

INVESTMENT ADVISER BROCHURE

GRYPHON ADVISORS, LLC

Part 2A of Form ADV

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This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Gryphon Advisors, LLC (“Gryphon Advisors”). If you have any questions about the contents of this Brochure, please contact us at (415) 217-7400. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.

Gryphon Advisors is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). However, such registration does not imply a certain level of skill or training.

Additional information regarding Gryphon Advisors is also available on the SEC’s website at www.adviserinfo.sec.gov.

MATERIAL CHANGES

Gryphon Advisors filed its initial Form ADV Part 2A on February 13, 2012 in connection with its registration as an investment adviser. This annual amendment updates the assets under management of Gryphon Advisors, as well as certain information under “Fees and Expenses” and “Types of Clients.”

TABLE OF CONTENTS

	<u>Page</u>
Material Changes	ii
Advisory Business	2
Fees and Compensation.....	3
Performance-Based Fees and Side-By-Side Management	6
Types of Clients.....	6
Methods of Analysis, Investment Strategies and Risk of Loss.....	7
Disciplinary Information.....	13
Other Financial Industry Activities and Affiliations.....	13
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	13
Brokerage Practices	14
Review of Accounts	16
Client Referrals and Other Compensation.....	16
Custody	16
Investment Discretion.....	16
Voting Client Securities.....	17
Financial Information.....	17

ADVISORY BUSINESS

Gryphon Investors is a private investment management firm, including several registered investment advisory entities and other affiliated organizations (collectively, “Gryphon”), that manages approximately \$880 million in private fund assets. Gryphon commenced operations in 1995.

Gryphon Advisors, a Delaware limited liability company and a registered investment adviser, provides investment advisory services to private investment funds. Gryphon Advisors commenced operations in June 1999.

The following are the affiliated advisers of Gryphon Advisors (collectively with Gryphon Advisors, the “Advisers”):

- Gryphon GenPar II, LLC (“GP II”);
- Gryphon GenPar III, L.P. (“GP III”); and
- Gryphon GenPar 3.5, L.P. (“GP 3.5,” and together with GP II and GP III, the “General Partners”).

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

Gryphon Advisors serves as the management company of:

- Gryphon Partners II, L.P. and Gryphon Partners II-A, each a Delaware limited partnership (collectively, “Gryphon II”);
- Gryphon Partners III, L.P., Gryphon Partners III-A, L.P., Gryphon Partners III-B, L.P., Gryphon Co-Invest Fund III, L.P. (the “Co-Invest Fund”), and Gryphon Partners III-C Annex Fund, L.P., each a Delaware limited partnership (collectively, “Gryphon III”); and
- Gryphon Partners 3.5, L.P., and Gryphon Partners 3.5-A, L.P., each a Delaware limited partnership (collectively, “Gryphon 3.5”, or together with Gryphon II, Gryphon III, and their respective parallel and alternative investment vehicles, the “Funds” and, together with any future private investment fund managed by Gryphon Advisors, the “Private Investment Funds”).

The General Partners each serve as general partner to one or more Funds and have the authority to make the investment decisions for the Funds to which they provide advisory services. In its capacity as the management company of the Funds, Gryphon Advisors has the authority to manage the business and affairs of the Funds.

Interests in the Funds are privately offered to qualified investors in the United States and elsewhere. The Funds and any other Private Investment Funds are private equity funds and invest through negotiated transactions in operating entities. The Advisers' investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating the terms of investments, managing and monitoring investments and ultimately selling such investments. Investments are made predominantly in non-public companies, although investments in public companies are permitted in certain instances. From time to time, the senior principals or other personnel of Gryphon Advisors or its affiliates may serve on the boards of directors (or other governing bodies) of such portfolio companies or otherwise act to influence control over management of portfolio companies held by the Funds.

Gryphon Advisors' advisory services for Private Investment Funds are detailed in the applicable private placement memoranda and limited partnership agreements and are further described below under "Methods of Analysis, Investment Strategies and Risk of Loss." Investors in Private Investment Funds participate in the overall investment program for the applicable fund, but may be excused from a particular investment due to legal, regulatory or other applicable constraints. The Funds or the Advisers may enter into side letters or similar agreements with certain investors that have the effect of establishing rights under, or altering or supplementing a Fund's limited partnership agreement (the "Partnership Agreement"), including by providing, among other things, different information rights, co-investment rights, liquidity or transfer rights and other economic rights that may be material.

