

**Brochure**  
(Part 2A of Form ADV)

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This brochure provides information about the qualifications and business practices of Sarona Asset Management Inc (“Sarona”). If you have any questions about the contents of this brochure, please contact Serge LeVert-Chiasson at (519) 804-2285 or [slevertchiasson@saronafund.com](mailto:slevertchiasson@saronafund.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

February 20, 2013

**Item 2: Material Changes**

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**Annual Update**

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the brochure.

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#### **Item 4: Advisory Business**

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##### **A: Firm Description**

Sarona Asset Management Inc, a Canadian corporation (“Sarona”) formed in December 2009, is owned by Malbec Holdings Inc (which is 51% owned by Gerhard Pries who is President & CEO of Sarona and 49% owned by his wife Hilda Pries), Muscadet Holdings Inc (which is 51% owned by Serge LeVert-Chiasson who is Vice-President, COO & CCO of Sarona and 49% owned by his wife, Jessica West), Vivina Berla (European Managing Director) and Mennonite Economic Development Associates.

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##### **B: Types of Advisory Services**

Sarona currently provides investment advisory services and portfolio management on a discretionary and non-discretionary basis to private pooled investment vehicles.

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##### **C: Tailored Services**

Sarona can tailor its advisory services to the individual needs of clients. Under certain circumstances, clients may impose restrictions on investing in certain securities or types of securities.

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##### **D: Wrap Fee Programs**

Sarona does not participate in any wrap fee programs.

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##### **E: Client Assets Under Management**

As of December 31, 2012, Sarona has US\$46,843,733 in regulatory assets under management. Of this amount, US\$25,890,044 were managed on a discretionary basis and US\$20,953,689 were managed on a non-discretionary basis.

## Item 5: Fees and Compensation

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### A. Description

Sarona Asset Management (“Sarona”) is paid an advisory fee for the non-discretionary assets under management it currently manages for the Sarona Risk Capital Fund 1 LP and the MEDA Sarona Risk Capital Fund based on a rolling percentage based on the type of investment from 2-6% per year. This is based on the value of the assets calculated on a quarterly basis using Canadian non-profit GAAP.

Sarona also earns an advisory fee on certain direct private investments held by the clients. This fee is usually less than 1.0% per year.

Sarona also earns a management fee on the discretionary assets under management that includes the Sarona Frontier Markets Fund 1 LP. This fee is currently 1.10% for assets under management under \$50M and 1.0% for assets under management above \$50M. Regulatory assets under management include capital commitments plus the fair market value of total assets at the end of each period.

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### B. Fee Billing

Management fees are deducted from clients’ assets on a quarterly or monthly basis in advance. Performance fees/allocations are deducted from clients’ assets upon the fund’s distribution after the hurdle/performance fee has been realized according to the agreements in place between the clients and Sarona. Management fees are prorated for any period that is less than a full quarter.

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### C. Other Fees and Expenses

Each pooled investment vehicles managed by Sarona pay its direct operating expenses which include, among other things: (a) custody and accounting services; (b) communications with the clients (including the costs of reporting and providing information); (c) fees and expenses of professionals providing services to the funds under management, including valuation, legal, audit, tax, administration, and accounting fees and expenses (including expenses related to the engagement of an independent appraiser to review valuations); (d) meetings of any of the funds under management boards, committees and subcommittees; (e) fees and expenses of members of the investors committee and the investment committee that are not otherwise affiliated with any of the related persons; (f) securities registration fees and expenses, brokerage commissions, and taxes, including regulatory costs, filing and license fees; (g) the issuance and redemption of equity interests in the funds under management, including clearing and settlement charges; (h) to the extent not paid or reimbursed by the investments, third party expenses directly related to the identification, evaluation, monitoring or disposition of investments (whether or not consummated); (i) liquidation of investments; (j) insurance expenses with respect to the funds under management or investments and for the benefit of the funds under management, including liability insurance and director’s and officer’s insurance covering employees of the general partner (if applicable) or Sarona when acting on behalf of the funds under management, and third parties engaged for the benefit of the funds under management; (k) costs of any litigation or investigation involving the

funds under management's activities; (l) expenses relating to indemnification of the general partner and other related persons in accordance with the limited partnership agreement (if applicable) or investment management agreement (if applicable); (m) expenses relating to enforcing the payment of all or part of the committed capital to the funds under management; and (n) certain agreed non-recurring and extraordinary expenses.

Please refer to Item 12 for more information about brokerage.

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#### D. Fees in Advance

Clients typically pay management fees monthly or quarterly in advance or as negotiated with the client. Clients may not pay performance fees/allocations in advance. Sarona does not offer any refunds to clients of any management fees paid in advance.

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#### E. Securities Compensation

Not applicable.

**Item 6: Performance-Based Fees and Side-By-Side Management**

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**Sharing of Capital Gains**

Clients managed by Saronia typically pay Saronia or one of its related persons a performance fee/allocation once the capital has been returned to the client and a hurdle/performance fee has been achieved. All of the clients managed by Saronia and its supervised persons are typically charged both a management fee and performance fee/allocation.

**Item 7: Types of Clients**

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**Description**

Sarona currently provides investment advisory services and portfolio management on a discretionary and non-discretionary basis to private pooled investment vehicles.

