

**August 23, 2012**

**Arcadia Investment Partners  
Form ADV Part 2 - Firm Brochure**



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**This brochure provides information about the qualifications and business practices of Arcadia Investment Partners LLC. If you have any questions about the contents of this brochure, please contact us at 212 931 5296 or [kadmin@arcadiainvestments.com](mailto:kadmin@arcadiainvestments.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Arcadia Investment Partners LLC is registered with the SEC as an investment adviser. Registration as an investment adviser does not imply any level of skill or training.**

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

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## 1. Advisory Business

Arcadia Investment Partners LLC ("AIP") is a New York based investment firm focused on deploying capital into alternative asset classes. AIP has been in business since 2001. AIP's clients and investors in AIP sponsored special investment vehicles include:

- Family offices
- General partners of hedge funds and private equity firms
- Active and Retired CEO's of major corporations
- Trust companies

AIP is 100% owned by Kammy Moalemzadeh and his affiliates.

AIP sources, diligences and executes alternative investments in many assets classes, including:

- Private equity funds
- Real estate funds
- Distressed credit funds
- Direct private equity investments
- Direct real estate investments
- Hedge funds
- Fund of funds

AIP presents investment opportunities to investors who have been pre-screened, qualified and approved by AIP (such persons, the "Investors"). For each opportunity, an Investor may choose whether or not to participate; there are no fixed obligations or blind commitments. Investors may choose to participate in each opportunity on a deal by deal basis, and Investors may customize their own exposure. Certain investment opportunities may have specific investor qualification requirements and/or include future funding commitments. Investors who choose to invest in an opportunity generally invest in an AIP sponsored Fund (defined below); however, some Investors ("Direct Investors") may invest directly as co-investors with the Fund. AIP does not charge Investors to review potential investments. Fees accrue to the Fund and Direct Investors only upon commencement of an investment commitment (as more fully detailed below).

When AIP determines there is sufficient interest in an investment opportunity that is appropriate for its clientele, it typically structures a stand-alone investment vehicle (each a "Fund") dedicated to that investment. Also, affiliates of AIP form a special purpose vehicle ("Arcadia Manager", and together with AIP, "Arcadia") that contracts with the Fund to serve as the Fund manager. Arcadia Managers are deemed "relying advisers" for purposes of the Investment Adviser Act of 1940, as amended (the "Advisers Act"), and are under common control with AIP.

AIP pursues investment opportunities on an individual basis. Its business model seeks to maximize flexibility and ability to be opportunistic. AIP is agnostic to industry, geography, asset class or position in capital structure.

Arcadia's aggregated assets under management as of February 1, 2012 are \$239.7 million, of which \$167.3 million are managed on a discretionary basis and \$72.4 million are managed on a non-discretionary basis. Since inception, \$353.7 million in capital commitments have been placed under Arcadia's management.

## 2. Fees and Compensation

### Overview

Arcadia's fees and compensation vary based on the nature of the underlying investment. Below please find a summary table, followed by additional information regarding Arcadia's fee structure for various underlying investment types. For investments in pooled investment vehicles, the fund offering, organizational documents and management agreements, as applicable, include further details on fees, compensation and related matters.

<i><b>Fee Structure Summary for Arcadia Managed Investment Vehicles</b></i>					
<b>Underlying Investment Type</b>	<b>Structuring Fee</b>	<b>Management Fee</b>	<b>Preferred Return to Investors</b>	<b>Carried Interest</b>	<b>Expense Reimbursement</b>
<b>Primary Fund Investment</b>	N/A	1% of Capital Commitments annually	8-10% typically	10% after return of all capital plus preferred return	Reimbursement of expenses incurred for administration of vehicle and for transaction-related expenses
<b>Secondary Fund Investment</b>	1-3% of Capital Commitments	1% of Capital Commitments annually	8-10% typically	10% after return of all capital plus preferred return	Reimbursement of expenses incurred for administration of vehicle and for transaction-related expenses
<b>Direct Corporate Private Equity</b>	1-3% of Capital Commitments	1% of Capital Commitments annually	8-10% typically	10-30% after return of all capital plus preferred return	Reimbursement of expenses incurred for administration of vehicle and for transaction-related expenses

<b>Direct Real Estate Property</b>	2-3% of Acquisition Value	1% of Capital Commitments annually	8-12% initial preferred return hurdle; 20% second preferred return hurdle	20% after return of all capital plus 1st preferred return; if return exceeds 2d preferred return hurdle, 30% thereafter; carried interest calculated on operating profit separate from return of capital	Reimbursement of expenses incurred for administration of vehicle and for transaction-related expenses
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## Description of Fee Structure for Specific Underlying investments

### Underlying investment in a primary fund investment (private equity fund, real estate fund, distressed credit fund)

Arcadia's annual management fee for each Fund equals 1% of commitments. Management fee amounts are in addition to capital commitments. Funds typically make calls on Investors for amounts to pay management fees annually in advance. In addition, in certain instances, in order to minimize the operational burden associated with multiple small capital calls, the Funds will hold small cash capital cushions; in these instances, the management fee may be deducted from the capital cushion. When the underlying funds are distributing proceeds, the management fees may be withheld from the distribution rather than called. Funded management fees are added to the balance of total invested capital for purposes of calculating Investor profit and any performance fee based income.

Management fees are collected by the Arcadia Manager from the Funds and by AIP from the Direct Investors in advance and at times set by the Arcadia Managers and AIP, respectively. The pre-payment period is always less than six months. If an advisory contract is terminated before the end of the prepayment period, fees would be refunded to the relevant Fund or Direct Investors on a pro-rata basis based on number of days remaining in the period, divided by the total number of days in the period.

