

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

**BRENTWOOD PRIVATE EQUITY III, LLC**

**11150 Santa Monica Boulevard  
Suite 1200  
Los Angeles, CA 90025  
www.brentwood.com**

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**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Brentwood Private Equity III, LLC (“Brentwood III”). If you have any questions about the contents of this Brochure, please contact us at (310) 477-6611. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.**

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

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

## **MATERIAL CHANGES**

This Brochure has been updated since the last filed version, dated April 1, 2013, to reflect fee, custody and other information regarding a new private fund advised by the Advisers (as defined herein).

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## **ADVISORY BUSINESS**

Brentwood Private Equity III, LLC (“Brentwood III”), a Delaware limited liability company that commenced operations in April 1999, is a private investment management firm and a registered investment adviser.

Brentwood III and its affiliates (collectively, “Brentwood”), including Brentwood Private Equity IV, L.P. (“Brentwood IV”) and Brentwood Private Equity V, L.P. (“Brentwood V” and together with Brentwood III and Brentwood IV, the “Advisers” or the “General Partners”), each a Delaware limited partnership, provide investment advisory services to private investment funds. Each of the Advisers conducts business primarily under the name Brentwood Associates. Brentwood commenced operations in 1972.

Brentwood III is the general partner of Brentwood Associates Private Equity III, L.P. (“BAPE III”), Brentwood Associates Private Equity III-A, L.P. (“BAPE III-A”) and BAPE III Executive Fund, L.P. (“BAPE III Executive”), each a Delaware limited partnership. Brentwood IV is the general partner of Brentwood Associates Private Equity IV, L.P. (“BAPE IV”) and BAPE IV - AIV, L.P. (“BAPE IV-AIV”), each a Delaware limited partnership. Brentwood V is the general partner of Brentwood Associates Private Equity V, L.P. (“BAPE V”), Brentwood Associates Private Equity V-A, L.P. (“BAPE V-A”) and BAPE V Executive Fund, L.P. (“BAPE V Executive”), each a Delaware limited partnership.

Brentwood V is a registered investment adviser under the Advisers Act pursuant to Brentwood III’s registration in accordance with SEC guidance. Brentwood IV is separately registered with the SEC as an investment adviser. Brentwood III, Brentwood IV and Brentwood V operate as a single investment advisory firm and are under common control.

In addition, Brentwood III is the management company to BAPE III, BAPE III-A, BAPE III Executive, BAPE IV, BAPE IV-AIV, BAPE V, BAPE V-A and BAPE V Executive (collectively, the “Funds,” and together with any future private investment fund managed by Brentwood III, the “Private Investment Funds”). Brentwood III has the authority to manage the business and affairs of the Funds pursuant to the Fund partnership agreements (each, a “Partnership Agreement”) and/or respective management agreements with Brentwood IV and Brentwood V.

The Funds and any other Private Investment Funds are private equity funds and invest through negotiated transactions in operating entities. The Advisers’ investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for such investments. Each Fund invests predominantly in non-public companies, although each Fund may invest in public companies, subject to any limitations set forth in its Partnership Agreement. The Funds generally seek to take a controlling position when investing in a portfolio company, and generally at least one Brentwood principal or other Brentwood investment professional serves on a portfolio company’s board of directors or other similar body in order to represent the applicable Fund’s interests in the portfolio company.

The Advisers' advisory services for the Funds are detailed in the applicable private placement memoranda, management agreements and Partnership Agreements and are further described below under "Methods of Analysis, Investment Strategies and Risk of Loss." Investors in Private Investment Funds participate in the overall investment program for the applicable fund, but may be excused from a particular investment due to legal, regulatory or other applicable constraints. Each Fund or its General Partner may enter into side letters or other similar agreements with certain investors that have the effect of establishing rights under, altering or supplementing the Partnership Agreement, including providing informational rights or addressing regulatory matters, with respect to such investors.

As of June 30, 2013, Brentwood III managed \$897.8 million in client assets on a discretionary basis. Brentwood III is managed by its managing members, who are William M. Barnum, Jr., Anthony U. Choe, Roger V. Goddu, Eric G. Reiter and Steven W. Moore (the "Principals"). Brentwood III's principal owner is William M. Barnum, Jr. Brentwood V is managed by its limited partners, who are the Principals. No person owns more than 25% of Brentwood V.

