

## Form ADV Part 2A

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This Brochure provides information about the qualifications and business practices of Granite Equity Partners LLC (“the Adviser”). If you have any questions about the contents of this Brochure, please contact Art Monaghan, Chief Compliance Officer at (320) 251-1800 or [art@graniteequity.com](mailto:art@graniteequity.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

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

Granite Equity Partners LLC is a registered investment adviser with the SEC under the Investment Advisers Act of 1940. Registration with the SEC does not in any way constitute an endorsement by the SEC of an investment adviser’s skill or expertise. Further, registration does not imply or guarantee that a registered adviser has achieved a certain level of skill, competency, sophistication, expertise or training in providing advisory services.

## Item 2 – Material Changes

This Brochure provides important information about the Adviser’s business practices and required disclosures. In this section, the Adviser would normally disclose material changes from the previous Brochure. Since this is the Adviser’s initial Brochure, this section is not applicable.

Pursuant to SEC Rules, the Adviser will ensure that a summary of any material changes to this and subsequent Brochures is provided to each Fund and Investor within 120 days of the close of the Adviser’s fiscal year. The Adviser will also provide updates about material changes or new information as necessary, or at any time upon request, without charge.

Currently, our Brochure may be requested by contacting Art Monaghan, Chief Compliance Officer at (320) 251-1800 or [art@graniteequity.com](mailto:art@graniteequity.com).

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## **Item 4 – Advisory Business**

### **Who We Are**

Granite Equity Partners LLC (“the Adviser”), a Delaware limited liability company, was founded in May of 2002 in St. Cloud, Minnesota, where it maintains its records. The Adviser also maintains an office in Northfield, Minnesota. The principal owners are Rick Bauerly, Pat Edeburn and Art Monaghan (“Partners”).

Our team of Partners is a diverse group of experienced professionals who are committed to the success of our portfolio investments. The Partners have accumulated more than four decades of experience in their roles as investor, entrepreneur, financial adviser, management consultant, operating manager, and board member, and are well-positioned to support the needs of a growing business.

The Partners have experience across the full business lifecycle, from startup, to growth, to middle market, to Fortune 1000 companies as well as a wide range of industries and across the core management functions. Additionally, the Partners have advanced training and education in business, marketing, finance, public policy, and accounting.

### **Description of Advisory Services**

#### ***Private Equity Funds***

The Adviser provides investment management and advisory services (“Services”) to private equity funds (“Private Funds”) that are exempt from registration under the Investment Company Act of 1940 and whose securities are not registered under the Securities Act of 1933.

The Services are focused exclusively on the Private Funds that invest through negotiated transactions in operating entities (“Portfolio Companies”). The Services provided by the Adviser consist of evaluating investment opportunities, negotiating investments, managing and monitoring investments and partnering with the management teams of the Portfolio Companies to execute growth strategies and achieve disposition of investments. The Adviser currently serves as General Partner to the Private Funds.

The existing Private Funds are not accepting additional Investors (also referred to as “Limited Partners”). The Adviser may form similar Private Funds in the future. The Private Funds are invested exclusively in non-public companies. When investing in Portfolio Companies, the Partners of the Adviser may serve on the board of directors of a Portfolio

Company in order to influence the governance of the Portfolio Company until the disposition of the investment by the Private Fund. The Adviser generally seeks to make investments in companies in attractive industries with manageable risks and open opportunities with revenues of \$10 to \$100 million and EBITDA of \$1 to \$5 million. The Portfolio Companies must also be located within drive time of the Adviser's offices and have a strong management team interested in partnering and co-investing with the Adviser. The Portfolio Companies must also have a strategic plan providing strong returns to stockholders and stakeholders. The Private Funds may also be referred to in this Brochure as "Clients."

The Adviser provides Services to the following Private Funds:

- Granite Equity Limited Partnership (Fund I)
- Granite Equity II Q LLLP (Fund II)
- Granite Equity II A LLLP (Fund II)
- Granite Equity Side Fund LP
- Granite/Sartell Water Controls Co-Investment LP
- Granite-Atomic Learning LP
- Granite-XL Specialized LP
- Granite-MicroBioLogics LP

The Adviser generally offers advice on portfolio investments that fall within each respective Private Fund's investment strategy and objectives as described in its private placement memorandum and/or other governing documents (which may include limited partnership agreements, limited liability company agreements, subscription agreements and similar instruments).

The Adviser may, from time to time, establish Private Funds for the sole purpose of allowing certain Investors to invest alongside one or more of the Private Funds in a particular investment opportunity (a "Co-Investment Fund"). Co-Investment Funds are typically limited to investing in the particular Portfolio Company related to the transaction in which they were organized. As a general matter, investments in Co-Investment Funds will be made under the same terms and conditions and be made on the same date of the investments in the applicable Private Fund.

Private Funds make primarily long-term private equity and equity-related investments, as well as on occasion, investments in debt instruments for the Portfolio Companies.