Arcadia receives a 10% carried interest on net profits earned by the Fund and Direct Investors on their investment in the underlying portfolio fund. The carried interest is earned on amounts accrued after Investors have received back 100% of their capital investment (including management fees) plus a

cumulative compound annual preferred return. The preferred return is typically 8-10% and varies on an investment-by-investment basis.

The above fees are in addition to any fees charged by or expenses of the underlying funds.

In certain instances, depending upon the amount and/or timing of Investor commitments, the fee provisions have been negotiated via side letters between the Fund and certain Investors or, in the case of certain Direct Investors, between the Direct Investor and AIP. Investors pay their pro-rata share of all other expenses of the Fund (if applicable) and the underlying funds.

*Underlying investment in a secondary fund Investment (interest acquired on a secondary basis in a private equity fund, real estate fund, distressed credit fund, hedge fund)*

Arcadia's annual management fee equals 1% of commitments. Management fee amounts are in addition to capital commitments. Funds typically make calls on Investors for amounts to pay management fees annually in advance. In addition, in certain instances, in order to minimize the operational burden associated with multiple small capital calls, the Funds will hold small cash capital cushions; in these instances, the management fee may be deducted from the capital cushion. When the underlying funds are distributing proceeds, the management fees may be withheld from the distribution rather than called. Funded management fees are added to the balance of total invested capital for purposes of calculating Investor profit and any performance fee based income.

Management fees are collected by the Arcadia Manager from the Funds and by AIP from the Direct Investors in advance and at times set by the Arcadia Managers and AIP, respectively. The pre-payment period is always less than six months. If an advisory contract is terminated before the end of the prepayment period, fees would be refunded to the relevant Fund or Direct Investors on a pro-rata basis based on number of days remaining in the period, divided by the total number of days in the period.

Arcadia charges a minimum 1% structuring fee on invested capital for investments in secondary funds.

Arcadia receives a 10% carried interest on net profits earned by the Fund and Direct Investors on their investment in the underlying portfolio fund. The carried interest is earned on amounts accrued after Investors have received back 100% of their capital investment (including management fees) plus a cumulative compound annual preferred return. The preferred return is typically 8-10% and varies on an investment-by-investment basis.

The above fees are in addition to any fees charged by or expenses of the underlying funds.

In certain instances, depending upon the amount and/or timing of Investor commitments, the fee provisions have been negotiated via side letters between the Fund and certain Investors or, in the case of certain Direct Investors, between AIP and the Direct Investor. Investors pay their pro-rata share of all other expenses of the Fund (if applicable) and the underlying funds.

#### Underlying investment in direct corporate private equity

Arcadia's annual management fee equals 1% of commitments. Management fee amounts are in addition to capital commitments. Funds typically make calls on Investors for amounts to pay management fees annually in advance. In addition, in certain instances, in order to minimize the operational burden associated with multiple small capital calls, the Funds will hold small cash capital cushions; in these instances, the management fee may be deducted from the capital cushion. When the underlying portfolio companies are distributing proceeds, the management fees may be withheld from the distribution rather than called. Funded management fees are added to the balance of total invested capital for purposes of calculating Investor profit and any performance fee based income.

Management fees are collected by the Arcadia Manager from the Funds and by AIP from the Direct Investors in advance and at times set by the Arcadia Managers and AIP, respectively. The pre-payment period is always less than six months. If an advisory contract is terminated before the end of the prepayment period, fees would be refunded to the relevant Fund or Direct Investors on a pro-rata basis based on number of days remaining in the period, divided by the total number of days in the period.

Arcadia charges 1-3% structuring fee on invested capital for direct corporate private equity investments.

Arcadia receives a 10-30% carried interest on net profits earned by the Fund and Direct Investors, respectively, on their investment in the underlying portfolio company. The carried interest is earned on amounts accrued after Investors have received back 100% of their capital investment (including management fees) plus a cumulative compound annual preferred return. The preferred return is typically 8-10% and varies on an investment-by-investment basis.

In certain instances, depending upon the amount and/or timing of Investor commitments, the fee provisions have been negotiated via side letters between the Fund and certain Investors or, in the case of certain Direct Investors, between AIP and the Direct Investor. Investors pay their pro-rata share of all other expenses of the Fund and the underlying funds.

#### Underlying investment in direct real estate property

Arcadia's annual management fee equals 1% of commitments. Management fee amounts are in addition to capital commitments. Funds typically make calls on Investors for amounts to pay management fees annually in advance. In addition, in certain instances, in order to minimize the operational burden associated with multiple small capital calls, the Funds will hold small cash capital cushions; in these instances, the management fee may be deducted from the capital cushion. When the underlying portfolio companies are distributing proceeds, the management fees may be withheld from the distribution rather than called. Funded management fees are added to the balance of total invested capital for purposes of calculating Investor profit and any performance fee based income.

Management fees are collected by the Arcadia Manager from the Funds and by AIP from the Direct Investors in advance and at times set by the Arcadia Managers and AIP, respectively. The pre-payment period is always less than six months. If an advisory contract is terminated before the end of the prepayment period, fees would be refunded to the relevant Fund or Direct Investors on a pro-rata basis based on number of days remaining in the period, divided by the total number of days in the period.

Arcadia charges a 2-3% structuring fee on total property acquisition value, which is taken out of total proceeds at closing.

Arcadia earns carried interest for real estate transactions. The cash flow waterfall for real estate investments which determines the carried interest payable distinguishes between cash proceeds from operating profit (e.g. rental revenue minus operating expenses) from cash proceeds from capital events (e.g. asset sales or refinancing). As a result, Arcadia may receive carried interest prior to return of 100% of Investor capital.