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**Account Minimums**

In general, the clients that Sarona manages have minimum initial investments of \$100,000 and minimum subsequent investments of \$25,000, although Sarona may accept subscriptions for lesser amounts.

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

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### **A. Methods of Analysis and Investment Strategies**

Sarona's investment objective is to provide investors with superior long-term financial returns while seeking positive social/environmental outcomes, within the stability of a well-diversified private equity portfolio in Frontier and Emerging Markets. Sarona will seek to earn a long-term rate of return in excess of returns generally available through conventional investments in public equity markets.

Sarona will seek to achieve its investment objective through investments in private equity investment funds ("Private Equity Funds") that invest in small to mid-market companies (collectively "SMEs") in Frontier and Emerging Markets around the world. Frontier and Emerging Markets are generally defined as those countries with GDP per capita of US\$500 to US\$12,000 as shown by the latest World Bank statistics excluding failed states and small island states with populations below 1,000,000. Sarona will aim to develop a global portfolio of Private Equity Funds, thereby achieving significant diversification across countries, industries, and managers.

#### ***Rational for investment strategy***

The rationale for the investment strategy undertaken by Sarona comes from a strategic analysis of the economies of Frontier and Emerging Markets. The analysis concludes:

- That the GDP growth rate trend of Frontier and Emerging Markets has and is expected to continue to outperform that of high income countries;
- That this growth is driven by the rapidly expanding lower middle class expressing strong demand for food, housing, transportation, energy, educational and health services and many other goods and services;
- That SMEs responding to this demand are expected to grow faster than other segments of these economies;
- That tight liquidity markets are expected to allow these SMEs to be purchased at reasonable valuations;
- That progressive, socially/environmentally conscious managers typically outperform their peers financially; and
- That the private equity investment skills in Frontier and Emerging Markets have improved dramatically over the past 15 years.

### ***Investment Strategy***

Sarona identifies Private Equity Funds around the globe with a clear focus on the growth and development of SMEs in Frontier and Emerging Markets and seeks to select those Private Equity Funds that have managers with strong track records, and future strategic and financial prospects, so as to maximize client's risk adjusted return on capital.

Sarona seeks to select Private Equity Fund managers that are aggressive in achieving the investment objectives. Such Private Equity Fund managers will seek to invest in growth-oriented businesses, with progressive, forward-looking management teams that aim to develop ethical, environmental, and community excellence in their businesses. Such Private Equity Fund managers will be active investors in their portfolio of investee companies, seeking to enhance and professionalize their business strategies and operations with the goal of superior financial performance.

### ***Investment Procedures***

Although no specific procedure is required in conjunction with approving an investment by Sarona, a preliminary review ("Deal Alert") is often prepared and presented to the investment team of Sarona. If, subsequent to further analysis, Sarona believes that an investment may be of interest to the client's, a secondary review document ("Information Memorandum") is prepared and presented first to the investment team of Sarona and then to the Investment Committee for discussion.

If, following completion and review of the Information Memorandum, Sarona intends to pursue an investment opportunity, a further evaluation is performed. Such further evaluation may include an assessment of the following investment criteria:

- *management strength/weaknesses* – commitment, capacity and experience;
- *governance* – appropriate structures with roles and responsibilities and accountability mechanisms, and clear ownership and incentive structures;
- *business plan* – internal planning process, analysis of financial statements including financial fund models and the fund manager's budget, and sound strategy for capital appreciation and revenue generation;
- *regulatory status* – current or pending regulatory framework;
- *macroeconomic conditions* – country currency risk, regulatory risk, tax risk, political risk, and other country risks;
- *tax considerations* – seeking to understand the tax consequences of the Fund's investment into Private Equity Funds; prospective Investors should note that the Fund will not seek to understand tax consequences for an Investor in the Fund;
- *terms and conditions* – determine whether the Private Equity Fund meets or exceeds International Limited Partner Association ("ILPA") recommended legal terms and conditions;
- *in-depth and on-site due diligence* – interviews with other committed investors, third party service providers including auditors, lawyers and administrators, past

investments made by the Private Equity Fund, and individual interviews with the Private Equity Fund's investment professionals and investment committee board members;

- *social impact* – selection criteria and monitoring programs by the Private Equity Fund of investee businesses that exhibit progressive business strategies and engagement of all their stakeholders, including suppliers, employees, customers and communities, and add long term value to the local economy; and
- *environmental impact* – selection criteria and monitoring programs by Private Equity Funds of investee businesses that exhibit progressive environmental stewardship/enhancement.

If, subsequent to this evaluation, Sarona believes that an investment may be in the best interests of the client's, an Investment Memorandum is prepared and presented first to the investment team of Sarona and then to the Investment Committee for approval.

The Investment Committee meets regularly to discuss investment proposals for the Investment Fund. Quorum is considered the majority of Investment Committee members, including at least two partners of Sarona. For approval of an investment, a majority of Investment Committee members present must vote in favour of the proposal, including a further requirement that the members of the Investment Committee who are partners in Sarona must vote unanimously in favour of the proposal.

