

STERLING PARTNERS

FORM ADV – PART 2A

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This brochure provides information about the qualifications and business practices of Sterling Partners. If you have any questions about the contents of this brochure, please contact us at (312) 465-7000 or via email at compliance@sterlingpartners.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Sterling Partners is also available on the SEC’s website at www.adviserinfo.sec.gov.

REGISTRATION WITH THE SEC AS AN INVESTMENT ADVISER DOES NOT IMPLY THAT STERLING PARTNERS OR ANY OF THE PERSONNEL OR EMPLOYEES OF STERLING PARTNERS POSSESS A PARTICULAR LEVEL OF SKILL OR TRAINING IN THE INVESTMENT ADVISORY OR ANY OTHER BUSINESS.

Item 2 - Material Changes

This section of the brochure discusses only material changes that have been made since the last annual updating amendment to the brochure. Sterling Partners registered with the SEC as an investment adviser in March 2012 and, in connection with its registration, prepared a brochure dated February 14, 2012. This is the first annual updating amendment to the brochure. The material change from the brochure dated February 14, 2012 that is included in this annual updating amendment is as follows:

- The addition of information regarding transactions between portfolio companies of different Funds in the subsection titled “*Relationships with Related Persons*” in Item 10.

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Item 4 - Advisory Business

Sterling Partners is a private equity firm that was founded in 1983 and has been active in private equity investments since 1986. Sterling Fund Management, LLC (“SFM”)¹ is Sterling Partners’ affiliated investment adviser that provides investment advisory services primarily to private equity investment funds sponsored or organized by Sterling Partners (the “Main Sterling Funds”). The first Main Sterling Fund was formed in 2000 and SFM was formed at that time. A related person of Sterling Partners generally acts as the general partner of (or in another equivalent management position for) each Main Sterling Fund. References to Sterling Partners in this Brochure include, as the context requires, affiliates through which Sterling Partners provides investment advisory services or that act in any capacity referenced in the previous sentence. References to “person” in this Brochure include, as the context permits, natural persons and entities.

Sterling Partners’ primary investment focus is investments in privately-held operating companies (including publicly traded companies being taken private) in a variety of industries including education, healthcare services, industrial services, financial services, specialty distribution and manufacturing and other business services. These investments primarily take the form of unregistered equity of U.S. and non-U.S. companies and generally represent controlling interests in such companies. Although the primary focus of each Main Sterling Fund is on private equity investments, Sterling Partners may from time to time recommend other types of investments (such as publicly traded equity) to the extent consistent with the respective Main Sterling Fund’s investment strategy and objectives and its Governing Documents (as defined below).

Sterling Partners’ advisory services consist of investigating, identifying and evaluating investment opportunities; structuring, negotiating and making investments on behalf of the Main Sterling Funds; managing and monitoring the performance of such investments; and disposing of such investments on behalf of the Main Sterling Funds. Sterling Partners tailors its advisory services to the specific investment objectives and restrictions of each Main Sterling Fund set forth in each Main Sterling Fund’s limited partnership agreement, confidential private placement memorandum and other governing documents (collectively, the “Governing Documents”). Investors and prospective investors of each Main Sterling Fund should refer to the Governing Documents of that Main Sterling Fund for complete information on the investment objectives and investment restrictions with respect to that Main Sterling Fund. There is no assurance that any of the Main Sterling Funds’ investment objectives will be achieved.

In accordance with common industry practice, one or more of the Main Sterling Funds or their general partners may enter into “side letters” or similar agreements with certain investors pursuant to which the Main Sterling Fund or its general partner grants the investor specific rights, benefits, or privileges that are not made available to investors generally.

¹ SFM is the entity that is registered as an investment adviser with the SEC.

Sterling Partners or its related persons may, from time to time, establish investment vehicles on a transaction-by-transaction basis to invest alongside one or more Main Sterling Funds in a particular investment opportunity (the “Co-Investment Funds”). The Co-Investment Funds are typically limited to investing in securities relating to the single company with respect to which they were established. The Co-Investment Funds and the Main Sterling Funds are collectively referred to herein as the “Funds”.

Sterling Partners does not participate in any wrap fee programs.

Sterling Partners manages assets of the Main Sterling Funds on a discretionary basis in accordance with the terms and conditions of each Main Sterling Fund’s Governing Documents. Sterling Partners manages assets of the Co-Investment Funds on either a discretionary or non-discretionary basis in accordance with the terms and conditions of each Co-Investment Fund’s Governing Documents. As of December 31, 2012, Sterling Partners’ assets under management were as follows:

Discretionary – Main Sterling Funds:	\$3,773,683,330
Discretionary – Co-Investment Funds:	<u>\$ 89,653,312</u>
Total Discretionary:	\$3,863,336,641
Non-Discretionary – Main Sterling Funds:	\$ 0
Non-Discretionary – Co-Investment Funds:	<u>\$2,700,458,542</u>
Total Non-Discretionary:	\$2,700,458,542
Total (Discretionary and Non-Discretionary):	\$6,563,795,183

Item 5 - Fees and Compensation

Compensation and Fee Schedules

Sterling Partners typically receives an advisory fee from each of the Main Sterling Funds, which is generally equal to a percentage of the capital commitments to such Main Sterling Fund or the cost basis of such Main Sterling Fund’s investments. The fee percentage and the base upon which the fee is calculated varies with the type and size of the Main Sterling Fund and may also vary over the life of the Main Sterling Fund, as negotiated and determined at the time the Main Sterling Fund is established and as set forth in its Governing Documents. The percentage generally ranges from 1.75% to 2.25% annually and, in most instances, is 2% annually.

