



PJC Capital Partners LLC

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Form ADV Part 2 - Disclosure Brochure

Merchant Banking Strategy

March 22, 2013

This Brochure provides information about the qualifications and business practices of PJC Capital Partners LLC (“PJCCP”). If you have any questions about the contents of this Brochure, please contact us at 612-303-6000. 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.

PJCCP is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. Additional information about PJCCP also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

The Merchant Banking Strategy which was previously part of Piper Jaffray Investment Management LLC (PJIM), was transferred to PJC Capital Partners LLC, an affiliated investment adviser. All personnel that previously managed the Merchant Banking Strategy will be associated with PJC Capital Partners LLC. This change will have no material effect on services provided by the Merchant Banking Strategy to its clients.

Pursuant to SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

A new Brochure will be provided and/or made available to you as necessary based on changes or new information, without charge.

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Item 4 – Advisory Business

This disclosure document deals solely with the Piper Jaffray Merchant Banking Strategy (the “Merchant Banking Strategy”). This document provides information about PJC Capital Partners LLC (“PJCCP”) and its Merchant Banking Strategy that should be considered when investing in the Merchant Banking Strategy. This information has not been approved by any federal or state governmental authority.

General Information and Investment Advisory Services Relating to Merchant Banking Strategy

PJCCP is a Delaware limited liability company that was organized in 2012 and is an indirect, wholly-owned subsidiary of Piper Jaffray Companies (together, with its affiliates, “Piper Jaffray”), a public company listed on the New York Stock Exchange (symbol: PJC). Piper Jaffray’s merchant banking business was established in 2007 and is currently managed by Thomas P. Schnettler, David P. Crosby and Robert P. Rinek.

PJCCP’s Merchant Banking Strategy is principally focused on providing investment advisory services to one or more pooled investment vehicles (the “Funds”) that are offered via private placements and organized to make private equity investments in late stage companies with a plan towards liquidity. The sole Fund currently being managed by PJCCP that is being offered to persons other than employees of Piper Jaffray and that employs the Merchant Banking Strategy is Piper Jaffray Merchant Banking Fund I, L.P. (“Fund I”). Fund I focuses on investments that take the form of growth investments, bridge commitments, recapitalizations, secondary stock purchases, private investments in public equity, change of control transactions, leveraged buyouts, and other related transactions.

PJCCP serves as investment adviser to each Fund. PJC Capital Management LLC, an affiliate of PJCCP, serves as the General Partner of Fund I (hereafter, the “General Partner”. References to PJCCP in this Brochure include, as the context requires, affiliates through which PJCCP provides investment advisory services or that act in any capacity referenced in the previous sentence.

PJCCP tailors its advisory services to the specific investment objectives and restrictions of each Fund set forth in such Fund’s limited partnership agreement and investment management agreement. Investors and prospective investors of each Fund should refer to the confidential private placement memorandum, limited partnership agreement, subscription agreement, investment management agreement and/or other governing documents (collectively, the “Governing Documents”) of the applicable Fund for complete information on the investment objectives and investment restrictions with respect to such Fund. There is no assurance that any Fund’s investment objectives will be achieved.

The general partner of Fund I is a Delaware limited liability company and a PJCCP related person, PJC Capital Management LLC (the “General Partner”). The General Partner has delegated investment authority to PJCCP, but retains day-to-day oversight functions with respect to the investment program of the Fund. The General Partner will receive a portion of distributions attributable to portfolio investments which are referred to as carried interest distributions. Please refer to Item 6 below and the Governing Documents of Fund I for more complete information on the General Partner.

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

Assets Under Management

PJCCP manages all client assets on a discretionary basis in accordance with the terms of each client’s governing documents. As of October 31, 2012, PJCCP had \$103,603,182 in discretionary assets under management. This includes the committed capital of the investors.

Item 5 – Fees and Compensation

All investors and prospective investors should review the Governing Documents of each Fund in conjunction with this Brochure for complete information on the fees and compensation payable in connection with a particular Fund. Different Funds may be subject to different management fees and performance-based compensation arrangements. Investors and prospective investors in each Fund should note that similar advisory services may (or may not) be available from other investment advisers for similar or lower fees.

With respect to Fund I, as described in Fund I’s Governing Documents, PJCCP or an affiliate thereof receives an annual management fee generally equal to 2% per annum of each investor’s (i) capital commitment during the investment period, and (ii) share of “Actively Invested Capital” following the end of the investment period. A Fund I investor’s share of “Actively Invested Capital” generally is based on the aggregate cost basis of all investments made by Fund I (excluding investments written off as worthless). In addition, after all investors have received aggregate distributions in an amount equal to their aggregate capital contributions, subject to certain adjustments, such investors will receive 80% of the net realized profits attributable to each Fund I portfolio investment and an affiliate of PJCCP will receive 20% of the net realized profits so attributable.

Management Fees payable by investors in a Fund may, in certain circumstances, be negotiated. Some investors may pay higher or lower management fees with respect to their investment in a Fund depending on various considerations, including but not limited to:

- The size of the investor's capital commitment to such Fund;
- The amount of time the investor has invested in one or more strategies offered by PJCCP;
- The total amount of the investor's assets under management with PJCCP.

Deduction of Fees; Timing of Payments; Termination

As a general matter, PJCCP will charge and deduct advisory fees directly from each Fund pursuant to the terms of the Fund's Governing Documents. Such advisory fees will take the form of, and be limited to, the management fee described above.

Payments of advisory fees are generally made quarterly in advance and in accordance with the terms of a Fund's Governing Documents. Please refer to the Governing Documents of each Fund for complete information on the timing of advisory fee payments.

