



## **FORM ADV, PART 2A**

### **Item 1: Cover Page**

#### **Sound Harbor Partners LLC**

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This brochure (this “Brochure”) provides information about the qualifications and business practices of Sound Harbor Partners LLC. If you have any questions about the contents of this Brochure, please contact us at (212) 231-4200. 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 securities authority.

Sound Harbor Partners LLC is a registered investment adviser. SEC registration does not imply any level of skill or training.

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

**Item 2: Material Changes**

On July 28, 2010, the United States Securities and Exchange Commission published “Amendments to Form ADV,” which amended the format and content of the disclosure document that we provide to clients as required by SEC rules. Accordingly, this Brochure is a new document prepared according to the SEC’s new requirements and rules.

In the future, this part of the Brochure will discuss only specific material changes that are made to the Brochure and provide a summary of such changes. We also will reference the date of our last annual update of our Brochure.

Currently, our Brochure may be requested by contacting John T. Corbett at (212) 231-4203 or [john.corbett@soundharbor.com](mailto:john.corbett@soundharbor.com).

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**Item 4: Advisory Business**

Sound Harbor Partners is a private investment management firm, including two registered investment advisory entities and other affiliated organizations (collectively “Sound Harbor”), that currently manages \$22.6 million in private fund assets. Sound Harbor was formed in April 2009. Michael J. Zupon and Michael J. Cerminaro are SHP’s principal owners through Sound Harbor Group LLC, which is our sole parent company.

Sound Harbor Partners LLC, a Delaware limited liability company and a registered investment adviser (“SHP,” “we” or “us”), provides investment advisory services to private investment funds. We commenced our advisory operations in February 2011. Sound Harbor GP LLC, a Delaware limited liability company (“SHGP”) is SHP’s affiliated investment adviser and is registered under the Investment Adviser Act of 1940, as amended (the “Advisers Act”), pursuant to SHP’s registration in accordance with SEC guidance. This Brochure also describes the business practices of SHGP, which operates a single advisory business together with SHP (together with SHGP, the “Advisers”).

SHGP serves as the general partner to SHP Capital Solutions Fund L.P., a private equity fund (the “Fund”) that is exempt from registration under the Investment Company Act of 1940 and whose securities are not registered under the Securities Act of 1933. The Fund invests through negotiated transactions in operating entities (“portfolio companies”). Interests in the Fund are privately offered to qualified investors in the United States and elsewhere. As general partner, SHGP has the authority to make the investment decisions for the Fund. In its capacity as the investment adviser to the Fund, SHP performs the day-to-day investment and administrative operations of the Fund and manages the Fund’s business and affairs. Investment advice is provided directly to the Fund, subject to the discretion and control of the applicable general partner, and not individually to the investors in the Funds.

The Advisers’ investment advisory services to the Fund consist of identifying and evaluating investment opportunities, negotiating the terms of investments, managing and monitoring investments and ultimately selling or liquidating such investments. Investments are made predominantly in non-public companies, although investments in public companies are permitted. The Advisers currently target principally non-investment grade debt obligations of U.S. middle market companies, including secured loans, senior or subordinated debt and convertible securities, and also can invest in equity securities of such companies, including common stock and warrants. From time to time, the senior principals or other personnel of SHP or its affiliates may serve on the boards of directors (or other governing bodies) of such portfolio companies or otherwise act to influence control over management of portfolio companies held by the Fund.

SHP’s advisory services for the Fund are detailed in the Fund’s private placement memorandum, limited partnership agreement and investment advisory agreement (the “Governing Documents”) and are further described in Item 8 below under “Methods of Analysis, Investment Strategies and Risk of Loss.” Investors in the Fund participate in the overall investment program for the Fund, but may be excused from a particular investment due to legal, regulatory or other applicable constraints. The Fund or the Advisers may enter into side letters or similar agreements with certain investors that have the effect of establishing rights under, or altering or supplementing the Fund’s limited partnership agreement.

SHP also has entered into a sub-advisory agreement with Aladdin Capital Management LLC (“Aladdin”) limited to implementing and overseeing a risk management and credit scoring system in respect to the collateral and issuers of leveraged loans held in Aladdin’s collateralized loan obligation funds, subject to the ultimate oversight and direction of Aladdin.

As of September 30, 2012, the Advisers managed approximately \$22.6 million of client assets on a discretionary basis.

### **Item 5: Fees and Compensation**

The amount of, and the manner and calculation of, the management fee for the Fund are established by the Advisers, as modified by negotiations with investors in the Fund, and are set forth in the Fund's charter documents received by each investor prior to investment in the Fund. The management fee for the Fund may be offset by a portion of certain fees earned by the Advisers and their affiliates and by certain expenses incurred by the Fund as provided in the Fund's charter documents.

The Advisers or their affiliates receive additional compensation in connection with management and other services performed (e.g., monitoring and other fees) for portfolio companies of the Fund. This practice may present a conflict of interest and gives our supervised persons and us an incentive to recommend investments based on the compensation received rather than the Fund's needs.

SHP may reduce the management fee payable by any Fund investor (including any Fund investor who is an affiliate of SHGP). Principals or other employees of Sound Harbor may receive a portion of the management fees received by SHP.

The Fund generally invests on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the Fund's charter documents, over the term of the Fund. SHGP will not permit a withdrawal of investment during the Fund's term, except under extraordinary limited circumstances.

The Fund may pay other fees and expenses in addition to the management fees paid to SHP. For example, expenses and fees the Fund may pay include but are not limited to legal fees, accounting fees, audit fees, tax preparation fees, research expenses, due diligence expenses, finders fees, investment banking fees, brokerage commissions, transaction fees, custodial fees, transfer fees and taxes, wire transfer fees, other fees and taxes charged to brokerage accounts and securities transactions, interest on borrowings and insurance premiums, which are unrelated to the fees collected by the Advisers. The Advisers may be entitled to be reimbursed for some or all expenses that they incur on behalf of the Fund. Regarding brokerage practices, please see Item 12 "Brokerage Practices."

