investments may be concentrated in only a few industries. PNC Mezzanine Management intends to monitor portfolio company performance; however, it is primarily the responsibility of portfolio company management to operate a portfolio company on a day-to-day basis and there is no assurance that such management will perform in accordance with a PNC Mezzanine Fund's expectations.

*Dependence Upon PNC Mezzanine Management and its Affiliates* – Decisions with respect to the management of a PNC Mezzanine Fund and originating, identifying, structuring, executing and monitoring investments consistent with the PNC Mezzanine Fund's investment objective and policies will be made exclusively by PNC Mezzanine Management and its affiliate serving as the general partner. Limited partners have no right or power to take part in the management of a PNC Mezzanine Fund and will not have an opportunity to evaluate the specific investments made by the PNC Mezzanine Fund or the terms of any investment. The success of a PNC Mezzanine Fund will depend significantly upon the skill and expertise of the PNC Mezzanine Management's principals to select investment opportunities, negotiate appropriate terms of securities purchased, and arrange the profitable disposition of securities. The carried interest of these principals should discourage them from withdrawing from participation in a PNC Mezzanine Fund's investment activities. However, there can be no assurance that these principals will continue to be associated with the general partner or its affiliates throughout the life of a PNC Mezzanine Fund, and the loss of key personnel could have a material adverse effect on the PNC Mezzanine Fund.

*Legal, Tax and Regulatory Risk* – Legal, tax and regulatory changes could occur during the term of a PNC Mezzanine Fund that may adversely affect the PNC Mezzanine Fund and its portfolio companies or Limited Partners.

*Risks Upon Disposition of Investments* – In connection with the disposition of an investment in a portfolio company, or the public sale of securities of a portfolio company, a PNC Mezzanine Fund may be required to make representations about the business and financial affairs of the portfolio company or to assume responsibility for the contents of disclosure documents under applicable securities laws and to indemnify the purchasers of such investments or underwriters of securities of a portfolio company, to the extent that any such representations or disclosure documents turn out to be inaccurate. These arrangements may result in contingent liabilities of a PNC Mezzanine Fund. The limited partnership agreement contains provisions to the effect that a limited partner may be required to return distributions received from a PNC Mezzanine Fund for purposes of meeting its ratable share of the PNC Mezzanine Fund's indemnity or other obligations in an amount not exceeding the aggregate amount of distributions actually received by such limited partner.

*Illiquid and Long-Term Investments* – The general partner of a PNC Mezzanine Fund intends to achieve targeted returns for a given investment over a three- to five-year period, however other factors, such as overall economic conditions, the competitive

environment and the availability of potential purchasers of the securities, may shorten or lengthen the PNC Mezzanine Fund's holding period. Although a majority of the investments of a PNC Mezzanine Fund are expected to generate some current income, a significant portion of investments may have a contractual return that is not paid entirely in cash, but rather is paid partially or wholly in-kind or as an accreting liquidation preference, thus lengthening the time before cash is received which may be distributed to the partners and increasing the PNC Mezzanine Fund's risk exposure to the portfolio company. In addition, there can be no assurance that the distributions, if any, from a PNC Mezzanine Fund to its limited partners will be sufficient to cover any limited partner's tax obligations arising from its allocable share of taxable income of a PNC Mezzanine Fund. It is anticipated that there will not be a public market for all or a substantial portion of the securities held by a PNC Mezzanine Fund at the time of their acquisition. A PNC Mezzanine Fund will generally not be able to sell its securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. Practical limitations may inhibit a PNC Mezzanine Fund's ability to liquidate its investments in privately held portfolio companies since the PNC Mezzanine Fund will own debt securities and/or a relatively small percentage of the issuer's equity securities, limiting the PNC Mezzanine Fund's ability to cause a liquidity event. Sales also may be limited by market conditions which may be unfavorable for sales of securities of particular issuers or issuers in particular industries. In some cases, a PNC Mezzanine Fund may be prohibited by contract from selling certain securities for a period of time. The expenses of operating a PNC Mezzanine Fund may exceed its income, with the difference having to be paid from capital. Losses on unsuccessful investments may be realized before gains on successful investments are realized.

