

Investment Adviser Brochure

ARLINGTON MANAGEMENT EMPLOYEES, LLC

**5425 Wisconsin Avenue, Suite 200
Chevy Chase, MD 20815**

www.arlingtoncap.com

MARCH 28, 2013

This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Arlington Management Employees, LLC, a Delaware limited liability company (“AME”). If you have any questions about the contents of this Brochure, please contact us at 202-337-7500. 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.

Arlington Management 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 Arlington Management is also available on the SEC’s website at www.adviserinfo.sec.gov.

TABLE OF CONTENTS

	<u>Page</u>
Advisory Business	1
Fees and Compensation	3
Performance-Based Fees and Side-By-Side Management	6
Types of Clients	6
Methods of Analysis, Investment Strategies and Risk of Loss.....	7
Disciplinary Information.....	17
Other Financial Industry Activities and Affiliations.....	17
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	17
Brokerage Practices	18
Review of Accounts	20
Client Referrals and Other Compensation.....	20
Custody	20
Investment Discretion	21
Voting Client Securities	21
Financial Information.....	21
Supplemental Information About Certain Principals of Arlington Management	22

MATERIAL CHANGES

This brochure has been revised since the version dated February 14, 2012 to clarify certain provisions relating to Fund I management fees, to clarify the role of Arlington's Chief Compliance Officer in certain respects and to update the amount of client assets managed by Arlington.

ADVISORY BUSINESS

Arlington Management Employees, LLC, a Delaware limited liability company ("**AME**"), doing business as Arlington Capital Partners, is a registered investment advisory entity that with other affiliated organizations (AME and, together with such affiliated organizations, collectively, "**Arlington**"), manages approximately \$831.1 million in private fund assets.

AME is a registered investment adviser that commenced operations in December 1998. AME and its affiliated investment advisers, Arlington Capital Group, LLC ("**ACP GP I**"), Arlington Capital Group II, L.L.C. ("**ACP GP II**"), Arlington Capital Group III, L.L.C. ("**ACP GP III**," and together with ACP GP I and ACP GP II, the "**General Partners**"), and Arlington Management, L.L.C. ("**Manager I**"), Arlington Capital II, L.P. ("**Manager II**") and Arlington Capital III, L.P. ("**Manager III**," and together with Manager I and Manager II, the "**Managers**," and the Managers, together with the General Partners and AME, the "**Advisers**") provide investment advisory services to private investment funds.

Manager I, in its capacity as the management company of Arlington Capital Partners, L.P., a Delaware limited partnership, and Arlington Capital Partners Offshore, L.P., an exempted limited partnership formed under the Exempted Limited Partnership Law of the Cayman Islands, (together with Arlington Capital Partners Employee Co-Investment, LLC ("**ACEC**"), "**Fund I**") has the authority to manage the business and affairs of Fund I. Pursuant to an agreement dated July 6, 2004 (the "**Agreement**"), the members of Manager I turned over the responsibilities for managing Fund I's investments to Manager II. As a result, Manager II manages the business and affairs of Fund I. ACP GP I is the general partner of Fund I.

Fund I commenced operations on July 28, 1999, and pursuant to its limited partnership agreement, (each Fund's limited partnership agreement, a "**Limited Partnership Agreement**"), effective on July 28, 2012, began an orderly dissolution. ACP GP I will continue to work with the remaining companies in Fund I's portfolio to maximize their value. Fund I will be liquidated upon the completion of an orderly sale of the remaining two companies in the portfolio. ACP GP I can only call capital to fund follow on investments in Fund I's current portfolio company investments and for Fund I expenses, and cannot call capital to make new portfolio company investments. While in dissolution, ACP GP I will not call Management Fees (defined below).

In its capacity as the management company of Arlington Capital Partners II, L.P., a Delaware limited partnership (together with SIG HoldCo I, LLC, SIG HoldCo II, LLC, VPG HoldCo I, LP, and VPG HoldCo II, LLC "**Fund II**"), Manager II has the authority to manage the business and affairs of Fund II. ACP GP II is the general partner and where applicable the manager of each of the Fund II entities.

Fund II was formed on March 4, 2005 and will continue until April 1, 2016, unless extended or dissolved sooner in accordance with its Limited Partnership Agreement. ACP GP II can only call capital to fund follow on investments in Fund II's current portfolio company investments and for Fund II expenses and cannot call capital to make new portfolio company investments.

In its capacity as the management company of Arlington Capital Partners III, L.P., a Delaware limited partnership (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, "**Fund III**"), Manager III has the authority to manage the business and affairs of Fund III. ACP GP III is the general partner of Fund III.

Fund III commenced operations on February 6, 2011 and will continue until August 6, 2021, unless extended or dissolved sooner in accordance with its Limited Partnership Agreement. ACP GP III is actively pursuing new portfolio company investments for Fund III.

The Advisers manage the business and affairs of Fund I, Fund II and Fund III (each, a "**Fund**," collectively, the "**Funds**" and together with any future private investment fund managed by the Advisers, the "**Private Investment Funds**").

The Funds and any other Private Investment Funds are private equity funds that make primarily control investments 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. Investments are made predominantly in non-public companies, although investments in public companies are permitted subject to certain limitations set forth in the applicable Fund's Limited Partnership Agreement. The employees and/or owners of the Advisers will serve on such portfolio companies' respective boards of directors or otherwise act to influence control over the management of a Fund's portfolio companies.

The Advisers advisory services to the Funds are further detailed in the applicable private placement memoranda and the supplements thereto (each, a "**Private Placement Memorandum**" and, collectively, the "**Private Placement Memoranda**") and the Limited Partnership Agreements and are further described below under "Methods of Analysis, Investment Strategies and Risk of Loss." Investors in the 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. The Funds or the Advisers have entered into side letters, or other similar agreements, with certain investors that have the effect of establishing rights under or altering or supplementing the applicable Limited Partnership Agreements.

As of February 2013, the Advisers collectively managed \$831.1 million in client assets on a discretionary basis. AME is controlled by Matthew L. Altman, Jeffrey H. Freed, Robert I. Knibb, Peter M. Manos, Michael H. Lustbader and Perry W. Steiner (the "**Partners**"). Manager I is controlled by Jeffrey H. Freed and Robert I. Knibb; and pursuant to SEC guidelines, its "principal owners" are Raymond W. Smith and Paul G. Stern, both of whom have retired as partners from Arlington. Pursuant to the Agreement, the members of ACP GP I and Manager I turned over the responsibilities for managing Fund I's investments to Manager II. Manager II is

controlled by Jeffrey H. Freed, Robert I. Knibb, Peter M. Manos and Perry W. Steiner, all of whom are owners of this entity; and pursuant to SEC guidelines, Jeffrey H. Freed is a “principal owner” of this entity. Manager III is controlled by Matthew L. Altman, Jeffrey H. Freed, Michael H. Lustbader, Peter M. Manos and Perry W. Steiner, all of whom are owners of this entity; and pursuant to SEC guidelines, Jeffrey H. Freed is a “principal owner” of this entity.