## **FEES AND COMPENSATION**

In general, Brentwood III receives a management fee (the "Management Fee") in connection with advisory services it provides to BAPE III and BAPE III-A, Brentwood IV receives a Management Fee with respect to services it provides to BAPE IV and BAPE IV-AIV and Brentwood V receives a Management Fee in connection with advisory services it provides to BAPE V and BAPE V-A. In providing its management services, Brentwood III incurs expenses on behalf of the Funds, and Brentwood IV and Brentwood V reimburse Brentwood III for expenses related to BAPE IV, BAPE IV-AIV, BAPE V, BAPE V-A and BAPE V Executive, as applicable. Each General Partner may receive a carried interest with respect to the advisory services it provides to BAPE III, BAPE III-A, BAPE IV, BAPE IV-AIV, BAPE V and BAPE V-A, as applicable. For each Fund, the carried interest distributed to a General Partner is typically subject to a potential giveback at the end of the Fund's life if the General Partner has received excess cumulative distributions. BAPE III Executive and BAPE V Executive do not pay Management Fees or carried interest.

Brentwood III or other Brentwood entities or affiliates may receive additional compensation in connection with management and other services performed for portfolio companies of Private Investment Funds and such additional compensation may offset in whole or in part the Management Fees otherwise payable to Brentwood III. Investors in the Private Investment Funds also bear certain fund expenses. Investors should review the applicable Fund's Partnership Agreement for details regarding the fee structures summarized below. Terms not defined herein are defined in the applicable Partnership Agreement.

### **Management Fees**

#### **BAPE III and BAPE III-A**

Brentwood III has reduced its Management Fee for BAPE III and BAPE III-A since such Funds are no longer actively making investments. As the general partner of BAPE III and BAPE

III-A, Brentwood III currently receives a Management Fee of 1% per annum, multiplied by the lower of the total contributions made to fund a remaining portfolio investments or the aggregate fair value of remaining portfolio investments. The Management Fee is subject to further adjustment as outlined below.

The Management Fee is increased by the excess of the aggregate amount by which the fee was previously deferred by the General Partner Participation Amount Reduction (GPPA Reduction), used to make Portfolio Investments and Bridge Financings disposed of in the current and all preceding years over the cumulative amount of such disposals in prior years. The Management Fee is payable until all portfolio investments are distributed or until Brentwood III's relationship with BAPE III or BAPE III-A is terminated for other reasons (as described in the Partnership Agreement). As more fully described in the Partnership Agreement, the Management Fee is generally reduced (but not below zero) by income received by Brentwood III or its affiliates from BAPE III and BAPE III-A's portfolio companies for each fiscal year as follows:

- Transaction Fees (other than Directors Fees) 50%
- Excess Investment Banking Fees and Directors fees 100%

#### BAPE V and BAPE V-A

BAPE V and BAPE V-A generally pays Brentwood V a Management Fee on a semi-annual basis, partially in advance and partially in arrears, equal to 2% per annum of aggregate commitments. Beginning on the first Management Fee due date after the earliest to occur of the expiration of the Investment Period or certain other events specified in the Partnership Agreement, the Management Fee will be reduced to an amount equal to 2% on an annual basis of aggregate funded commitments less aggregate distributions representing a return of capital and, without duplication, complete write-offs, in each case as determined in accordance with the Partnership Agreement. Notwithstanding the foregoing, commencing with the first Management Fee due date after the second anniversary of the dissolution of BAPE V and BAPE V-A and until the final distribution of their assets, the Management Fee for each subsequent Management Fee due date shall be determined based upon an annual operating budget prepared by Brentwood V and approved by BAPE V and BAPE V-A's advisory board. As more fully described in the Partnership Agreement, the Management Fee is generally reduced (but not below zero) by income received by Brentwood V or its affiliates from BAPE V and BAPE V-A's portfolio companies for each fiscal year as follows:

- Break-Up, Co-Invest, Transaction and Monitoring Fees (other than Directors Fees) 80-100% (depending on the cumulative amount of such fees received and retained by the General Partner)
- Directors Fees 100%

### Other Management Fee Information

Management Fees are payable semi-annually, partially in advance and partially in arrears. Installments of the Management Fee payable for any period other than a full six-month period are adjusted on *pro rata* basis according to the actual number of days in such period.

### **Carried Interest**

Brentwood III will receive a carried interest with respect to BAPE III and BAPE III-A equal to 20% of all realized profits in excess of an 8% compound preferred return subject to a General Partner catch-up provision, as more fully described in the applicable Partnership Agreements. Brentwood V will receive a carried interest with respect to BAPE V and BAPE V-A equal to 20% of all realized profits in excess of an 8% compound preferred return subject to a General Partner catch-up provision, as more fully described in the applicable Partnership Agreements. In addition to the general potential giveback of carried interest at the end of a Fund's life if the General Partner has received excess cumulative distributions, Brentwood V is subject to interim giveback obligations, as specified in the Partnership Agreement.