Sterling Partners generally does not receive an advisory fee from the Co-Investment Funds. Any advisory fees received by Sterling Partners from the Co-Investment Funds are negotiated on a vehicle-by-vehicle basis.

In addition, a related person of Sterling Partners, as general partner of a Main Sterling Fund, will typically receive certain allocations calculated and charged based on a share of capital gains on or capital appreciation of the assets of such Main Sterling Fund, as

negotiated and determined at the time such Main Sterling Fund is established and as set forth in its Governing Documents. These allocations are commonly known as “carried interest”. The carried interest paid by the Main Sterling Funds is generally equal to 20% of the Main Sterling Fund’s net profits.

A Co-Investment Fund, in some cases, may also allocate a share of capital gains on or capital appreciation of the assets of such Co-Investment Fund to a related person of Sterling Partners, as determined by negotiation at the time of formation and as set forth in the Governing Documents of such Co-Investment Fund. To the extent paid, such carried interest generally ranges from 10% to 20%. Because the Co-Investment Funds typically invest in a single portfolio company, the carried interest received by Sterling Partners from such Co-Investment Funds (if any) could vary significantly from vehicle to vehicle as a result of the particular circumstances and negotiated terms specific to such portfolio company investment.

In some cases, the “carried interest” paid by a Fund is payable only if the investors in the Fund have received a preferred annual return on their contributed capital.

In limited circumstances, the advisory fees and carried interest payable to Sterling Partners by a Fund may be waived or reduced with respect to certain participants in such Fund. Fees are typically waived or reduced with respect to Sterling Partners or its related persons.

Please refer to the Governing Documents of each applicable Fund for complete information on the fees and compensation payable with respect to such Fund.

Investors and prospective investors in the Funds should note that similar advisory services may (or may not) be available from other investment advisers for similar or lower fees.

Deduction of Fees; Timing of Payments; Termination

Sterling Partners is authorized under the Governing Documents to charge and deduct advisory fees directly from the assets of the Main Sterling Funds. Payment of advisory fees is generally made on January 15 (for the period from January 1 through June 30) and July 15 (for the period from July 1 through December 31) of each year and in accordance with the terms of the Governing Documents. Please refer to the Governing Documents of each of the Main Sterling Funds for complete information on the timing of advisory fee payments.

Upon termination of any Main Sterling Fund’s advisory relationship with Sterling Partners, any prepaid, unearned advisory fees will be promptly refunded to such Main Sterling Fund, and any earned, unpaid fees will be due and payable.

Other Fees and Expenses

In addition to any advisory fees payable to Sterling Partners, a Fund will incur certain charges imposed by third parties and other expenses. Such expenses may include (but are not limited to): organizational expenses of the Fund; liquidation expenses; any sales taxes or other taxes of any kind, fees or government charges which may be assessed against the Fund; expenses incurred in connection with the acquisition, holding and disposition of the Fund's investments, including, without limitation, commitment fees, merger fees, commissions or brokerage fees or similar charges incurred in connection with the purchase or sale (or proposed purchase or sale) of securities (whether or not any such purchase or sale is consummated); expenses of members of the Fund's advisory committee (if any); fees and expenses for consulting services; reasonable travel expenses related to the investigation of identified companies in connection with investment or potential investment transactions or related to the monitoring or disposition of portfolio investments (in each case, to the extent that such travel expenses are not reimbursed by the relevant portfolio company or prospective portfolio company); the costs and expenses (including set-up, travel, honorarium, dining, entertainment and related expenses) of hosting annual or special meetings of the Funds, or otherwise holding meetings or conferences with investors, whether individually or in a group; expenses associated with preparation of the Fund's financial statements and tax returns and the Fund's reports to its investors; interest expense for borrowed money (if any); all expenses relating to litigation and threatened litigation involving the Fund, including indemnification expenses; expenses attributable to normal and extraordinary investment banking, commercial banking, accounting, auditing, appraisal, legal and custodial services provided to the Fund, including in each case services with respect to the proposed purchase or sale of securities by the Fund that are not reimbursed by the issuer of such securities (whether or not any such purchase or sale is consummated); costs related to the formation and maintenance of "alternative investment vehicles"; fees payable to any placement agent or marketing consultant engaged by Sterling Partners in connection with the offering of interests in the Fund (subject to an offset of such amount against the advisory fee payable by the Fund to Sterling Partners); premiums for liability insurance to protect the Fund, Sterling Partners, the members of the advisory committee and any of their respective partners, members, managers, stockholders, officers, directors, employees or agents in connection with the activities of the Fund; and all other expenses properly chargeable to the activities of the Fund.

Certain Co-Investment Funds (which generally do not pay advisory fees to Sterling Partners) may be charged by Sterling Partners or a related person for partnership tax and accounting recordkeeping and reporting performed by Sterling Partners in order to maintain such Co-Investment Funds (such as preparation of tax returns and capital account statements).

The types of other fees and expenses incurred will vary from Fund to Fund. Please refer to the Governing Documents of each applicable Fund for more complete information.

The section titled “Brokerage Practices” (Item 12 below) describes the factors Sterling Partners considers in selecting or recommending broker-dealers and determining the reasonableness of their compensation.

Timing of Payments

Please refer to the subsection titled “*Deduction of Fees; Timing of Payments; Termination*” described above.

Transaction-Based Compensation

Sterling Partners does not receive any compensation as broker or agent for the sale of securities or other investment products to any Fund. Please refer to the subsection titled “*Economic Benefits Received from Third Parties*” in Item 14 below for information on other types of compensation that Sterling Partners may receive with respect to investments by the Funds.