As of December 31, 2013, Gryphon managed approximately \$880,100,000 in client assets on a discretionary basis. The principal owner of Gryphon Advisors is R. David Andrews.

FEES AND COMPENSATION

In general, the Advisers receive a management fee and carried interest in connection with advisory services. The Advisers or their affiliates receive additional compensation in connection with management and other services performed (*e.g.*, monitoring and other fees) for portfolio companies of Private Investment Funds and such additional compensation will offset in whole or in part the management fees otherwise payable to the Advisers. Investors in the Funds also bear certain fund expenses.

Management Fees

Gryphon II, Gryphon III (other than Gryphon Co-Invest Fund III, L.P.), and Gryphon 3.5 pay or will pay the applicable General Partner, semiannually, partially in advance and partially in arrears, a management fee (the "Management Fee") equal, on an annual basis, to 2.0% of aggregate unreturned invested capital for Gryphon II and Gryphon III, and 2.0% of aggregate investor capital commitments ("Commitments") for Gryphon 3.5. Upon the earlier to occur of (i) expiration of the investment period, (ii) the date when all Gryphon 3.5 Commitments have been invested or otherwise used to pay expenses of Gryphon 3.5, (iii) the date on which management fees for a successor fund begin to accrue and (iv) certain other events specified in the Partnership Agreement of Gryphon 3.5, the Management Fee will be reduced to 2.0% of the aggregate amount of capital invested in investments that have not been disposed of or written off, as further described in the Partnership Agreement. The Management Fee will be payable

throughout the life of the Funds, as described in the Partnership Agreement. Installments of the Management Fee payable for any period other than a full six-month period are adjusted on a *pro rata* basis according to the actual number of days in such period.

The Management Fee will generally be reduced by the Funds' shares of directors' fees paid by portfolio companies to partners or employees of the Advisers. Gryphon Advisors or another Gryphon entity will be permitted to retain ("Supplemental Fees") without offset against the Management Fee (i) in the case of Gryphon II, (a) 50% of management services or advisory consulting fees paid (but not directors' fees) by any portfolio company and (b) 50% of transactional fees, break-up fees and other similar payments paid to Gryphon Advisors or another Gryphon entity by any portfolio company and (ii) in the case of Gryphon III and Gryphon 3.5, either 50% or 20% any fees paid to Gryphon Advisors or another Gryphon entity, based on the type of fee and whether certain hurdles specified in the applicable Partnership have been reached (subject, in each case, to a cap). The remaining portion of Gryphon portfolio company-related fees not retained by Gryphon Advisors or another Gryphon entity will be credited as an offset against the Management Fee. To the extent that such an offset credit would reduce the Management Fee for a given six-month period below zero, the credit will be carried forward for future application against payable Management Fees. To the extent any such excess remains unapplied upon dissolution of a Fund, each partner of such Fund will receive its share of such unapplied excess, unless such partner elects not to receive its share. To the extent that any other Private Investment Fund or any other entity or individual co-invests alongside a Fund in any portfolio company investment, any Supplemental Fees will be allocated among such Fund and the co-investors in proportion to the cost of the investment or potential investment in the portfolio company held (or committed to be held) by each.

Gryphon Advisors and/or its affiliates generally have discretion over whether to charge such Supplemental Fees or other compensation to a portfolio company and, if so, the rate, timing and/or amount of such Supplemental Fees or other compensation. The receipt of such compensation may give rise to conflicts of interest between the Funds, on the one hand, and Gryphon Advisors and/or its affiliates on the other hand.

Portfolio company-related fees may also include amounts prepaid in anticipation of future services or otherwise accelerated in certain situations (*e.g.*, an initial public offering), which will be offset against the applicable Management Fee to the extent set forth in the relevant limited partnership agreement. Furthermore, a Fund will, in most cases, only benefit with respect to its allocable portion of any such fee and not the portion of any fee allocable to another entity, including, if applicable, any co-investment vehicle.

The Management Fee will commence as of the effective date based on aggregate commitments, regardless of when a limited partner in a Fund (a "Limited Partner") is actually admitted. The Management Fee will be paid out of current income and disposition proceeds of the applicable Fund and, in the applicable General Partner's discretion, from drawdowns that will reduce unfunded commitments.