For its services to Aladdin, SHP receives a negotiated fixed monthly fee.

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

SHGP as the Fund's general partner receives a share of all profit distributions made by the Fund, the amount of, and the manner and calculation of, which are established by the Advisers, as modified by negotiations with investors in the Fund, and are set forth in the Fund's charter documents received by each investor prior to investment in the Fund (the "Carried Interest"). The Carried Interest is a form of performance-based fee and is indirectly borne by the Fund investors. The payment of this Carried Interest to SHGP creates an incentive for the Advisers to make more speculative investments on behalf of the Fund than they would otherwise make in the absence of such compensation arrangements. SHGP may exempt investors in the Fund (including any Fund investor who is an affiliate of SHGP) from the Carried Interest. As controlling members of SHGP, some of our supervised persons receive such performance-based fee from SHGP.

### **Item 7: Types of Clients**

SHP provides investment advice to the Fund. The Fund is an investment partnership that is operated as an exempt investment pool under the Investment Company Act of 1940, as amended (the “Investment Company Act”). The investors participating in the Fund 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 SHP and its affiliates.

The Advisers do not have a minimum size for the Fund. The Fund generally would require a minimum of \$2,000,000 for investors investing in the Fund but has the discretion to accept lesser amounts. The Fund generally requires all Fund investors to be “accredited investors” as defined under Regulation D of the Securities Act of 1933, as amended (the “Securities Act”) and all new investors that are charged a Carried Interest to be “qualified clients” as defined in Rule 205-3 under the Advisers Act. In addition, the Fund requires all investors make representations concerning their sophistication as investors and their ability to bear the risk of loss of their entire investment under the Advisers’ management.

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

The following discussion is a summary of the methods of analysis and investment strategies and the risks of loss involved in connection with our advisory services to the Fund and is qualified in its entirety by reference to the Governing Documents for the Fund.

***Methods of Analysis.*** In advising the Fund, we generally look to identify compelling fundamental value in leading middle market companies that are believed to be operationally sound and have a sustainable competitive edge. We generally focus on identifying value in companies with the following attributes:

- Competitive Advantage
- Compelling Valuation
- Predictable Cash Flows
- Growth Expectations
- Market Leaders
- Strong Management
- Sound Governance
- Equity Upside

***Investment Strategies.*** In advising the Fund, we generally seek to provide financing to businesses in return for current income, seniority in the capital structure and the potential for meaningful equity upside. We principally target non-investment grade debt obligations of U.S. middle market companies across various industries with annual EBITDA between \$15 million and \$100 million.

Through the Fund, we generally seek to source secured loans, senior or subordinated debt, convertible securities and equity and equity-linked securities, which may be acquired below their fundamental value. These include long-term mezzanine, distressed and equity investments made with the intention of achieving high multiples of cost by exerting influence to unlock shareholder value. This approach uses traditional private equity disciplines and creditors’ rights, such as board seats, observer seats, blocking positions, contractual rights, covenants and creditors’ committees. We generally seek to manage principal risk and achieve equity upside by funding restructurings, reorganizations, refinancings and growth initiatives (including new leveraged buyout transactions). We place a particular emphasis on those investment opportunities that we believe have significant potential for capital appreciation relative to their principal risk. These investment opportunities are frequently found in industries experiencing fundamental change and/or scarcity of capital. We seek investments that may offer the opportunity to exert meaningful influence during and after a financing event.

***Risk of Loss.*** Investing in securities involves risk of loss that clients should be prepared to bear. The principal risks of our investment strategies and the types of securities in which we invest are:

*Management Risk.* Our ability to meet the Fund's investment objectives is directly related to our investment strategies. The value of the Fund's investments may vary with the effectiveness of our research, analysis and recommended asset allocation among portfolio securities. The performance of our principals' prior investments is not necessarily indicative of our future results. If our investment strategies do not produce the expected results, the Fund's assets could be diminished or even lost.

*Credit Market Illiquidity.* Since mid-2007, the credit markets have experienced an extraordinary lack of liquidity. While this lack of liquidity may create opportunities for Fund to acquire assets at prices that we believe are attractive, it creates a number of risks. There can be no assurance that the market will, in the future, become more liquid and it may well continue to be volatile for the foreseeable future. If liquidity does not improve, the Fund will be adversely affected to the extent that it seeks to dispose of assets into an illiquid market, and the Fund may find itself unable to sell an asset at a price that we believe reflects the asset's fair value. It is also possible that the illiquidity in the market could cause prices to decline further, which may have the result of forcing leveraged investment vehicles to sell assets to satisfy requirements under their borrowing arrangements or to meet margin calls, which could, in turn, create further downward price pressure.

*General Market and Credit Risks of Debt Securities.* Debt portfolios are subject to credit and interest rate risk. "Credit risk" refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, subordination, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument and securities that are rated by rating agencies are often reviewed and may be subject to downgrade. "Interest rate risk" refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

*Limited Rights Under Bank Loan Documents.* We expect that a portion of the Fund's investments will consist of interests in loans originated by banks and other financial institutions. The loans invested in by the Fund may include term loans and revolving loans, may pay interest at a fixed or floating rate and may be senior or subordinated. Purchasers of bank loans are predominantly commercial banks, investment funds and investment banks. The Fund may acquire interests in bank loans either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. Participation interests in a portion of a debt obligation typically result in a contractual relationship only with the institution participating out the interest, not with the borrower. In purchasing participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, and the Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Fund will assume the credit risk of both the borrower and the institution selling the participation. The bank loans acquired by the Fund are likely to be below investment-grade.

For discussion of the risks associated with below investment-grade investments, see “Risks Associated with Investments in High Yield Debt” below.

*Equity Investments.* Following our advice, the Fund may acquire, either directly or through conversion of its debt investments, equity securities in portfolio companies. Equity securities generally involve a high degree of risk and will be subordinate to the debt securities and other indebtedness of the issuers of such equity securities. Prices of equity securities generally fluctuate more than prices of debt securities and are more likely to be affected by poor economic or market conditions. In some cases, the issuers of such equity securities may be highly leveraged or subject to other risks such as limited product lines, markets or financial resources.