### **Other Information**

The Funds and other Private Investment Funds invest on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the Partnership Agreement, over the term of the Fund (or the relevant Private Investment Fund, as applicable) and investors generally are not permitted to withdraw from or redeem interests in the Fund (or other relevant Private Investment Fund, as applicable). It is expected that any future Private Investment Funds will have a similar fee structure.

Principals or other employees of Brentwood may receive a portion of the Management Fee, carried interest or other compensation received by Brentwood III or its affiliates. In addition, the General Partners may exempt certain Fund investors, including the Advisers and their affiliates, from payment of all or a portion of Management Fees and/or carried interest.

In addition to the Management Fee and carried interest payable to the Advisers, the Funds bear certain expenses. As set forth in the applicable Partnership Agreement, the Funds generally bear all organizational expenses, subject to certain exceptions set forth in the Partnership Agreement, and all expenses relating to the Fund's investments to the extent not paid by portfolio companies, including legal, accounting, investment banking, travel, consulting, research, brokerage, finder's, custody, transfer, registration, insurance, advisory board, broken deal, interest, taxes, extraordinary expense and other similar fees and expenses, but not the Advisers' expenses in connection with maintaining and operating their offices (such as compensation of its employees, rent, utilities and general office expenses). Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

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

As described under "Fees and Compensation," Brentwood III receives a carried interest allocation on certain realized profits in BAPE III and BAPE III-A and Brentwood V receives a carried interest allocation on certain realized profits in BAPE V and BAPE V-A. Brentwood IV

also receives a carried interest allocation from BAPE IV (or BAPE IV-AIV). Neither BAPE III Executive nor BAPE V Executive is charged a performance-based fee. The Advisers believe that this arrangement does not pose a conflict since the Funds are the primary investment vehicles for Brentwood's investors and BAPE III Executive's ability to coinvest alongside BAPE III and BAPE III-A and BAPE V Executive's ability to coinvest alongside BAPE V and BAPE V-A are subject to limitations set forth in the applicable Partnership Agreements, including caps on capital BAPE III Executive and BAPE V Executive can raise.

## **TYPES OF CLIENTS**

Brentwood III provides investment advice to Private Investment Funds. Private Investment Funds may include investment partnerships or other investment entities formed under domestic or non-U.S. laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in Private Investment Funds 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 Brentwood III and its affiliates.

The Funds generally have a minimum investment amount of \$10 million for third-party investors. Such minimum investment amount may be waived by the General Partners. BAPE III Executive and BAPE V Executive are investment vehicles for certain Brentwood personnel and do not have a minimum investment amount.

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

### **General**

Brentwood III provides certain day-to-day investment advisory services to the Funds, subject to the supervision of the applicable General Partner. Each Fund's investment committee retains ultimate decision-making authority for such Fund. The Advisers have common owners and personnel. Accordingly, the Advisers' general investment methodology is described below. Investors should refer to the applicable Partnership Agreement and private placement memorandum for further information regarding investment strategies employed for a specific Fund.

The Advisers generally focus on investing, typically as the first institutional investor, in middle-market consumer and consumer-related businesses in which they believe they can accelerate growth and increase enterprise value. The Advisers' investment advisory services consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for investments. The Advisers invest the Funds' assets predominantly in private companies although investments in public companies are permitted, subject to any restrictions in the Partnership Agreements.

There can be no assurance that the Advisers will achieve the investment objectives of each Fund and a loss of investment may be possible.



## Investment Strategy

The Advisers' investment strategy for the Funds generally focuses on making control investments via recapitalizations, management buyouts and growth equity investments. The typical investment is between \$15 million and \$75 million. The Advisers seek to (i) target companies well-positioned to benefit from long-term consumption trends; (ii) focus on large, growing consumer sectors with historical expertise; (iii) leverage their Southern California location; (iv) capitalize on their position as the first institutional investor; and (v) actively guide portfolio companies through a four-phase growth strategy (operating enhancement, organizational development, growth through replication and internal investment and growth through acquisition).

## Investment Process

*Investment Origination and Screening.* The Advisers originate their investment opportunities both through direct sourcing efforts in their targeted sectors of expertise as well as through intermediaries. In each of their targeted sectors, the Advisers have built relationships with operating executives and industry resources that provide industry insights into specific companies, management teams, and trends which form the basis for investment ideas. The Advisers leverage their reputation to produce a relevant and regular flow of transaction ideas.

