

**ITEM 1: COVER PAGE**

**FORM ADV 2A**

**FERRER FREEMAN & COMPANY, LLC**

**The Mill  
10 Glenville Street  
Greenwich, CT 06831  
[www.ffandco.com](http://www.ffandco.com)**

**September 2014**

This brochure provides information about the qualifications and business practices of **Ferrer Freeman & Company, LLC** (“FFC” or the “Adviser”). If you have any questions about this brochure please contact us at 203-532-8011 or email Michelle Larkins at [mlarkins@ffandco.com](mailto:mlarkins@ffandco.com)

The information presented in this brochure was prepared by **Ferrer Freeman & Company, LLC** which is solely responsible for the content. Neither the Commission nor any State securities regulator has approved or verified the information contained in this brochure, and the mere fact of registration with the Commission in no way implies that the adviser has any particular level of skill or training to carry out its business. For specific questions about particular advisory services or products described in this brochure, you can find additional contact information at this worldwide website: [www.ffandco.com](http://www.ffandco.com)

Additional information about **Ferrer Freeman & Company, LLC** also is available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## **ITEM 2: STATEMENT OF MATERIAL CHANGES**

This section describes the material changes to FFC's Brochure since its last annual amendment on March 28, 2014.

- Peloton Equity, LLC has been added as a relying adviser.
- Peloton Equity I, L.P. has been formed and added as a Client of Peloton Equity, LLC.

## **IMPORTANT NOTE ABOUT THIS BROCHURE**

**This Brochure is not:**

- **an offer or agreement to provide advisory services to any person;**
- **an offer to sell interests (or a solicitation of an offer to purchase interests) in any FFC Fund;**
- **a complete discussion of the features, risks or conflicts associated with any FFC or Advisory Service;**
- **to be relied on in determining whether to invest or establish an advisory relationship.**

As required by the Advisers Act, the Firm provides this Brochure to current and prospective Clients and may also, in its discretion, provide this Brochure to current or prospective Investors in a FFC Fund, together with other relevant Offering Materials (such as subscription agreements, offering memoranda, operating agreements or advisory contracts), prior to, or in connection with, such persons' establishment or consideration of an investment advisory relationship with FFC or an investment in a FFC Fund. Additionally, this Brochure is available through the Securities and Exchange Commission's ("SEC's") Investment Adviser Public Disclosure website.

Although this publicly available Brochure describes investment advisory services and products of FFC, persons who receive this Brochure (whether or not from the Firm) should be aware that it is designed solely to provide information about FFC as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from information provided in relevant Offering Materials. More complete information about each FFC Fund or SPV Fund (as defined herein), as well as FFC's investment advisory services, is included in relevant Offering Materials, certain of which may be provided to current and eligible prospective Clients or Investors only by the Firm or an Administrator or Placement Agent. To the extent that there is any conflict between discussions herein and similar or related discussions in any Offering Materials, the relevant Offering Materials shall govern and control.

### ITEM 3: TABLE OF CONTENTS

ITEM 1: Cover Page .....	1
ITEM 2: Statement of Material Changes .....	2
ITEM 3: Table of Contents .....	4
ITEM 4: Advisory Business.....	6
a) Background .....	6
b) Advisory Services .....	6
d) Tailored Advice and Client-Imposed Restrictions .....	7
e) Wrap Fee Disclosure .....	7
f) Assets Under Management.....	7
ITEM 5: Fees and Compensation .....	8
a) Compensation.....	8
b) Billing.....	9
c) Other Expenses.....	9
d) Advance Billing.....	9
e) Sales-based Compensation .....	10
ITEM 6: Performance based fees and Side-by-Side Management .....	11
ITEM 7: Types of Clients .....	12
ITEM 8: Methods of Analysis, Investment Strategies and Risk of Loss.....	13
a) Methods of Analysis & Investment Strategies.....	13
b) Material Risks Associated with the Investment Strategies .....	13
ITEM 9: Disciplinary Information.....	37
ITEM 10: Other Financial Industry Activities and Affiliations .....	38
A. Registered Broker-Dealer or Registered Representative .....	38
B. FCM, CPO, CTA or Associated Person.....	38
C. Material Business Relationships with Certain Related Persons.....	38
D. Recommendation and Selection of Other Investment Advisers.....	38
ITEM 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	39
a) Code of Ethics .....	39
b) Participation or Interests in Client Transactions .....	39
C. Investment in Securities Recommended to Clients.....	39
D. Investment in Securities at or about the Same Time Recommended to Clients .....	40
ITEM 12: Brokerage Practices.....	41
a) Selection of Broker-Dealers .....	41
Not Applicable.....	41
b) Soft-Dollars Arrangement.....	41
c) Brokerage for Client Referrals.....	41
d) Directed Brokerage .....	41
e) Aggregation (Bunching) of Trades .....	41
Not Applicable.....	41
ITEM 13: Review of Accounts .....	42
a) Client Account Reviews.....	42
b) Client Reports.....	42

ITEM 14: Client Referrals and Other Compensation .....	43
ITEM 15: Custody .....	44
ITEM 16: Investment Discretion .....	45
ITEM 17: Voting of Client Securities.....	46
a) Proxy Voting Authority.....	46
b) Client Proxy Voting Authority .....	46
ITEM 18: Financial Information of The Adviser .....	47
a) Financial Disclosures .....	47
b) Material Financial Impairment.....	47
c) Bankruptcy Petitions .....	47

## **ITEM 4: ADVISORY BUSINESS**

### *a) Background*

Ferrer Freeman & Company, LLC ("FFC" or the "Adviser") is a limited liability company founded in July, 1995 by Carlos A. Ferrer and David A. Freeman. FFC provides investment advisory services to four Limited Partnerships which invest exclusively in healthcare companies. FFC provides advisory services to one Special Purpose Vehicle, formed as a Limited Liability Company, invested in a healthcare company. The two institutional funds are, FFC Partners II, L.P. ("FFC II"), and FFC Partners III-B, L.P. ("FFC III-B"), and there are two attendant side-by-side funds (Collectively, the "Clients" or "Funds" or "Partnership"). The Special Purpose Vehicle is FFC Arcadia Investment, LLC ("SPV Fund" or "LLC"). Previously, FFC provided advisory services to FFC Partners I, L.P. ("FFC I") and its side-by-side fund, both liquidated on December 31, 2012. FFC provided advisory services to FFC Partners III, L.P. ("FFC III"), which was dissolved and merged into FFC III-B on September 12, 2013. Peloton Equity, LLC ("Peloton") is a Delaware limited liability company founded in July 2014 by Carlos A. Ferrer and Theodore B. Lundberg. Peloton provides investment advisory services to Peloton Equity I, L.P. ("Peloton Equity I"). As used herein, the terms "FFC" or the "Adviser" include Peloton and the terms, "Clients," "Funds" or Partnership" include Peloton Equity I, in each case as the context requires.

### *b) Advisory Services*

FFC is a private equity Adviser located in Greenwich, CT that invests exclusively in healthcare and healthcare-related companies. Since 1996, we have invested in 36 healthcare companies. All the funds except for Peloton Equity I are fully invested as of December 2011. Peloton Equity I has not made any investments to date.

The entities which commit capital to the funds are primarily (measured by U.S. dollars) experienced institutional investors that include corporate and public pension plans, Fund of Funds, insurance companies, University endowments, family offices and a few individual investors. Individuals who are Accredited Investors make-up the majority of committed capital in the side-by-side funds.

### *c) Principal Investment Strategies*

FFC invests its Clients' capital in healthcare companies domiciled primarily in the United States. The majority of the capital as measured by U.S. dollars and number of investments was/is invested in companies which the Adviser believed had or has a significant opportunity to grow its revenues and earnings over time to create equity value. A second investment strategy was/is to partner with an experienced management team in a particular sector (typically healthcare services), commit a fixed amount of capital and build or buy assets over time. FFC also invested some Clients' capital in leveraged buyouts usually with larger private equity firms, and in some cases invested in development stage companies with unproven business models at the time of investment.

We make long term investments on behalf of our clients whereby we hold the securities and manage the investments for approximately 3-12 years. There are a variety of information sources that FFC uses in addition to the Investment Committee and Investment Professional's significant experience in investing in and managing healthcare investments that we use to identify and evaluate investment opportunities. These include industry reports and analysis, independent research, knowledge from the existing portfolio companies and management teams, and importantly a large network of healthcare executives, surgeons, physicians and other professional investors in the industry.

The Investment Committee and Investment Professionals have many years of experience in investing in, managing and exiting healthcare companies, financing companies with debt and equity, advising our portfolio companies on buying additional assets or other companies, selling to other companies or accessing the public debt and equity markets.

*d) Tailored Advice and Client-Imposed Restrictions*

FFC prepares offering materials with respect to each Fund and SPV Fund that contains more detailed information, including a description of the investment objective and strategy or strategies employed and related restrictions. These serve as a limitation on FFC's management.

None of the Funds is tailored to the individualized investment needs of any particular investor ("Investor"). An investment in a FFC Fund and SPV Fund does not create a client-adviser relationship between FFC and an Investor.

Investors must consider whether a particular FFC Fund and SPV Fund or advisory relationship is appropriate to their own circumstances based on all relevant factors including, but not limited to, the Investor's own investment objectives, liquidity requirements, tax situation and risk tolerance. Prospective Investors are strongly encouraged to undertake appropriate due diligence, including but not limited to a review of relevant offering materials for the Funds, investment policy statements, investment guidelines and the additional details about FFC's investment strategies, methods of analysis and related risks in Item 8 of this Brochure, before making an investment decision.

*e) Wrap Fee Disclosure*

Not applicable.

*f) Assets Under Management*

As of June 30, 2014, FFC had approximately \$391,733,501 in regulatory assets under management ("AUM").

## ITEM 5: FEES AND COMPENSATION

FFC is compensated for its services through the receipt of a management fee and performance based fees. FFC's compensation, as well as other costs associated with management by FFC, is discussed generally below and in more detail in relevant offering materials.

### *a) Compensation*

FFC receives a management fee from each Fund (other than Peloton Equity I) based on committed capital of 2% annually (the "Management Fee") for the first 5 years of a Fund. After year 5 of a Fund, the 2% Management Fee is calculated based upon Invested Capital at cost minus write-downs, minus capital returned. Fund II has not paid Management Fees since October 2010. FFC Partners III-B, L.P. ("FFC III-B"), since inception in September 2013, pays 2% annually based upon Invested Capital at cost minus write-downs, minus capital returned. From July 1, 2014 through December 31, 2014, the Management Fee is reduced to 1.5% and from January 1, 2015 through September 30, 2015, the Management Fee is reduced to 1%, as described above. If at any time, FFC raises a competing Fund with commitments greater than \$200 million, FFC III-B will not incur Management Fees. The Management Fee is paid quarterly, adjusted for the current quarter's write-downs, and capital returned.

At FFC's discretion, FFC may receive \$20,000 per month for a management fee from Arcadia Solutions Intermediate, Inc. on behalf of the SPV Fund.

Peloton receives a management fee from Peloton Equity I based on committed capital of 2.5% annually (the "Management Fee") for the first 42 months of its term. After such time, the 2.5% Management Fee is calculated based upon Invested Capital at cost minus write-downs, minus capital returned. Any installment of the Management Fee which is paid subsequent to a "Key Man Event" and prior to the cure of such "Key Man Event" shall be reduced to 2/3 of the Management Fee otherwise applicable as of the date of such installment and upon the cure of the Key Man Event, any such installment of the Management Fee shall be recalculated as of the date of such installment. At any time, upon the closing of a successor fund to Peloton Equity I with aggregate third-party capital commitments of at least \$50,000,000, the annual Management Fee rate will be reduced to 2.0%. The Management Fee is paid quarterly, adjusted for the current quarter's write-downs, and capital returned.

