

**ITEM 1: COVER PAGE**

**FORM ADV 2A**

**FERRER FREEMAN & COMPANY, LLC**

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**February, 2012**

This brochure provides information about the qualifications and business practices of **Ferrer Freeman & Company, LLC** (“FFC” or the “Adviser”). This is the Adviser’s initial registration filing with the SEC. If you have any questions about this brochure please contact us at 203-532-8033 email Michelle Larkins at [mlarkins@ffandco.com](mailto:mlarkins@ffandco.com)

The information presented in this brochure was prepared by **Ferrer Freeman & Company, LLC** which is solely responsible for the content. Neither the Commission nor any State securities regulator has approved or verified the information contained in this brochure, and the mere fact of registration with the Commission in no way implies that the adviser has any particular level of skill or training to carry out its business. For specific questions about particular advisory services or products described in this brochure, you can find additional contact information at this worldwide website: [www.ffandco.com](http://www.ffandco.com)

Additional information about **Ferrer Freeman & Company, LLC** also is available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## **ITEM 2: STATEMENT OF MATERIAL CHANGES**

This brochure is the first one prepared in compliance with the changes to client disclosure documents (Formerly Part II of Form ADV) mandated by the Securities and Exchange Commission through the adoption of its revised Form ADV rule on July 28, 2010.

## **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 FFC Fund;**
- **a complete discussion of the features, risks or conflicts associated with any FFC or Advisory Service;**
- **to be relied on in determining whether to invest or establish an advisory relationship.**

As required by the Advisers Act, 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 FFC Fund, together with other relevant Offering Materials (such as subscription agreements, offering memoranda, operating agreements or advisory contracts), prior to, or in connection with, such persons' establishment or consideration of an investment advisory relationship with FFC or an investment in a FFC Fund. Additionally, this Brochure is available through the Securities and Exchange Commission's ("SEC's") Investment Adviser Public Disclosure website.

Although this publicly available Brochure describes investment advisory services and products of FFC, persons who receive this Brochure (whether or not from the Firm) should be aware that it is designed solely to provide information about FFC 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 FFC Fund, as well as FFC's investment advisory services, is included in relevant Offering Materials, certain of which may be provided to current and eligible prospective Clients or Investors only by the Firm or an Administrator or Placement Agent. 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**

### *a) Background*

Ferrer Freeman & Company, LLC (the "FFC" or the "Adviser"), is a limited liability company founded in July, 1995 by Carlos A. Ferrer and David A. Freeman. FFC provides investment advisory services to six Limited Partnerships which invest exclusively in healthcare companies. The three institutional funds are FFC Partners I, L.P. ("FFC I"), FFC Partners II, L.P. ("FFC II"), and FFC Partners III, L.P. ("FFC III"), and there are three attendant side-by-side funds (Collectively, the "Clients" or "Funds" or "Partnership").

### *b) Advisory Services*

FFC is a private equity Adviser located in Greenwich, CT that invests exclusively in healthcare and healthcare-related companies. Since 1996, we have invested in 35 healthcare companies. All the funds are fully invested as of December 2011. However, the Advisor has the ability to make Follow-On investments in existing FFC III portfolio companies. All the investments in FFC I have been liquidated and there remains only approximately \$4,043,850 in escrowed funds we expect to distribute in 2012.

The entities which commit capital to the funds are primarily (measured by U.S. dollars) experienced institutional investors that include corporate and public pension plans, Fund of Funds, insurance companies, University endowments, family offices and a few individual investors. Individuals who are Accredited Investors make-up the majority of committed capital in the side-by-side funds.

### *c) Principal Investment Strategies*

FFC invests its Clients' capital in healthcare companies domiciled primarily in the United States. The majority of the capital as measured by U.S. dollars and number of investments was/is invested in companies which the Advisor believed had or has a significant opportunity to grow its revenues and earnings over time to create equity value. A second investment strategy was/is to partner with an experienced management team in a particular sector (typically healthcare services), commit a fixed amount of capital and build or buy assets over time. FFC also invested some Clients' capital in leveraged buyouts usually with larger private equity firms, and in some cases invested in development stage companies with unproven business models at the time of investment.

We make long term investments on behalf of our clients whereby we hold the securities and manage the investments for 3-12 years. There are a variety of information sources that FFC uses in addition to the Investment Committee's significant experience in investing in and managing healthcare investments that we use to identify and evaluate investment opportunities. These include industry reports and analysis, independent research, knowledge from the existing portfolio companies and management teams, and importantly a large network of healthcare executives, surgeons, physicians and other professional investors in the industry.

The Investment Committee has many years of experience in investing in, managing and exiting healthcare companies, financing companies with debt and equity, advising our portfolio companies on buying additional assets or other companies, selling to other companies or accessing the public debt and equity markets.

*d) Tailored Advice and Client-Imposed Restrictions*

FFC prepares offering materials with respect to each Fund that contains more detailed information, including a description of the investment objective and strategy or strategies employed and related restrictions. These serve as a limitation on FFC's management.

None of the Funds is tailored to the individualized investment needs of any particular investor ("Investor"). An investment in a FFC Fund does not create a client-adviser relationship between FFC and an Investor.

Investors must consider whether a particular FFC Fund or advisory relationship is appropriate to their own circumstances based on all relevant factors including, but not limited to, the Investor's own investment objectives, liquidity requirements, tax situation and risk tolerance. Prospective Investors are strongly encouraged to undertake appropriate due diligence, including but not limited to a review of relevant offering materials for the Funds, investment policy statements, investment guidelines and the additional details about FFC's investment strategies, methods of analysis and related risks in Item 8 of this Brochure, before making an investment decision.

*e) Wrap Fee Disclosure*

Not applicable.

*f) Assets Under Management*

As of December 30, 2011, FFC had approximately \$696,204,949 in regulatory assets under management ("AUM").

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

FFC is compensated for its services through the receipt of a management fee and performance based fees. FFC's compensation, as well as other costs associated with management by FFC, is discussed generally below and in more detail in relevant offering materials.

### *a) Compensation*

FFC receives a management fee from each Fund based on committed capital of 2% annually (the "Management Fee") for the first 5 years of a Fund. After year 5 of a Fund, the 2% Management Fee is calculated based upon Invested Capital at cost minus write-downs, minus capital returned. Fund I and II currently pay zero Management Fees. The Management Fee is paid quarterly, adjusted for the current quarter's write-downs, and capital returned.

In addition, the Adviser may receive performance compensation as set out in each individual prospectus (the "Performance Fee"). The Adviser, in its sole discretion, may temporarily waive or reduce the Management Fee and/or the Performance Fee. The side-by-side Funds typically have a reduced Management Fee and Performance Fee as described in each Fund's Private Placement Memorandum and Limited Partnership Agreement.

FFC also performs mergers and acquisitions advisory services for some of the portfolio companies in which the Funds invest. The advisory work includes advising portfolio companies on the sale of assets or acquisition by another company. The advisory fee is paid to FFC and FFC either retains the fee as revenue, or in the case of FFC III, passes the fee along to the Fund investors as a dollar for dollar reduction in the management fee for that quarter.

The Adviser also earns fees as members of the boards of some of its portfolio companies. Compensation for board membership is earned in the form of cash and/ or equities. The board compensation is paid to FFC and FFC either retains the fee as revenue, or in the case of FFC III, as a dollar for dollar reduction in the management fee for that quarter.

### *b) Billing*

Management fees are called from Institutional Investors, with the exception of the side-by-side funds, whose management fees are automatically deducted from the Fund Investors' accounts.

### *c) Other Expenses*

Each Fund generally pays all of its ordinary organizational, offering, administrative, and operating expenses, including, but not limited to, ordinary and recurring legal, accounting, escrow, auditing, administration, and certain clerical expenses including those incurred in preparing, printing and mailing reports and tax information to investors and regulatory



authorities, expenses for specialized administrative services, filing fees, and taxes. Additional fees (e.g., wire transfer charges) may be imposed by service providers.

*d) Advance Billing*

As discussed above, with respect to the FFC, the management fee is payable quarterly in advance. Fees are not refundable for either funds or managed accounts.

*e) Sales-based Compensation*

Not applicable. Neither the Firm nor any of its employees or affiliates accepts additional compensation for the sale of securities or other services. The Firm or its affiliates and employees do not receive compensation for other services besides the investment advisory services we provide.

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

The Performance Fee is charged by the Adviser in compliance with Rule 205-3 under the Investment Advisers Act of 1940. The Adviser, in its sole discretion, may temporarily waive or reduce the Management Fee and/or the Performance Fee.

Performance-based compensation may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case in the absence of the performance-based compensation. However, the performance upon which the compensation is measured does not include unrealized appreciation of the investments, but does include unrealized and realized write-downs of investments in that Fund.

