

**INVESTMENT ADVISER BROCHURE  
PART 2A OF FORM ADV**

**EDGEWATER SERVICES, LLC**

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**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Edgewater Services, LLC (the “Management Company”). If you have any questions about the contents of this Brochure, please contact us at (312) 649-5666. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.**

The Management Company is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). However, such registration does not imply a certain level of skill or training.

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

## **MATERIAL CHANGES**

The Brochure has been updated since the last version dated February 14, 2012 to reflect the appointment of Matthew W. Norris as Edgewater's Chief Compliance Officer.

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## ADVISORY BUSINESS

The Management Company, a Delaware limited liability company and a registered investment adviser, provides investment advisory services through its affiliated General Partners (as defined below) to private equity funds focusing on equity and buyout investments in high-quality, lower middle market companies. The Management Company and the General Partners are part of a group of affiliated entities collectively referred to herein as **“Edgewater.”**

Edgewater is a private equity firm based in Chicago, Illinois founded by James Gordon. In addition to Mr. Gordon, the other principals of Edgewater include: Gregory Jones, Partner; David Tolmie, Partner; Jeffrey Frient, Partner; Bob Growney, Partner; and Scott Meadow, Associate Partner (collectively, the **“Principals”**). Substantially all of the Principals have been part of Edgewater since 2001. In their roles at Edgewater, the Principals are responsible for the sourcing and selection of investment opportunities for Edgewater’s private equity funds.

The following are the affiliated advisers of the Management Company (collectively with the Management Company, the **“Advisers”**):

- Edgewater Growth Capital Management, LLC (**“GP I”**)
- Edgewater Growth Capital Management II, L.P. (**“GP II”**)
- Edgewater Growth Capital Management III, L.P. (**“GP III,”** and together with GP I and GP II, the **“General Partners”**).

Each General Partner is registered under the Advisers Act pursuant to the Management Company’s registration in accordance with SEC guidance. This Brochure also describes the business practices of each General Partner, which operate as a single advisory business together with the Management Company.

The Advisers’ clients include the following (collectively the **“Partnerships”** or the **“Funds,”** and together with any future private investment fund to which Edgewater or its affiliates provide investment advisory services, **“Private Investment Funds”**):

- Edgewater Growth Capital Partners, L.P.
- Edgewater Growth Capital Partners II, L.P.
- Edgewater Growth Capital Partners III, L.P.
- Edgewater Growth Capital Partners III Co-Invest Fund, L.P.

The General Partners each serve as general partner to one or more Partnerships and have the authority to make the investment decisions for the Partnerships to which they provide advisory services. The Management Company provides the day-to-day advisory services for the Partnerships.

The Partnerships and any other Private Investment Funds that may be formed by a General Partner (or its affiliates) at a later date or that may otherwise become clients of a General Partner are expected to invest through negotiated transactions in operating companies. The Advisers' investment advisory services to the Partnerships consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for such investments. Investments are made predominantly in non-public companies, although investments in public companies are permitted. From time to time, the Principals or other personnel of the Advisers or their affiliates may serve on a portfolio company's board of directors or otherwise act to influence control or management of portfolio companies held by the Partnerships.

The Advisers' advisory services for Private Investment Funds are further described in their respective private placement memoranda and limited partnership agreements, and are also generally described below under "Methods of Analysis, Investment Strategies and Risk of Loss" and "Investment Discretion." Investors in Private Investment Funds participate in the overall investment program for the applicable Partnership, but in certain Funds may be excused from a particular investment due to legal, regulatory or other applicable constraints or for other agreed upon reasons. The Funds may enter into side letters or other similar agreements with certain investors that have the effect of establishing rights under or altering or supplementing a Fund's Partnership Agreement (as defined below), including provisions relating to the Management Fee (as defined below) and distributions.

As of December 31, 2011, Edgewater managed \$1,170,369,000 in client assets on a discretionary basis. Each General Partner is directly or indirectly owned by Edgewater HoldCo LLC ("**Edgewater HoldCo**"), James Gordon and certain other Principals of Edgewater. Edgewater HoldCo is owned by Lazard Group LLC (together with its affiliates other than Edgewater, "**Lazard**"), James Gordon and the other Principals of Edgewater. The Management Company, which provides payment and related services, is principally owned by Lazard Group LLC and is administered by Edgewater HoldCo and James A. Gordon. Lazard Group LLC is ultimately controlled by Lazard, Ltd, a publicly traded company.

#### **FEES AND COMPENSATION**

In general, the General Partners receive a Management Fee (as defined below) and a carried interest in connection with advisory services. The General Partners or other Edgewater entities or affiliates receive additional compensation in connection with management and other services performed for portfolio companies owned by the Partnerships and a portion of such additional compensation may offset in part the management fees otherwise payable to the applicable General Partner, as described in the respective Partnership Agreements. Investors in the Partnerships also bear certain fund expenses. Each Partnership's fee schedule is omitted since this Brochure is only delivered to clients who are "qualified purchasers" (within the meaning of the Investment Company Act of 1940, as amended (the "**Investment Company Act**")).