*Follow-On Investments* – A PNC Mezzanine Fund may be called upon to provide additional funding to, or have the opportunity to increase its investment in, its portfolio companies. There can be no assurance that a PNC Mezzanine Fund will wish to make follow-on investments or that it will have sufficient funds to do so. Any decision not to make a follow-on investment or the inability of a PNC Mezzanine Fund to make such an investment may have a substantial negative impact on a portfolio company in need of such an investment and may diminish the PNC Mezzanine Fund's ability to influence the portfolio company's future development.

*Non-Controlling Investments* – A PNC Mezzanine Fund will generally hold a non-controlling interest in portfolio companies and, therefore, may have to rely solely on contractual covenants which may be limited to protect its position in such portfolio companies.

*Financial Market Fluctuations* – General fluctuations in the market prices of securities may affect the value of the investments held by a PNC Mezzanine Fund. Instability in the securities markets may also increase the risk inherent in a PNC Mezzanine Fund's investments. The ability of portfolio companies to refinance or redeem mezzanine and structured equity securities held by a PNC Mezzanine Fund may depend on their ability to sell new securities in the market.

*Interest Rate Fluctuations* – General interest rate fluctuations may have a substantial negative impact on a PNC Mezzanine Fund’s investments and investment opportunities and, accordingly, may have a material adverse effect on the PNC Mezzanine Fund’s investment objectives and the rate of return on invested capital. In addition, an increase in interest rates would make it more expensive for portfolio companies to finance operations and indirectly affect the credit quality of a PNC Mezzanine Fund’s investments.

*Failure to Make Contributions* – If a limited partner fails to pay installments of its commitment to a PNC Mezzanine Fund when due, and the contributions made by non-defaulting limited partners and borrowings by the PNC Mezzanine Fund are inadequate to cover the defaulted contribution, the PNC Mezzanine Fund may be unable to pay its obligations when due. As a result, a PNC Mezzanine Fund may be subjected to significant penalties that could materially adversely affect the returns to limited partners (including non-defaulting limited partners). If a limited partner defaults with respect to its obligations to fund required capital contributions, then the limited partner will be subject to the potential loss of all or a portion of its capital account and other customary default provisions.

*Operating and Financial Risks of Portfolio Companies* – One of the fundamental risks associated with each PNC Mezzanine Fund’s investments is credit risk, which is the risk that an issuer will be unable to make principal and interest payments when due. While a PNC Mezzanine Fund will generally target investing in high quality companies, these companies could still present a high degree of business and credit risk. Portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing, and other capabilities and a larger number of qualified personnel. Companies in which a PNC Mezzanine Fund invests could deteriorate as a result of, among other factors, an adverse development in their business, a change in the competitive environment, or an economic downturn. The companies in which a PNC Mezzanine Fund invests may be highly leveraged. The incurrence of indebtedness may subject a PNC Mezzanine Fund’s investee companies to restrictive financial and operating covenants, impairing their ability to finance future operations and capital needs and limiting their flexibility to respond to changing business and economic conditions and business opportunities. A leveraged company’s income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used. The leveraged capital structure of such companies will increase their exposure to adverse economic factors such as rising interest rates, downturns in the economy or deteriorations in the financial condition of the company or its industry. A portfolio company’s failure to satisfy covenants in its loan documents could lead to default and possible termination of its loans and foreclosure on its secured assets which could trigger cross-defaults under other agreements and jeopardize a portfolio company’s ability to meet its obligations under the securities held by a PNC Mezzanine Fund. A PNC Mezzanine Fund may incur expenses if it is required to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. In addition, it is possible that a bankruptcy court would re-characterize a PNC Mezzanine Fund’s position in such company’s capital structure as equity and subordinate its claims to the claims of other creditors. When successful, or when there is a decline in

interest rates, a portfolio company may pay the principal on an obligation held by a PNC Mezzanine Fund earlier than expected. Early repayments of a PNC Mezzanine Fund's investments may have a material adverse effect on its investment objectives and the rate of return on invested capital. To address this risk, each PNC Mezzanine Fund may, from time to time, seek to negotiate prohibitions on prepayment for a period of years and/or a call premium or other pre-payment penalty to be paid by the issuer on prepayment.

*Subordination* – The investments of a PNC Mezzanine Fund will typically be subordinated to the senior obligations of an issuer, either contractually (in the case of debt securities) or because of the nature of the security (in the case of preferred stock, common stock, or holding company debt). Such subordinated investments may be characterized by greater credit risks than those associated with the senior obligations of the same issuer. In addition, each PNC Mezzanine Fund may not have control over the amount of senior debt of the companies in which it has mezzanine investments. Adverse changes in the financial condition of an issuer or in general economic conditions (or both) may impair the ability of such issuer to make payments on the subordinated securities and result in defaults on and declines in the value of such securities more quickly than in the case of the senior obligations of such issuer.

