

**INVESTMENT ADVISER BROCHURE**

**INVERNESS MANAGEMENT LLC**

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**March, 2013**

**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Inverness Management LLC (“Inverness Management”). If you have any questions about the contents of this Brochure, please contact us at (203) 966-4177. 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.**

**Inverness 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 Inverness Management is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>Advisory Business .....</b>	<b>2</b>
<b>Fees and Compensation .....</b>	<b>3</b>
<b>Performance-Based Fees and Side-By-Side Management .....</b>	<b>4</b>
<b>Types of Clients .....</b>	<b>4</b>
<b>Methods of Analysis, Investment Strategies and Risk of Loss.....</b>	<b>5</b>
<b>Disciplinary Information.....</b>	<b>9</b>
<b>Other Financial Industry Activities and Affiliations.....</b>	<b>9</b>
<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....</b>	<b>10</b>
<b>Brokerage Practices .....</b>	<b>11</b>
<b>Review of Accounts .....</b>	<b>12</b>
<b>Client Referrals and Other Compensation.....</b>	<b>12</b>
<b>Custody .....</b>	<b>13</b>
<b>Investment Discretion .....</b>	<b>13</b>
<b>Voting Client Securities.....</b>	<b>13</b>
<b>Financial Information.....</b>	<b>13</b>
<b>Supplemental Information About Certain Principals of Inverness .....</b>	<b>14</b>

## ADVISORY BUSINESS

Inverness Management is a private investment management firm, including several investment advisory entities and other organizations affiliated with Inverness Management (collectively, “**Inverness**”), that manages approximately \$310 million in private fund assets. Inverness commenced operations in January, 1998.

Inverness Management serves as the management company of Inverness/Phoenix Partners LP, a Delaware limited partnership (together with Executive Capital Partners I, “**Fund I**”), of which **Inverness/Phoenix Capital LLC**, a Delaware limited liability company (“**Fund I GP**”) is the general partner, and Inverness Partners II LP, a Delaware limited partnership (together with Executive Capital Partners II, “**Fund II**”, and Fund II together with Fund I, the “**Current Inverness Funds**”, and the Current Inverness Funds together with any future private investment funds managed by Inverness, the “**Private Investment Funds**”), of which **Inverness Capital LLC**, a Delaware limited liability company (“**Fund II GP**” and, together with Fund I GP, the “**General Partners**”) is the general partner. In its capacity as the management company of the Current Inverness Funds, Inverness Management has the authority to manage the business and affairs of the Current Inverness Funds. The Current Inverness Funds and any other Private Investment Funds are private equity funds and invest through negotiated transactions in operating entities. Inverness Management’s investment advisory services to the Current Inverness 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. Where such investments consist of portfolio companies, the senior principals generally serve on such portfolio companies’ respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Current Inverness Funds.

Each General Partner is registered under the Advisers Act pursuant to Inverness Management’s registration in accordance with SEC guidance. This Brochure also describes the business practices of each General Partner, which operate as a single advisory business together with Inverness Management.

Inverness Management’s advisory services for Private Investment Funds are detailed in the applicable private placement memoranda and limited partnership agreements (each, a “**Partnership Agreement**”) and are further described below under “Methods of Analysis, Investment Strategies and Risk of Loss.” Investors in Private Investment Funds participate in the overall investment program for the applicable fund, but may be excused from a particular investment due to legal, regulatory or other applicable constraints. The Current Inverness 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 Partnership Agreement of the Current Inverness Funds. As of December 31, 2012, Inverness Management managed approximately \$310 million in client assets on a discretionary basis. Inverness Management is owned by W. McComb Dunwoody and James C. Comis, III and controlled by James C. Comis, III.

## FEES AND COMPENSATION

In general, Inverness Management receives a management fee (the “**Management Fee**”) and the General Partners receive a carried interest allocation (“**Carried Interest**”) in connection with its advisory services. Inverness Management or its affiliates may receive additional compensation in connection with management and other services performed for portfolio companies of Private Investment Funds and such additional compensation will offset in whole or in part the management fees otherwise payable to Inverness Management. Investors in the Current Inverness Funds also bear certain fund expenses.