In addition, the Adviser may receive performance compensation as set out in each individual prospectus (the "Performance Fee"). The Adviser, in its sole discretion, may temporarily waive or reduce the Management Fee and/or the Performance Fee. The side-by-side Funds typically have a reduced Management Fee and Performance Fee as described in each Fund's Private Placement Memorandum and Limited Partnership Agreement.

FFC also performs mergers and acquisitions advisory services for some of the portfolio companies in which the Funds invest. The advisory work includes advising portfolio companies on the sale of assets or acquisition by another company. The advisory fee is paid to FFC and FFC either retains the fee as revenue, or (i) in the case of FFC III-B, passes the fee along to the Fund investors as a



dollar for dollar reduction in the management fee for that quarter or (ii) in the case of Peloton Equity I, retains half of the fee as revenue and passes the remaining half of the fee along to Peloton Equity I's investors as a reduction in the management fee for that quarter.

The Adviser also earns fees as members of the boards of some of its portfolio companies. Compensation for board membership is earned in the form of cash and/ or equities. The board compensation is paid to FFC and FFC either retains the fee as revenue, or (i) in the case of FFC III-B, as a dollar for dollar reduction in the management fee for that quarter or (ii) in the case of Peloton Equity I, retains half of the fee as revenue and passes the remaining half of the fee along to Peloton Equity I's investors as a reduction in the management fee for that quarter.

#### *b) Billing*

Management fees are called from Institutional Investors, with the exception of the side-by-side funds, whose management fees are automatically deducted from the Fund Investors' accounts.

#### *c) Other Expenses*

Each Fund generally pays all of its ordinary organizational, offering, administrative, and operating expenses, including, but not limited to, ordinary and recurring legal, accounting, escrow, auditing, administration, and certain clerical expenses including those incurred in preparing, printing and mailing reports and tax information to investors and regulatory authorities, expenses for specialized administrative services, filing fees, and taxes. Additional fees (e.g., wire transfer charges) may be imposed by service providers.

On behalf of the SPV Fund, Arcadia Solutions Intermediate, Inc. pays, within reason, the ordinary organizational, offering, administrative, and operating expenses, including, but not limited to, ordinary and recurring legal, accounting, escrow, auditing, administration, and certain clerical expenses including those incurred in preparing, printing and mailing reports and tax information to investors and regulatory authorities, expenses for specialized administrative services, filing fees, and taxes. Additional fees (e.g., wire transfer charges) may be imposed by service providers.

#### *d) Advance Billing*

As discussed above, other than with respect to the SPV Fund, the management fee is payable quarterly in advance. Fees are not refundable for either funds or managed accounts.

*e) Sales-based Compensation*

Not applicable. Neither the Firm nor any of its employees or affiliates accepts additional compensation for the sale of securities or other services. The Firm or its affiliates and employees do not receive compensation for other services besides the investment advisory services we provide.

## **ITEM 6: PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Performance Fee is charged by the Adviser in compliance with Rule 205-3 under the Investment Advisers Act of 1940. The Adviser, in its sole discretion, may temporarily waive or reduce the Management Fee and/or the Performance Fee.

Performance-based compensation may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case in the absence of the performance-based compensation. However, the performance upon which the compensation is measured does not include unrealized appreciation of the investments, but does include unrealized and realized write-downs of investments in that Fund.

## **ITEM 7: TYPES OF CLIENTS**

FFC provides investment advisory services to certain Private Equity Funds (the “Funds”) organized as limited partnerships and Special Purpose Vehicle (the “SPV Fund”) organized as a Limited Liability Company. The Funds qualify for exemption from the definition of an “investment company” under the Investment Company Act of 1940, as amended (the “Investment Company Act”) under Section 3(c) (1) or Section 3(c) (7) of the Investment Company Act, and the Adviser offers interests to Investors pursuant to Regulation D under the Securities Act of 1933, as amended (the “1933 Act”).

Fund investors are qualified investors, such as state and corporate pension plans, university endowments, wealthy families and individuals, and funds of funds, for investment in our Funds. Generally, the minimum commitment to a Fund was either \$5,000,000 for the institutional funds, \$100,000 for the side-by-side funds or \$50,000 for the SPV Fund. However, the minimum initial investment in a Fund can be waived by the Adviser.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Note: References to "Partnership" refer to the defined Term on page 6. The Partnerships have Limited Partners invested in the Funds and a Managing Member managing the Fund, under the terms of a Limited Partnership Agreement. References to "LLC" refer to the defined term on page 6. The LLC has Members invested in the Fund and Managing Members managing the Fund, under the terms of a Limited Liability Company Agreement.

### *a) Methods of Analysis & Investment Strategies*

FFC uses many different methods to analyze a new investment opportunity. The process starts with identifying industry sectors and companies in those sectors which we believe have a substantial market opportunity to grow revenue and earnings with additional capital. Once an opportunity is identified we a) do extensive management references b) perform an assessment of the commercial growth strategy using all publicly available information on the company and the industry, c) obtain from the company all product, service, operational and financial information from the Company and perform our own physical inspection of assets, facilities, operations, products and manufacturing plants, d) conduct thorough financial, accounting, legal and regulatory due diligence and e) develop a financial projection model based upon all of the work above. Our extensive network in the healthcare industry is valuable in all phases of the assessment and analysis.

### *b) Material Risks Associated with the Investment Strategies*

Investing in private funds in general involves risk of loss that clients should be prepared to bear. Each Fund has risks which are specific to its particular investment strategies. For more information about the risks of each Fund, please see the offering memorandum for that particular fund. While FFC seeks to manage investments so that risks are appropriate to the return potential for the strategy, it is often not possible or desirable to fully mitigate risks. FFC does not offer any products or services that guarantee rates of return on investments for any period to any Client or Investor. All Clients and Investors assume the risk that investment returns may be negative or below the rates of return of other investment advisers or products. Investors should understand that they could lose some or all of their investment and should be prepared to bear the risk of such potential losses.

There are risks inherent in the investment strategies pursued, and the financial instruments and trading methods used, by FFC. Key risks of loss which apply to the principal investment strategies employed by FFC are listed below. More detailed descriptions and explanations of the key risks of loss are included in relevant Offering Materials. Generally, however, investors in FFC Funds and managed accounts are exposed to the following risks:

*No Assurance of Investment Return.* The Partnership/LLC cannot provide assurance that it will be able to choose, make and realize investments in any particular company or portfolio of companies. There is no assurance that the Partnership/LLC will be able to generate returns for its investors or

that the returns will be commensurate with the risks of investing in the type of companies and transactions described herein. There may be little or no near-term cash flow available to the Limited Partners/Members and there can be no assurance that any Limited Partner/Member will receive any distribution from the Partnership/LLC. An investment in the Partnership/LLC requires a long-term commitment, with no certainty that the Partnership/LLC will realize its rate of return objectives or that capital loss will not occur. Partial or complete sales, transfers, or other dispositions of Portfolio Investments which may result in a return of capital or the realization of gains, if any, are generally not expected to occur for a number of years after an investment is made. An investment in the Partnership/LLC should only be considered by persons who can afford a loss of their entire investment. Past performance of investment entities associated with FFC and its affiliates is not necessarily indicative of future results, and there can be no assurance that the Partnership/LLC will achieve comparable results, the Partnership/LLC's investment objective will be achieved, or that a Limited Partner/Member will receive return of its capital. Furthermore, due to changes in the composition of the senior membership of the investment team, the investment decisions of the Partnership and the execution of transactions on its behalf may be made by persons different from those involved with the Predecessor Funds. Furthermore, the investment decisions and day-to-day operations of FFC's other funds are made and carried out by persons different than those who will be involved with the Partnership. As a general matter, the performance of any other Predecessor Funds, or FFC as a firm, is not necessarily indicative of the Partnership's performance.

*Suitability of Investments.* An investment in the Partnership/LLC is not suitable for all investors. An investment is suitable only for sophisticated investors and an investor must have the financial ability to understand and willingness to accept the extent of its exposure to the risks and lack of liquidity inherent in an investment in the Partnership/LLC. Investors with any doubts as to the suitability of an investment in the Partnership/LLC should consult their professional advisers to assist them in making their own legal, tax, accounting and financial evaluation of the merits and risks of an investment in the Partnership/LLC in light of their own circumstances and financial condition.

*Operating and Financial Risks of Portfolio Companies.* Companies in which the Partnership/LLC invests could deteriorate as a result of, among other factors, an adverse development in their business, a change in the competitive environment, or an economic downturn. As a result, companies which the Partnership/LLC expected to be stable may operate, or expect to operate, at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or to maintain their competitive position, or may otherwise have a weak financial condition or be experiencing financial distress.

*Uncertainty of Financial Projections.* The General Partner/Managing Member will generally establish the pricing of transactions and the capital structure of Portfolio Companies on the basis of financial projections for such Portfolio Companies. Projected operating results will normally be based primarily on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic, political and market conditions, which are not predictable, can have a material adverse impact on the reliability of such projections.

*Lack of Industry Diversification.* The Partnership/LLC's capital will be invested in companies in the healthcare and related industries. Concentration in an industry may involve risks greater than those generally associated with more diversified funds, including significant fluctuations in returns. Healthcare markets are challenged by rapidly changing market and regulatory conditions and/or participants, new competing products and services and improvements in existing products and services. The Partnership/LLC's Portfolio Companies will compete in this volatile environment. There can be no assurance that products or services sold or relied upon by Portfolio Companies will not be rendered obsolete or adversely affected by competing products and services, changing litigation, legal or regulatory environments or other challenges. In the event that the healthcare sector as a whole declines, returns to Limited Partners/Members may decrease.

*Risk of Limited Number of Investments.* The Partnership/LLC may participate in a limited number of investments and, as a consequence, the aggregate return of the Partnership/LLC may be substantially adversely affected by the unfavorable performance of even a single investment. In addition, other than certain Diversification Guidelines/Investment Restrictions, investors have no assurance as to the degree of diversification of the Partnership/LLC's Portfolio Investments, either by geographic region, sub-sector of the healthcare industry, or transaction type. To the extent the Partnership/LLC concentrates Portfolio Investments in a particular issuer, sub-sector of the healthcare industry, security or geographic region, its Portfolio Investments will become more susceptible to fluctuations in value resulting from adverse economic and business conditions with respect thereto.

*Investment in the Healthcare Industry.* Healthcare companies in the United States, Europe and other developed and emerging countries are subject to governmental regulation as well as the rapid development of technologies, particularly in sectors relating to biotechnology and life sciences. Healthcare companies are often characterized by limited product or service focus, and obtaining governmental approval for new products from governmental agencies can be lengthy, expensive and uncertain as to outcome. Competitive pressures within the healthcare industry are intense and the securities of healthcare companies may be subject to significant price volatility. In addition, because certain sectors of the healthcare industry are subject to rapid and significant changes in technology, the companies that the Partnership/LLC will invest in will face competition from technologies being developed or to be developed in the future by other entities, which may make such companies' products and services obsolete. In addition, because governmental entities are a significant source of funding for some healthcare companies that provide services in the United States and Europe, Portfolio Companies could be adversely affected by unexpected changes in reimbursement rates that are mandated by government entities. These factors may result in abrupt advances and declines in the valuation of particular companies and, in some cases, may have a broad effect on the valuations of companies in particular sectors of the healthcare industry.