*Trade and Other General Unsecured Claims.* We may recommend that the Fund invest in various classes of investments that may include claims of trade creditors and other general unsecured claim holders of a debtor (“Trade Claims”). The repayment of trade claims is subject to significant uncertainties, including potential set-off by the debtor as well as the other uncertainties described herein with respect to other distressed securities. The Fund’s investments in Trade Claims and high risk receivables may also entail special risks including, but not limited to, fraud on the part of the assignor of the trade claim as well as logistical and mechanical issues which may affect the ability of the Fund or its agent to collect the claim in whole or in part.

*Risks Associated with Investments in High Yield Debt.* A substantial portion of the high yield debt in which we recommend the Fund invest are rated below investment-grade by one or more nationally recognized statistical rating organizations or are unrated but of comparable credit quality to obligations rated below investment-grade, and have greater credit and liquidity risk than more highly rated debt obligations. High yield debt is generally unsecured and may be subordinate to other obligations of the obligor. The lower rating of high yield debt reflects a greater possibility that adverse changes in the financial condition of the obligor or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings) or both may impair the ability of the obligor to make payment of principal and interest. Many issuers of high yield debt are highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. In addition, many issuers of high yield debt may be (i) in poor financial condition, (ii) experiencing poor operating results, (iii) having substantial capital needs or negative net worth or (iv) facing special competitive or product obsolescence problems, and may include companies involved in bankruptcy or other reorganizations or liquidation proceedings. Certain of these securities may not be publicly traded, and therefore it may be difficult to obtain information as to the true condition of the issuers. Overall declines in the below investment-grade bond and other markets may adversely affect such issuers by inhibiting their ability to refinance their debt at maturity. High yield debt is often less liquid than higher rated securities. High yield debt is often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. High yield debt has historically experienced greater default rates than has been the case for investment-grade securities. We also may recommend that the Fund invest in equity securities issued by entities with unrated or below investment-grade debt.

*Contingent Liabilities.* The Fund may from time to time incur contingent liabilities in connection with an investment that we recommend. For example, the Fund may purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down the facility, the Fund would be obligated to fund the amounts due. The Fund may acquire delayed draw term loans, where the lender has made a commitment to the borrower to lend with a pre-defined future draw period and it may also enter into agreements pursuant to which it agrees to assume responsibility for default risk

presented by a third-party, and may, on the other hand, enter into agreements through which third-parties offer default protection to the Fund.

*Time Required to Maturity of Investment.* The type of investments in which the Fund may invest may typically take from three to ten years from the date of initial investment until repayment.

*Minority Positions in Portfolio Companies.* As part of its overall investment strategy, the Fund may hold minority positions in one or more portfolio companies, and as such it may not be able to exercise control over such companies. In such cases, the Fund will be significantly reliant on the existing management and board of directors of such companies, which may include representatives of other investors with whom the Fund is not affiliated and whose interests may conflict with the interests of the Fund.

*Restricted or Illiquid Securities.* We often recommend investments in illiquid securities, including restricted securities and other securities that are not readily marketable. We may recommend securities that are subject to restrictions on sale because they were acquired from the issuer in a “private placement.” The Fund will not be able to sell these securities publicly unless their sale is registered under the Securities Act, and applicable state securities laws or unless an exemption from such registration requirements is available. In addition, through us or otherwise, the Fund may, from time to time, possess material, non-public information about a borrower or issuer. Such information may limit the ability of the Fund to buy and sell investments. When securities are sold to the public, the Fund may be deemed an “underwriter” or a controlling person with respect thereto for purposes of the Securities Act and may be subject to liability as such under the Securities Act. Furthermore, contractual conditions or practical limitations may preclude, delay or otherwise restrict the Fund’s ability to dispose of illiquid securities or reduce the proceeds that might otherwise be realized from any such disposition. Upon termination of the Fund, the Fund may make distributions in kind to its investors consisting of securities that are not publicly traded.

*Reliance on Portfolio Company Management.* Although we intend to recommend investments in companies with strong and stable management, there can be no assurance that the existing management team of a portfolio company, or any new one, will be able to operate such company successfully. Furthermore, although we will monitor the performance of the Fund’s investment in each portfolio company, it will be primarily the responsibility of company management to operate the business on a day-to-day basis.

*Risks Regarding Dispositions of Investments in Portfolio Companies.* In connection with the disposition of an investment in a portfolio company, the Fund may be required to make representations and warranties about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. The Fund may also be required to indemnify the purchasers of an investment to the extent that any of these representations and warranties turn out to be inaccurate or misleading. These arrangements may result in liabilities for the Fund.

*Nature of Mezzanine Securities.* Although mezzanine securities are typically senior to common stock or other equity securities, the preferred equity and debt securities that we recommend will generally be unsecured and subordinated to substantial amounts of senior debt, all or a significant portion of which may be secured. In addition, these securities may not be protected by all of the financial covenants, such as limitations upon additional indebtedness, typically protecting such senior debt. Holders of mezzanine debt generally are not entitled to receive any payments in bankruptcy or liquidation until senior creditors are paid in full. Holders of preferred equity are not entitled to payments until all creditors are paid in full. In addition, the remedies available to holders of mezzanine debt are normally limited by restrictions benefiting senior creditors. If any portfolio company cannot generate adequate cash flow to meet senior

debt service, the Fund may suffer a partial or total loss of capital invested. There can be no assurances that portfolio companies will not experience financial difficulties that may result in large losses.