FEES AND COMPENSATION

In general, the Managers receive a management fee (“**Management Fee**”) paid by the Funds in connection with the advisory services they provide. The Advisers or other Arlington entities or affiliates may receive additional compensation in connection with management and other services performed for portfolio companies of the Funds and such additional compensation may offset in whole or in part the Management Fee otherwise payable to the Managers. Limited partners in the Funds also bear certain fund expenses.

Management Fees

Fund I

Effective on July 28, 2012, ACP GP I began an orderly dissolution of Fund I. ACP GP I will continue to work with the remaining companies in the portfolio to maximize their value. While in dissolution, ACP GP I will not call Management Fees.

Fund I will be responsible for all expenses (other than normal overhead expenses of managing Fund I, including compensation for AME employees, rent, utilities and other administrative expenses) incurred by or on behalf of Fund I which are not reimbursed by portfolio companies, including legal, auditing, consulting, financing and accounting fees and expenses, expenses associated with Fund I’s financial statements, tax returns and K-1s, out-of-pocket expenses of transactions not consummated, other expenses associated with the acquisition, holding and disposition of the Fund’s investments, including interest on and fees and costs arising out of any borrowings made by Fund I, insurance, extraordinary expenses (such as litigation, if any), any taxes, fees or other governmental charges levied against Fund I, broken deal expenses, management fees, fund raising expenses, organizational expenses and expenses of periodic meetings of the limited partners. The limited partners of Fund I will be assessed periodically for such expenses in accordance with their capital commitments. ACP GP I will have the right to reimburse itself for any partnership expenses it incurred prior to making any distributions to limited partners of Fund I.

Fund II

Fund II pays Manager II a Management Fee calculated each calendar semi-annual period equal to 1.5% per annum, payable quarterly in advance, of capital commitments drawn for investments less any distributions constituting returns of capital on such investments.

The Management Fee payable is reduced by an amount (the “**Fund II Waived Fee Amount**”) equal to the lesser of (i) the amount of the Management Fee that Manager II has irrevocably elected to waive and (ii) the amount that would otherwise be payable to Manager II pursuant to the terms of the Fund II Limited Partnership Agreement. Waived Management Fees

are not subject to the Management Fee offsets described below. Due to any such waiving of Management Fees and/or timing of receipt of compensation subject to offsets (as described below), it is possible that Management Fee offsets will not be fully realized by investors in Fund II until Fund II's dissolution (or ever, in the case of investors that have irrevocably elected not to receive distributions of excess offset amounts, as described below), resulting in an additional benefit to Manager II during such period.

After giving effect to the Fund II Waived Fee Amount, Manager II applies 80% of any transaction fees and monitoring fees and 100% of any breakup fees to reduce the Management Fee for the semi-annual period immediately succeeding the semi-annual period in which the transaction fee, monitoring fee and/or breakup fee, as applicable, was received by ACP GP II, Manager II or any of their respective managers, partners, members, shareholders, officers or employees in their capacities as such. In the event that the aggregate amount of fees applied against the Management Fee exceeds the Management Fee for the immediately succeeding semi-annual period, such excess will be carried forward to reduce the Management Fee payable in the following semi-annual periods. To the extent any such excess remains unapplied upon termination of Fund II, each Fund II limited partner will receive from Manager II its *pro rata* share (based on commitments) of such unapplied excess, unless such Fund II limited partner has previously notified ACP GP II of its irrevocable election not to receive its *pro rata* share of such excess.

Fund II will be responsible for all expenses (other than normal overhead expenses of managing Fund II, including compensation for AME employees, rent, utilities and other administrative expenses) incurred by or on behalf of Fund II which are not reimbursed by portfolio companies, including legal, auditing, consulting, financing and accounting fees and expenses, expenses associated with Fund II's financial statements, tax returns and K-1s, out-of-pocket expenses of transactions not consummated, other expenses associated with the acquisition, holding and disposition of the Fund's investments, including interest on and fees and costs arising out of any borrowings made by Fund II, insurance, extraordinary expenses (such as litigation, if any), any taxes, fees or other governmental charges levied against Fund II, broken deal expenses, management fees, fund raising expenses, organizational expenses and expenses of periodic meetings of the limited partners. The limited partners of Fund II will be assessed periodically for such expenses in accordance with their capital commitments. ACP GP II will have the right to reimburse itself for any partnership expenses it incurred prior to making any distributions to limited partners of Fund II.

The Management Fee will be further reduced in the circumstances and by the amounts described in the Limited Partnership Agreement.

Fund III

Fund III pays Manager III a Management Fee calculated each calendar semi-annual period equal to 2.0% of aggregate Fund III limited partner commitments per annum, payable quarterly in advance and prorated in the event of any partial year. Effective on the first day after the earliest of the following dates: (i) the sixth anniversary of February 6, 2011, (ii) the date ACP GP III receives written notice in connection with early termination of Fund III pursuant to the Fund III Limited Partnership Agreement, (iii) the date on which ACP GP III or its affiliate first

receives or begins to accrue management fees with respect to a pooled investment fund, formed after Fund III, with objectives substantially similar to those of Fund III and (iv) the first anniversary of the date after which there ceases to be at least two approved executive officers (*i.e.*, any of Jeffrey H. Freed, Peter M Manos, Perry W. Steiner and any other officer selected by ACP GP III and approved by a majority of the limited partners to be an approved executive officer), active in Fund III's affairs, the Management Fee will be reduced to 1.5% per annum of limited partner commitments drawn down for investments less distributions constituting returns of cost (but only to the extent such distributions arise from the sale of a portfolio company security) on such investments.

The Management Fee payable will be reduced by an amount (the “**Fund III Waived Fee Amount**”) equal to the lesser of (i) the amount of the Management Fee that Manager III has irrevocably elected to waive and (ii) the amount that would otherwise be payable to Manager III pursuant to the terms of the Fund III Limited Partnership Agreement. Waived Management Fees are not subject to the Management Fee offsets described below. Due to any such waiving of Management Fees and/or timing of receipt of compensation subject to offsets (as described below), it is possible that Management Fee offsets will not be fully realized by investors in Fund III until Fund III's dissolution (or ever, in the case of investors that have irrevocably elected not to receive distributions of excess offset amounts, as described below), resulting in an additional benefit to Manager III during such period.