As permitted under the applicable Partnership Agreement, each General Partner generally may waive or agree to reduce the Management Fee. Any such waived or reduced portion of the Management Fee reduces the amount of capital a General Partner would otherwise be required to

contribute to the applicable Fund. The limited partners of Gryphon III or Gryphon 3.5 may be required to make a *pro rata* contribution according to their respective Commitments to fund any capital contribution that would otherwise be required of the applicable General Partner in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration of investor capital contributions. Waived or reduced Management Fees are not subject to the Management Fee offsets described above. Due to waived or reduced Management Fees by a General Partner and/or timing of receipt of compensation subject to offsets (as described above), it is possible that Management Fee offsets will not be fully realized by investors in a Fund, resulting in a net additional benefit to the applicable General Partner.

Carried Interest

Each General Partner is entitled to receive a carried interest with respect to the Funds equal to 20% of all realized profits subject to an 8% annually compounded preferred return and related general partner catch-up provision (except, with respect to Gryphon 3.5, as otherwise agreed by the General Partner), as more fully described in the applicable Partnership Agreement. The carried interest distributed to a General Partner is subject to a potential giveback at the end of life of a Fund if the respective General Partner has received excess cumulative distributions.

Other Information

The Advisers may exempt certain investors in Private Investment Funds from payment of all or a portion of Management Fees and/or carried interest. Any such exemption from fees and/or carried interest may be made by a direct exemption, investment through a separate class of limited partnership interests of a given Private Investment Fund, or through other Private Investment Funds which co-invest with the Funds.

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

Principals or other employees of Gryphon may receive a portion of the Management Fee, carried interest or other compensation received by the Advisers or their affiliates.

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

Additionally, as described more fully in the applicable Partnership Agreement, under specific circumstances, certain Gryphon operating partners who may also be employees of Gryphon Advisors may provide certain value-added services to portfolio companies, whether on a one-time or more regular basis, that typically would otherwise be performed by third party consultants or other service providers. In connection with such services, Gryphon Advisors will be reimbursed for the costs of such operating partners by such portfolio companies. As set forth in the applicable Partnership Agreement, such reimbursed costs will not offset the applicable Management Fee.

In some cases, a co-investment vehicle may be formed in connection with the consummation of a transaction. Accordingly, where a proposed transaction is not consummated, no co-investment vehicle generally will have been formed, and the full amount of any expenses relating to any such proposed transaction would therefore be borne by the Fund or Funds selected by the applicable General Partner as proposed investors for such proposed transaction, to the extent set forth in the applicable Partnership Agreement.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As described under “Fees and Compensation,” the General Partners may receive a carried interest allocation on certain profits in the Funds. Gryphon Advisors advises the Co-Invest Fund, which is not subject to Management Fees or a carried interest. While this practice could present a conflict of interest, Gryphon does not believe this arrangement poses a conflict of interest in practice because the Co-Invest Fund co-invests alongside the other Gryphon III Funds at substantially the same time and on substantially the same terms as such Funds and disposes of such investments in a similar manner. In addition, Gryphon has adopted certain allocation policies and procedures to address this potential conflict of interest in accordance with the applicable Partnership Agreements.

TYPES OF CLIENTS

Gryphon Advisors provides investment advice to Private Investment Funds, including the Funds. Private Investment Funds may include investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended (the “Investment Company Act”). The investors participating in Private Investment Funds may include individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of Gryphon Advisors and its affiliates.

Gryphon II had a minimum investment amount of \$5,000,000 for third-party investors. Such minimum investment amount was waived by the applicable General Partner in certain cases, but not less than \$100,000.

Gryphon III had a minimum investment amount of \$10,000,000 for third-party investors. Such minimum investment amount was waived by the applicable General Partner in certain cases, but not less than \$100,000.

Gryphon 3.5 had a minimum investment amount of \$2,500,000 for third-party investors. Such minimum investment amount will be waived by the applicable General Partner in certain cases, but not less than \$100,000.

Investors in the Funds must meet certain suitability and net worth qualifications prior to making an investment. Generally, investors must be (i) “accredited investors” as defined under Regulation D of the Securities Act of 1933, as amended, and (ii) either “qualified purchasers” or “knowledgeable employees” as defined under the Investment Company Act. The Advisers may waive such minimum investment amounts and qualification requirements.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

General

Gryphon is a private investment firm focused on leveraged acquisitions, recapitalizations and restructurings of companies in the lower-end segment of the U.S. middle market. Gryphon Advisors’ investment advisory services consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for investments. Investments are predominantly of non-public companies although investments in public companies are permitted.