*Distressed Securities.* We may recommend investments in “distressed securities”—securities, private claims and obligations of domestic and foreign entities which are experiencing significant financial or business difficulties. Investments may include loans, commercial paper, loan participations, trade claims held by trade or other creditors, stocks, partnership interests and similar financial instruments, executory contracts and options or participations therein not publicly traded. Distressed securities may result in significant returns to the Fund, but also involve a substantial degree of risk. The Fund may lose a substantial portion or all of its investment in a distressed environment or may be required to accept cash or securities with a value less than the Fund’s original investment. Among the risks inherent in investments in entities experiencing significant financial or business difficulties is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court’s discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of such instruments are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of such instruments may be greater than normally expected. In trading distressed securities, litigation sometimes arises. Such litigation can be time-consuming and expensive and can frequently lead to unpredicted delays or losses.

*Competition for Investments.* The Fund that we advise will be competing with a significant number of other private equity and mezzanine investment funds, as well as institutional and strategic (industry) investors, hedge funds, business development companies and other investment managers for investments in portfolio companies. Competition can have the effect of significantly reducing the number of attractively priced investment opportunities available to the Fund, which in turn could have a materially adverse impact on transaction structures and pricing as well as the length of time that is required for the Fund to become fully invested.

*Investments in Non-U.S. Countries.* We may recommend that the Fund acquire securities of companies located in countries other than the United States. Investment in foreign issuers may involve certain special risks due to foreign economic, political and legal developments, including favorable or unfavorable changes in currency exchange rates, exchange control regulations (including currency blockage), expropriation of assets or nationalization, imposition of taxes on dividends, interest payments, or capital gains, the need for approval by government or other authorities to make investments, and possible difficulty in obtaining and enforcing judgments against foreign entities. Furthermore, issuers of foreign securities are subject to different, often less comprehensive accounting reporting and disclosure requirements than domestic issuers. The securities of some foreign governments and companies and foreign securities markets are less liquid and at times more volatile than comparable U.S. securities and securities markets. Foreign brokerage commissions and other fees are also generally higher than in the United States. There are also special tax considerations that apply to securities of foreign issuers and securities principally traded overseas. Moreover, the expenses normally associated with non-U.S. investments often exceed those associated with U.S.-based investments.

*Risks of Certain Investments.* We may recommend that the Fund acquire securities of companies formed for specific transactions and that have no operating histories, or of companies that are highly leveraged, with significant burdens on cash flow resulting from acquisition, recapitalization or other debt service. Such companies’ securities and the ability of such companies to pay debts could be adversely affected by interest rate movements, changes in the general economic climate or the economic factors affecting a particular industry, changes in tax law or specific developments within such companies.

*Risks of Smaller Companies.* Most portfolio companies in which we recommend investments will be either established companies with an operating history or new companies that were formed to acquire an established business. While these companies or their predecessors may be “established” and have an “operating history,” these companies may be small, private companies, often relying on a very concentrated business strategy, product or service for their economic viability. Investments in small companies may be subject to more abrupt or erratic market movements and may involve greater risks than investments in other companies due to their limited product lines and markets and a dependence on management by one or a few key individuals.

*Investments in Undervalued Assets.* We may recommend investments in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. The Fund may be forced to sell, at a substantial loss, assets that we believe are undervalued. In addition, the Fund may be required to hold such assets for a substantial period of time before realizing their anticipated value. During this period, a portion of the Fund’s funds would be committed to assets purchased, thus possibly preventing the Fund from investing in other opportunities. In addition, the Fund may finance such purchases with borrowed funds and thus will have to pay interest on such funds during this waiting period. Finally, margin calls and other events related to the Fund’s indebtedness could force the Fund to have to sell assets at prices that are less than their fair value.

*Third Party Litigation.* The Fund’s investment activities subject it to the normal risks of becoming involved in litigation by third parties. This risk is somewhat greater where the Fund exercises control or significant influence over a company’s direction. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Fund and would reduce amounts distributable to the Fund’s investors.

*Currency Exchange Risk.* Investments that we recommend may be denominated in currencies other than the U.S. dollar, and hence the value of such investments will depend in part on the relative strength of the U.S. dollar. The Fund may be affected favorably or unfavorably by exchange control regulations or changes in the exchange rate between foreign currencies and the U.S. dollar. Changes in foreign currency exchange rates may also affect the value of dividends and interest earned, and the level of gains and losses realized on the sale of securities. The rates of exchange between the U.S. dollar and other currencies are affected by many factors, including forces of supply and demand in the foreign exchange markets. These rates are also affected by the international balance of payments and other economic and financial conditions, government intervention, speculation and other factors.

*Risks of the Bankruptcy Process Affecting Investments.* There are a number of significant risks inherent in the bankruptcy process. Many events in a bankruptcy are the product of contested matters and adversarial proceedings and are beyond the control of the creditors. There can be no assurance that a bankruptcy court in the exercise of its broad powers would not approve actions that would be contrary to the interests of the Fund. The effect of a bankruptcy filing on a company may adversely and permanently affect the company, including the loss of its market position, key employees and otherwise becoming incapable of restoring itself as a viable entity. If for this or any other reason the proceeding is converted to a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment. The duration of a bankruptcy proceeding is difficult to predict and a creditor’s return on investment can be adversely affected by delays while the plan of reorganization is being negotiated and confirmed by the bankruptcy court and until it ultimately becomes effective. Bankruptcy law permits the classification of “substantially similar” claims in determining the classification of claims in a reorganization. Because the standard for classification is vague, there exists

the risk that the Fund's influence with respect to the class of securities it owns can be lost by increases in the number and amount of claims in that class or by different classification and treatment. In the early stages of the bankruptcy process it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. Additionally, certain claims that have priority by law (for example, claims for taxes) may be quite significant. See "Fraudulent Conveyance and Preference Considerations" below.

*Participation on Creditors' Committees.* The Fund may participate on committees formed by creditors to negotiate the management of financially troubled companies that may or may not be in bankruptcy or the Fund may seek to negotiate directly with the debtors with respect to restructuring issues. If the Fund does join a creditors' committee, the participants of the committee would be interested in obtaining an outcome that is in their respective individual best interests and there can be no assurance of obtaining results most favorable to the Fund in such proceedings. By participating on such committees, the Fund may be deemed to have duties to other creditors represented by the committees, which might thereby expose the Fund to liability to such other creditors who disagree with the Fund's actions.