Upon termination of an investment management agreement with respect to a Fund, any prepaid, unearned fees will be promptly refunded to the Fund (determined on a pro rata basis based on the number of days elapsed in the applicable payment period), and any earned, unpaid fees will be due and payable by the Fund.

Other Fees and Expenses

In addition to the fees payable to PJCCP and its affiliated entities, each Fund (and therefore, indirectly, the limited partners of such Fund) may incur certain charges imposed by third parties and other expenses as set forth in the Governing Documents attributable to such Fund. Such expenses may include (but are not limited to): legal, auditing, accounting and custodian fees and expenses; expenses associated with the applicable Fund's financial statements, tax returns and Schedules K-1; expenses related to annual meetings of the Fund's investors; expenses of the Fund's advisory committee attributable to the Fund; consulting; insurance; other expenses associated with the sourcing, holding and disposition of Fund investments, including the costs of unconsummated investments and extraordinary expenses (such as litigation, if any); any taxes, fees or other governmental charges levied against the Fund and travel (to the extent related to the investigation of identified companies in connection with investment or potential investment transactions or monitoring of portfolio companies (to the extent not reimbursed)) and other similar fees and expenses.

The types of such other fees and expenses incurred may vary from Fund to Fund. All investors and prospective investors should review the Governing Documents of the applicable Fund in conjunction with this Brochure for complete information on the charges and expenses payable with respect to a particular Fund.

Item 12 of this Brochure describes the factors PJCCP considers in selecting or recommending broker-dealers on behalf of the Funds and determining the reasonableness of their compensation.

Item 6 – Performance-Based Fees and Side-By-Side Management

All Funds are subject to performance-based compensation arrangements. The general partner of each Fund will typically receive certain allocations calculated and charged based on a share of capital gains on or capital appreciation of the assets of each such Fund, and this is true with respect to the General Partner of Fund I. Such “carried interest” allocation arrangements comply with Rule 205-3 under the Investment Advisers Act of 1940 (together with all rules and regulations promulgated thereunder, the “Advisers Act”) to the extent required by the Advisers Act. Any share of profits allocated or distributed to a general partner or affiliate of a Fund is separate and distinct from the advisory fees charged by PJCCP to such Fund for investment advisory services.

Performance based fee arrangements may create an incentive for PJCCP to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements may also create an incentive, in the allocation of investment opportunities, to favor higher performance fee paying Funds over lower performance fee paying Funds following similar investment strategies. To mitigate such potential conflicts of interest, the allocation of commitments and investment decisions with respect to each Fund will be made by PJCCP with respect to all Funds in accordance with PJCCP’s investment allocation policy, which will take into account multiple criteria, including: (i) differences with respect to available capital, Fund size, minimum investment size, liquidity requirements, and remaining investment period; (ii) differences with respect to investment objectives or current investment strategies, such as (a) objectives or strategies regarding current and total return requirements, (b) emphasis on or limitation with respect to the investment or type of investment in question, (c) diversification of exposure to asset class, geography, or industry type; (iii) differences in risk profile at the time the investment opportunity becomes available; (iv) differences in the costs to each Fund to receive such allocation; (v) potential conflicts of interest; and (vi) current and anticipated market conditions.

Please refer to the Governing Documents of each Fund for complete information on the specific performance-based fee arrangements of each Fund.

PJCCP also may manage certain employee funds that invest additional amounts alongside Fund I. As a general matter, the employee funds will receive a consistent allocation based on a sharing percentage which is determined at the date of the employee fund’s initial closing and therefore mitigates any conflict of interest with respect to allocation of investments. PJCCP has adopted written allocation policies and procedures for the funds that it manages.

Item 7 – Types of Clients

PJCCP provides Merchant Banking Strategy-related investment advice solely to the Funds, which are pooled investment vehicles generally offered to accredited investors and/or qualified purchasers pursuant to Section 3(c)(1) or 3(c)(7) of the Company Act. As a result, the Funds are not required to register as investment companies under the Company Act in reliance upon the exemptions available to the Funds pursuant to Section 3(c)(1) or 3(c)(7) of the Company Act. Investors in the Funds may include high net worth individuals, corporations, funds of funds, financial institutions, endowments, foundations, trusts, estates and public and private pension and profit sharing plans.

PJCCP and/or its affiliates may establish certain alternative investment vehicles, parallel funds and/or special purpose vehicles (collectively, “AIVs”) for the purpose of addressing tax, regulatory and/or structural issues, and/or facilitating certain investments by one or more Funds and/or investors. Prospective investors should refer to the Governing Documents of the applicable Fund for complete details on any AIV that may be established by such Fund and such Fund’s ability to make investments through AIVs.

In general, the minimum investment commitment required of an investor to participate in a Fund is \$5,000,000. Notwithstanding the foregoing, PJCCP and/or the general partner of each Fund has discretion to increase or reduce the minimum investment commitment. Investors are requested to refer to the Governing Documents of each Fund for complete information on minimum investment requirements for participation in a particular Fund.

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

Methods of Analysis

Fund I’s Merchant Banking Strategy is to identify attractive investments in industry verticals where Piper Jaffray has domain expertise. Consistent with Piper Jaffray’s historical approach, the criteria that PJCCP will use when it selects a portfolio company as a target investment for Fund I include one or more of the following characteristics:

- Strong and dedicated management capable of achieving business model and strategic objectives;
- Significant long-term growth potential from core operations and strategic activity;
- Reasonable valuation and preferred security structure;
- Proprietary technology, products or services;
- Critical mass in terms of revenues and strong gross margins sufficient to drive profitability and cash flow in the near future;
- Sufficient barriers to entry to fend off better capitalized competitors;

- Meaningful equity ownership to be held by management;
- Established private equity investors with meaningful existing ownership positions;
- Viable opportunity to realize an exit in either the public market or through a strategic sale; and
- Ability to realize valuation multiple expansion upon exit.