For operating profits, the distributable amounts are first applied to Investors' preferred return, which is calculated as the preferred return rate (which typically is 8-12% and varies on an investment by investment basis) multiplied by the capital balance outstanding for the applicable number of days. Once the preferred return is reached, Arcadia then receives the subsequent distributable amounts until the amounts distributed to Arcadia reach its carried interest percentage of total distributable operating profits, which typically is 20%. Thereafter, any additional distributable amounts typically are allocated 80% to Investors and 20% to Arcadia. In addition, real estate transactions typically have a 2<sup>nd</sup> hurdle rate, after which the carried interest percentage increases. This calculation is done on a quarterly basis.

For cash proceeds from capital events, the distributable amount is first distributed to Investors until Investors have received back 100% of their invested capital (including management fees) plus the applicable preferred return. Once the Investors have received back the initial capital investment plus the first preferred return hurdle, the cash flows then follow the same waterfall as operating cash flow distributions.

The above fees are in addition to any fees charged by or expenses of the underlying investments.

In certain instances, depending upon the amount and/or timing of Investor commitments, the fee provisions have been negotiated via side letters between the Fund and certain Investors or, in the case of certain Direct Investors, between the Direct Investor and AIP. Investors pay their pro-rata share of all other expenses of the Fund and the underlying funds.

### **Other Fees and Expenses**

Arcadia's fees do not include all of the fees and expense that the Funds and Direct Investors may bear. Where investments are made through Funds, Investors also will bear indirectly their pro rata share, based on the Investor's Fund ownership percentage, of any fees and expenses necessary for



administration of the Funds. These fees and expenses may vary, but typically include professional fees such as legal and accounting fees, as well as the following fees and expenses:

- Expenses of organizing the Fund and offering the limited partnership interests and all expenses incurred with respect to each closing of the Fund during the admission periods (up to a certain amount);
- All expenses incurred in connection with identifying, evaluating, structuring and negotiating any potential investment and the acquisition, holding, sale, proposed sale, their disposition or valuation of any investment;
- All litigation-related and indemnification expenses, subject to certain limitations associated with the standard of care to which indemnified parties are subject;
- All ordinary administrative expenses of the Funds, including fees of auditors, attorneys, appraisers and other professionals and the cost of reports to partners.

These fees and expenses may be paid directly by the Fund, or they may be paid by Arcadia and reimbursed by the relevant Fund. Historically, expense reimbursements have been deducted from distributable proceeds. However, transaction related expenses are sometimes deducted at closing. Direct Investors who do not invest through Arcadia-sponsored Funds will not incur certain of these expenses relating to the organization or operation of the Funds.

### **Compensation for Sales and Conflict of Interest**

Arcadia and its related persons do not receive any commission or other compensation in connection with the purchase or sale of investments by clients. However, Arcadia and its related persons may receive compensation from other investment managers as described in "Relationship with Certain Unaffiliated Fund Sponsors" below.

Joshua Nabatian is a registered representative of a broker-dealer, Gottbetter Capital Markets ("Gottbetter"). From time to time, Mr. Nabatian enters into arrangements with private funds whereby the fund compensates Gottbetter, which in turn compensates Mr. Nabatian, in exchange for fund placement services. Gottbetter does not compensate Arcadia or any other Arcadia-related person. These activities do not give rise to any conflict of interest with Arcadia or its clients because: Gottbetter and Mr. Nabatian do not collect any fees on any transactions where a Fund or Direct Investor is the referred investor; and Mr. Nabatian informs Arcadia of all of the funds for which he has agreed to provide these services and does not offer these funds to other potential investors until Arcadia either has determined that it does not wish to recommend this potential investment or it wishes to recommend investment in less than the available amount; and Mr. Nabatian is not responsible for deciding whether Arcadia will recommend any of these funds.

### **3. Performance Based Fees**

Each Arcadia managed investment has compensation associated with investment performance. Specific details pertaining to each type of investment are detailed above. Although the existence of the performance-related compensation is intended to align the interests of Arcadia and its personnel with the interests of Funds, Direct Investors and Investors, it may also create an incentive for Arcadia and the individuals who are entitled to receive a portion of such fees to manage investments in a more aggressive manner than they might otherwise do in the absence of performance-based compensation. Arcadia acts in good faith to ensure that: 1) the Funds, Direct Investors and Investors are treated fairly and equitably and 2) Arcadia meets its general fiduciary obligation to act in the best interests of its clients.

We believe that Arcadia's performance fee structure does not create incentives to favor one account over another. The performance fee structure and rate is fully disclosed to Investors before they decide to invest in a Fund or make a direct investment. . Thus, Arcadia does not have discretion to allocate investment opportunities among clients with varying performance fees, unlike situations that might arise in blind pool investment structures.

### **4. Types of Clients**

Arcadia's Investors include:

- Investment trusts
- Investment funds
- High net worth individuals
- Family offices

Arcadia has no minimum account size for Investors; qualified Investors may choose whether or not to invest in any particular Fund or direct investment opportunity, and they may choose the amount they wish to invest. However, if the amounts Arcadia's Funds and Direct Investors wish to allocate to a particular investment do not meet minimum investment amounts set by the underlying investment vehicle, it may not be possible to complete the investment. In addition, Arcadia in its sole discretion may decline to pursue an investment opportunity.

In certain instances, the underlying investments will have restrictions on whether each Investor in a Fund must be an Accredited Investor, Qualified Purchaser or have other requisites; in such instances, Arcadia pre-screens the Investors in the Fund for compliance with the requirements of the underlying investment.

## 5. Methods of Analysis, Investment Strategies and Risk of Loss

Before recommending an investment opportunity, Arcadia performs rigorous fundamental analysis and due diligence. Details of the types of analysis typically performed by Arcadia, by investment category, are summarized below as are the significant risks of each investment category.