## **ITEM 7: TYPES OF CLIENTS**

FFC provides investment advisory services to certain Private Equity Funds (the “Funds”) organized as limited partnerships. The Funds qualify for exemption from the definition of an “investment company” under the Investment Company Act of 1940, as amended (the “Investment Company Act”) under Section 3(c) (1) or Section 3(c) (7) of the Investment Company Act, and the Adviser offers interests to Investors pursuant to Regulation D under the Securities Act of 1933, as amended (the “1933 Act”).

Fund investors are qualified investors, such as state and corporate pension plans, university endowments, wealthy families and individuals, and funds of funds, for investment in our Funds. Generally, the minimum commitment to a Fund was either \$5,000,000 for the institutional funds or \$100,000 for the side-by-side funds. However, the minimum initial investment in a Fund can be waived by the Advisor.

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

### *a) Methods of Analysis & Investment Strategies*

FFC uses many different methods to analyze a new investment opportunity. The process starts with identifying industry sectors and companies in those sectors which we believe have a substantial market opportunity to grow revenue and earnings with additional capital. Once an opportunity is identified we a) do extensive management references b) perform an assessment of the commercial growth strategy using all publicly available information on the company and the industry, c) obtain from the company all product, service, operational and financial information from the Company and perform our own physical inspection of assets, facilities, operations, products and manufacturing plants, d) conduct thorough financial, accounting, legal and regulatory due diligence and e) develop a financial projection model based upon all of the work above. Our extensive network in the healthcare industry is valuable in all phases of the assessment and analysis.

### *b) Material Risks Associated with the Investment Strategies*

Investing in private funds in general involves risk of loss that clients should be prepared to bear. Each Fund has risks which are specific to its particular investment strategies. For more information about the risks of each Fund, please see the offering memorandum for that particular fund. While FFC seeks to manage investments so that risks are appropriate to the return potential for the strategy, it is often not possible or desirable to fully mitigate risks. FFC does not offer any products or services that guarantee rates of return on investments for any period to any Client or Investor. All Clients and Investors assume the risk that investment returns may be negative or below the rates of return of other investment advisers or products. Investors should understand that they could lose some or all of their investment and should be prepared to bear the risk of such potential losses.

There are risks inherent in the investment strategies pursued, and the financial instruments and trading methods used, by FFC. Key risks of loss which apply to the principal investment strategies employed by FFC are listed below. More detailed descriptions and explanations of the key risks of loss are included in relevant Offering Materials. Generally, however, investors in FFC Funds and managed accounts are exposed to the following risks:

*No Assurance of Investment Return.* The Partnership cannot provide assurance that it will be able to choose, make and realize investments in any particular company or portfolio of companies. There is no assurance that the Partnership 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. There may be little or no near-term cash flow available to the Limited Partners and there can be no assurance that any Limited Partner will receive any distribution from the Partnership. An investment in the Partnership requires a long-term

commitment, with no certainty that the Partnership will realize its rate of return objectives or that capital loss will not occur. Partial or complete sales, transfers, or other dispositions of Portfolio Investments which may result in a return of capital or the realization of gains, if any, are generally not expected to occur for a number of years after an investment is made. An investment in the Partnership should only be considered by persons who can afford a loss of their entire investment. Past performance of investment entities associated with FFC and its affiliates is not necessarily indicative of future results, and there can be no assurance that the Partnership will achieve comparable results, the Partnership's investment objective will be achieved, or that a Limited Partner will receive return of its capital.

*Suitability of Investments.* An investment in the Partnership is not suitable for all investors. An investment is suitable only for sophisticated investors and an investor must have the financial ability to understand and willingness to accept the extent of its exposure to the risks and lack of liquidity inherent in an investment in the Partnership. Investors with any doubts as to the suitability of an investment in the Partnership should consult their professional advisers to assist them in making their own legal, tax, accounting and financial evaluation of the merits and risks of an investment in the Partnership in light of their own circumstances and financial condition.

*Operating and Financial Risks of Portfolio Companies.* Companies in which the Partnership 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. As a result, companies which the Partnership expected to be stable may operate, or expect to operate, at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or to maintain their competitive position, or may otherwise have a weak financial condition or be experiencing financial distress.

*Uncertainty of Financial Projections.* The General Partner will generally establish the pricing of transactions and the capital structure of Portfolio Companies on the basis of financial projections for such Portfolio Companies. Projected operating results will normally be based primarily on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic, political and market conditions, which are not predictable, can have a material adverse impact on the reliability of such projections.

*Lack of Industry Diversification.* The Partnership's capital will be invested in companies in the healthcare and related industries. Concentration in an industry may involve risks greater than those generally associated with more diversified funds, including significant fluctuations in returns. Healthcare markets are challenged by rapidly changing market and regulatory conditions and/or participants, new competing products and services and improvements in existing products and services. The Partnership's Portfolio Companies will compete in this volatile environment. There can be no assurance that products or services sold or relied upon by Portfolio Companies will not be rendered obsolete or adversely affected by competing products and services, changing litigation, legal or regulatory environments or other challenges. In the event that the healthcare sector as a whole declines, returns to Limited Partners may decrease.

*Risk of Limited Number of Investments.* The Partnership may participate in a limited number of investments and, as a consequence, the aggregate return of the Partnership may be substantially adversely affected by the unfavorable performance of even a single investment. In addition, other than certain Diversification Guidelines/Investment Restrictions, investors have no assurance as to the degree of diversification of the Partnership's Portfolio Investments, either by geographic region, sub-sector of the healthcare industry, or transaction type. To the extent the Partnership concentrates Portfolio Investments in a particular issuer, sub-sector of the healthcare industry, security or geographic region, its Portfolio Investments will become more susceptible to fluctuations in value resulting from adverse economic and business conditions with respect thereto.

*Investment in the Healthcare Industry.* Healthcare companies in the United States, Europe and other developed and emerging countries are subject to governmental regulation as well as the rapid development of technologies, particularly in sectors relating to biotechnology and life sciences. Healthcare companies are often characterized by limited product focus, and obtaining governmental approval for new products from governmental agencies can be lengthy, expensive and uncertain as to outcome. Competitive pressures within the healthcare industry are intense and the securities of healthcare companies may be subject to significant price volatility. In addition, because certain sectors of the healthcare industry are subject to rapid and significant changes in technology, the companies that the Partnership will invest in will face competition from technologies being developed or to be developed in the future by other entities, which may make such companies' products and services obsolete. These factors may result in abrupt advances and declines in the valuation of particular companies and, in some cases, may have a broad effect on the valuations of companies in particular sectors of the healthcare industry.

*Regulatory Constraints.* The healthcare industry is subject to regulatory controls by international, national, and in some instances, local governmental authorities. The nature and scope of healthcare regulation generally are subject to political forces and market considerations, the effects of which cannot be predicted. Healthcare regulations often are aimed at advancing a variety of social policies, such as the general protection of consumers and the provision of universal access to products and services. The healthcare industry has experienced, and is expected to continue to experience, extensive and dynamic change. In addition to economic forces and regulatory influences, continuing political debate has subjected the healthcare industry to significant reform. There has also been significant media and public attention focused in recent years on the healthcare industry. The General Partner expects government officials, at both state and federal levels, to continue to review and assess alternative healthcare delivery systems and payment methodologies. Further, healthcare laws and regulations, particularly those governing the Medicare and Medicaid programs, are complex and subject to interpretation. Changes in the law or new interpretations of existing laws may have a dramatic effect on the scope of permissible or impermissible activities, the relative cost of doing business, and the methods and amounts of payments for medical care by both governmental and other payors. In addition, the General Partner expects additional legislative changes intended to "balance the budget" and to slow the annual rate of growth of Medicare and Medicaid. Such initiatives may result in lower Medicare and/or Medicaid payment for healthcare services and/or prescription drugs. In addition, the introduction of new products, services and technologies could render some healthcare companies obsolete and may result in abrupt fluctuations in their value. Such

future changes may further impact the Partnership's Portfolio Companies and there can be no assurance that future legislation or regulatory changes will not have a material adverse effect on the operations of the Partnership's Portfolio Companies.

There has also been an increase in dedicated funding for additional federal enforcement activities related to healthcare providers and for preventing fraud and abuse. For instance, the Healthcare Reform legislation (discussed further below) increases funding for fraud and abuse enforcement activities against healthcare providers. The additional funding may increase enforcement activities, including investigations, and it is possible that governmental entities could initiate investigations or litigation in the future and, while some may be defensible and/or frivolous in some respects, such matters could result in significant penalties, as well as adverse publicity. It is also possible that executives of the Partnership's Portfolio Companies could be included in governmental investigations or litigation or named as defendants in private litigation.