Advice is provided directly to the Private Funds, subject to the discretion and control of the Adviser and not individually to the Limited Partners of the Private Funds. Services are provided in accordance with the Investment Management Agreement and the Private

Fund's Limited Partnership Agreement as detailed in the relevant private placement memorandum and/or organizational documents. Investment restrictions, if any, are generally described in the organizational documents of the applicable Private Fund.

### **Assets under Management**

As of September 30, 2011, the Adviser maintained \$167,778,845 in assets under management on a discretionary basis. Assets under management, in accordance with the Investment Advisers Act, are calculated by adding the fair market value of the investment assets plus the remaining uncalled capital.

### **Item 5 – Fees and Compensation**

The Adviser and/or its affiliated general partners generally receive management fees and/or carried interest or similar profit allocations from each Private Fund. Private Funds may also indirectly incur or generate other fees payable to the Adviser and its affiliates, depending on the nature of their portfolio activities.

The Private Funds may terminate the Investment Management Agreement with advance written notice. The governing documents specify the number of days needed for advance notice. Upon termination all management fees for the Private Fund will cease to accrue.

### **Fees for Services**

The following describes the most common fees and expenses in more detail.

#### **Common Types of Fees**

##### **Management Fees**

The Adviser is paid a quarterly management fee typically in the range of 1.25 - 2.5 percent of all capital commitments during the investment period of the Private Fund payable in advance at the beginning of each quarter. Thereafter the management fee is typically 1 to 2 percent of the invested capital payable in advance at the beginning of each quarter. A credit of 50% of any service fees paid to the Adviser by Portfolio Companies is generally applied against the quarterly management fee due.

Management fees are generally paid by or on behalf of a Private Fund by (i) requiring Investors in such Private Funds to make capital contributions in respect of such fees, or (ii) withholding the amount of such fees from investment proceeds that would otherwise be

distributable to the investors of such Private Funds. In addition, the Adviser generally has the ability to cause such Private Fund to borrow money for the payment of such fees.

### Performance-Based Arrangements

Distributions to Investors in the Private Funds are subject to some form of carried interest or similar profit allocation for the benefit of an affiliate of the Adviser. Generally, these profit allocations represent a share of distributions made by a Private Fund in excess of the relevant investors' invested capital, and allocable fees and expenses. Performance-based profit allocations may be applied each time an investment is realized or on an annual (or more frequent) basis with respect to each Private Fund.

Performance fees or carried interest profit allocations are subject to regulation under Rule 205-3 under the Advisers Act. Therefore, the Adviser seeks to ensure that any Private Fund or Investors in a Private Fund that are directly or indirectly assessed performance fees or are subject to carried interest profit allocations satisfy the qualifications of Rule 205-3 under the Advisers Act and have been advised of such fees or allocations and their risks.

Performance fees or carried interest allocations are in the range of 10-20% of profits, and may be subject to certain preferred return hurdles and high water marks. The manner of calculation and application of performance fees or carried interest profit allocations are disclosed in the offering documents for each Private Fund.

### Other Fees

To the extent the Adviser is entitled to receive fees from Portfolio Companies of a Private Fund, a portion of such fees paid to the Adviser typically reduces the management fees otherwise payable to the Adviser. The governing agreement of each Private Fund sets forth the basis on which such fees reduce management fees.

### Common Types of Expenses

#### Organizational Expenses

Typically, legal, accounting, filing and other expenses incurred in connection with organizing and establishing a Private Fund are borne by the Investors in such Private Fund. Often, these expenses are capped in the governing documents for the Private Fund.

### Broken Deal Expenses

Investors in Private Funds generally are required to bear out-of-pocket costs and expenses incurred in connection with deals that are not ultimately completed. Typically, these expenses include (i) legal, accounting, advisory, consulting or other third-party expenses in connection with making an investment that is not ultimately consummated and any related travel and accommodation expenses, although the Adviser and its affiliates may be required to bear expenses incurred in connection with the preliminary investigation of investment opportunities, and (ii) all fees (including commitment fees), costs and expenses of lenders, investment banks and other financing sources in connection with arranging for financing for a proposed investment that is not ultimately made.

### Other Expenses

There are additional general categories of expenses that may be borne by Private Funds. Private Fund Investors are required to pay all costs and expenses related to the operation of the vehicle. These costs and expenses can include fees, costs and expenses related to developing, negotiating, structuring, trading, settling, monitoring, holding and disposing of portfolio investments; fees and expenses of administrators, custodians, attorneys, accountants and other professionals; any insurance, indemnity or litigation expense; interest on, and fees and expenses arising out of, borrowings made by the Private Fund; the out-of-pocket and legal and other advisory expenses of an investor advisory committee; certain taxes and any fees or other governmental charges levied against the Private Fund.

### **Additional Compensation and Conflicts of Interest**

The Adviser may perform management, advisory, transaction-related services, financial advisory services and other services for and receive fees from actual or prospective Portfolio Companies. Fees may be received in connection with mergers, acquisitions, add-on acquisitions, refinancing, public offerings, sales, and similar transactions. Although these fees are in addition to management fees paid by the Private Funds, the Adviser will in certain circumstances reduce management fees in connection with the receipt of these fees. The amount and manner of such reduction is set forth in the organizational documents of the applicable Private Fund. See Item 8 below for a discussion of material conflicts of interest created by the receipt of such fees.