## Management Fee

Generally, a Partnership during its investment period will pay the applicable General Partner a management fee (the “**Management Fee**”) calculated as a fixed percentage on an annual basis of aggregate Partnership investor capital commitments (“**Commitments**”) and as described in the Partnership Agreement for the applicable Partnership. Payment of the Management Fee will be made quarterly in advance, and will be deducted from the Partnership’s assets. A portion of the Management Fees is ultimately received by the Management Company. Each Partnership typically has multiple closings in which an investor can participate. Generally, investors participating in a closing after the initial closing of a Partnership bear the Management Fee from the date of the initial closing of such Partnership. The Management Fee may be reduced upon the expiration of the investment period or earlier upon the occurrence of certain other events as described in the applicable Partnership’s limited partnership agreement (each, a “**Partnership Agreement**”). The Management Fee will be payable until all portfolio investments are distributed or until the General Partner’s relationship with the applicable Partnership is terminated for other reasons (as described in the Partnership Agreement). Installments of the Management Fee payable for any period other than a full management fee determination period are adjusted on a *pro rata* basis according to the actual number of days in such period.

The Management Fee is reduced by a portion of the directors’ fees, transaction fees, breakup fees and certain other fees paid by portfolio companies to a General Partner, the Management Company or certain of their affiliates (such fees, “**Supplemental Fees**”). To the extent that such an offset credit would reduce the Management Fee for a given management fee period determination period below zero, the credit will be carried forward for future application against payable Management Fees. To the extent any such excess remains unapplied upon dissolution of a Partnership, each partner of such Partnership will receive its share of such unapplied excess, unless such partner elects not to receive its share. To the extent that any other Private Investment Fund co-invests alongside the Partnership in any portfolio company investment, any Supplemental Fees typically will be allocated *pro rata* among the Partnership and such other Private Investment Fund in proportion to the cost of the investment in the portfolio company borne by each.

As permitted under the Partnership Agreement for certain Partnerships, the respective General Partner may waive a portion of the Management Fee in exchange for a reduction in the General Partner’s capital contribution obligation and/or a corresponding interest in Partnership profits. The limited partners of the Partnership (the “**Limited Partners**”) may be required to make a *pro rata* contribution according to their respective Commitments to fund any contribution that would otherwise be required of the General Partner in connection with any such waiver as described above. Waived Management Fees may delay the Management Fee offsets described above and as further described in the applicable Partnership Agreements.

## Carried Interest

The General Partner of each Partnership generally will be entitled to receive a carried interest with respect to such Partnership equal to a fixed percentage of all profits (in certain cases subject to a specified preferred return with a related General Partner catch-up provision), as more

fully described in the Partnership Agreement of the applicable Partnership. The carried interest distributed to the General Partner is subject to a potential giveback at the end of the life of the Partnership if the General Partner has received excess cumulative distributions.

## **Other Information**

The Partnerships and other Private Investment Funds generally invest on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the Partnership Agreement, over the term of the applicable Partnership, and investors generally are not permitted to withdraw or redeem interests in the Partnership.

Principals or other employees of Edgewater may receive a portion of the Management Fee, carried interest or other compensation received by the General Partners or their affiliates.

In addition to the Management Fee and carried interest payable to the General Partner, each Partnership bears certain expenses. As set forth in the Partnership Agreement for the applicable Partnership, the Partnership bears all Partnership expenses to the extent not paid by portfolio companies, including a broad range of items such as organizational expenses up to the expense cap specified in the Partnership Agreement in the case of certain of the Partnerships, legal, auditing, travel, consulting, deal sourcing and/or broker fees and commissions, financing, accounting and custodian fees and expenses; expenses associated with the Fund's financial statements, tax returns and Schedule K-1s; out of pocket expenses incurred in connection with transactions not consummated; expenses of any advisory board of Limited Partners and meetings of the Limited Partners; insurance; other expenses associated with the acquisition, holding and disposition of its investments, including extraordinary expenses (such as litigation, if any); and any taxes, fees or other governmental charges levied against the Partnership. The Partnerships also may bear expenses indirectly from the payment by portfolio companies of similar expenses, including Supplemental Fees. Excluded from Partnership expenses are ordinary administrative and overhead expenses of the General Partner incurred in connection with managing, originating and monitoring investments, including employees' salaries, rent, utilities and other similar expenses specified in the Partnership Agreement. The Partnerships, similar to other private equity funds, likely bear additional and greater expenses, directly or indirectly, than many other pooled investment products such as mutual funds. Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described under "Fees and Compensation," the General Partners may receive a carried interest allocation on certain profits in the Partnerships. Currently, the Advisers do not advise Private Investment Funds not subject to a carried interest, although the General Partners may waive carried interest with respect to certain Limited Partners in the applicable Fund. See "Methods of Analysis, Investment Strategies and Risk of Loss," for further discussion of conflicts of interest.

## **TYPES OF CLIENTS**

The Advisers provide investment advice to the Partnerships. The Partnerships are investment partnerships or other investment entities formed under domestic or foreign laws and

operated as exempt investment pools under the Investment Company Act. The investors participating in the Partnerships may include individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, Principals or other employees of the Advisers and their affiliates.

Typically, each Partnership has a minimum investment of \$5 million for third-party investors, which may be waived by the General Partner.