### Management Fees

Fund I no longer pays a Management Fee. Fund II pays Inverness Management, quarterly in advance, a Management Fee equal to 2% on an annual basis of (a) the aggregate capital contributions made by all Fund II partners which were invested in portfolio companies, less (b) the aggregate cost basis of securities disposed by the Fund II, less (c) any permanent write downs with respect to Fund II portfolio companies. Investors that participated in a closing after the initial closing date bore the Management Fee from the initial closing date. The Management Fee will be payable until all Fund II portfolio investments are distributed or until Inverness Management’s relationship with Fund II is terminated for other reasons (as described in the Fund II Partnership Agreement).

The Management Fee will be reduced by 100% of any break-up, transaction and monitoring fees (collectively, “**Supplemental Fees**”) received by Inverness Management. To the extent that such an offset credit would reduce the Management Fee for a given period below zero, the credit will be carried forward for future application against payable Management Fees.

### Carried Interest

Each General Partner will receive Carried Interest with respect to the applicable Current Inverness Fund equal to 20% of all net realized profits of such Current Inverness Fund so long as such Current Inverness Fund has achieved a minimum 10% annual preferred return, as more fully described in the applicable Partnership Agreement. The Carried Interest distributed to such General Partner is subject to a potential giveback at the end of life of the applicable Current Inverness Fund if such General Partner has received excess cumulative distributions. Additionally, Inverness Management also provides investment advisory services to certain parallel investment funds that are not subject to Carried Interest. This practice could present a conflict of interest because Inverness Management has an incentive to favor accounts that are subject to Carried Interest. Inverness Management seeks to address this potential conflict of interest by causing such parallel investment fund to invest, to the extent practicable, in the same portfolio companies at the same time and on the same terms on a *pro rata* basis, based on relative commitment sizes of the applicable parallel investment funds, with the applicable Current Inverness Fund.

It is expected that any future Private Investment Funds will have a similar fee structure.

## **Other Information**

Inverness may exempt co-investors from payment of all or a portion of Management Fees and/or Carried Interest, as well as affiliated parallel funds from all or a portion of Carried Interest.

The Current Inverness Funds and other Private Investment Funds invest on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the Partnership Agreements, over the term of the Current Inverness Funds (or the relevant Private Investment Fund, as applicable) and investors generally are not permitted to withdraw or redeem interests in the Current Inverness Funds (or other relevant Private Investment Fund, as applicable).

Inverness Management LLC personnel may receive a portion of the Management Fee, Carried Interest or other compensation received by Inverness or its affiliates.

In addition to the Management Fee and Carried Interest payable to Inverness, the Current Inverness Funds bears certain expenses. As set forth in the Partnership Agreements, the Current Inverness Funds bear all expenses to the extent not paid by portfolio companies, including legal, accounting, investment banking, travel, consulting, research, brokerage, finder's fees, custody, transfer, registration, insurance, advisory board, interest, taxes, extraordinary expense and other similar fees and expenses, but not Inverness expenses in connection with maintaining and operating its offices (such as compensation of its employees, rent, utilities and general office expenses.). Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

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

As described under "Fees and Compensation," Inverness receives Carried Interest on certain net realized profits in the Current Inverness Funds.

## **TYPES OF CLIENTS**

Inverness provides investment advice to Private Investment Funds, including the Current Inverness Funds. 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 Inverness and its affiliates.

The Current Inverness Funds generally have required a minimum investment amount of \$5 million for third-party investors, and the Current Inverness Funds interests were offered and sold solely to qualified purchasers (or qualified knowledgeable Inverness personnel). Such minimum investment amount may be waived by Inverness.

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

### **General**

Inverness' strategy is to make private equity investments in a relatively small number of businesses that Inverness believes have strong risk/reward profiles. Inverness invests in a variety of industries, generally based on its judgment that the performance of the company and/or the industry is temporarily depressed and the purchase valuation is reasonable in relation to the company's cash flow at the time of the investment. Inverness believes that it is important to remain strictly disciplined with regard to valuation. Inverness seeks to make equity, equity-equivalent and "quasi-equity" investments in companies that can be purchased at reasonable prices, have the potential for significant improvement in their operating performance, and can support a high degree of financial leverage. Historically, Inverness' preferred strategy has been to form close relationships with entrepreneurial management teams of businesses that typically are in industries which are out of favor in the investment community, and are often either divisions or subsidiaries of large corporations. Inverness has originated nearly all of its investments without participating in competitive auctions.