Item 6 - Performance-Based Fees and Side-by-Side Management

Performance-Based Fees

As discussed under the section titled “Fees and Compensation” (Item 5 above), a related person of Sterling Partners, as general partner of a Main Sterling Fund, will typically receive certain allocations calculated and charged based on a share of capital gains on or capital appreciation of the assets of such Main Sterling Fund as set forth in such Main Sterling Fund’s Governing Documents. Co-Investment Funds, in some cases, may also allocate a share of capital gains on or capital appreciation of the assets of such Co-Investment Fund to a related person of Sterling Partners, as set forth in the Governing Documents of the relevant Co-Investment Fund.

Any share of profits allocated and distributed to a general partner, manager or managing member of a Fund is separate and distinct from the advisory fees (if any) charged by Sterling Partners to such Fund for advisory services.

Performance-based allocation arrangements received by related persons of Sterling Partners may create an incentive for Sterling Partners to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee or compensation arrangement. Please refer to the Governing Documents of each Fund for complete information on the “performance-based fee” arrangements of each Fund.

Side-by-Side Management

Sterling Partners may provide concurrent advisory services to Funds that are not charged a performance-based fee or allocation by Sterling Partners’ related persons and Funds that are charged a performance-based fee or allocation by a related person of Sterling Partners. Sterling Partners may also provide concurrent advisory services to Funds that are charged different performance-based fees or allocations and, in certain cases, Sterling

Partners may only be permitted to take a performance-based fee or allocation from a Fund after the investors in such Fund have received a preferred annual return on their contributed capital. As a result, the potential for Sterling Partners' related persons to receive different fees or allocations from performance-based accounts creates a potential conflict of interest with respect to the allocation of investment opportunities because Sterling Partners may have an incentive to direct the best investment ideas to, or to allocate investments in favor of, the account that pays a more favorable performance fee or allocation.

To mitigate this potential conflict of interest, the allocation of investment opportunities among Main Sterling Funds is made by Sterling Partners in accordance with its investment allocation policy, which takes into account multiple criteria, including: the investment objectives, strategies, guidelines and restrictions of each Main Sterling Fund; the relevant allocation of investment opportunity provisions in a Main Sterling Fund's Governing Documents; differences with respect to available capital (e.g., current or anticipated capital available for investment, including reserves for anticipated follow-on investments if applicable), size, and remaining life of the Main Sterling Funds; utilization of remaining capacity of Main Sterling Funds of earlier vintage years; potential conflicts of interest related to the opportunity, including whether a particular Main Sterling Fund has an existing investment in the opportunity in question; the nature and size of the investment opportunity, including projected follow-on investment amounts; current and anticipated market conditions; portfolio diversification; and tax, legal or regulatory considerations. In the event that investment opportunities are suitable for more than one Main Sterling Fund, Sterling Partners and its related persons seek to derive an allocation that in their judgment is fair and equitable to each Main Sterling Fund relative to other Main Sterling Funds over the life of such Main Sterling Fund, taking into account all relevant facts and circumstances. After the applicable Main Sterling Fund(s) have received their desired portion of an investment opportunity, Sterling Partners, in certain cases, may make additional amounts with respect to such investment opportunity (if any) available for co-investment to one or more investors in Main Sterling Funds or other third parties.

With respect to Co-Investment Funds, the potential conflict arising from performance-based fee arrangements is mitigated because Co-Investment Funds generally invest in only a single specific portfolio company alongside one or more Main Sterling Funds. In some cases, the Co-Investment Funds may then have contractual rights (e.g., rights of first refusal or pre-emptive rights) to participate in follow-on investments with respect to that company.

Item 7 - Types of Clients

Types of Clients

Sterling Partners generally provides investment advice to pooled investment vehicles, including the Funds. The limited partners or members of the Funds may include corporations, financial institutions, funds-of-funds, governmental bodies or agencies,

insurance companies, endowments, foundations, trusts, estates, individuals and pension and profit sharing plans.

Sterling Partners may also provide investment management and supervisory services to separate account clients.

In connection with the formation and management of a Main Sterling Fund, Sterling Partners may form certain related entities for such Fund. Sterling Partners may establish vehicles (“Feeder Sterling Funds”) to address tax, legal or regulatory issues or requirements of certain investors in such Fund. Each Feeder Sterling Fund, if formed, would be a limited partner (or equivalent) of a Main Sterling Fund or an AIV (as defined below) and interests in such Feeder Sterling Fund would be held by investors who participate in the Main Sterling Fund or an AIV through such Feeder Sterling Fund. Please refer to the Governing Documents of the applicable Main Sterling Fund or AIV for more complete details on any Feeder Sterling Fund established by Sterling Partners in connection with that Fund. Sterling Partners may also form “parallel funds” to invest alongside such Main Sterling Fund in all of its investments. In addition, Sterling Partners may form “alternative investment vehicles” or special purpose vehicles (collectively, “AIVs”) for the purpose of facilitating certain investments by one or more Main Sterling Funds. Please refer to the Governing Documents of the applicable Main Sterling Fund for more complete details on parallel funds and AIVs.

Minimum Investment Requirements

Interests in the Funds are offered in private placements under the U.S. Securities Act of 1933, as amended (the “Securities Act”). As a result, Sterling Partners generally offers limited partner (or equivalent) interests in the Funds to a limited number of “accredited investors” as defined in Regulation D under the Securities Act and, in most cases, exclusively to “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended.