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

### **General**

The principal investment strategy of the Advisers is to achieve long-term capital appreciation, primarily by acquiring equity and equity-related securities and debt in private growth-oriented companies. The Advisers generally target buyout and growth equity and equity-related investments primarily in lower middle market companies with revenues generally ranging from \$50 to \$200 million and EBITDA generally ranging from \$10 to \$30 million. Investments are predominantly in non-public companies although investments in public companies are permitted.

This Brochure is neither an offer to sell nor a solicitation of an offer to buy limited partnership interests in any of the privately offered commingled investment funds advised by the Management Company and/or its affiliates. An offer of such interests can only be made through the offering materials for the relevant investment fund and only in jurisdictions in which such an offer would be lawful.

### **Investment and Operating Strategy**

The Advisers generally seek to provide returns to investors by (i) using research and contacts to identify investments that the Advisers believe are attractive, (ii) performing rigorous analysis and due diligence to select and structure investments, and (iii) providing significant resources to portfolio companies.

*Preliminary Review.* Upon the receipt of information regarding a new investment opportunity, a deal team is formed that is typically comprised of the Advisers' investment professionals with both operating and financial experience. The deal team seeks to assess the strengths and weaknesses of the business, including its operations and company management, the current state and outlook for the industry and the particular deal dynamics. The Advisers believe that extensive and objective due diligence is a cornerstone of successful investing. Once the deal team has determined that the transaction represents an attractive opportunity for a Fund, the opportunity typically is presented to all of the investment professionals for their preliminary review. These reviews are an occasion to gather the investment professionals' input on the investment thesis, industry activity, informational resources and ways to create value post closing. Each investment opportunity must receive unanimous preliminary approval by the investment committee in order to proceed with the investment process.



*Structure Investment.* The deal team works to structure the investment in a manner that it believes will provide an attractive risk/return profile and promotes the growth prospects and opportunities of the company. The Advisers strive to use structures designed to minimize downside risk, such as liquidation preferences, participation features and dividends. The Advisers have developed a standard set of protective covenants and control provisions that provide certain governance, control and liquidity rights.

*Due Diligence and Approval.* Once a letter of intent with exclusivity has been signed and the investment committee has given preliminary approval to pursue the opportunity, the deal team executes the due diligence process. The purpose of this process is to gain a thorough understanding of the operations of the target company, review and quantify all opportunities and evaluate potential risks that may threaten the investment in the future. The Advisers engage leading professional service providers across a broad range of disciplines and industries to assess business and industry conditions, accuracy of financial statements, quality of revenues and earnings, reasonableness of projections, competition, product and service efficiencies and customer satisfaction, and work closely with due diligence providers throughout their engagement. Projected operating plans are reviewed with management and downside scenarios are carefully developed and analyzed. At this time, the Advisers also typically review specific opportunities for the Advisers to add value through additional relationships including candidates for Chairman or Lead Director. Plans for acquisitions and eventual exits are explored and conversations with potential targets or exit opportunities are often underway during due diligence.

In addition to company and market specific matters, the Advisers' deal team spends a great deal of time analyzing the strengths and weaknesses of the management team. This review may include management reference calls, industrial psychologist interviews, background checks and multiple interviews with key management team members. This management team review allows the Advisers to not only assess current management, but begin to plan for the necessary near-term changes or additions to the current team prior to closing the transaction.

The deal team analyzes the findings of these due diligence procedures both during and at the end of each engagement and incorporates adjustments or protections into the transaction where appropriate to ensure the Advisers' risk/return profile of the investment remains intact. At the end of the due diligence process, the deal team leads the Advisers' investment team through a thorough review of the due diligence findings to prepare for the funding of the transaction. Prior to this meeting, the Advisers' deal team will assemble and circulate a comprehensive final approval memorandum that outlines the business, risks, financial analysis and investment opportunity in great detail. The funding meeting is also typically accompanied by a mandatory presentation to the Advisers by the target company's management. Each new investment receives unanimous consent of the investment committee for approval and subsequent funding of the transaction.

In connection with origination, monitoring or disposition activities, the Advisers may use a broad range of deal sourcers or brokers, consultants or other parties for assistance at the expense of the Partnerships. Such deal sourcers or brokers, consultants or others may have other business dealings, affiliations or arrangements with Lazard, Edgewater or its Principals. See "Fees and Compensation -- Other Information."

## Risks of Investment

A Partnership and its investors bear the risk of loss that the applicable Advisers' investment strategy entails. The risks involved with the Advisers' investment strategy and an investment in a Partnership are detailed in each Partnership's private placement memorandum. Accordingly, the summary below is qualified in its entirety by the risks set forth in each Partnership's private placement memorandum. Please consult each Partnership's private placement memorandum for a more detailed description of the risks. *There can be no assurance that the Advisers will achieve the investment objectives of the Partnerships, and a loss of investment may be possible.* In general, the material risks with respect to an investment in each Partnership include, but are not limited to:

