

**Form ADV Part 2A: Firm Brochure**

March 31, 2015

**Riverstone Investment Group LLC**

712 Fifth Avenue

New York, New York 10019

Telephone: (212) 993-0076

Fax: (212) 993-0077

Attention: Dianna Aprile

[www.riverstonellc.com](http://www.riverstonellc.com)

Riverstone Investment Group LLC is an investment adviser that is registered with the United States Securities and Exchange Commission. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

**This brochure provides information about the qualifications and business practices of Riverstone Investment Group LLC. If you have any questions about the contents of this brochure, please contact us at (212) 993-0076. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Riverstone Investment Group LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Material Changes**

We are updating this Part 2A of Form ADV as part of an annual update. We filed our last annual update on March 31, 2014. In addition to the changes noted below that have occurred since our previous annual update, we have also updated our assets under management and made changes to certain information regarding our investment advisory clients throughout this Part 2A of Form ADV.

- Riverstone launched Riverstone Global Energy and Power Fund VI, L.P., and its affiliated vehicles; and
- Riverstone launched Riverstone Credit Partners, L.P. and its affiliated vehicles.

We recommend that you read this Part 2A of Form ADV in its entirety.

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### 1. Advisory Business

Founded in 2005, Riverstone Investment Group LLC is an investment advisory services firm specializing in investment management for private equity funds. The sole owner of our firm is Riverstone Holdings LLC. Founders Pierre F. Lapeyre, Jr. and David M. Leuschen are the owners of Riverstone Holdings LLC. Riverstone Investment Group LLC was formerly known as Riverstone Investment Services LLC.

Our firm offers investment advisory services to private equity funds (generally referred to in this brochure as our clients or our funds) sponsored by Riverstone Holdings LLC or its affiliates and, with respect to certain funds, jointly with our joint venture partner, The Carlyle Group. We specialize in buyout, growth capital and other equity and debt investments in the energy and power sectors, and our advice encompasses most segments of the energy and power industry globally, including the following:

- exploration of oil and gas as well as other natural energy sources,
- midstream energy activities such as transportation of products and logistics associated with managing supply and demand across geographic regions and over time,

- electric generation (*i.e.*, the conversion of raw materials, primarily coal, natural gas and crude oil derivatives, into electricity),
- energy and power service, and
- renewable and alternative energy, including wind, biofuels, biomass, geothermal, hydroelectric, solar photovoltaic and solar thermal energy.

We oversee and manage certain of our existing sponsored investment funds, other investment vehicles and their investments through joint ventures with entities owned by The Carlyle Group. Specifically, these jointly-sponsored investment funds are:

- Carlyle/Riverstone Global Energy and Power Fund II, L.P.;
- Carlyle/Riverstone Global Energy and Power Fund III, L.P.;
- Riverstone/Carlyle Global Energy and Power Fund IV, L.P.;
- Carlyle/Riverstone Renewable Energy Infrastructure Fund I, L.P.;
- Riverstone/Carlyle Renewable Energy and Alternative Energy Fund II, L.P.; and
- Other investment vehicles associated with the foregoing funds.

Our percentage ownership of the joint ventures with The Carlyle Group varies from fund to fund. The investment management functions for our existing jointly-sponsored funds (other than anti-money laundering review) are shared between our firm and Carlyle Investment Management L.L.C., an SEC-registered investment adviser. We perform back office administration for all jointly-sponsored investment funds, while anti-money laundering functions for all of our existing jointly-sponsored investment funds are performed by The Carlyle Group, with a supervisory role played by us. Each of our existing jointly-sponsored investment funds has an investment committee composed of members of our firm and The Carlyle Group. The investment committee agrees on investment strategies and portfolio investments. Our firm's and The Carlyle Group's representation on the respective investment committees of our existing jointly-sponsored investment funds varies from fund to fund.

We also independently oversee and manage the following funds:

- Riverstone Global Energy and Power Fund V, L.P., and its affiliated vehicles;
- Riverstone Global Energy and Power Fund VI, L.P., and its affiliated vehicles;
- Riverstone Credit Partners, L.P., and its affiliated vehicles; and
- Riverstone Energy Limited, a registered close-ended collective investment scheme incorporated in Guernsey that is publicly traded on the London Stock Exchange.

Our firm manages each fund in accordance with such fund's investment strategy as disclosed in its offering documents. We and our funds focus on buyout, growth capital and other equity and debt investments in the energy and power sectors. In addition, certain of our professionals participate on investment committees in order to formulate investment strategies and render specialized investment advice. Our advisors strictly adhere to the investment strategy and restrictions set forth in each fund's private offering materials.