### **Investment and Operating Strategy**

Historically, there have been four key components to Inverness' approach to sourcing investments, which Inverness believes were critical to developing investment opportunities that met its investment criteria. First, Inverness targeted industries that were experiencing cyclical downturns and were out of favor in the investment community; second, Inverness sought to form close working relationships with the management team of an acquisition target; third, Inverness sought to source its transactions other than through the auction process; and fourth, Inverness has targeted attractive investment opportunities in company's seeking to reduce excessive financial leverage. Inverness believes that these components, which are discussed further below, facilitated the identification and completion of acquisitions that are consistent with its investment criteria.

Inverness seeks to make equity and equity-equivalent investments in companies that can be purchased at reasonable prices, have the potential for significant improvement in their operating performance, and can support a high degree of financial leverage, as more fully discussed below.

*Reasonable Purchase Price* – Inverness believes that a strict discipline with respect to valuation is a critical component of successful leveraged equity investing. Inverness historically has attempted to acquire portfolio investments at reasonable prices by targeting industries where valuations are temporarily depressed due to cyclical or other factors and by seeking to avoid auction situations. Inverness traditionally has aligned with management to approach parent companies that prefer not to subject the target company to a competitive auction process. By aligning with management, Inverness provides the seller with greater confidence that the contemplated transaction will be completed.

*Potential for Improvement* - Inverness seeks to acquire companies that are under-performing and have the potential for improvement. Ideally, a target company has excess capital

employed and has the potential for increasing free cash flow. Excess capital employed is commonly found in “non-core” subsidiaries or divisions of larger parent companies. By disposing of non-strategic assets either prior to, or just after, closing, the effective purchase price of a target company can be reduced. The resulting reduction in debt burden can increase significantly the potential economic reward and reduce risk. Likewise, companies that are acquired in the midst of an industry downturn can achieve significant free cash flow improvement as the industry recovers. Similarly, Inverness seeks companies that have the potential to increase free cash flow significantly through more effective management, such as through overhead expense reductions. By providing management with a significant ownership stake, management generally performs with increased efficiency and makes decisions that are more likely to enhance the value of shareholders’ investments.

*Ability to Support High Degree of Leverage* – Inverness seeks companies that can support a high degree of financial leverage, since such companies can produce superior returns at reasonable risk levels. Such companies typically have experienced modest amounts of growth, generate stable cash flow and have significant amounts of assets with which to secure indebtedness. The revenue growth rate is generally a less important factor in a target company’s ability to support indebtedness. Since high rates of growth usually require significant investment in working capital and capital expenditures, thereby reducing free cash flow required to service debt, Inverness has traditionally avoided businesses with these characteristics. In lieu of high near term revenue growth potential, Inverness concentrates on businesses with stable revenue and cash flow characteristics.

In most cases, Inverness will be the lead investor in transactions in which it invests. Consequently, Inverness professionals will generally serve on each portfolio company's Board of Directors. Inverness will work closely with the management of each portfolio company to develop and implement strategic plans, identify and pursue acquisitions, monitor operating results, recruit key personnel and assist in developing and implementing financing and exit strategies.

Inverness will not make an investment unless liquidity options for the investment are explored, understood and agreed to by the proposed management team of the target company prior to investment. Potential exit strategies include: outright sale of the company for cash or, in some cases, securities of the buyer; an initial public offering of common stock and subsequent secondary offerings; and buy-back or redemption of Inverness’ interest by the portfolio company. The method and timing of the disposition of the investment will depend on economic and business conditions. The principal sources of liquidity for investments initiated and structured by Inverness have been sales to strategic buyers or sales through public equity offerings.

## **Risks of Investment**

The Current Inverness Funds and their investors bear the risk of loss that Inverness Management’s investment strategy entails. The risks involved with Inverness Management’s investment strategy and an investment in a Current Investment Fund include, but are not limited to:

1. *Business Risks.* Inverness Management's investment portfolio will generally consist primarily of securities issued by privately-held companies, and operating results 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.

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

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

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

5. *Lack of Sufficient Investment Opportunities.* The business of identifying and structuring private equity transactions is highly competitive and involves a high degree of uncertainty. However, limited partners will be required to pay Management Fees based on the entire amount of their Commitments.

6. *Illiquidity; Lack of Current Distributions.* An investment in Inverness should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is 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 Inverness (including the annual Management Fee payable to the General Partner) may exceed its income, thereby requiring that the difference be paid from Inverness' capital.