### ***Portfolio Construction***

Sarona aims to reduce its risk of investments by diversifying its portfolio. Therefore, Sarona aims to build a diversified portfolio in its pooled investment vehicles. For example, Sarona may construct a portfolio which would not undertake in good faith:

- an investment of more than 15% of an Investment Fund's total committed assets in any one Private Equity Fund;
- aggregate investments of more than 20% of an Investment Fund's total committed assets in any one country;
- investments focused exclusively in China and Russia. The Fund may make investments in regional private equity funds that may have exposure to China and Russia;
- aggregate investments of more than 40% of an Investment Fund's total committed assets in Argentina, Brazil, Chile, India, Mexico and South Africa;
- aggregate investments of more than 35% of an Investment Fund's total committed assets in any one sector;
- aggregate investments of more than 50% of an Investment Fund's total committed assets in any one continent;
- an investment that represents more than 25% of any private equity fund's total commitments;

- aggregate investments in co-investments of more than 20% of the Investment Fund's total committed assets; or
- aggregate investments in secondary investments of more than 20% of the Investment Fund's total committed assets.

Sarona may adopt different investment strategies and/or methods of analysis.

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## B and C. Material Risks for Investment Strategies and Types of Securities

Investing with Sarona involves a high degree of risk and is suitable only for persons having substantial financial resources who understand the long-term nature, the consequences of, and the risks associated with the investment. Some of those risks are summarized below. Investors should carefully consider all the risks discussed below and should consult their own legal, tax, and financial advisers about these risks and an investment with Sarona. Investing in securities involves risk of loss that clients should be prepared to bear. Clients should refer to the offering documents for any pooled investment vehicles managed by Sarona for a more detailed discussion of risks.

### ***General***

Most of Sarona's investments will be in Private Equity Funds that will ultimately finance SMEs in Frontier and Emerging Markets (individually, a "Country," or collectively, the "Countries"). Accordingly, changes in any Country's economic or political conditions could have a significant impact on the results of the Investment Fund's investments, depending upon the amount of investment by the Investment Fund with specific investments located in Countries experiencing adverse economic or political conditions. These securities are speculative and entail a high degree of risk.

### ***Uncertainty of Financial Projections***

Sarona may provide certain information that may be considered to be financial projections. In the absence of any operating history of the Investment Fund and the general partner, along with the impossibility of predicting the success of the Private Equity Funds and their investments, the Investment Fund is unable to forecast the Investment Fund's revenues with any degree of certainty. Any financial projections in this Private Placement Memorandum are based upon many assumptions, including assumptions relating to future events and conditions. To the extent that the Investment Fund's actual experience differs from any one or more of these assumptions, the Investment Fund's actual financial results will differ from the financial projections. Such differences are likely to be material. Accordingly, an Investor should not rely on the accuracy of the projections in making an investment in the Investment Fund.

### ***Long-Term Investment***

Although certain investments by the Investment Fund may generate current income (including interest income), the return of capital and the realization of gains, if any, will occur only upon the partial or complete disposition of an investment by the Investment Fund. While an investment may be sold or redeemed by the Investment

Fund at any time, it is not generally expected that this will occur for a number of years after an initial investment has been made. Prior to such time, there will generally be no current return on investments made by the Investment Fund.

#### ***Minority Investments***

The Investment Fund may purchase investments offered by Private Equity Funds in which the Investment Fund does not have a right to appoint a member of the limited partner advisory committee or otherwise exert significant influence over such entity. In such instances, the Investment Fund will be significantly reliant on the existing management of such Private Equity Funds, which may include representatives of other investors with whom the Investment Fund is not affiliated and whose interests may conflict with the interests of the Investment Fund.

#### ***Number of Investments***

The Investment Fund invests in a limited number of Investments, some of which will involve a high degree of risk, and, as a consequence, the aggregate return of the Investment Fund may be adversely affected by the unfavourable performance of any single investment.

#### ***Availability of Investments***

There is no guarantee that suitable investment opportunities for the Investment Fund's capital will be found, that investments on favourable terms can be negotiated or that the Investment Fund will be able to realize on the value of its investments or the value of the investments made by the Private Equity Funds in which the Investment Fund invests. Among other factors, competition for suitable portfolio investments from companies, the public equity markets and other investors may reduce the availability of investment opportunities. There has been significant recent growth in the number of firms organized to establish Private Equity Funds throughout the world, which may result in increased competition in obtaining suitable investments.

#### ***Management of Investment Fund's Capital***

The general partner and Sarona intend to employ the commonly used fund of funds investment strategy of over-committing the Investment Fund's capital to investments in an effort to ensure that the Investment Fund's capital is fully or substantially invested in Private Equity Funds on a continuous basis. This over-commitment strategy is utilized because Private Equity Funds generally will not draw down all of the capital commitments made by the Investment Fund before the Private Equity Funds start returning capital to the Investment Fund. If the general partner and Sarona are unable to maintain full or substantial investment of the Investment Fund's capital in investments in Private Equity Funds, the investment returns realized by the Investment Fund may be lower than would otherwise be the case. However, use of the over-commitment strategy could also result in the Investment Fund having to borrow to meet its capital commitments in certain circumstances or defaulting on its capital commitment obligations, either of which could have an adverse effect on the Investment Fund's performance.