After giving effect to the Fund III Waived Fee Amount, (i) Manager III will apply 80% of any transaction fees and monitoring fees and 100% of any breakup fees to reduce the Management Fee for the semi-annual period immediately succeeding the semi-annual period in which the transaction fee, monitoring fee and/or breakup fee, as applicable, was received by ACP GP III, Manager III or any of their respective managers, partners, members, shareholders, officers or employees in their capacities as such and (ii) Manager III will reduce the Management Fee payable in any semi-annual period by the aggregate amount of all private placement fees paid or reimbursed by Fund III in connection with the organization and funding of Fund III prior to such semi-annual period, but only to the extent that the aggregate Management Fee previously payable to Fund III has not been reduced by such private placement fees. In the event that the aggregate amount of such fees applied against the Management Fee exceeds the Management Fee for the immediately succeeding semi-annual period, such excess will be carried forward to reduce the Management Fee payable in the following semi-annual periods. To the extent any such excess remains unapplied upon termination of Fund III, each Fund III limited partner will receive from Manager III its *pro rata* share (based on commitments) of such unapplied excess unless such limited partner has previously notified ACP GP III in writing of its irrevocable election not to receive its pro rata share of such excess.

Fund III will be responsible for all expenses (other than normal overhead expenses of managing Fund III, including compensation for AME employees, rent, utilities and other administrative expenses) incurred by or on behalf of Fund III which are not reimbursed by portfolio companies, including legal, auditing, consulting, financing and accounting fees and expenses, expenses associated with Fund III's financial statements, tax returns and K-1s, out-of-pocket expenses of transactions not consummated, other expenses associated with the acquisition, holding and disposition of the Fund's investments, including interest on and fees and costs arising out of any borrowings made by Fund III, insurance, extraordinary expenses (such as

litigation, if any), any taxes, fees or other governmental charges levied against Fund III, broken deal expenses, management fees, fund raising expenses, organizational expenses and expenses of periodic meetings of the limited partners. The limited partners of Fund III will be assessed periodically for such expenses in accordance with their capital commitments. ACP GP III will have the right to reimburse itself for any partnership expenses it incurred prior to making any distributions to limited partners of Fund III.

The Management Fee will be further reduced in the circumstances and by the amounts described in the Limited Partnership Agreement.

Other Information

The Advisers may exempt certain investors in Private Investment Funds from payment of all or a portion of Management Fees. Any such exemption from fees may be made by a direct exemption, a rebate by the Managers or through other Private Investment Funds which co-invest with the Funds.

The Funds and any 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 Limited Partnership Agreements over the term of the Funds (or the relevant Private Investment Funds, as applicable) and Fund limited partners are generally not permitted to withdraw or redeem interests in the Funds (or other relevant Private Investment Funds, as applicable).

Owners or other employees of the Advisers may receive a portion of the Management Fee, Carried Interest or other compensation received by the Advisers or their affiliates.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

AME does not directly receive a carried interest allocation (“**Carried Interest**”) for its advisory services to the Funds. Rather, each of ACP GP I, ACP GP II and ACP GP III receives a Carried Interest equal to 20% of all aggregate realized profits from each of Fund I, Fund II and Fund III, respectively, as more fully described in the applicable Fund’s Limited Partnership Agreement. Upon dissolution of any of the Funds, any of ACP GP I, ACP GP II or ACP GP III shall be obligated to return to the respective Funds the greater of (i) the amount such that each limited partner receives its contributed capital plus a preferred return of 8% per annum, or (ii) the amount (if positive) of distributions that the General Partner received in the aggregate, in excess of 20% of such Fund’s cumulative net profits. Any amount repaid to a Fund cannot exceed the after-tax amount of Carried Interest that is distributed to each Fund’s respective General Partner. The Advisers do not advise Private Investment Funds not subject to a Carried Interest.

TYPES OF CLIENTS

AME provides investment advice to the Funds. Certain of the Private Investment Funds may include investment partnerships or other investment entities formed under domestic or foreign 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 AME and its affiliates.

The Funds are closed to new investors. Otherwise, however, Fund I, Fund II and Fund III each has a stated minimum investment amount of \$5 million for third-party investors though such limits were waived for certain investors. The Funds' interests were offered and sold solely to accredited investors within the meaning of the rules promulgated under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") who are also qualified clients (or qualified knowledgeable employees or owners of the Advisers).

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

General

Arlington intends to make primarily control investments in middle-market companies primarily located in the U.S. Arlington pursues investments in companies that either contract directly with the U.S. government or operate in a government-regulated industry, including: (i) defense/aerospace; (ii) government services; (iii) healthcare services; (iv) education and training; (v) business services; and (vi) media/information services (collectively, the "**Target Sectors**").

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

Investment and Operating Strategy

Arlington's investment strategy for the Funds generally is to invest in growth companies in its Target Sectors that: (i) display historically high returns on invested capital; (ii) operate in fragmented markets; and (iii) possess identifiable franchise value ("**Franchise Value**") (*i.e.*, sustainable and differentiating characteristics that create the potential for strategic value and therefore premium valuations upon exit to strategic acquirers). Characteristics emblematic of such Franchise Value typically include: (i) high barriers-to-entry or substitution; (ii) deeply rooted customer relationships; (iii) distribution capabilities that are difficult to replicate; (iv) regulatory protection; (v) defensible or enduring cost structure advantages; and (vi) proprietary technology or unique processes. Arlington seeks to leverage its Washington, D.C. network and contacts when operating in regulated industries that possess stable and defensive characteristics, such as aerospace, defense, government services, healthcare services and education.

Arlington believes that companies with identifiable Franchise Value in the middle market, particularly in its Target Sectors, can significantly enhance their appeal to larger strategic acquirers by implementing well-conceived value-creation initiatives, including operational improvements and complementary acquisitions.

Investment Approach

Arlington's investment approach is designed to source quality investment opportunities in its Target Sectors while maintaining strict pricing and leverage discipline. Key elements of Arlington's approach include but are not limited to the following:

- partnering with industry veterans possessing significant knowledge in a specific industry and who have many years of experience running businesses (an “**Operating Executive**”);
- a highly disciplined approach to pricing and leverage;
- being a preferred partner to founding management; and
- creatively structuring investments to bridge valuation gaps and mitigate risk

Investment Process

Arlington adheres to a disciplined investment process to originate, evaluate, consummate, monitor and monetize its investments.

Sourcing

Arlington focuses on proactive generation of investment opportunities outside of highly competitive bidding processes. Arlington believes that its visibility and local network in Washington, D.C. provide a competitive advantage in originating opportunities within industries that are regulated by, or sell to, the U.S. government.

Due Diligence

Arlington pursues transaction opportunities in which it believes it has a competitive advantage. Before committing significant resources of the Funds to a given opportunity, Arlington will assess: (i) its relevant industry experience, either in-house or through an Operating Executive; (ii) the potential for post-investment value creation; (iii) the pricing expectations and non-economic motivations of the seller; and (iv) transaction timing and structuring considerations.