In general, the minimum investment commitment required of an investor to participate in a Main Sterling Fund is \$1,000,000; however, the general partner of each Main Sterling Fund has discretion to increase or reduce the minimum investment commitment. Because the Co-Investment Funds typically invest in a single specific portfolio company, the minimum investment commitment required of an investor to participate in a Co-Investment Fund will vary from vehicle to vehicle. Investors and prospective investors in each Fund should refer to the Governing Documents of such Fund for more complete information on minimum investment requirements for participation in such Fund.

Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss

Investment Strategies

Sterling Partners’ primary investment focus is investments in privately-held operating companies (including publicly traded companies being taken private) in a variety of industries including education, healthcare services, industrial services, financial services,

specialty distribution and manufacturing and other business services. These investments primarily take the form of unregistered equity of U.S. and non-U.S. companies and generally represent controlling interests in such companies. Although the primary focus of each Main Sterling Fund is on private equity investments, Sterling Partners may from time to time recommend other types of investments (such as publicly traded equity) to the extent consistent with the respective Fund's investment strategy and objectives and its Governing Documents.

Methods of Analysis

In addition to leveraging its extensive network of executives, directors, brokers, bankers, and service providers for investment opportunities, Sterling Partners proactively conducts research into attractive market opportunities and targets businesses with compelling value propositions and differentiated product or service offerings. These deal sourcing approaches have enabled Sterling Partners to avoid auction processes in the majority of its investments. There may be situations, however, in which Sterling Partners will participate in an auction process for an investment opportunity, especially where Sterling Partners believes that it may have an advantage over other potential bidders (e.g., in the potential for Sterling Partners to enhance value through industry knowledge or contacts). Once potential investments are identified, Sterling Partners' rigorous investment due diligence processes and team-based approach provide for a disciplined review, assessment, and investment decision-making process. When identifying prospective investments, Sterling Partners places particular emphasis on business segments in which its investment team has considerable investment and operating experience and in which Sterling Partners expects to have access to substantial deal flow. These segments include:

- Education / Testing / Training
- Healthcare Services
- Industrial Services
- Financial Services
- Specialty Distribution and Manufacturing
- Other Business Services

Sterling Partners generally seeks to invest in companies with strong fundamentals and the potential for growth (either organic or through acquisition). In evaluating prospective investments, Sterling Partners will place particular emphasis on certain factors, including:

- Strong fit with Sterling Partners' industry experience
- Existence or availability of strong management
- Superior industry fundamentals
- Defensible competitive advantage
- Distinctive or proprietary product or service
- Recurring revenue / repeat purchase model
- Non-cyclical performance
- Potential for operations improvement

Material Risks

The task of identifying investment opportunities and managing such investments is difficult. There can be no assurance that a Fund will be able to make any particular investment or that a Fund will be able to generate returns for its investors. In addition, there can be no assurance that any investor will receive any distribution from a Fund. Investing in a Fund involves a risk of loss that investors should be prepared to bear. Investors should carefully consider, among other factors, the following material risks involved with Sterling Partners' investment strategies. Please refer to the Governing Documents of the applicable Fund for more complete information on the investment strategies employed by such Fund and corresponding risks associated with such investment strategies.

Business Risks. A Fund's investment portfolio will consist primarily of securities issued by privately-held companies. Operating results for these companies in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk, which can result in substantial losses.

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

Concentration of Investments. A Fund will participate in a limited number of investments and may make several investments in one industry or one industry segment. In particular, a Co-Investment Fund will typically hold only a single portfolio company investment. As a result, a Fund's investment portfolio could become (or in the case of a Co-Investment Fund, will be) highly concentrated and its aggregate return may be affected substantially by the performance of a small number of holdings. Furthermore, to the extent that the capital raised for a Fund is less than the targeted amount, such Fund may invest in fewer portfolio companies and, as a result, be less diversified.

Small and Middle-Market Companies. A central component of Sterling Partners' investment strategy is to invest in small and middle-market companies. While investments in these companies may present greater opportunities for growth, such investments also entail larger risks than are customarily associated with investments in large companies. Small and medium-sized companies may have more limited product lines, markets and financial resources, and may be dependent on a smaller management group. As a result, such companies may be more vulnerable to general economic trends and to specific changes in markets and technology.

Illiquidity; Lack of Current Distributions. An investment in a Fund should be viewed as illiquid. It is uncertain when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of an investment. While an investment may be sold at any

time, it is not generally expected that this will occur for a number of years after the initial investment. Prior to such time, there often will be no current return on the investments. Furthermore, the expenses of operating a Fund (including the annual advisory fee payable to Sterling Partners (if any)) may exceed its income, thereby requiring that the difference be paid from a Fund's capital.

Restricted Nature of Investment Positions. Generally, there will be no readily available market for a Fund's investments. As a result, most of a Fund's investments will be difficult to value. Certain investments may be distributed in kind to investors in a Fund.

Projections. Projected operating results of a company in which a Fund invests normally 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 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, the inaccuracy of certain assumptions and general economic factors, which are not predictable, can have a material impact on the reliability of projections.

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. There is no assurance that a Fund will make follow-on investments or that a 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 impact on a portfolio company in need of such an investment or may result in a lost opportunity for a Fund to increase or maintain its ownership percentage in a successful operation. Because the Co-Investment Funds will typically only invest in a single portfolio company, a Co-Investment may not have the right to participate in follow-on investments or avoid dilution of its interest in the portfolio company as a result of follow-on investments by other investors.

Foreign Investments. A Fund may invest in portfolio companies that are organized outside of the United States, its territories and possessions. Such investments may be subject to certain additional risks due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, political, economic or social instability, developing and rapidly evolving government regulatory environments, capital repatriation regulations and the application of complex tax rules to cross-border investments.