1. *Business Risks.* The Partnership's investment portfolio will consist primarily of securities issued by privately held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.
2. *Future and Past Performance.* The performance of the Advisers' prior investments is not necessarily indicative of the Partnership's future results. While the General Partner intends for the Partnership to 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. On any given investment, loss of all or any portion of principal is possible. There can be no assurance that any Partner will receive any distribution from the Partnership. Accordingly, an investment in the Partnership should only be considered by persons who can afford the loss of their entire investment.
3. *Investment in Junior Securities.* The securities in which the Partnership will invest may be among the most junior in a portfolio company's capital structure and, thus, subject to the greatest risk of loss. Generally, there will be no collateral to protect an investment once made.
4. *Concentration of Investments.* The Partnership will participate in a limited number of investments and may seek to make several investments in one industry or one industry segment. As a result, the Partnership's investment portfolio could become highly concentrated, and the performance of a few holdings may substantially affect its aggregate return. Furthermore, to the extent that the capital raised is less than the targeted amount, the Partnership may invest in fewer portfolio companies and thus be less diversified.

Each active Partnership generally is restricted from directly investing more than 15% of the Partnership's aggregate Commitments (measured as of the date any such investment is to be made) in any one company. Such restriction may be waived upon approval by the advisory board comprised of the Partnership's Limited Partners, as described in the applicable Partnership Agreement.

5. *Lack of Sufficient Investment Opportunities.* It is possible that the Partnership will never be fully invested if enough sufficiently attractive investments are not identified. The

business of identifying and structuring private equity transactions is highly competitive and involves a high degree of uncertainty. However, Limited Partners will be required to pay annual management fees during the investment period based on the entire amount of their Commitments.

6. *Illiquidity; Lack of Current Distributions.* An investment in the Partnership should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, generally will occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating the Partnership (including the annual Management Fee payable to the General Partner) may exceed its income, thereby requiring that the difference be paid from the Partnership's capital.
7. *Leveraged Investments.* The Partnership may make use of leverage by incurring or having a portfolio company incur debt to finance a portion of its investment in a given portfolio company. Leverage generally magnifies both the Partnership's opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which state is difficult to accurately forecast. During times when credit markets are tight, it may be difficult to obtain or maintain the desired degree of leverage. The use of leverage will also result in interest expense and other costs to the Partnership that may not be covered by distributions made to the Partnership or appreciation of its investments. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to finance future operations and capital needs. The leveraged capital structure of portfolio companies will increase the exposure of the Partnership's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of the Partnership's investments in the leveraged portfolio companies in a down market. In the event any portfolio company cannot generate adequate cash flow to meet debt service, the Partnership may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of the Partnership. Furthermore, should the credit markets be tight at the time the Partnership determines that it is desirable to sell all or a part of a portfolio company, the Partnership may not achieve an exit multiple or enterprise valuation consistent with its forecasts. Moreover, the companies in which the Partnership will invest generally will not be rated by a credit rating agency.
8. *Restricted Nature of Investment Positions.* Generally, there will be no readily available market for a substantial number of the Partnership's investments, and hence, most of the Partnership's investments will be difficult to value. Certain investments may be distributed in kind to the Partnership's partners.
9. *Reliance on Portfolio Company Management.* Although the General Partner will monitor the performance of each Partnership investment, it will primarily be the responsibility of

each portfolio company's management team to operate the portfolio company on a day-to-day basis. Although the Partnership generally intends to invest in companies with strong management or recruit strong management to such companies, there can be no assurance that the existing management, or any successor, of such companies will be able or willing to successfully operate a company in accordance with the Partnership's objectives. An investment by a third party in a portfolio company involves risks, including the possibility that a third party investor may have economic or business interests or goals that are inconsistent with those of the Partnership or may be in a position to take (or block) actions in a manner contrary to the Partnership's investment objectives.

10. Projections. Projected operating results of a company in which the Partnership invests normally will be based primarily on financial projections prepared by each company's management. In all cases, projections are only estimates of future results that are based upon information received from the company and assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.
11. Need for Follow-On Investments. Following its initial investment in a given portfolio company, the Partnership may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company. There is no assurance that the Partnership will make follow-on investments or that the Partnership will have sufficient funds to make all or any of such investments. Any decision by the Partnership not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment. Additionally, such failure to make such investments may result in a lost opportunity for the Partnership to increase its participation in a successful portfolio company or the dilution of the Partnership's ownership in a portfolio company if a third party invests in such portfolio company.
12. Non-U.S. Investments. The Partnership may invest in portfolio companies that are organized or have substantial sales or operations outside of the United States, its territories, and possessions. Such investments may be subject to certain additional risk due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be given effect during the term of the Partnership), the application of complex U.S. and non U.S. tax rules to cross-border investments, possible imposition of non-U.S. taxes on the Partnership and/or its partners with respect to the Partnership's income, and possible non-U.S. tax return filing requirements for the Partnership and/or its partners.

Additional risks include: (a) risks of economic dislocations in the host country; (b) less publicly available information; (c) less well-developed regulatory institutions; (d) possible political or social instability; and (e) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction. Moreover, non-U.S. companies may not be subject to uniform

accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

Each active Partnership generally is restricted from directly investing in any company organized or headquartered outside of the United States or Canada if, after giving effect to such investment, the aggregate cost of all such companies held by the applicable Partnership would exceed 20% of the Partnership's aggregate Commitments. Such restriction may be waived upon approval by an advisory board of Limited Partners, as described in the applicable Partnership Agreement.