*Provision of Managerial Assistance.* Following our recommendations, the Fund may obtain rights to participate substantially in and to influence substantially the conduct of the management of the issuers in which it makes investments. The Fund may designate directors (and non-executive chairmen) to serve on the boards of directors of issuers in which it makes investments. The designation of directors and other measures contemplated could expose the assets of the Fund to claims by an issuer, its security holders and its creditors. The exercise of control over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability that the limited liability characteristic of business operations usually ignored.

*Lender Liability Considerations and Equitable Subordination.* In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain of the Fund's investments, the Fund could be subject to allegations of lender liability. In addition, under common law principles that in some cases form the basis for lender liability claims, if a lending institution (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower to the detriment of the other creditors of such borrower, a court may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy called "equitable subordination." Because of the nature of certain of the Fund's investments, the Fund could be subject to claims from creditors of an obligor that the Fund's investments issued by such obligor that are held by the Fund should be equitably subordinated. A significant number of the Fund's investments that we recommend typically will involve investments in which the Fund would not be the lead creditor. It is, accordingly, possible that lender liability or equitable subordination claims affecting the Fund's investments could arise without the direct involvement of the Fund.

*Fraudulent Conveyance and Preference Considerations.* Various federal and state laws enacted for the protection of creditors may apply to the purchase of the Fund's investments, which constitute the primary assets of the Fund, by virtue of the Fund's role as a creditor with respect to the borrowers under such investments. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of a

borrower, such as a trustee in bankruptcy or the borrower as debtor-in-possession, were to find that the borrower did not receive fair consideration or reasonably equivalent value for incurring indebtedness evidenced by an investment and the grant of any security interest or other lien securing such investment, and, after giving effect to the incurring of such indebtedness, the borrower (i) was insolvent, (ii) was engaged in a business for which the assets remaining in such borrower constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could invalidate, in whole or in part, such indebtedness and such security interest or other lien as fraudulent conveyances, could subordinate such indebtedness to existing or future creditors of the borrower or could allow the borrower to recover amounts previously paid by the borrower to the creditor (including to the Fund) in satisfaction of such indebtedness or proceeds of such security interest or other lien previously applied in satisfaction of such indebtedness. In addition, in the event of the insolvency of an issuer of an investment, payments made on the Fund's investment could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year) before insolvency depending on a number of factors, including the amount of equity of the borrower owned by the Fund and its affiliates and any contractual arrangement between the borrower, on the one hand, and the Fund and its affiliates, on the other hand. The measure of insolvency for purposes of the foregoing will vary depending on the law of the jurisdiction that is being applied. Generally, however, a borrower would be considered insolvent at a particular time if the sum of its debts was greater than all of its assets at a fair valuation or if the then-present fair saleable value of its assets was less than the amount that would be required to pay its probable liabilities on its then-existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether a borrower was insolvent after giving effect to the incurrence of the loan or that, regardless of the method of evaluation, a court would not determine that the borrower was "insolvent" upon giving effect to such incurrence. In general, if payments on an investment are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient (such as the Fund) or from subsequent transferees of such payments, including Fund investors.

*Post-reorganization Securities.* Post-reorganization securities typically entail a higher degree of risk than investments in securities that have not undergone a reorganization or restructuring. Moreover, post-reorganization securities can be subject to heavy selling or downward pricing pressure after the completion of a bankruptcy reorganization or restructuring. If our evaluation of the anticipated outcome of an investment situation should prove incorrect, the Fund could experience a loss.

*Leverage.* The leveraged capital structures of the portfolio companies in which we recommend investment may increase the exposure to adverse economic factors such as significantly rising interest rates, severe downturns in the economy or deterioration in the condition of the portfolio company or its industry. If a portfolio company is unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, the value of the Fund's investment in such a company could be significantly reduced or even eliminated.

*Risks Associated with Defensive Hedging Strategies.* We may from time to time recommend that the Fund employ defensive hedging techniques, including but not limited to options trading, short sales (possibly specific company shorts), swap transactions and currency and other hedging to minimize risk, particularly for toe-hold distressed investments that we anticipate building into control/active positions. There remains a substantial risk, however, that hedging techniques may not always be possible or effective in limiting losses.

*Structured Products.* We may recommend investments in structured products. These investments will typically consist of equity or subordinated debt securities issued by a private investment fund that invests, on a leveraged basis, in bank loans and/or high-yield bonds directly or through total rate of return swaps or other credit derivatives. The Fund's investments in structured products will be subject to a

number of risks, including risks related to the structured products being leveraged. Use of leverage is a speculative investment technique and will generally magnify the opportunities for gain and risk of loss borne by an investor in the equity or subordinated debt securities issued by a structured product. Many structured products contain covenants designed to protect the providers of debt financing to such structured products. A failure to satisfy those covenants could result in the untimely liquidation of the structured product and a complete loss of the Fund's investment therein. In addition, if the particular structured product is invested in a security in which the Fund is also invested, this would tend to increase the Fund's overall exposure to the credit of the issuer of such securities, at least on an absolute, if not on a relative basis. Structured products are a relatively recent development in the financial markets. Consequently, there are certain tax and market uncertainties that present risks relating to investing in structured products.

*Expedited Transactions.* Investment analyses and decisions by us frequently may be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to us at the time of an investment decision may be limited and we may not have access to detailed information regarding the investment opportunity, in each case, to an extent that may not otherwise be the case had we been afforded more time to evaluate the investment opportunity. Therefore, no assurance can be given that we will have knowledge of all circumstances that may adversely affect an investment.