### **Item 6 – Performance-Based Fees and Side-By-Side Management**

As discussed in Item 5 above, the Adviser receives performance-based compensation in the form of a carried interest allocation on certain profits with respect to all of the Private

Funds it manages. All performance-based fees paid to Granite Equity will be made in a manner consistent with the requirements of Section 205-3 of the Advisers Act.

Side-by-side management refers to an Adviser that only charges performance-based fees on certain, but not all assets. Since the Adviser charges performance-based fees on all investment assets held in the Private Funds, this is not applicable.

## **Item 7 – Types of Clients**

The Adviser provides investment management services and advice directly to the Private Funds. The offering documents of each Private Fund may set minimum amounts for investment by prospective Investors. These minimum amounts may be waived by the Adviser.

Investment advice is not provided individually to Investors in the Private Funds. The Investors participating in the Private Funds may include high net worth individuals, banks, thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates, charitable organizations, corporations, limited partnerships or other business entities and may also include, directly or indirectly, Partners or other employees of the Adviser. Interests in the Private Funds are offered and sold solely to accredited investors and qualified purchasers.

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

### Methods of Analysis

The Adviser's Partners and investment personnel seek to generate attractive deal flow, often developing investment opportunities before they come to the attention of other investors. Prospective investments that pass the initial review then proceed to an intensive due diligence process. This process typically involves extensive analysis of the company's strategy, products, historical and projected operating results, regulatory and technology issues, as well as an assessment of key market dynamics. The Adviser typically receives information directly from the entity it is investigating as a potential investment opportunity for a Private Fund.

### Investment Strategies

The Adviser pursues private equity investments by doing leveraged buyouts, recapitalizations and providing growth capital, but does not pursue investments in startup

companies. The Adviser pursues investments in a broad range of industries with a focus on manufacturing, service, media, distribution and information technology, but is not interested in operational turnarounds or real estate investments not related to a Portfolio Company. With respect to investments made in the Private Funds, the Adviser seeks to enhance the value of the Portfolio Companies through improved operations, strategic repositioning and successful exit strategies. This strategy may involve the use of information generated by individuals or entities not affiliated with the Adviser. Sources of information include specialized consultants, industry experts, industry and trade publications, direct contact with management of potential Portfolio Companies and related due diligence.

The Adviser has a patient and disciplined approach to exits, but will be focused on generating a superior, risk-adjusted return for Investors, typically within a four to six year horizon. Portfolio Companies are acquired and sold typically in privately-negotiated transactions. Where a Fund acquires a controlling or influential equity position, the Adviser is often able to exercise influence and add value to such investments. Funds may invest a portion of its capital as equity and another portion as a debt security that would generate current income to the Fund. The investment period for each Private Fund is outlined in the Fund's Limited Partnership Agreement.

The Adviser generally follows an investment process which seeks to: (1) generate a continuous flow of quality, proprietary deal leads; (2) subject potential transactions to a multi-stage screening process with certain hurdles at each stage; (3) institute the appropriate controls and monitoring mechanisms to facilitate the ability of the Advisers' Partners to add value to Portfolio Companies; and (4) maximize the value of investments upon exit.

### *Risk of Loss*

There are various substantial risks associated with an investment in the Private Funds. There are many factors--some of which cannot be anticipated--that could cause an Investor to lose a major portion or all of its investment in a Private Fund or prevent the Private Fund from generating profits.

As with any investment, there can be no assurance that the investment objective will be achieved or that Investors will not experience investment losses. The Private Funds are designed for Investors who do not require current liquidity. The performance of prior investments is not necessarily indicative of future results. While it is intended that the Adviser will make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that the targeted internal rate of return will be achieved.

No Investor should invest in a Private Fund unless the Investor is fully able, financially and otherwise, to bear such a loss, and unless the Investor has the background and experience to understand thoroughly the risks of its investment. The Adviser, in relevant Private Fund offering documents, identifies some of the risks of investing in the Private Funds, but does not attempt to identify each risk, or to describe completely or substantially those risks. Any prospective Investor that wishes to obtain more information about investing in a Private Fund should contact the Adviser, who will attempt to provide such information.

The returns realized under the Private Fund's investment strategy will be affected by many factors, including the following:

***No Assurance of Investment Returns***

The Adviser cannot provide assurance that it will be able to choose, make and realize investments in any Portfolio Company. There is no assurance that the Adviser will be able to generate returns for its Investors or that the returns will be commensurate with the risks of investing in certain types of companies or transactions. An investment in the Private Funds should only be considered by Investors who can afford a loss of their entire investment. Past performance of investments associated with the Adviser is not necessarily indicative of future results. There can be no assurance that projected or targeted returns will be achieved.