*Healthcare Reform Legislation.* Significant new legislation regarding the healthcare industry has recently been signed into law by President Obama. On March 23, 2010, the President signed the Patient Protection and Affordable Care Act of 2010, or the Patient Protection and Affordable Care Act, and on March 30, 2010, the President signed into law the Healthcare and Education Reconciliation Act of 2010, or the Reconciliation Act, which in part modified the Patient Protection and Affordable Care Act (collectively the "Legislation" or "Healthcare Reform"). The Legislation will serve as a primary vehicle for comprehensive healthcare reform in the U.S. and is broad in scope and likely to affect significant changes in the healthcare sector. The Legislation is intended to reduce the number of individuals in the U.S. without health insurance and will cause significant other changes to the ways in which healthcare is organized, delivered and reimbursed. The Legislation will become effective through a phased approach, beginning in 2010 and concluding in 2018, and many provisions will likely require implementing regulations and/or the issuance of certain additional programmatic guidelines. In addition, such Legislation is often followed by subsequent legislation and litigation to address and remedy previously unanticipated consequences, or to further define provisions of the Legislation. The following are only some of the aspects of the Legislation that the General Partner expects may affect the Fund's portfolio companies: (a) reduces or subjects to future adjustment Medicare reimbursement rates for certain healthcare services; (b) includes enhanced program integrity provisions, provider billing limitations, provider overpayment notification requirements and overpayment recoupment capabilities for the CMS, the federal agency within the U.S. Department of Health and Human Services that administers the Medicare and Medicaid programs; (c) includes expanded civil monetary penalties applicable to all Medicare and/or Medicaid providers; (d) expands authority to suspend payments if a provider is investigated for allegations or issues of fraud; and (e) expands and/or revises certain "ownership" disclosure requirements in an effort to improve transparency of information, which may create additional exposure to investors.

As a result of the scope of the Legislation, the significant changes it will likely engender in the healthcare industry, the complexity of the technical issues it addresses, and lack of detail available for many aspects (including reimbursement rates and insurance coverage requirements), the General Partner is unable to predict, at this time, the impact on the Partnership or its Portfolio companies of the Legislation and related regulations or guidelines and any additional related legislative or policy measures. Therefore, there can be no assurance that such

laws, related regulations or guidelines (or any additional related legislative or policy measures) will not have an adverse impact on the Partnership's activities, including the ability of the Partnership to achieve its investment objectives.

In addition, the United States Supreme Court has elected to hear cases concerning the Legislation's provision that requires all citizens to obtain health insurance. The oral arguments are scheduled to be held in March 2012. The Supreme Court's decision could cause key provisions of the legislation (and potentially even the entire piece of legislation) to be removed and there can be no assurances that those potential changes will not have an adverse impact on the Partnership's activities or investments.

*Litigation Risks in the Healthcare Industry.* Companies in the healthcare industry are often subject to significant risks related to litigation and liability for damages in connection with their operations. Such litigation and liability may arise, for example, over the design, management and offering of products and services; the denial of healthcare benefits; medical malpractice actions; allegations of anti-competitive and unfair business activities; provider disputes over compensation and termination of provider contracts; disputes over co-payment calculations; claims related to the failure to disclose certain business practices; and claims relating to customer audits and contract performance. The litigation and liability environment in the healthcare industry is constantly evolving, and new court decisions and legislative activity may increase exposure for any of these types of claims. While companies typically have insurance coverage for some of these potential liabilities, other potential liabilities may not be covered by insurance, insurers may dispute coverage or the amount of insurance may not be enough to cover the damages awarded. In addition, certain types of damages, such as punitive damages, may not be covered by insurance, and insurance coverage for all or certain forms of liability may become unavailable or prohibitively expensive in the future.

*Enhanced Scrutiny and Regulation of the Private Equity Industry and the Financial Services Industry.* There have been significant developments recently regarding enhanced governmental scrutiny and/or increased regulation of the private equity industry. On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). This comprehensive reform of the United States' financial regulatory system, among other things, requires registration with the Securities and Exchange Commission (the "SEC") of advisers to private equity funds whose assets under management exceed \$150 million (with certain limited exceptions) and imposes new reporting and recordkeeping obligations with respect to the private equity funds they advise. As a result of the Dodd-Frank Act, FFC expects to register shortly with the SEC as an investment adviser. There can be no assurance that compliance requirements associated with being a registered investment adviser will not have an adverse impact on FFC or otherwise impede the Partnership's activities.

Recently, various federal, state and local agencies have been examining, and the SEC has enacted a rule restricting, the role of placement agents, finders and other similar private equity service providers in the context of investments by public pension plans and other similar entities, including investigations and requests for information and limitations on making political contributions by certain persons associated with the sponsors of private funds; in connection therewith, new and/or proposed rules and regulations in this arena may increase the possibility



that FFC may be exposed to claims and/or actions that could require a Limited Partner to withdraw from the Partnership. There can be no assurance that the foregoing will not have an adverse impact on FFC or the Partnership or otherwise impede the Partnership's activities.

The increased political and regulatory scrutiny of the private equity industry has been particularly acute following the onset of the global financial crisis. For example, in addition to the U.S. legislation described above, other jurisdictions, including many European jurisdictions, have proposed financial regulations that have called for, among other things, increased regulation of and disclosure with respect to, and possibly registration of, hedge funds and private equity funds. Such regulations may include a restriction or prohibition on the ability of U.S.-based private fund managers to raise capital from European investors. There is therefore a material risk that regulatory agencies in the U.S., Europe, or elsewhere may adopt burdensome laws (including tax laws), rules or regulations, or changes in laws, rules or regulations, or in the interpretation or enforcement thereof, which are specifically targeted at the private equity industry, or other changes that could adversely affect private equity firms and the funds they sponsor, including the Partnership.

Finally, increased reporting, registration and compliance requirements may divert the attention of personnel and the management teams of Portfolio Companies, and may furthermore place the Partnership at a competitive disadvantage to the extent that FFC or Portfolio Companies are required to disclose sensitive business information.

*Highly Competitive Market for Investment Opportunities.* The activity of identifying, completing and realizing attractive Portfolio Investments is highly competitive, and involves a high degree of uncertainty. The Partnership will be competing for Portfolio Investments with other private equity investors, as well as individuals, financial institutions, other institutional investors and corporate buyers. Further, over the past several years, an ever-increasing number of private equity funds have been formed (and many such existing funds have grown in size). These and additional funds that may be formed in the future by other unrelated parties or upon further consolidation may have investment objectives similar to those of the Partnership. There can be no assurance that the Partnership will be able to locate, complete and exit Portfolio Investments which satisfy the Partnership's rate of return objectives, or realize upon their values, or that it will be able to invest fully its committed capital.

*No Market for Limited Partnership Interests/Transferability Restrictions.* Limited partnership interests (the "Interests") in the Partnership have not been registered under the Securities Act or applicable securities laws of any state or non-U.S. jurisdiction. Therefore, the Interests cannot be resold unless subsequently registered under the Securities Act and other applicable laws or an exemption from such registration is available. It is not contemplated that any such registration will ever be implemented. Each Limited Partner will be required to represent that it is a qualified investor under applicable securities laws. There is no public market for the Interests and none is expected to develop. Accordingly, it may be difficult to obtain reliable information about the value of the Interests. A Limited Partner will not be permitted to assign or otherwise transfer its Interests in whole or in part without the prior written consent of the General Partner, which may be given or withheld in the General Partner's sole and absolute discretion. Limited Partners may not withdraw capital from the Partnership, except in certain extremely limited circumstances.

Consequently, Limited Partners may not be able to liquidate their investments prior to the end of the Partnership's term. Limited Partners must be prepared to bear the risks of owning Interests and contributing capital for an extended period of time.

*Financial Market Fluctuations.* General fluctuations in the market prices of securities may affect the value of the investments held by the Partnership. Instability in the securities markets may also increase the risks inherent in the Partnership's investments. The ability of Portfolio Companies to refinance debt securities may depend on their ability to sell new securities in the public high-yield debt market or otherwise or to raise capital in the leveraged finance debt markets, which historically have been cyclical with regard to the availability of financing.

*Illiquid and Long-Term Investments.* Although Portfolio Investments by the Partnership may occasionally generate some current income, the return of capital and the realization of gains, if any, from a Portfolio Investment generally will occur only upon the partial or complete disposition of such Portfolio Investment. While a Portfolio Investment may be sold at any time, it is not generally expected that this will occur for a number of years after such Portfolio Investment is made. It is unlikely that there will be a public market for the securities held by the Partnership at the time of their acquisition. The Partnership generally will not be able to sell its securities publicly unless such sale is registered under applicable securities laws or unless an exemption from such registration requirements is available. In addition, in some cases the Partnership may be prohibited or limited by an underwriter's restrictions, contractual or legal, or regulatory reasons from selling certain securities for a period of time. Therefore, no assurance can be given that, if the Partnership is determined to dispose of a particular Portfolio Investment held by the Partnership, it could dispose of such Portfolio Investment at a prevailing market price, and there is a risk that disposition of such investments may require a lengthy time period or may result in distributions in-kind to investors.