*No Assurance of Investment Return* – The general partner of a PNC Mezzanine Fund cannot provide assurance that it will be able to choose, make and realize investments in any particular company or portfolio of companies. There can be no assurance that a PNC Mezzanine Fund will be able to generate returns for its investors or that the returns will be commensurate with the risks of investing in the type of companies and transactions described herein. Past activities of investment entities associated with PNC Mezzanine Management and its affiliates and principals, including other PNC Mezzanine Funds, provide no assurance of future success.

*Investment in Restructurings and Reorganizations* – Each PNC Mezzanine Fund may make investments in restructurings which involve companies that previously have experienced or are experiencing financial difficulties. These severe financial difficulties may never be overcome and may cause such companies to become subject to bankruptcy proceedings. As such, these investments could subject a PNC Mezzanine Fund to certain additional potential liabilities that may exceed the value of the PNC Mezzanine Fund's original investment therein. For instance, under certain circumstances, payments to a PNC Mezzanine Fund (and distributions to its limited partners) may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment or similar transaction under applicable bankruptcy and insolvency laws. Investments in restructurings also may be adversely affected by statutes relating to, among other things, lender liability and the court's discretionary power to disallow, subordinate or disenfranchise particular claims.

*Bridge Investments* – A PNC Mezzanine Fund may provide bridge financing in connection with one or more of its investments. While such securities are outstanding, a PNC Mezzanine Fund will bear the risk of changes in the capital markets that may adversely affect the ability of a portfolio company to refinance bridge investments. If the portfolio company is unable to complete a refinancing of the bridge loan, for example, a

PNC Mezzanine Fund could have a long-term investment in a junior security or that junior security might be converted to equity.

*Indemnification* – A PNC Mezzanine Fund will be required to indemnify PNC Mezzanine Management and its affiliate acting as the general partner, their affiliates and each of their respective members, officers, directors, employees, stockholders, shareholders, partners and other persons who serve at the request of the general partner on behalf of the PNC Mezzanine Fund for liabilities incurred in connection with the affairs of the PNC Mezzanine Fund. Members of any advisory board also will be entitled to the benefit of certain indemnification and exculpation provisions as set forth in the limited partnership agreement. Liabilities resulting from such indemnification obligations may be material. The indemnification obligation of a PNC Mezzanine Fund would be payable from the assets of the PNC Mezzanine Fund, including the unpaid commitments of the limited partners. If the assets of a PNC Mezzanine Fund are insufficient, the general partner may recall distributions previously made to the limited partners, subject to certain limitations set forth in the limited partnership agreement.

*General Tax Considerations* – A PNC Mezzanine Fund is expected to be treated as a partnership for U.S. federal income tax purposes. An investment in a PNC Mezzanine Fund may give rise to a variety of complex U.S. federal income tax and other tax issues for limited partners. Prospective investors are urged to consult their own tax advisors with specific reference to their own situations concerning an investment in a PNC Mezzanine Fund.

*Risk Arising from Provision of Management Assistance* – A PNC Mezzanine Fund will use its reasonable best efforts to structure its investments so that it will qualify as a “venture capital operating company” within the meaning of regulations promulgated under the Employee Retirement Income Security Act of 1974, as amended. While the general partner of a PNC Mezzanine Fund intends to manage the PNC Mezzanine Fund in a way that will minimize the exposure to any related risks, the possibility of successful claims cannot be precluded.

## **Item 9. Disciplinary Information**

Registered investment advisers are required to disclose facts regarding any legal or disciplinary events that would be material to your evaluation of the Firm or the integrity of the Firm’s management in this Item. PNC Mezzanine Management has no legal or disciplinary events to report.<sup>2</sup>

## **Item 10. Other Financial Industry Activities and Affiliations**

PNC Mezzanine Management is part of a broad financial services organization and is therefore affiliated with other entities engaged in a variety of financial services

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<sup>2</sup> We note that registered advisers are required to report all disciplinary events regardless of whether they are material in Part 1A of Form ADV. PNC Mezzanine Management has no disciplinary events of any kind to report.

businesses. In some cases, the Firm has business arrangements with its affiliates that are material to its advisory business or to its clients. These are described in more detail below and, in some cases, may cause PNC Mezzanine Management's or a related person's interests to diverge from the best interests of a PNC Mezzanine Fund.