***Reliance on General Partner***

Decisions with respect to the management of the Private Funds will be made by the Adviser who is also the General Partner. The success of the Private Funds will largely depend on the ability of the Adviser to identify and consummate suitable investments, to improve the operating performance of Portfolio Companies, and to dispose of investments at a profit. The loss of one or more of the Partners of the Adviser could have an adverse impact on the Adviser's ability to realize its investment objectives. Limited Partners have no rights or powers to take part in the management of the Private Funds or make investment decisions and will not receive the level of Portfolio Company financial information that is available to the General Partner. Accordingly, Investors must be willing to entrust all aspects of the management of the Private Funds to the Adviser.

***Unspecified Investments***

Although the Private Funds are already operating and have invested in Portfolio Companies, they continue to identify additional potential investments daily. An Investor must rely upon the ability of the Adviser to identify, structure, and implement investments

consistent with the Private Fund's investment objectives and policies. The Adviser may be unable to find a sufficient number of attractive opportunities to meet its investment objectives. The success of the Private Funds will depend on the ability of the Adviser to identify suitable investments, to negotiate and arrange the closing of appropriate transactions, and to arrange the timely disposition of portfolio investments.

### ***Use of Leverage***

While investments in leveraged companies present the possibility of higher capital appreciation, such investments also involve a higher degree of risk. The Private Fund's investments may involve varying degrees 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. If a Portfolio Company cannot generate adequate cash flow to meet debt obligations, the Private Fund may suffer a partial or total loss of capital investment in the Portfolio Company. Moreover, rising interest rates may significantly increase Portfolio Company interest expense, causing losses and/or the inability to service debt levels.

### ***Illiquid and Long-Term Investments***

It is anticipated that there will be a significant period of time, up to six years or more, before each Private Fund will have completed its investments in Portfolio Companies. Such investments are currently expected to take from four to six years from the date of initial investment to reach a state of maturity when realization of the investment can be achieved.

Transaction structures typically will not provide for liquidity of the Private Funds' investment prior to that time. In light of the foregoing, it is likely that no significant return from the disposition of the Private Funds' investments will occur until three and possibly ten or more years from the date of the closing of the Private Funds. Generally, there will be no readily available market for investments. Disposition of such investments may require a lengthy time period or may result in distributions in kind to Investors. Furthermore, it is unlikely that there will be a public market for the securities held by the Private Funds, and the Adviser may be prohibited by contract from selling the Portfolio Company securities for a period of time.

### ***Concentration of Investments in Certain Geographic Areas***

The Portfolio Companies are expected to be concentrated in a relatively narrow geographic area in Minnesota, Greater Minnesota and the Upper Midwest. Concentration in such a geographic area may involve risks greater than those generally associated with more diversified private equity funds. To the extent that economic growth is relatively slow in

this area, or to the extent that investment opportunities are relatively limited in this area, the Adviser may not achieve the level of returns that it might have with a broader geographic investment target.

### ***Potential Lack of Diversity***

While the Adviser intends to invest in a number of small businesses, the resulting Private Fund investments may still be overly concentrated in the Upper Midwest and in relatively few industry sectors. This lack of diversification may make investment performance vulnerable to certain business, economic, or other factors.

### ***General Partner Conflicts of Interest***

The Portfolio Companies may require funds beyond those which the Adviser is either able or willing to provide. In such circumstances, the Adviser may assist such Portfolio Companies in obtaining the required funds. This may include sourcing capital from one or more Limited Partners or others.

The formula pursuant to which the Adviser is allocated its carried interest may create an incentive to make investments that are more risky or speculative than would be the case in the absence of such formula. The Adviser may also receive transaction, advisory, and other fees from its investment activities. Except to the extent taken into account to reduce the management fee payable to the Adviser, such fees will not be shared with the Limited Partners.

### ***Competition for Investments***

The Adviser expects to encounter competition from other entities having similar investment objectives. Potential competitors include other investment partnerships and corporations, business development companies, strategic industry acquirers, and other financial investors investing directly or through affiliates. Some of these competitors may have more relevant experience, greater financial resources and more personnel than that of the Adviser. It is possible that competition for appropriate investment opportunities may increase, thus reducing the number of opportunities available to the Adviser and adversely affecting the terms upon which investments can be made. There can be no assurance that the Adviser will be able to identify or consummate investments satisfying its investment criteria or that such investments will satisfy the rate of return objectives. Likewise, there can be no assurance that the Adviser will be able to realize the value of its investments or that it will be able to invest its committed capital. To the extent that the Adviser encounters competition, returns on the Private Funds may decrease.

***No Market for Limited Partnership Interests***

The Private Funds have not been registered under the Act or applicable securities laws of any state or non-U.S. jurisdiction. Therefore, the investments cannot be resold unless subsequently registered under the Act and other applicable laws or an exemption from such registration is available. There is no public market for the investments and none is expected to develop. In addition, the investments are not transferable except with the consent of the General Partner, which it may withhold in its sole discretion. Limited Partners may not withdraw capital, except in certain limited circumstances. Consequently, Limited Partners may not be able to liquidate their investments prior to the end of the Private Fund's term.

***Failure to Make Capital Contributions***

If a Limited Partner fails to pay installments of its capital commitment to the Adviser when due, and the contributions made by non-defaulting Limited Partners are inadequate to cover the defaulted capital contribution, the Adviser may be unable to pay its obligations when due. As a result, the Adviser may be subjected to significant penalties that could materially adversely affect the returns to the Limited Partners (including non-defaulting Limited Partners). If a Limited Partner defaults, it may be subject to various remedies as provided in the Limited Partnership Agreement, including, without limitation, the loss of its investment in the Private Fund.