Investment Strategies

The Merchant Banking Strategy employed by Fund I seeks to generate significant long-term capital appreciation primarily through equity and equity-related investments in companies in a variety of transactions, including growth investments, bridge commitments, recapitalizations, secondary stock purchases, private investments in public equity, change of control transactions, leveraged buyouts, and other related transactions. The primary focus of Fund I is to make minority investments in portfolio companies but Fund I may also make investments with a controlling equity interest in portfolio companies, and may also make debt and debt-related investments.

When identifying prospective Fund investments, PJCCP expects to primarily leverage the various investment bankers that operate on the Piper Jaffray platform. Historically, all of the investments made by Piper Jaffray's merchant banking team have been sourced by Piper Jaffray investment bankers. Fund I will, however, not be limited to investing in portfolio companies sourced from Piper Jaffray banking sources. PJCCP may also utilize sources outside of the Piper Jaffray network.

As part of the due diligence and investment process for selecting portfolio company investments for Fund I, PJCCP's merchant banking team will work closely with the relevant Piper Jaffray investment bankers and research analysts with respect to investment opportunities. PJCCP's merchant banking team will consult with PJCCP's Investment Advisory Committee prior to issuing a non-binding term sheet for an investment opportunity. PJCCP's merchant banking team conducts a due diligence investigation of the target portfolio company's historical and projected performance, management capabilities and other industry and company specific factors in order to assess the portfolio company's relative strengths and weaknesses. Also, time and resources are spent evaluating the target portfolio company's key management personnel. Once due diligence is completed and PJCCP determines that it wants to proceed with a Fund I portfolio company investment, it will present the opportunity to PJCCP's Investment Advisory Committee for its final review. PJCCP will then consider the PJCCP Investment Advisory Committee's views and determine whether or not to proceed with the target portfolio company investment.

Material Risks Associated with the Merchant Banking Strategy

Nature of the Funds' Investments, Business and Market Risk

A substantial portion of the Fund's investments will be in private equity or private equity-related investments that by their nature involve business, financial, market and/or legal risks. While such

investments offer the opportunity for significant capital gains, they also involve a high degree of risk that may result in substantial losses. There can be no assurance that the Funds will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Prices of the investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, including the risk of war and the effects of terrorist attacks, may significantly affect the results of the Funds' activities. In addition, the Funds' strategy for a portfolio company may involve an acquisition program, restructuring and/or operational improvements, all of which entail a high degree of uncertainty. As a result, the Funds' performance over a particular period may not necessarily be indicative of the results that may be expected in future periods.

Non-Controlling Investments

The Merchant Banking Strategy will primarily make minority equity investments in portfolio companies where it may have limited influence. Such a portfolio company may have economic or business interests or goals that are inconsistent with those of the Funds, and the Funds may have a more limited ability to protect the value of its investment in the company, although as a condition of making such investments, it is expected that appropriate shareholder rights generally will be sought to protect the Fund's investments. The Funds' control over the investment policies of these companies may also be limited.

Reliance on Portfolio Company Management

The day-to-day operations of each portfolio company in which the Funds invest will be the responsibility of such portfolio company's management team. Although the General Partner will be responsible for monitoring the performance of each Portfolio Investment, the Funds may obtain control positions in some portfolio companies and generally intend to invest in portfolio companies operated by strong management, there can be no assurance that the existing management team or any successor will be able to operate any such portfolio company in accordance with the Funds' expectations.

Uncertainty of Financial Projections

Financial and other information concerning the Funds' investments may only be available through certain sources, including the portfolio companies themselves. There may be no consistent means, however, of confirming the accuracy of such information. It may also be impractical or undesirable to carry out full time due diligence before an investment is acquired. The portfolio companies may have little or no previous credit histories. The inaccuracy of certain assumptions and general economic conditions, which are unpredictable, can have a materially adverse impact on the reliability of portfolio company projections. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from such projections.

Risks Associated with Investments in Growth-Oriented Companies

In addition to investing in established companies, the Funds may invest the majority of its assets in the securities of smaller, less established companies. The investments in such companies may involve greater risks than are generally associated with investments in more established companies. Less established companies tend to have a lower capitalization and fewer resources and, therefore, are often more vulnerable to financial failure. In addition, such companies may not be profitable at the time of investment and may experience substantial fluctuations in their operating results. The success of such companies may also depend on the management talents and efforts of one person or a small group of persons whose death, disability or resignation would adversely affect their businesses. Such companies may also have shorter operating histories on which the Funds may judge their future performance. In addition, such portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities and a larger number of qualified managerial and technical personnel.

Changing Credit Markets

Any tightening of the credit markets, a decrease in the availability of financing and an increase in the interest cost for leveraged transactions may impair the Funds' ability to consummate transactions.