*Due Diligence and Investment Decisions.* The Advisers employ three to four of their professionals to conduct a rigorous and comprehensive industry and business analysis of each potential investment. As an investment opportunity progresses, the Advisers will begin recruiting executives and industry resources from Brentwood's extensive network to act as advisors on the investment. Concurrent with this intensive review, the Advisers identify opportunities for operating enhancements and strategy modifications which comprise the foundation of near-term operating plans. The Advisers regularly hold review meetings to discuss the status and critical issues of potential new investments. While the Advisers' culture emphasizes the meaningful participation of the entire professional staff, final investment decisions are made by the Principals.

*Transaction Structuring.* The Advisers typically invest in control situations, relying on a variety of structures, including recapitalizations, management buyouts, and growth equity investments. While professionals of the Advisers and their affiliates usually seek to constitute a majority of the board of directors, the Principals also actively recruit independent directors with meaningful relevant experience. The Advisers carefully tailor their portfolio company capital structures to provide sufficient flexibility for the execution of the company's growth plans. As a result, the Advisers often utilize conservative financial leverage in the initial stages of an investment while the company undertakes key operational and organizational initiatives, or to allow significant reinvestment of capital for growth. Because the Advisers seek investments with high unlevered returns on invested capital, most investments are not reliant upon financial leverage to generate attractive risk-adjusted returns.

*Investment Criteria.* In assessing potential transactions, the Advisers seek investments in portfolio companies that demonstrate, or with the Advisers' resources have the potential to achieve, the following characteristics: experienced management leadership with aligned

incentives; strong performance culture focused on the customer; differentiation that is tangible to the customer; clear path to long-term growth; and high returns on invested capital.

*Realization and Exits.* The Advisers' growth focus provides them with flexibility with respect to the timing and method of exit, enabling the optimization of proceeds from each realization. The Advisers' growth strategy creates companies that are often attractive to strategic buyers - the most frequent form of exit for Brentwood investments - as well as financial buyers seeking platforms for further growth. In certain portfolio companies where rapid and extensive reinvestment of capital is a continuing part of the growth strategy, the Advisers may seek partial liquidity through an initial public offering. The Funds typically hold investments between four and seven years, although the timing of realizations will vary based on the market conditions of the industry sector, the company's execution of its long-term growth strategy, and the general tenor of debt and equity financial markets.

## **Risks of Investment**

Each Fund and its investors bear the risk of loss that the Advisers' investment strategy entails. Investors should review each Fund's private placement memorandum for information regarding risks specific to each Fund. In general, the risks involved with the Advisers' investment strategy and an investment in each Fund include, but are not limited to, those described below.

*Business Risks.* The Fund's investment portfolio consists primarily of securities issued by privately held companies, and operating results in a specified period are difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

*Future and Past Performance.* The performance of the Principals' or the Fund's prior investments is not necessarily indicative of the Fund's future results. While the General Partner intends for the Fund to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that the targeted internal rate of return will be achieved. On any given investment, loss of principal is possible.

*Investment in Junior Securities.* The securities in which the Fund will invest may be among the most junior in a portfolio company's capital structure and, thus, subject to the greatest risk of loss. Generally, there will be no collateral to protect an investment once made.

*Concentration of Investments.* The Fund will participate in a limited number of investments and may seek to make several investments in one industry or one industry segment. As a result, the Fund's investment portfolio could become highly concentrated, and the performance of a few holdings or of a particular industry may substantially affect its aggregate return. Furthermore, to the extent that the capital raised is less than a Private Investment Fund's targeted amount, such Private Investment Fund may invest in fewer portfolio companies and thus be less diversified.

*Lack of Sufficient Investment Opportunities.* It is possible that the Fund will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring private equity transactions is highly competitive and involves a high

degree of uncertainty. However, the Fund's Limited Partners are required to pay annual management fees during the Fund's Investment Period based on the entire amount of their commitments.

*Dynamic Investment Strategy.* While the Advisers generally intend to seek attractive returns for the Funds primarily through making private equity investments as described in the applicable private placement memorandum and Partnership Agreement, the Advisers may pursue additional investment strategies and may modify or depart from their initial investment strategy, investment process and investment techniques as they determine appropriate. The Advisers may pursue investments outside of the industries and sectors in which the Principals have previously made investments or have internal operational experience.

*Illiquidity; Lack of Current Distributions.* An investment in the Fund should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is generally expected that this will not occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating the Fund (including the Management Fee) may exceed its income, thereby requiring that the difference be paid from the Fund's capital, including, without limitation, unfunded commitments.