***No Assurance of Profits, Distributions or Appreciation***

There is no assurance the Private Funds will be profitable or that any distributions will be made to the Limited Partners. The operational expenses, including the management fee payable to the Adviser, may exceed the Private Fund's income, thereby requiring the difference to be paid out of capital. Most of the capitalization of the Private Fund, except for operating cash reserves and funds set aside for follow-on investments in the Portfolio Companies, are expected to be invested or committed by the sixth anniversary of the Initial Closing of each Private Fund. The expenses of the Private Funds in their early years likely will exceed their income. Such losses will reduce Private Fund capital, and these losses may never be recovered.

***Need for Follow-On Investments***

After its initial investment in a Portfolio Company, the Private Funds may be called upon from time to time to provide additional funds to such company either to protect or enhance its investment. There is no assurance that the Private Funds will make, or have sufficient funds to make, follow-on investments. Any decision by the Adviser not to make a follow-on

investment or any inability on its part to make such an investment may negatively affect the Private Funds.

### ***Minority Investments***

The Adviser may invest in minority positions of Portfolio Companies and in Portfolio Companies for which it has no right to appoint a director or otherwise exert significant influence or protect its position. In such cases, the Adviser 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 Adviser is not affiliated and whose interests may conflict with the interests of the Adviser.

### ***Management Teams***

Each Portfolio Company's day-to-day operations will be the responsibility of such company's management team. Although the Adviser will monitor the performance of each investment and intends to invest in companies operated by strong management, there can be no assurance that a Portfolio Company's existing management team, or any successor, will be able to operate the Portfolio Company in accordance with the Adviser's plans.

### ***Limited Number of Investments***

The Private Funds may participate in a limited number of investments and, as a consequence, the aggregate return may be substantially adversely affected by the unfavorable performance of any single investment.

### ***Diverse Limited Partner Group***

The Limited Partners may have conflicting investment, tax and other interests with respect to their investments in the Private Funds. The conflicting interests of individual Limited Partners may relate to or arise from, among other things, the nature of investments made, the structuring or the acquisition of investments and the timing of disposition of investments. As a consequence, conflicts of interest may arise in connection with the decisions made by the Adviser, with respect to the nature or structuring of investments that may be more beneficial for one Investor than for another Investor, especially with respect to Investors' individual tax situations. In structuring investments, the Adviser will consider the investment and tax objectives of the Private Fund and its Investors as a whole, not the investment, tax or other objectives of any Limited Partner individually.

***Legal, Tax and Regulatory Risks***

Legal, tax and regulatory changes could occur that may adversely affect the Private Funds, its Portfolio Companies or Adviser. For example, from time to time the market for private equity transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. Each prospective Investor is encouraged to consult his or her own legal and tax advisers regarding an investment in the Private Funds.

***Provision of Managerial/Governance Assistance***

Each Private Fund is intended to be operated as a “venture capital operating company” (“VCOC”) within the meaning of regulations promulgated under ERISA or meet another exemption from the ERISA “plan asset” regulations. Operating as a VCOC requires that the Adviser obtain rights to participate substantially in and to influence substantially the conduct of the management of a number of the Portfolio Companies. The Adviser will typically, but not in all situations, designate multiple directors to serve on the board of directors of each Portfolio Company as to which it obtains such rights. The designation of directors and other measures contemplated could expose the assets of the Private Funds to claims by a Portfolio Company, its security holders and its creditors. While the Adviser intends to manage the Private Funds to minimize exposure to these risks, the possibility of successful claims cannot be precluded.

***Risks of Default or Bankruptcy***

Each of the Private Funds’ Portfolio Companies or its assets may be pledged to third parties, including senior lenders, and could be foreclosed upon or otherwise acquired by such parties under certain circumstances, including an incipient and/or unremedied default. In the event of the bankruptcy of a Portfolio Company, prior distributions to a Private Fund may be reclaimed if such prior payments are determined to have been “preference” payments under applicable bankruptcy laws and regulations.

***Risks Arising from General Economic and Political Conditions***

The current economic and political climate is one of uncertainty. Prior acts of terrorism in the U.S., the threat of additional terrorist strikes and the fear of a prolonged conflict have exacerbated volatility in the financial markets and can cause consumer, corporate and financial confidence to weaken, increasing the risk of a “self-reinforcing” economic downturn. The availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, is currently restricted. This may have an adverse effect

on the economy generally and on the ability of the Private Funds and their Portfolio Companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of their businesses. The current climate may reduce the availability of potential investment opportunities and increases the difficulty of modeling market conditions, reducing the accuracy of the financial projections. Furthermore, such uncertainty may have an adverse effect upon the Portfolio Companies in which the Adviser makes investments.