*Regulatory Constraints.* The healthcare industry is subject to regulatory controls by international, national, and in some instances, local governmental authorities. The nature and scope of healthcare regulation generally are subject to political forces and market considerations, the effects of which cannot be predicted. Healthcare regulations often are aimed at advancing a variety of social policies, such as the general protection of consumers and the provision of universal access to products and services. The healthcare industry has experienced, and is expected to continue to experience, extensive and dynamic change. In addition to economic forces and regulatory

influences, continuing political debate has subjected the healthcare industry to significant reform. There has also been significant media and public attention focused in recent years on the healthcare industry. The General Partner/Managing Member expects government officials, at both state and federal levels, to continue to review and assess alternative healthcare delivery systems and payment methodologies. Further, healthcare laws and regulations, particularly those governing the Medicare and Medicaid programs, are complex and subject to interpretation. Changes in the law or new interpretations of existing laws may have a dramatic effect on the scope of permissible or impermissible activities, the relative cost of doing business, and the methods and amounts of payments for medical care by both governmental and other payors. In addition, the General Partner/Managing Member expects additional legislative changes intended to “balance the budget” and to slow the annual rate of growth of Medicare and Medicaid. Such initiatives may result in lower Medicare and/or Medicaid payment for healthcare services and/or prescription drugs. In addition, the introduction of new products, services and technologies could render some healthcare companies obsolete and may result in abrupt fluctuations in their value. Such future changes may further impact the Partnership/LLC’s Portfolio Companies and there can be no assurance that future legislation or regulatory changes will not have a material adverse effect on the operations of the Partnership/LLC’s Portfolio Companies.

There has also been an increase in dedicated funding for additional federal enforcement activities related to healthcare providers and for preventing fraud and abuse. For instance, the Healthcare Reform legislation (discussed further below) increases funding for fraud and abuse enforcement activities against healthcare providers. The additional funding may increase enforcement activities, including investigations, and it is possible that governmental entities could initiate investigations or litigation in the future and, while some may be defensible and/or frivolous in some respects, such matters could result in significant penalties, as well as adverse publicity. It is also possible that executives of the Partnership/LLC’s Portfolio Companies could be included in governmental investigations or litigation or named as defendants in private litigation.

*Healthcare Reform Legislation.* Significant new legislation regarding the healthcare industry has recently been signed into law by President Obama. On March 23, 2010, the President signed the Patient Protection and Affordable Care Act of 2010, or the Patient Protection and Affordable Care Act, and on March 30, 2010, the President signed into law the Healthcare and Education Reconciliation Act of 2010, or the Reconciliation Act, which in part modified the Patient Protection and Affordable Care Act (collectively the “Legislation” or “Healthcare Reform”). The Legislation will serve as a primary vehicle for comprehensive healthcare reform in the U.S. and is broad in scope and likely to affect significant changes in the healthcare sector. The Legislation is intended to reduce the number of individuals in the U.S. without health insurance and will cause significant other changes to the ways in which healthcare is organized, delivered and reimbursed. The Legislation will become effective through a phased approach, beginning in 2010 and concluding in 2018, and many provisions will likely require implementing regulations and/or the issuance of certain additional programmatic guidelines. In addition, such Legislation is often followed by subsequent legislation and litigation to address and remedy previously unanticipated consequences, or to further define provisions of the Legislation. The following are only some of the aspects of the Legislation that the General Partner/Managing Member expects may affect the Fund/SPV Fund’s portfolio companies: (a) reduces or subjects to future adjustment Medicare reimbursement rates for certain healthcare services; (b) includes enhanced program integrity



provisions, provider billing limitations, provider overpayment notification requirements and overpayment recoupment capabilities for the CMS, the federal agency within the U.S. Department of Health and Human Services that administers the Medicare and Medicaid programs; (c) includes expanded civil monetary penalties applicable to all Medicare and/or Medicaid providers; (d) expands authority to suspend payments if a provider is investigated for allegations or issues of fraud; and (e) expands and/or revises certain “ownership” disclosure requirements in an effort to improve transparency of information, which may create additional exposure to investors.

As a result of the scope of the Legislation, the significant changes it will likely engender in the healthcare industry, the complexity of the technical issues it addresses, and lack of detail available for many aspects (including reimbursement rates and insurance coverage requirements), the General Partner/Managing Member is unable to predict, at this time, the impact on the Partnership/LLC or its Portfolio Companies of the Legislation and related regulations or guidelines and any additional related legislative or policy measures. Therefore, there can be no assurance that such laws, related regulations or guidelines (or any additional related legislative or policy measures) will not have an adverse impact on the Partnership/LLC’s activities, including the ability of the Partnership/LLC to achieve its investment objectives.

*Litigation Risks in the Healthcare Industry.* Companies in the healthcare industry are often subject to significant risks related to litigation and liability for damages in connection with their operations. Such litigation and liability may arise, for example, over the design, management and offering of products and services; the denial of healthcare benefits; medical malpractice actions; allegations of anti-competitive and unfair business activities; provider disputes over compensation and termination of provider contracts; disputes over co-payment calculations; claims related to the failure to disclose certain business practices; and claims relating to customer audits and contract performance. The litigation and liability environment in the healthcare industry is constantly evolving, and new court decisions and legislative activity may increase exposure for any of these types of claims. While companies typically have insurance coverage for some of these potential liabilities, other potential liabilities may not be covered by insurance, insurers may dispute coverage or the amount of insurance may not be enough to cover the damages awarded. In addition, certain types of damages, such as punitive damages, may not be covered by insurance, and insurance coverage for all or certain forms of liability may become unavailable or prohibitively expensive in the future.

*Enhanced Scrutiny and Regulation of the Private Equity Industry.* There have been significant developments regarding enhanced governmental scrutiny and/or increased regulation of the private equity industry. On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). This comprehensive reform of the United States’ financial regulatory system requires, among other things, registration with the Securities and Exchange Commission (the “SEC”) by advisers to private equity funds whose assets under management exceed \$150 million (with certain limited exceptions) and imposes new reporting and recordkeeping obligations with respect to the private equity funds they advise. As a result of the Dodd-Frank Act, FFC has registered with the SEC as an investment adviser and Peloton was added as a relying adviser. There can be no assurance that compliance requirements associated with being a registered investment adviser will not have an adverse impact on FFC or otherwise impede the Partnership/LLC’s activities.

A significant feature of the Dodd-Frank Act is the so-called “Volcker Rule,” which takes the form of a new Section 13 of the Bank Holding Company Act of 1956. Specifically and subject to certain limited exceptions, the Volcker Rule prohibits any “banking entity” (generally defined as any insured bank or thrift and any insured depository institution holding company and any affiliate or subsidiary) from engaging in proprietary trading or sponsoring or investing in a private equity fund or hedge fund that relies on the Section 3(c)(1) or Section 3(c)(7) exemption under the 1940 Act. It also authorizes the imposition of additional capital requirements and certain other quantitative limits on such activities engaged in by systemically important nonbank financial companies, although such entities are not expressly prohibited from engaging in proprietary trading or sponsoring or investing in such funds. The Volcker Rule became effective as a matter of statute on July 21, 2012, but banking entities have a so-called “conformance period,” running until July 21, 2015, to wind down, sell, transfer or otherwise conform their investments and activities to the Volcker Rule, absent an extension by the U.S. Board of Governors of the Federal Reserve System (the “Federal Reserve”) or an exemption for certain “permitted activities.” On December 10, 2013, the Federal Reserve and other U.S. federal regulatory agencies issued final rules implementing the principal components of the Volcker Rule. The final rules contain a number of important exemptions, including an exemption for certain non-U.S. banks that are subject to the Volcker Rule. For such non-U.S. banks, the final rules generally permit (subject to qualifications) a non-U.S. banking organization to acquire or retain any ownership in, or act as sponsor to, a private equity fund or hedge fund so long as the activity is conducted solely outside the United States and no ownership in the fund is offered or sold to a resident of the United States.

Recently, various federal, state and local agencies have been examining, and the SEC has enacted a rule restricting, the role of placement agents, finders and other similar private equity service providers in the context of investments by public pension plans and other similar entities, including investigations and requests for information and limitations on making political contributions by certain persons associated with the sponsors of private funds; in connection therewith, new and/or proposed rules and regulations in this arena may increase the possibility that FFC may be exposed to claims and/or actions that could require a Limited Partner/Managing Member to withdraw from the Partnership/LLC. There can be no assurance that the foregoing will not have an adverse impact on FFC or the Partnership/LLC or otherwise impede the Partnership/LLC’s activities.

The increased political and regulatory scrutiny of the private equity industry has been particularly acute following the onset of the global financial crisis. For example, in addition to the U.S. legal and regulatory developments described above, other jurisdictions, including many European jurisdictions, have proposed or implemented financial or other laws, rules and/or regulations that have called for or introduced, among other things, increased regulation of and disclosure with respect to, and possibly registration of, alternative investment funds (including private equity funds and/or their managers (see, in particular, ‘Alternative Investment Fund Managers Directive’ below for further details regarding the implementation of such laws and regulations in respect of member states of the EU). Such laws, rules and/or regulations may, among other things, include a restriction on or limit the ability of U.S.-based private fund managers to raise capital from investors. There is a material risk that regulatory agencies or governmental bodies in the U.S., Europe, or elsewhere may adopt burdensome laws (including tax laws), rules or regulations, which are specifically targeted at, or otherwise affect, the private equity industry and which could adversely affect private

equity firms and the funds they sponsor, including the Partnership/LLC, or that changes in any existing or future adopted laws, rules or regulations and/or the interpretation or enforcement thereof could have such effect.

Finally, increased reporting, registration and compliance requirements may divert the attention of personnel and the management teams of Portfolio Companies, and may furthermore place the Partnership/LLC at a competitive disadvantage to the extent that FFC or Portfolio Companies are required to disclose sensitive business information.

*Alternative Investment Fund Managers Directive.* The European Union Alternative Investment Fund Managers Directive (the “Directive”) took effect into national law within the member states of the European Union (the “EU”) on July 22, 2013. Subject to the availability of any applicable transitional relief, the Directive imposes new requirements on non-EU alternative investment fund managers (“AIFM”) which market alternative investment funds (“AIF”) to professional investors within the EU.

In particular, the Directive requires suitable co-operation agreements to be in place as between the relevant regulators of the United States and each EU member state in which interests in the Partnership are being marketed, the absence of which will potentially restrict the ability of the General Partner/Managing Member to offer interests in the Partnership/LLC to investors in the such EU member states and may therefore limit the General Partner/Managing Member’s ability to attract investors based in the EU and lead to a reduction in the overall amount of capital invested in the Partnership/LLC. This may, in turn, have an adverse impact upon the operations of the Partnership/LLC, including the range of investment strategies that the Partnership/LLC is able to pursue. The Directive may also impose additional disclosure and reporting requirements in relation to the Partnership/LLC and its investments, compliance with which may involve additional costs. In parallel, certain member states of the EU have changed or are contemplating changing their domestic private placement rules, which may also restrict the ability of the General Partner/Managing Member in similar ways and/or impose additional disclosure and reporting requirements in relation to the Partnership/LLC.

From October 2015, it may be possible for non-EU AIFMs to market an AIF within the EU pursuant to a pan-European marketing “passport” instead of under national private placement regimes, provided that the AIFM complies with all relevant provisions of the Directive including, among other things, rules relating to the remuneration of certain personnel, minimum regulatory capital requirements, restrictions on use of leverage, further disclosure and reporting requirements to both investors and EU home state regulators, the independent valuation of an AIF’s assets, and the appointment of legal representatives and an independent depository to hold assets. As a result, the Directive could in the future have other adverse effects in relation to the Partnership and the General Partner’s business by, among other things, increasing the regulatory burden and costs of operating and managing the Partnership and its investments, and potentially requiring changes to compensation structures for key personnel, thereby affecting the General Partner’s ability to recruit and retain these personnel.