Transaction Structuring

Arlington’s investment professionals have experience investing in the private equity space. The Partners of Arlington have invested across a variety of economic cycles and have specific expertise in the Target Sectors. In addition, Arlington’s investment professionals have a particular expertise in structuring transactions with founding management that seek to optimize the financial and operational benefits for the business. In structuring transactions, Arlington will apply reasonable levels of debt financing and will seek to provide Arlington with sufficient downside protection.

Investment Oversight

Arlington believes that making control investments and taking an active role post-acquisition is critical to generating returns. As such, Arlington is involved post-investment in its portfolio companies and actively works with its portfolio companies to identify and complete add-on and strategic acquisitions, access new government contracts and clients, improve operations, augment and upgrade management teams as needed, introduce outside industry

executives and board members, and refine company business models as necessary. Arlington has long believed that the most important driver in superior investment returns is growth in the company's earnings and a fundamental transformation of a company's competitive positioning, and as such does not rely solely upon financial engineering, although each Arlington transaction is specifically structured to be reflective of a company's needs.

Arlington controls the board of directors of all of the Funds' LBO investments, except for one LBO investment in which it controls the portfolio company in concert with another private equity fund, which, it believes, gives Arlington the ability to make any changes at the companies that it deems necessary. The independent board members of Arlington's portfolio companies have included former admirals, generals, presidential cabinet members, ambassadors, and congressmen, as well as prominent industry executives, senior policy/secretarial department officials and former Arlington portfolio company CEOs that are invited to sit on the boards of existing portfolio companies.

Exit Planning

Arlington's plans for eventual portfolio company liquidity begin prior to the closing of an investment. During the due diligence process, Arlington assesses the attractiveness of the industry segment and the prospect for multiple exit opportunities. Prior to committing capital to a portfolio company, Arlington identifies the likely exit options, including not only sales to strategic buyers, but also sales to financial buyers, public equity offerings and recapitalizations.

Arlington's investment professionals analyze the viability of anticipated exit strategies during the investment decision-making process and potential exit opportunities are continually evaluated throughout Arlington's ownership of the portfolio investment.

Risks of Investment

In addition to the general risks of loss associated with the Funds' investments, prospective investors should carefully consider the following risk factors. As a result of these factors, as well as other risks inherent in any investment, there can be no assurance that any Fund will meet its investment objectives or otherwise be able to successfully carry out its investment program.

Economic and Industry Risk

Although investments of the type sought by the Funds offer the opportunity for attractive returns, such investments are sensitive to any general downward swing in the economy or in the industrial, government or economic sectors in which the acquired business operates. The Funds' investments consequently involve a high degree of financial risk, and the possibility of partial or total loss of capital exists. Prospective investors should not subscribe unless they can readily bear the consequences of such loss.

Available Investments; Limited Liquidity of Investments

The leveraged buyout and private equity investment industry in which Arlington and the Funds are engaged is highly competitive. Further, the identification of suitable investments is a

difficult task, and there can be no assurance that the Funds will be able to implement their investment objectives. There is no assurance that the General Partners will be able to identify sufficient attractive investment opportunities to enable the full amount of capital committed to the Funds to be invested. However, Fund limited partners will be required to pay annual management fees during the commitment periods based on the entire amount of their commitments. The General Partners also may encounter significant competition for many of the investments selected. Many of Arlington's competitors may have greater financial and other resources and may have better access to suitable investment opportunities. Furthermore, investments made by the Funds, to a large degree, will have limited liquidity. The Funds' exit strategies with respect to one or more investments can be affected adversely by numerous factors, many of which may be unforeseen or unexpected at the time each investment is made. Moreover, the limited liquidity of investments may adversely affect the Funds' abilities to implement exit strategies in the face of unexpected developments.

No Assurance of Profit, Cash Distributions, or Appreciation, or Rate of Return

The Funds may be entirely dependent upon Arlington and the Partners. While the General Partners intend to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurance of success. There can be no assurance that investments by the Funds will achieve returns comparable to those achieved in the transactions undertaken previously by Arlington or will achieve targeted returns, or even that an investment, once made, will be profitable and that an investor's interest in such investment will have economic value. Historical returns achieved by Arlington in the Funds are not predictions of future performance. There can be no assurance that investments will generate cash flow available for distribution to investors or that the General Partners will be able to liquidate investments on favorable terms.

No Diversification Requirement; Junior Securities; Risk of Loss

The Limited Partnership Agreements permit the General Partners to invest a certain percentage of total commitments in a single investment, in some cases 25% of total commitments. Although the General Partners expect that the Funds will have a moderate degree of diversification, the General Partners are authorized, at any time, to invest its assets in only a few investments. Thus, the unfavorable performance by investments in one industrial or economic sector could have a substantial adverse impact on the aggregate returns realized by investors. Furthermore, to the extent that the capital raised is less than the targeted amount, the Funds may invest in fewer portfolio companies and thus be less diversified. In addition, the General Partners may also make opportunistic investments in other assets that offer particularly attractive returns. Moreover, the securities in which the Funds may 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.

Restrictions on Transfer; No Market for Interests in the Funds; Illiquidity of Interests

There are substantial restrictions upon the transferability of Fund interests under the Limited Partnership Agreements and the interests in Funds are not registered under any Federal or state securities laws or the securities laws of any other jurisdiction and therefore are subject to

the restrictions on transfer contained in such laws. Investors will not be able to transfer, sell or otherwise dispose of their interests in any manner that will violate the securities laws of any jurisdiction. The interests in the Funds are not redeemable or transferable except with the consent of the General Partners, which consent the General Partners may withhold in their sole discretion. In addition, withdrawals of Fund interests are not permitted. There is no market for the interests and none is expected to develop. Consequently, investors may not be able to liquidate their interests for a lengthy period of time, which may not be prior to the time any Fund liquidates the investments it makes. In addition, any such liquidation may be in the form of non-cash distributions to the investors.

An investment in any 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, generally will occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating the Funds (including the annual management fee payable to the General Partners) may exceed income, thereby requiring that the difference be paid from such Fund's capital.

Use of Leverage

The types of transactions that the Funds execute will involve equity investments in businesses undertaking a significant amount of debt. Leverage generally magnifies both the Funds' opportunities for gain and their risks of loss from any particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which state is difficult to accurately forecast. During times when credit markets are tight, it may be difficult to obtain or maintain the desired degree of leverage. The use of borrowed funds increases the sensitivity of such investments to adverse economic and commercial developments, competitive pressures, an adverse economic environment, as well as to risks relating to fluctuations in interest rates and could accelerate and magnify declines in the value of any Fund's investments in the leveraged portfolio companies in a down market. Moreover, lenders of borrowed funds will likely insist on the inclusion of affirmative and negative covenants that may affect the operating flexibility of particular investments, in addition to the burden of debt service, and may impair a leveraged portfolio company's ability to finance future operations and capital needs. In the event any portfolio company cannot generate adequate cash flow to meet debt service, any Fund may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of such Fund. Furthermore, should the credit markets be tight at the time a Fund determines that it is desirable to sell all or a part of a portfolio company, such Fund may not achieve an exit multiple or enterprise valuation consistent with its forecasts. Moreover, the companies in which a Fund will invest generally will not be rated by a credit rating agency.