### ***Use of Leverage***

The general partner has the discretion to use debt to fund obligations of the Investment Fund. While there are limitations on the amount of debt that may be incurred by the Investment Fund, the use of financial leverage adds financial risk to any investment.

### ***Political and Economic Factors***

The economies of the various Countries will differ favourably or unfavourably from each limited partner's economy in such respects as the rate of growth of gross domestic product, the rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments position. Governments of some Countries may have exercised and may continue to exercise substantial influence over many aspects of the private sector. Accordingly, government actions in the future could have a significant effect on economic conditions of different Countries, which could affect the Investment Fund's investments in Private Equity Funds. Expropriation, confiscatory taxation, changes in regulatory structures, nationalization, political, economic or social instability or other developments could adversely affect the Investment Fund's investments held in particular Countries.

The value of the Investment Fund's investments will be affected by, among other factors, commodity prices, inflation, interest rates, taxation, social instability, and other political, economic or diplomatic developments in or affecting the various Countries.

Foreign investment in certain Countries may be restricted or controlled to varying degrees. These restrictions or controls may at times limit or preclude foreign investment and increase the costs and expenses of the Investment Fund. Certain Countries may require governmental approval prior to investments by the Investment Fund, limit the amount of investment by the Investment Fund or limit the investment by the Investment Fund to only a specific class of securities of an entity that may have less advantageous terms than those available for purchase by nationals.

The Investment Fund's investments that are situated in the various Countries will also be subject to normal investment risks and, in addition, may be adversely affected by political development and/or changes in the local laws, taxes and exchange controls which might be applicable to the Investment Fund or to the Investment Fund's investments.

Legal, tax and regulatory changes in the United States or Canada or in other countries where the Investment Fund could have an adverse effect on the Investment Fund, its distributions or the limited partners. The legal, regulatory and tax considerations in the United States and Canada, and the legal, regulatory, tax considerations in other jurisdictions affecting the ability of the Investment Fund to achieve its investment objective are complicated and subject to change, which may affect the performance of the Investment Fund.

### ***Currency Exchange Exposure***

Through its investment on the Private Equity Funds, the Investment Fund expects to invest in financial instruments denominated in currencies other than the U.S. Dollar. The Investment Fund, however, values its assets in U.S. Dollars. The Investment Fund does not expect to seek to hedge its non-U.S. currency exposure by entering into currency hedging transactions. In any event, there can be no guarantee that financial instruments suitable for hedging currency or market shifts will be available at the time when the Investment Fund or a Private Equity Fund wishes to use them, or that hedging techniques employed by the Investment Fund will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of the positions denominated in currencies other than the U.S. Dollar will fluctuate with U.S. Dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies.

### ***Natural Disasters***

Many of the Countries do not have developed rescue and rehabilitation facilities. Upon the occurrence of a natural disaster such as flood, hurricane, or earthquake, or upon an incident of war or riot, the Country may not efficiently and quickly recover from such event, which will have a materially adverse effect on SMEs and other developing economic enterprises, including those in which the Investment Fund or the Private Equity Funds in which it invests have an interest.

### ***Indemnification***

The Investment Fund will be required to indemnify the general partner and Sarona (including its boards of directors) and their respective affiliates for liabilities incurred in connection with the affairs of the Investment Fund. Such liabilities may be material and have an adverse effect on the returns to the limited partners. The indemnification obligation of the Investment Fund will be payable from the assets of the Investment Fund. The Investment Fund will also be required to indemnify OPIC.

### ***Financial Information of Private Equity Funds***

Financial and other information concerning investments in Private Equity Funds may be available through certain sources. There may be no consistent means, however, of confirming the accuracy of such information. As a result, the financial condition of individual investments in Private Equity Funds, and their respective credit risk, is difficult, if not impossible, to quantify.

### ***Private Equity Fund Operating Performance***

Private Equity Funds may face difficulties in providing investments and value-added business services to their investments in SMEs. These difficulties may include, among others: the vulnerability of SMEs to socio-political and environmental changes; inadequate credit analysis and risk management procedures; high operating costs; and liquidity constraints.

### ***Liquidity of Investments in Private Equity Funds***

The Investment Fund will invest in unlisted securities of Private Equity Funds, including investments that involve a high degree of business and financial risk, which

can result in substantial losses to the Investment Fund. Due to the absence of any trading market for these investments, the Investment Fund may take longer to liquidate its positions with regard to these investments than would be the case for publicly-traded securities. The investment instruments offered by Private Equity Funds may not be subject to public disclosure and other investor protection requirements that may be applicable to publicly-traded securities. Given the nature of the Investment Fund's activities, all of the Investment Fund's investments may be in such unlisted securities. If such securities are required to be registered under the securities laws of one or more jurisdictions before being sold, the Investment Fund may be required to bear the expenses of registration.

There is currently no market through which the interests in the Investment Fund may be sold and no such market is expected to develop. Accordingly, purchasers may not be able to sell its limited partnership interests.

### ***Multiple Layers of Expense***

The Investment Fund and the underlying Private Equity Funds each have multiple layers of expenses and management costs that will be borne, directly or indirectly, by the Partners. By way of example, an investment in the Investment Fund will generally entail (directly or indirectly) the payment of certain expenses, plus management fees and carried interests distributions to the general partner of each underlying Private Equity Fund in which the Investment Fund invests, and the payment of certain expenses, plus management fees and carried interest distributions to the general partner of the Investment Fund.