*Reliance Upon Projections.* We may rely upon projections, forecasts or estimates developed by us or a portfolio company concerning the portfolio company's future performance and cash flow. Projections, forecasts and estimates are forward-looking statements and are based upon certain assumptions. Actual events are difficult to predict and beyond our control. Actual events may differ from those assumed. Some important factors which could cause actual results to differ materially from those in any forward-looking statements include changes in interest rates; domestic and foreign business, market, financial or legal conditions; differences in the actual allocation of the Fund's investments among asset groups from those assumed herein; the degree to which the Fund's investments are hedged and the effectiveness of such hedges, among others. Accordingly, there can be no assurance that estimated returns or projections can be realized or that actual returns or results will not be materially lower than those estimated therein.

*Lack of Diversification.* It is expected that the Fund will invest in a limited number of investments. A consequence of a limited number of investments is that the aggregate returns realized by the Fund's investors may be substantially adversely affected by the unfavorable performance of a small number of such investments. To the extent the Fund concentrates investments in a particular geographic region, security, sector or stage of investment, investments may become more susceptible to fluctuations in value resulting from adverse economic or business conditions applicable to such region, type of security, sector or stage of investment.

#### **Item 9: Disciplinary Information**

Item 9 is not applicable to us.

In March 2008, Carlyle Capital Corporation Limited ("CCC"), a fund affiliated with The Carlyle Group ("Carlyle") filed for insolvency protection in Guernsey. CCC had invested primarily in AAA-rated residential mortgage backed securities on a leveraged basis. After CCC's insolvency filing, shareholders and CCC's court-appointed liquidators have brought actions against Carlyle, certain of its affiliates, and the former directors of CCC. In general, they allege that Carlyle (in its capacity as the external manager of CCC) and the CCC board of directors misrepresented the risks associated with an investment in CCC

and were negligent, grossly negligent or willfully mismanaged the CCC investment program in mortgage backed securities and breached certain duties allegedly owed to CCC and its shareholders.

Michael J Zupon, SHP's current Chief Executive Officer who was at that time a Managing Director and the Head of U.S. Leveraged Finance at Carlyle, served only as a non-voting director of CCC and non-executive vice chairman of the Board but has been named as a party in several (although not all) of these actions. Carlyle and Mr. Zupon are being represented by Williams & Connolly LLP and Carlyle has fully indemnified Mr. Zupon. Carlyle has stated that it believes the claims are without merit and intends to vigorously contest all claims.

The actions contain no allegations of any wrongdoing related to those assets for which Mr. Zupon had responsibility, nor does it contain any specific allegations of wrongdoing against Mr. Zupon individually. CCC's offering memorandum describes Mr. Zupon as the leader of "Carlyle's U.S. Leveraged Finance investment unit," with his responsibilities focused on "non-mortgage assets." Substantially all of the non-mortgage assets for which he had responsibility under a sub-advisory agreement with CCC were sold off by September 2007.

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

As described above under Item 4 "Advisory Business," we currently advise primarily the Fund, which our affiliates or we have sponsored and for which SHGP, has acted as the general partner.

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

***Code of Ethics.*** We have adopted a Code of Ethics in compliance with Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), which establishes standards of conduct for our supervised persons. The Code of Ethics includes general requirements that our supervised persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information. It requires certain of our supervised persons to report their personal securities transactions and holdings quarterly to our Chief Compliance Officer and requires the Chief Compliance Officer to review those reports. It also requires our supervised persons to report any violations of the Code of Ethics promptly to our Chief Compliance Officer. Each of our supervised persons receives a copy of the Code of Ethics and any amendments to it and must acknowledge in writing having received the materials. Annually, each of our supervised persons must certify that he or she complied with the Code of Ethics during that year. Clients and prospective clients may obtain a copy of our Code of Ethics by contacting John T. Corbett at (212) 231-4203 or john.corbett@soundharbor.com.

***Participation or Interest in Client Transactions.*** The Advisers and certain members, employees and affiliates of the Advisers may invest in (and alongside) the Fund, either through SHGP, as direct investors in the Fund or otherwise. The Fund or SHGP, as applicable, may reduce all or a portion of the management fee and Carried Interest related to investments held by such persons. For further details regarding these arrangements, as well as conflicts of interest presented by them, please see "Conflicts of Interest" immediately below.

Due in part to the fact that potential investors in the Fund (including purchasers of an investor's interests in a secondary transaction) or a co-investment opportunity (see below) may ask different questions and request different information, the Advisers may provide certain information to one or more prospective investors that it does not provide to all of the prospective investors or limited partners.

***Personal Trading.*** Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client's interests in client eligible investments. Principals and employees of our affiliates and ours may directly or indirectly own an interest in the Fund. We and our affiliates, principals and employees may carry on investment activities for our and their own account and for family members, friends or others who do not invest in the Fund, and may give advice and recommend securities to vehicles that may differ from advice given to, or securities recommended or bought for, the Fund, even though their investment objectives may be the same or similar.

***Potential Conflicts of Interest.***

***Other Businesses.*** The Advisers intend to devote so much of their time and effort to the affairs of the Fund as may be necessary to seek to accomplish the investment objectives of the Fund. The Fund's charter documents specifically provides that the Advisers and their affiliates may conduct other businesses, including the formation of, and provision of advisory services to, other investment vehicles and accounts for other investors, whether or not any such business is in competition with the Fund. The Advisers and their affiliates and principals may also have, make and maintain investments in their own name or through other entities, and may serve as officers, directors, consultants, partners or stockholders of one or more investment funds, partnerships, securities firms, advisory firms or portfolio companies.

SHGP intends to present to the Fund's investor advisory committee those transactions involving the Fund that SHGP determines, in its sole discretion, involve a potential conflict of interest, other than any transaction expressly permitted by the Fund's charter documents. In addition, the Advisers intend to propose an amendment to the Fund's charter documents that will permit the Advisers, in their sole discretion, to seek the approval of the Fund's investor advisory committee or, in the alternative, a majority in interest of the Fund's investors, in connection with (i) approvals required by clients of the Advisers with respect to the Fund under the Advisers Act, including, without limitation, any and all disclosures and approvals required under Section 206(3) thereof, and (ii) any consent to a transaction that would result in the "assignment" (within the meaning of the Advisers Act) of the advisory agreement between the Fund and SHP, and such disclosure to and approval of the investor advisory committee shall constitute all necessary disclosures to and consents of a client for purposes of the Advisers Act. There can be no assurance that SHGP will be able to resolve all conflicts in a manner that is favorable to the Fund, on the one hand, and any other person or entity for which the Advisers or their affiliates or principals may be advising or managing, on the other hand.