*Leveraged Investments.* The Fund may make use of leverage by having a portfolio company incur debt to finance a portion of its investment in such portfolio company. Leverage generally magnifies both the Fund's opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which state is difficult to forecast accurately, and at times it may be difficult to obtain or maintain the desired degree of leverage. The use of leverage also imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to finance future operations and capital needs. The leveraged capital structure of portfolio companies will increase the exposure of the Fund's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of the Fund's investments in the leveraged portfolio companies in a down market. In the event any portfolio company cannot generate adequate cash flow to meet debt service, the Fund may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of the Fund. Furthermore, should the credit markets be tight at the time the Fund determines that it is desirable to sell all or a part of a portfolio company, the Fund may not achieve an exit multiple or enterprise valuation consistent with its forecasts. Moreover, the companies in which the Fund will invest generally will not be rated by a credit rating agency.

*Restricted Nature of Investment Positions.* Generally, there is no readily available market for a substantial number of the Fund's investments, and hence, most of the Fund's investments are difficult to value. Certain investments may be distributed in kind to the Partners.

*Reliance on the General Partner and Portfolio Company Management.* Control over the operation of the Fund will be vested entirely with the General Partner, and the Fund's future profitability will depend largely upon the business and investment acumen of the Principals. The loss or reduction of service of one or more of the Principals could have an adverse effect on the Fund's ability to realize its investment objectives. Limited Partners generally have no right or power to take part in the management of the Fund, and as a result, the investment performance of the Fund depends entirely on the actions of the General Partner. In addition, certain changes in the General Partner or circumstances relating to the General Partner may have an adverse effect on the Fund or one or more of its portfolio companies including potential acceleration of debt facilities. Although the General Partner will monitor the performance of each Fund investment, it is primarily the responsibility of each portfolio company's management team to operate the portfolio company on a day-to-day basis. Although the Fund generally intends to invest in companies with strong management or recruit strong management to such companies, there can be no assurance that the management of such companies will be able or willing to successfully operate a company.

*Projections.* Projected operating results of a company in which the Fund invests normally are based primarily on financial projections prepared by each company's management. In all cases, projections are only estimates of future results that are based upon information received from the company and assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.

*New Withholding Tax on Certain Non-U.S. Entities.* Legislation enacted in 2010 generally imposes, beginning January 1, 2014, a new withholding tax of 30% that will apply to a non-U.S. entity's share of most payments received by the Fund attributable to investments in the United States, including dividends, interest, and, beginning on January 1, 2017, gross proceeds of a disposition of stock, unless the non-U.S. entity complies with certain conditions or an exception applies.

*Conflicting Investor Interests.* Limited Partners may have conflicting investment, tax, and other interests with respect to their investments in the Fund, including conflicts relating to the structuring of investment acquisitions and dispositions. Conflicts may arise in connection with decisions made by the Advisers regarding an investment that may be more beneficial to one Limited Partner than another, especially with respect to tax matters. In structuring, acquiring and disposing of investments, the General Partner generally will consider the investment and tax objectives of the Fund and its Partners as a whole, not the investment, tax, or other objectives of any Limited Partner individually.

*Enhanced Scrutiny and Certain Effects of Potential Regulatory Changes.* There has recently been significant discussion regarding enhanced governmental scrutiny and/or increased regulation of the private equity industry. There can be no assurance that any such scrutiny or regulation will not have an adverse impact on the Fund's activities, including the ability of the Fund to implement operating improvements or otherwise execute its investment strategy or achieve its investment objectives.

The combination of recent scrutiny of private equity firms (along with other alternative asset managers) and their investments by various politicians, regulators and market commentators, and the public perception that certain alternative asset managers, including private equity firms, contributed to the recent downturn in the U.S. and global financial markets, may complicate or prevent the Fund's efforts to consummate investments, both in general and relative to competing bidders outside of the alternative asset space. As a result, the Fund may invest in fewer transactions or incur greater expenses or delays in completing investments than it otherwise would have.

Additionally, Congress has recently considered proposed legislation that would treat certain income allocations to service providers by partnerships such as the Fund (including any carried interest) as ordinary income for U.S. federal income tax purposes that under current law is treated as an allocation of the partnership's income, which may be taxed at lower rates than ordinary income. Enactment of any such legislation, whether during or after the initial closing of the Fund, could adversely affect the Principals, employees or other individuals associated with the Fund, the Advisers who were or may in the future be granted direct or indirect interests in the General Partner entitling such persons to benefit from carried interest. This may reduce such persons' after-tax returns from the Fund and the General Partner, which could make it more difficult for the General Partner and its affiliates to incentivize, attract and retain individuals to perform services for the Fund.