13. *Portfolio Company Directors.* The Partnership will often obtain the right to appoint a representative to the board of directors of the companies in which it invests. Such representatives will be required to make decisions that consider the best interests of the respective portfolio companies. In certain circumstances, for example in situations involving bankruptcy or near-insolvency of a portfolio company, actions that may be in the best interest of such portfolio company (or a third party, such as a creditor) may not be in the best interests of the Partnership, and vice versa. Additionally, serving on the board of directors of a portfolio company exposes the Partnership's representatives, and ultimately the Partnership, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability.
14. *Market Conditions.* Any material change in the economic environment, including a slow-down in economic growth and/or changes in interest rates or foreign exchange rates, could have a negative impact on the performance and/or valuation of the portfolio companies. The Partnership's performance can be affected by deterioration in public markets and by market events, which can impact the public market comparable earnings multiples used to value privately held portfolio companies. Movements in foreign exchange rates may adversely affect the value of investments in portfolio companies and the Partnership's performance. The value of publicly traded securities may be volatile and difficult to sell as a block, even following a realization through listing.
15. *Deterioration of Credit Markets May Affect Ability to Finance and Consummate Investments.* The recent deterioration of the global credit markets has made it more difficult for investment funds such as the Partnership to obtain favorable financing for investments. A widening of credit spreads, coupled with the deterioration of the sub-prime and global debt markets and a rise in interest rates, has dramatically reduced investor demand for high yield debt and senior bank debt, which in turn has led some investment banks and other lenders to be unwilling to finance new private equity investments or to only offer committed financing for these investments on unattractive terms. The Partnership's ability to generate attractive investment returns may be adversely affected to the extent the Partnership is unable to obtain favorable financing terms for its investments. Moreover, to the extent that such marketplace events are not temporary and continue, they may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the U.S. and global economies. Such marketplace events also may restrict the ability of the Partnership to realize its investments at favorable times or for favorable prices.

## **Potential Conflicts of Interest Relating to the Principals**

During the investment period of a given Partnership, appropriate investment opportunities will be pursued by the Advisers through such Partnership, subject to certain limited exceptions. At any given time, the Advisers typically will manage several other Private Investment Funds in addition to a given Partnership, which may include investments similar to those in which such Partnership will be investing or have investments in portfolio companies in the form of securities or other investments that are not the principal strategy of such Partnership, and may direct certain relevant investment opportunities to those Private Investment Funds and with respect to such investments. The Principals and investment staff will continue to manage and monitor the investments of such Private Investment Funds until their realization. The portfolio company investments of such other Private Investment Funds may potentially compete with companies acquired by a given Partnership. The significant investment of the Principals in any given Partnership, as well as the Principals' interest in the carried interest, operate to align, to some extent, the interest of the Principals with the interest of the Limited Partners in such Partnership, although the Principals have economic interests in such other Private Investment Funds and investments as well and receive Management Fees and carried interests relating to such interests. Following the investment period of a given Partnership, the Principals may focus their investment activities on other opportunities and areas unrelated to such Partnership's investments.

From time to time, the Advisers may be presented with investment opportunities that would be suitable not only for a given Partnership, but also for other Private Investment Funds. In determining which investment vehicles should participate in such investment opportunities, the Advisers are subject to conflicts of interest among Private Investment Funds. The Advisers attempt to allocate investment opportunities among a Partnership and other Private Investment Funds in a fair and equitable manner. Where necessary, the Advisers consult and receive consent to conflicts from an advisory board consisting of Limited Partners of any applicable Partnership and any other Private Investment Fund.

Certain limitations generally apply with respect to an Adviser's ability to make investments on behalf of a newly established Private Investment Fund, including, in some cases, a requirement that the Adviser will not commence the operation of a new Private Investment Fund with objectives substantially similar to those of an existing Private Investment Fund until the end of such existing Private Investment Fund's investment period or until such other time as described in the applicable Partnership Agreement.

Because the General Partners' carried interest is based on a percentage of net realized profits, it may create an incentive for the Advisers to cause the Partnerships to make riskier or more speculative investments than would otherwise be the case. Since the General Partners are permitted to retain certain Supplemental Fees (as described under "Fees and Compensation") in connection with Partnership investments, which may be significant, the Advisers could have a conflict of interest in connection with approving transactions. The Advisers manage such conflicts by partially offsetting the Management Fee with such Supplemental Fees.

## Potential Conflicts of Interest Relating to Relationship with Lazard

Lazard is a subsidiary of Lazard Ltd, a publicly traded company. Lazard undertakes a wide range of financial advisory, asset management and other activities for a wide variety of clients, including institutions, companies and individuals, and for its own account. In particular, Lazard Middle Market LLC, an indirect subsidiary of Lazard Group LLC, specializes in providing advice on mergers and acquisitions, restructurings and financings to middle markets businesses.