Market and Credit Risks of Debt Securities

Subject to applicable restrictions in the partnership agreements, the Funds may invest in debt securities. Portfolio companies with debt securities are subject to credit and interest rate risks. "Credit risk" refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument. Securities that are rated by rating agencies are often reviewed and may be subject to downgrade, which generally results in a decline in the market value of such security. "Interest rate risk" refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

Investments with Third Parties

The Funds are permitted to co-invest with third parties through joint ventures or other entities, including with private equity funds sponsored by others. The co-investment commitment to a portfolio company may be substantial. Such investments may involve risks not present in investments where third parties are not involved, including the possibility that a co-venturer of the Funds may experience financial, legal or regulatory difficulties, may at any time have economic or business interests or goals which are inconsistent with those of the Funds, may take a different view from the General Partner's as to the appropriate strategy for an investment or disposition of an investment, or may be in a position to take action contrary to the Funds' investment objectives. In addition, the Funds may in certain circumstances be liable for the actions of its third party co-venturers. In those circumstances where such third parties involve a management group, such third parties may receive compensation arrangements relating to the investment, including incentive compensation arrangements. Some of the third parties or joint venture partners with which the Funds may co-invest may have pre-existing investments with target portfolio companies, and the terms of such pre-existing investments may differ from the terms upon which the Funds invests in such portfolio companies.

Competition for Suitable Investments

The activity of identifying, completing and realizing attractive private equity investments in general is competitive and involves a high degree of uncertainty. The availability of investment opportunities generally will be subject to market conditions. The Funds may encounter competition from other similarly focused funds formed before or after the establishment of the Funds, including potentially other funds formed or sponsored by Piper Jaffray. Potential competitors also include other investment partnerships and corporations, business development companies, strategic industry acquirers and other financial investors investing directly or through affiliates. Some of these competitors may have more relevant experience, greater financial resources and more personnel than the Funds, the General Partner or its affiliates. It is possible that competition for appropriate investment opportunities may increase, thus reducing the number of investment opportunities available to the Funds and adversely affecting the terms upon which investments can be made. There can be no assurance that the General Partner will be able to locate and consummate investments that satisfy the Funds' rate of return objectives or realize their values or that it will be able to invest fully its aggregate capital commitments. To the extent that the General Partner encounters competition for investments, returns from the Funds to investors may decrease.

Portfolio Concentration

The Funds will participate in a limited number of investments and may seek to make several investments in one industry or one industry segment. Furthermore, to the extent that the capital raised for the Funds is less than the targeted amount, the Merchant Banking Strategy may invest in fewer portfolio companies and thus be less diversified. If the Funds' investments are concentrated in a few issuers or industries, any adverse change in one or more of such issuers or industries could have a material adverse effect on the Fund's investments.

Follow-On Investments

The Funds may be called upon to provide follow-on funding for its portfolio companies or have the opportunity to increase its investment in portfolio companies. There can be no assurance that the Funds will wish to make such follow-on investments or that the Funds will have sufficient capital to do so. Any decision not to make follow-on investments or the inability to make them may have a substantial negative impact on a portfolio company in need of such an investment or may diminish the Funds' proportionate ownership in such portfolio company and thus its ability to influence such portfolio company's future development.

Bridge Loans

From time to time, the Funds may lend to portfolio companies on a short-term, unsecured basis or otherwise invest on an interim basis in portfolio companies in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication. Such bridge loans will typically be convertible into a more permanent, long-term security; however, for reasons not always in the Funds' control, such long-term securities' issuance or other refinancing or syndication may not occur and such bridge loans and interim investment may remain outstanding. In such event, the interest rate on such loans may not adequately reflect the risk associated with the unsecured position taken by the Funds.

Investments Longer than Term

The Funds may invest in investments that may not be advantageously disposed of prior to the date that the Funds will be wound-up and dissolved, either by expiration of the Funds' term or otherwise. Although the General Partner generally expects that investments will be either disposed of prior to dissolution or suitable for in-kind distribution at dissolution, the Funds may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution, particularly with respect to an early dissolution of the Funds in accordance with the partnership agreement.

Risks from the Provision of Managerial Assistance

In limited instances, the Funds may designate directors (and non-executive chairmen) to serve on the boards of directors of the Funds portfolio companies. A board member designated by the Funds will have fiduciary duties to persons other than the Funds. The designation of directors and other measures contemplated could expose the assets of the Funds to claims by a portfolio company, its security holders and its creditors for breaches of fiduciary duties, securities claims and other director-related claims. The exercise of control over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability for which the limited liability generally characteristic of business ownership may be ignored. If these liabilities were to occur, the Funds could suffer losses in its investments. While the General Partner and PJCCP intend to manage the Funds in a way that will minimize exposure to these risks, the possibility of successful claims cannot be precluded.

Non-U.S. Investments

The Funds may invest in companies whose principal executive offices, corporate headquarters or activities are outside of the United States. Although the General Partner believes that investing in non-U.S. jurisdictions offers significant potential for appreciation, prospective investors should recognize that there are risks inherent in investing in any non-U.S. jurisdiction. Risks associated with investment in any non-U.S. jurisdiction may include the following: the unpredictability of international trade patterns; the possibility of governmental actions adverse to business generally or to foreign investors in particular; the imposition or modification of controls on foreign currency exchange, repatriation of proceeds, or foreign investment; the imposition or increase of withholding or other taxes on income and gains; potential tax filing requirements in non-U.S. jurisdictions; the imposition of potentially confiscatory levels of taxation; price volatility; the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements; governmental influence on the national and local economies; and fluctuations in currency exchange rates. In addition, investments of the Funds in securities or obligations of non-U.S. issuers, if any, may be denominated in currencies other than the U.S. dollar, and hence the value of such investments will depend in part on the relative strength of the U.S. dollar. The Funds may be affected favorably or unfavorably by exchange control regulations or changes in the exchange rate between foreign currencies and the U.S. dollar. Changes in foreign currency exchange rates may also affect the value of dividends and interest earned, and the level of gains and losses realized on the sale of securities. The rates of exchange between the U.S. dollar and other currencies are determined by forces of supply and demand in the foreign exchange markets. These rates are affected by the international balance of payments and other economic and financial conditions, government intervention, speculation and other factors. The Funds are not obligated to engage in any currency hedging operations, and there can be no assurance as to the success of any hedging operations that the Funds may implement.