### ***Early Termination of the Investment Fund's Term***

In the event of the early termination of the Investment Fund's term, the Investment Fund will have to distribute to the limited partners their pro rata share in the net assets of the Investment Fund after repayment of any debt owing to OPIC. Certain assets held by the Investment Fund may be highly illiquid and might have little or no marketable value. It is possible that at the time of such sale or distribution, certain investments held by the Investment Fund would be worth less than the initial cost of such investments, resulting in a loss to limited partners.

### ***Currency Fluctuations and Foreign Exchange Controls***

Whereas contributions to the Investment Fund will generally be made in US dollars, the Investment Fund intends to make investments primarily in US dollars, Euros, or other foreign currencies. Therefore, a substantial portion of the Investment Fund's assets are invested in non-US and non-Canadian Private Equity Funds, and the income received by the Investment Fund may be denominated in the local currency of investment, whereas a limited partner's investment in and distributions from the Investment Fund will be made in US dollars. Therefore, the amount of the distributions made by the Investment Fund, as well as the dollar-denominated value of the Investment Fund's portfolio investments and the net assets of the Investment Fund, may be adversely affected by changes in the value of such local currency relative to the US dollar.

### ***Disclosure and Accounting Standards***

A principal objective of the securities laws of Canada and United States is to promote full and fair disclosure of all material information. However, there is significantly less publicly available information about the issuers of securities in which the Investment Fund intends to invest than is regularly published by or about listed companies in Canada or United States. Also, because generally accepted accounting principles ("GAAP") in certain Countries differ in certain significant respects from Canadian GAAP and US GAAP and International Financial Reporting Standards, financial statements prepared by certain Private Equity Funds may differ in certain material respects from those of companies in an Investor's own Country.

### ***Exposure to Material Non-Public Information***

From time to time, the general partner or Sarona may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, the Investment Fund may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.

### ***Governmental Entity Investors***

Governmental entities, including, but not limited to, pension plans maintained by governmental agencies and instrumentalities, may invest in the Investment Fund. Such Investors may be subject to laws that affect the applicability or enforcement of certain terms generally governing the Investment Fund. For example, exculpation, indemnification, confidentiality, choice of law and choice of venue provisions may be applied differently with respect to such Investors. In addition, investment in the Investment Fund by certain governmental entities may subject the Investment Fund and/or Sarona to increased regulatory burdens and public disclosures about the Investment Fund, its Investors and its activities.

### ***Risks Associated with Private Equity Funds***

The following risk factors relate specifically to investments in Private Equity Funds and portfolio investments. These considerations will be relevant to an investment in

LP Interests, which are dependent on the performance of the Private Equity Funds in which the Investment Fund invests.

#### *Limited Information Regarding the Portfolio Companies*

A Private Equity Fund's portfolio may consist primarily of securities of, or loans made to, SMEs. There is generally little or no publicly available information about such companies, and the Private Equity Funds must rely on the diligence of their own employees and the consultants they hire to obtain the information necessary for their decision to invest in them. There can be no assurance that the diligence efforts of the Private Equity Funds will uncover all material information about the privately held business necessary for the Private Equity Funds to make a fully informed investment decision.

#### *Competitive Market for Investment Opportunities*

The Private Equity Funds in which the Investment Fund invests compete with a large number of other investment funds, mezzanine funds, investment banks and other equity and non-equity based investment funds, and other sources of financing, including traditional financial services companies such as commercial banks and multilateral organizations, as well as governments and non-governmental organizations. Competitors may have a lower cost of funds and may have access to funding sources that are not available to the Private Equity Funds in which the Investment Fund invests. In addition, certain competitors of those Private Equity Funds may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships. There is no assurance that the competitive pressures faced by the Private Equity Funds in which the Investment Fund invests will not have a material adverse effect on their business, financial condition and results of operations. Also, as a result of this competition, those Private Equity Funds may not be able to take advantage of attractive investment opportunities from time to time and there can be no assurance that they will be able to identify and make investments. In addition to third parties, the Private Equity Funds in which the Investment Fund invests may compete against each other for investment opportunities.

#### *Accounting and Disclosure Standards; Limited Information*

The Private Equity Funds in which the Investment Fund invests may have or make investments in any part of the world, including in Countries where accounting, auditing, financial and other reporting standards, practices and disclosure requirements are not equivalent to those in Canada, the United States and Europe and may differ in fundamental ways. Accordingly, information available to the Private Equity Funds and, consequently, to the Investment Fund, including both general economic and commercial information and information concerning specific enterprises or assets, may be less reliable and less detailed than information available in more economically sophisticated countries.

#### *Economic Recessions or Downturns*

The Private Equity Funds in which the Investment Fund invests may make investments in companies that are susceptible to economic recessions or downturns.

During periods of adverse economic conditions, these companies may experience decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. During such periods, these companies may also have difficulty in expanding their businesses and operations and may be unable to meet their debt service obligations or other expenses as they become due. Any of the foregoing could cause the value of a Private Equity Fund's investments to decline.