### Primary Fund Investments

Key elements of investment analysis and due diligence for primary fund investments include:

- Evaluation of manager's historical track record, including benchmarking to peers, sector indices and market indices
- Evaluation of correlation to market indices or other asset classes
- Disaggregation of key drivers of historical returns. Assessment of proportion of returns driven by revenue growth, operating margin expansion, strategic add on acquisitions, leverage and exit multiple expansion
- Benchmarking of target manager's availability of capital, size of team and presence in local target markets against peer group
- Evaluation of internal financial models and investment committee memoranda for historical transaction and pipeline transactions
- Review of historical audited financials
- Review of key fund service providers (legal, administration, accounting)
- Forecast of expected cash flow drawdown and distribution schedule
- Macroeconomic analysis for target geographic markets
- Review of industry research reports and research on public companies for target sectors
- Analysis of investment pipeline with focus on a) how transactions sourced, b) purchase multiple expected for transaction, c) likelihood and timing of closing, d) potential for add on acquisitions, e) potential for organic revenue growth, f) potential for operation efficiency improvements, g) potential exit strategies and h) target hold period
- Review of merger and acquisition comparables and activity in target geographies and sectors
- Review of fund terms including management fees, performance fees, transaction fees and expense reimbursement as well as comparison against peers
- If applicable, review of key terms of portfolio leverage
- Review of fund legal documents including limited partnership agreement, subscription agreement and private placement memorandum

Key risks for primary fund investments include the following:

- Fund transactions are highly risky by nature and have potential to lose 100% of value;
- Performance of portfolio companies may be worse than initial forecasts due:
  - For companies with debt in the capital structure, debt default may lead to loss of company to creditors resulting in zero recovery for investors
  - Even without leverage, poor business performance may lead to lower valuation upon exit

- If capital markets are less robust, the ability of portfolio companies to realize sales or IPOs will be weakened. This may result in lower sale valuations or delays to ultimate sale
- It may take longer than forecast for portfolio companies to realize their business plans. This may lead to extension of the fund life or a forced liquidation of remaining holding at the end of the fund life at a discount to expected value
- Macroeconomic risks including: slowdown in GDP growth in target markets spikes in interest rates in target markets and devaluations of currency in target markets. Each of these could adversely affect performance of portfolio companies
- Certain funds have limited operating history. In addition, past performance is not a predictor of future returns. Further, the individual track records of any fund principal may not be applicable to new funds
- Funds typically have large limited partner groups with multiple unique investors. If certain limited partners default on funding commitments, then the fund will have less capital available for investments and may not be positioned to meet all funding obligations
- Additional fund specific risks may be disclosed in the private placement memorandum for the underlying funds.

### Secondary Fund Investments

Key elements of investment analysis and due diligence for secondary fund investments include:

- In depth analysis of existing portfolio investments, including:
  - Review of initial investment committee memorandum and financial models and comparison of performance to date against initial forecasts
  - Discussions with deal partners and board members responsible for each portfolio investment
  - Re-forecasting of future cash flows and potential exit values for each portfolio company
  - Comparable company and comparable transaction analysis for each company in portfolio
  - Industry analysis on key drivers and trends for each target sector on which portfolio companies are active
- Develop internal estimate of intrinsic net asset value of existing portfolio
- Review of comparable secondary market purchases and applicable discounts/premiums to NAV for target fund and comparable funds
- Review of historical LP letters, quarterly reports to investors and annual meeting presentations
- Conversations with other existing limited partners
- Review of historical net asset value trends by portfolio company
- Evaluation of manager's historical track record including benchmarking to peers, sector indices and market indices
- Evaluation of correlation to market indices or other asset classes
- Disaggregation of key drivers of historical returns. Assessment of proportion of returns driven by revenue growth, operating margin expansion, strategic add on acquisitions, leverage and exit multiple expansion

- Benchmarking of target manager's availability of capital, size of team and presence in local target markets against peer group
- Evaluation of internal financial models and investment committee memoranda for historical transaction and pipeline transactions
- Review of historical audited financials
- Review of key fund service providers (legal, administration, accounting)
- Forecast of expected cash flow drawdown and distribution schedule
- Macroeconomic analysis for target geographic markets
- Review of industry research reports and research on public companies for target sectors
- Analysis of investment pipeline with focus on a) how transactions sourced, b) purchase multiple expected for transaction, c) likelihood and timing of closing, d) potential for add on acquisitions, e) potential for organic revenue growth, f) potential for operation efficiency improvements, g) potential exit strategies and h) target hold period
- Review of merger and acquisition comparables and activity in target geographies and sectors
- Review of fund terms including management fees, performance fees, transaction fees and expense reimbursement as well as comparison against peers
- If applicable, review of key terms of portfolio leverage
- Review of fund legal documents including limited partnership agreement, subscription agreement and private placement memorandum

Key risks for secondary fund investments include the following:

- Fund transactions are highly risky by nature and have potential to lose 100% of value;
- Performance of portfolio companies may be worse than initial forecasts because:
  - For companies with debt in the capital structure, debt default may lead to loss of company to creditors resulting in zero recovery for investors
  - Even without leverage, poor business performance will lead to lower valuation upon exit
- If capital markets are less robust, the ability of underlying portfolio companies to realize sales or IPOs will be weakened. This may result in lower sale valuations or delays to ultimate sale
- It may take longer than forecast for portfolio companies to realize their business plans. This may lead to extension of the fund life or a forced liquidation of remaining holding at the end of the fund life at a discount to expected value
- Macroeconomic risks including: slowdown in GDP growth in target markets spikes in interest rates in target markets and devaluations of currency in target markets. Each of these could adversely affect performance of portfolio companies
- Certain funds have limited operating history. In addition, past performance is not a predictor of future returns. Further, the individual track records of any fund principal may not be applicable to new funds
- Funds typically have large limited partner groups with multiple unique investors. If certain limited partners default on funding commitments, then the fund will have less capital available for investments and may not be positioned to meet all funding obligations

- Additional fund specific risks may be disclosed in the private placement memorandum for the underlying funds.

