

**LBC Credit Management, L.P.**

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**This brochure provides information about the qualifications and business practices of LBC Credit Management, L.P. If you have any questions about the contents of this brochure, please contact Michelle Vaughn at [mvaughn@lbccredit.com](mailto:mvaughn@lbccredit.com) or 215-609-3365. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about LBC Credit Management, L.P. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

LBC Credit Management, L.P. is registered as an investment adviser with the United States Securities and Exchange Commission. Registration does not imply a certain level of skill or training.

## **Item 2. Material Changes**

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization, which are included herein.

The following is a discussion of only material changes since our brochure filing dated August 29, 2012:

- Updated to the adviser’s assets under management to reflect the new numbers as of December 31, 2012;
- Updated the format and disclosure language throughout this Brochure to reflect the firm’s advisory business;
- Updated Item 10 - Other Financial Industry Activities and Affiliations section to reflect the roles and responsibilities of Independence Capital Partners, LLC.; and
- Updated Item 14 - Hiring a third party consultant.

### **Item 3. Table of Contents**

Item 2. Material Changes .....	2
Item 3. Table of Contents.....	3
Item 4. General Information about LBC Credit Management, L.P. ....	4
Item 5. Fees and Compensation .....	4
Item 6. Performance-Based Fees and Side-By-Side Management .....	6
Item 7. Types of Clients.....	7
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss .....	7
Item 9. Disciplinary Information .....	11
Item 10. Other Financial Industry Activities and Affiliations .....	11
Item 11. Code of Ethics, Personal Trading, and Client Transactions .....	13
Item 12. Brokerage Practices .....	14
Item 13. Review of Accounts.....	14
Item 14. Client Referrals and Other Compensation.....	15
Item 15. Custody .....	15
Item 16. Investment Discretion.....	15
Item 17. Voting Client Securities.....	16
Item 18. Financial Information .....	16

#### **Item 4. General Information about LBC Credit Management, L.P.**

LBC Credit Management, L.P., (“LBC”) is an alternative fixed income manager focused on originating and managing privately negotiated secured debt securities to North American middle market companies.

The LBC investment team consists of over 25 professionals with extensive experience in structuring, underwriting, and managing middle market loans. LBC provides investment services exclusively to a series of closed-end funds that are privately offered pooled investment vehicles (each a “Fund” and, collectively, the “Funds”). Each Fund is open for investment only via a “private offering,” and is intended only for investment by “accredited investors,” as those terms are defined under the Securities Act of 1933, as amended.

Each Fund’s investment objective includes providing a certain level of returns net of fees and expenses as described in detail in each Fund’s offering documents (private placement memorandum), partnership agreements, management and advisory agreements, and any other applicable agreements (collectively, the “Governing Documents”). Though LBC utilizes a similar strategy for all of the Funds, it tailors advisory services to the specific needs of each Fund to the extent that certain investments cannot be held by certain Funds for legal or tax purposes as required by the Fund’s Governing Documents or any other applicable agreements (such as side letters or waivers).

References herein to LBC may include, as the context requires, certain entities controlled by LBC or its principals through which LBC provides investment management services, such as entities that provide sub-advisory services on behalf of LBC. LBC will also conduct business under the name LBC Credit Partners, Inc., a Pennsylvania S-Corporation.

LBC is organized as a privately-held limited partnership co-founded by John Brignola, Christopher Calabrese, Nathaniel Cohen and Ira M. Lubert (“Founders”) in 2005. The general partner of partnership is LBC Credit Management GP, LLC, a limited liability company owned by the Founders who are also (either directly or indirectly) limited partners of LBC.

As of December 31, 2012, LBC’s regulatory assets under management were approximately \$1,479,541,700 and are managed on a discretionary basis.