Gryphon Advisors prioritizes investment opportunities where it can apply its professionals’ sector-specific knowledge and operational acumen in order to seek to build value for the Funds’ investors. Such investment opportunities typically involve the purchase of controlling interests in companies with some combination of the following characteristics:

- stable underlying industries and competitive dynamics;
- current or potential market leadership positions;
- management teams whose professionalism can be augmented through addition of new executives and board directors;
- operational improvement opportunities; and
- potential for expanded product lines, service offerings and/or geographic presence.

As described further below, Gryphon Advisors seeks to pursue attractive risk-adjusted returns for the Funds utilizing Gryphon’s: (i) proprietary business model, professional team and firm culture, (ii) thematic and proactive sector strategies, (iii) value-added and fully-integrated Operations Resources Group, and (iv) successful integration of add-on acquisitions. Gryphon Advisors focuses on investments that require equity capital of approximately \$25 million to \$100 million and follow-on investments of up to an additional \$25 million to \$50 million, although the required capital may be greater or less than such amounts.

There can be no assurance that Gryphon Advisors will achieve the investment objectives of the Funds and a loss of investment may be possible.

Investment and Operating Strategy

Proprietary Business Model, Professional Team & Firm Culture. Gryphon’s 27-member professional team possesses a proprietary combination of operational experience, sector knowledge and specialization, and deal-making sophistication. Gryphon also benefits from a number of “in-house” functional experts in such valuable areas as organizational development and executive talent engagement, as well as due diligence, finance and marketing.

Thematic and Proactive Sector Strategies. The firm’s primary origination strategy is proactive sourcing of investment opportunities within specific sectors, chosen after extensive up-front research by the 16 Professionals on our Industry Specialty Group investment teams, and frequently pursued in exclusive partnership with proven large-market executives.

Value-Added and Fully-Integrated Operations Resources Group. Gryphon’s Operations Resources Group has been strategically grown since 1999 to six Professionals today, including four Partners and two other senior Professionals. The numerous initiatives led by the Operations Resources Group within Gryphon’s portfolio in concert with our investment professionals seek to drive meaningful equity value creation.

Successful Integration of Synergistic Add-on Acquisitions. Gryphon seeks to further build value through its origination, execution and integration of synergistic add-on acquisitions. Gryphon believes such acquisitions expand its companies’ scale, product and service offerings, addressable customer base and exit alternatives, while also creating opportunities to reduce costs and share best practices.

Risks of Investment

The Funds and their investors bear the risk of loss that the Advisers’ investment strategy entails. Although the following risk factors are generally applicable to the Funds, investors should also refer to each Fund’s private placement memorandum for risk factors specific to their Fund. The risks involved with the Advisers’ investment strategy and an investment in a Fund include, but are not limited to:

Business Risks. The Fund’s investment portfolio will consist primarily of securities issued by privately held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

Future and Past Performance. The performance of the General Partner’s principals (the “Principals”) prior investments is not necessarily indicative of the Fund’s future results. While the General Partner intends for the Fund to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that any targeted internal rate of return will be achieved. On any given investment, loss of principal is possible.

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

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

Lack of Sufficient Investment Opportunities. The business of identifying and structuring private equity transactions is highly competitive and involves a high degree of uncertainty. It is possible that the Fund will never be fully invested if enough sufficiently attractive investments are not identified. However, Limited Partners will be required to pay annual Management Fees during the Commitment Period based on the entire amount of their Commitments.

Dynamic Investment Strategy. While the General Partner generally intends to seek attractive returns for the Fund primarily through making private equity investments as described herein, the General Partner may pursue additional investment strategies and may modify or depart from its initial investment strategy, investment process and investment techniques as it determines appropriate. The General Partner may pursue investments outside of the industries and sectors in which the Principals have previously made investments or have internal operational experience.

Illiquidity; Lack of Current Distributions. An investment in the Fund should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, generally will occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is generally expected that this will not occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating the Fund (including the annual Management Fee payable to the General Partner) may exceed its income, thereby requiring that the difference be paid from the Fund's capital, including, without limitation, unfunded Commitments.