### ***Third Party Litigation Risk***

An Adviser's investment activities subject it to the risk of becoming involved in litigation by third parties. This risk is somewhat greater where a Private Fund exercises control of, or significant influence over, a Portfolio Company's direction. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would, absent certain conduct by the Adviser, be borne by a Private Fund, would reduce net assets and could require Investors to return distributions to a Private Fund. The Adviser is entitled to be indemnified in connection with such litigation, subject to certain limitations as set forth in the organizational documents for each Private Fund.

### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material in the evaluation of the Adviser or the integrity of its management. The Adviser has no applicable information to disclose.

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

The Adviser has no affiliation with any other investment adviser, broker-dealer, futures merchant or commodity pool operator. The Adviser organizes the Private Funds, which are limited partnerships, and serves as the General Partner.

Certain inherent conflicts of interest arise from the fact that: (i) The Adviser will provide investment management services to more than one Private Fund, (ii) Private Funds may have similar or overlapping investment objectives and strategies, (iii) Investment strategies employed by the Adviser for some Private Funds could conflict with strategies employed by Adviser for other current and future Private Funds, (iv) Adviser and certain of its Partners invest either directly or indirectly into the Private Funds, and (v) Private Funds have different fee structures.

Since Private Funds may have similar investment strategies, participation in specific investment opportunities may be appropriate for more than one Private Fund that has available capital. Nonetheless, the Adviser may give advice or take action with respect to investment of one or more Private Fund that may not be given or taken with respect to other Private Funds. In such cases, participation in investment opportunities will be allocated pursuant to the Adviser's allocation policy and procedures. Allocations of certain investments among the Private Funds may be made on other than an equal basis.

While Private Funds may have similar investment strategies, they may not hold the same investments or achieve the same performance. Given that the Adviser manages Private Funds with overlapping investment strategies, this may adversely affect the availability of investments held by or potentially considered for one or more Private Funds.

The Adviser may make investments, on behalf of itself, that would be appropriate for, are held by, or may fall within the investment guidelines of a Private Fund. These activities may also adversely affect the availability of investments held by or potentially considered for one or more Private Fund. Potential conflicts also may arise due to the fact that the Adviser may have investments in some Funds, but not others or may have different levels of investments in various Private Funds and that Private Funds may pay different levels of management and carried interest. The existence of the management fees creates a potential conflict of interest for the Adviser in valuing investments. Because management fees payable after the expiration of the investment period are based on invested capital (reduced by portfolio investments written off entirely), the Adviser may have an incentive to avoid such total write-offs because they reduce the management fee. The Adviser has adopted written valuation procedures intended to mitigate potential conflicts of interests in value assets.

The Adviser may also have ongoing relationships with Portfolio Companies whose securities have been acquired by, or are being considered for investment by, one or more Private Funds. From time to time, the Adviser may acquire securities or other financial instruments of an issuer for one Private Fund which are senior or junior securities, or financial instruments of the same issuer that are held by, or acquired for, another Private Fund (e.g., one Private Fund may acquire senior debt while another Private Fund may acquire subordinated debt). In the event such issuer enters bankruptcy, the Private Fund holding securities that are senior in bankruptcy preference may have the right to aggressively pursue the issuer's assets to fully satisfy the issuer's indebtedness to the Private Fund, and as a fiduciary, the Adviser would have an obligation to pursue such remedy on behalf of the Private Fund. As a result, a Private Fund holding securities of the same issuer that are more junior in the capital structure may not have access to sufficient assets of the issuer to completely satisfy its bankruptcy claim against the issuer and may suffer a loss. The Adviser recognizes that conflicts may arise under such circumstances and will endeavor to take a fair and equitable approach in such instances.

Unless a majority-in-interest of the Limited Partners of the relevant Private Fund consent, the Adviser may not form a new private investment fund consistent with an existing Private Fund's investment objectives (a "Subsequent Fund") until certain conditions have been met. During the commitment period, the Adviser is generally required to present to the existing Private Fund (rather than any Subsequent Fund) all private investment opportunities that are contemplated by the Adviser that are suitable for the existing Private Fund (taking into account various suitability factors stated in the fund's LPA), except when the Advisory Board of the existing Private Fund reviews the potential opportunity and determines that it need not be so offered. The launch of a Subsequent Fund may create certain other conflicts of interest for the Adviser. For example, if the existing Private Fund has had a negative return on its investments and is not expected to generate carried interest, the Adviser would be incentivized to allocate attractive investment opportunities to the Subsequent Fund.

Conflicts of interest may arise because the Partners may serve on the board of one or more Portfolio Companies. In addition to any fiduciary duties that the Adviser owes to the Private Funds, the Partners, as directors of Portfolio Companies, owe fiduciary duties to the shareholders or members of the Portfolio Companies and persons other than the Private Funds. In general, such director positions are often important to the Adviser's investment strategy and normally enhance the Adviser's ability to manage investments. However, such positions may have the effect of impairing the Adviser's ability to sell the related securities when, and upon the terms, it may otherwise desire. In addition, such positions may place the Partners in a position where they must make a decision that is either not in the best interests of the Private Fund or not in the best interests of the shareholders or members of the Portfolio Company. Should the Partners make a decision that is not in the best interests of the equity owners of a Portfolio Company, such decision may subject the Adviser and any applicable Private Fund to claims to which they would not otherwise be subject as an Investor, including claims of breach of the duty of loyalty, securities claims and other director-related claims. In general, Private Funds indemnify the Adviser and its Partners against such claims. In addition, because of potential conflicting fiduciary duties, the Adviser may be restricted in choosing investments which could negatively impact returns received by the Private Funds.