### Direct Corporate Private Equity

Key elements of investment analysis and due diligence for direct corporate private equity investments include:

- Evaluation of management business plan and forecasts
- Interviews with senior members of target company management team and board members
- Creation of detailed, flexible and dynamic earnings forecast and cash flow model
- Comprehensive valuation of investment opportunities via comparable company and acquisition analyses, common equity/mezzanine returns analyses, leverage and coverage analyses and discounted cash flow analyses
- Assessment of target capital structure including credit metrics (sustainability of cash flow coverage and leverage multiples)
- Assessment of continuing capital requirements and methods of financing
- Benchmarking of target company against peers with respect to growth and operating margins
- Benchmarking target company against competitive set with respect to market share, pricing and branding
- Identifying potential for operational margin expansion opportunities
- Evaluation of key industry drivers and growth trends
- Analysis of key trends across value chain and potential impact on target company. Includes review of suppliers, buyers, new entrants, substitute products
- Analysis of competitive advantage and barriers to entry as well as sustainability of each
- Forecast of pricing changes and cost changes affecting target industry
- Review of key contracts with customers and suppliers. Specific focus on term of contract, whether pricing is above or below market and concentration of sales/inputs from customers and suppliers
- Interviews with industry experts with dedicated experience across multiple facets of value chain
- Assessment of management teams historical execution track record against historical forecasts
- Review of historical financial statements and, if applicable, audited financial statements
- Review of quality of earnings reports

Key risks for direct corporate private equity investments include the following:

- Corporate private equity transactions are highly risky by nature and have potential to lose 100% of value:
- Market wide recessions may reduce demand for a company's goods and services
- Companies may see inflation in input costs without the ability to pass along increases to customers
- Increased competition or substitute products may lead to price deterioration on sales
- Companies may not be able to renew key contracts with customers

- Companies may not be able to deploy expansion capital for new asset development or acquisition on the timelines initially projected
- Companies may not grow into critical scale fast enough and may have depressed earnings
- Companies employing leverage may not be able to successfully refinance debt when due. Companies with leverage facing operational shortfalls may trip covenants or become insolvent leading to loss of company to creditors
- Market valuation multiples for a given sector or target company may fall below initial expectations
- Operational turnaround initiatives may not be able to be realized
- If capital markets are less robust, the ability of portfolio companies to realize sales or IPOs will be weakened. This may result in lower sale valuations or delays to ultimate sale
- It may take longer than forecast for portfolio companies to realize their business plans. This may lead to extension of the investment life or a liquidation at a discount to expected value
- Macroeconomic risks including: slowdown in GDP growth in target markets, spikes in interest rates in target markets and devaluations of currency in target markets. Each of these could adversely affect performance of portfolio companies

### Direct Real Estate Property

Key elements of investment analysis and due diligence for direct real estate property investments includes:

- Purchase price analysis including sales price per square foot, discount/premium to replacement cost and capitalization multiple approaches
- Creation of detailed, flexible, dynamic financial forecast model to project rental income, vacancy, turnover cost, operating expenses (insurance, maintenance, taxes) and capital expenditure requirements
- Assessment of target capital structure and credit analysis including debt service and total leverage ratio analyses
- Evaluation of rent roll
- Analysis of expected tenant turnover and replacement costs
- Evaluation of credit risk of tenants
- Evaluation of lease rates relative to market rates and remaining lease term
- Evaluation of lease escalators, either contractual or inflation based
- Assessment of operating expenditures on an absolute and percentage of sales basis. Identification of value enhancement opportunities
- Evaluation of return on capital to refurbishment opportunities
- Evaluation of property management team capabilities including operations, maintenance, refurbishment, tenant improvements and leasing
- Evaluation of property manager's track record in improving operating performance for contracted properties
- Analysis of historical rents for target and peer properties

- Analysis of comparable property vacancy rates
- Analysis of comparable property sales on price per square foot and capitalization rate basis
- Market demographic and population forecast analysis
- Review of historical financial statements for the property
- Review of environmental assessment reports for the property
- Review of structure and engineering assessment reports for the property
- Review of title

Key risks for direct real estate property investments include the following:

- Direct real estate investments are highly risky by nature and have potential to lose 100% of value:
- Credit risk of tenants – potential for tenant delinquency and earlier than expected turnover/vacancy
- Lower than expected occupancy at target property
- Greater than expected capital expenditure and refurbishment requirements
- Decrease in market rental rates and rental rates at property
- Disproportionate impact on net operating income from drop in rental revenue given fixed cost nature of many operating expenses
- Potential to not be able to meet debt service or refinance property debt in situations where property cash flow performance suffers. Risk of losing property to creditors
- Risk of demographic shifts to target markets resulting in negative population growth or declines in average income for submarket. Such shifts would adversely affect occupancy rates and rental rates
- Risk of increased competitive supply would impact occupancy and rental rates
- Greater than expected costs of re-leasing vacant units and potential for vacant units to remain unoccupied longer than expected

Other risks common to investing in each category of underlying investment

- Lack of Diversification. Each Fund is expected to invest in a single underlying fund, company, or real property investment. Accordingly, each Fund's aggregate return is entirely dependent on the performance of that single investment.
- Illiquidity of Underlying Investments. The funds, private equity companies and real estate investments in which the Funds and Directors Investors invest often are illiquid and difficult to value. Valuations may be volatile if public markets and other benchmark assets exhibit price volatility. As a result, the amount realized upon ultimate liquidation of the investment may be more or less than the estimated values.
- Illiquidity of Interests in the Funds. The limited partner and membership interests in the Funds are expected to be issued in reliance upon certain exemptions from registration or qualification under applicable U.S. federal and state securities laws and other non-U.S. securities laws and regulations in each jurisdiction in which such interests are offered and/or sold and, accordingly, will be subject to certain restrictions on transferability. There will be no public market for the



interests in the Funds, and none is expected to develop. Interests in the Funds constitute illiquid investments and may therefore be difficult to value and to sell or otherwise liquidate.