Leveraged Investments. The Fund may make use of leverage by incurring or having a portfolio company incur debt to finance a portion of its investment in a given portfolio company, including in respect of companies not rated by credit agencies. Leverage generally magnifies both the Fund's opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which state is difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage. The use of leverage will also result in interest expense and other costs to the Fund that may not be covered by distributions made to the Fund or appreciation of its investments and will impose restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to finance future operations and capital needs. The leveraged capital structure of portfolio companies will increase the exposure of the Fund's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of the Fund's investments in the leveraged portfolio companies in

a down market. In the event any portfolio company cannot generate adequate cash flow to meet debt service, the Fund may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of the Fund. Furthermore, should the credit markets be tight at the time the Fund determines that it is desirable to sell all or a part of a portfolio company, the Fund may not achieve an exit multiple or enterprise valuation consistent with its forecasts. Moreover, the companies in which the Fund will invest generally will not be rated by a credit rating agency.

Restricted Nature of Investment Positions. Generally, there will be no readily available market for Fund investments, and hence, most of the Fund's investments will be difficult to value. Certain investments may be distributed in kind to the Partners.

Reliance on the General Partner and Portfolio Company Management. Control over the operation of the Fund will be vested with the General Partner, and the Fund's future profitability will depend largely upon the business and investment acumen of the Principals. The loss or reduction of service of one or more of the Principals could have an adverse effect on the Fund's ability to realize its investment objectives. Limited Partners generally have no right or power to take part in the management of the Fund, and as a result, the investment performance of the Fund will depend on the actions of the General Partner. In addition, certain changes in the General Partner or circumstances relating to the General Partner may have an adverse effect on the Fund or one or more of its portfolio companies including potential acceleration of debt facilities.

Although the General Partner will monitor the performance of each Fund investment, it will primarily be the responsibility of each portfolio company's management team to operate such portfolio company on a day-to-day basis. Although the Fund generally intends to invest in companies with strong management or recruit strong management to such companies, there can be no assurance that the management of such companies will be able or willing to successfully operate a company in accordance with the Fund's objectives.

Projections. Projected operating results of a company in which the Fund invests normally will be based primarily on financial projections prepared by each company's management. In all cases, projections are only estimates of future results that are based upon information received from the company and assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.

Need for Follow-On Investments. Following its initial investment in a given portfolio company, the Fund may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company. There is no assurance that the Fund will make follow-on investments or that the Fund will have sufficient funds to make all or any of such investments. Any decision by the Fund not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment. Additionally, such failure to make such investments may result in a lost opportunity for the Fund to increase its participation in a

successful portfolio company or the dilution of the Fund's ownership in a portfolio company if a third party invests in such portfolio company.

Non-U.S. Investments. The Fund may invest in portfolio companies that are organized or headquartered or have substantial sales or operations outside of the United States, its territories, and possessions. Such investments may be subject to certain additional risk due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be given effect during the term of the Fund), the application of complex U.S. and non-U.S. tax rules to cross-border investments, possible imposition of non-U.S. taxes on the Fund and/or the Partners with respect to the Fund's income, and possible non-U.S. tax return filing requirements for the Fund and/or the Partners.

Additional risks of non-U.S. investments include: (a) economic dislocations in the host country; (b) less publicly available information; (c) less well-developed regulatory institutions; (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction; (e) civil disturbances; (f) government instability; and (g) nationalization and expropriation of private assets. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

Director Liability. The Fund will often obtain the right to appoint one or more representatives to the board of directors (or similar governing body) of the companies in which it invests. Serving on the board of directors (or similar governing body) of a portfolio company exposes the Fund's representatives, and ultimately the Fund, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability.

Uncertain Economic and Political Environment. The current global economic and political climate is one of uncertainty. Prior acts of terrorism in the United States, the threat of additional terrorist strikes and the fear of a prolonged global conflict have exacerbated volatility in the financial markets and can cause consumer, corporate and financial confidence to weaken, increasing the risk of a "self-reinforcing" economic downturn. The availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, continues to be restricted. This may have an adverse effect on the economy generally and on the ability of the Fund and its portfolio companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of their businesses. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. Furthermore, such uncertainty may have an adverse effect upon portfolio companies in which the Fund makes investments.