Control Liability. In most cases, a Main Sterling Fund, alone or together with other Funds, will own a significant or controlling interest in its portfolio companies. A Fund will often receive the right to appoint one or more representatives to the board of directors of the companies in which it invests. On occasion, a representative of a Fund may also serve in an executive officer position with a portfolio company. Significant or controlling ownership and serving on the board of directors or as an executive officer of a

portfolio company exposes a Fund's representatives, and ultimately such Fund, to potential liability claims because such Fund or its representatives may in certain cases be thought to control, participate in the management of or influence the conduct of portfolio companies. The Governing Documents of a Fund may provide that such Fund's assets are available to indemnify the general partner, manager or managing member of such Fund, its principals and other persons for losses or expenses incurred in any action related to conduct by such persons on behalf of such Fund, subject to certain conditions. A Fund may have the ability to recall certain distributions previously made to its investors for the purpose of satisfying such liabilities.

Contingent Liabilities on Disposition of Investments. In connection with the disposition of an investment in a portfolio company, a Fund may be required to make representations about the business and financial affairs of such company typical of those made in connection with the sale of a business. A Fund may also be required to indemnify the purchasers of such company to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities, which might ultimately have to be funded by investors in such Fund to the extent of their unpaid capital commitments to such Fund or through the return of certain prior distributions.

Economic and Market Risk. Companies in which a Fund invests (and the value of the Fund's investment in such companies) may be sensitive to general downward swings in the overall economy or in the sectors in which such companies operate. Factors affecting economic conditions, including, for example, inflation rates, industry conditions, competition, technological developments, domestic and worldwide political, military and diplomatic events and trends, tax laws, credit market conditions and innumerable other factors, none of which will be within the control of Sterling Partners, can affect substantially and adversely the business and prospects of a Fund. A major recession or adverse developments in the securities or credit markets might have a material adverse impact on some or all of a Fund's investments. A sustained period of low valuations in the public equity markets could result in substantially lower liquidation value and substantially longer periods before liquidity is achieved in comparison with historical values, which would reduce the returns that could be achieved by a Fund. In addition, factors specific to a portfolio company may have an adverse effect on a Fund's investment in such company.

Regulated Business. Companies in which a Fund invests may be in regulated industries such as education, healthcare services, or financial services. Changes in regulations applicable to such companies could have a negative impact on their businesses and operations. These changes are difficult to predict and their impact on certain participants in an industry, including portfolio companies of a Fund, could be particularly acute.

Real Estate. Certain companies in which a Fund invests may have significant real estate assets, such as schools or healthcare facilities. As a result, the valuation of such companies may be affected by overall changes in real estate valuations.

Item 9 - Disciplinary Information

Sterling Partners and its management persons have not been the subject of any material legal or disciplinary proceeding required to be disclosed in response to this item.

Item 10 - Other Financial Industry Activities and Affiliations

Registered Broker-Dealers

Neither Sterling Partners nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Registered Futures Commission Merchants, Commodity Pool Operators and Commodity Trading Advisors

Neither Sterling Partners nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of any of the foregoing.

Relationships with Related Persons

Sterling Partners and its related persons engage in a broad range of activities, including investment activities for their own account. As a result, the interests of a Fund may conflict with the interests of Sterling Partners or its related persons or one or more other Funds. Certain of these conflicts of interest are described below (although the discussion below does not necessarily describe all of the conflicts that may potentially be faced by a Fund). Please also refer to the subsection titled “*Participation or Interest in Client Transactions; Personal Trading*” in Item 11 below and the Governing Documents of each Fund for more information, including with respect to transactions that may be subject to specific consent requirements.

Sterling Partners and its related persons manage multiple Funds. This can create conflicts in the allocation of time, resources and investment opportunities among the Funds. Please refer to the Governing Documents of the relevant Fund for more complete information on the requisite time commitments (if any) of Sterling Partners and its related persons to the Funds and the allocation of investment opportunities among the Funds. Please also refer to the description of Sterling Partners’ investment allocation policy described in the subsection “*Side-by-Side Management*” in Item 6 above.

In addition, investment opportunities that are otherwise appropriate for a Main Sterling Fund may be made available in whole or in part to a portfolio company of another Main Sterling Fund because such opportunity would be complementary to and/or enhance such existing portfolio company’s business (what Sterling Partners refers to as a “build-up” opportunity).

Certain Funds may hold or may acquire positions in portfolio companies in which other Funds invest or have invested. Such investments may be coincident with or precede one

another. Follow-on investments in companies in which a Fund and one or more other Funds have invested may not necessarily be pro rata based on existing ownership in such companies. Where investments by multiple Funds in the same company are made at different times or in different proportions, conflicts of interest with regard to valuation and other matters can arise. Where a Fund co-invests with one or more other Funds, such Fund may have divergent interests from the other Funds with respect to exit timing and strategies with respect to such investments, restructuring the capital structure or business of such companies or other matters affecting the investment in such companies. To the extent that a Main Sterling Fund and one or more other Main Sterling Funds hold interests in the same company, disposition opportunities with respect to those investments shall, to the extent practicable, be allocated among such Main Sterling Funds in a manner that is fair and equitable, in the judgment of Sterling Partners and its related persons, to each such Main Sterling Fund, taking into account all relevant facts and circumstances, including: the strategies, guidelines and restrictions of each such Main Sterling Fund; relevant provisions in the Main Sterling Funds' Governing Documents or in other agreements related to the Main Sterling Funds' investments in such company; liquidity needs for each such Main Sterling Fund and the investment cycle of such Main Sterling Funds; respective holding periods for the investments; the nature and size of the disposition opportunity; current and anticipated market conditions; and tax, legal or regulatory considerations.