*Investments Longer Than Term.* The Partnership may make Portfolio Investments which may not be advantageously disposed of prior to the date the Partnership will be dissolved, either by expiration of the Partnership's term or otherwise. Although the General Partner expects that Portfolio Investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution and the General Partner has a limited ability to extend the term of the Partnership, the Partnership may have to sell, distribute or otherwise dispose of Portfolio Investments at a disadvantageous time as a result of dissolution. In addition, although upon the dissolution of the Partnership the General Partner (or the relevant liquidator) will be required to use its best efforts to reduce to cash and cash equivalents such assets of the Partnership as the General Partner or such liquidator shall deem it advisable to sell, subject to obtaining fair value for such assets and any tax or other legal considerations (including legal restrictions on the ability of a Limited Partner to hold any assets to be distributed in kind), over such time as is reasonably necessary to settle gradually and close the Partnership's business under the circumstances then applicable to the Partnership, there can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds to the Limited Partners will occur.

*Ongoing Turmoil in the U.S. and Global Financial Markets.* The ongoing turmoil in the U.S. and global financial markets has illustrated that the current environment is one of extraordinary

and perhaps unprecedented uncertainty and volatility. A number of very high-profile and significant transactions and events have occurred in recent years with respect to participants in the financial services industry, including the failure or forced sale of certain banks, investment banks and other financial services businesses and broad scale market intervention by governments in the United States and abroad. Global financial markets have experienced periods of considerable and prolonged declines in the valuations of equity securities and contractions in the availability of credit. As a result, certain government bodies and central banks worldwide, including the U.S. Treasury Department and the U.S. Federal Reserve, have undertaken unprecedented intervention programs, the effects of which remain uncertain. During this time, the U.S. economy has experienced periods of significant decline in employment, household wealth, and lending. Moreover, recent events may indicate that recovery from the recession may be more prolonged or that the U.S. risks entering into a “double-dip” recession. In particular, U.S. financial and global markets have experienced high levels of volatility surrounding the downgrade of the U.S. long term sovereign credit rating by Standard & Poor’s from AAA to AA+, and certain other macroeconomic events that have been well-publicized, including difficulties in U.S. federal budget deficit negotiations and the threat of default by certain European Union member states in servicing their sovereign debt obligations. Because of the unprecedented nature of these events, the ultimate impacts on global markets are unpredictable and may adversely affect the Partnership and its investments. There can be no assurances that conditions in the U.S. economy and financial markets will not worsen. A recession, slowdown and/or sustained downturn in the United States or global economy is likely to adversely affect the Partnership’s profitability, impede the ability of the Partnership’s Portfolio Companies to perform under or refinance their existing obligations, and impair the Partnership’s ability to effectively deploy its capital or realize investments on favorable terms.

*Use of Leverage.* The Partnership’s investments may include Portfolio Companies whose capital structures may have a significant degree of leverage, as a result of which recessions, operating problems and other general business and economic risks may have a more pronounced effect on the profitability or survival of such companies. Moreover, any rise in interest rates may significantly increase Portfolio Company interest expense, causing losses and/or the inability to service debt levels. If a Portfolio Company cannot generate adequate cash flow to meet debt obligations, the Partnership may suffer a partial or total loss of capital invested in the Portfolio Company.

Tax-exempt investors should note that the use of borrowed funds by the Partnership would create “unrelated business taxable income”.

*Minority Investments; Investments with Third Parties.* The Partnership may invest in minority positions of companies and in companies for which the Partnership has no right to appoint a director or otherwise exert significant influence or protect its position. In such cases, the Partnership will be significantly reliant on the existing management and Board of Directors of such companies, which may include representation of other financial investors with whom the Partnership is not affiliated and whose interests may conflict with the interests of the Partnership.

*Joint Venture Partners.* The Partnership may co-invest with third parties through joint ventures, partnership or other entities, thereby acquiring non-controlling interests in certain Portfolio

Investments. Although the Partnership may not have control over these Portfolio Investments and, therefore, may have a limited ability to protect its position therein, the General Partner expects that appropriate rights will be negotiated to protect the Partnership's interests. There can be no assurance that such rights will be available or that such rights will provide sufficient protection of the Partnership's rights. Furthermore, such Portfolio Investments may involve risks not present in Portfolio Investments where a third party is not involved, including the possibility that a third-party partner or co-venturer may have financial difficulties resulting in a negative impact on such Portfolio Investment, may have economic or business interests or goals which are inconsistent with those of the Partnership, or may be in a position to take (or block) action in a manner contrary to the Partnership's investment objectives. In addition, the Partnership may in certain circumstances be liable for the actions of its third-party partners or co-venturers. In those circumstances where such third parties involve a management group, such third parties may receive compensation arrangements relating to such investments, including incentive compensation arrangements.

*Control Position Risk.* Although non-control investments may also be made, the Partnership intends to make certain investments that allow the Partnership to acquire control or exercise influence over management and the strategic direction of a Portfolio Investment. The exercise of control over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management and other types of liability in which the limited liability characteristic of business operations generally may be ignored. The exercise of control over a Portfolio Investment could expose the assets of the Partnership to claims by such Portfolio Companies, its shareholders and its creditors. While the General Partner intends to manage the Partnership in a manner that will minimize the exposure of these risks, the possibility of successful claims cannot be precluded.

*Risks in Effecting Operating Improvements.* In some cases, the success of the Partnership's investment strategy will depend, in part, on the ability of the Partnership to restructure and effect improvements in the operations of a Portfolio Company. The activity of identifying and implementing restructuring programs and operating improvements at Portfolio Companies entails a high degree of uncertainty. There can be no assurance that the Partnership will be able to successfully identify and implement such restructuring programs and improvements.

*Investment in Restructurings.* While not its primary strategy, it is possible that the Partnership may make Portfolio Investments in restructurings (e.g. a Follow-On investment in a distressed Portfolio Company) which involve Portfolio Companies that are experiencing or are expected to experience severe financial difficulties, which may never be overcome and may cause such Portfolio Companies to become subject to bankruptcy proceedings. Such Portfolio Investments could, in certain circumstances, subject the Partnership to certain additional potential liabilities, which may exceed the value of the Partnership's original Portfolio Investment therein. For example, under certain circumstances, a lender who has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated, or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to the Partnership and distributions by the Partnership to the Limited Partners may be reclaimed if any such payment or distribution is later determined to have been a

fraudulent conveyance, a preferential payment or similar payment under applicable bankruptcy or insolvency laws.

*Investments in Less Established Companies; Risk of Fraud in a Portfolio Company.* The Partnership may invest a portion of its assets in the securities of less established companies. Portfolio Investments in such companies may involve greater risks than generally are associated with investments in more established companies. To the extent there is any public market for the securities held by the Partnership, such securities may be subject to more abrupt and erratic market price movements than those of larger, more established companies. Less established companies tend to have lower capitalizations and fewer resources and, therefore, often are more vulnerable to financial failure. Such companies also may have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow. In addition, less mature companies could be more susceptible to irregular accounting or other fraudulent practices. In the event of fraud by any company in which the Partnership invests, the Partnership may suffer a partial or total loss of capital invested in that company. There can be no assurance that any such losses will be offset by gains (if any) realized on the Partnership's other Portfolio Investments.

*Unspecified Investments.* The Partnership intends to begin operations upon closing and may not have identified any particular investments. A purchaser of any Interest must rely upon the ability of the General Partner to identify, structure, and implement investments consistent with the Partnership's investment objectives and policies. The Partnership may be unable to find a sufficient number of attractive opportunities to meet its investment objectives. The success of the partnership will depend on the ability of the Principals of FFC to identify suitable investments, to negotiate and arrange the closing of appropriate transactions and to arrange the timely disposition of portfolio investments.

*Material, Non-Public Information.* By reason of their responsibilities in connection with their other investment and business activities, FFC and its personnel may (i) acquire confidential or material non-public information that they will not be able to use for the benefit of the Partnership or (ii) be restricted from initiating transactions in certain securities. Accordingly, the Partnership may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell a Portfolio Investment that it otherwise might have sold.

*In-Kind Distributions.* Investors should be aware that dispositions may also take the form of in-kind distributions to the Limited Partners. When such investments are distributed to the Limited Partners, such Limited Partners would generally be unable to protect their interests as effectively as the Partnership. In certain limited circumstances provided for in the Partnership Agreement, securities or other assets of the Partnership may be distributed that are not marketable or are otherwise illiquid. The risk of loss and delay in liquidating securities or other assets distributed in-kind will be borne by the Limited Partners, with the result that such Limited Partners may receive less cash than was reflected in the fair value of such securities as determined by the General Partner pursuant to the Partnership Agreement.