*Alternative Investment Fund Managers Directive.* If the Fund is marketed to EU-based investors from July 22, 2013: (i) the Fund will be subject to certain reporting, disclosure and other compliance obligations under the AIFMD, which may result in the Fund incurring additional costs and expenses; and (ii) the AIFMD will also restrict certain activities of the Fund in relation to EU portfolio companies including, in some circumstances, the Fund's ability to recapitalize, refinance or potentially restructure an EU portfolio company within the first two years of ownership. In addition, it is possible that some EU jurisdictions will elect to restrict or prohibit the marketing of non-EU funds to investors based in those jurisdictions, which may make it more difficult for the Fund to raise its targeted amount of Commitments.

*Need for Follow-On Investments.* Following its initial investment in a given portfolio company, the Fund may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company. There is no assurance that the Fund will make follow-on investments or that the Fund will have sufficient funds to make all or any of such investments. Any decision by the Fund not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment. Additionally, such failure to make such investments may result in a lost opportunity for the Fund to increase its participation in a successful portfolio company or the dilution of the Fund's ownership in a portfolio company if a third party invests in such portfolio company.

*Non-U.S. Investments.* The Fund may invest in portfolio companies that are organized or headquartered or have substantial sales or operations outside of the United States, its territories, and possessions. Such investments may be subject to certain additional risk due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be

given effect during the term of the Fund), the application of complex U.S. and non-U.S. tax rules to cross-border investments, possible imposition of non-U.S. taxes on the Fund and/or the Fund's partners with respect to the Fund's income, and possible non-U.S. tax return filing requirements for the Fund and/or its partners.

Additional risks of non-U.S. investments include: (a) economic dislocations in the host country; (b) less publicly available information; (c) less well-developed regulatory institutions; (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction; (e) civil disturbances; (f) government instability; and (g) nationalization and expropriation of private assets. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

*Significant Adverse Consequences for Default.* The Partnership Agreement provides for significant adverse consequences in the event a Limited Partner defaults on its Commitment or any other payment obligation. In addition to losing its right to potential distributions from the Fund, a defaulting Limited Partner may be forced to transfer its interest in the Fund for an amount that is less than the fair market value of such interest and that may be paid over a period of up to ten years, without interest.

*Dilution.* Limited Partners admitted to the Fund at subsequent closings generally will participate in then-existing investments of the Fund, thereby diluting the interest of existing Limited Partners in such investments. Although any such new Limited Partner will be required to contribute its pro rata share of previously made capital contributions, there can be no assurance that this contribution will reflect the fair value of the Fund's existing investments at the time of such contributions.

*General Partner's Carried Interest.* The fact that the General Partner's carried interest is based on a percentage of net profits may create an incentive for the General Partner to cause the Fund to make riskier or more-speculative investments than would otherwise be the case.

*Transfer by General Partner.* To the extent the General Partner, its partners, the Principals and/or their respective affiliates commit to make an investment in the Fund, a participation in or a portion of such investment may thereafter be transferred to others, subject to any express limitations thereon in the Partnership Agreement.

*Non-controlling Investments.* The Fund may hold meaningful minority stakes in privately held companies. In addition, during the process of exiting investments, the Fund at times may hold minority equity stakes of any size such as might occur if portfolio holdings are taken public. As is the case with minority holdings in general, such minority stakes that the Fund may hold will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes.

*Director Liability.* The Fund will often obtain the right to appoint one or more representatives to the board of directors (or similar governing body) of the companies in which it invests. Serving on the board of directors (or similar governing body) of a portfolio company exposes the Fund's representatives, and ultimately the Fund, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that

portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability.

*Advisory Board.* The General Partner will appoint one or more Limited Partner representatives to the Advisory Board. The Partnership Agreement will provide that to the fullest extent permitted by applicable law, none of the Advisory Board members shall owe any fiduciary duties to the Fund or any other Partner. In addition, representatives of the Advisory Board may have various business and other relationships with Brentwood and its partners, employees and affiliates. These relationships may influence their decisions as members of the Advisory Board.

*Uncertain Economic and Political Environment.* The current global economic and political climate is one of uncertainty. Prior acts of terrorism in the United States, the threat of additional terrorist strikes and the fear of a prolonged global conflict have exacerbated volatility in the financial markets and can cause consumer, corporate, and financial confidence to weaken, increasing the risk of a “self-reinforcing” economic downturn. A climate of uncertainty may reduce the availability of potential investment opportunities and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. Furthermore, such uncertainty may have an adverse effect upon portfolio companies in which the Fund makes investments.