Investments by a Fund may cause Sterling Partners and its related persons to become subject to legal or contractual restrictions on their ability to effect transactions for other Funds, for example due to the receipt of non-public information or due to the existence of a control relationship between Sterling Partners and a portfolio company. In addition, it is possible that in a bankruptcy proceeding a Fund's interest in a portfolio company may be adversely affected by another Fund's involvement and such other Fund's actions relating to its investment.

From time to time, a portfolio company of a Fund may engage in commercial transactions or other transactions (such as a merger or acquisition) with a portfolio company of a different Fund. Depending on the nature of the transaction, a transaction between portfolio companies of different Funds can create potential conflicts of interest. Sterling Partners anticipates that material transactions between portfolio companies would generally be on arms'-length terms or on other terms considered equitable to both companies under the circumstances.

Sterling Partners will determine all matters relating to structuring transactions, including the amount and terms of securities, allocation of securities among the relevant Funds and amounts potentially available for co-investment opportunities, using its best judgment considering all factors it deems relevant and subject to any specific consent or other requirements under the Governing Documents for the relevant Funds.

Employees and other related persons of Sterling Partners may from time to time serve as officers or in comparable management functions for portfolio companies in which the Funds invest, or provide other services to portfolio companies, and may devote substantially all of their time to such portfolio companies' businesses during such

assignments. Such persons may receive compensation from portfolio companies for these services or portfolio companies may reimburse Sterling Partners for the cost of such persons' compensation and employee benefits (which are paid by Sterling Partners). This compensation or reimbursement may not necessarily reduce advisory fees payable to Sterling Partners by the Main Sterling Fund that has invested in the applicable portfolio company or otherwise inure to the benefit of any Fund that has invested in the applicable portfolio company.

Selection or Recommendation of Other Advisers

Sterling Partners does not recommend or select other investment advisers for its clients and does not receive compensation from such advisers in a manner that would create a material conflict of interest. Sterling Partners does not have other business relationships with other advisers that create a material conflict of interest.

Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

Sterling Partners has adopted a code of ethics ("Code of Ethics") under Rule 204A-1 of the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act"), expressing Sterling Partners' commitment to ethical conduct. Sterling Partners' Code of Ethics describes its fiduciary duties and responsibilities to its advisory clients (such as a Fund), and sets forth, among other things, Sterling Partners' (1) policies on receipt of gifts by employees and the making of political campaign contributions, (2) practice of obtaining reports on and monitoring the personal securities transactions of its supervised persons with access to client investment recommendations and (3) pre-clearance requirements for certain personal securities transactions by such supervised persons. Under Sterling Partners' Code of Ethics, all of its supervised persons have a duty to act only in the best interests of the Funds and are required to promptly report all violations of the Code of Ethics to Sterling Partners' Chief Compliance Officer ("CCO"). All supervised persons must acknowledge receipt of the Code of Ethics and any amendments thereto.

Sterling Partners will provide a complete copy of its Code of Ethics to any client or prospective client upon request.

Participation or Interest in Client Transactions; Personal Trading

As limited partners or members of the general partner (or equivalent control person) of each of the Funds or as limited partners of a "parallel fund" formed in connection with a Main Sterling Fund, Sterling Partners and its related persons generally have indirect beneficial interests in the securities owned by the Funds and will share in any profits and losses generated by the Funds' investments.

Sterling Partners and/or certain related persons of Sterling Partners may, directly or through one or more entities, sell securities in which they have a direct or indirect

ownership interest to the Funds, including in connection with certain “warehousing” transactions, provided that the sale is consistent with Sterling Partners’ fiduciary obligations to the Funds. Such transactions will be fully disclosed in writing and the written consent of the appropriate Fund will be obtained prior to the consummation of any such transactions in accordance with Section 206(3) of the Advisers Act to the extent that such transactions constitute “principal transactions” under such Section 206(3).

In certain situations, Sterling Partners and/or related persons of Sterling Partners may purchase interests in the same portfolio company in which one or more Funds is investing or has invested or a Fund may purchase interests in a portfolio company in which Sterling Partners and/or related persons of Sterling Partners are investing or have invested. All such transactions are subject to compliance with Sterling Partners’ Code of Ethics and to any required consents under a Fund’s Governing Documents. Before Sterling Partners makes a recommendation that a Fund invest in a company, its related persons that have an ownership interest in that company (other than through a Fund) are required to disclose such interest to Sterling Partners.

Sterling Partners may cause a Fund to engage in “cross transactions” via the purchase of a portfolio investment from, or the sale of a portfolio investment to, another Fund, provided that the transaction is consistent with Sterling Partners’ fiduciary obligations to each Fund participating in the cross transaction and subject to any conditions or required consents under a Fund’s Governing Documents. Funds that are formed as “parallel funds” to co-invest in all investments such Funds make will typically engage in re-balancing “cross transactions” pursuant to the terms of their Governing Documents as the relative capital commitments between the parallel funds change during their respective fund-raising periods.

While Sterling Partners endeavors at all times to act in the best interests of the Funds, investors should be aware that the types of transactions described above create potential conflicts of interest with respect to Sterling Partners and the Funds.

Item 12 - Brokerage Practices

Discretionary Brokerage

With respect to those limited instances in which the Funds purchase, sell or distribute publicly traded securities through a broker-dealer, Sterling Partners seeks to satisfy its best execution obligation by considering relevant facts and circumstances, including, but not limited to, the broker’s service and responsiveness, the price and size of the order, the trading characteristics of the securities involved, the value of research provided by the broker, the broker’s execution abilities, commission rates, and the broker’s financial responsibility.