*The PNC Financial Services Group, Inc.*

PNC is a diversified financial services company. PNC is engaged in retail banking, corporate and institutional banking, asset management, and residential mortgage banking. Through its indirect wholly owned subsidiaries, PNC is (1) the sponsoring limited partner of each of Mezzanine Fund III and Equity Fund I; (2) a member of the general partner of each of Mezzanine Fund III and Equity Fund I; and (3) the parent company of PNC Mezzanine Management. In its capacity as a member of the general partner of each of Mezzanine Fund III and Equity Fund I, PNC is entitled to a percentage of the performance allocation described in Item 6 – *Performance-Based Fees and Side-by-Side Management*. PNC and/or its subsidiaries have also co-invested alongside Equity Fund I, as described in Item 12 – *Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*. PNC Mezzanine Management also manages proprietary mezzanine investments of PNC and/or its subsidiaries.

*PNC Bank, National Association*

PNC Bank, National Association ("PNC Bank"), a member of the Federal Deposit Insurance Corporation, is a full service bank engaged in traditional lending, cash and/or treasury management and other services. From time to time, PNC Bank may provide such services to a portfolio company in which a PNC Mezzanine Fund has invested. PNC Bank also acts as the custodian to the PNC Mezzanine Funds.

*PNC Investments LLC*

PNC Investments LLC, a wholly owned subsidiary of PNC Bank, is a registered broker dealer and investment adviser which provides full service brokerage and wrap fee programs to its clients.

*PNC Capital Finance, LLC*

PNC Capital Finance, LLC, an indirect, wholly owned subsidiary of PNC, makes subordinated debt and/or equity investments in private companies. PNC Capital Finance does business under the names "PNC Mezzanine," "PNC Erieview" and "PNC Riverarch."

*PNC Capital Advisors LLC*

PNC Capital Advisors LLC, a wholly owned subsidiary of PNC Bank, provides discretionary investment advisory services to registered investment companies, institutional accounts, and personal investment management accounts.

*National City Equity Partners, Inc.*

National City Equity Partners, Inc., an indirect, wholly owned subsidiary of PNC, holds legacy investments in private equity funds. It also provides investment advisory services to pooled investment vehicles that are excepted from the definition of “investment company” under the Investment Company Act with investments in subordinated debt, equity, or a combination of the two.

*PNC Realty Investors, Inc.*

PNC Realty Investors, Inc., an indirect, wholly owned subsidiary of PNC, provides investment supervisory services to institutional investors in connection with investments in commercial real estate throughout the United States.

*PNC Capital Markets, LLC*

PNC Capital Markets, LLC, an indirect, wholly owned subsidiary of PNC, offers loan syndication, public finance underwriting and advisory services, securities underwriting and trading, private placements, asset securitizations and merger and acquisition advisory services.

*Harris Williams LLC*

Harris Williams LLC (“Harris Williams”), a subsidiary of PNC, is one of the largest mergers and acquisitions advisory firms in the country focused exclusively on the middle market. From time to time, Harris Williams may provide such services to a portfolio company in which a PNC Mezzanine Fund has invested.

*BlackRock Inc.*

BlackRock Inc. (“BlackRock”), the largest publicly-traded investment management firm in the United States, manages assets on behalf of institutions and individuals worldwide through a variety of equity and balanced, fixed income, cash management and alternative investment products. As of September 30, 2011, PNC owned approximately 24% of the outstanding voting securities of BlackRock (with an economic interest of approximately 21%) and PNC Investments is indirectly affiliated with a significant number of BlackRock investment adviser and broker dealer subsidiaries.<sup>3</sup>

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<sup>3</sup> Those subsidiaries include State Street Research & Management Company, BlackRock Realty Advisors, BlackRock Advisors LLC, BlackRock Financial Management, Inc., BlackRock Institutional Management Corp., BlackRock International, Limited, BlackRock Capital Management, Inc., BlackRock Investments, Inc., BlackRock Investment Management LLC, BlackRock Capital Markets LLC, BlackRock Fund Advisors, BlackRock Execution, BlackRock Fund Distribution and BlackRock Kelso Capital Advisors.



### *PNC Insurance Services LLC*

PNC Insurance Services LLC is a wholly owned subsidiary of PNC Bank and a licensed insurance agency which provides a variety of insurance products and advice.