By acquiring an interest in the Fund, an investor in the Fund acknowledges and represents that it has carefully reviewed Part 8: "Risks and Potential Conflicts of Interest" of the Fund's private placement memorandum, as amended from time to time, and understands and consents to the existence of potential conflicts of interest relating to the Advisers and their affiliates and principals, including, without limitation, those described in that section and to the operation of the Fund subject to these conflicts of interest.

The Advisers and their affiliates and principals will not be restricted in their performance of any services or in the types of debt or equity investments which they may make on behalf of one or more other investment funds or accounts, including to potential and actual portfolio companies of the Fund. Such securities or investments in an issuer's securities may be "pari passu," senior or junior in ranking to an investment by the Fund in the securities of such issuer. The Advisers and their affiliates and principals may also take positions, give advice and provide recommendations contrary to those which may be taken by, given or provided to the Fund, and may hold interests potentially adverse to those of the Fund. The activities of the Advisers and their affiliates and principals could result in securities law restrictions on transactions in securities held by the Fund, affect the prices of the Fund's investments or the ability of the

Fund to dispose of such investments, or otherwise create conflicts of interest for the Fund, each of which could have an adverse impact on the performance of the Fund.

*Material Non-Public Information.* As a result of the financial, advisory, investment and other activities of the Advisers and their affiliates and principals frequently come into possession of confidential or material, non-public information. Disclosure of such information is on a need to know basis only. Therefore, SHGP or the Fund may not have access to material non-public information in the possession of SHP or any of its affiliates which might be relevant to an investment decision to be made for the Fund, and the Fund may purchase or sell an investment which, if such information had been known to the Fund, may not have been purchased and/or sold.

In the event any material non-public information is disclosed to any of the members of the Advisers and their affiliates and principals or any other person responsible for the affairs of the Fund, the Fund may be prohibited by applicable securities laws from acting upon any such information. Due to these restrictions, the Fund may not be able to purchase or sell an investment that it otherwise might have purchased or sold.

*Principal, Agency, Cross, and Other Securities Transactions.* Subject to compliance with the terms of the Fund's charter documents and applicable law, the Advisers and their affiliates and principals may, from time to time, act as principal for their own account in connection with investment securities transactions, including selling securities as principal to, and buying securities as principal from, the Fund. Furthermore, Advisers and their affiliates and principals may effect, on behalf of the Fund, transactions where one or more of the Advisers and their affiliates and principals are also acting on the other side of the same transaction. These transactions are known as cross transactions. The Advisers and their affiliates and principals have potentially conflicting divisions of loyalties and responsibilities regarding the Fund and the other parties to those transactions.

Sales of securities for the account of the Fund may be bunched or aggregated with orders for other accounts advised or managed by one or more of the Advisers and their affiliates and principals (including accounts in which Advisers and their affiliates and principals may have a beneficial interest). Because of prevailing trading activity, it is frequently not possible to receive the same price or execution on the entire volume of securities sold. When this occurs, the various prices may be averaged, which may be disadvantageous to the Fund.

By executing a subscription agreement for an interest in the Fund, an investor consents to all such transactions in which one or more members of the Advisers and their affiliates and principals act as a principal or underwriter, act for both the Fund and the other party to the transaction, or bunch or aggregate transactions with others, provided that SHGP is in compliance with the terms of the Fund's charter documents and applicable law pertaining to such transactions.

*Diverse Fund Investor Group.* Fund investors may have conflicting investment, tax, regulatory and other interests or limitations with respect to their investments in the Fund. The conflicting interests of investors may relate to or arise from, among other things, the nature of investments made by the Fund, the structuring or the acquisition of investments, the timing of dispositions of investments, and legal restrictions that prohibit an investor from fulfilling its obligations to the Fund (including, without limitation, policies or prohibitions on providing indemnification or returning distributions to satisfy liabilities or expenses of the Fund). As a consequence, conflicts of interest may arise in connection with decisions made by SHGP, including with respect to the nature or structuring of investments or determining the timing and amount of distributions that may be more beneficial for one investor in the Fund than for another investor, especially with respect to an investor's own tax situations. In selecting, structuring investments appropriate for the Fund and disposing of such investments, SHGP may be obligated to consider the investment, tax or other objectives of any particular investor or regulatory other

limitations applicable to SHGP or an investor, including pursuant to a Side Letter (as defined below) or other agreement with an investor.

*Advisory Committee Members Owe No Fiduciary Duty to the Fund or its Investors.* SHGP has established an investor advisory committee for the Fund comprised of representatives of investors selected in the sole discretion of SHGP. SHGP anticipates that the advisory committee will review transactions and other matters pertaining to the Fund solely to the extent such transaction or matter involves a conflict of interest between the Fund and SHGP or any of its affiliates as determined by SHGP. Participation on the advisory committee is entirely voluntary, and no assurance can be given that the members of the advisory committee will perform the requested functions. In considering matters before the advisory committee, the members thereof have no fiduciary obligations to the Fund or SHGP or the investors other than to act in good faith and, therefore, members of the advisory committee may take into consideration their own interests in a particular matter and are not required to take into consideration the interests of the Fund or any of SHGP or the other investors. In addition, the Fund is required to indemnify each investor (and its representative) that is a member of the advisory committee for any claims, liabilities, damages and related expenses, including legal fees, incurred by it by reason of any action performed or omitted in connection with such member's service on the advisory committee.