Research and Soft Dollar Benefits

Sterling Partners does not engage in soft dollar arrangements with respect to securities transactions for the Funds.

Any research services and/or other products or services that are provided to Sterling Partners by brokers or dealers may be used for the benefit of all clients of Sterling Partners and do not necessarily benefit solely the Fund from which the commissions were generated. The receipt of research and/or other products or services is not directly connected to the recommendation of brokerage services to the Funds, but does create a potential conflict of interest of which investors should be aware in assessing Sterling Partners' choice of broker-dealers.

Brokerage for Client Referrals

Sterling Partners does not consider in determining its selection of broker-dealers whether Sterling Partners receives referrals of potential investors from a broker-dealer or third party.

Directed Brokerage

Sterling Partners has discretionary authority to select the brokers or dealers in connection with securities transactions of the Funds, and investors generally are not permitted to direct Sterling Partners to use a particular broker or dealer to execute portfolio transactions on behalf of a Fund.

Trade Aggregation

Although Sterling Partners does not often trade in public securities, in such circumstances Sterling Partners will, to the extent possible, generally place a combined order for two or more Funds it manages engaged in the purchase or sale of the same public security at the same time if, in its good faith determination, joint execution would be consistent with its duty to seek best execution, consistent with the terms of the relevant Funds' Governing Documents, and otherwise in the best interest of the relevant Funds.

Pursuant to Sterling Partners' policy, the proposed allocation of any such combined order placed on behalf of more than one Main Sterling Fund should be determined and recorded in writing prior to placing the order. If all such orders are not filled at the same price, then Sterling Partners will use reasonable measures to cause each Main Sterling Fund to pay or receive the average of the prices at which the orders were filled for all accounts. If all orders placed for a Main Sterling Fund cannot be fully executed under prevailing market conditions, then Sterling Partners will use reasonable measures to ensure that the securities purchased or sold are allocated among the applicable Main Sterling Funds on a pro rata basis or in some other equitable manner, taking into account the size of the order placed for each Main Sterling Fund and any other relevant factors.

Certain Co-Investment Funds may be managed by Sterling on a non-discretionary basis. As a result, Sterling's trade aggregation policies are generally not applicable to such non-discretionary Co-Investment Funds. Please refer to the section titled "Investment Discretion" (Item 16 below) for a summary of risks associated with non-discretionary accounts that invest alongside discretionary accounts.

Item 13 - Review of Accounts

Review of Client Accounts

Sterling Partners will regularly monitor portfolio investments on behalf of the Main Sterling Funds. Sterling Partners' operating committee reviews developments and progress at portfolio companies. Investments are also reviewed in the context of each Main Sterling Fund's stated investment objectives, guidelines and restrictions as set forth in the Governing Documents of such Main Sterling Fund. Sterling Partners' Chief Operating Officer or Chief Financial Officer regularly reviews the investment portfolios of the Main Sterling Funds for consistency with such objectives, guidelines and restrictions. Because the Co-Investment Funds will typically invest in a single portfolio company, the frequency with which Sterling Partners may monitor the portfolio investments of such Co-Investment Funds will be less than the Main Sterling Funds. In addition, Sterling Partners' review and monitoring of the portfolio investments of the Co-Investment Funds will generally be undertaken in its capacity as manager of the Main Sterling Funds and not of the Co-Investment Funds.

Reports to Clients

Sterling Partners distributes quarterly and annual written reports to the investors in each Main Sterling Fund. Quarterly reports generally contain unaudited financial statements of the Main Sterling Fund for the quarter and an update on key portfolio company developments. Annual reports generally contain a list of, and status report on, investments held by the Main Sterling Fund at the end of the year and the audited financial statements of the Main Sterling Fund for such year. Annual reports are accompanied by an individual capital account statement as of the end of such year. Due to the limited purpose of the Co-Investment Funds, the level and frequency of reporting may be different than that of the Main Sterling Funds and may also differ as among the Co-Investment Funds as a result of the negotiated terms and conditions of each Co-Investment Fund.

Investors should refer to the Governing Documents of the relevant Fund for further information on the reports provided by a particular Fund to its investors.

Item 14 - Client Referrals and Other Compensation

Economic Benefits Received from Third Parties

In connection with investments made by certain Funds, Sterling Partners or persons associated with Sterling Partners may receive commitment, structuring, monitoring and/or other transaction fees from portfolio companies in which one or more of the Funds may invest or propose to invest. Sterling Partners or such other persons may also receive management, monitoring, directors' or other fees from a portfolio company while a Fund continues to have an investment in such portfolio company. These types of arrangements present potential conflicts of interest and provide Sterling Partners with an incentive to recommend investments based on compensation received rather than the best interests of

a Fund. To help mitigate potential conflicts, such benefits received by Sterling Partners or its employees in connection with services rendered to portfolio companies or transactions of a Main Sterling Fund are generally offset in whole or substantial part against (and therefore reduce) advisory fees payable by the relevant Main Sterling Fund, to the extent provided in and subject to certain exceptions described in the Governing Documents of such Main Sterling Fund (including exceptions applicable to certain types of fees and payments and/or certain recipients of such fees and payments). Please refer to the Governing Documents of the relevant Fund for complete information about advisory fee offsets.