More generally, implementation of the Directive (and/or the interpretation thereof) could expose the General Partner and/or the Partnership to conflicting regulatory requirements in the United States and the EU and its member states.

It should be noted that the final scope and requirements of the Directive remain uncertain, and are subject to change as a result of enactment of EU secondary legislation, the issuance of any further national and/or EU guidelines with respect to the Directive and the interpretation thereof, and national implementing legislation in relevant EU member states.

*Highly Competitive Market for Investment Opportunities.* The activity of identifying, completing and realizing attractive Portfolio Investments is highly competitive, and involves a high degree of uncertainty. The Partnership/LLC will be competing for Portfolio Investments with other private equity investors, as well as individuals, financial institutions, other institutional investors and corporate buyers. Further, over the past several years, an ever-increasing number of private equity funds have been formed (and many such existing funds have grown in size). These and additional funds that may be formed in the future by other unrelated parties or upon further consolidation may have investment objectives similar to those of the Partnership/LLC. There can be no assurance that the Partnership/LLC will be able to locate, complete and exit Portfolio Investments which satisfy the Partnership/LLC's rate of return objectives, or realize upon their values, or that it will be able to invest fully its committed capital.

*No Market for Limited Partnership/LLC Interests/Transferability Restrictions.* Limited Partnership/LLC interests (the "Interests") in the Partnership/LLC have not been registered under the 1933 Act or applicable securities laws of any state or non-U.S. jurisdiction. Therefore, the Interests cannot be resold unless subsequently registered under the 1933 Act and other applicable laws or an exemption from such registration is available. It is not contemplated that any such registration will ever be implemented. Each Limited Partner/Member will be required to represent that it is a qualified investor under applicable securities laws. There is no public market for the Interests and none is expected to develop. Accordingly, it may be difficult to obtain reliable information about the value of the Interests. A Limited Partner/Member will not be permitted to assign or otherwise transfer its Interests in whole or in part without the prior written consent of the General Partner/Managing Member, which may be given or withheld in the General Partner/Managing Member's sole and absolute discretion. Limited Partners/Members may not withdraw capital from the Partnership/LLC, except in certain extremely limited circumstances. Consequently, Limited Partners/Members may not be able to liquidate their investments prior to the end of the Partnership/LLC's term. Limited Partners/Members must be prepared to bear the risks of owning Interests and contributing capital for an extended period of time.

*Financial Market Fluctuations.* General fluctuations in the market prices of securities may affect the value of the investments held by the Partnership/LLC. Instability in the securities markets may also increase the risks inherent in the Partnership/LLC's investments. The ability of Portfolio Companies to refinance debt securities may depend on their ability to sell new securities in the public high-yield debt market or otherwise or to raise capital in the leveraged finance debt markets, which historically have been cyclical with regard to the availability of financing.

*Illiquid and Long-Term Investments.* Although Portfolio Investments by the Partnership/LLC may occasionally generate some current income, the return of capital and the realization of gains, if any, from a Portfolio Investment generally will occur only upon the partial or complete disposition of such Portfolio Investment. While a Portfolio Investment may be sold at any time, it is not generally expected that this will occur for a number of years after such Portfolio Investment is made. It is unlikely that there will be a public market for the securities held by the Partnership/LLC at the time of their acquisition. The Partnership/LLC generally will not be able to sell its securities publicly unless such sale is registered under applicable securities laws or unless an exemption from such registration requirements is available. In addition, in some cases the Partnership/LLC may be prohibited or limited by an underwriter's restrictions, contractual or legal, or regulatory reasons from selling certain securities for a period of time. Therefore, no assurance can be given that, if the Partnership/LLC is determined to dispose of a particular Portfolio Investment held by the Partnership/LLC, it could dispose of such Portfolio Investment at a prevailing market price, and there is a risk that disposition of such investments may require a lengthy time period or may result in distributions in-kind to investors.

*Investments Longer Than Term.* The Partnership/LLC may make Portfolio Investments which may not be advantageously disposed of prior to the date the Partnership/LLC will be dissolved, either by expiration of the Partnership/LLC's term or otherwise. Although the General Partner/Managing Member expects that Portfolio Investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution and the General Partner/Managing Member has a limited ability to extend the term of the Partnership/LLC, the Partnership/LLC may have to sell, distribute or otherwise dispose of Portfolio Investments at a disadvantageous time as a result of dissolution. In addition, although upon the dissolution of the Partnership/LLC the General Partner/Managing Member (or the relevant liquidator) will be required to use its best efforts to reduce to cash and cash equivalents such assets of the Partnership/LLC as the General Partner/Managing Member or such liquidator shall deem it advisable to sell, subject to obtaining fair value for such assets and any tax or other legal considerations (including legal restrictions on the ability of a Limited Partner/Member to hold any assets to be distributed in kind), over such time as is reasonably necessary to settle gradually and close the Partnership/LLC's business under the circumstances then applicable to the Partnership/LLC, there can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds to the Limited Partners/Members will occur.

*Ongoing Turmoil in the U.S. and Global Financial Markets.* The ongoing turmoil in the U.S. and global financial markets has illustrated that the current environment is one of extraordinary and perhaps unprecedented uncertainty and volatility. A number of very high-profile and significant transactions and events have occurred in recent years with respect to participants in the financial services industry, including the failure or forced sale of certain banks, investment banks and other financial services businesses and broad scale market intervention by governments in the United States and abroad. Global financial markets have experienced periods of considerable and prolonged declines in the valuations of equity securities and contractions in the availability of credit. As a result, certain government bodies and central banks worldwide, including the U.S. Treasury Department and the U.S. Federal Reserve, have undertaken unprecedented intervention programs, the effects of which remain uncertain. During this time, the U.S. economy has experienced periods of significant decline in employment, household wealth, and lending.



Moreover, recent events may indicate that recovery from the recession may be more prolonged or that the U.S. risks entering into a “double-dip” recession. In particular, U.S. financial and global markets have experienced high levels of volatility surrounding the downgrade of the U.S. long-term sovereign credit rating by Standard & Poor’s from AAA to AA+, and certain other macroeconomic events that have been well-publicized, including difficulties in U.S. federal budget deficit negotiations and the threat of default by certain European Union member states in servicing their sovereign debt obligations. Because of the unprecedented nature of these events, the ultimate impacts on global markets are unpredictable and may adversely affect the Partnership and its investments. There can be no assurances that conditions in the U.S. economy and financial markets will not worsen. A recession, slowdown and/or sustained downturn in the United States or global economy is likely to adversely affect the Partnership’s profitability, impede the ability of the Partnership’s Portfolio Companies to perform under or refinance their existing obligations, and impair the Partnership’s ability to effectively deploy its capital or realize investments on favorable terms.

*Use of Leverage.* The Partnership/LLC’s investments may include Portfolio Companies whose capital structures may have a significant degree of leverage, as a result of which recessions, operating problems and other general business and economic risks may have a more pronounced effect on the profitability or survival of such companies. Moreover, any rise in interest rates may significantly increase Portfolio Company interest expense, causing losses and/or the inability to service debt levels. If a Portfolio Company cannot generate adequate cash flow to meet debt obligations, the Partnership may suffer a partial or total loss of capital invested in the Portfolio Company.

*Minority Investments; Investments with Third Parties.* The Partnership/LLC may invest in minority positions of companies and in companies for which the Partnership/LLC has no right to appoint a director or otherwise exert significant influence or protect its position. In such cases, the Partnership/LLC will be significantly reliant on the existing management and board of directors of such companies, which may include representation of other financial investors with whom the Partnership/LLC is not affiliated and whose interests may conflict with the interests of the Partnership/LLC.

*Joint Venture Partners.* The Partnership/LLC may co-invest with third parties through joint ventures, partnership or other entities, thereby acquiring non-controlling interests in certain Portfolio Investments. Although the Partnership/LLC may not have control over these Portfolio Investments and, therefore, may have a limited ability to protect its position therein, the General Partner/Managing Member expects that appropriate rights will be negotiated to protect the Partnership/LLC’s interests. There can be no assurance that such rights will be available or that such rights will provide sufficient protection of the Partnership/LLC’s rights. Furthermore, such Portfolio Investments may involve risks not present in Portfolio Investments where a third party is not involved, including the possibility that a third-party partner or co-venturer may have financial difficulties resulting in a negative impact on such Portfolio Investment, may have economic or business interests or goals which are inconsistent with those of the Partnership/LLC, or may be in a position to take (or block) action in a manner contrary to the Partnership/LLC’s investment objectives. In addition, the Partnership/LLC may in certain circumstances be liable for the actions of its third-party partners or co-venturers. In those circumstances where such third

parties involve a management group, such third parties may receive compensation arrangements relating to such investments, including incentive compensation arrangements.

*Control Position Risk.* Although non-control investments may also be made, the Partnership/LLC intends to make certain investments that allow the Partnership/LLC to acquire control or exercise influence over management and the strategic direction of a Portfolio Investment. The exercise of control over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management and other types of liability in which the limited liability characteristic of business operations generally may be ignored. The exercise of control over a Portfolio Investment could expose the assets of the Partnership/LLC to claims by such Portfolio Companies, its shareholders and its creditors. While the General Partner/Managing Member intends to manage the Partnership/LLC in a manner that will minimize the exposure of these risks, the possibility of successful claims cannot be precluded.

*Risks in Effecting Operating Improvements.* In some cases, the success of the Partnership/LLC's investment strategy will depend, in part, on the ability of the Partnership/LLC to restructure and effect improvements in the operations of a Portfolio Company. The activity of identifying and implementing restructuring programs and operating improvements at Portfolio Companies entails a high degree of uncertainty. There can be no assurance that the Partnership/LLC will be able to successfully identify and implement such restructuring programs and improvements.

*Investment in Restructurings.* While not its primary strategy, it is possible that the Partnership/LLC may make Portfolio Investments in restructurings (i.e. a Follow-On Investment in a distressed Portfolio Company) which involve Portfolio Companies that are experiencing or are expected to experience severe financial difficulties, which may never be overcome and may cause such Portfolio Companies to become subject to bankruptcy proceedings. Such Portfolio Investments could, in certain circumstances, subject the Partnership/LLC to certain additional potential liabilities, which may exceed the value of the Partnership/LLC's original Portfolio Investment therein. For example, under certain circumstances, a lender who has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated, or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to the Partnership/LLC and distributions by the Partnership/LLC to the Limited Partners/Members may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, a preferential payment or similar payment under applicable bankruptcy or insolvency laws.

*Investments in Less Established Companies; Risk of Fraud in a Portfolio Company.* The Partnership/LLC may invest a portion of its assets in the securities of less established companies. Portfolio Investments in such companies may involve greater risks than generally are associated with investments in more established companies. To the extent there is any public market for the securities held by the Partnership/LLC, such securities may be subject to more abrupt and erratic market price movements than those of larger, more established companies. Less established companies tend to have lower capitalizations and fewer resources and, therefore, often are more vulnerable to financial failure. Such companies also may have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow. In addition, less mature companies could be more susceptible to irregular accounting or other

fraudulent practices. In the event of fraud by any company in which the Partnership/LLC invests, the Partnership/LLC may suffer a partial or total loss of capital invested in that company. There can be no assurance that any such losses will be offset by gains (if any) realized on the Partnership/LLC's other Portfolio Investments.