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

8. *Reliance on the Inverness Personnel and Portfolio Company Management.* Inverness' future profitability will depend largely upon the business and investment acumen of its personnel. The loss of service of one or more of the Inverness personnel could have an adverse impact on Inverness' ability to realize its investment objectives. Limited partners generally have no right or power to take part in the management of Inverness, and as a result, the investment performance



of Inverness will depend entirely on the actions of the General Partner. Although Inverness will monitor the performance of each Inverness investment, it will primarily be the responsibility of each portfolio company's management team to operate the portfolio company on a day-to-day basis. Although Inverness intends to invest in companies with strong management, there can be no assurance that the existing management of such companies will continue to operate a company successfully.

9. *Projections.* Projected operating results of a company in which Inverness 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, general economic factors, which are not predictable, can have a material impact on the reliability of projections.

10. *Need for Follow-On Investments.* Following its initial investment in a given portfolio company, Inverness 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 Inverness will make follow-on investments or that Inverness will have sufficient funds to make all or any of such investments. Any decision by Inverness 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 Inverness to increase its participation in a successful operation.

11. *The General Partners' Carried Interest.* The fact that the General Partners' Carried Interest is based on a percentage of net profits, may create an incentive for Inverness to make riskier or more speculative investments than would otherwise be the case.

12. *Director Liability.* Inverness often receives the right to appoint a representative to the board of directors of the companies in which it invests. Serving on the board of directors of a portfolio company exposes Inverness' representatives, and ultimately Inverness, to potential liability. Although portfolio companies often have insurance to protect directors and officers from such liability, such insurance may not be obtained by all portfolio companies and may be insufficient if obtained.

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

## **Conflicts of Interest**

During the commitment period of the Current Inverness Funds, all appropriate investment opportunities will be pursued by the Inverness personnel through the Current Inverness Funds, subject to certain limited exceptions. Following the commitment period of the Current Inverness Funds, in addition to managing the Current Inverness Funds portfolio, Principals may and likely will focus their investment activities on additional Private Investment Funds to be managed by Inverness.

From time to time, Inverness will be presented with investment opportunities that would be suitable not only for the Current Inverness Funds, but also for other Private Investment Funds and other investment vehicles operated by advisory affiliates of Inverness. In determining which investment vehicles should participate in such investment opportunities, Inverness and its affiliates are subject to conflicts of interest among the investors in such investment vehicles. Inverness attempts to resolve such conflicts of interest in light of its obligations to investors in its Private Investment Funds and the obligations owed by Inverness' advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among the Current Inverness Funds, other Private Investment Funds and such investment vehicles in a fair and equitable manner. Where necessary, Inverness consults and receives consent to conflicts from an advisory committee consisting of limited partners of the Current Inverness Funds and other Private Investment Funds.

Because Carried Interest is based on a percentage of net realized profits, it may create an incentive for Inverness to cause the Current Inverness Funds to make riskier or more speculative investments than would otherwise be the case. Additionally, since Inverness Management is permitted to retain certain Supplemental Fees (as described under "Fees and Compensation") in connection with the Current Inverness Funds' investments, it could have a conflict of interest in connection with approving certain transactions.

## **DISCIPLINARY INFORMATION**

Inverness Management 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**

As discussed above in "Advisory Business," Inverness Management is affiliated with the General Partners. These affiliated investment advisers serve as general partners of private investment funds and other pooled vehicles and may share common owners, officers, partners, employees, consultants or persons occupying similar positions. Each of the General Partners is not required to be registered under the Advisers Act, but operates 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**

Inverness has adopted the Inverness Code of Ethics and Securities Trading Policy and Procedures (the “**Code**”), which sets forth standards of conduct that are expected of the Inverness personnel and addresses conflicts that arise from personal trading. The Code requires certain Inverness personnel to report their personal securities transactions, prohibits or requires pre-clearance for Inverness personnel from directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits Inverness personnel from directly or indirectly acquiring beneficial ownership of securities with limited exceptions, without first obtaining approval from the Inverness Chief Compliance Officer. A copy of the Code will be provided to any investor or prospective investor upon request to Brad Esson, the Inverness Chief Compliance Officer, at 212-431-4421. 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.

Inverness and its 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, Inverness and its 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 Inverness.

Accordingly, should Inverness or any of its affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, Inverness would be prohibited from communicating such information to clients, and Inverness 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 Inverness personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Current Inverness Funds.