#### **Item 5. Fees and Compensation**

Management Fee - Each LBC Fund will pay an annual management fee (the “Management Fee”). Fund’s Management Fee will typically commence on the date that a Fund has held its initial closing or a specific number of days prior to the Fund’s first investment and thereafter, will be paid on the first day of each calendar quarter, in advance. Until the expiration of the commitment period, Management Fees will be a percentage of aggregate investor capital commitments. Thereafter, the Management Fee is generally equal to percentage of the original and any additional cost of each of the portfolio investments (less any permanent write downs) until such investment has been repaid in full, sold or liquidated for cash. Specifically for LBC Fund III, the basis on

which the Management Fee is calculated after the commitment period ends will be the lower of (i) (A) the original and any additional cost of each of the portfolio investments (less any permanent write downs) until such investment has been repaid in full, sold or liquidated for cash and (ii) the aggregate fair market value of Fund III's portfolio investments. The Management Fee typically ranges from 1.25% to 1.75%, but may be negotiated to be lower for certain investors based on the size of the investor's commitment to the Fund. Additionally, the Management Fee will be reduced by all transaction fees (if any) received by the LBC and its respective affiliates from third parties in connection with the Fund's portfolio investments.

Carried Interest - In addition, the LBC Funds will allocate a portion of their investment profits (generally 20%) to their respective Fund general partners which are related persons with respect to LBC, as set forth in each of the Fund's Governing Documents (such profit allocation is commonly referred to as a "Carried Interest"). The foregoing performance-based Carried Interest is generally subject to the achievement of specified cumulative annual return (e.g., 8% or 9%) on the amount of the unreturned capital contributions of investors with respect to a transaction, as of the date of determination. Carried Interest, when applicable, is paid upon the distribution of proceeds generated by the dispositions of each Fund's portfolio investments and pursuant to a priority distribution waterfall after the return of invested capital and a preferred return. LBC Funds' Carried Interest is charged in compliance with Rule 205-3 under the Investment Advisers Act of 1940, (as amended, the Advisers Act).

Other Fees Received – All administrative fees, servicing fees, supervisory fees, acquisition fees, transaction fees, and other similar fees (if any) are earned by the Funds and paid directly to the Funds.

Certain investors in the Funds, who are generally related persons, employees, partners of LBC or the Funds, including affiliated persons and others through their investment in a Fund or the general partner of such Fund, may not be subject to a Management Fee and/or Carried Interest in connection with their investment in the Funds. Notwithstanding the foregoing, such affiliated investors will either directly pay their pro rata share of certain Fund expenses, or the pro rata amount of such expenses will be allocated to the general partner of such Fund.

LBC's compensation is deducted from the assets or distributions of each Fund as more fully described in each of the Fund's Governing Documents. Fund investors are not separately billed for services.

Other Types of Fund Expenses – Generally, LBC Funds will pay all offering and organizational expenses incurred in the formation of a Fund and any related entities, including but not limited to legal, travel, filing, accounting, printing, a portion of the cost of certain employees of LBC and affiliated entities who engaged in capital raising activities (if applicable) up to a certain maximum limit noted in each of the Fund's Governing Documents. Each Fund may pay, and may reimburse LBC where applicable, for any ordinary and extraordinary expenses relating to these activities. Expenses chargeable to a Fund shall be allocated among such Fund and any applicable parallel funds as determined in good faith by LBC.

The LBC Funds will typically pay all expenses related to its investment activities, whether or not consummated, including all costs related to third party services: i) origination and acquisition of investments including travel, entertainment, industry conferences and events, brokerage or commission costs, finder fees, investment banking fees or similar charges, indemnification expenses and marketing and advertising costs; ii) research software, tools or subscriptions, industry conferences, financing costs or debt service on borrowed money, underwriting and consulting services; iii) holding and exiting investments including asset management software, risk management, custody services, loan administration, legal and litigation matters, valuation costs, tax, appraisals, insurance and travel; and iv) fund-level leverage including interest, brokerage or commission costs, legal, regulatory or registration filings, insurance, loan administration, software and banking fees.

Further, the LBC Funds will generally pay all expenses related to investor activities, certain administrative matters and portfolio investments carried out by third-party services and/or internally provided by LBC employees (which will be charged at cost) or related parties. These services may include legal, fund administration; auditing, tax and accounting fees; insurance; litigation expenses; consultants' fees; investor reporting and accounting software; treasury management, report preparation fees, including internal costs of preparing reports and internal and third-party printing and copying costs; costs associated with investors' meetings and mailings and committee meetings; and other operating expenses. Some of the above expenses are reimbursed directly by the Fund's underlying portfolio investments. The Funds may also earn certain fees as income (e.g., agency fees, administration and servicing fees) that may indirectly offset some of the above expenses.