Risks Associated with an Investment in Fund I

Lack of Operating History; Investment Performance

The Funds are being organized to make investments in portfolio companies approved by the General Partner. Although the Piper Jaffray team has prior experience, both together and separately, relating to the acquisition and financing of public and private companies and in investments similar to those to be made by the Funds, the Funds have no operating history upon which prospective investors may evaluate their likely performance.

No Assurance of Investment Return

The General Partner cannot provide assurance that it will be able to choose, make and/or realize investments in any particular company or portfolio of companies. The Funds' primary focus in making investments differs from those of other private funds that have been managed by Piper Jaffray.

Investors in the Funds are not acquiring an interest in Piper Jaffray itself or other funds managed by Piper Jaffray. The General Partner cannot assure investors that it will replicate any historical performance of any other funds, and the Funds' investment returns could be substantially lower than the returns achieved by other funds. There is no assurance that the Funds will be able to generate returns for its investors or that the returns will be commensurate with the risks of investing in the types of companies and transactions described herein. The marketability and value of any such investment will depend upon many factors beyond the control of the Funds. The expenses of the Funds may exceed its income. The Funds will bear the expenses of transactions that are not consummated. In addition, the Funds may enter into agreements to consummate transactions which involve payments, such as reverse break-up fees, by the Funds in certain circumstances if the Funds do not consummate the transaction. As a result, the Funds could incur a substantial cost with no opportunity for a return. An investor could lose the entire amount of its contributed capital, and therefore an investor should only invest in the Funds if the investor can withstand a total loss of its investment.

Illiquidity of Investments

An investment in the Funds requires a long-term commitment with no certainty of return. It is unlikely there will be near-term cash flow available to the investors. Many of the Funds' investments may be illiquid. Illiquidity may result from the absence of an established market for the investments, as well as legal, contractual or other restrictions on their resale by the Funds. Dispositions of investments may be subject to contractual and other limitations on transfer or other restrictions. There can be no assurance that the Funds will be able to realize such investments at attractive prices or otherwise be able to effect a successful realization or exit strategy. Consequently, dispositions of such investments may require a lengthy time period or may result in distributions in kind to the investors. There can be no assurance that private purchasers can be found for the Funds' investments.

Dependence on Key Personnel

The Funds are highly dependent on the diligence, skill and network of business contacts of the principals of PJCCP and the information and deal flow generated by such professionals in the course of their investment and portfolio management activities. The Funds' future success will depend on the continued service of these investment professionals. The departure of one or more of the principals could have a material adverse effect on the Funds' ability to achieve its investment objectives. There can be no assurance that these professionals will continue to be associated with the General Partner, PJCCP or any of their affiliates throughout the life of the Funds. The principals and the members of the investment advisory committee may spend a substantial portion of their time on matters other than or only tangentially related to the Funds, including, without limitation, matters related to prior and/or successor investment vehicles and their underlying investments. As a result, the performance by these individuals of their obligations to such other entities could conflict with their responsibilities to the Funds.

Inability to Derive Expected Benefits of Piper Jaffray Platform

The success of the Funds may be in part dependent upon the synergies that are expected to exist between the experience and capabilities of the principals of PJCCP and the effective utilization of the resources, relationships and activities inherent in Piper Jaffray's global investment banking platform. There is no guarantee that such synergies will exist, be maximized or continue undiminished throughout the entire life of the Funds. In addition, there can be no guarantee that Piper Jaffray investment professionals will be properly incentivized to generate investment opportunities for, or otherwise assist, the Funds to the extent anticipated.

Effect of Fees and Expenses on Returns

The Funds will pay management fees and will bear the expenses related to its operations. Such fees and expenses are expected to reduce the actual returns to investors. Most of the fees and expenses will be paid regardless of whether the Funds produce positive investment returns. If the Strategy does not produce significant positive investment returns, these fees and expenses could reduce the amount of the investment recovered by an investor to an amount less than the amount invested in the Funds by such investor.

Business, Legal and Regulatory Risks of the Funds

PJCCP is part of a larger firm with multiple business lines in multiple jurisdictions that are governed by a multitude of legal systems and regulatory regimes, some of which are new and evolving. As a result, the Funds, the General Partner, PJCCP and/or their respective affiliates are subject to a number of unusual risks, including changing laws and regulations, developing interpretations of such laws and regulations and increased scrutiny by regulators. Some of this evolution may result in scrutiny or claims against the Funds, the General Partner or PJCCP directly for actions taken or not taken by the Funds, the General Partner or PJCCP. Thus, the Funds, the General Partner, PJCCP and/or their respective affiliates face the continuing risk of pending and potential litigation and regulatory action. These risks are often difficult or impossible to predict, avoid or mitigate in advance. The effect on the Funds, the General Partner, PJCCP or any affiliate of any such legal risk, litigation or regulatory action could be substantial and adverse.

Past Results are Not Indicative of Future Performance

The results of earlier investments made by Piper Jaffray and by investment funds formed by Piper Jaffray or its affiliates are not indicative of the results that the Fund may achieve. The Fund will make investments in different portfolios of securities and, accordingly, its results are independent of the previous results obtained by Piper Jaffray and those other funds. Additionally, the Funds and their method of operation will differ in several respects from prior Piper Jaffray investment vehicles (e.g., there will be different fees and expenses and different rights and controls with respect to the Fund's investments).