#### *Illiquidity of Investments*

Most, if not all, of the investments of the Private Equity Funds will be highly illiquid, and there can be no assurance that any Private Equity Fund will be able to realize on its investments in a timely manner or at all, which may also make the Investment Fund's investments difficult to value. Illiquidity may result from the absence of an established market for the investments as well as legal or contractual restrictions on their resale. In addition, Private Equity Funds by their nature are often difficult or time consuming to liquidate.

#### *Changes in Laws or Regulations*

Additional laws may apply to the Private Equity Funds and the portfolio companies that they hold. Compliance with, and monitoring of, applicable laws and regulations may be difficult, time consuming and costly. Those laws and regulations and their interpretation and application may also change from time to time, and those changes could have a material adverse effect on a Private Equity Fund's business, investments and results of operations. In addition, a failure to comply with applicable laws or regulations, as interpreted and applied, could have a material adverse effect on the business, investments and results of operations of the Private Equity Funds.

#### *Reliance upon Borrowed Funds*

Because some Private Equity Funds rely on the use of leverage, the ability to achieve attractive rates of return on Private Equity Funds will depend on the Private Equity Funds' continued ability to access sources of debt financing at attractive rates. An increase in either the general levels of interest rates or in the risk spread demanded by lenders would make it more expensive to finance Private Equity Funds. Increases in interest rates could also make it more difficult to locate and consummate Private Equity Fund investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital. Availability of capital from debt capital markets is subject to significant volatility and the Private Equity Funds may not be able to access those markets at attractive rates, or at all, when completing a SME investment. Any of the foregoing circumstances could have a material adverse effect on the financial condition and results of operations of the Private Equity Funds.

#### *Investments in Less Established Companies*

The Private Equity Funds in which the Investment Fund invests will include Private Equity Funds that invest in less established businesses and may also include direct investments in such businesses. Investments in such businesses may involve greater risks than are generally associated with investments in more established businesses.

### *Dependence on Key Management Personnel*

The Investment Fund's investment strategy is primarily focused on investing in underlying Private Equity Funds managed by other fund general partners. As such, the performance of the Investment Fund's investments will depend upon the ability of the Private Equity Funds' managers to source, select, complete and realize appropriate investments. In the case of the Investment Fund's international investment portfolio, reliance will be placed on general partners managing Private Equity Funds in which the Investment Fund invests. The performance of these investments will depend upon the general partners of the Private Equity Funds and portfolio companies in which they invest.

### *Default by Investors in Investments*

If another investor in any investments in which the Investment Fund also invests defaults on its funding obligations, the Investment Fund may be required to fund such investor's pro rata portion.

### *Control Risks*

In certain situations, an underlying Private Equity Fund may acquire only a participation or non-controlling interest in an asset, and therefore may not be able to exercise control over the management of such asset. In these situations, there can be no assurance that appropriate investor rights will be available to protect the Investment Fund's interest or that such rights will provide sufficient protection of such underlying Private Equity Fund's rights. In certain other situations, the underlying Private Equity Fund may take control positions in portfolio companies. The exercise of control over a portfolio company imposes additional risks of liability for environmental damage, product defects, failure to supervise management, violation of government regulations, including securities laws and other types of liability in which the limited liability characteristics of business ownership may be ignored. If these liabilities were to arise, the underlying portfolio fund might suffer a significant loss.

### *Leveraged Nature of Investments*

Private Equity Funds may invest in highly leveraged businesses, which involves a high degree of risk. Some of the Private Equity Fund's investments in portfolio businesses may involve leverage, which in turn will increase the exposure of the portfolio businesses to adverse economic factors such as downturns in the economy or deteriorations in the condition of the portfolio business or its industry. In the event any such portfolio business cannot generate adequate cash flow to meet debt service, the Private Equity Fund may suffer a partial or total loss of capital invested in the portfolio business that, depending upon the size of the Private Equity Fund's investments, could adversely affect the return of capital to the Investment Fund. In addition, the Investment Fund may use leverage in making investments which could expose the Investment Fund to direct exposure to the risks associated with leveraged investing.

### *Investment in Restructurings of Distressed Companies*

The Private Equity Funds may make investments in restructurings of distressed or nonperforming businesses or assets which involve a high degree of financial risk and are experiencing or are expected to experience severe financial difficulties, which may never be overcome.

***Miscellaneous***

As the Investment Fund will make investments throughout the world, the general partner will not be privy to all of the possible risks associated with all investments. Therefore, additional risks not listed above may further affect performance.

**Item 9: Disciplinary Information**

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## Legal and Disciplinary

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of Sarona's advisory business or the integrity of its management persons.

- A. Not applicable.
- B. Not applicable.
- C. Not applicable.

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

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### **A. Broker-Dealer**

Not applicable.

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### **B. Financial Industry Activities**

Not applicable.

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### **C. Affiliations**

1. Not applicable.

2. Sarona Asset Management currently has two pooled investment mandates. When funds under management is referred to in the text of this form, it refers to these two mandates and all future pooled investment mandates managed by Sarona Asset Management.