PNC or its affiliates may provide broker-dealer or other services to PNC Mezzanine Funds and may receive broker-dealer fees and investment banking fees with respect to portfolio company transactions. A PNC Mezzanine Fund will not receive any of the fees paid by the portfolio companies for such services. Furthermore, PNC or its affiliates, such as Harris Williams, acting as underwriters or broker-dealers, may be chosen by a portfolio company of a PNC Mezzanine Fund to effectuate, among other things, sales or offerings, with or without the input of PNC Mezzanine Management.

The relationship between PNC Mezzanine Management and its affiliates, including an affiliated broker-dealer, may give rise to a material conflict of interest between PNC Mezzanine Management and the PNC Mezzanine Funds that have an interest in any portfolio companies with respect to which an affiliate provides services. PNC Mezzanine Management may have an incentive to seek to influence the management of a portfolio company to retain an affiliate to provide broker-dealer or other services, or to borrow from, or otherwise transact with, an affiliate of PNC Mezzanine Management, rather than an unaffiliated entity. However, PNC Mezzanine Management will approve such transactions only on terms that are believed to be commercially reasonable to PNC Mezzanine Funds. Moreover, if PNC Mezzanine Management holds one or more seats on the board of directors of a PNC Mezzanine Fund portfolio company, and the board is being asked to vote on a matter involving a PNC affiliate (other than the PNC Mezzanine Fund, its general partner or manager), then the PNC Mezzanine representative(s) will: (1) vote on such matter in good faith in a manner they believe to be in the best interests of the PNC Mezzanine Fund and (2) request that the portfolio company obtain approval both from a majority of all board members and from a majority of the non-PNC board members.

In the ordinary course of its business, PNC or its affiliates may engage in activities in which their interests may potentially conflict or compete with those of the PNC Mezzanine Funds and their limited partners, including (1) making direct or indirect investments in companies which would otherwise be suitable portfolio company investments for a PNC Mezzanine Fund; (2) investing as a passive limited partner in funds that compete with a PNC Mezzanine Fund; or (3) lending to a portfolio company in which a PNC Mezzanine Fund has made an investment at a level that is senior in the capital structure to the PNC Mezzanine Fund's investment. PNC or its affiliates may also represent potential purchasers, sellers and other involved parties with respect to businesses which may be suitable for investment by a PNC Mezzanine Fund. In addition, if PNC or one of its affiliates is engaged to provide investment banking or underwriting services to portfolio companies in which a PNC Mezzanine Fund has invested, the PNC Mezzanine Fund will not receive any of the fees paid by portfolio companies to PNC or such affiliate in connection with such services.

As discussed above, certain portfolio companies in which a PNC Mezzanine Fund has invested have borrowed from PNC Bank. These loans are senior in the capital structure to the PNC Mezzanine Fund's investment. While the principals of PNC Mezzanine Management believe that such loans promote attractive deal flow for the PNC Mezzanine Fund and thereby benefit the PNC Mezzanine Fund, loans by PNC Bank at a level senior to that of the PNC Mezzanine Fund's investments present inherent conflicts of interest between PNC Bank and the PNC Mezzanine Fund. For example, in the event of restructuring or insolvency, the holders of senior debt may exercise remedies and take other actions that are not in the interest of or are adverse to a PNC Mezzanine Fund.

Furthermore, by reason of the investment banking and related activities of PNC and its affiliates, PNC or its affiliates may acquire confidential or material non-public information and therefore be restricted from initiating transactions in certain securities. In addition, under certain circumstances, a PNC Mezzanine Fund may not be given access to material non-public information in the possession of PNC or its affiliates which may be relevant to an investment decision to be made by the PNC Mezzanine Fund.

While the risk of these conflicts cannot be eliminated, policies and procedures have been designed and implemented, such as information barriers, to address certain of these conflict situations, to provide that PNC Mezzanine Management will seek to act on an arms' length basis from PNC and its affiliates in such conflict situations.