Payment of Fees in Advance - In the event that a Fund's investment advisory agreement with LBC terminates during a period in which Management Fees have been paid in advance, LBC would pro rate such Management Fee and reimburse such Fund the portion of such Management Fee covering the remainder of the period.

Compensation for Sales of Securities - No commissions, placement fees or other remuneration will be paid by a Fund to LBC or to any of its employees in connection with the offering and/or sale of interests in such Fund, other than reimbursement to LBC and its affiliates a portion of the cost of employees engaged in capital raising activities on behalf of such Fund.

For a more detailed description of specific Management Fees, Carried Interest and Fund expenses please see the Fund's Governing Documents.

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

As described in Item 5, LBC may be paid a Carried Interest. LBC and certain of its employees receive incentive compensation, which is tied explicitly to the performance of a particular Fund, and such compensation will continue to be earned based upon the performance of each Fund's portfolio as a whole, rather than that of individual

transactions. The existence of the Carried Interest may create an incentive for LBC to cause a Fund to make riskier or more speculative investments than would be the case in the absence of the Carried Interest.

LBC's compliance policies and procedures and code of ethics prohibit the favoring of one account over another or considering LBC's financial interest when providing investment advice to the Funds, and any individual compensated based on the performance-fee aspect of a Fund is paid based on the Fund's overall performance, not the outcome of any single transaction or investment. Additionally, Fund Governing Documents will typically limit the ability of LBC's Founders to launch another pooled investment vehicle with the same primary investment objective until the existing Fund has been invested, committed to be invested, expended or reserved for follow-on investments or until a Fund-specific investment period has expired.

#### **Item 7. Types of Clients.**

LBC provides investment advice solely to its Funds, which are privately offered pooled investment vehicles (generally limited partnerships). Investors in the Funds may include, but are not limited to, pension plans, endowments, corporate and business entities, foundations, trusts, and high net worth individuals. Each investor is required to meet certain suitability qualifications such as being an "accredited investor", "qualified purchaser" or "qualified client" within the meaning set forth under the Federal securities laws. The Funds' Governing Documents generally require a minimum initial investment or commitment by each individual investor of \$1 million and each institutional investor of \$5 million. However, the Fund's general partner has the discretion to waive or reduce the minimum initial investment or commitment and has done so for certain investors.

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

Methods of Analysis - LBC employs a disciplined investment process to determine potential investment opportunities and may use various underwriting and research methods and analyses. This process will typically include a thorough analysis of the business and its industry, historical and projected financial performance focusing on capital structure, sales, margins, cash flow, liquidity and capital expenditures. LBC may also have discussions with key customers, suppliers and competitors and engage independent outside parties or work in concert with the borrower's other lenders, if any, and the equity owners to perform additional due diligence including but not limited to quality of earnings reviews, collateral audits, system reviews, plant reviews, assets appraisals, business valuations, environmental audits, background checks, management assessments and other analyses as deemed appropriate.

Investment Strategies - LBC has developed a disciplined investment strategy, seeking to maximize current return while preserving investors' capital by originating and managing a diversified portfolio of high-yielding loans in the middle market. LBC defines middle-market companies as those with revenues generally between \$50 million and \$750 million and EBITDA of \$5 million to \$50 million.

The Funds seek to manage risk and minimize volatility by making investments in private transactions throughout the capital structure and across a broad range of industry sectors based on a comprehensive credit and operational evaluation. The Fund's ability to offer both senior and junior capital allows LBC to expand its base of deal flow, counter the effect of business cyclicalities, minimize the effects of adverse risk selection and provide portfolio diversification.

The principal asset classes which LBC invests include corporate debt primarily consisting of senior and junior loans to middle-market borrowers through direct origination and club participations: primarily uni-tranche, bifurcated term, second lien and secured or unsecured mezzanine loans and to a lesser degree corporate leases, small loan pools, debtor-in-possession ("DIP") loans, broadly syndicated corporate loans and bonds. LBC may also make equity-co investments and may acquire other equity instruments, including but not limited to, preferred stock and warrants, in connection with the purchase of a debt instrument or in connection with the restructuring or recapitalization of a debt instrument. The loans and other investments held by the Funds will generally will be unrated and not actively traded in any secondary market.