## **Conflicts of Interest**

During a Fund’s Investment Period, the Principals will generally pursue all appropriate investment opportunities exclusively through that Fund, subject to certain limited exceptions. However, the Principals currently manage other Private Investment Funds and investments similar to those in which the Fund will be investing, and may direct certain relevant investment opportunities to those other Private Investment Funds and investments. The Principals and the General Partner’s investment staff will continue to manage and monitor such other Private Investment Funds and investments. The significant investment of the Principals in a Fund, as well as the Principals’ interest in the carried interest, operate to align, to some extent, the interest of the Principals with the interest of such Fund’s Limited Partners, although the Principals have economic interests in such other Private Investment Funds and investments as well and may receive management fees and carried interests relating to these interests. Such other Private Investment Funds and investments that the Principals may control may compete with the Fund or companies acquired by a Fund. Following a Fund’s Investment Period, the Principals may, and likely will, focus their investment activities on other opportunities and areas unrelated to such Fund’s investments. Certain investments may be allocated between Funds and any successor or predecessor fund in a manner as set forth in the applicable Partnership Agreements.

Because the General Partner’s carried interest is based on a percentage of net realized profits, it may create an incentive for the General Partner to cause a Fund to make riskier or more speculative investments than would otherwise be the case.

## **DISCIPLINARY INFORMATION**

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

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

Brentwood III is affiliated with Brentwood IV, an investment adviser separately registered with the SEC under the Advisers Act, and Brentwood V, an investment adviser registered with the SEC under the Advisers Act in accordance with SEC guidance. Certain of the Principals, officers, employees and/or consultants of Brentwood IV and Brentwood V serve Brentwood III or other Brentwood affiliates in a similar capacity.

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

The Advisers have adopted a Code of Ethics and Securities Trading Policy and Procedures (the “Code”), which sets forth standards of conduct that are expected of Brentwood principals and employees and addresses conflicts that arise from personal trading. The Code requires Brentwood personnel to report their personal securities transactions, requires pre-clearance for Brentwood personnel directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering or a private placement, and prohibits Brentwood personnel from directly or indirectly acquiring beneficial ownership of certain securities, without first obtaining approval from Brentwood’s Chief Compliance Officer. A copy of the Code will be provided to any investor or prospective investor upon request to Brentwood’s Chief Compliance Officer at (310) 477-6611. Personal securities transactions are required to be conducted in a manner that prioritizes the Funds’ (and any other client’s) interests.

The Advisers and their affiliated persons may come into possession, from time to time, of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor’s decision to buy, sell or hold a security. Under applicable law, the Advisers and their affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the Advisers.

Accordingly, if the Advisers or any of their affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, the Advisers would be prohibited from communicating such information to the Funds (or any other clients), and the Advisers will have no responsibility or liability for failing to disclose such information to the Funds (or any other clients) as a result of following the Advisers’ policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of the Advisers’ personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Funds.

Principals and employees of Brentwood III and its affiliates may directly or indirectly own an interest in Private Investment Funds, including through BAPE III Executive, BAPE V Executive or another co-investment vehicle. To the extent that co-investment vehicles exist, such vehicles may invest in one or more of the same portfolio companies as the Funds.



Brentwood III, Brentwood IV and Brentwood V agreed to invest, directly or indirectly through affiliates, approximately \$10 million in BAPE III (including BAPE III-A), approximately \$22 million in BAPE IV and at least \$20 million in BAPE V (including BAPE V-A), respectively.

The Advisers and their affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in the Private Investment Funds, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, the Private Investment Funds, even though their investment objectives may be the same or similar.

### **BROKERAGE PRACTICES**

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

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

The Advisers have no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or “posted” commission rate, but will endeavor to be aware of eligible brokers’ transaction fees and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although the Advisers generally seek competitive commission rates, the Advisers may not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with the Advisers seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although Brentwood III generally does not make use of such services at the current time and has not made use of such services since its inception. Such research services could include economic research, market strategy research, industry research, company research, fixed income data services, computer-based quotation equipment and research services and portfolio performance analysis. As a general matter, research provided by these brokers would be used to service all of the Advisers’ Private Investment Funds. However, each and every research service may not be

used for the benefit of each and every Private Investment Fund managed by the Advisers, and brokerage commissions paid by one Private Investment Fund may apply towards payment for research services that might not be used in the service of such Private Investment Fund. Research services may be shared between Brentwood III and its affiliates.