### **Sarona Risk Capital Fund 1 LP (“SRCF 1 LP”)**

The SRCF 1 LP had its first closing on July 1, 2007 and final closing on December 31, 2008 and works as a privately owned sister fund to MEDA's SRCF. Twenty-nine investors purchased \$1,475,000 of limited partnership interests in the fund at that time. Sarona currently advises this fund in a non-discretionary manner. The general partner of SRCF 1 LP is Sarona MEDA Investments Inc and makes all investments decisions on behalf of the limited partnership. The Sarona MEDA Investments Inc is wholly owned by Mennonite Economic Development Associates.

### **Sarona Frontier Markets Fund 1 LP (“SFMF 1 LP”)**

SFMF 1 LP was launched in late 2009 as a fund of funds to capture the growth of frontier and emerging markets through investment in private equity funds focusing on small/mid-market companies (“SMEs”) and with an emphasis on social and environmental values. It offers broad diversification across countries, industries and managers. It launched operations in January 2010 with 35 investors who committed a total of \$13 million. As of Q4 2012 the fund has had three closings (2010 series closing, 2011 series closing and 2012 series closing), received commitments in excess of \$25 million from 75 investors from Canada, USA, South America and Europe. The general partner of SFMF 1 LP is Sarona Frontier General Partner Inc.

3. The mandates described above have two general partners. When general partner is referred to in the text of this form it refers to both of these general partners.

### **Sarona MEDA Investments Inc.**

Sarona MEDA Investments Inc is for profit corporation incorporated under the laws of the Commonwealth of Pennsylvania that acts as the general partner to SRCF 1 LP. It is a wholly-owned subsidiary of Mennonite Economic Development Associates and has an eight person board that serves as the investment committee.

### **Sarona Frontier General Partner Inc.**

Sarona Frontier General Partner Inc is a for profit corporation incorporated under the laws of the Government of Canada and acts as the general partner to the SFMF 1 LP. It is majority owned by Sarona (75%) and has five other shareholders each owning 5%. Its 9 person board oversees the activities but it has delegated the investment decisions to an investment committee comprised of Gerhard Pries, Serge LeVert-Chiasson, Vivina Berla, Alex Hartzler, Kirk Robertson and Ron Cordes

4. Not applicable.

5. Not applicable.

6. Not applicable.

7. Not applicable.

8. Not applicable.

9. Not applicable.

10. Not applicable.

11. Sarona is a sponsor and syndicator of various limited partnerships including the Sarona Frontier Markets Fund 1 LP, Sarona Frontier Markets Holding LP and Sarona Frontier Markets Fund 2 LP.

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### **D. Compensation for Referrals.**

The MicroVest Capital Management LLC is 40% owned by MEDA. MEDA is also a 10% owner in Sarona Asset Management. Carried interest could be paid to Sarona Asset Management on the disposition of MicroVest Capital Management LLC. Three of the current six investment committee members of Sarona Frontier Markets Fund 1 LP are on the board of MicroVest Capital Management LLC and one of the current six investment committee members is on the investment committee of MicroVest 1 LP and MicroVest 2 LP. Sarona Frontier Markets Fund 1 LP currently has investments in MicroVest 1 LP, MicroVest 2 LP and MicroVest Short Duration Fund LP. Sarona has disclosed this conflict of interest in the initial Limited Partnership Agreement of the Sarona Frontier Markets Fund 1 LP, discloses it at every series offering and announces it annually at the Annual Meeting of the Sarona Frontier Markets Fund 1 LP as well as annually to the Limited Partners Advisory Committee meeting.

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

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**A. Code of Ethics**

Sarona, its members and employees have committed to a Code of Ethics within its Compliance Manual that is available for review by clients and prospective clients upon request. Each person affiliated with Sarona must read, sign and deliver a certificate of compliance with the Code of Ethics and may only effect a personal transaction in a limited offering by pre-approving such transaction with Sarona's Chief Compliance Officer. Each person affiliated with Sarona also must provide initial securities holdings reports and annual securities holding reports to the Chief Compliance Officer. Furthermore, each person affiliated with Sarona shall provide either quarterly securities transaction reports or in the alternative have copies of all account statements or broker trade confirmations related to personal securities transactions in which such person or any member of his or her immediately family has a beneficial ownership interest sent directly to Sarona's Chief Compliance Officer within 30 days of each quarter.

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**B. Participation or Interest in Client Transactions**

The MicroVest Capital Management LLC is 40% owned by MEDA. MEDA is also a 10% owner in Sarona Asset Management. Carried interest could be paid to Sarona Asset Management on the disposition of MicroVest Capital Management LLC. Three of the current six investment committee members of Sarona Frontier Markets Fund 1 LP are on the board of MicroVest Capital Management LLC and one of the current six investment committee members is on the investment committee of MicroVest 1 LP and MicroVest 2 LP. Sarona Frontier Markets Fund 1 LP currently has investments in MicroVest 1 LP, MicroVest 2 LP and MicroVest Short Duration Fund LP. Sarona has disclosed this conflict of interest in the initial Limited Partnership Agreement of the Sarona Frontier Markets Fund 1 LP, discloses it at every series offering and announces it annually at the Annual Meeting of the Sarona Frontier Markets Fund 1 LP as well as annually to the Limited Partners Advisory Committee meeting.