Please note that there can be no assurance, however, that the use of any strategy for any Fund will achieve any particular returns or avoid a loss. A Fund's ability to achieve returns will depend on a variety of factors, many of which are beyond its or LBC's control.

Risk of Loss - Investing in private debt and equity securities involves risk of loss that investors must be prepared to bear. Each Fund's Governing Documents include more detailed disclosure of the risks of investing in a Fund; any prospective Fund investor should carefully read such documents before considering an investment. Among other investments and risks described more fully in each of the Fund's private Governing Documents which will entail the following risks:

- No Assurance of Investment Return - Each Fund's task of identifying and evaluating investment opportunities, managing such investments and realizing a positive return for investors is difficult. There is no assurance that a Fund will be able to invest its capital on attractive terms or continue to generate positive returns or avoid losses for its investors over the long term.
- Market Volatility - Volatile market conditions at various times, including terrorist attacks and other acts of violence and war, can have a dramatic effect on private investments. Such events could cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and worldwide financial markets and economy. They also could result in a continuation of the current economic uncertainty in the worldwide financial markets and economy.
- Second Lien and Secured Mezzanine Debt Instruments - Investing in second lien and secured mezzanine loans may result in a greater interest rate and higher fees than first priority lending, but also involves additional risk over senior secured lending arrangements. Upon execution, a second lien or



secured mezzanine loan may be fully secured by the collateral of the borrower. If the value of the borrower's collateral decreases, the available collateral may only be sufficient to cover more senior liens. Junior lien holders may also have diminished capacity to negotiate favorable terms concerning collateral and repayment rights and may be forced to give up rights or subordinate rights to the senior lender. In the event of a default by the borrower, the second lien or secured mezzanine holder may be required to wait to enforce their rights against the collateral. This creates the risk that the holder of a junior lien will receive unfavorable treatment with respect to distributions, rights to collateral or during bankruptcy.

- Leveraged Companies - The Funds may invest in companies that are financially leveraged or troubled or potentially troubled and may be or have recently been involved in restructurings, bankruptcy, reorganization or liquidation. Investments in such companies are likely to be particularly risky investments, although they may offer the potential for correspondingly high returns. The use of leverage results in increased interest expense and other costs to the company that may not be covered by revenues during economic downturns. Leverage also may impose 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.
- Fund Leverage - A Fund's assets may be leveraged, which may adversely affect income earned by such Fund or may result in loss of principal. The use of leverage involves a high degree of financial risk and may increase the exposure of a Fund or its investments to factors such as rising interest rates, downturns in the economy or deterioration in the condition of the collateral underlying such investments. Market fluctuations may significantly decrease the availability of and increase the cost of leverage. The use of leverage will increase the amount of funds available to a Fund for investment but will also increase the risk of loss.
- Nature of Investments - Investment in a Fund requires a long-term commitment with no certainty of return.
- Interest-rate Risk - The market value of a Fund's investments not entailing floating interest rate structures may be affected by changes in interest rates.
- Diversification Limits - The Funds have no established limits or constraints with respect to geographic regions or product types. Lack of diversification across the portfolio may increase a Fund's exposure to adverse market conditions in a given region, property or product type.
- Expedited Transactions- Investment analyses and decisions by LBC may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to LBC at the time of an investment decision may be limited, and

LBC may not have access to detailed knowledge of all circumstances that may adversely affect an investment.

- Unable to Identify Attractive Investments - No assurance can be given that LBC will be able to originate investments that satisfy their individual rate of return objectives or that such investments will perform as expected. Each Fund intends to make draws on commitments as funds are needed during such Fund's respective investment period; however, investments consistent with a Funds' strategy may not be available at certain instances.
- Interest Subject to Restrictions on Transfer and Withdrawal - Interests are not transferable except with the consent of a Fund's general partner. Fund investors may not withdraw capital from a Fund. There will be no public market for the Interests. Each investor must be prepared to bear the economic risk of an investment for an indefinite period, since interests in a Fund cannot be resold unless they are subsequently registered under the Securities Act, or an exemption from such registration is available, and provisions of such Fund's partnership agreement relating to restrictions on the transfer of interests are complied with.
- Funds' Lack of Control over Investments - As an investor primarily in debt securities, each Fund will not have control over the issuers of such securities and may have to rely on independent third party management or strategic partners to operate the issuer in a manner that results in full and timely payment of interest and principal, protects any collateral and otherwise complies with the agreements under which such securities were issued.
- Need for Follow-on Investments in Portfolio Investments - Certain investments that each Fund will make may need additional capital. The inability to obtain such follow-on capital may have an adverse effect upon each Fund's investment.
- Defaulting Limited Partner - In the event that an investor fails to contribute capital to a Fund when required, among other remedies available to such Fund, the Fund may reduce such investor's unfunded commitment, such investor's interest in the Fund may be forfeited or subject to dilution, the Fund may withhold distributions from such investor and such investor may be prohibited from participating in future investments or voting on Fund matters.
- Hedging - In connection with the financing of certain assets, a LBC may employ hedging techniques or use other derivative instruments designed to protect against adverse movements in currency and/or interest rates. While such transactions may reduce certain risks, such transactions themselves may entail certain other risks.
- Conflicts of Interest - Fund investments are subject to various conflicts of interest, including those between co-investors in specific projects, between