- **Dependence on Key Personnel of Arcadia.** The success of the Funds and direct investments will be highly dependent on the financial and managerial expertise of the principals of Arcadia. The loss of the services of one or more of the principals could have impair the ability of the Funds or Direct Investors to realize their investment objectives.
- **Reliance on Underlying Companies' Management Teams.** The management teams of the underlying funds, portfolio companies and real estate investments are responsible for managing their respective companies' day-to-day operations. There can be no assurance that the existing management team, or any successor, will be successful. In addition, the key personnel managing the underlying fund or company may not run it for the entire life of the investment, for example, in the case of death or replacement of underlying fund management by the limited partners due to poor performance or breaches of the partnership agreement. As a result, performance may be impaired or the fund or company may wind down.
- **Risks Associated with Foreign Investments.** Direct or indirect investment in non-US funds, portfolio companies or real estate may involve substantially greater risks than investing in the United States, including: trade balances and imbalances and related economic policies; potential price volatility in, and relative illiquidity of, some non-US securities markets; unfavorable currency exchange rate fluctuations; imposition of exchange control regulation by the US or foreign governments; US, foreign or other withholding taxes; limitations on the removal of funds or other assets; policies of governments with respect to possible nationalization of their industries; and political difficulties, including expropriation of assets, confiscatory taxation and economic or political instability in foreign nations.
- **Leverage by Underlying Companies.** The underlying companies in certain Funds may employ leverage. The leveraged capital structure may increase the exposure of the company to any deterioration in its condition or industry, competitive pressures, adverse economic developments and rising interest rates.
- **Legal, Tax and Regulatory Risks.** An investment in a Fund or a direct investment may involve complex tax considerations that will differ for each Investor. Prospective Investors should consult their own tax advisors with specific reference to their own situations concerning a commitment to a Fund or a direct investment, including amongst other considerations the possibility that a Fund or underlying investment may generate taxable income to its investors in an amount greater than cash available for distribution. In addition, legal, tax and regulatory changes could occur during the term of an investment that may adversely affect the Funds or Direct Investors.
- **Non-Controlling Investments.** A Fund or Direct Investor will typically hold less than 50% of the outstanding voting interests of a portfolio fund or company, or may hold investments in debt instruments or other securities that do not provide voting rights. Accordingly, the Fund or Direct Investor may have a limited ability to protect its investment.

- **Extensive Government Regulation.** Certain portfolio companies operate in industries subject to extensive government regulation, which creates additional uncertainty and risks. Obtaining regulatory approval may be a lengthy and expensive process with an uncertain outcome. Portfolio companies may be unable to obtain necessary regulatory approvals on a timely basis, if at all, which could materially and adversely affect portfolio company success.
- **Increased Regulatory Scrutiny.** The financial services industry generally, and the activities of private investment funds and their managers, in particular, have been subject to intense and increasing regulatory oversight. Increased oversight may increase Arcadia's and the Funds' exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight may impose administrative burdens on Arcadia, including, without limitation, responding to regulatory inquiries and investigations and implementing new policies and procedures.
- **Indemnification.** Each Fund will be required to indemnify its general partner and its affiliates, and their respective officers, directors, agents, stockholders, members and partners for liabilities incurred in connection with the affairs of the Fund. Such liabilities may be material and may have an adverse effect on the returns to Investors. If the assets of the Fund are insufficient, or if the indemnification obligation of the Fund arises after the term of the Fund, the general partner under certain circumstances may recall a portion of the distributions previously made to Investors.

## **6. Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of the adviser or the integrity of the adviser's management. None of AIP or its relying advisers has any legal, financial or other disciplinary matters to report.

## **7. Other Financial Industry Activities and Affiliations**

### **Relationship of Arcadia personnel with unaffiliated broker-dealer**

Joshua Nabatian is a registered representative of Gottbetter, which is a broker dealer registered with the SEC. From time to time, Mr. Nabatian enters into arrangements with private funds whereby the fund compensates Gottbetter, which in turn compensates Mr. Nabatian, in exchange for fund placement services. These activities do not give rise to any conflict of interest with Arcadia or its clients because: Gottbetter and Mr. Nabatian do not collect any fees on any transactions where a Fund or Direct Investor is the referred investor; and Mr. Nabatian informs Arcadia of all of the funds for which he has agreed to provide these services and does not offer these funds to other potential investors until Arcadia either has determined that it does not wish to recommend this potential investment or it wishes to recommend investment in less than the available amount; and Mr. Nabatian is not responsible for deciding whether Arcadia will recommend any of these Funds.

## **Involvement of Arcadia Manager in management of Funds**

When AIP identifies an investment opportunity that may be appropriate for its clientele, it typically structures a stand-alone Fund dedicated to that investment. For legal, business and tax reasons, affiliates of AIP typically establish a SPV to act as manager to the Fund. We believe that the use of this structure does not create conflicts of interest because AIP and each of the Arcadia Managers are under the common control of Mr. Moalemzadeh.