Restricted Nature of Investment Positions

Generally, there will be no readily available market for a substantial number of any Fund's investments, and hence, most of such Fund's investments will be difficult to value. Certain investments may be distributed in kind to the Fund limited partners.

Importance of Certain Personnel

Control over the operation of the Funds will be vested entirely with the Advisers, and any Fund's future profitability will depend largely upon the business and investment acumen of the Partners. The loss of service of one or more of the Partners could have an adverse effect on such Fund's ability to realize its investment objectives. Fund limited partners generally have no right or power to take part in the management of the Funds, and as a result, the investment performance of any Fund will depend entirely on the actions of the Advisers. Although the General Partners will monitor the performance of each Fund investment, it will primarily be the responsibility of management of each portfolio company to operate the portfolio company on a day-to-day basis. There can be no assurance that the existing management team, or any new one, will be able to operate the portfolio company in accordance with Arlington's plans. In addition, certain individuals associated with Arlington have primary responsibility for the management of the Funds' business. If these individuals should cease to participate in such management for any reason, the Funds' business could be adversely affected.

Projections

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

Conflicting Investor Interests

Fund limited partners may have conflicting investment, tax, and other interests with respect to their investments in the Funds, including conflicts relating to the structuring of investment acquisitions and dispositions. Conflicts may arise in connection with decisions made by a General Partner 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 respective Fund and its limited partners as a whole, not the investment, tax, or other objectives of any Limited Partner individually.

Need for Follow-On Investments

Following its initial investment in a given portfolio company, a 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 such Fund will make follow-on investments or that such Fund will have sufficient funds to make all or any of such investments. Any decision by a 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 or may result in a lost opportunity for such Fund to increase its participation in a successful operation.

Lack of Investor Participation

No investor has the right, power or authority to participate in the ordinary and routine management of any Fund's affairs or to exercise any control over the decisions of the General Partners. The General Partners have the exclusive right to manage, control and operate the affairs and business of the Funds and to make all decisions relating thereto. Accordingly, no prospective investor should purchase any interests unless such prospective investor is willing to entrust all aspects of management to the respective General Partner.

Although Arlington actively monitors the status of its investments and the performance of the officers and managers operating portfolio companies, the success of an investment will depend, to a large extent, upon the quality of the officers and managers of each portfolio company. Investors have no right or power to take part in or direct the management of any investment.

Failure To Satisfy Investment Calls

If investors fail to satisfy capital calls, the ability of the Funds to make investments would be adversely affected. If an investor fails to satisfy a capital call, it is obligated to pay interest on the capital call obligation until satisfied by such investor or any other investor or investors. In addition, non defaulting investors have the right to purchase the defaulting investor's interest in the applicable Fund for its defaulted value (as defined in the Partnership Agreement), provided that such non defaulting investors satisfy the defaulting investor's pending capital call and agree to satisfy the defaulting investor's future capital call obligation. As a result, an investor who fails to satisfy capital calls risks losing a portion of its investment in the applicable Fund.

Board Participation

The Funds may be represented on the boards of directors (or comparable governing bodies) of certain of their portfolio companies. While such representation is expected to enhance each Fund's ability to manage its investments, it may also impair a Fund's ability to sell the related securities because such Fund may be subject to fiduciary duties and other potential legal claims. The Funds will indemnify the respective fund manager for claims arising from such board representation, respectively. Serving on the board of directors of a portfolio company exposes each Fund's representatives, and ultimately such 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.

Tax Considerations

An investment in a Fund involves complex tax considerations that will differ for each investor. Under certain circumstances, the investors could be required to recognize taxable income in a taxable year, even if such Fund does not have cash or property available to be distributed to the investors during such taxable year.

Investments in Countries Outside the United States

The Funds may make certain investments in portfolio companies that are organized or have substantial sales or operations outside of the United States, its territories, and possessions. The value of such non-U.S. investments could be materially adversely affected by inflation, currency devaluation, interest rate fluctuations, exchange rate fluctuations, the application of complex U.S. and non-U.S. tax rules to cross-border investments, possible imposition of non-U.S. taxes on such Fund and/or such Fund's limited partners with respect to such Fund's income, and possible non-U.S. tax return filing requirements for such Fund and/or such Fund's limited partners, potentially unsettled points of applicable governing law, capital repatriation regulations (as such regulations may be given effect during the term of such Fund), changes in governmental policies (including foreign investment policy, trade policy and taxation), social instability and other economic or political developments in such countries.

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

Significant Adverse Consequences for Default

The Limited Partnership Agreements provide for significant adverse consequences in the event a Limited Partner defaults on its commitment or other payment obligations. In addition to losing its right to potential distributions from a Fund, a defaulting Limited Partner may be forced to transfer its interest in such 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 Funds at subsequent closings will participate in then-existing investments of a Fund, thereby diluting the interest of existing limited partners in such investments. Although any such new Limited Partner may 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 such Fund's existing investments at the time of such contributions.

A General Partner's Carried Interest

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

Public Company Holdings

A Fund's investment portfolio may contain securities issued by publicly held companies. Such investments may subject such Fund to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose

information regarding such companies, limitations on the ability of such Fund to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members, including any Partners serving in such capacity, and increased costs associated with each of the aforementioned risks.

Currency and Foreign Exchange Risks

Each Fund's books and records will be denominated in United States dollars, and distributions will generally be made in United States dollars. However, each Fund may make investments in other currencies, and changes in the exchange rates between such currencies and the United States dollar could have an adverse effect on each such Fund, including the amounts available for distribution and the value of securities to be distributed in-kind.

Absence of Certain Statutory Regulation

Neither Arlington nor the General Partners are registered as investment companies under the Investment Company Act of 1940. Therefore, investors will not have the rights or protections provided by such act. Neither Arlington nor the General Partners are registered as a broker-dealers under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), or with the National Association of Securities Dealers, Inc. (the "NASD"), and consequently are not subject to the record-keeping and specific business practice provisions of the Exchange Act or the rules of the NASD.

Regulatory Compliance

Certain of a Fund's investments may result in reporting and compliance obligations under the Exchange Act and/or the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The cost of compliance will be borne by such Fund.