various investors in a Fund, and between LBC and a Fund. These conflicts are more fully discussed in each Fund's Governing Documents.

#### **Item 9. Disciplinary Information**

Neither LBC nor any of its employees have been involved in the past ten years in any legal or disciplinary event that LBC believes is material to an investor or Client or prospective investor or Client in their evaluation of LBC's advisory business or management.

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

LBC has financial relationships and general services arrangements that are material to its advisory business with the following related entities:

LBC has a general services agreement with Independence Capital Partners, LLC ("ICP") to provide certain non-investment services such as compliance, investor relations, tax support, information technology and insurance. ICP also provides similar services to other investment advisory firms which include: LLR Management, L.P.; Patriot Financial Manager, L.P.; Quaker Partners Management, L.P.(an exempt filer); LEM Capital, L.P.; and Lubert-Adler Management Company, L.P. (collectively, known as the "ICP Affiliate Firms").

Mr. Lubert has ownership interests in ICP, all of the ICP Affiliate Firms and other investment partnerships and operating businesses. Each ICP Affiliate Firm is separately managed by its partners and investment professionals and offers advisory services to private investment funds focused on varying assets classes. LBC does not recommend or select other investment advisers for its Funds.

Conflicts may arise in instances where the interests of a Fund's general partner, LBC and its affiliates may conflict with the interests of the Funds and the Fund's investors. For example, affiliates of the Fund's general partner and LBC have ownership interests in other entities that provide capital through equity investments. These affiliates currently engage in and will continue to engage in venture capital, private equity and real estate investment (including mezzanine debt) activities. In particular, Messrs. Lubert is a partner in each of the ICP Affiliate Firms, some of which may have investment mandates that are similar to, but not overlapping with, the investment mandates of each Fund.

Co-investment Opportunities between the Funds and ICP Affiliate Firms – As of the date of this Brochure, the LBC Funds have never co-invested with ICP Affiliate Firms or their funds. LBC anticipates very infrequent opportunities for such co-investment in the future but if an appropriate co-investment opportunity were to occur, LBC would follow the following processes.

The LBC Funds are not prevented from making investments with the ICP Affiliate Firm funds as a result of Mr. Lubert's ownership interest in these other ICP Affiliate Firms but potential conflicts may exist as to the allocation of such investment opportunities between, or the terms and conditions of any co-

investment by, the entities. In these situations, the investment opportunity may need to be cleared by a conflict resolution procedure before such investment can be made by a Fund. There can be no assurance that the resolution procedure established will clear the conflicts in order for the investment to be made by a Fund. Accordingly, there may be situations in which investment opportunities that otherwise would be appropriate for a Fund cannot be made. The fund management team that first sourced or originated the opportunity may invest in the opportunity without offering it to the other ICP Affiliate Firms funds. If an ICP Affiliate Firm fund does not invest in an opportunity it sources or originates, the other ICP Affiliate Firms may be offered the opportunity to make the investment for their funds.

If LBC determines in their reasonable discretion that it may be advantageous to co-invest in an opportunity with one or more other ICP Affiliate Firms funds and such Fund is not prevented from making investments, then the Fund may co-invest with the other ICP Affiliate Firms funds in such investment on a *pari passu* basis (that is, in the same security and in the same financing round), in accordance with the co-investment terms outlined in each of the Fund's Governing Documents. These co-investment opportunities may be subject to the approval of the co-investing ICP Affiliate Firms' funds valuation committees or advisory or executive boards.