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### Code of Ethics and Personal Trading

PNC Mezzanine Management has adopted a Code of Ethics which consists of certain general principles including: (1) the interest of the PNC Mezzanine Funds (and investors therein, if any) must be placed first at all times; (2) all personal securities transactions must be conducted consistent with the Code of Ethics and in such a manner as to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility; (3) access persons (as defined in the Adviser Act) should not take inappropriate advantage of their positions; (4) access persons must comply with applicable federal securities laws; and (5) access persons must comply with all applicable compliance policies and procedures of the Firm. In addition, the Code of Ethics includes provisions relating to the reporting of personal securities holdings and trading activity. All access persons at PNC Mezzanine Management must acknowledge the terms of the Code of Ethics annually. A copy of the Code of Ethics will be provided to any client or prospective client upon request. PNC Mezzanine Management's contact information appears on the cover page of this Brochure.

PNC Mezzanine Management employees are also subject to the PNC Employee Conduct Policies, among other policies and procedures, which cover matters including compliance with law, conflicts of interest, insider trading, outside activities, and safeguarding confidential information.

### Participation or Interest in Client Transactions

As discussed in Item 10 – *Other Financial Industry Activities and Affiliations*, PNC Bank may provide traditional lending, cash and/or treasury management and other services to a portfolio company in which a PNC Mezzanine Fund has invested. However, such services offered by PNC Bank are separate from the management services provided by PNC Mezzanine Management. Policies and procedures have been designed and implemented to address these conflict situations.

### Investments in Securities Recommended to PNC Mezzanine Funds

PNC Mezzanine Management has permitted PNC and/or its subsidiaries and other investors to invest in portfolio companies alongside the Funds at the same time and on substantially the same terms and conditions as a Fund's investment in such portfolio companies. For a discussion of the allocation of investment opportunities, please refer to Item 12 – *Brokerage Practices*.

## **Item 12. Brokerage Practices**

### Broker Selection and Best Execution

As a private investment firm, PNC Mezzanine Management's typical acquisition or disposition of a security will involve a privately negotiated transaction with the issuer of the securities or prospective purchasers, and generally will not involve the services of a broker or dealer. In those cases, PNC Mezzanine Management seeks to negotiate and execute transactions in an efficient manner and consistent with its fiduciary duties to the PNC Mezzanine Funds. In limited circumstances, however, PNC Mezzanine Management may dispose of a security through a broker or dealer. When it is appropriate to execute portfolio transactions through brokers or dealers, PNC Mezzanine Management seeks the best overall terms available on behalf of a PNC Mezzanine Fund. In assessing the best overall terms available for any transaction, PNC Mezzanine Management considers the full range and quality of a broker or dealer's services and other considerations, including cost, expertise and reputation.

### Allocation and Aggregation of Trades

As discussed in Item 11 – *Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*, PNC Mezzanine Management has permitted PNC and/or its subsidiaries and other investors to invest in portfolio companies alongside the Funds. The Firm's investment professionals will take steps to ensure that, to the extent practicable, such co-investments are made or sold at the same time and on substantially the same terms and conditions as a Fund's investment in such portfolio companies, and that, with respect to Equity Fund I, any voting and/or consent rights are exercised at the direction of or consistent with Equity Fund I or its general partner. PNC Mezzanine Management has a trade allocation and aggregation policy pursuant to which it may allocate and aggregate trades on a fair and equitable basis over time and consistent with its fiduciary duties to the PNC Mezzanine Funds. However, the investment periods of the PNC Mezzanine Funds have expired and, with the exception of certain follow-on investments and the liquidation of existing portfolio company positions, the PNC Mezzanine Funds will not engage in additional transactions.

## **Item 13. Review of Accounts**

PNC Mezzanine Management's investment professionals will actively monitor and review each PNC Mezzanine Fund's investment portfolio on a periodic basis. The team generally includes David J. Blair, Director and President, Robert M. Marsh, Director and Vice President, and Preston Walsh, Director and Senior Vice President, and other investment professionals of PNC Mezzanine Management. During this process, the investment professionals analyze existing portfolio company positions in an attempt to identify issues early on and to take any necessary actions. The Investment Committees of the PNC Mezzanine Funds will meet on a quarterly basis, or at such other times as necessary or appropriate, to discuss the investment portfolio of each PNC Mezzanine Fund and, as necessary, implement any action recommended by the Firm's investment professionals.

In addition, the advisory boards of PNC Mezzanine Funds will, among other things, (1) annually review valuations of a Fund's investments and approve or disapprove any valuations required under the applicable limited partnership agreement (provided, however, that with respect to Equity Fund I, the general partner will retain responsibility for asset valuations subject to, under certain circumstances, the binding valuation of a nationally recognized valuation or investment banking firm); (2) review (and, with respect to Mezzanine Fund III, approve or disapprove) any actual or potential conflicts of interest; and (3) consider any other matters required under the applicable limited partnership agreements or otherwise determined by the applicable general partner.