## **Relationship with certain unaffiliated fund sponsors**

From time to time, AIP refers Investors to unaffiliated investment managers. In these circumstances, AIP does not establish a Fund, but rather Investors invest directly in investment vehicles sponsored by the unaffiliated adviser. In these circumstances, AIP typically advises these Investors with respect to the initial investment in the unaffiliated investment vehicle, but AIP is not obligated to perform ongoing monitoring. In these arrangements, AIP does not have investment discretion and all investment decisions are made by the Investors.

AIP is compensated for its services in these arrangements solely through a share of the compensation received by the unaffiliated investment manager from the underlying investment vehicle. This compensation typically is structured in a manner similar to the compensation structure of the Funds, with a management fee component and performance fee component. Where AIP shares in the management fees of the underlying investment vehicle, the fee sharing arrangement is disclosed to Investors before they commit to make the investment. We believe that this fee structure does not present conflicts of interests and is fair to Investors, since the method of investment analysis is similar to the analysis conducted for investments made by AIP through Funds. In addition, the fee structure of these arrangements typically is less than the total fees and expenses (including expenses of the underlying investment vehicle) for investments in an AIP-sponsored Fund, thereby benefiting participating Investors.

## **8. Code of Ethics**

AIP and the Arcadia managers have adopted a common Code of Ethics (the "Code") for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code includes provisions relating to the confidentiality of Fund and Investor information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All Arcadia supervised persons must acknowledge the terms of the Code annually, or as amended.

## Description of Arcadia's Code of Ethics

Arcadia has adopted its Code, pursuant to SEC rule 204A-1, for the purposes of establishing the standards of business conduct and fostering a culture of honesty and accountability and assisting those covered by the Code to comply with the Advisers Act. The Code is applicable to all supervised persons of the firm and its relying advisers, and is available to any Investor or prospective Investor by contacting AIP in writing and requesting a copy of the Code. Please send written requests to: Arcadia Investment Partners LLC, 641 Lexington Avenue, 13<sup>th</sup> Floor, New York, NY 10022; Attention: Neal Lipner

The Code contains policies which address the following topics:

### Compliance with Federal Securities Laws

Supervised persons are required to comply with all applicable laws in the jurisdictions in which Arcadia does business, including the U.S. federal securities laws.

### Standards of Business Conduct

Consistent with the fiduciary obligations owed to clients, supervised persons are required to act fairly and in the best interest of clients.

### Conflicts of Interest

The Code addresses conflicts of interest that may arise in the course of conducting Arcadia's business and requires that all supervised persons endeavor to avoid situations that present potential or actual conflicts. Among other things, the Code prohibits certain personal business activities by supervised persons without prior approval, and provides that supervised persons should not engage in activities that might influence or appear to influence decisions made by a supervised person in business transactions involving Arcadia. In addition to various trading restrictions, personal securities transactions are reviewed by AIP's compliance personnel.

### Treatment of Inside Information

The Code forbids supervised persons from trading, encouraging others to trade or recommending securities or other financial instruments based on material, non-public information. A supervised person in possession of material, non-public information is not permitted to: (i) buy or sell the securities of companies with respect to which such supervised person has non-public information or (ii) communicate the information outside of Arcadia or, if necessary, its affiliates involved in the management of a relevant Fund.

### Restrictions on Personal Investing and Related Activities

Arcadia imposes certain restrictions on personal investing and related activities designed to prevent conflicts of interest and to guard against the misuse of proprietary or confidential information. AIP maintains and updates a restricted list of securities. In addition, supervised persons are discouraged from engaging in personal trading on a scale that would distract such person from his or her daily responsibilities. Supervised persons are prohibited from investing in an issuer whose securities are under consideration for investment, or have been acquired by, any Fund or Direct Investor, except, directly or indirectly, through the Funds.

Supervised persons are required to receive pre-approval from AIP's Chief Compliance Officer for acquiring direct or indirect beneficial ownership of any security sold in private offerings. The Code requires supervised persons to submit quarterly securities transactions and initial and annual holdings reports. In addition, supervised persons must direct their brokers to supply duplicate copies of all confirmations and monthly brokerage statements for all accounts maintained by the supervised person in which reportable securities are held. If duplicate copies of all confirmations and brokerage statements for all accounts maintained by the supervised person in which reportable securities are held are automatically delivered by the broker-dealer or other institution, supervised persons will not be required to deliver the quarterly securities transactions so long as these brokerage statements contain the same information and are supplied within the same 30-day period after the end of each calendar quarter.

#### Reporting of Violations and Sanctions

All supervised persons are required to promptly report all violations and apparent violations of the Code to AIP's Chief Compliance Officer.

#### **Participation or Interest in Client Transactions**

Arcadia will consider the implications of identified actual or potential conflicts of interest and will act in accordance with Arcadia's internal guidelines and procedures. Certain related persons of Arcadia may invest in the Funds. In addition, Arcadia may have an incentive to recommend to Funds or Direct Investors the purchase or sale of securities in which it or related persons of Arcadia, including individual members of the Arcadia investment team, have a financial interest due to the prospect of receiving carried interest as discussed in "Fees and Compensation" above.

Arcadia anticipates that, in appropriate circumstances, consistent with Funds' and Direct Investors' investment objectives and AIP's Code of Ethics, it will cause accounts over which Arcadia has management authority to effect, and will recommend to Direct Investors or prospective Direct Investors, the purchase or sale of securities in which Arcadia, its affiliates and/or Funds, directly or indirectly, have a position of interest. The Code is designed to assure that the personal securities transactions, activities and investments of the employees of Arcadia will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. 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 Arcadia's clients. In addition, the Code requires pre-clearance of certain transactions. Nonetheless, because the Code in some circumstances would permit employees to invest in the same securities as the Funds or Direct Investors, there is a possibility that employees might benefit from the Funds' or Direct Investors' investment activity in the same securities or the same issuers. Employee trading is continually monitored under the Code to seek to reasonably avoid or mitigate conflicts of interest between Arcadia and its clients.