The Advisers will not employ any agreement or formula for the allocation of brokerage business on the basis of research services; however, the Advisers may, in their discretion, cause the Private Investment Funds to pay such brokers a commission for effecting portfolio transactions in excess of the amount of commission another broker adequately qualified to effect such transactions would have charged for effecting such transactions. This may be done where the Adviser has determined in good faith that such commission is reasonable in relation to the value of brokerage and research services received. In reaching such a determination, the Adviser would not be required to place or attempt to place a specified dollar value on the brokerage or research services provided by such broker.

The Advisers will periodically determine which brokers have provided research that has been helpful in the management of Private Investment Funds. To the extent consistent with the Advisers' goal to obtain best execution for their clients, the Advisers may seek to place a portion of the trades that they direct with the brokers who are identified through this process.

To the extent that the Advisers allocate brokerage business on the basis of research services, they may have an incentive to select or recommend broker-dealers based on their interest in receiving such research or other products or services, rather than based on the Private Investment Funds' interest in receiving most favorable execution.

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

When an aggregated order is filled in its entirety, each participating Private Investment 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 Private Investment Fund participating in such buy or sell order in accordance with the amount of securities originally requested for such Private Investment Funds. Each Private Investment 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 Private Investment Funds over time.

## **REVIEW OF ACCOUNTS**

The investments made by the Private Investment Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, the Advisers closely monitor companies in which the Private Investment Funds invest, and Brentwood's Chief Compliance Officer periodically reviews each Fund's investments to confirm that each Fund is invested in accordance with its stated investment objectives.

Each Fund generally provides to its Limited Partners: (i) annual GAAP audited and quarterly unaudited financial statements and (ii) annual tax information necessary for each Limited Partner's tax return.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

The Advisers and their affiliates may enter into solicitation arrangements pursuant to which the Advisers compensate third parties for referrals that result in a potential investor becoming a Limited Partner in a Private Investment Fund. Any fees and expenses payable to any such placement agents will generally be borne by the Advisers directly or indirectly through an offset against the applicable Private Investment Fund's Management Fee. In connection with BAPE V and BAPE V-A, the Advisers retained UBS Securities LLC ("UBS"), a U.S. registered broker-dealer, to solicit investors for BAPE V and BAPE V-A. As compensation for its efforts, UBS is entitled to a fee based on a percentage of BAPE V and BAPE V-A commitments attributable to its solicitation efforts.

Brentwood III and/or its affiliates may provide certain business or consulting services to a Fund's portfolio companies and may receive compensation from these companies in connection with such services. As described in the Partnership Agreement, while certain compensation may, in many cases, offset a portion of a Fund's Management Fees, amounts received by a Brentwood person from a portfolio company as reimbursement for expenses, as payment for services provided in the ordinary course of business to such portfolio company or as compensation for services provided by such person as an employee of or in a similar capacity for such portfolio company or any of its subsidiaries generally do not offset a Fund's Management Fee.

## **CUSTODY**

The Advisers maintain custody of each Fund's assets held in each Fund's name with one or more of the following qualified custodians: Bank of America, Merrill Lynch, Pierce, Fenner & Smith, Inc. and First Republic Bank.

## **INVESTMENT DISCRETION**

Brentwood III has discretionary authority to manage investments on behalf of the Funds, subject to the oversight of the applicable General Partner. As a general policy, Brentwood III does not allow clients to place limitations on this authority. Pursuant to the terms of the Partnership Agreement, however, the General Partner may enter into "side letter" arrangements with certain Limited Partners whereby the terms applicable to such Limited Partner'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. Brentwood III assumes this discretionary authority pursuant to the terms of the applicable Partnership Agreement, the management agreements between it and Brentwood IV and Brentwood V, respectively, and powers of attorney executed by the Limited Partners of the Fund.

### **VOTING CLIENT SECURITIES**

The Advisers have adopted the Brentwood Proxy Voting Policies and Procedures (the “Proxy Policy”) to address how they will vote proxies, as applicable, for each Fund’s (and any Private Investment Fund’s) portfolio investments. The Proxy Policy seeks to ensure that the Advisers vote proxies (or similar instruments) in the best interest of the Funds, including where there may be material conflicts of interest in voting proxies. The Advisers generally believe their interests are aligned with those of the Funds’ investors through the Principals’ beneficial ownership interests in the Funds and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that Brentwood III 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. The Advisers do not consider service on portfolio company boards by Brentwood personnel or the Advisers’ receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by the Advisers when voting proxies on behalf of the Funds. Current and prospective investors who would like a copy of the Advisers’ complete Proxy Policy or information regarding how the Advisers voted proxies for particular portfolio companies should contact Brentwood’s Chief Compliance Officer at (310) 477-6611, and such information will be provided at no charge.

### **FINANCIAL INFORMATION**

Brentwood III does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.