Inverness personnel and its affiliates may directly or indirectly own an interest in Private Investment Funds, including the Current Inverness Funds or certain co-investment vehicles. To the extent that co-investment vehicles exist, such vehicles may invest in one or more of the same portfolio companies as the Current Inverness Funds.

The Current Inverness Funds and other Private Investment Funds may invest together with other private investment funds advised by an affiliated adviser of Inverness Management in the manner set forth in the applicable Partnership Agreement. Inverness Management will determine the allocation of investment opportunity in a manner that it believes is fair and equitable to its clients consistent with Inverness Management’s 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),

strategy, risk profile, time horizon, tax sensitivity, tolerance for turnover, asset composition and cash level and applicable regulatory considerations.

Inverness personnel and Inverness affiliates may carry on investment activities for their own account and for family members, friends or others who do not invest in the Current Inverness Funds, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, the Current Inverness Funds, even though their investment objectives may be the same or similar. Although not currently applicable, operative documents and investment programs of certain vehicles sponsored in the future by Inverness (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 investors (or their representatives) in such Reference Funds.

Inverness Management does not anticipate engaging in significant public securities transactions; however, to the extent that Inverness Management engages in any such transactions, orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for Private Investment Funds are completed independently, Inverness Management may also purchase or sell the same securities or instruments for several Private Investment Funds simultaneously. From time to time, Inverness Management may, but is not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or “batched” to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Private Investment Fund of Inverness Management is favored over any other Private Investment Fund. When an aggregated order is filled in its entirety, each participating Private Investment Fund generally will receive the average price obtained on all such purchases or sales made during such trading day.

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

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

### **BROKERAGE PRACTICES**

Inverness focuses on securities transactions of private companies and generally purchases and sells such companies through privately-negotiated transactions in which the services of a broker-dealer may be retained. However, Inverness may also distribute securities to investors in the Current Inverness Funds or sell such securities, including through using a broker-dealer, if a public trading market exists. Although Inverness does not intend to regularly engage in public

securities transactions, to the extent it does so, it follows the brokerage practices described below.

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

Inverness has 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 Inverness generally seeks competitive commission rates, it 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.

#### **REVIEW OF ACCOUNTS**

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

The Current Inverness Funds will provide to 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) quarterly and annual reports providing a narrative summary of the status of each portfolio company investment.

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

Inverness and/or its affiliates may provide certain business or consulting services to companies in the Current Inverness Funds’ portfolio and may receive compensation from these companies in connection with such services. As described in the Partnership Agreements, this compensation may, in many cases, offset a portion of the Management Fees paid by the Current Inverness Funds. However, in other cases (*e.g.*, reimbursements for out of pocket expenses directly related to a portfolio company), these fees may be in addition to Management Fees. See “Fees and Compensation.”

From time to time, Inverness Management or one or more of its affiliates may enter into solicitation arrangements pursuant to which it compensates third parties for referrals that result in a potential investor becoming a limited partner in one or more Current Inverness Funds or other

Private Investment Fund. Any fees or expenses payable to any such placement agents will be borne by Inverness Management indirectly through an offset against the Management Fee.

### **CUSTODY**

Inverness maintains custody of the Current Inverness Funds' assets held in the Current Inverness Funds' name with Citibank, a qualified custodian.

### **INVESTMENT DISCRETION**

Inverness has discretionary authority to manage investments on behalf of the Current Inverness Funds. As a general policy, Inverness does not allow clients to place limitations on this authority. Pursuant to the terms of the Partnership Agreements, however, Inverness may enter into "side letter" arrangements with certain limited partners whereby the terms applicable to such limited partner's investment in the Current Inverness Funds may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. Inverness assumes this discretionary authority pursuant to the terms of the Partnership Agreements and powers of attorney executed by the limited partners of the Current Inverness Funds.

### **VOTING CLIENT SECURITIES**

Inverness has adopted the Inverness Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how it will vote proxies, as applicable, for the Current Inverness Funds' (and any Private Investment Fund's) portfolio investments. The Proxy Policy seeks to ensure that Inverness votes proxies (or similar instruments) in the best interest of the Current Inverness Funds, including where there may be material conflicts of interest in voting proxies. Inverness generally believes its interests are aligned with those of the Current Inverness Funds' investors through the Principals' beneficial ownership interests in the Current Inverness Funds and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that Inverness may address the conflict using several alternatives, including by seeking the approval or concurrence of the Current Inverness Funds' advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, the Current Inverness Funds' advisory board may approve Inverness' vote in a particular solicitation. Inverness does not consider service on portfolio company boards by Inverness personnel or Inverness' 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 Inverness when voting proxies on behalf of the Current Inverness Funds. If you would like a copy of Inverness' complete Proxy Policy or information regarding how Inverness voted proxies for particular portfolio companies, please contact Brad Esson, the Inverness Chief Compliance Officer, at (212) 431-4421, and it will be provided to you at no charge.