*Role of Private Equity Professionals.* The success of the Partnership will depend in part upon the skill and expertise of FFC's private equity professionals. The interests of these professionals



in the General Partner and the Adviser should tend to discourage them from withdrawing from participation in the Partnership's investment activities. Should one or more of these individuals become incapacitated or in some other way cease to participate in the Partnership, its performance could be adversely affected. However, there can be no assurance that such professionals will continue to be associated with the General Partner or its affiliates throughout the life of the Partnership.

FFC's ability to achieve the investment objectives of the Partnership depends to a substantial degree on its ability to retain and motivate its investment professionals and other key personnel, and to recruit talented new personnel. FFC's ability to recruit, retain and motivate its professionals is dependent on its ability to offer highly attractive incentive compensation. Congress is currently considering proposed legislation that would subject carried interest and gain on the sale of investment services partnership interests to higher rates of U.S. federal income tax than under current law. The Obama administration has indicated it supports the adoption of this legislation or legislation that similarly changes the treatment of carried interest for U.S. federal income tax purposes. Enactment of any such legislation could cause FFC's investment professionals to incur a material increase in their tax liability with respect to their entitlement to carried interest. This might make it harder for FFC to retain and motivate these professionals, which may have an adverse effect on FFC's ability to achieve the investment objectives of the Partnership.

*Reinvestment.* In general, capital returned to the Partners from the disposition of a Portfolio Investment within one year of making the Portfolio Investment may be retained and reinvested (or recalled for reinvestment) by the General Partner or used (or recalled for use) by the General Partner for any purpose permitted under the Partnership Agreement or to fund Portfolio Investments of the Partnership. Capital Contributions for Management Fees, Partnership Expenses and Organizational Expenses may be recycled out of distributions and, accordingly, due to such recycling a Partner may, in certain circumstances, be required to fund an aggregate amount in excess of its Capital Commitment during the term of the Partnership.

*Limited Access to Information.* Limited Partners' rights to information regarding the Partnership will be limited. In particular, it is anticipated that the General Partner will obtain certain types of material information from Portfolio Investments that will not be disclosed to Limited Partners, in part because such disclosure may be prohibited for contractual, legal or similar obligations outside of the General Partner's control. Decisions by the General Partner to withhold information may have adverse consequences for Limited Partners in a variety of circumstances. For example, a Limited Partner that seeks to transfer its Interests may have difficulty in determining an appropriate price for such Interests. Decisions to withhold information also may make it difficult for a Limited Partner to monitor the General Partner and its performance. Additionally, it is expected that Limited Partners who designate representatives to participate on the LP Advisory Committee may, by virtue of such participation, have more information about the Partnership and Portfolio Investments in certain circumstances than other Limited Partners generally and may be disseminated information in advance of communication to other Limited Partners generally.

*Additional Capital.* Certain of the Partnership's Portfolio Companies, especially those in a development phase, may be expected to require additional financing to satisfy their working capital requirements or acquisition strategies. The amount of such additional financing needed will depend upon the maturity and objectives of the particular Portfolio Company. Each such round of financing (whether from the Partnership or other investors) is typically intended to provide a Portfolio Company with enough capital to reach the next major corporate milestone. If the funds provided are not sufficient, a Portfolio Company may have to raise additional capital at a price unfavorable to the existing investors, including the Partnership. In addition, the Partnership may make additional debt and equity investments or exercise warrants, options or convertible securities that were acquired in the initial investment in such company in order to preserve the Partnership's proportionate ownership when a subsequent financing is planned, or to protect the Partnership's investment when such Portfolio Company's performance does not meet expectations. The availability of capital is generally a function of capital market conditions that are beyond the control of the Partnership or any Portfolio Company. There can be no assurance that the Portfolio Companies will be able to predict accurately the future capital requirements necessary for success or that additional funds will be available from any source.

*Side Letters.* The Partnership may enter into side letters or other writings with certain Limited Partners in connection with their admission, without the approval of any other Limited Partner, which has the effect of establishing rights under or altering or supplementing the terms of the Partnership Agreement and the subscription agreement. Such rights or terms in any such side letter or other similar agreement may include, without limitation, (i) excuse rights applicable to particular investments (which may increase the percentage interest of other Limited Partners in, and contribution obligations of other Limited Partners with respect to, such investments), (ii) the General Partner's agreement to extend certain information rights or additional reporting to such Limited Partner, including, without limitation, to accommodate special regulatory or other circumstances of such Limited Partner, (iii) modification of the confidentiality obligations of such Limited Partner, (iv) the General Partner's agreement to consent to certain transfers by such Limited Partner or other exercises by the General Partner of its discretionary authority under the Partnership Agreement for the benefit of such Limited Partner, (v) restrictions on, or special rights of such Limited Partner with respect to the activities of the General Partner, (vi) other rights or terms necessary in light of particular legal, regulatory or public policy characteristics of such Limited Partner, (vii) additional obligations, and restrictions of the Partnership with respect to the structuring of any Portfolio Investment (including with respect to alternative investment vehicles), (viii) preferential access to co-investment opportunities and (ix) certain adjustments with respect to certain economic provisions.

Any rights or terms so established in a side letter with a Limited Partner will govern solely with respect to such Limited Partner (but not any of such Limited Partner's assignees or transferees unless so specified in such side letter) and will not require the approval of any other Limited Partner notwithstanding any other provision of the Partnership Agreement.

*Legal, Tax and Regulatory Risks.* Legal, tax and regulatory changes could occur during the term of the Partnership that may adversely affect the Partnership, its Portfolio Companies or Partners. For example, the Partnership's investment activities will be subject to compliance with federal and state securities laws which may, among other things, restrict or prohibit the Partnership's

ability to sell a Portfolio Investment. For example, federal securities law considerations relating to trading while in the possession of material non-public information or restrictions on “short-swing” trading profits may limit the ability of the Partnership to buy or sell securities of target companies. Under Section 16(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), holders of more than 10% of any class of equity securities of a company registered under Section 12 of the Exchange Act and directors and certain officers of such an issuer are restricted with respect to any purchase and sale, or any sale and purchase, of any equity or derivative security of such issuer within any period of less than six months. If the Partnership engages in any such transaction that results in short-swing profits, the Partnership may be required to return the amount of such profit to the issuer. Measures to avoid short-swing liability may limit the ability of the Partnership to buy or sell securities of target companies.

Antitrust or other regulatory requirements may impose filing fees and other additional expenses on the Partnership and may adversely affect the Partnership’s ability to acquire or dispose of investment positions.

Further, securities and futures markets are subject to comprehensive statutes, regulations and margin requirements enforced by the SEC, other regulators and self regulatory organizations and exchanges authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial actions. Changes in the regulation of private funds and their trading activities may adversely affect the ability of the Partnership to obtain leverage and financing and the value of investments held by the Partnership.

The Partnership and/or the General Partner may also be subject to regulation in jurisdictions in which the Partnership and/or the General Partner engage in business. Investors in the Partnership should understand that the Partnership’s business is dynamic and is expected to change over time. Therefore, the Partnership may be subject to new or additional regulatory constraints in the future. This Memorandum cannot address or anticipate every possible current or future regulation that may affect the General Partner, the Partnership or their businesses. Such regulations may have a significant impact on the Limited Partners or the operations of the Partnership, including, without limitation, restricting the types of investments the Partnership may make, preventing the Partnership from exercising its voting rights with regard to certain financial instruments, requiring the Partnership to disclose the identity of its investors or otherwise. The General Partner may, in its sole discretion, cause the Partnership to be subject to such regulations if it believes that an investment or business activity is in the Partnership’s interest, even if such regulations may have a detrimental effect on one or more Limited Partners. Prospective investors are encouraged to consult their own advisors regarding an investment in the Partnership.

*Contingent Liabilities on Disposition of Investments.* In connection with the disposition of an investment in a Portfolio Company, the Partnership may be required to make representations about the business and financial affairs of such Portfolio Company typical of those made in connection with the sale of a business. The Partnership also may be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These



arrangements may result in the incurrence of contingent liabilities for which the General Partner may establish reserves or escrows. In that regard, Limited Partners may be required to return amounts distributed to them to fund Partnership obligations, including indemnity obligations. Furthermore, under the Delaware Revised Uniform Limited Partnership Act, each Limited Partner that receives a distribution in violation of such Act will, under certain circumstances, be obligated to recontribute such distribution to the Partnership.

*Reliance on the General Partner and FFC.* The General Partner and FFC will have exclusive responsibility for the Partnership's activities, and, other than as may be set forth herein and in the Partnership Agreement, Limited Partners will not be able to make investment or any other decisions concerning the management of the Partnership. In this regard, as of the date of this Memorandum none of the Partnership's investments have been identified, so that Limited Partners will be relying on the ability of the General Partner and FFC to select the investments to be made using the capital available to the Partnership.