There may be situations in which Lazard has a duty or an interest that actually or potentially conflicts with interests of a Partnership and such Partnership's portfolio companies. Except as described below, conflicts with Lazard or its clients may not be resolved in such Partnership's interest and, as a result, certain investment opportunities may not be made available to the Partnership or the Partnership may be otherwise disadvantaged in some situations by its relationship with Lazard. The following discussion enumerates certain of these conflicts of interest.

Investments Involving Lazard or its Clients. Under certain circumstances and subject to the requirements of the applicable governing documents and applicable law, including any consent requirements, a Partnership may invest in an entity or participate in a transaction in which Lazard or one of its clients or affiliates has already invested or is expected to participate. In connection with such investments, such Partnership, on the one hand, and Lazard or such third party, on the other hand, may have conflicting interests, particularly if the Partnership and the other party invest in different classes or types of securities of the same portfolio company.

The Advisers may also face conflicts of interest in connection with any purchase or sale transaction involving an investment by a Partnership, whether to or from Lazard, Lazard's clients or another investment fund affiliated with Lazard, and in connection with the consideration offered by, and the obligations of, Lazard, Lazard's client or such other investment fund in such transactions.

Lazard's Advisory Activities. Clients of Lazard's financial advisory business may compete with a Partnership for investment opportunities meeting such Partnership's investment objectives. In addition, as part of its regular business, Lazard may be engaged to (i) advise the seller of a company, business or assets that would qualify as an investment opportunity for a Partnership, (ii) advise potential purchasers, sellers and other involved parties with respect to assets that may be suitable for investment by a Partnership or (iii) provide restructuring advisory services to special situation companies in which a Partnership is interested in investing. While the Advisers believe that the relationship with Lazard generally will result in enhanced investment opportunities for the Partnerships, it is possible that certain opportunities will not be available to the Partnerships as a result of such relationship or, if available, Lazard's interests or its obligations to its clients may diverge from the Partnerships' interests.

For a period of time following the transaction whereby Lazard acquired an interest in Edgewater, Lazard has agreed, on behalf of itself and its subsidiaries, (i) not to sponsor, control, manage or operate a private fund to compete directly against Edgewater's Private Investment Funds and (ii) to provide, under certain circumstances, a co-investment right and/or a right of

first refusal to the Partnerships with respect to certain investment opportunities engaged in by non-competing private funds sponsored, controlled, managed or operated by Lazard. Following the expiration of these covenants, Lazard will be under no obligation to decline any engagements and will be under no obligation to make any investment opportunity available to a Partnership. Further, investment ideas generated within Lazard may be suitable for a Partnership and for a financial advisory client or another Lazard-managed fund, and unless required by the transaction may be directed to such client or other fund rather than to such Partnership.

Lazard has long-term relationships with a significant number of institutions and their senior management. In determining whether to invest in a particular transaction on behalf of a Partnership, the Advisers may consider those relationships, which may result in certain transactions that a General Partner will not undertake on behalf of a Partnership in view of such relationships.

Lazard's Alternative Investments. Lazard currently operates certain private equity businesses other than the Advisers. Lazard may increase the number and breadth of its private equity businesses in the future, including managing or forming additional alternative investment funds. Except as provided above, each of these existing and future entities may compete with the Partnerships.

Lazard's Asset Management Business. In the course of its investment management and advisory activities, Lazard's asset management businesses may make investments in issuers or securities that may relate to, or be in conflict with, a Partnership's investments or interests. In addition, Lazard, for the accounts of its clients, may also take positions, give advice and provide recommendations contrary to those that may be taken by, given or provided to a Partnership and may hold interests potentially adverse to those of such Partnership even though the objective of such account may be the same as, or similar to, that of the Partnership. These activities could result in securities laws restrictions on transactions in such securities by the Partnership, affect the prices of the Partnership's investments or the ability of the Partnership to dispose of such investments, and otherwise create conflicts of interest for the Partnership, which could have an adverse impact on the Partnership's performance.

Compensation for Services. Lazard may, directly or indirectly through one or more of its subsidiaries or affiliates, and subject to the requirements of the applicable governing documents and applicable law, including any consent requirements, enter into contracts on arms' length terms to perform other financial, investment, advisory and consulting services for, and will in such cases receive customary compensation from, a Partnership's portfolio companies, the Partnership or other parties in connection with transactions related to the Partnership's investments or otherwise. Such compensation could include, without limitation, investment banking fees or fees in connection with restructurings and mergers and acquisitions. As with any other service provider, compensation for these services will not be shared with such Partnership or the Limited Partners.

Other Businesses. Lazard may provide services in the future beyond those currently provided, including commercial banking, brokerage, customer financing, asset-based financing, corporate finance, and commercial finance services, among others, and engage in private equity investment activities. In conducting the aforementioned activities, Lazard will be acting for its



own account or the accounts of its clients and will have no obligation to act in the interest of the Partnerships. In addition, the foregoing activities could create conflicts of interest for a Partnership, which could have an adverse impact on the Partnership's performance.