*Proposed Tax Legislation Potentially Adversely Affecting Members of the General Partner Group.* Congress is currently considering proposed legislation that would treat carried interests as ordinary income for United States federal income tax purposes. Enactment of any such legislation could adversely affect employees or other individuals performing services for the Fund who hold direct or indirect interests in SHGP and benefit from carried interest. This could make it more difficult for the Advisers and their affiliates to incentivize, attract and retain individuals to perform services for the Fund. Any such developments could thus adversely affect the Fund's investment returns allocable to the Fund's investors. SHGP may take any action (including amending the Fund's charter documents) that it believes to be reasonably necessary to mitigate the impact of any such actual or contemplated change in law in a manner intended to reduce or eliminate the adverse impact of such change in law to SHGP (and its direct and indirect partners and members) while preserving the intended economic arrangement among the partners of the Fund in all material respects. SHGP will bear the cost of the expenses associated with any such actions.

*Side Letters.* The Advisers and/or the Fund may enter into other written agreements ("Side Letters") with one or more Fund investor. These Side Letters may entitle a Fund investor to make an investment in the Fund on terms other than those set forth in the Fund's charter documents. Any such terms may be more favorable than those offered to any other investor or pursuant to other Side Letters. If SHGP and/or the Fund enter into a Side Letter entitling an investor to opt out of a particular Fund investment or withdraw from the Fund or excuse a Fund investor from fulfilling an obligation to the Fund under the Fund's charter documents, any election to opt out, withdraw or excuse by such investor may increase any other investors' pro rata interest in that particular investment (in the case of an opt-out) or all future investments (in the case of a withdrawal) or increase the other investors' pro rata share of any liability related to the Fund (in the case of an excused investor).

## **Item 12: Brokerage Practices**

We focus on securities transactions of private companies and generally recommend and negotiate purchases and sales of such companies through privately negotiated transactions in which the services of a broker-dealer may not be retained. However, the Fund's general partner may also distribute securities to investors in the Fund or sell such securities, including through using a broker-dealer, if a public trading market exists. To the extent we engage in public securities transactions, we follow the brokerage practices described below.

If we sell publicly traded securities for the Fund, we are responsible for directing orders to broker-dealers to effect securities transactions for the Fund. In such event, we will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, we may consider a variety of factors, including but not limited to: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; (iv) gross compensation paid to the broker; and (v) the financial strength of the broker.

We 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 we generally seek competitive commission rates, we 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 our seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although we generally do not make use of such services at the current time and have not made use of such services since our inception. As a general matter, research provided by these brokers would be used to service all of the funds we advise. However, each and every research service may not be used for the benefit of each and every fund advised by us, and brokerage commissions paid by one fund may apply towards payment for research services that might not be used in the service of such fund.

To the extent that we allocate brokerage business on the basis of research services, we may have an incentive to select or recommend broker-dealers based on the interest in receiving such research or other products or services, rather than based on the Fund’s interest in receiving most favorable execution.

To the extent that we engage in any public securities 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 Fund are completed independently, we may also purchase or sell the same securities or instruments for several Fund simultaneously. From time to time, we 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 Fund is favored over any other Fund. When an aggregated order is filled in its entirety, each participating Fund generally will receive the average price obtained on all such purchases or sales made during such trading day.

When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata* basis to each Fund participating in such buy or sell order in accordance with the amount of securities originally requested for such Fund.

Each Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. Exceptions to *pro rata* allocations are permissible provided they are fair and equitable to Fund over time.

### **Item 13: Review of Accounts**

The investments made by the Fund 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, we

closely monitor companies in which the Fund invests, and our investment staff, led by the Chief Investor Officer periodically monitors the investment and confirms that the Fund is maintained in accordance with its stated objectives.

The Fund generally will provide to its investors annual GAAP audited and quarterly unaudited financial statements and annual tax information necessary for each investor's tax return.

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

Our affiliates or we may provide certain business or consulting services to companies in the Fund's portfolio and may receive compensation from these companies in connection with such services. As described in the Governing Documents, this compensation may, in many cases, offset a portion of the management fees paid by the Fund. See Item 5 "Fees and Compensation."

From time to time, our affiliates or we may enter into solicitation arrangements pursuant to which they or we compensate third parties for referrals that result in a potential investor becoming an investor in the Fund. Any fees and expenses payable to any such placement agents will be borne by us indirectly through an offset against our management fee.

#### **Item 15: Custody**

Item 15 is not applicable to us.

#### **Item 16: Investment Discretion**

The Advisers have discretionary authority to manage investment on behalf of the Fund. Investment advice is given to the Fund and not individually to the investors in the Fund. As a general policy, SHGP does not allow Fund investors to place limitations on this authority except pursuant to the Fund's Governing Documents. Pursuant to the terms of the Fund's charter documents, however, the Fund's general partner may enter into "side letter" arrangements with certain Fund investors whereby the terms applicable to such investor's investment in the Fund 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. SHGP assumes its discretionary authority pursuant to the terms of the Fund's charter documents and powers of attorney executed by the Fund's investors.

#### **Item 17: Voting Client Securities**

For any discretionary client account, we have adopted the Sound Harbor Proxy Voting Policies and Procedures (the "Proxy Policy") to address how we will vote proxies, as applicable, for the discretionary client's portfolio investments. The Proxy Policy seeks to ensure that we vote proxies (or similar instruments) in the best interest of the Fund, including where there may be material conflicts of interest in voting proxies. We generally believe our interests are aligned with those of the Fund's investors through our principals' beneficial ownership interests in the Fund and therefore will not seek investor approval or direction when voting proxies. If there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that we may address the conflict using several alternatives, including by seeking the approval or concurrence of the Fund's advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, the Fund's advisory board may approve our vote in a particular solicitation. We do not consider service on portfolio company boards by our or our affiliates' personnel or our 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 us when voting proxies on behalf of

the Fund. A client can obtain a copy of our proxy voting policy and a record of votes cast by us on behalf of that client by contacting John T. Corbett at (212) 231-4203 or [john.corbett@soundharbor.com](mailto:john.corbett@soundharbor.com).

**Item 18: Financial Information**

Item 18 is not applicable to us.

**Item 19: Requirements for State-Registered Advisers**

Item 19 is not applicable to us.