Changes in Applicable Law

The Adviser must comply, and must cause the Funds to comply with various legal requirements, including, but not limited to, requirements imposed under United States federal tax law and federal and state securities laws. If any of the laws and regulations currently in effect should change or any new laws or regulations should be enacted, the legal requirements to which the Adviser, the Funds and the investors may be subject to could differ materially from current requirements and may materially and adversely affect the Adviser, the Funds and the investors.

Limited Liability of Arlington and the Advisers; Indemnification

The Limited Partnership Agreements provides that the General Partners, the Advisers, their respective affiliates and their respective directors, partners, members, shareholders, officers, employees, or agents will not be personally liable, responsible or accountable in damages or otherwise to the Funds or to any investor for any breach of fiduciary duty. The Limited Partnership Agreements also provide that, to the maximum extent permitted by applicable law, the Funds will indemnify their respective General Partners, the Advisers, and their respective affiliates and their respective directors, partners, members, shareholders, officers, employees or agents (each, an "Indemnified Person") from and against any loss, damage, liability, cost or

expense (including attorneys' fees and expenses) arising out of or in connection with any act or failure to act or alleged act or failure to act arising out of, in connection with or in any way related to each Fund and its affairs (including enforcement of this indemnity obligation). The Limited Partnership Agreements also provide that attorneys' fees and expenses incurred by an Indemnified Person in connection with any matter for which indemnification may be sought under each Limited Partnership Agreement will be paid by the respective Fund.

Conflicts of Interest

As stated earlier, pursuant to their respective Limited Partnership Agreements, Fund I and Fund II are unable to make new portfolio company investments. Fund III is the only Fund pursuing new portfolio company investments. As such, there will not be any conflicts of interest between the Funds as it relates to new portfolio company investment opportunities.

Pursuant to the Limited Partnership Agreement of Fund III, the most recent Private Investment Fund, during the commitment period of Fund III, the Advisers will pursue all appropriate investment opportunities exclusively through Fund III, subject to certain limited exceptions. In the event the Advisers form a subsequent Private Investment Fund, until such time as ninety percent of Fund III has been invested, committed or allocated to be invested or used to pay expenses or reserved for follow-on investments or reasonably anticipated expenses, Fund III will be given priority with respect to any investment opportunities. The Adviser's investment staff will continue to manage and monitor all Arlington Funds over the life of each of the Funds. The significant investment of the Partners in the Funds, as well as the Advisers' interest in the Carried Interest, operate to align, to some extent, the interests of the Advisers with the interests of the Fund and its partners, although the Advisers have economic interests in such other investment funds and investments as well and receive management fees and Carried Interests relating to these interests. Such other investment funds and investments that the Advisers may control may compete with one of the Funds or companies acquired by the Funds. Following the commitment period of Fund III, the Advisers may and likely will focus their investment activities on other opportunities and areas unrelated to Fund III's portfolio company investments, though the Advisers will continue to manage and monitor investments in Fund III as well as the previous Funds.

When raising the next subsequent Private Investment Fund, employees and owners of the Advisers may be presented with investment opportunities that would be suitable not only for Fund III, but also for the next subsequent Private Investment Fund. In determining which Fund should participate in such investment opportunities, each Fund is subject to conflicts of interest within their Limited Partnership Agreements. The Advisers attempt to resolve such conflicts of interest in light of their obligations to investors in each of their Private Investment Funds, and attempts to allocate investment opportunities among the Funds, other Private Investment Funds and such investment vehicles in a fair and equitable manner. Where necessary, the Advisers consult and receive consent to conflicts from an advisory board consisting of the limited partners of the applicable Fund and such other investment vehicle.

In addition, Arlington and its principals and officers may invest for their personal accounts in the same areas of investment opportunity as those in which the Funds may invest and may become aware of, and participate in, business opportunities in which investors may not be

given the opportunity to invest as long as such opportunities are not otherwise suitable for the Funds. In addition, due to differing investment objectives or other factors, Arlington and its principals and officers may take investment positions in securities that are different from, or opposite to, the positions taken by a Fund.

Representatives of Arlington may also serve on the boards of directors of and provide management, consulting, and other services to companies that are not Fund portfolio companies. Investors will have no right to any fees derived from these activities.

DISCIPLINARY INFORMATION

AME 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

AME is not, but may become in the future, affiliated with other investment advisers registered with the SEC under the Advisers Act. These affiliated investment advisers may serve as managers or general partners of the Funds and other pooled vehicles and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

As discussed above, AME is currently affiliated with ACP GP I, ACP GP II, ACP GP III, Manager I, Manager II, and Manager III, which may provide advice to AME in connection with its services to certain Funds. While such other Advisers are not required to be registered under the Advisers Act, they operate in compliance with certain related requirements and undertakings as prescribed by the SEC.

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

The Advisers have adopted the Arlington Code of Ethics and Securities Trading Policy and Procedures (the “**Code**”), which sets forth standards of conduct that are expected of Arlington principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Arlington personnel to report their personal securities transactions, prohibits or requires pre-clearance for Arlington personnel from directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits Arlington personnel from directly or indirectly acquiring beneficial ownership of securities with limited exceptions, without first obtaining approval from the Arlington Chief Compliance Officer. A copy of the Code will be provided to any limited partner or prospective limited partner of the Fund upon request to Matthew K. Buckley, the Arlington Chief Compliance Officer, at (202) 337-7500. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client’s interests in client eligible investments.

The Advisers and their affiliated persons may come into possession, from time to time, of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor’s decision to buy, sell or hold a security. Under applicable law, the

Advisers and their affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the Advisers.

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

Principals and employees of the Advisers and their affiliates may directly or indirectly own an interest in Private Investment Funds, including the Fund or certain co-investment vehicles. To the extent that co-investment vehicles exist, such vehicles may invest based on a fixed percentage in one or more of the same portfolio companies as the Funds.

The Funds and other Private Investment Funds may invest together with other funds advised by an affiliated adviser of AME in the manner set forth in their Limited Partnership Agreements. The Advisers will determine the allocation of investment opportunity in a manner that they believe is fair and equitable to their clients consistent with the Advisers' obligations and may take into consideration factors such as the following: the client's investment restrictions and objectives (including those set forth in the relevant client's governing documents, where applicable), investment and operating guidelines, diversification limitations, tax and regulatory considerations, minimum dollar limits and other relevant factors, including risk.

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 Funds, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for the Funds even though their investment objectives may be the same or similar.

The operative documents and investment programs of certain vehicles sponsored by Arlington (the "**Reference Funds**") may restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such Reference Funds or may give priority with respect to investments to such Reference Funds. Some of these restrictions could be waived by Fund limited partners (or their representatives) in such Reference Funds.

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 a Fund or sell such securities, including through using a broker-dealer, if a public trading market exists. Although the Advisers do not intend to regularly engage in public

securities transactions, to the extent they do so, they follow the brokerage practices described below.