### **FINANCIAL INFORMATION**

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

## **SUPPLEMENTAL INFORMATION ABOUT CERTAIN PRINCIPALS OF INVERNESS**

### **James C. Comis, III**

#### *Educational Background and Business Experience*

Mr. Comis, born June 22, 1964, is the Managing General Partner and a founder of Inverness. Prior to Inverness, Mr. Comis was with Prudential Bache Securities. Mr. Comis received a B.S. degree from Georgetown University.

#### *Disciplinary History*

There are no legal or disciplinary events to disclose with respect to James Comis.

#### *Other Business Activities*

James Comis is not engaged in any investment-related business outside of his roles with Inverness and its affiliated investment advisers.

#### *Additional Compensation*

James Comis does not receive any additional compensation that is required to be disclosed.

#### *Supervision*

As the Managing General Partner of Inverness, Mr. Comis is responsible for implementing and overseeing the investment strategy of the clients of Inverness. Mr. Comis is not subject to the supervision of any other individual.

**Robert N. Sheehy Jr.***Educational Background and Business Experience*

Mr. Sheehy, born July 7, 1960, is a Managing Director of Inverness. Prior to joining Inverness, Mr. Sheehy was a Vice President of Finance at PennCorp Financial Group and a Vice President of DJS/Inverness. Mr. Sheehy received a Masters of Public and Private Management from Yale University and received a B.S. Degree in Economics with Distinction from Swarthmore College.

*Disciplinary History*

There are no legal or disciplinary events to disclose with respect to Robert Sheehy.

*Other Business Activities*

Robert Sheehy is not engaged in any investment-related business outside of his roles with Inverness and its affiliated investment advisers.

*Additional Compensation*

Robert Sheehy does not receive any additional compensation that is required to be disclosed.

*Supervision*

As a Managing Director of Inverness, Mr. Sheehy is responsible for implementing and overseeing the investment strategy of the clients of Inverness. Mr. Sheehy is not subject to the supervision of any other individual other than James C. Comis III.



**Brad D. Esson***Educational Background and Business Experience*

Mr. Esson, born December 29, 1970, is a Managing Director of Inverness. Prior to joining Inverness, Mr. Esson was a Vice President of Wand Partners and a Manager in the Restructuring division of Arthur Andersen LLP. He received an MBA with honors from Columbia University and a B.S. Degree in Finance and Strategic Management from the University of Pennsylvania.

*Disciplinary History*

There are no legal or disciplinary events to disclose with respect to Brad Esson.

*Other Business Activities*

Brad Esson is not engaged in any investment-related business outside of his roles with Inverness and its affiliated investment advisers.

*Additional Compensation*

Brad Esson does not receive any additional compensation that is required to be disclosed.

*Supervision*

As a Managing Director of Inverness, Mr. Esson is responsible for implementing and overseeing the investment strategy of the clients of Inverness. Mr. Esson is not subject to the supervision of any other individual other than James C. Comis III.

## **Dean Anderson**

### *Educational Background and Business Experience*

Mr. Anderson, born May 3, 1965, is a Managing Director of Inverness. Prior to joining Inverness, Mr. Anderson was a Managing Director of American Capital, Ltd. and a Managing Director of Questor Management Company. He received an MBA with high distinction from the University of Michigan Ross School of Business and a B.A. Degree in Mathematics from Vanderbilt University.

### *Disciplinary History*

There are no legal or disciplinary events to disclose with respect to Dean Anderson.

### *Other Business Activities*

Dean Anderson is not engaged in any investment-related business outside of his roles with Inverness and its affiliated investment advisers.

### *Additional Compensation*

Dean Anderson does not receive any additional compensation that is required to be disclosed.

### *Supervision*

As a Managing Director of Inverness, Mr. Anderson is responsible for implementing and overseeing the investment strategy of the clients of Inverness. Mr. Anderson is not subject to the supervision of any other individual other than James C. Comis III.