*Unspecified Investments.* The Partnership/LLC intends to begin operations upon closing and may not have identified any particular investments. A purchaser of any Interest must rely upon the ability of the General Partner/Managing Member to identify, structure, and implement investments consistent with the Partnership/LLC's investment objectives and policies. The Partnership/LLC may be unable to find a sufficient number of attractive opportunities to meet its investment objectives. The success of the Partnership/LLC will depend on the ability of the Partners/Managing Members of FFC to identify suitable investments, to negotiate and arrange the closing of appropriate transactions and to arrange the timely disposition of Portfolio Investments.

*Material, Non-Public Information.* By reason of their responsibilities in connection with their other investment and business activities, FFC and its personnel may (i) acquire confidential or material non-public information that they will not be able to use for the benefit of the Partnership/LLC or (ii) be restricted from initiating transactions in certain securities. Accordingly, the Partnership/LLC may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell a Portfolio Investment that it otherwise might have sold.

*In-Kind Distributions.* Investors should be aware that dispositions may also take the form of in-kind distributions to the Limited Partners/Members. When such investments are distributed to the Limited Partners/Members, such Limited Partners/Members would generally be unable to protect their interests as effectively as the Partnership/LLC. In certain limited circumstances provided for in the Partnership/LLC Agreement, securities or other assets of the Partnership/LLC may be distributed that are not marketable or are otherwise illiquid. The risk of loss and delay in liquidating securities or other assets distributed in-kind will be borne by the Limited Partners/Members, with the result that such Limited Partners/Members may receive less cash than was reflected in the fair value of such securities as determined by the General Partner/Managing Member pursuant to the Partnership/LLC Agreement.

*Role of Private Equity Professionals.* The success of the Partnership/LLC will depend in part upon the skill and expertise of FFC's private equity professionals. The interests of these professionals in the General Partner/Managing Member and the Adviser should tend to discourage them from withdrawing from participation in the Partnership/LLC's investment activities. Should one or more of these individuals become incapacitated or in some other way cease to participate in the Partnership/LLC, its performance could be adversely affected. However, there can be no assurance that such professionals will continue to be associated with the General Partner/Managing Member or its affiliates throughout the life of the Partnership/LLC. FFC's ability to achieve the investment objectives of the Partnership/LLC depends to a substantial degree on its ability to retain and motivate its Investment Professionals and other key personnel, and to recruit talented new personnel.

FFC's ability to recruit, retain and motivate its professionals is dependent on its ability to offer highly attractive incentive compensation. Congress is currently considering proposed legislation



that would subject carried interest and gain on the sale of investment services partnership interests to higher rates of U.S. federal income tax than under current law. The Obama administration has indicated it supports the adoption of this legislation or legislation that similarly changes the treatment of carried interest for U.S. federal income tax purposes. Enactment of any such legislation could cause FFC's investment professionals to incur a material increase in their tax liability with respect to their entitlement to carried interest. This might make it harder for FFC to retain and motivate these professionals, which may have an adverse effect on FFC's ability to achieve the investment objectives of the Partnership/LLC.

*Reinvestment.* In general, capital returned to the Partners/Members from the disposition of a Portfolio Investment within one year of making the Portfolio Investment may be retained and reinvested (or recalled for reinvestment) by the General Partner/Managing Members or used (or recalled for use) by the General Partner/Managing Members for any purpose permitted under the Partnership/LLC Agreement or to fund Portfolio Investments of the Partnership/LLC. Capital Contributions for Management Fees, Partnership Expenses and Organizational Expenses may be recycled out of distributions and, accordingly, as a result of such recycling a Partner/Managing Member may, in certain circumstances, be required to fund an aggregate amount in excess of its Capital Commitment during the term of the Partnership/LLC.

*Limited Access to Information.* Limited Partners/Members' rights to information regarding the Partnership/LLC will be limited. In particular, it is anticipated that the General Partner/Managing Member will obtain certain types of material information from Portfolio Investments that will not be disclosed to Limited Partners/Members, in part because such disclosure may be prohibited for contractual, legal or similar obligations outside of the General Partner/Managing Member's control. Decisions by the General Partner/Managing Member to withhold information may have adverse consequences for Limited Partners in a variety of circumstances. For example, a Limited Partner/Member that seeks to transfer its Interests may have difficulty in determining an appropriate price for such Interests. Decisions to withhold information also may make it difficult for a Limited Partner/Member to monitor the General Partner/Managing Member and its performance. Additionally, it is expected that Limited Partners/Members who designate representatives to participate on the LP Advisory Committee may, by virtue of such participation, have more information about the Partnership/LLC and Portfolio Investments in certain circumstances than other Limited Partners/Members generally and may be disseminated information in advance of communication to other Limited Partners/Members generally.

*Additional Capital.* Certain of the Partnership/LLC's Portfolio Companies, especially those in a development phase, may be expected to require additional financing to satisfy their working capital requirements or acquisition strategies. The amount of such additional financing needed will depend upon the maturity and objectives of the particular Portfolio Company. Each such round of financing (whether from the Partnership/LLC or other investors) is typically intended to provide a Portfolio Company with enough capital to reach the next major corporate milestone. If the funds provided are not sufficient, a Portfolio Company may have to raise additional capital at a price unfavorable to the existing investors, including the Partnership/LLC. In addition, the Partnership/LLC may make additional debt and equity investments or exercise warrants, options or convertible securities that were acquired in the initial investment in such company in order to preserve the Partnership/LLC's proportionate ownership when a subsequent financing is planned,

or to protect the Partnership/LLC's investment when such Portfolio Company's performance does not meet expectations. The availability of capital is generally a function of capital market conditions that are beyond the control of the Partnership/LLC or any Portfolio Company. There can be no assurance that the Portfolio Companies will be able to predict accurately the future capital requirements necessary for success or that additional funds will be available from any source.

*Side Letters.* The Partnership/LLC may enter into side letters or other writings with certain Limited Partners/Members in connection with their admission, without the approval of any other Limited Partner/Member, which has the effect of establishing rights under or altering or supplementing the terms of the Partnership/LLC Agreement and the subscription agreement. Such rights or terms in any such side letter or other similar agreement may include, without limitation, (i) excuse rights applicable to particular investments (which may increase the percentage interest of other Limited Partners/Members in, and contribution obligations of other Limited Partners/Members with respect to, such investments), (ii) the General Partner/Managing Member's agreement to extend certain information rights or additional reporting to such Limited Partner/Member, including, without limitation, to accommodate special regulatory or other circumstances of such Limited Partner/Member, (iii) modification of the confidentiality obligations of such Limited Partner/Member, (iv) the General Partner/Managing Member's agreement to consent to certain transfers by such Limited Partner/Member or other exercises by the General Partner/Managing Member of its discretionary authority under the Partnership/LLC Agreement for the benefit of such Limited Partner/Member, (v) restrictions on, or special rights of such Limited Partner/Member with respect to the activities of the General Partner/Managing Member, (vi) other rights or terms necessary in light of particular legal, regulatory or public policy characteristics of such Limited Partner/Member, (vii) additional obligations, and restrictions of the Partnership/LLC with respect to the structuring of any Portfolio Investment (including with respect to alternative investment vehicles), (viii) preferential access to co-investment opportunities and (ix) certain adjustments with respect to certain economic provisions.

Any rights or terms so established in a side letter with a Limited Partner/Member will govern solely with respect to such Limited Partner/Member (but not any of such Limited Partner/Member's assignees or transferees unless so specified in such side letter) and will not require the approval of any other Limited Partner/Member notwithstanding any other provision of the Partnership/LLC Agreement.

*Legal, Tax and Regulatory Risks.* Legal, tax and regulatory changes could occur during the term of the Partnership/LLC that may adversely affect the Partnership/LLC, its Portfolio Companies or Partners/Members. For example, the Partnership/LLC's investment activities will be subject to compliance with federal and state securities laws which may, among other things, restrict or prohibit the Partnership/LLC's ability to sell a Portfolio Investment. For example, federal securities law considerations relating to trading while in the possession of material non-public information or restrictions on "short-swing" trading profits may limit the ability of the Partnership/LLC to buy or sell securities of target companies. Under Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), holders of more than 10% of any class of equity securities of a company registered under Section 12 of the Exchange Act and directors and certain officers of such an issuer are restricted with respect to any purchase and sale, or any

sale and purchase, of any equity or derivative security of such issuer within any period of less than six months. If the Partnership/LLC engages in any such transaction that results in short-swing profits, the Partnership/LLC may be required to return the amount of such profit to the issuer. Measures to avoid short-swing liability may limit the ability of the Partnership/LLC to buy or sell securities of target companies.

Antitrust or other regulatory requirements may impose filing fees and other additional expenses on the Partnership/LLC and may adversely affect the Partnership/LLC's ability to acquire or dispose of investment positions. Further, securities and futures markets are subject to comprehensive statutes, regulations and margin requirements enforced by the SEC, other regulators and self-regulatory organizations and exchanges authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial actions. Changes in the regulation of private funds and their trading activities may adversely affect the ability of the Partnership/LLC to obtain leverage and financing and the value of investments held by the Partnership/LLC.

The Partnership/LLC and/or the General Partner/Managing Member may also be subject to regulation in jurisdictions in which the Partnership/LLC and/or the General Partner/Managing Member engage in business. Investors in the Partnership/LLC should understand that the Partnership/LLC's business is dynamic and is expected to change over time. Therefore, the Partnership/LLC may be subject to new or additional regulatory constraints in the future. This Memorandum cannot address or anticipate every possible current or future regulation that may affect the General Partner/Managing Member, the Partnership/LLC or their Portfolio Companies. Such regulations may have a significant impact on the Limited Partners/Members or the operations of the Partnership/LLC, including, without limitation, restricting the types of investments the Partnership/LLC may make, preventing the Partnership/LLC from exercising its voting rights with regard to certain financial instruments, requiring the Partnership/LLC to disclose the identity of its investors or otherwise. The General Partner/Managing Member may, in its sole discretion, cause the Partnership/LLC to be subject to such regulations if it believes that an investment or business activity is in the Partnership/LLC's interest, even if such regulations may have a detrimental effect on one or more Limited Partners/Members. Prospective investors are encouraged to consult their own advisors regarding an investment in the Partnership/LLC.

*Contingent Liabilities on Disposition of Investments.* In connection with the disposition of an investment in a Portfolio Company, the Partnership/LLC may be required to make representations about the business and financial affairs of such Portfolio Company typical of those made in connection with the sale of a business. The Partnership/LLC also may be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities for which the General Partner/Managing Member may establish reserves or escrows. In that regard, Limited Partners/Members may be required to return amounts distributed to them to fund Partnership/LLC obligations, including indemnity obligations. Furthermore, under the Delaware Revised Uniform Limited Partnership Act, each Limited Partner/Member that receives a distribution in violation of such Act will, under certain circumstances, be obligated to recontribute such distribution to the Partnership/LLC.

*Reliance on the General Partner/Managing Member and FFC.* The General Partner/Managing Member/Principals and FFC will have exclusive responsibility for the Partnership/LLC's activities, and, other than as may be set forth herein and in the Partnership/LLC Agreement, Limited Partners/Members will not be able to make investment or any other decisions concerning the management of the Partnership/LLC. In this regard, as of the date of this Memorandum none of the Partnership/LLC's investments have been identified, so that Limited Partners/Members will be relying on the ability of the General Partner and FFC to select the investments to be made using the capital available to the Partnership/LLC.