Co-investment Opportunities between LBC Funds - Investment opportunities that are appropriate for a Fund also may be appropriate for parallel Funds or a successor Fund. LBC will determine the allocation of the investment opportunity among such Funds as first determined by the Fund's investment objectives and limitations then on a pro rata basis by the relative amount of capital. A Fund may co-invest with another Fund or a successor Fund in accordance with the co-investment terms outlined in each Fund's Governing Documents. In addition, in order to re-balance a Fund's investment portfolio, such Fund may acquire, in certain cases, portfolio securities from, or sell portfolio securities to, another Fund or successor Fund in an existing portfolio company.

Side Letters - LBC and/or the Funds may from time to time enter into other written agreements or side letters with one or more investors whereby, in consideration for agreeing to invest certain amounts in a Fund and other consideration deemed material to a Fund, such investors may be granted rights not otherwise afforded to other investors. These side letters may entitle an investor to make an investment in a Fund on terms other than those described in the Funds' Governing Documents. Any such terms, including with respect to (i) reporting obligations; (ii) transfer rights to affiliates; (iii) withdrawal rights due to adverse tax or regulatory events; (iv) consent rights to certain partnership agreement amendments; or (v) any other matters described in the Fund's Governing Documents may be more favorable than those offered to any other investor. Such agreements will have the effect of establishing rights under, or altering or supplementing the terms of, the partnership agreement with respect to such investor.

Outside Business Activities – LBC Founders and other senior members of LBC may serve on board of directors of nonaffiliated companies or organizations that do not directly or indirectly compete with LBC or its Funds. These activities are subject to LBC’s compliance policies, procedures and oversight.

#### **Item 11. Code of Ethics, Personal Trading, and Client Transactions**

LBC has adopted a written Code of Ethics (the “Code”) that is applicable to all of its partners, officers, and employees (“Access Persons”) and is designed to comply with Rule 204A-1 of the Advisers Act. LBC’s Code is based upon the premise that LBC and its Access Persons have a fiduciary responsibility to render professional, continuous and unbiased investment advisory service and put the interests of its Funds first. The Code requires all Access Persons to i) comply with all applicable laws and regulations; ii) observe all fiduciary duties and put Fund interests ahead of those of LBC; iii) observe LBC’s personal trading policies so as to avoid “front-running” and other conflicts of interests between LBC and its Funds; iv) report any perceived violations of the Code; and v) ensure that they have read the Code, agreed to adhere to the Code, and are aware that a record of all violations of the Code will be maintained by LBC.

The Code governs the securities trading and investment activities of Access Persons for their own personal accounts. All Access Persons must first pre-clear personal trades for covered securities, as defined under the policy, held in personal accounts. Access Persons must also seek preapproval when participating in a private placement or transacting in initial public offerings (“IPOs”). A pre-clearance request will be denied if such securities or an issuer are under consideration for investment, or have been acquired by a Fund or LBC is in receipt of material non-public information of the company or if another conflict exists.

Under the Code, Access Persons are also required to file certain periodic reports and certifications with LBC’s Chief Compliance Officer. A copy of the Code is distributed to each Access Person at the time of hire and annually thereafter. Access Persons are also required to attend annual Code of Ethics training and certify that they are in compliance with the Code. Access Persons who violate the Code can be subject to sanctions, including possible employment termination. A copy of the Code is available upon request from LBC’s Chief Compliance Officer, Michelle Vaughn at [mvaughn@lbccredit.com](mailto:mvaughn@lbccredit.com).

Co-founders, certain employees, affiliated persons of LBC and others may invest in the Funds, either through a general partner affiliate or as direct investors in the Funds. LBC, as applicable, may reduce all or a portion of the Management fee and/or Carried Interest related to investment held by such persons.

For more information regarding how LBC allocates investment opportunities to its Funds or how co-investments with LBC and related parties are addressed, please see Item 10.

## **Item 12. Brokerage Practices**

LBC does not maintain or operate a traditional securities trading desk to engage in the execution of publicly-traded securities. However, LBC, based on its management/advisory agreement, is granted discretion over the selection and amount of securities and other investments to be bought or sold without obtaining prior consent or approval from a Fund. LBC's investment authority with respect to any particular Fund is subject to the investment objectives, guidelines and/or conditions set forth in the Fund's Governing Documents.