*Non-U.S. Investments.* The Partnership may invest a portion of its aggregate Capital Commitments in Portfolio Companies that are organized under the laws of a jurisdiction other than the United States and whose principal place of business is located outside the United States. Non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various foreign currencies in which the Partnership's foreign Portfolio Investments are denominated, and costs associated with conversion of Portfolio Investment principal and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including potential price volatility in and relative liquidity of some foreign securities markets, the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (iii) certain economic, social and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital, the risks of political, economic or social instability and the possibility of expropriation or confiscatory taxation; (iv) the possible imposition of foreign taxes on income and gains recognized with respect to such securities or distributions therefrom; and (v) differences in applicable legal systems, including the possibility that the Partnership may experience difficulty in asserting legal claims or obtaining legal remedies in foreign jurisdictions. In addition, non-U.S. jurisdictions, in which the Partnership may make investments, may have similar laws, regulations and market and business conditions to those described with respect to the U.S. herein and accordingly, similar potential risks would apply. While the General Partner intends, where appropriate, to manage the Partnership in a manner that will seek to minimize exposure to the foregoing risks, there can be no assurance that adverse developments with respect to such risks will not adversely affect the assets of the Partnership that are held in certain countries.

*General U.S. Tax Considerations.* The Partnership is expected to be treated as a partnership for U.S. federal income tax purposes. Each Partner, in determining its U.S. federal income tax liability, will take into account its allocable share of items of income, gain, loss, deduction and credit of the Partnership, without regard to whether it has received distributions from the Partnership. Accordingly, in any year a Partner may have taxable income and a resulting tax

liability even though such Partner has not received cash from the Partnership with which to pay its taxes.

There is a risk that the Internal Revenue Service (the “IRS”) will not concur as to the tax consequences of an investment in the Partnership.

The IRS may audit the Partnership and challenge any of the positions taken in regard to its formation, its Portfolio Investments or operations, and such audit may result in an audit of a Partner’s own tax returns and possibly adjustments to the tax liability reflected thereon.

*Possible Withholding Tax and Information Reporting Regime.* A bill was recently enacted that requires all entities in a broadly defined class of foreign financial institutions (“FFIs”) to comply with a complicated and expansive reporting regime or, beginning in 2014, be subject to a 30% United States withholding tax on certain U.S. payments (and beginning in 2015, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities) and requires non-U.S. entities which are not FFIs to either certify they have no substantial U.S. beneficial ownership or to report certain information with respect to certain U.S. beneficial ownership or, beginning in 2014, be subject to a 30% United States withholding tax on certain U.S. payments (and beginning in 2015, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities). The reporting obligations imposed under the bill require FFIs to enter into agreements with the IRS to obtain and disclose information about certain investors to the IRS. Assuming the current version of the rules goes into effect, the Partnership intends to comply, to the extent reasonably practicable, with the reporting requirements to avoid the imposition of the United States withholding tax, but in the event that it is unable to do so (because, for example, Limited Partners fail to provide the Partnership with the required information), certain payments made to the Partnership or by the Partnership may be subject to a United States withholding tax, which would reduce the cash available to investors in the Partnership. Further, these reporting requirements may apply to underlying entities in which the Partnership invests and the General Partner may not have control over whether such entities comply with the reporting regime.

*Taxation in Portfolio Company Jurisdictions.* If the Partnership makes Portfolio Investments in a jurisdiction outside the United States, the Partnership or the Limited Partners may be subject to income or other tax in that jurisdiction. Additionally, withholding tax or branch tax may be imposed on earnings of the Partnership from Portfolio Investments in such jurisdictions. In addition, local tax incurred in non-United States jurisdictions by the Partnership or vehicles through which it invests may not be creditable to or deductible by the Limited Partners. Investors are urged to seek their own advice regarding the tax implications to them of an investment in the Partnership.

Income or gains of the Partnership may be subject to withholding, income, net wealth or other tax in the jurisdictions where the Partnership’s investments are located. Taxes paid or withheld by the Partnership allocable to a Partner will be deemed to have been distributed to such Partner. In certain situations, the Partnership may hold investments through entities organized outside the United States that are treated as corporations for U.S. federal income tax purposes. Partners may be subject to special rules applicable to “controlled foreign corporations,” or “passive foreign investment companies” with respect to investments made through such entities.

There is a risk that the Internal Revenue Service (“IRS”) will not concur as to the tax consequences of an investment in the Partnership.

*No Internal Revenue Service Rulings.* Informational returns filed by the Partnership are subject to audit by the IRS. The Partnership will not seek rulings from the IRS with respect to any of the U.S. federal income tax considerations discussed in this Memorandum. Thus, positions to be taken by the IRS as to tax consequences could differ from positions taken by the Partnership. For example, the IRS may audit the Partnership and challenge any of the positions taken in regard to its formation, its investments or operations, and such audit may result in an audit of a Partner’s own tax returns and possibly adjustments to the tax liability reflected thereon.

*Absence of Regulatory Oversight.* While the Partnership may be considered similar in some ways to an investment company, it is not required and does not intend to register as such under the 1940 Act and, accordingly, Limited Partners are not accorded the protections of the 1940 Act.

*Possible Legislative or Other Developments.* All statements contained in this Memorandum concerning the U.S. federal income tax consequences of any investment in the Partnership are based upon existing law and the interpretations thereof. Therefore, no assurance can be given that the currently anticipated income tax treatment of an investment in the Partnership will not be modified by legislative, judicial or administrative changes, possibly with retroactive effect, to the detriment of the Partners. Additionally, tax authorities in jurisdictions where the Partnership maintains investments may increase or materially change their tax codes so as to materially increase the tax burden associated with an investment in the Partnership or to force or attempt to force increased disclosure from or about the Partnership and/or its Partners as to the identity of all persons having a direct or indirect interest in the Partnership. Such additional disclosure may take the form of additional filing requirements on Partners.

*Risks Arising from Provision of Managerial Assistance.* The General Partner will use reasonable best efforts to avoid having the assets of the Partnership constitute “plan assets” of any plan subject to Title I of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”) and may, in this regard, elect to operate the Partnership as a “venture capital operating company” (“VCOC”) within the meaning of regulations promulgated under the Employment Retirement Income Security Act of 1974, as amended (“ERISA”). Operating the Partnership as a VCOC would require that the Partnership obtain rights to substantially participate in or influence the conduct of the management of a number of the Partnership’s Portfolio Companies. The Partnership will typically designate a director to serve on the board of directors of one or more Portfolio Companies as to which it obtains such rights. The designation of directors and other measures contemplated could expose the assets of the Partnership to claims by a Portfolio Company, its security holders and its creditors. While the General Partner intends to minimize exposure to these risks, the possibility of successful claims cannot be precluded.

*ERISA Considerations.* In the event the Partnership is operated to qualify as a VCOC in order to avoid holding “plan assets” (within the meaning of ERISA), the Partnership may be restricted or precluded from making certain Portfolio Investments. In addition, it could be necessary for the

General Partner to liquidate Portfolio Investments at a disadvantageous time in order to avoid holding ERISA “plan assets,” resulting in lower proceeds to the Partnership than might have been the case without the need to qualify as a VCOC.

*Indemnification.* The Partnership will be required to indemnify the General Partner, Ferrer Freeman & Company, LLC (the “Advisor”), each of their affiliates and each of their respective direct and indirect agents, partners, officers, members, shareholders, directors and employees shareholders and employees for liabilities incurred in connection with the affairs of the Partnership and as otherwise provided in the Partnership Agreement. Such liabilities may be material. For example, in their capacity as directors of Portfolio Companies, the partners or affiliates of the General Partner may be subject to derivative or other similar claims brought by shareholders of such Portfolio Companies. The indemnification obligation of the Partnership would be payable from the assets of the Partnership, including the unpaid Capital Commitments of the Limited Partners. If the assets of the Partnership are insufficient, the General Partner may recall distributions previously made to the Limited Partners (subject to certain limitations set forth in the Partnership Agreement). The Partnership may purchase liability insurance to protect indemnities. Members of the LP Advisory Committee will also be entitled to the benefit of certain indemnification and exculpation provisions as set forth in the Partnership Agreement.

*Liability of the Partnership and the Partners.* The General Partner has unlimited liability for all debts and obligations of the Partnership. Except as provided below, the total liability of a Limited Partner is limited to the amount of its Capital Commitment, except in certain circumstances whereby such Limited Partner was involved in the management or otherwise engaged in the business of the Partnership or externally represented the Partnership. Any Partner’s Capital Commitment is susceptible to risk of loss as a result of any liability of the Partnership irrespective of whether such liability is attributable to a Portfolio Investment to which such Partner contributed any capital. If the Partnership is otherwise unable to meet its obligations, the Limited Partners may, under applicable law, be obligated to return, with interest, distributions previously received by them pursuant to any rules regarding fraudulent conveyances to the Partnership or to creditors whose interests have been injured. In addition, a Limited Partner may be liable under applicable bankruptcy law to return a distribution made during the Partnership’s insolvency.