When an employee of Arcadia wishes to invest in the same investment as a Fund or Direct Investor, he generally invests through the Fund. Where an underlying fund has established a parallel fund for tax exempt or deferred investors, an employee may invest through his IRA in that parallel fund rather than

in the Fund. Arcadia believes that this practice aligns the interests of its Investors and employees, since they generally share in the investment experience of the Fund.

In some instances, related persons may also serve as officers or directors of the underlying portfolio companies. In these circumstances the related person will act as a representative of Arcadia and will seek to act in the best interests of the Funds' and Investors, consistent with his or her duties as a director of the underlying portfolio company. If irreconcilable conflicts of interest were to arise between the interests of Arcadia's clients and the underlying portfolio company, then the related person would resign the position at the underlying company or take other appropriate action to address the conflict; however, the related persons will seek to anticipate and prevent such conflicts before they occur. Related persons acting as officers or directors of underlying portfolio companies may also come into possession of material non-public information concerning the company. Arcadia will handle such information in accordance with the relevant provisions of its Code of Ethics; as a result, in some circumstances Arcadia may be precluded from taking action on that information on behalf of the Funds and Direct Investors.

It is Arcadia's policy that the firm will not effect any principal or agency cross securities transactions for client accounts. Arcadia also will not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction.

## **9. Brokerage Practices**

Arcadia Managers have discretion to select which broker to use in acquiring or disposing of investments for the Funds. Arcadia Managers do not receive any incentive to select or recommend a broker-dealer. Arcadia Managers do not receive research or other soft dollar benefits in exchange for utilizing broker-dealers for Fund transactions.

Arcadia Managers use reasonable best efforts to obtain a favorable price and execution of their purchase and sale transactions in light of the overall quality of brokerage services available. Best execution does not require Arcadia Managers to obtain the lowest commission cost possible, but instead permits consideration of other factors, including a broker's execution capability, trading expertise, accuracy of execution, reputation and integrity, fairness in dispute resolution, financial responsibility and responsiveness. Clients reimburse Arcadia Managers for any brokerage fees or expenses they may incur in acquiring investments for them. When Arcadia purchases or sells securities for a Fund or Direct Investors, the transaction typically is negotiated on the same terms.

Arcadia does not consider, when selecting broker-dealers for client transactions, whether Arcadia receives Investor referrals from those broker-dealers or other third parties.

Arcadia does not routinely recommend, request or require that an Investor in a Fund or a Direct Investor direct it to execute transactions through a specified broker-dealer. Arcadia does not permit Investors to direct brokerage.

## **10. Review of Accounts**

Arcadia reviews the financial position of each Fund on a minimum quarter-annual basis and more frequently if there is fund activity (e.g. capital calls, distributions or management fees). Arcadia's VP of Finance is responsible for conducting financial reviews of Arcadia's Fund accounts. The VP of Finance is assisted in this process by Arcadia's outside accounting firm, Ganer, Grossbach and Ganer.

In addition to the review of Fund accounts, Arcadia maintains a database of all Investor positions. This database is updated continually with each instance of investment activity (e.g. capital calls, distributions or management fees). This database is utilized to generate Investor statements. The statements generally provide Investors with the following information:

- Name of Fund (if applicable)
- Investment vintage (year in which commitment was made)
- Investment type (e.g. private equity fund)
- Investment name
- Investor commitment amount
- Drawn capital amount
- Undrawn capital amount
- Distributed capital to date
- Carrying cost
- Return on investment ratio
- Additional clarifying notes and comments

Arcadia reviews investor statements upon each instance of fund activity. The investor statements are shared with Investors upon their request.

## **11. Client Referrals and Other Compensation**

As described in Other Financial Industry Activities and Affiliations, above, from time to time, Arcadia refers Investors to unaffiliated investment managers, and is compensated for its services with respect to those investments solely through the receipt of a share of the compensation received by the unaffiliated investment manager from the underlying investment vehicle.

## **12. Custody**

As Arcadia manages and controls the assets of the Funds that AIP sponsors and/or acts as manager of those Funds, Arcadia is deemed to have custody of all of their assets. In accordance with Rule 206(4)-2 under the Advisers Act, the SEC's Custody Rule, qualified custodians hold the Funds' cash and securities investments on behalf of the Funds, and the Fund assets held by the qualified custodian will be verified by actual examination by an independent public accountant at least once each calendar year. The qualified custodian will send account statements to Investors in the Funds on a quarterly basis. Investors should carefully review those statements and should compare them carefully with the account statements that they receive from Arcadia.

Arcadia typically does not have custody of the funds or other assets of Direct Investors.

## **13. Investment Discretion**

Arcadia Managers are responsible for the day-to-day operations of the Funds that AIP sponsors and have discretionary authority to manage the Fund assets in accordance with their investment guidelines, limitations, other provisions and terms set forth in their offering documents, limited liability company or limited partnership agreements and management agreements, as applicable. Arcadia does not have investment discretion with respect to Direct Investors.

## **14. Voting Client Securities**

In certain situations, Funds, as investors in the underlying portfolio funds or companies, are presented with opportunities to vote on matters affecting investors in the underlying investments. In those situations, the Funds' Arcadia Manager votes in a manner that the Arcadia Manager determines in its own discretion to be in the best interest of the Fund and its Investors. Arcadia typically does not have voting discretion with respect to the holdings of Direct Investors.

Investors may obtain information about how they can obtain Arcadia's proxy voting policies and procedures and about how Arcadia voted the securities in its Funds' accounts by contacting AIP at the contact information found on the cover of this Brochure.

## **15. Financial Information**

Arcadia has never filed for bankruptcy and is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to its clients.