The LBC Funds generally invest in privately negotiated transactions where the terms of such transactions are determined in negotiations between LBC and the borrowers. LBC seeks to have all its privately negotiated transactions executed in the best interest of its participating Funds, taking into account various factors such as the cost, size, competency, market activity and structure.

LBC is granted discretion over the selection of brokers for securities transactions of the Funds. LBC's investment authority with respect to any particular Fund is subject to the investment objectives, guidelines and/or conditions set forth in the Fund's Governing Documents, none of which have a directed brokerage program. Additionally, LBC does not participate in or accept soft dollar benefits or commission sharing arrangements and does not direct brokerage in exchange for referrals.

For more information regarding how LBC aggregates investment opportunities to its Funds or how co-investments with LBC and related parties are addressed, please see Item 10.

## **Item 13. Review of Accounts**

Review and Monitoring of Funds - LBC monitors each Fund investment on a regular basis through an asset management and loan-servicing program designed to track a borrower's financial and operating performance and its ongoing liquidity. LBC's research team will also augment monitoring by continuing to provide industry-related research for each investment. LBC requires detailed financial reports and operating information from its investments on a regular basis and conducts routine reviews and quantitative analyses of each investment. Depending on the structure of a specific investment, LBC may have board representation or board observation rights

Additionally, all investments will be assigned to a portfolio manager who will be responsible for maintaining communication with the management teams, senior lenders and equity owners. Formal portfolio review meetings will be held at least quarterly with LBC's senior members, or more frequently on an as-needed basis in order to review or approve structural changes for an existing investment. Further, investments structured in conjunction with the companies' senior or revolving lenders will commonly require the senior or revolving lender to share with Fund's its required monitoring and reporting received by the borrower.

Asset valuations, including permanent write-downs, are reviewed by the senior members and the finance team on a quarterly basis pursuant to LBC valuation policy in accordance with ASC 820 accounting procedures.

Reports to Investors - Fund investors are provided with: (i) annual audited financial statements of such Fund; (ii), quarterly unaudited financial statements, capital statements and other information regarding such Fund's investments and performance; and (iii) such other information as is necessary for the preparation of tax returns. In addition, there will be an annual investors meeting to review the status of each Fund.

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

LBC does not receive any compensation or economic benefit (i.e., sales awards or prizes) from a third party person or entity for advisory services other than from the Funds and their investors.

From time to time, LBC may enter into solicitation or consulting arrangements pursuant to which LBC will compensate persons for investor referrals. Presently, LBC has one consulting agreement in place for investor referrals. With respect to investors that are referred by the consultant, a consulting fee will be paid by LBC and not any Fund, as agreed upon by the terms of the consulting agreement.

Whenever a consulting fee is paid to a solicitor or consultant, the solicitation or consulting agreement requires that the solicitor or consultant disclose the consulting fee to each prospective investor. The purpose of the fee disclosure is to bring to each prospective client's attention that the solicitor or consultant can have an incentive to favor sales of interest in one kind of investment over the sales of interests in other types of investments.

#### **Item 15. Custody**

Each LBC Fund is subject to audit by a registered independent accountant at least annually, distributes its audited financial statements prepared in accordance with generally accepted accounting principles to all investors within 120 days of the end of its fiscal year, and upon liquidation will distribute its audited financial statements prepared in accordance with generally accepted accounting principles to all investors promptly after the completion of such audit. Certificated securities, as required by applicable law, will be placed in custody with a third party qualified custodian.

#### **Item 16. Investment Discretion**

Investment advice is provided solely to the Funds, subject to the direction and control of LBC, and not individually to the investors in the Funds. Investment restrictions or limitations for the Funds, if any, will generally be established in each of the Fund's Governing Documents.

**Item 17. Voting Client Securities**

LBC investment strategy and portfolio composition do not include investments in publicly traded securities with any such voting rights, such as common stock. Therefore, LBC does not vote proxies.

**Item 18. Financial Information**

LBC does not require or solicit prepayment of fees six months or more in advance. LBC is not subject to any financial condition that is reasonably likely to impair its ability to meet contractual commitments to its Funds.