The Adviser, in its discretion, can invite Investors or any of them to participate individually in Portfolio Company investments alongside the Private Funds. Investors in such Co-Investments may not pay management fees or carried interest to the Adviser. Further due to the nature of the relationship between the Adviser and the Investors in such transactions, the Adviser may be incentivized to allocate attractive investment opportunities to such Investors disproportionately.

The Adviser does not engage in principal transactions or cross trades.

### Item 11 – Code of Ethics

The Adviser has adopted a Code of Ethics that requires the highest standards of ethical conduct. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of material gifts and gratuities, the reporting of certain gifts and business entertainment items, and personal securities trading procedures. All supervised persons of the Adviser must acknowledge the terms of the Code of Ethics annually in writing.

In recognition of the trust and confidence placed in the Adviser by the Investors in the Private Funds, the Adviser has adopted the following general principles to guide the actions of their employees:

- i The interests of the Private Funds and the Investors of the Private Funds are paramount. All supervised persons of the Adviser must place the interests of the Private Funds before their own.
- i All permitted personal securities transactions by supervised persons must be accomplished so as to avoid the appearance of a conflict of interest on the part of such personnel with the interests of the Private Funds.
- i All supervised persons must avoid actions or activities that allow a person to profit or benefit from his or her position with respect to the Private Funds or that otherwise improperly bring into question the person's independence or judgment.
- i All supervised persons must report any violations of the Code of Ethics or inappropriate conduct to the Chief Compliance Officer.
- i All supervised persons must comply with all applicable laws, rules and regulations, including federal securities laws.

All supervised persons are required to avoid any relationship or activity that might impair or even appear to impair the person's ability to make objective and fair decisions when performing job functions. The Code of Ethics prohibits supervised persons from using Adviser property or information for personal gain or personally taking for themselves any opportunity that is discovered through their position with the Adviser. Supervised persons are also required under the Code of Ethics to disclose any situation, including situations pertaining to the person's family members, which could be expected to give rise to a conflict of interest.

Supervised persons of the Adviser (employees, officers, partners, etc.) may invest in and alongside the Private Funds. Employee trading is monitored under the Code of Ethics, to reasonably prevent conflicts of interest between the Adviser, the Private Funds and its Investors. Under the Code, certain classes of securities have been designated as exempt

transactions, based upon a determination that these would materially not interfere with the best interest of the Adviser's clients.

The Adviser's clients or prospective clients may request a copy of the full Code of Ethics by contacting Art Monaghan, Chief Compliance Officer at (320) 251-1800 or [art@graniteequity.com](mailto:art@graniteequity.com).

## **Item 12 – Brokerage Practices**

### ***Allocation of Investment Opportunities among Clients***

The allocation of investment opportunities among Private Funds will be determined by the Adviser in its good faith judgment and in accordance with the organizational documents of the applicable Funds. Subject to a Private Fund's investment objectives and guidelines, the Adviser generally allocates investment opportunities on a pro-rata basis among eligible Private Funds based upon the current equity of each Private Fund. In addition, certain investment opportunities are allocated using certain criteria such as risk factors and/or diversification, Private Fund investment restrictions or current portfolio composition. The Adviser will not allocate investment opportunities based, in whole or in part, on: (i) the relative fee structure or amount of fees paid by any Private Fund; (ii) the profitability of any Private Fund; or (iii) any Investor's interest in offering or participating in co-investment opportunities outside of any Private Fund.

Subject to any restrictions in the organizational documents of the applicable Private Fund, or terms that may be negotiated in any side-letter arrangement, in general: (i) no Investor in a Private Fund has a right to participate in any co-investment opportunity; (ii) decisions regarding whether and to whom to offer co-investment opportunities are made in the sole discretion of the Adviser; (iii) co-investment opportunities may, and typically will, be offered to some and not other Investors in the Private Funds, in the sole discretion of the Adviser; and (iv) certain persons other than Investors in the Private Funds (e.g., third parties) may be offered co-investment opportunities, in the sole discretion of the Adviser. In addition, in exercising the Adviser's discretion to decide how to allocate investment opportunities among its Private Funds and related vehicles (including co-investment opportunities) the Adviser may consider a wide range of factors.

The appropriate allocation between Private Funds of expenses and fees generated in the course of evaluating and making investments which are not consummated, such as out-of-pocket fees associated with due diligence, attorney fees and the fees of other professionals, will be determined by the Adviser in its good faith judgment.

In addition, a potential conflict may arise between Limited Partners of a Private Fund in the event that a Limited Partner requests to transfer its interest in a secondary transaction. Subject to any restrictions in the organizational documents of the applicable Private Fund, or terms that may be negotiated in any side-letter arrangement, the Adviser may identify certain, but not all, Limited Partners to potentially acquire the interest being transferred.