If the Advisers sell publicly traded securities for a Fund, it is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the Advisers. In such event, the Advisers will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, the Advisers 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 Arlington being considered; and (iv) responsiveness to requests for trade data and other financial information.

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

Consistent with the Advisers seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research or deal flow furnished by them, although the Advisers generally do not make use of such services at the current time. 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 among the Advisers and their affiliates.

The Advisers do 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 Advisers have 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 Advisers 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 or deal flow that has been helpful in the management of Private Investment Funds. To the extent consistent with the Advisers’ goal to obtain best execution for the Funds, 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 Adviser allocates brokerage business on the basis of research services or deal flow, it may have an incentive to select or recommend broker-dealers based on the interest in receiving such research, deal flow, or other products or services, rather than based on its Private Investment Funds' interest in receiving most favorable execution.

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

REVIEW OF ACCOUNTS

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

Each Fund will provide to each of its limited partners (i) annual GAAP audited and quarterly unaudited financial statements, (ii) annual tax information necessary for each Limited Partner's tax return and (iii) at the time of delivery of the financial statements, reports providing a description of all investments held by the Funds and a narrative summary of the status of each such investment.

CLIENT REFERRALS AND OTHER COMPENSATION

AME and/or its affiliates are not currently using the services of any third party for marketing purposes.

CUSTODY

The Advisers maintain custody of the Funds' assets held in each Fund's name with the following qualified custodian: Merrill Lynch, Pierce, Fenner & Smith Incorporated.

INVESTMENT DISCRETION

As a general policy, the Advisers do not allow clients to place limitations on the authority to manage investments on behalf of the Funds. Pursuant to the terms of the Limited Partnership Agreements, however, the Advisers may enter into “side letter” arrangements with certain limited partners whereby the terms applicable to such limited partners’ investment in the Funds may be altered or varied, including, in some cases, the right to opt-out of select investments for limited legal, tax, regulatory or other similar reasons. The Advisers assume this discretionary authority pursuant to the terms of the applicable Limited Partnership Agreements and powers of attorney executed by the limited partners of each Fund.

VOTING CLIENT SECURITIES

The Advisers have adopted 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. Each of the Advisers generally believes its interests are aligned with those of Funds’ limited partners through the principals’ beneficial ownership interests in the Funds and therefore will not seek Limited Partner approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that the Adviser may address the conflict using several alternatives, including by seeking the approval or concurrence of the Funds’ advisory boards on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, the Funds’ advisory boards may approve the Adviser’s vote in a particular solicitation. The Advisers do not consider service on portfolio company boards by Arlington personnel or their 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. If you would like a copy of the Adviser’s complete Proxy Policy or information regarding how the Advisers voted proxies for particular portfolio companies, please contact Matthew K. Buckley, the Arlington Chief Compliance Officer, at (202) 337-7500 and it will be provided to you at no charge.

FINANCIAL INFORMATION

AME 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.

SUPPLEMENTAL INFORMATION ABOUT CERTAIN PRINCIPALS OF ARLINGTON MANAGEMENT

Jeffrey H. Freed

Educational Background and Business Experience

Jeffrey H. Freed, born in 1963, co-founded Arlington in 1999, and shares overall responsibility for management of the Firm. Prior to Arlington, Mr. Freed was the President of Westbury Capital Partners, L.P., a direct investment partnership focused on middle-market companies. During his tenure at Westbury, Mr. Freed established the firm's direct investment strategy, created the firm's deal flow, and executed all of the partnership's principal investments. Prior to Westbury, Mr. Freed was a principal at Oak Hill Capital Partners, the management company of Acadia Partners, L.P., a \$1.8 billion investment partnership established by Robert M. Bass and certain institutional investors. Mr. Freed was one of seven dedicated professionals responsible for all aspects of initiating, evaluating, executing and closing leveraged buyout transactions, recapitalizations/build-ups, as well as other direct equity and mezzanine investments. Previously, Mr. Freed was a principal with Adler and Shaykin, a firm with \$300 million of equity capital under management. He began his career in 1985 as one of the original members of Morgan Stanley Capital Partners.

Mr. Freed earned an M.B.A. from the Harvard Business School and received a B.S. and B.A. degrees, *magna cum laude*, from the University of Pennsylvania's Wharton School and College of Arts & Sciences dual degree program in Economics and Oriental History. He is currently a member of the Board of Directors of BrightStar Education Group, CompuSearch Software Systems, Novetta Solutions and Sports Information Group, and previously served on the Board of Directors of AdVenture Interactive, Apogen Technologies, New Vision Group, SECOR International and SignalTree Solutions, Inc..

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Freed.

Other Business Activities

Mr. Freed is not engaged in any investment-related business outside of his roles with AME and its affiliates.

Additional Compensation

Mr. Freed does not receive any additional compensation that is required to be disclosed.

Supervision

As Partner of Arlington, Mr. Freed is responsible for implementing and overseeing the investment strategy of the clients of Arlington. Mr. Freed is subject to the supervision of the Arlington Chief Compliance Officer with respect to compliance matters, but is not otherwise subject to the supervision of any other person.

Perry W. Steiner

Educational Background and Business Experience

Perry W. Steiner, born in 1965, joined Arlington in 2001, and shares overall responsibility for management of the Firm. Prior to Arlington, Mr. Steiner was President of Digital River, a business process outsourcing company, managing e-commerce transactions. He led the growth of the company organically as well as through the acquisition and consolidation of seven companies. Prior to Digital River, Mr. Steiner co-managed Wasserstein Perella Ventures, the firm's debut venture capital fund, with a focus on technology, media and healthcare. Previously, Mr. Steiner was a principal of TCW Capital, where he was responsible for originating transactions, investing that firm's middle-market buyout fund, and the oversight of its existing portfolio companies. He began his career in the investment banking division of Goldman, Sachs & Co.

Mr. Steiner earned an M.B.A. from the Wharton School at the University of Pennsylvania and received an A.B. degree with Honors, from the University of Michigan with a major in history. He is currently a member of the Board of Directors of Cherry Creek Radio, Iron Data Solutions, Main Line Broadcasting, Virgo Holdings, and Digital River, and previously served on the Board of Directors of New Vision Group.

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Steiner.

Other Business Activities

From time to time, Mr. Steiner serves as a director on the boards of certain companies, although his service on such boards does not involve investment related activities.

Additional Compensation

Mr. Steiner does not receive any additional compensation that is required to be disclosed.

Supervision

As Partner of Arlington, Mr. Steiner is responsible for implementing and overseeing the investment strategy of the clients of Arlington. Mr. Steiner is subject to the supervision of the Arlington Chief Compliance Officer with respect to compliance matters, but is not otherwise subject to the supervision of any other person.