**C. Participation or Interest in Client Transactions**

Not applicable

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**D. Participation or Interest in Client Transactions**

Not applicable

## Item 12: Brokerage Practices

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### A. Selecting Brokerage Firms

In choosing brokers, Sarona generally seeks “best execution” of its clients’ transactions. In evaluating whether a broker will provide best execution for a particular transaction, Sarona may consider a range of factors. These include, among others, historical net prices (after markups, markdowns or other transaction-related compensation) on other transactions; the execution, clearance, and settlement and error-correction capabilities of the broker generally and in connection with securities or financial instruments of the types and in the amounts to be bought or sold; the broker’s willingness to commit capital; the broker’s reliability and financial stability; the size of the transaction; availability of securities to borrow for short sales; and the market for the security or financial instrument. As discussed below, Sarona is not required to select the broker that charges the lowest transaction cost, even if that broker provides execution quality comparable to other brokers and may consider criteria beyond best execution.

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#### 1. Research and Other Soft Dollar Benefits

In choosing a broker, Sarona does not consider the value of various services or products, beyond transaction execution, that the broker or dealer provides to its clients and therefore does not currently accept any soft dollar benefits.

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#### 2. Brokerage for Client Referrals.

- a. Not applicable.
  - b. Not applicable.
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#### 3. Directed Brokerage

- a. Not applicable.
  - b. Not applicable.
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### B. Aggregation

Sarona does not aggregate the purchase or sale of securities for various client accounts since Sarona does not currently engage in the purchase or sale of securities that can be aggregated.

**Item 13: Review of Accounts**

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**A. Periodic Reviews**

Tracy Hilpert, Sarona's controller and Serge LeVert-Chiasson, Sarona's Chief Compliance Officer consistently review the investments and performance of its clients.

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**B. Review Triggers**

Other conditions that may trigger a review are changes in applicable laws, new investment information, changes in the market and changes in a particular client's circumstances.

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**C. Regular Reports**

Following the end of each calendar year, the auditor for the funds under management prepares, for delivery by the general partner to each limited partner in such funds an audited financial statement of the funds' operations, the funds' tax return and Schedules K-1 for the US partners to use for their income tax filings. Each limited partner also receives quarterly summaries of the funds' performance and periodic reports in such form as the general partner may determine.

**Item 14: Client Referrals and Other Compensation**

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**A. Referrals**

Not applicable.

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**B. Other Compensation**

Sarona staff sometimes receives board fees for their governance role on certain companies which are paid into Sarona. Sarona also engages in consulting work for some of its clients, notably Mennonite Economic Development Associates and certain speaking engagements which receive a stipend. All payments are made to Sarona for these additional services.

Sarona has a contractual agreement with Deer Isle Capital to represent its interest as a placement agent for investors in North America. Under this arrangement, Deer Isle Capital will receive a percentage of capital raised through its efforts. Deer Isle Capital is a registered broker-dealer under FINRA (CRD # 146269).

Sarona has a contractual agreement with Source Capital Group Inc. Source Capital Group Inc. is a registered broker-dealer under FINRA (CRD # 36719) and SEC (SEC# 8-47372).

Sarona has a contractual agreement with Mentisfactum Advisory Services to represent its interest as a placement agent for South African and Indian investors in South Africa and India. Under this arrangement, Mentisfactum Advisory Services will receive a percentage of capital raised through its efforts. Mentisfactum Advisory Services is not registered as a broker-dealer under US laws but is fully compliant with securities legislation in South Africa and India.

**Item 15: Custody**

Sarona's related person Sarona Frontier General Partner Inc is deemed to have "custody" of client funds and securities since it is the general partner of the Sarona Frontier Markets Fund 1 LP. However, the fund and securities are owned by a pooled investment vehicle and the securities are "excepted securities." Therefore, client funds and securities need not to be held by a "qualified custodian."

**Item 16: Investment Discretion**

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**Discretionary Authority for Trading**

Sarona does accept discretionary authority to manage investment accounts on behalf of its clients. Under these arrangements, Sarona has the authority to determine, without obtaining specific client consent, the investments to be bought or sold, and the amount of the investments to be bought or sold on behalf of clients. Clients do not currently place any limitations on this discretionary authority but may in the future.

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**Assumption of Authority**

Before Sarona assumes discretionary authority, an investor in one of its funds currently signs a limited power of attorney by execution of the limited partnership agreement for such fund.

**Item 17: Voting Client Securities**

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**A. Proxy Voting**

At the present time, Saronia does not and will not accept voting authority with respect to client securities and therefore has not adopted written policies and procedures with respect to proxy voting under Rule 206(4)-6 under the Investment Advisers Act. If Saronia does accept and exercise voting with respect to client securities in the future, it will adopt policies and procedures regarding proxy voting pursuant to Rule 206(4)-6.

**B. Not applicable.**

**Item 18: Financial Information**

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**A. Balance Sheet**

Sarona has not provided a balance sheet because Sarona does not require or solicit prepayment of more than \$1,200 in fees per client, six (6) months or more in advance.

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**B. Financial Condition**

Sarona does not have any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.

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**C. Bankruptcy Petition**

Sarona has not been the subject of a bankruptcy petition at any time during the past ten years.