*Non-U.S. Investments.* The Partnership/LLC may invest a portion of its aggregate Capital Commitments in Portfolio Companies that are organized under the laws of a jurisdiction other than the United States and whose principal place of business is located outside the United States. Non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various foreign currencies in which the Partnership's foreign Portfolio Investments are denominated, and costs associated with conversion of Portfolio Investment principal and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including potential price volatility in and relative liquidity of some foreign securities markets, the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (iii) certain economic, social and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital, the risks of political, economic or social instability and the possibility of expropriation or confiscatory taxation; (iv) the possible imposition of foreign taxes on income and gains recognized with respect to such securities or distributions therefrom; and (v) differences in applicable legal systems, including the possibility that the Partnership/LLC may experience difficulty in asserting legal claims or obtaining legal remedies in foreign jurisdictions. In addition, non-U.S. jurisdictions, in which the Partnership/LLC may make investments, may have similar laws, regulations and market and business conditions to those described with respect to the U.S. herein and accordingly, similar potential risks would apply. While the General Partner/Managing Member intends, where appropriate, to manage the Partnership/LLC in a manner that will seek to minimize exposure to the foregoing risks, there can be no assurance that adverse developments with respect to such risks will not adversely affect the assets of the Partnership/LLC that are held in certain countries.

*General U.S. Tax Considerations.* The Partnership/LLC is expected to be treated as a Partnership/LLC for U.S. federal income tax purposes. Each U.S. Limited Partner/Member, in determining its U.S. federal income tax liability, will take into account its allocable share of items of income, gain, loss, deduction and credit of the Partnership/LLC, without regard to whether it has received distributions from the Partnership/LLC. Accordingly, in any year a U.S. Limited Partner/Member may have taxable income and a resulting tax liability even though such Partner/Member has not received cash from the Partnership/LLC with which to pay its taxes. There is a risk that the Internal Revenue Service (the "IRS") will not concur as to the tax consequences of an investment in the Partnership/LLC. The IRS may audit the Partnership/LLC and challenge any of the positions taken in regard to its formation, its Portfolio Investments or operations, and

such audit may result in an audit of a Partner/Member's own tax returns and possibly adjustments to the tax liability reflected thereon.

*Tax-Exempt and Non-U.S. Investors May Be Subject to U.S. Tax.* Certain Portfolio Investments may generate "income effectively connected with the conduct of a U.S. trade or business" ("ECI") that would be taxable to non-U.S. investors, and/or generate "unrelated business taxable income" ("UBTI") that would be taxable to certain tax-exempt investors. Such Portfolio Investments may also give rise to U.S. tax reporting and payment obligations for tax-exempt or non-U.S. investors in the Partnership/LLC. Pursuant to the Partnership/LLC Agreement, the General Partners/Managing Members will use its reasonable best efforts to avoid incurring any UBTI or ECI by a U.S. tax-exempt Limited Partner/Member or a non-U.S. Limited Partner/Member, respectively, subject to the exceptions therein.

While it is not generally anticipated that the Partnership/LLC will incur long-term leverage, tax-exempt investors should note that the use of leverage by the Partnership may potentially create UBTI.

*Possible Withholding Tax and Information Reporting Regime.* A bill enacted in 2010 requires all entities in a broadly defined class of foreign financial institutions ("FFIs") to comply with a complicated and expansive reporting regime or, beginning in 2014, be subject to a 30% U.S. withholding tax on certain U.S. payments (and beginning in 2017, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities) and requires non-U.S. entities which are not FFIs to either certify they have no substantial U.S. beneficial ownership or to report certain information with respect to certain U.S. beneficial ownership or, beginning in 2014, be subject to a 30% U.S. withholding tax on certain U.S. payments (and beginning in 2017, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities).

*Taxation in Portfolio Company Jurisdictions.* If the Partnership/LLC makes Portfolio Investments in a jurisdiction outside the United States, the Partnership/LLC or the Limited Partners/Members may be subject to income or other tax in that jurisdiction. Additionally, withholding tax or branch tax may be imposed on earnings of the Partnership/LLC from Portfolio Investments in such jurisdictions. In addition, local tax incurred in non-United States jurisdictions by the Partnership/LLC or vehicles through which it invests may not be creditable to or deductible by the Limited Partners/Members. Investors are urged to seek their own advice regarding the tax implications to them of an investment in the Partnership/LLC.

Income or gains of the Partnership/LLC may be subject to withholding, income, net wealth or other tax in the jurisdictions where the Partnership/LLC's investments are located. Taxes paid or withheld by the Partnership/LLC allocable to a Partner/Member will be deemed to have been distributed to such Partner/Member. In certain situations, the Partnership/LLC may hold investments through entities organized outside the United States that are treated as corporations for U.S. federal income tax purposes. Partners/Members may be subject to special rules applicable to "controlled foreign corporations," or "passive foreign investment companies" with respect to investments made through such entities.



There is a risk that the IRS will not concur as to the tax consequences of an investment in the Partnership/LLC.

*No Internal Revenue Service Rulings.* Informational returns filed by the Partnership/LLC are subject to audit by the IRS. The Partnership/LLC will not seek rulings from the IRS with respect to any of the U.S. federal income tax considerations discussed in this Memorandum. Thus, positions to be taken by the IRS as to tax consequences could differ from positions taken by the Partnership/LLC. For example, the IRS may audit the Partnership/LLC and challenge any of the positions taken in regard to its formation, its investments or operations, and such audit may result in an audit of a Partner/Member's own tax returns and possibly adjustments to the tax liability reflected thereon.

*Absence of Regulatory Oversight.* While the Partnership/LLC may be considered similar in some ways to an investment company, it is not required and does not intend to register as such under the 1940 Act and, accordingly, Limited Partners/Members are not accorded the protections of the 1940 Act. Ferrer Freeman & Company, LLC (the "Advisor") is registered as an investment adviser under the Advisers Act and Peloton Equity, LLC has been added as a relying adviser.

*Possible Legislative or Other Developments.* All statements contained in this Memorandum concerning the U.S. federal income tax consequences of any investment in the Partnership/LLC are based upon existing law and the interpretations thereof. Therefore, no assurance can be given that the currently anticipated income tax treatment of an investment in the Partnership/LLC will not be modified by legislative, judicial or administrative changes, possibly with retroactive effect, to the detriment of the Partners/Members. Additionally, tax authorities in jurisdictions where the Partnership/LLC maintains investments may increase or materially change their tax codes so as to materially increase the tax burden associated with an investment in the Partnership/LLC or to force or attempt to force increased disclosure from or about the Partnership/LLC and/or its Partners/Members as to the identity of all persons having a direct or indirect interest in the Partnership/LLC. Such additional disclosure may take the form of additional filing requirements on Partners/Members.

*Risks Arising from Provision of Managerial Assistance.* The General Partner/Managing Member will use reasonable best efforts to avoid having the assets of the Partnership/LLC constitute "plan assets" of any plan subject to Title I of the Employee Retirement Security Act of 1974, as amended ("ERISA" or Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code")) and may, in this regard, elect to operate the Partnership/LLC as a "venture capital operating company" ("VCOC") within the meaning of regulations promulgated under ERISA. Operating the Partnership/LLC as a VCOC would require that the Partnership/LLC obtain rights to substantially participate in or influence the conduct of the management of a number of the Partnership/LLC's Portfolio Companies. The Partnership/LLC will typically designate a director to serve on the board of directors of one or more Portfolio Companies as to which it obtains such rights. The designation of directors and other measures contemplated could expose the assets of the Partnership/LLC to claims by a Portfolio Company, its security holders and its creditors. While the General Partner/Managing Member intends to minimize exposure to these risks, the possibility of successful claims cannot be precluded.

*ERISA Considerations.* In the event the Partnership/LLC is operated to qualify as a VCOC in order to avoid holding “plan assets” (within the meaning of ERISA), the Partnership/LLC may be restricted or precluded from making certain Portfolio Investments. In addition, it could be necessary for the General Partner/Managing Member to liquidate Portfolio Investments at a disadvantageous time in order to avoid holding ERISA “plan assets,” resulting in lower proceeds to the Partnership/LLC than might have been the case without the need to qualify as a VCOC.

*Potential Control Group Liability.* Under ERISA, upon the termination of a tax-qualified single employer defined benefit pension plan, the sponsoring employer and all members of its “controlled group” will be jointly and severally liable for 100% of the plan’s unfunded benefit liabilities whether or not the controlled group members have ever maintained or participated in the plan. In addition, the Pension Benefit Guaranty Corporation (the “PBGC”) may assert a lien with respect to such liability against any member of the controlled group on up to 30% of the collective net worth of all members of the controlled group. Similarly, in the event a participating employer partially or completely withdraws from a multiemployer (union) defined benefit pension plan, any withdrawal liability incurred under ERISA will represent a joint and several liability of the withdrawing employer and each member of its controlled group.

A “controlled group” includes all “trades or businesses” under 80% or greater common ownership. This common ownership test is broadly applied to include both “parent-subsidiary groups” and “brother-sister groups” applying complex exclusion and constructive ownership rules. However, regardless of the percentage ownership that the Partnership/LLC holds in one or more of its Portfolio Companies, the Partnership/LLC itself cannot be considered part of an ERISA controlled group unless the Partnership/LLC is considered to be a “trade or business”.

While there are a number of cases that have held that managing investments is not a “trade or business” for tax purposes, in 2007 the PBGC Appeals Board ruled that a private equity fund was a “trade or business” for ERISA controlled group liability purposes and at least one Federal Circuit Court has similarly concluded that a private equity fund could be a trade or business for these purposes based upon a number of factors including the fund’s level of involvement in the management of its portfolio companies and the nature of any management fee arrangements.

If the Partnership/LLC were determined to be a trade or business for purposes of ERISA, it is possible, depending upon the structure of the investment by the Partnership/LLC and/or its affiliates and other co-investors in a Portfolio Company and their respective ownership interests in the Portfolio Company, that any tax-qualified single employer defined benefit pension plan liabilities and/or multiemployer plan withdrawal liabilities incurred by the Portfolio Company could result in liability being incurred by the Partnership/LLC, with a resulting need for additional capital contributions, the appropriation of Partnership/LLC assets to satisfy such pension liabilities and/or the imposition of a lien by the PBGC on certain Partnership/LLC assets. Moreover, regardless of whether or not the Partnership/LLC were determined to be a trade or business for purposes of ERISA, a court might hold that one of the Partnership/LLC’s Portfolio Companies could become jointly and severally liable for another Portfolio Company’s unfunded pension liabilities pursuant to the ERISA “controlled group” rules, depending upon the relevant investment structures and ownership interests as noted above.

*Indemnification.* The Partnership/LLC will be required to indemnify the General Partner/Managing Member, the Advisor, each of their affiliates and each of their respective direct and indirect agents, partners, officers, members, shareholders, directors and employees' shareholders and employees for liabilities incurred in connection with the affairs of the Partnership/LLC and as otherwise provided in the Partnership Agreement. Such liabilities may be material. For example, in their capacity as directors of Portfolio Companies, the partners/members or affiliates of the General Partner/Managing Member may be subject to derivative or other similar claims brought by shareholders of such Portfolio Companies. The indemnification obligation of the Partnership/LLC would be payable from the assets of the Partnership/LLC, including the unpaid Capital Commitments of the Limited Partners/Members. If the assets of the Partnership/LLC are insufficient, the General Partner/Managing Member may recall distributions previously made to the Limited Partners/Members (subject to certain limitations set forth in the Partnership/LLC Agreement). The Partnership/LLC may purchase liability insurance to protect indemnities. Members of the LP Advisory Committee will also be entitled to the benefit of certain indemnification and exculpation provisions as set forth in the Partnership/LLC Agreement.