Peter M. Manos

Educational Background and Business Experience

Peter M. Manos, born in 1966, joined Arlington in 2002, and shares overall responsibility for management of the Firm. Mr. Manos has over 15 years of private equity experience, as well as two years of operating experience and five years of investment banking experience. Mr. Manos has closed on leveraged acquisitions, recapitalizations, and growth equity investments representing in excess of \$2.7 billion in aggregate enterprise value. Prior to Arlington, Mr. Manos co-founded Capitol Partners, a Washington, D.C.-based LBO firm focused exclusively on healthcare investments. Previously, Mr. Manos was a Vice President at The Carlyle Group where he was a member of the defense/aerospace group and a co-founder of the firm's healthcare investment practice. Mr. Manos began his career as an investment banker at DLJ and later at Peers & Co. His private equity and transactional experience is complemented by his operating experience as co-founder and President of iFinance, Inc., a point-of-sale credit infrastructure company.

Mr. Manos earned an M.B.A. from the Harvard Business School and received a B.A. degree from Stanford University with a major in English. He is currently a member of the Board of Directors of Advanced Health, and Aero-Metric and previously served on the Board of Directors of Cambridge Major Laboratories, Inc., Chandler/May, Inc., Consolidated Precision Products, NLX Holdings Corporation, SECOR International and TSI Group, Inc.

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Manos.

Other Business Activities

Mr. Manos is not engaged in any investment-related business outside of his roles with AME and its affiliates.

Additional Compensation

Mr. Manos does not receive any additional compensation that is required to be disclosed.

Supervision

As Partner of Arlington, Mr. Manos is responsible for implementing and overseeing the investment strategy of the clients of Arlington. Mr. Manos is subject to the supervision of the Arlington Chief Compliance Officer with respect to compliance matters, but is not otherwise subject to the supervision of any other person.

Michael H. Lustbader

Educational Background and Business Experience

Michael H. Lustbader, born in 1975, joined Arlington in 1999 and shares overall responsibility for management of the Firm. Prior to Arlington, Mr. Lustbader worked at Lazard Frères & Co. (“Lazard”) in New York in the Telecommunications and Technology practice, where he focused on advising corporate clients on mergers and acquisitions. He has been responsible for all aspects of sourcing, evaluating, structuring and closing buyout transactions. Mr. Lustbader’s private equity experience includes outsourced business services, IT services, and defense/aerospace.

Mr. Lustbader earned an A.B. degree, *magna cum laude*, from Harvard College with a major in Social Studies. He is currently a member of the Board of Directors of Aero Metric, CompuSearch Software Systems, Iron Data Solutions, and Novetta Solutions. He previously served on the Board of Directors of Apogen Technologies, SignalTree Solutions, Inc., and SECOR International.

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Lustbader.

Other Business Activities

Mr. Lustbader is not engaged in any investment-related business outside of his roles with AME and its affiliates.

Additional Compensation

Mr. Lustbader does not receive any additional compensation that is required to be disclosed.

Supervision

As Partner of Arlington, Mr. Lustbader is responsible for implementing and overseeing the investment strategy of the clients of Arlington. Mr. Lustbader is subject to the supervision of the Arlington Chief Compliance Officer with respect to compliance matters, but is not otherwise subject to the supervision of any other person.

Matthew L. Altman

Educational Background and Business Experience

Matthew L. Altman, born in 1974, joined Arlington in 2001 and shares overall responsibility for management of the Firm. Mr. Altman has closed on leveraged acquisitions, recapitalizations and growth equity investments representing in excess of \$1.5 billion in aggregate enterprise value during his 14 years of private equity experience. Prior to joining Arlington, Mr. Altman worked for Stonington Partners, a \$1.0 billion private equity firm established in 1994 by the former principals of Merrill Lynch Capital Partners. As one of fifteen investment professionals, Mr. Altman's responsibilities included sourcing, evaluating, structuring and executing private equity transactions. He was also directly involved in the monitoring and realization of Merrill Lynch Capital Partners' portfolio of over \$2.0 billion of capital under management. His private equity experience encompasses a wide range of industries including healthcare services, aerospace/defense and business services.

Mr. Altman earned an M.B.A. from the Stanford Graduate School of Business and received a B.A. degree, summa cum laude, from Duke University in Economics. He is currently a member of the Board of Directors of Advanced Health, Cherry Creek Radio, Main Line Broadcasting, and Micron Technologies, Inc. and previously served on the Board of Directors of Cambridge Major Laboratories, Inc., Chandler/May, Inc., Consolidated Precision Products and New Vision Group.

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Altman.

Other Business Activities

Mr. Altman, together with certain other individuals not affiliated with Arlington, have invested in, and participate in the investment activities of an entity established to make investments in start-up companies and real estate holdings.

Additional Compensation

Mr. Altman does not receive any additional compensation that is required to be disclosed.

Supervision

As Partner of Arlington, Mr. Altman is responsible for implementing and overseeing the investment strategy of the clients of Arlington. Mr. Altman is subject to the supervision of the Arlington Chief Compliance Officer with respect to compliance matters, but is not otherwise subject to the supervision of any other person.

Robert I. Knibb

Educational Background and Business Experience

Robert I. Knibb, born in 1959, co-founded Arlington in 1999, and focuses primarily on the Firm's internal operations. Prior to Arlington, Mr. Knibb was a senior member of the investment team at MacAndrews & Forbes Holdings, Inc., a diversified investment company, which is the principal investment vehicle of Ronald O. Perelman. While at MacAndrews & Forbes, he worked with senior management and the Boards of Directors of portfolio companies implementing strategic initiatives, acquisition and divestiture programs, recapitalizations and refinancings. In total, Mr. Knibb has 23 years of private equity experience in a variety of industries. He has been involved in more than 20 acquisitions representing in excess of \$4.2 billion in aggregate enterprise value. Mr. Knibb began his business career in 1983 at Warner-Lambert as a securities analyst in the Pension Investment Department, later moving into a corporate development role.

Mr. Knibb earned an M.B.A from the Columbia Business School and holds a B.S. degree, magna cum laude, from Union College with a major in Mathematics. He is a Chartered Financial Analyst. He currently serves on the Board of Directors of BrightStar Education Group, and previously served on the Board of Directors of AdVenture Interactive, NLX Holdings Corporation, Stonebridge Technologies and TSI Group, Inc.

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Knibb.

Other Business Activities

Mr. Knibb oversees the management of the assets of certain family members, either directly or through a company controlled by him.

Additional Compensation

From time to time, Mr. Knibb may receive compensation of the kind required to be disclosed pursuant to this item.

Supervision

As Partner of Arlington, Mr. Knibb is responsible for implementing and overseeing the investment strategy of the clients of Arlington. Mr. Knibb is subject to the supervision of the Arlington Chief Compliance Officer with respect to compliance matters, but is not otherwise subject to the supervision of any other person.