*Absence of Recourse.* The Partnership Agreement will include exculpation, indemnification and other provisions that will limit the circumstances under which the General Partner, the Adviser and others can be held liable to the Partnership. In addition, investors should note that the Partnership Agreement contains provisions that, subject to applicable law, (i) reduce or eliminate the duties, including fiduciary and other duties, to which the General Partner would otherwise be subject; (ii) waive duties or consent to the conduct of the General Partner that might not otherwise be permitted pursuant to such duties; and (iii) limit the remedies of Limited Partners with respect to breaches of such duties. Additionally, certain service providers to the Partnership, the General Partner, the Adviser, their respective affiliates and other persons, including, without limitation, the members of the LP Advisory Committee, the Principals, and placement agents, finders and advisers, may be entitled to exculpation and indemnification (in certain cases on terms more favorable to them than those available to Indemnified Parties generally). As a result,

the Limited Partners may have a more limited right of action in certain cases than they would in the absence of such limitations.

*Reliance on Portfolio Company Management.* Each Portfolio Company's day-to-day operations will be the responsibility of such company's management team. Although the General Partner will be responsible for monitoring the performance of each investment and intends to invest in companies operated by strong management, there can be no assurance that the existing management team, or any successor, will be able to operate the Portfolio Company in accordance with the Partnership's plans.

*Hedging Policies/Risks.* In connection with the financing of certain investments, the Partnership may employ hedging techniques designed to reduce the risks of adverse movements in interest rates, securities prices and currency exchange rates. While such transactions may reduce certain risks, such transactions themselves may entail certain other risks. Thus, while the Partnership may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates, securities prices, or currency exchange rates may result in a poorer overall performance for the Partnership than if it had not entered into such hedging transactions.

*Bridge Financings.* From time to time, the Partnership may provide financing to Portfolio Companies on a short-term, unsecured basis in anticipation of a future issuance of equity or long-term debt securities. Such Bridge Investments would typically be convertible into a more permanent, long-term security; however, for reasons not always in the Partnership's control, such long-term securities may not be issued and such Bridge Investments may remain outstanding. In such event, the interest rate or other terms of such financings may not adequately reflect the risk associated with the unsecured position taken by the Partnership.

*Failure to Make Capital Contributions.* If a Limited Partner fails to pay when due installments of its Capital Commitment to the Partnership, and the Capital Contributions made by non-defaulting Limited Partners and borrowings by the Partnership are inadequate to cover the defaulted contribution, the Partnership may be unable to pay its obligations when due. As a result, the Partnership 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, it may be subject to various remedies as provided in the Partnership Agreement, including, without limitation, reductions in its capital account balance.

*Dilution from Subsequent Closings.* Limited Partners subscribing for Interests at subsequent closings will participate in existing Portfolio Investments of the Partnership, diluting the interest of existing Limited Partners therein. Although such Limited Partners will contribute their pro rata share of previously made Partnership draws (plus an additional amount thereon), unless the General Partner in its sole and absolute discretion determines that a pro rata contribution from Limited Partners at a subsequent closing together with an additional amount thereon as described in the Partnership Agreement would not appropriately reflect a material change in the value of the investments then held by the Partnership, there can be no assurance that this payment will reflect the fair value of the Partnership's existing Portfolio Investments at the time such additional Limited Partners subscribe for Interests.



*FOIA.* To the extent the General Partner determines in good faith that, as a result of the U.S. Freedom of Information Act (“FOIA”), any governmental public records access law, any state or other jurisdiction’s laws similar in intent or effect to FOIA, or any other similar statutory or regulatory requirement, a Limited Partner or any of its affiliates may be required to disclose information relating to the Partnership, its affiliates, and/or any entity in which a Portfolio Investment is made (other than certain fund level, aggregate performance information described in the Partnership Agreement), the General Partner may, in order to prevent any such potential disclosure, withhold all or any part of the information otherwise to be provided to such Limited Partner or alter the manner in which such information is provided to such Limited Partner.

### **Potential Conflicts of Interest**

Investors should be aware that there will be occasions when the General Partner and its affiliates (including the Advisor) may encounter potential conflicts of interest in connection with the Partnership. Investors should note that the Partnership Agreement contains provisions that, subject to applicable law, reduce or modify the duties, including fiduciary and other duties, to the Partnership and the Limited Partners to which the General Partner and its affiliates (including the Advisor) would otherwise be subject, provisions that waive or consent to conduct on the part of the General Partner and its affiliates (including the Advisor) that might not otherwise be permitted pursuant to such duties, and provisions that limit the remedies of Limited Partners with respect to breaches of such duties. If any matter arises that the General Partner determines in its good faith judgment constitutes an actual conflict of interest, the General Partner may take such actions as may be necessary or appropriate, within the confines of the Partnership Agreement, to ameliorate the conflict (and upon taking such actions the General Partner will be relieved of any responsibility for such conflict and be deemed to have satisfied its fiduciary duties with respect to such conflict). These actions may include disposing of the security giving rise to the conflict of interest or appointing an independent fiduciary. By acquiring an Interest in the Partnership, each Limited Partner will be deemed to have acknowledged the existence of any such actual or potential conflicts of interest and to have waived any claim with respect to any liability arising from the existence of any such conflict of interest. FFC and its partners, members, directors, officers, and employees may in the future engage in further activities that may result in additional conflicts of interest not addressed below. The following discussion enumerates certain potential conflicts of interest:

*Carried Interest.* The existence of the General Partner’s Carried Interest may create an incentive for the General Partner to make more speculative Portfolio Investments on behalf of the Partnership than it would otherwise make in the absence of such performance-based arrangement. In addition, if distributions are made of property other than cash, the amount of any such distribution will be accounted for at the fair market value of such property, as determined by the General Partner in accordance with procedures specified in the Partnership Agreement. An independent appraisal generally will not be required and is not expected to be obtained.

*Other Fees.* The General Partner and its affiliates may receive certain cash and non-cash fees from Portfolio Companies in connection with the purchase, monitoring or disposition of Portfolio Investments or in connection with unconsummated transactions (i.e., transaction, directors', consulting, management, investment banking, advisory, closing, topping, break-up and other similar fees). Except for certain Management Fee Offsets, Limited Partners will receive no benefit from such fees.

*Joint Venture Partners.* Some of the third-party operators and joint venture partners with whom the General Partner may elect to co-invest the Partnership's commitments have preexisting investments with FFC. The terms of the preexisting investments may differ from the terms upon which the Partnership invests with such operators and partners. To the extent a dispute arises between FFC and such operators and partners, the Partnership's investments relating thereto may be affected.

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

Certain Limited Partners will have representatives on the LP Advisory Committee. The LP Advisory Committee will have a role in certain matters regarding the Partnership, including with respect to certain conflicts of interest, in each case as provided in the Partnership Agreement. The Partnership Agreement will provide that to the fullest extent permitted by law, (i) none of the members of the LP Advisory Committee, nor the Limited Partners on behalf of whom such members act as representatives, if applicable, shall owe any duties (fiduciary or otherwise) to any other Limited Partner in respect of the activities of the LP Advisory Committee, other than the duty to act in good faith and (ii) in taking or omitting to take any action, a member of the LP Advisory Committee may act solely in the interests of the Limited Partners, which it represents, if applicable, and the same shall not be deemed (in and of itself) to violate its duty of good faith. Furthermore, members of the LP Advisory Committee may have various business and other relationships with FFC and its partners, employees and affiliates. The presence of these other relationships may influence their decisions as members of such committee.

*Service Providers.* The service providers or their affiliates (including any administrators, lenders, brokers, attorneys, consultants and investment banking firms) of the Partnership, FFC or any of their affiliates may be investors in the Partnership and/or sources of investment opportunities and co-investors or counterparties therewith. This may influence the General Partner in deciding whether to select such a service provider or have other relationships with FFC. Moreover, certain

service providers (or their affiliates, including lenders, brokers, attorneys, consultants and investment banking firms) to the Partnership and its Portfolio Companies may also provide services to or have other relationships with FFC. These other services and relationships may influence the General Partner in deciding whether to select such a provider to perform services for the Partnership and its Portfolio Companies (the cost of which will generally be borne directly or indirectly by the Partnership).

*Portfolio Company Relationships.* The Partnership's Portfolio Companies may be counterparties or participants in agreements, transactions or other arrangements with portfolio companies of other FFC funds that, although FFC determines to be consistent with the requirements of the Partnership Agreement, may not have otherwise been entered into but for the affiliation with FFC, and which may involve fees and/ or payments for goods and services to such other portfolio companies which are not subject to the Management Fee offset provisions described herein.