See the private placement memorandum of each fund for additional risks of the Funds.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of PJCCP or the integrity of PJCCP's management. PJCCP and its principals have not been the subject of any material legal proceeding required to be disclosed in response to this Item 9.

Item 10 – Other Financial Industry Activities and Affiliations

Other Investment Advisers

As noted in Item 4 above, PJCCP is a wholly-owned indirect subsidiary of Piper Jaffray Companies, a public company listed on the New York Stock Exchange (symbol: PJC) and a large global middle market investment bank and asset management firm. In addition to PJCCP, Piper Jaffray offers investment advisory services through three wholly-owned investment advisory subsidiaries that are SEC-registered: Piper Jaffray Investment Management LLC ("PJIM"), Advisory Research Inc. and Fiduciary Asset Management Inc. ("FAMCO").

Registered Broker-Dealers

Piper Jaffray offers securities brokerage and investment banking services globally through various wholly-owned subsidiaries, including Piper Jaffray & Co. ("PJ&Co."), a member of SIPC and FINRA. PJCCP related persons engaged in the Merchant Banking Strategy and the Investment Advisory Committee are employees of PJ&Co., and in most instances are registered representatives and officers of PJ&Co.

Relationships with Related Persons

As discussed in Item 11 below, PJCCP and its related persons are, directly or indirectly, the general partners, limited partners and/or managing members of the general partner of each Fund. PJCCP and its related persons may from time to time manage multiple Funds. As referenced above, PJCCP related persons engaged in the Merchant Banking strategy are also employees of PJ&Co. This can create conflicts in the allocation of time, resources and investment opportunities among the Funds. Please refer to the Governing Documents of the relevant Fund for complete information on the requisite time commitments (if any) of PJCCP and its related persons to the Funds and the allocation of investment opportunities among the Funds. Please also refer to the description of PJCCP's investment allocation policy described in Item 6 above.

Related persons of PJCCP and its affiliates may serve as officers, advisors, directors or in comparable management functions for portfolio companies in which the Funds invest, or provide other services to portfolio companies, and may receive compensation in connection therewith. In connection with such activities, PJCCP related persons may be given access to confidential information relating to companies

in which the Funds invest or may otherwise become subject to legal or contractual restrictions on their ability to effect transactions for the Funds. As a result, the Funds may, under certain circumstances, be prohibited for a period of time from engaging in transactions with respect to the debt or equity securities of certain portfolio companies, which prohibition may have an adverse effect on the Funds. The above individuals may spend a substantial portion of their time with these related management activities.

From time to time in the future, certain Funds may hold or may acquire positions in portfolio companies in which other Funds invest or have invested. Such investments may be coincident with or precede one another. Follow-on investments in companies in which a Fund and one or more other Funds have invested may not necessarily be pro rata based on existing ownership in such companies. The Funds may have divergent interests with respect to exit strategies from such investments, restructuring the capital structure or business of such companies or other matters affecting the investment in such companies. To the extent that multiple Funds hold an interest in the same company, disposition opportunities with respect to that investment shall, to the extent practicable, be allocated among such Funds on a basis that is fair and equitable to each Fund as determined by PJCCP taking into account all relevant facts and circumstances.

Piper Jaffray may provide financing, investment banking services or other services to third parties and receive fees or commissions in connection with transactions in which those third parties have interests that conflict with those of a portfolio company of a Fund. Piper Jaffray may give advice to such third parties that may cause them to take actions adverse to a Fund or its investments. Without limiting the generality of the foregoing and for example, Piper Jaffray may represent a client seeking to acquire or invest in a portfolio company of a Fund. In addition, Piper Jaffray may represent, or may be providing acquisition financing to, a client looking to acquire a portfolio company of a Fund or a company competing with a portfolio company of a Fund for the acquisition of another company.

There may be instances in which securities of one or more portfolio companies are or become publicly traded and Piper Jaffray makes a market in such securities for its investing clients and/or engages in proprietary trading of such securities. In such instances, Piper Jaffray's market making and/or proprietary trading activities will be carried out generally without reference to positions held by a Fund directly or indirectly in such portfolio companies, and may have an adverse impact on the value of the positions so held, or may result in Piper Jaffray having an interest in a portfolio company adverse to that of a Fund.

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

Code of Ethics

PJCCP has adopted a Code of Ethics under Rule 204A-1 of the Advisers Act expressing PJCCP's commitment to ethical conduct. PJCCP's Code of Ethics describes its fiduciary duties and responsibilities to its clients, and sets forth, among other things, PJCCP's practice of monitoring the personal securities transactions of supervised persons with access to client investment recommendations. Under PJCCP's Code of Ethics, all supervised persons have a duty to act only in the best interests of the Funds and potential conflicts and violations of the Code of Ethics must be promptly reported to PJCCP's Chief Compliance Officer ("CCO"). All supervised persons must acknowledge the terms of the Code of Ethics annually, or as amended. It is the expressed policy of PJCCP that no person employed by PJCCP shall prefer his or her own interest to that of a Fund or make personal investment decisions based on the investment decisions of the Funds.

To supervise compliance with its Code of Ethics, PJCCP requires that anyone associated with its advisory practices with access to advisory recommendations provide annual securities holdings reports and quarterly brokerage statements (or equivalent quarterly transaction reports) to the CCO. PJCCP requires such "access persons" to also receive approval from the CCO prior to investing in any initial public offerings or private placements.

In an effort to prevent inappropriate securities transactions by PJCCP's personnel, Piper Jaffray Compliance maintains and makes available a list of restricted securities. Access persons are strictly prohibited from trading on their own behalf in restricted securities without obtaining prior written approval.