Third Party Compensation for Investor Referrals

Sterling Partners and related persons of Sterling Partners may enter into cash compensation arrangements with unaffiliated placement agents or third parties for introducing investors to a Main Sterling Fund. Any sales charge or placement fee associated with such arrangements will ultimately be payable by Sterling Partners and/or its related persons, either directly or through an offset of the advisory fee payable by the relevant Main Sterling Fund to Sterling Partners.

Item 15 - Custody

Sterling Partners will not have physical custody of any client assets (other than certain privately offered securities to the extent permitted by the Advisers Act). Nevertheless, Sterling Partners will generally be deemed to have custody of the assets of the Funds as a result of its position as an affiliate of the general partner (or equivalent control person) of each Fund.

It is Sterling Partners' general policy to cause the annual financial statements of each Fund with assets over which Sterling Partners is deemed to have "custody" to be audited annually and to distribute such audited financial statements, prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), to investors in such Fund no later than 120 days after the end of each fiscal year. In addition, upon the final liquidation of any such Fund, Sterling Partners will generally obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such Fund to all of its investors promptly after completion of the audit. For these Funds, investors will not receive account statements from the bank or other qualified custodian holding physical custody of such Fund's securities.

In the cases where a Fund does not deliver audited financial statements to investors as provided above, a qualified custodian will send quarterly account statements to each investor in such Fund. Investors should review these account statements carefully. If Sterling Partners, on behalf of the Fund, also provides investors in such Fund with a quarterly report detailing account holdings for such Fund, investors are urged to compare the account statements received from the Fund with account statements received from the qualified custodian.

Item 16 - Investment Discretion

Subject to the investment objectives, guidelines and restrictions of each Main Sterling Fund as set forth in its Governing Documents, Sterling Partners has discretionary authority to determine the type, amount and price of securities and investments to be bought and sold on behalf of such Main Sterling Fund, including the selection of, and commissions paid to, broker-dealers.

Co-Investment Funds are generally established in order to invest alongside one or more Main Sterling Funds in a particular investment opportunity. Sterling Partners typically has limited discretion to invest the assets of a Co-Investment Fund given the limited purpose of the Co-Investment Fund and may not have authority to sell the Co-Investment Fund's portfolio investment without the approval of some or all of the investors in the Co-Investment Fund under the terms of the Governing Documents of the Co-Investment Fund. Accordingly, investors in such "non-discretionary" Funds should be aware that Sterling Partners may place non-discretionary Fund trades prior to or subsequent to discretionary Fund trades, and therefore that a disparity may exist in the price at which securities are sold for discretionary and non-discretionary Funds. In addition, a disparity may exist between the commissions charged to non-discretionary Funds and the commissions charged to Funds that have given Sterling Partners full discretion. Therefore, investors in non-discretionary Funds should be aware that Sterling Partners may not be able to maximize the transaction price and/or obtain volume discounts for non-discretionary Funds.

Item 17 - Voting Client Securities

Because Sterling Partners has, or will accept, authority to vote securities held by a Fund, Sterling Partners has adopted policies and procedures (the "Proxy Voting Policies and Procedures") which have been designed to ensure that Sterling Partners complies with the requirements of Rule 206(4)-6 under the Advisers Act, and reflect Sterling Partners' commitment to vote all Fund securities for which it exercises voting authority in a manner consistent with the best interest of the applicable Funds.

With respect to the Main Sterling Funds, Sterling Partners will vote all securities held by each Main Sterling Fund. The investors in the Main Sterling Funds are not permitted to direct the vote of Sterling Partners with respect to the securities held by such Main Sterling Fund.

The Governing Documents for certain Co-Investment Funds may provide that investor approval is required to vote any securities held by such Co-Investment Fund either generally or with respect to certain matters. In such cases, Sterling Partners notifies each investor of such vote and provides each investor with any related proxies or other voting materials. Each investor may then instruct Sterling Partners as to how the Co-Investment Fund should vote. The Co-Investment Fund then votes in accordance with such instructions, either proportionately as if each investor held a direct interest in the underlying portfolio company where permitted by applicable agreements or as a whole based on instructions from the requisite percentage of investors. Investors in Co-

Investment Funds that are entitled to direct their vote may contact Sterling Partners with any questions about a particular vote.

Almost all of the Funds' investments are in private companies, and most of these are "control" investments in companies in which one or more Funds owns or controls a majority of the outstanding voting securities. In such cases, there are typically a limited number of shareholder votes.

Prior to exercising its voting authority, Sterling Partners, in consultation with the CCO, if appropriate, reviews the relevant facts and determines whether or not a material conflict of interest may arise due to business, personal or family relationships of Sterling Partners or any of its supervised persons. If a material conflict exists, Sterling takes steps to ensure that its voting decision is based on the best interests of the applicable Fund and is not a product of the conflict. Sterling Partners may, at its discretion, (1) seek the advice of the applicable advisory committee of a Fund (if any) in voting such security; (2) disclose the conflict of interest to the applicable advisory committee of a Fund and defer to the recommendation of such advisory committee; (3) (in the case of a publicly traded company) defer to the voting recommendation of an independent third party provider of proxy voting services; (4) exclude the supervised person with whom the conflict exists from the decision on voting the securities; and/or (5) take such other actions in good faith which would serve the best interest of the Fund. Depending on the particular circumstances involved, the appropriate resolution of one conflict of interest may differ from the resolution of another conflict of interest, even though the general facts underlying both conflicts may be similar (or identical).

Sterling Partners will deliver to each Fund and each investor in a Fund, upon written request, a complete copy of its Proxy Voting Policies and Procedures and/or information on how it voted securities for the applicable Fund.

Item 18 - Financial Information

Sterling Partners has no financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy proceeding.