*Liability of the Partnership and the Partners.* The General Partner/Managing Member has unlimited liability for all debts and obligations of the Partnership/LLC. Except as provided below, the total liability of a Limited Partner/Member is limited to the amount of its Capital Commitment, except in certain circumstances whereby such Limited Partner/Member was involved in the management or otherwise engaged in the business of the Partnership/LLC or externally represented the Partnership/LLC. Any Partner/Member's Capital Commitment is susceptible to risk of loss as a result of any liability of the Partnership/LLC irrespective of whether such liability is attributable to a Portfolio Investment to which such Partner/Member contributed any capital. If the Partnership/LLC is otherwise unable to meet its obligations, the Limited Partners/Members may, under applicable law, be obligated to return, with interest, distributions previously received by them pursuant to any rules regarding fraudulent conveyances to the Partnership/LLC or to creditors whose interests have been injured. In addition, a Limited Partner/Member may be liable under applicable bankruptcy law to return a distribution made during the Partnership/LLC's insolvency.

*Absence of Recourse.* The Partnership/LLC Agreement will include exculpation, indemnification and other provisions that will limit the circumstances under which the General Partner/Managing Member, the Advisor and others can be held liable to the Partnership/LLC. In addition, investors should note that the Partnership/LLC Agreement contains provisions that, subject to applicable law, (i) reduce or eliminate the duties, including fiduciary and other duties, to which the General Partner/Member would otherwise be subject; (ii) waive duties or consent to the conduct of the General Partner/Member that might not otherwise be permitted pursuant to such duties; and (iii) limit the remedies of Limited Partners/Members with respect to breaches of such duties. Additionally, certain service providers to the Partnership/LLC, the General Partner/Managing Member, the Advisor, their respective affiliates and other persons, including, without limitation, the members of the LP Advisory Committee, the Partners/Members, and placement agents, finders and advisers, may be entitled to exculpation and indemnification (in certain cases on terms more favorable to them than those available to Indemnified Parties generally). As a result, the Limited Partners/Members may have a more limited right of action in certain cases than they would in the absence of such limitations.



*Reliance on Portfolio Company Management.* Each Portfolio Company's day-to-day operations will be the responsibility of such company's management team. Although the General Partner/Member will be responsible for monitoring the performance of each investment and intends to invest in companies operated by strong management, there can be no assurance that the existing management team, or any successor, will be able to operate the Portfolio Company in accordance with the Partnership/LLC's plans.

*Hedging Policies/Risks.* In connection with the financing of certain investments, the Partnership/LLC may employ hedging techniques designed to reduce the risks of adverse movements in interest rates, securities prices and currency exchange rates. While such transactions may reduce certain risks, such transactions themselves may entail certain other risks. Thus, while the Partnership/LLC may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates, securities prices, or currency exchange rates may result in a poorer overall performance for the Partnership/LLC than if it had not entered into such hedging transactions.

*Bridge Financings.* From time to time, the Partnership/LLC may provide financing to Portfolio Companies on a short-term, unsecured basis in anticipation of a future issuance of equity or long-term debt securities. Such Bridge Investments would typically be convertible into a more permanent, long-term security; however, for reasons not always in the Partnership/LLC's control, such long-term securities may not be issued and such Bridge Investments may remain outstanding. In such event, the interest rate or other terms of such financings may not adequately reflect the risk associated with the unsecured position taken by the Partnership/LLC.

*Failure to Make Capital Contributions.* If a Limited Partner/Member fails to pay when due installments of its Capital Commitment to the Partnership/LLC, and the Capital Contributions made by non-defaulting Limited Partners/Members and borrowings by the Partnership/LLC are inadequate to cover the defaulted contribution, the Partnership/LLC may be unable to pay its obligations when due. As a result, the Partnership/LLC may be subjected to significant penalties that could materially adversely affect the returns to Limited Partners/Members (including non-defaulting Limited Partners/Members). If a Limited Partner/Member defaults, it may be subject to various remedies as provided in the Partnership/LLC Agreement, including, without limitation, reductions in its capital account balance.

*Dilution from Subsequent Closings.* Limited Partners/Members subscribing for Interests at subsequent closings will participate in existing Portfolio Investments of the Partnership/LLC, diluting the interest of existing Limited Partners/Members therein. Although such Limited Partners/Members will contribute their pro rata share of previously made Partnership/LLC draws (plus an additional amount thereon), unless the General Partner/Managing Members in its sole and absolute discretion determines that a pro rata contribution from Limited Partners/Members at a subsequent closing together with an additional amount thereon as described in the Partnership/LLC Agreement would not appropriately reflect a material change in the value of the investments then held by the Partnership/LLC, there can be no assurance that this payment will reflect the fair value of the Partnership/LLC's existing Portfolio Investments at the time such additional Limited Partners/Members subscribe for Interests.

*FOIA*. To the extent the General Partner/Managing Member determines in good faith that, as a result of the U.S. Freedom of Information Act (“FOIA”), any governmental public records access law, any state or other jurisdiction’s laws similar in intent or effect to FOIA, or any other similar statutory or regulatory requirement, a Limited Partner/Member or any of its affiliates may be required to disclose information relating to the Partnership/LLC, its affiliates, and/or any entity in which a Portfolio Investment is made (other than certain fund level, aggregate performance information described in the Partnership/LLC Agreement), the General Partner/Managing Member may, in order to prevent any such potential disclosure, withhold all or any part of the information otherwise to be provided to such Limited Partner/Member or alter the manner in which such information is provided to such Limited Partner/Member.

### **Potential Conflicts of Interest**

Investors should be aware that there will be occasions when the General Partner/Managing Member and their affiliates (including the Advisors) may encounter potential conflicts of interest in connection with the Partnership/LLC. Investors should note that the Partnership/LLC Agreement contains provisions that, subject to applicable law, reduce or modify the duties, including fiduciary and other duties, to the Partnership/LLC and the Limited Partners/Members to which the General Partner/Managing Member and its affiliates (including the Advisors) would otherwise be subject, provisions that waive or consent to conduct on the part of the General Partner/Managing Member and their affiliates (including the Advisors) that might not otherwise be permitted pursuant to such duties, and provisions that limit the remedies of Limited Partners/Members with respect to breaches of such duties. If any matter arises that the General Partner/Managing Members determine in its good faith judgment constitutes an actual conflict of interest, the General Partner/Managing Members may take such actions as may be necessary or appropriate, within the confines of the Partnership/LLC Agreement, to ameliorate the conflict (and upon taking such actions the General Partner/Managing Member will be relieved of any responsibility for such conflict and be deemed to have satisfied its fiduciary duties with respect to such conflict). These actions may include disposing of the security giving rise to the conflict of interest or appointing an independent fiduciary. By acquiring an Interest in the Partnership/LLC, each Limited Partner/Member will be deemed to have acknowledged the existence of any such actual or potential conflicts of interest and to have waived any claim with respect to any liability arising from the existence of any such conflict of interest. FFC and its partners, members, directors, officers, and employees may in the future engage in further activities that may result in additional conflicts of interest not addressed below. The following discussion enumerates certain potential conflicts of interest:

*Carried Interest.* The existence of the General Partner/Managing Member’s Carried Interest may create an incentive for the General Partner/Managing Member to make more speculative Portfolio Investments on behalf of the Partnership/LLC than it would otherwise make in the absence of such performance-based arrangement. In addition, if distributions are made of property other than cash, the amount of any such distribution will be accounted for at the fair market value of such property, as determined by the General Partner/Managing Member in accordance with procedures specified in the Partnership/LLC Agreement. An independent appraisal generally will not be required and is not expected to be obtained.

*Other Fees.* The General Partner/Managing Member and their affiliates may receive certain cash and non-cash fees from Portfolio Companies in connection with the purchase, monitoring or disposition of Portfolio Investments or in connection with unconsummated transactions (i.e., transaction, directors, consulting, management, investment banking, advisory, closing, topping, break-up and other similar fees). Fees from these activities will reduce the Management Fee paid by the Limited Partners/Members on a dollar for dollar basis for FFC and by 50% of the fees received for Peloton. With exceptions, Limited Partners/Members will receive no benefit from such fees.

*Joint Venture Partners.* Some of the third-party operators and joint venture partners with whom the General Partner/Managing Members may elect to co-invest the Partnership/LLC's commitments have preexisting investments with FFC through the Predecessor Funds. The terms of the preexisting investments may differ from the terms upon which the Partnership/LLC invests with such operators and partners. To the extent a dispute arises between FFC and such operators and partners, the Partnership/LLC's investments relating thereto may be affected.

*Diverse Limited Partner/Member Group.* The Limited Partners/Members may have conflicting investment, tax and other interests with respect to their investments in the Partnership/LLC. The conflicting interests of individual Limited Partners/Members may relate to or arise from, among other things, the nature of Portfolio Investments made by the Partnership/LLC, the structuring or the acquisition of Portfolio Investments and the timing of disposition of Portfolio Investments. As a consequence, conflicts of interest may arise in connection with the decisions made by the General Partner/Managing Member, including with respect to the nature or structuring of Portfolio Investments that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring Portfolio Investments appropriate for the Partnership/LLC, the General Partner/Managing Member will consider the investment and tax objectives of the Partnership/LLC and its Partners/Members as a whole, not the investment, tax or other objectives of any Limited Partner/Member individually.

*Certain Limited Partners will have Representatives on the LP Advisory Committee.* The LP Advisory Committee will have a role in certain matters regarding the Partnership, including with respect to certain conflicts of interest, in each case as provided in the Partnership Agreement. The Partnership Agreement will provide that to the fullest extent permitted by law, (i) none of the members of the LP Advisory Committee, nor the Limited Partners on behalf of whom such members act as representatives, if applicable, shall owe any duties (fiduciary or otherwise) to any other Limited Partner in respect of the activities of the LP Advisory Committee, other than the duty to act in good faith and (ii) in taking or omitting to take any action, a member of the LP Advisory Committee may act solely in the interests of the Limited Partners, which it represents, if applicable, and the same shall not be deemed (in and of itself) to violate its duty of good faith. Furthermore, members of the LP Advisory Committee may have various business and other relationships with FFC and their partners, employees and affiliates. The presence of these other relationships may influence their decisions as members of such committee.

*Service Providers.* The service providers or their affiliates (including any administrators, lenders, brokers, attorneys, consultants and investment banking firms) of the Partnership/LLC, FFC,

Peloton or any of their affiliates may be investors in the Partnership/LLC and/or sources of investment opportunities and co-investors or counterparties therewith. This may influence the General Partner/Managing Member in deciding whether to select such a service provider or have other relationships with FFC. Moreover, certain service providers (or their affiliates, including lenders, brokers, attorneys, consultants and investment banking firms) to the Partnership/LLC and its Portfolio Companies may also provide services to or have other relationships with FFC. These other services and relationships may influence the General Partner/Managing Member in deciding whether to select such a provider to perform services for the Partnership/LLC and its Portfolio Companies (the cost of which will generally be borne directly or indirectly by the Partnership/LLC).

*Portfolio Company Relationships.* The Partnership/LLC's Portfolio Companies may be counterparties or participants in agreements, transactions or other arrangements with portfolio companies of other FFC Funds that, although FFC determines to be consistent with the requirements of the Partnership/LLC Agreement, may not have otherwise been entered into but for the affiliation with FFC, and which may involve fees and/ or payments for goods and services to such other Portfolio Companies which are not subject to the Management Fee offset provisions described herein.

*Other Activities and Relationships.* The Partners/Managing Members have made time commitments; however, the Partners/Managing Members will work on other projects, including the investments and affairs of the Predecessor Funds and will continue to participate in the management of the Predecessor Funds. Therefore, conflicts may arise in the allocation of management resources.