*Other Activities and Relationships.* The Principals have made time commitments; however, the Principals will work on other projects, including the investments and affairs of the Predecessor Funds and will continue to participate in the management of the Predecessor Funds. Therefore, conflicts may arise in the allocation of management resources.

*Legal Representation.* Simpson Thacher & Bartlett LLP ("STB") will act as counsel to the Partnership and the General Partner in connection with this offering and the organization of the Partnership. In connection with this offering and ongoing advice to the Partnership and the General Partner, STB will not be representing the Limited Partners and no independent counsel has been retained to represent the Limited Partners. STB may be removed by the General Partner at any time without the consent of, or notice to, the Limited Partners. Representation by STB of the Partnership, the General Partner and their affiliates is limited to specific matters as to which they have been consulted by such persons. There may exist other matters which could have a bearing on the Partnership, the General Partner and/or their affiliates as to which STB has not been consulted. In addition, STB does not undertake to monitor the compliance of the Partnership and the General Partner, and their affiliates with the investment program, investment strategies, valuation procedures, investment restrictions and other guidelines and terms set forth in this Memorandum and the Partnership Agreement, nor does STB monitor compliance with applicable laws. STB has not investigated or verified the accuracy and completeness of any information set forth in this Memorandum, including information concerning the Partnership and General Partner and their affiliates and personnel. STB may also act as counsel to a Portfolio Investment, equity sponsors of a Portfolio Investment, other creditors of a Portfolio Investment or an agent therefor, a party seeking to acquire some or all of the assets or equity of a Portfolio Investment, or a person engaged in litigation with a Portfolio Investment. Prospective investors should seek their own legal, tax, and financial advice before making an investment in the Partnership.



**ITEM 9: DISCIPLINARY INFORMATION**

The Adviser and its supervised persons have not been involved in any legal or disciplinary events that are material to a client's or potential client's evaluation of our advisory business or the integrity of the Adviser's management.

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

*A. Registered Broker-Dealer or Registered Representative*

Not Applicable.

*B. FCM, CPO, CTA or Associated Person.*

Not Applicable.

*C. Material Business Relationships with Certain Related Persons*

Not Applicable.

*D. Recommendation and Selection of Other Investment Advisers*

Not Applicable.

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

### *a) Code of Ethics*

FFC recognizes and believes that (i) high ethical standards are essential for its success and to maintain the confidence of its clients; (ii) its long-term business interests are best served by adherence to the principle that the interests of clients come first; and (iii) it has a fiduciary duty to its clients to act solely for their benefit. All personnel of the Adviser must put the interests of the Adviser's clients before their own personal interests and must act honestly and fairly in all respects in dealings with clients.

FFC has adopted a Code of Ethics (the "Code") pursuant to Advisers Act Rule 204A-1 that sets forth the Firm's ethical standards and governs the business conduct of the Firm and persons associated with the Firm. The Code describes FFC's policies regarding confidential Client information and regulates personal trading activity. Securities holdings and transactions of access persons and their immediate family members are reviewed to determine compliance with the requirements of the Code. The Code also contains other restrictions and reporting requirements designed to limit personal conflicts of interest. These provisions apply to all employees of the Firm. All personnel of the Adviser must also comply with all federal securities laws.

Clients or prospective clients may obtain a copy of the Code of Ethics by contacting Michelle Larkins (VP Finance and Administration) by e-mail at [mlarkins@ffandco.com](mailto:mlarkins@ffandco.com) or by telephone at 203-532-8033.

### *b) Participation or Interests in Client Transactions*

The FFC and its related persons may invest their personal assets in the companies in which the Adviser's client Funds invest or may hold an interest in the Funds themselves. The Adviser has established procedures intended to limit conflicts of interest in cases where the Adviser, a related person or any of their employees, buys or sells companies in which the Adviser's client funds invest. None of FFC's Supervised Persons (as defined in the Code) may knowingly sell to or buy any security from a Client without prior written permission from the Chief Compliance Officer ("CCO") or the CCO's designee. Additionally, all Access Persons (as defined in the Code, and which includes Supervised Persons meeting certain further criteria) must submit quarterly transactions reports detailing personal securities transactions. Such reports will be reviewed by the CCO or the CCO's designee to ensure compliance with the Code.

### *C. Investment in Securities Recommended to Clients*

FFC's Supervised Persons are specifically prohibited from using their knowledge about pending transactions or investments currently being considered for personal profit, including by purchasing or selling such securities directly or indirectly. Further, as noted above, all Access Persons (as defined in the Code, and which includes Supervised Persons meeting certain further criteria) must submit quarterly transactions reports detailing personal securities transactions.

Such reports will be reviewed by the CCO or the CCO's designee to ensure compliance with the Code.

*D. Investment in Securities at or about the Same Time Recommended to Clients*

See Part 11 C. above.

## **ITEM 12: BROKERAGE PRACTICES**

### *a) Selection of Broker-Dealers*

Not Applicable.

### *b) Soft-Dollars Arrangement*

Not Applicable.

### *c) Brokerage for Client Referrals.*

Not Applicable.

### *d) Directed Brokerage*

Not Applicable.

### *e) Aggregation (Bunching) of Trades*

Not Applicable.

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

### *a) Client Account Reviews*

The Adviser has detailed knowledge of the investments in each Fund. The Investment Committee meets several times a month to review the performance of each portfolio company in each Fund and to ensure that transactions are within the parameters of the Funds' Limited Partnership Agreements.

### *b) Client Reports*

Investors in the Institutional Funds receive quarterly financial statements, annual audited financial statements, a presentation on each portfolio company in each Fund at the Advisor's Annual Meeting and periodic News-letters. The investors in the side-by-side funds receive annual audited financials and are invited to the Advisor's Annual Meeting.

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

FFC does not typically compensate third parties for investor referrals, although the Advisor did pay a Placement Agent a fee for the referral of one investor in FFC Partners II, L.P. ("FFC II"). No other third party fees were paid by the Advisor for investor referrals of the remaining FFC II investors or the FFC Partners I, L.P. and FFC Partners III, L.P. investors.

In the future, FFC may enter into written solicitation arrangements with third parties (each a "Solicitor"). Under a solicitation arrangement, the Advisor may pay a referral fee to a Solicitor when the Solicitor successfully introduces a Client or fund investor to the Firm. The amount of compensation is based on a negotiated percentage of the management and incentive fees received by FFC from each Client. The solicitation arrangement does not affect the amount of fees paid by each Client.

## **ITEM 15: CUSTODY**

FFC retains custody of fund assets within the meaning of Rule 206(4)-2 under the Advisers Act.

The Advisor does retain custody of the physical securities underlying the Funds' investment in portfolio companies. From time to time, we also have custody of a Fund's cash pursuant to a capital call for a new investment, a Follow-On investment, payment of Fund expenses or a pending distribution of cash or securities. We also hold a small amount of cash on behalf of the side-by-side investors to fund investments and/or partnership expenses.

Where FFC is deemed to have custody of FFC's Fund's cash or securities, FFC provides (or causes to be provided) to each Investor in the Fund a copy of the Fund's audited financial statements within 90 days following the relevant Fund's fiscal year end. Investors who do not receive audited financial statements timely should contact FFC immediately.



**ITEM 16: INVESTMENT DISCRETION**

The Adviser has the discretion and authority to invest the Clients' Capital in healthcare companies and sell those investments pursuant to the Guidelines in each Fund's Limited Partnership Agreement.

## **ITEM 17: VOTING OF CLIENT SECURITIES**

### *a) Proxy Voting Authority*

From time to time companies in which the Adviser invests may submit certain matters to a vote of its security holders. The right to vote is usually available to equity holders and not to holders of company debt.

FFC has adopted Proxy Voting Policies and Procedures pursuant to Rule 206(4)-6 of the Advisers Act designed to ensure that proxies are voted prudently and solely in the best interest of our clients. According to our policy, the Adviser will generally vote in accordance with management's recommendations in order to support the ability of management to run its business in a responsible and cost effective manner while staying focused on maximizing shareholder value. In the event that a conflict of interest exists between management's recommendation and the Adviser or its clients, the Adviser will vote in the manner which in its judgment and sole discretion is in the best interest of its clients.

### *b) Client Proxy Voting Authority*

FFC operates a policy of exercising proxy votes for clients as permitted within client agreements. Voting policy is undertaken at all times in the best interests of clients and for their benefit. A copy of the full proxy voting policy is available upon request.

## **ITEM 18: FINANCIAL INFORMATION OF THE ADVISER**

No financial events have occurred to FFC that would negatively affect the financial viability of the Adviser. There is no financial condition of FFC that is reasonably likely to impair FFC's ability to meet contractual commitments to clients.

### *a) Financial Disclosures*

Not Applicable.

### *b) Material Financial Impairment*

Not Applicable.

### *c) Bankruptcy Petitions*

Not Applicable.