PNC Mezzanine Management (or an affiliate) will provide written reports at such frequency as will be required by the applicable agreements with each PNC Mezzanine Fund, including the limited partnership agreement. However, PNC Mezzanine Management (or an affiliate) will generally provide, among other things, (1) audited financial statements and other information on an annual basis in accordance with generally accepted accounting principles (within 120 days after a PNC Mezzanine Fund's fiscal year end) and (2) unaudited summary financial and other information on a quarterly basis, to the investors in a PNC Mezzanine Fund. In addition, investors in a PNC Mezzanine Fund may also be invited to an annual meeting at which general information is provided.

#### **Item 14. Client Referrals and Other Compensation**

PNC Mezzanine Management receives, in the ordinary course of its business, compensation from certain portfolio companies in which a PNC Mezzanine Fund has invested in connection with managerial and other services provided to the portfolio companies. The Firm may also receive fees and other compensation, such as breakup fees, from transactions not consummated by a PNC Mezzanine Fund in connection with the PNC Mezzanine Fund's proposed investment in such transactions. As described more fully in a PNC Mezzanine Fund's PPM or other offering materials, such fees and other compensation may be shared, in part, with the PNC Mezzanine Fund through reductions or off-sets against management fees that would otherwise be applicable.

#### **Item 15. Custody**

PNC Mezzanine Management is deemed to have "custody" over the PNC Mezzanine Funds within the meaning of Rule 206(4)-2 under the Advisers Act. To comply with this Rule, PNC Mezzanine Management provides each investor in a PNC Mezzanine Fund audited financial statements, in accordance with generally accepted accounting principles, within 120 days following the Fund's fiscal year end. Investors should review these audited financial statements carefully. If you have invested in a PNC Mezzanine Fund and have not received audited financial statements timely, please contact us immediately.

#### **Item 16. Investment Discretion**

As discussed in Item 4 – *Advisory Business*, PNC Mezzanine Management provides, pursuant to a Management Agreement, investment management services to a PNC

Mezzanine Fund on a discretionary basis, subject to the overall supervision of the general partner of the PNC Mezzanine Fund. The limits upon the Firm's investment discretion are established through negotiations with the investors in a PNC Mezzanine Fund and/or its general partner. These limitations, which are negotiated on a case by case basis and will vary from time to time, are incorporated in a PNC Mezzanine Fund's PPM or other governing documents, including the applicable Management Agreement. Currently, PNC Mezzanine Management's investment discretion is further limited to certain follow-on investments and the liquidation of existing portfolio company positions.

### **Item 17. Voting Client Securities**

PNC Mezzanine Management, through the general partner of a PNC Mezzanine Fund, will exercise any voting and/or consent rights with respect to portfolio securities held on behalf of the PNC Mezzanine Fund if designated by written agreement with the general partner. Although the securities in which a PNC Mezzanine Fund typically has invested do not include proxy rights, the PNC Mezzanine Fund may, from time to time and under certain circumstances, be asked to consent to certain corporate actions (*e.g.*, consent to changes in features of debt securities). The general principle of PNC Mezzanine Management's Portfolio Securities Voting and Consent Policy and Procedures is to exercise any voting and/or consent rights prudently and solely in the best long-term economic interest of the PNC Mezzanine Funds considering all relevant factors and without undue influence from individuals or groups who may have an economic interest in the outcome of such vote or consent.

PNC Mezzanine Management's Portfolio Securities Voting and Consent Policy and Procedures are designed to ensure that if a material conflict of interest is identified in connection with a particular proxy vote or consent, the vote or consent is not improperly influenced by the conflict. For example, in the event that an investment professional determines that he or she may have a material conflict of interest, the investment professional may vote such matter in accordance with the recommendation of any service provider (if applicable) or as instructed by the investors in a PNC Mezzanine Fund (or any advisory group thereof) (if applicable).

Written requests for copies of the complete Portfolio Securities Voting and Consent Policy and Procedures and information about how PNC Mezzanine Management exercised any voting and/or consent rights should be directed to PNC Mezzanine Management at 620 Liberty Avenue, Pittsburgh, Pennsylvania 15222-2707.

### **Item 18. Financial Information**

Not applicable.