Health Care Regulation, Reimbursement and Reform. Various segments of the health care industry are (or may become) (i) highly regulated at both the federal and state levels in the United States and internationally, (ii) subject to frequent regulatory change and (iii) dependent upon various government or private insurance reimbursement programs. While the Fund intends to make investments in companies that comply with relevant laws and regulations, certain

aspects of their operations may not have been subject to judicial or regulatory interpretation. An adverse review or determination by any one of such authorities, or an adverse change in the regulatory requirements or reimbursement programs, could have a material adverse effect on the operations of the companies in which the Fund invests. Recent legislative changes have had, and will likely continue to have, a significant impact on the health care industry. In addition, various legislative proposals related to the health care industry are introduced from time to time at the United States federal and state level, and any such proposals, if adopted, could have a significant impact on the health care industry.

Market Conditions. Any material change in the economic environment, including a slow-down in economic growth and/or changes in interest rates or foreign exchange rates, could have a negative impact on the performance and/or valuation of the portfolio companies. The Fund's performance can be affected by deterioration in public markets and by market events, such as the onset of the credit crisis in the summer of 2007 or the downgrading of the credit rating of the United States in 2011, which, among other things, can impact the public market comparable earnings multiples used to value privately held portfolio companies and investors' risk-free rate of return. Movements in foreign exchange rates may adversely affect the value of investments in portfolio companies and the Fund's performance. The value of publicly traded securities may be volatile and difficult to sell as a block, even following a realization through listing. The impact of market and other economic events may also affect the Fund's ability to raise funding to support its investment objective and also the level of profitability achieved on realizations of investments.

Conflicts of Interest

During the investment period of a given Fund, the Advisers will pursue all appropriate investment opportunities exclusively through the currently active Fund, subject to certain limited exceptions. However, the Advisers currently manage several other investment funds and investments similar to those in which the Funds will be investing, and may direct certain relevant investment opportunities to those investment funds and investments. The Advisers' investment staff will continue to manage and monitor such investment funds and investments. The Advisers' significant investment in the Funds, as well as the Advisers' interest in the carried interest, operate to align, to some extent, the interest of the Advisers with the interest of the Limited Partners, although the Advisers have economic interests in such other investment funds and investments as well and receive Management Fees and carried interests relating to these interests. Such other investment funds and investments that the Advisers may control may compete with the Funds or companies acquired by the Funds. Following the investment period of a particular Fund, the Advisers may and likely will focus its investment activities on other opportunities and areas unrelated to a Fund's investments.

From time to time, the Advisers will be presented with investment opportunities that would be suitable for more than one of the Funds and other investment vehicles operated the Advisers or their affiliates. In determining which investment vehicles should participate in such investment opportunities, the Advisers and their affiliates are subject to conflicts of interest among the investors in such investment vehicles. The Advisers attempt to resolve such conflicts of interest in light of their obligations to investors in the Funds and the obligations owed by the Advisers to investors in investment vehicles managed by them, and they attempt to allocate

investment opportunities among Funds in a fair and equitable manner. Where deemed necessary in their discretion or pursuant to the Funds' Partnership Agreements, the Advisers consult and receive consent to conflicts from an advisory board consisting of Limited Partners of the Funds and such other investment vehicles.

Because each General Partner's carried interest is based on a percentage of net realized profits, it may create an incentive for a General Partner to cause a Fund to make riskier or more speculative investments than would otherwise be the case. Since the General Partners are permitted to retain certain Supplemental Fees (as described under "Fees and Compensation") in connection with Fund investments, the Advisers could have a conflict of interest in connection with approving transactions and setting such compensation. This conflict may be mitigated to an extent by offsetting the Management Fee by a specified percentage of such Supplemental Fees and a General Partner's interest in the carried interest of a Fund.

DISCIPLINARY INFORMATION

Gryphon Advisors and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

As described under "Advisory Business" above, Gryphon Advisors is affiliated with the General Partners, which are registered with the SEC under the Advisers Act pursuant to Gryphon Advisors' registration in accordance with SEC guidance. The General Partners operate as a single advisory business together with Gryphon Advisors and serve as general partners of Funds and other pooled vehicles and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

The Advisers have adopted the Gryphon Code of Ethics and Securities Trading Policy and Procedures (the "Code"), which sets forth standards of conduct that are expected of Gryphon principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Gryphon personnel to:

- report their personal securities transactions;
- pre-clear any proposed purchase of an initial public offering or a limited offering; and
- comply with policies and procedures reasonably designed to prevent the misuse of, or trading upon, material non-public information.

A copy of the Code will be provided to any investor or prospective investor upon request to James R. Gillette, the Gryphon Chief Compliance Officer, at 415-217-7400. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client's interests in client eligible investments.