Other Resources. While it is expected that Lazard's investment in the Partnerships and its meaningful participation in the distribution waterfalls of the Partnerships will give Lazard an interest in the success of the Partnership, Lazard individuals who are not investment professionals of the Advisers will be required to devote substantially all of their professional time to matters unrelated to the Partnerships and their investment activities and may at any given time be unavailable for Partnership-related matters. Furthermore, the Advisers will be under no obligation to consult with such individuals in connection with the activities of the Partnerships and there can be no assurance that Lazard will continue to sponsor any particular advisory or capital markets group or employ financial advisors or analysts in any particular industry focus area or that any individual currently employed in such a capacity will continue to remain employed by Lazard, or, in the event of the termination of such individual's employment, will be replaced by a similarly qualified individual to whom the Advisers may have access. Finally, the presence of legal, regulatory and contractual restrictions (e.g., "information barriers") may reduce the positive synergies, if any, resulting from Lazard's interest in the success of the Partnerships.

#### **DISCIPLINARY INFORMATION**

The Management Company and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

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

The Management Company is affiliated with other Edgewater investment advisers registered with the SEC under the Advisers Act pursuant to the Management Company's registration in accordance with SEC guidance. These advisers are GP I, GP II and GP III. These affiliated investment advisers operate as a single advisory business together with the Management Company and serve as General Partners of the Partnerships and may share common owners, officers, partners, consultants or persons occupying similar positions.

Each General Partner is directly or indirectly owned by Edgewater HoldCo, James Gordon and certain other Principals of Edgewater. As described above under "Advisory Business," Edgewater HoldCo is owned by Lazard, James Gordon and the other Principals of Edgewater. The Management Company is principally owned by Lazard, which controls the following investment advisers and broker-dealers: Lazard Asset Management LLC, Lazard Asset Management (Canada), Inc., Lazard Asset Management Limited, Lazard Japan Asset Management KK, Lazard Asset Management (Deutschland) GmbH, Lazard Asset Management Pacific Co., Lazard Alternatives, LLC, Lazard Frères & Co. LLC, Lazard Asset Management Securities LLC, Lazard Korea Asset Management Co., Ltd., Lazard Wealth Management LLC and Lazard Middle Market LLC. The potential conflicts of interest presented by the Management Company's affiliation with Lazard and Lazard's investment adviser and broker-dealer affiliates are discussed above under "Potential Conflicts of Interest Relating to Relationship with Lazard."

Lazard's representative on the Advisers' Investment Committee is licensed as a registered representative of Lazard Capital Markets LLC ("LCM"), a broker-dealer. Although such person is not involved in the day-to-day operations of LCM and does not receive any compensation from LCM, this arrangement may create a conflict of interest, as Private Investment Funds or their portfolio companies may utilize the services of LCM subject to any requirements of the applicable Partnership Agreement, including advisory board approval. As of the date of this Brochure, the Advisers have not retained LCM to provide any services to Private Investment Funds.

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

The Advisers have adopted the Edgewater Code of Ethics and Securities Trading Policy and Procedures (the "Code"), which sets forth standards of conduct that are expected of the Advisers' Principals and employees and addresses conflicts that arise from personal trading. The Code requires the Advisers' personnel to report their personal securities transactions and to obtain approval from the Advisers' Chief Compliance Officer or his designee prior to most securities transactions. In addition, the Code requires such personnel to comply with policies and procedures reasonably designed to prevent the misuse of, or trading upon, material non-public information. A copy of the Code will be provided to any client or prospective client upon request to Matthew W. Norris, Edgewater's Chief Compliance Officer, at (312) 664-8621. Personal securities transactions by Edgewater employees are required to be conducted in a manner that prioritizes the Partnerships' interests in Partnership-eligible investments.

The Advisers and their affiliated persons may come into possession from time to time of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, the Advisers and their affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the Advisers. Accordingly, should the Advisers or any of their affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, the Advisers would be prohibited from communicating such information to clients, and the Advisers will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of Edgewater personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Partnerships.

Principals and other employees of the Advisers and their affiliates may directly or indirectly own an interest in Private Investment Funds or certain co-investment vehicles. The Advisers believe that such interests do not create a conflict of interest and instead operate to align the interests of the Advisers' personnel with that of the Private Investment Funds. The Partnerships and other Private Investment Funds may invest together with other private investment funds advised by an affiliated adviser of the General Partner in the manner set forth in the applicable Partnership Agreement. The Advisers will determine the allocation of investment opportunities in a manner that they believe is fair and equitable to their clients

consistent with the Advisers' fiduciary obligations and consistent with the applicable Private Investment Funds' underlying documents.

The Advisers and their affiliates, Principals and employees may carry on investment activities for their own accounts and for family members, friends or others who do not invest in the Partnerships, and may give advice and recommend securities to other accounts or certain Partnerships or vehicles that may differ from advice given to, or securities recommended or bought for, other Partnerships or vehicles, even though their investment objectives may be the same or similar.

From time to time, the General Partners may borrow funds on behalf of the Partnerships and contribute such borrowed amounts to the Partnerships as a special capital contribution for investment, to be repaid at a later date. Interest in connection with such borrowing is borne by the Partnerships as a Partnership expense, consistent with the applicable Partnership Agreement (or other governing document) and the expense policy described under "Fees and Compensation." In borrowing on behalf of the Partnerships, the General Partners are subject to conflicts of interest between repaying their obligations and retaining such borrowed amounts for the benefit of the Partnerships. The General Partners will effect such borrowings in a manner that they believe to be fair and equitable to the Partnerships and consistent with the General Partners' obligations to the Partnerships and the applicable Partnership Agreement (or other governing document).