PJCCP requires that all individuals act in accordance with all applicable federal and state regulations governing investment advisory practices. PJCCP also has a policy prohibiting the use of material non-public information. Any individual not in observance of the above may be subject to discipline or termination.

PJCCP's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting the CCO at PJCCP, 800 Nicollet Mall, Suite 800, Minneapolis, MN 55402.

Participation or Interest in Client Transactions; Proprietary and Personal Trading

As general partners, limited partners and/or managing members of the general partners of each of the Funds, PJCCP and its related persons have indirect beneficial interests in the securities owned by the Funds and will share in any profits and losses generated by the Funds' investments. Moreover, investors should anticipate that, from time to time, PJCCP and/or its related persons will, for its or

their own personal accounts, buy or sell interests in the same portfolio companies recommended to, or held by, the Funds. In particular, portfolio managers of PJCCP will also manage proprietary accounts of PJ&Co., that follow investment strategies substantially similar that of the Funds' Merchant Banking Strategy and, in connection therewith may buy or sell interests in portfolio companies held by the Funds or otherwise within the Funds' Merchant Banking Strategy.

PJ&Co., in its capacity as a securities broker-dealer affiliated with PJCCP, is routinely engaged in various securities transactions and trading activities for various clients which could create conflicts of interests.

As a full service broker-dealer, on an ongoing basis and as permitted by applicable law, PJ&Co. may when appropriate:

- Act as an investment banker to both corporate and financial sponsor clients
- Act as a principal, buy securities from, or sell securities to other clients
- Act as broker or agent, effect securities transactions for compensation for other clients,
- Act as a broker or agent for any person other than a client or effect transactions in which client securities are sold to or bought from a client,
- Recommend to clients that they buy or sell securities or investment products in which PJ&Co. or a related person has some financial interest, or
- Buy or sell for itself securities that it also recommends to clients.

PJCCP may conduct internal cross transactions if the transactions are consistent with the investment objectives of, and in the best interest of, the clients involved. Please refer to the Fund private placement memorandum for additional information on conflicts.

In addition, in connection with selling investments by way of a public offering, Piper Jaffray may act as the managing underwriter or a member of the underwriting syndicate and purchase securities from the Fund or one of its portfolio companies. Such "principal transactions" will be fully disclosed and the written consent of the appropriate Fund (which, in certain circumstances, may be provided by the Fund's advisory committee) will be obtained prior to the consummation of each such transaction in accordance with Section 206(3) of the Advisers Act.

In the normal course of its investment banking business, Piper Jaffray maintains client relationships with both corporate clients and financial sponsor clients, as well as certain individuals who may currently serve, or have in the past served, as officers and directors of corporate clients and financial sponsor clients. As a result and in furtherance of these relationships, Piper Jaffray's investment bankers may be incented to present and advocate investment opportunities to the Funds that are in the best interests of their relationships and their investment banking business, and not in the best interest of the Funds.

While PJCCP endeavors at all times to act in the best interests of the Funds, investors should be aware that the transactions described in this sub-section create a potential conflict of interest. All such transactions are subject to compliance with Piper Jaffray's internal policies and procedures as well as PJCCP's Code of Ethics as described above and the governing documents of the applicable Funds.

Item 12 – Brokerage Practices

Each Fund invests primarily in private equity securities, although a Fund may acquire, sell or distribute publicly-traded securities on occasion (for example, where a Fund receives publicly-traded shares of a company as part of a general distribution or initial public offering). Subject to the investment objectives, policies and restrictions of each Fund, as set forth in such Fund's Governing Documents, PJCCP will generally have discretionary authority to select the broker or dealer to be used to execute transactions in securities on behalf of the Funds and negotiate the commission to be paid.

In the limited instances where PJCCP selects a broker-dealer to execute a trade, PJCCP's primary consideration will be to obtain the most favorable net result for the Funds under the circumstances, which may not involve the lowest possible commission cost. In selecting broker-dealers to effect securities transactions, PJCCP seeks to obtain best execution by considering factors including, but not limited to, the price and size of the order, the trading characteristics of the securities involved, the nature and quality of research provided by each broker, the broker's execution abilities, commission rates, clearance procedures and financial responsibility and responsiveness. The applicability of specific criteria will vary depending upon the nature of the transaction, the market in which it is executed, and the extent to which it is possible to select from among multiple brokers or dealers. PJCCP may, but is not required to, place trades on behalf of a Fund through PJ&Co. or other affiliated broker-dealers, subject to the best execution principles described above. In such selecting of affiliated broker-dealers, PJCCP will not consider factors that benefit PJCCP such as the referral of prospective investors and clients to PJCCP.

Research and Soft Dollar Benefits

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

Brokerage and Client Referrals

PJCCP does not consider referrals of investors to the Funds in determining its selection of broker dealers or other third parties.

Trade Aggregation

Although the PJCCP Merchant Banking strategy does not contemplate frequent trading in public securities, in such circumstances where more than one Fund is either selling (or buying) the same

security, PJCCP will combine the orders into one order and place one order with the executing broker-dealer if, in its good faith determination, joint execution would be consistent with its duty to seek best execution, consistent with the terms of the participating Funds' Governing Documents, and otherwise in the best interest of the Funds.

Item 13 – Review of Accounts

PJCCP will continuously monitor portfolio investments on behalf of the Funds. Investments are reviewed in the context of each Fund's stated investment objectives and guidelines as set forth in the Governing Documents of each Fund.