*Legal Representation – Limited Partnerships.* Simpson Thacher & Bartlett LLP ("STB") will act as counsel to the Partnership and the General Partner in connection with this offering and the organization of the Partnership. In connection with this offering and ongoing advice to the Partnership and the General Partner, STB will not be representing the Limited Partners and no independent counsel has been retained to represent the Limited Partners. STB may be removed by the General Partner at any time without the consent of, or notice to, the Limited Partners. Representation by STB of the Partnership, the General Partner and their affiliates is limited to specific matters as to which they have been consulted by such persons. There may exist other matters which could have a bearing on the Partnership, the General Partner and/or their affiliates as to which STB has not been consulted. In addition, STB does not undertake to monitor the compliance of the Partnership and the General Partner, and their affiliates with the investment program, investment strategies, valuation procedures, investment restrictions and other guidelines and terms set forth in this Memorandum and the Partnership Agreement, nor does STB monitor compliance with applicable laws. STB has not investigated or verified the accuracy and completeness of any information set forth in this Memorandum, including information concerning the Partnership and General Partner and their affiliates and personnel. STB may also act as counsel to a Portfolio Investment, equity sponsors of a Portfolio Investment, other creditors of a Portfolio Investment or an agent therefor, a party seeking to acquire some or all of the assets or equity of a Portfolio Investment, or a person engaged in litigation with a Portfolio Investment. Prospective investors should seek their own legal, tax, and financial advice before making an investment in the Partnership.

*Legal Representation – Limited Liability Company.* Goodwin Procter LLC (“Goodwin”) will act as counsel to the LLC and the Managing Member in connection with this offering and the organization of the LLC. In connection with this offering and ongoing advice to the LLC and the Managing Member, Goodwin will not be representing the Limited Partners and no independent counsel has been retained to represent the Limited Partners. Goodwin may be removed by the Managing Member at any time without the consent of, or notice to, the Limited Partners. Representation by Goodwin of the LLC, the Managing Member and their affiliates is limited to specific matters as to which they have been consulted by such persons. There may exist other matters which could have a bearing on the LLC, the Managing Member and/or their affiliates as to which Goodwin has not been consulted. In addition, Goodwin does not undertake to monitor the compliance of the LLC and the Managing Member, and their affiliates with the investment program, investment strategies, valuation procedures, investment restrictions and other guidelines and terms set forth in this Memorandum and the LLC Agreement, nor does Goodwin monitor compliance with applicable laws. Goodwin has not investigated or verified the accuracy and completeness of any information set forth in this Memorandum, including information concerning the LLC and Managing Member and their affiliates and personnel. Goodwin may also act as counsel to a Portfolio Investment, equity sponsors of a Portfolio Investment, other creditors of a Portfolio Investment or an agent therefor, a party seeking to acquire some or all of the assets or equity of a Portfolio Investment, or a person engaged in litigation with a Portfolio Investment. Prospective investors should seek their own legal, tax, and financial advice before making an investment in the LLC.

## **ITEM 9: DISCIPLINARY INFORMATION**

The Adviser and its supervised persons have not been involved in any legal or disciplinary events that are material to a client’s or potential client’s evaluation of our advisory business or the integrity of the Adviser’s management.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **A. *Registered Broker-Dealer or Registered Representative***

Not Applicable.

### **B. *FCM, CPO, CTA or Associated Person.***

Not Applicable.

### **C. *Material Business Relationships with Certain Related Persons***

FFC also performs mergers and acquisitions advisory services for some of the portfolio companies in which the Funds invest. The advisory work includes advising portfolio companies on the sale of assets or acquisition by another company. The advisory fee is paid to FFC and FFC either retains the fee as revenue, or (i) in the case of FFC III-B, passes the fee along to the Fund investors as a dollar for dollar reduction in the management fee for that quarter or (ii) in the case of Peloton Equity I, retains half of the fee as revenue and passes the remaining half of the fee along to Peloton Equity I's investors as a reduction in the management fee for that quarter.

The Adviser also earns fees as members of the boards of some of its portfolio companies. Compensation for board membership is earned in the form of cash and/or equities. The board compensation is paid to FFC and FFC either retains the fee as revenue, or (i) in the case of FFC III-B, as a dollar for dollar reduction in the management fee for that quarter or (ii) in the case of Peloton Equity I, retains half of the fee as revenue and passes the remaining half of the fee along to Peloton Equity I's investors as a reduction in the management fee for that quarter.

### **D. *Recommendation and Selection of Other Investment Advisers***

Not Applicable.



## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### *a) Code of Ethics*

FFC recognizes and believes that (i) high ethical standards are essential for its success and to maintain the confidence of its clients; (ii) its long-term business interests are best served by adherence to the principle that the interests of clients come first; and (iii) it has a fiduciary duty to its clients to act solely for their benefit. All personnel of the Adviser must put the interests of the Adviser's clients before their own personal interests and must act honestly and fairly in all respects in dealings with clients.

FFC has adopted a Code of Ethics (the "Code") pursuant to Advisers Act Rule 204A-1 that sets forth the Firm's ethical standards and governs the business conduct of the Firm and persons associated with the Firm. The Code describes FFC's policies regarding confidential Client information and regulates personal trading activity. Securities holdings and transactions of access persons and their immediate family members are reviewed to determine compliance with the requirements of the Code. The Code also contains other restrictions and reporting requirements designed to limit personal conflicts of interest. These provisions apply to all employees of the Firm. All personnel of the Adviser must also comply with all federal securities laws.

Clients or prospective clients may obtain a copy of the Code of Ethics by contacting Michelle Larkins (VP Finance and Administration) by e-mail at [mlarkins@ffandco.com](mailto:mlarkins@ffandco.com) or by telephone at 203-532-8011.

### *b) Participation or Interests in Client Transactions*

FFC and its related persons may invest their personal assets in the companies in which the Adviser's client Funds and SPV Fund invest or may hold an interest in the Funds and SPV Fund themselves. The Adviser has established procedures intended to limit conflicts of interest in cases where the Adviser, a related person or any of their employees, buys or sells companies in which the Adviser's client funds invest. None of FFC's Supervised Persons (as defined in the Code) may knowingly sell to or buy any security from a Client without prior written permission from the Chief Compliance Officer ("CCO") or the CCO's designee. Additionally, all Access Persons (as defined in the Code, and which includes Supervised Persons meeting certain further criteria) must submit quarterly transactions reports detailing personal securities transactions. Such reports will be reviewed by the CCO or the CCO's designee to ensure compliance with the Code.

### *C. Investment in Securities Recommended to Clients*

FFC's Supervised Persons are specifically prohibited from using their knowledge about pending transactions or investments currently being considered for personal profit, including by purchasing or selling such securities directly or indirectly. Further, as noted above, all Access Persons (as defined in the Code, and which includes Supervised Persons meeting certain further criteria) must

submit quarterly transactions reports detailing personal securities transactions. Such reports will be reviewed by the CCO or the CCO's designee to ensure compliance with the Code.

*D. Investment in Securities at or about the Same Time Recommended to Clients*

See Part 11 C. above.



## ITEM 12: BROKERAGE PRACTICES

### *a) Selection of Broker-Dealers*

Not Applicable.

### *b) Soft-Dollars Arrangement*

Not Applicable.

### *c) Brokerage for Client Referrals.*

Not Applicable.

### *d) Directed Brokerage*

Not Applicable.

### *e) Aggregation (Bunching) of Trades*

Not Applicable.

## **ITEM 13: REVIEW OF ACCOUNTS**

### *a) Client Account Reviews*

The Adviser has detailed knowledge of the investments in each Fund and SPV Fund. The Investment Committee meets several times a month to review the performance of each portfolio company in each Fund and SPV Fund and to ensure that transactions are within the parameters of the Funds' Limited Partnership Agreements and SPV Fund's Limited Liability Company's Agreements.

### *b) Client Reports*

Investors in the Institutional Funds receive quarterly financial statements, annual audited financial statements, a presentation on each portfolio company in each Fund at the Adviser's Annual Meeting and periodic News-letters. The investors in the side-by-side funds and SPV Fund receive annual audited financials and are invited to the Adviser's Annual Meeting.

#### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

FFC does not typically compensate third parties for investor referrals, although the Advisor did pay a Placement Agent a fee for the referral of one investor in FFC II. For the merger transaction of FFC III into FFC III-B, FFC paid Sixpoint Partners LLC (“Sixpoint”) a \$40,000 fee for their advisory services. No other third party fees were paid by the Advisor for investor referrals of the remaining FFC II investors or the FFC I, FFC III and Arcadia investors.

In January 2013, FFC entered into an agreement with Sixpoint as an exclusive agent with respect to private placement of limited partnership interests in a future fund or any fund vehicle established in direct succession to FFC II or FFC III with respect to one or more secondary sales. Sixpoint was paid an initial retainer fee and will continue to receive a monthly retainer through the initial term, ending in October 2013 and extended through March 2014, subject to extension on a month-to-month basis. Fees and expenses will be paid to Sixpoint for capital commitments made in connection with the engagement.

In the future, FFC may enter into other written solicitation arrangements with third parties (each a “Solicitor”). Under a solicitation arrangement, the Adviser may pay a referral fee to a Solicitor when the Solicitor successfully introduces a Client or fund investor to the Firm. The amount of compensation is based on a negotiated percentage of the management and incentive fees received by FFC from each Client. The solicitation arrangement does not affect the amount of fees paid by each Client.

## **ITEM 15: CUSTODY**

FFC retains custody of fund assets within the meaning of Rule 206(4)-2 under the Advisers Act.

The Advisor does retain custody of the physical securities underlying the Funds' investment in portfolio companies. From time to time, we also have custody of a Fund's cash pursuant to a capital call for a new investment, a Follow-On investment, payment of Fund expenses or a pending distribution of cash or securities. We also hold a small amount of cash on behalf of the side-by-side investors to fund investments and/or partnership expenses.

Where FFC is deemed to have custody of FFC's Fund's cash or securities, FFC provides (or causes to be provided) to each Investor in the Fund a copy of the Fund's audited financial statements within 90 days for FFC II, FFC III-B, Peloton Equity I and side-by-side Funds and 120 days for Arcadia following the relevant Fund's fiscal year end. Investors who do not receive audited financial statements timely should contact FFC immediately.

**ITEM 16: INVESTMENT DISCRETION**

The Adviser has the discretion and authority to invest the Clients' Capital in healthcare companies and sell those investments pursuant to the Guidelines in each Fund's Limited Partnership Agreement and SPV Fund's Limited Liability Company Agreement.

## **ITEM 17: VOTING OF CLIENT SECURITIES**

### *a) Proxy Voting Authority*

From time to time companies in which the Adviser invests may submit certain matters to a vote of its security holders. The right to vote is usually available to equity holders and not to holders of company debt.

FFC has adopted Proxy Voting Policies and Procedures pursuant to Rule 206(4)-6 of the Advisers Act designed to ensure that proxies are voted prudently and solely in the best interest of our clients. According to our policy, the Adviser will generally vote in accordance with management's recommendations in order to support the ability of management to run its business in a responsible and cost effective manner while staying focused on maximizing shareholder value. In the event that a conflict of interest exists between management's recommendation and the Adviser or its clients, the Adviser will vote in the manner which in its judgment and sole discretion is in the best interest of its clients.

### *b) Client Proxy Voting Authority*

FFC operates a policy of exercising proxy votes for clients as permitted within client agreements. Voting policy is undertaken at all times in the best interests of clients and for their benefit. A copy of the full proxy voting policy is available upon request.

## **ITEM 18: FINANCIAL INFORMATION OF THE ADVISER**

No financial events have occurred to FFC that would negatively affect the financial viability of the Adviser. There is no financial condition of FFC that is reasonably likely to impair FFC's ability to meet contractual commitments to clients.

### *a) Financial Disclosures*

Not Applicable.

### *b) Material Financial Impairment*

Not Applicable.

### *c) Bankruptcy Petitions*

Not Applicable.