#### **BROKERAGE PRACTICES**

The Advisers focus on securities transactions of private companies and generally purchase and sell such companies through privately-negotiated transactions in which the services of a broker-dealer may be retained. However, the Advisers may also distribute securities to investors in the Partnerships or sell such securities, including through a broker-dealer, if a public trading market exists. Although the Advisers do not intend to regularly engage in public securities transactions, to the extent they do so, the Advisers follow the brokerage practices described below.

If an Adviser sells publicly traded securities for a Partnership, it is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the Adviser. In such event, the Adviser will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, the Adviser may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; and (iv) responsiveness to requests for trade data and other financial information.

The Advisers have no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or "posted" commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although the Advisers generally seek competitive commission rates, they may not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on

the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with the Advisers seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although the Advisers generally do not make use of such services at the current time and have not made use of such services since Edgewater's inception.

The Advisers do not anticipate engaging in significant public securities transactions; however, to the extent that an Adviser engages in any such transactions, orders for purchase or sale of securities placed first will be executed first and within a reasonable amount of time of order receipt. To the extent that orders for Private Investment Funds are completed independently, the Advisers may also purchase or sell the same securities or instruments for several Private Investment Funds simultaneously. From time to time, the Advisers may, but are not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or "batched" to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Private Investment Fund is favored over any other Private Investment Fund. If such orders are not batched, it may have the effect of increasing brokerage commissions or other costs.

#### **REVIEW OF ACCOUNTS**

The investments made by the Private Investment 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 Advisers closely monitor companies in which the Private Investment Funds invest, and the Edgewater Chief Compliance Officer periodically checks to confirm that each Private Investment Fund is maintained in accordance with its stated objectives.

The Partnerships generally will provide to their Limited Partners (i) audited financial statements annually, (ii) unaudited financial statements for the first three quarters of each fiscal year, (iii) annual tax information necessary for each Limited Partner's U.S. tax returns, and (iv) descriptive investment information for each portfolio company periodically.

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

As described under "Fees and Compensation," the Advisers and/or their affiliates may receive certain Supplemental Fees from the Partnerships' portfolio companies. As described in the applicable Partnership Agreement, this compensation may, in certain circumstances, offset a portion of the Management Fees paid by the Partnerships. However, in other circumstances, these fees would be in addition to Management Fees. See "Fees and Compensation."

The Advisers or their affiliates may enter into solicitation arrangements pursuant to which they compensate third parties for referrals that result in a potential investor becoming a limited partner in a Private Investment Fund. Any fees and expenses payable to any such placement agents will be borne by the Advisers directly or indirectly through an offset against the Management Fee.

## **CUSTODY**

The Advisers maintain custody of the Partnerships' assets held in the Partnerships' names with the following qualified custodians:

- Bank of America, 5500 Preston Road, Suite B - TX2-047-02-01, Dallas, TX, 75205
- The PrivateBank, 120 South LaSalle Street, Chicago, IL, 60603
- Merrill Lynch, 225 West Wacker Drive, Suite 2100, Chicago, IL, 60606

As applicable, Edgewater urges the investors in Private Investment Funds to carefully review any statements that they may receive from a qualified custodian and, where relevant, to compare them to the statements or information provided by Edgewater.

## **INVESTMENT DISCRETION**

The Advisers have discretionary authority to manage investments on behalf of the applicable Partnership. As a general policy, the Advisers do not allow Limited Partners to place limitations on this authority, except that the Partnership Agreement of a Partnership may impose certain restrictions on investing in certain types of securities. Pursuant to the terms of the Partnership Agreement, however, an Adviser may enter into "side letter" arrangements with certain Limited Partners whereby the terms applicable to such Limited Partner's investment in the Partnership may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. The Advisers assume this discretionary authority pursuant to the terms of the powers of attorney executed by the Limited Partners of each Partnership.

## **VOTING CLIENT SECURITIES**

The Advisers have adopted the Edgewater Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how they will vote proxies, as applicable, for the Partnerships' portfolio investments. The Proxy Policy seeks to ensure that the Advisers vote proxies (or similar instruments) in the best interest of the Partnerships, including where there may be material conflicts of interest in voting proxies. The Advisers generally believe their interests are aligned with those of the Partnerships' investors through the Principals' beneficial ownership interests in the Partnerships and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that the Advisers may address the conflict using several alternatives, including by seeking the approval or concurrence of an advisory board of Limited Partners on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. The Advisers do not consider service on portfolio company boards by Edgewater personnel or the Advisers' receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by the Advisers when voting proxies on behalf of the Partnerships. If you would like a copy of Edgewater's complete Proxy Policy or information regarding how the Advisers voted proxies for particular portfolio companies, please

contact Matthew W. Norris, Edgewater's Chief Compliance Officer, at (312) 664-8621, and it will be provided to you at no charge.

#### **FINANCIAL INFORMATION**

The Management Company does not require or solicit prepayment of management fees more than six months in advance and is not otherwise required to make any other disclosure under this item of the Brochure.