### ***Valuation of Private Fund Investments***

The Adviser has a duty to value the Private Funds as provided in and consistent with the organizational documents of the applicable Private Fund. The Adviser has adopted a policy regarding the valuation of Private Fund assets in order to provide a basis for establishing valuations reported by Private Funds. The Adviser does not generally assess management fees, carried interest, or other performance fees or allocations based upon the Adviser's valuation determinations. However, performance information will be reported based on such valuations.

The Private Funds may have portfolio investments that include restricted securities in publicly held companies and privately held investments, which are carried at an estimate of fair value as determined in good faith and in accordance with the organizational documents of the applicable Private Fund. In the absence of special circumstances, portfolio investments, other than restricted and privately held portfolio investments, are valued at market value except for first year investments. Investments will be valued at cost for the first year unless there has been a material change in value. Restricted and privately held portfolio investments, which may not have readily ascertainable market values, are valued at fair value, which is the estimated amount that would be received to sell the portfolio investment in an orderly transaction between market participants on the measurement date.

In establishing the fair value of portfolio securities, the Adviser takes into consideration, for each Portfolio Company, some or all of the following: (a) financial statements showing financial condition and operating results, (b) projected operating cash flow, (c) industry operating benchmarks, (d) prices paid in sales of such securities or similar securities in recent or precedent transactions, (e) the price and extent of public trading in similar securities of the Portfolio Company or comparable companies, (f) the existence of tender offers or acquisition or merger proposals affecting a Portfolio Company's securities, (g) equity option values, (h) reports prepared by third-party analysts, (i) the impact of fluctuations in foreign currency exchange rates and (j) other pertinent information as determined relevant by the Adviser. The Adviser also considers the application of control premiums in various situations.

Notwithstanding the foregoing, valuations for a particular Private Fund will comply with the requirements of the relevant organizational documents. The Adviser may modify the valuation methods described above if it determines that such modifications are appropriate and reasonable to reflect the value of any securities or other assets or liabilities, and will document the basis for any modifications.

### **Item 13 – Review of Private Fund Investments**

The investments made by the Adviser on behalf of the Private Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, the Adviser closely monitors the Portfolio Companies in which the Private Funds invest and generally maintains an ongoing oversight position in such Portfolio Companies (including, in many cases, representation on the board of directors). Reviews occur on at least a quarterly basis and are conducted by the Adviser's Partners. Moreover, the Adviser has a separate group designated to monitoring Portfolio Company performance which provides a second level of review of each Portfolio Company on a periodic basis.

The Adviser provides written quarterly unaudited reports and written annual audited reports to the Limited Partners of the Private Funds. The Adviser provides quarterly letters to the Limited Partners of the Private Funds as well.

### **Item 14 – Portfolio Company Referrals**

The Adviser does not currently maintain, nor has it previously entered into arrangements to compensate solicitors for referrals related to Portfolio Company investments.

### **Item 15 – Custody**

The Adviser intends to rely on a Custody Rule exemption available to registered investment advisers who manage private equity fund assets. Normally, assets must be maintained with a qualified custodian (bank or broker dealer in most cases). In most cases, the investments in Portfolio Companies are negotiated transactions that are not evidenced or represented by traditional certificates, notes or similar documents. Therefore, maintaining investment assets with a qualified custodian is neither practical nor possible. The Adviser will deliver to every Investor in each Private Fund audited financial statements prepared in accordance with generally accepted accounting principles within 120 days of each Private Fund's fiscal year end. The audits of each Private Fund are currently performed by an auditor that is not registered with the Public Company Accounting Oversight Board. The Advisor intends to

engage an auditor that is registered with the Public Company Accounting Oversight Board for the relevant audits to be performed for the calendar year end of 2012.

In addition, the Adviser has developed supervisory procedures that are intended to help ensure compliance with Rule 206(4)-2 of the Advisers Act (the “Custody Rule”). In this regard, certificated assets, if they exist, will be maintained with a qualified custodian, typically a bank, engaged by the Adviser. The Adviser will reconcile bank statements with its internal records on a periodic basis and issue quarterly statements to each Investor.

### **Item 16 – Investment Discretion**

The Adviser operates each Private Fund with discretion pursuant to the offering documents of the relevant Private Fund. As a general policy, Limited Partners are not consulted prior to making an investment and are not allowed to place restrictions on this authority. The Adviser may enter into “side letter” arrangement with certain Limited Partners whereby the terms applicable to such Limited Partner’s investment may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax regulatory or similar reasons. To date, no such side letter arrangements have been entered into by the Adviser.

### **Item 17 – Voting Client Securities**

The Adviser is not generally contemplating or making recommendations with regard to investments in publicly-traded issues. Therefore voting of proxies is not a practical function to be addressed in this Brochure.

### **Item 18 – Financial Information**

Registered investment advisers are required to provide certain financial information or disclosures about their financial condition. The Adviser has no financial commitment that impairs its ability to meet contractual and fiduciary commitments, and has not been the subject of a bankruptcy proceeding.