Client Reports and Communications

The general partner of each Fund distributes quarterly and/or annual written reports to the Fund's limited partners as well as annual tax information necessary for the Fund's limited partners to complete their respective U.S. federal income tax returns. Annual reports generally contain an individual capital account statement as of the end of such fiscal year and the audited financial statements of such Fund. The quarterly reports distributed to a Fund's limited partners generally contain unaudited financial statements of the Fund for the relevant fiscal quarter.

Investors are requested to refer to the Governing Documents of each Fund for further information on the reports provided by the Fund to its investors.

Item 14 – Client Referrals and Other Compensation

Economic Benefits Received from Third Parties

From time to time, in connection with investments made by certain Funds, PJCCP or its affiliates or supervised persons may receive closing fees, commitment fees, monitoring fees, director's fees, break-up fees, consulting fees, managing fees and/or similar fees or other remuneration from portfolio companies in which one or more of the Funds may invest or propose to invest. To mitigate potential conflicts of interest, except as noted below, PJCCP will generally offset some or all of such fees or other remuneration against management fees payable by the applicable Fund or otherwise remit such fees or other remuneration to the limited partners of such Fund in accordance with such Fund's Governing Documents.

Notwithstanding the foregoing, as part of Piper Jaffray's investment banking business, Piper Jaffray may receive advisory, underwriting or other fees from or in connection with transactions for or by clients that are also portfolio investments of the Funds. The Funds would not share in these fees. Investment banking services for which advisory fees may be received by Piper Jaffray include, but are

not limited to, general corporate financial advice, restructuring advice and merger and acquisition representation.

Investors are requested to refer to the Governing Documents of each Fund for complete information on the additional compensation received by PJCCP or its affiliates or supervised persons in connection with a particular Fund's investments and the amount of the applicable management fee offset.

Third Party Compensation for Client Referrals

PJCCP and related persons of PJCCP may enter into cash compensation arrangements with unaffiliated placement agents or other third parties for introducing investors to a Fund. In accordance with the terms of the relevant Fund's governing documents, any sales charge associated therewith will ultimately be payable by PJCCP and/or its related entities, either directly or through an offset of the management fee payable by the relevant Fund to PJCCP. An investor will not bear any additional charges as a result of an introduction through a placement agent or other unaffiliated third party.

PJCCP endeavors at all times to put the interests of the Funds first as part of PJCCP's fiduciary duty. Nevertheless, the receipt of compensation by placement agents creates a potential conflict of interest, and may affect the judgment of placement agents when referring investors to PJCCP and the Funds.

Item 15 – Custody

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

It is PJCCP's policy to cause each Fund with assets over which PJCCP is deemed to have "custody" to be audited annually and distribute audited financial statements, prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), to investors no later than 120 days after the end of the Fund's fiscal year. In addition, upon the final liquidation of any such Fund, PJCCP will obtain a final audit of the Fund and distribute audited Fund financial statements prepared in accordance with GAAP to all investors in such Fund promptly after completion of the audit.

Item 16 – Investment Discretion

Subject to the investment objectives, policies and restrictions of each Fund as set forth in the Governing Documents of such Fund, PJCCP has discretionary authority to determine the type, amount and price of securities and investments to be bought and sold on behalf of each Fund. PJCCP is provided with

this authority pursuant to a limited power of attorney granted via the applicable Governing Documents.

Item 17 – Voting Client Securities

Because PJCCP has, or will accept, authority to vote securities held by a Fund, it has adopted policies and procedures (the “Proxy Voting Policies and Procedures”) that have been designed to ensure that PJCCP complies with the requirements of the Advisers Act and reflect PJCCP’s commitment to vote all securities held by a Fund for which it exercises voting authority in a manner consistent with the best interest of the applicable Fund.

When exercising its voting authority over securities held by a Fund, PJCCP considers all relevant information, evaluates other issues that could have an impact on the value of the security and votes with a view toward maximizing overall value. PJCCP votes all proxies in a prudent manner, considering the prevailing circumstances at such time, and in a manner consistent with the Proxy Voting Policies and Procedures and PJCCP’s fiduciary duties to the applicable Fund.

PJCCP reviews each proposal submitted for a vote on a case-by-case basis to determine whether it is in the best interest of the applicable Fund. As a result, depending on a Fund’s particular circumstances, PJCCP may vote one Fund’s securities differently than it votes those of another Fund, or may vote differently on various proposals, even though the securities or proposals are similar (or identical). In some instances, PJCCP may determine that it is in a Fund’s best interest for PJCCP to “abstain” from voting or not to vote at all, and will do so accordingly.

Prior to exercising its voting authority, PJCCP, in consultation with the CCO and internal and outside counsel, as appropriate, reviews the relevant facts and determines whether or not a material conflict of interest may arise due to business, personal or family relationships of PJCCP, its owners, its employees or its related persons, with persons having an interest in the outcome of the vote. If a material conflict exists, PJCCP takes steps to ensure that its voting decision is based on the best interests of the applicable Fund and is not a product of the conflict. PJCCP may, at its discretion, (A) seek the advice of the applicable advisory committee (if any) in voting such security; (B) disclose the conflict of interest to the limited partners of the Fund prior to voting such security; (C) defer to the voting recommendation of an independent third party provider of proxy voting services; and/or (D) take such other action in good faith (in consultation with PJCCP’s internal and outside counsel as necessary) which would serve the best interest of the Fund. Depending on the particular circumstances involved, the appropriate resolution of one conflict of interest may differ from the resolution of another conflict of interest, even though the general facts underlying both conflicts may be similar (or identical).

PJCCP will deliver to each limited partner of a Fund, upon written request, a complete copy of its Proxy Voting Policies and Procedures and/or information on how it voted proxies for such Fund.

Item 18 – Financial Information

PJCCP has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.