The Advisers and their affiliated persons may come into possession, from time to time, of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, the Advisers and their affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the Advisers.

Accordingly, should the Advisers or any of their affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, the Advisers would be prohibited from communicating such information to clients, and the Advisers will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of Gryphon personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Funds.

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

The Funds and other Private Investment Funds may invest together with other private investment funds advised by an Adviser or its affiliate in the manner set forth in the applicable Partnership Agreement. The Advisers will allocate investment opportunities or advisory recommendations on a fair and equitable basis, consistent with their fiduciary obligations, the underlying documents for the relevant Fund and the Gryphon investment allocation policy.

Gryphon Advisors and its affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in the Funds, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, the Funds, even though their investment objectives may be the same or similar.

BROKERAGE PRACTICES

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

If Gryphon Advisors sells publicly traded securities for the Funds, it is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by Gryphon Advisors. In such event, Gryphon Advisors will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, Gryphon Advisors may consider a variety of factors, including: (i) execution capabilities with respect to

the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; (iv) gross compensation paid to the broker; and (v) the financial strength of the broker.

The Advisers have no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or “posted” commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although the Advisers generally seek competitive commission rates, they may not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with the Advisers seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although the Gryphon generally does not make use of such services at the current time and has not made use of such services since its inception. As a general matter, research provided by these brokers would be used to service all of the Private Investment Funds. However, each and every research service may not be used for the benefit of each and every Private Investment Fund managed by Gryphon, and brokerage commissions paid by one Private Investment Fund may apply towards payment for research services that might not be used in the service of such Private Investment Fund.

To the extent that Gryphon allocates brokerage business on the basis of research services, it may have an incentive to select or recommend broker-dealers based on the interest in receiving such research or other products or services, rather than based on its Private Investment Funds’ interest in receiving most favorable execution.

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

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

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

REVIEW OF ACCOUNTS

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

Gryphon generally will provide to its Limited Partners (i) annual GAAP audited and quarterly unaudited financial statements, (ii) annual tax information necessary for each Limited Partner's tax return and (iii) semi-annual reports providing a narrative summary of the status of each portfolio company investment.

CLIENT REFERRALS AND OTHER COMPENSATION

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

From time to time, Gryphon may enter into solicitation arrangements pursuant to which it compensates third parties for referrals that result in a potential investor becoming a Limited Partner in the Funds or other Private Investment Fund. Any fees payable to any such placement agents will be borne by Gryphon indirectly through an offset against the Management Fee.

CUSTODY

Gryphon maintains custody of the Funds' assets held in the Funds' name with the following qualified custodian: JP Morgan–Private Bank, 560 Mission Street, San Francisco, California 94105.

INVESTMENT DISCRETION

Gryphon has discretionary authority to manage investments on behalf of the Funds. As a general policy, Gryphon does not allow clients to place limitations on this authority. Pursuant to the terms of the Partnership Agreement, however, Gryphon may enter into "side letter" arrangements with certain Limited Partners whereby the terms applicable to such Limited Partner's investment in the Funds may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. Gryphon

assumes this discretionary authority pursuant to the terms of the Partnership Agreement and powers of attorney executed by the Limited Partners of the Funds.

VOTING CLIENT SECURITIES

Gryphon has adopted the Gryphon Proxy Voting Policies and Procedures (the “Proxy Policy”) to address how it will vote proxies, as applicable, for the Funds’ (and any Private Investment Fund’s) portfolio investments. The Proxy Policy seeks to ensure that Gryphon votes proxies (or similar instruments) in the best interest of the Funds, including where there may be material conflicts of interest in voting proxies. Gryphon generally believes its interests are aligned with those of the Funds’ investors through the principals’ beneficial ownership interests in the Funds and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that Gryphon may address the conflict using several alternatives, including by seeking the approval or concurrence of the Funds’ advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, the Funds’ advisory board may approve Gryphon’s vote in a particular solicitation. Gryphon does not consider service on portfolio company boards by Gryphon personnel or Gryphon’s receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by Gryphon when voting proxies on behalf of the Funds. If you would like a copy of the Gryphon’s complete Proxy Policy or information regarding how Gryphon voted proxies for particular portfolio companies, please contact James R. Gillette, the Gryphon Chief Compliance Officer, at 415-217-7400, and it will be provided to you at no charge.

FINANCIAL INFORMATION

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