The amount of client assets that we manage on a discretionary basis, as of December 31, 2014, is \$21,434,949,582. We do not manage any client assets on a non-discretionary basis.

## **2. Fees and Compensation**

The following provides a general description of the fees, compensation and expenses that our funds pay. Each fund's limited partnership agreement or other governing documents describe such fees, compensation and expenses in much greater detail. Investors in the funds should refer to the relevant fund's limited partnership agreement or other governing documents for an accurate description of the fund's fees, compensation and expenses.

Our firm or our affiliates typically receive compensation from our clients based on a percentage of assets we manage and performance-based compensation in the form of "carried interest" or a performance allocation.

We assess a management fee on total and funded commitments (or in the case of Riverstone Energy Limited on net asset value) to our clients. We believe that the fees are set at rates that are consistent with industry standards. Currently, the fee ranges between 0.75% to 1.5% of the capital commitments (or net asset value) (or, depending on the current stage in the term of the applicable fund, total funded commitments) with respect to each of our clients.

Our firm, or one of our affiliates, receives a carried interest or performance allocation as performance-based compensation from each of our clients except certain co-investment vehicles. Our carried interest currently ranges from 15% to 20%. The particular fees and compensation relevant to a private investment fund or other investment vehicle are disclosed to investors in the offering materials for the relevant offering.

From time to time, we or our affiliates may enter into side letters or other written understandings with individual investors that have the effect of establishing rights under, or altering or supplementing, the terms of a particular fund's partnership agreement or other relevant governing documents. The altered terms sometimes include but are not limited to fees, transparency or excuse rights. Our firm and our affiliates do not impose a uniform schedule of management fees or performance-based compensation for all funds.

Our compensation is subject to waiver and reduction. Our firm, our affiliates and certain of our professionals may invest in investment vehicles advised by us. Our principals and employees are not subject to management fees or carried interest on their direct or

indirect investment in our funds. If our firm, our affiliates or our professionals are investing in an investment vehicle sponsored by us, any actual or potential fee waiver is disclosed to potential investors in the offering materials for the particular investment vehicle.

## **Asset-Based Fees**

Our funds pay management fees as described below. Investors in our funds indirectly pay the management fees by way of capital contributions to the funds according to their capital commitments and/or their invested capital as described below. The following percentages represent an annual rate.

- **Carlyle/Riverstone Global Energy and Power Fund II, L.P.**
  - investors are no longer required to pay management fees with respect to this fund.
- **Carlyle/Riverstone Global Energy and Power Fund III, L.P.**
  - during the commitment period, 1.5% of the investor's capital commitment;
  - after the commitment period, 1.5% of the investor's funded commitment, reduced proportionately by the acquisition cost of investments that the client no longer holds and the amount of any permanent net writedowns associated with the portfolio of investments.
- **Riverstone/Carlyle Global Energy and Power Fund IV, L.P.**
  - during the commitment period, the investor's management fee is a regressive rate structure based on the total amount invested in the client and parallel investment vehicles:
    - 1.5% with respect to the first \$5 billion of aggregate capital commitments;
    - 1.0% with respect to the portion of capital commitments in excess of \$5 billion;
  - after the commitment period, 0.75% of the investor's funded commitment, reduced proportionately by the acquisition cost of investments that the client no longer holds and the amount of any permanent net writedowns associated with the portfolio of investments.
- **Riverstone Global Energy and Power Fund V, L.P.**
  - during the commitment period, 1.5% of the investor's capital commitment;
  - after the commitment period, 1.0% of the investor's funded commitment, reduced proportionately by the acquisition cost of investments that the client no longer

holds and the amount of any permanent net writedowns associated with the portfolio of investments.

- **Riverstone Global Energy and Power Fund VI, L.P.**

- during the commitment period, 1.5% of the investor's capital commitment;
- after the commitment period, 1.0% of the investor's funded commitment, reduced proportionately by the acquisition cost of investments that the client no longer holds and the amount of any permanent net writedowns associated with the portfolio of investments.

- **Riverstone Credit Partners, L.P.**

- during the commitment period, 1.5% of "Capital Under Management"; "Capital Under Management" means the aggregate amount invested by the fund (without duplication, together with the outstanding principal amount of any borrowings to finance the purchase of investments in lieu of, in advance of or contemporaneous with receiving capital contributions) (other than with respect to amounts contributed by Riverstone and certain of its affiliates and associates (as further discussed in the partnership agreement)) in unrealized investments (and any entities formed to hold any co-investment, as permitted under the partnership agreement) to the extent then held by the fund at the determination date less aggregate net losses from permanent net writedowns as of such date.
- after the commitment period, 1.0% of "Capital Under Management" (as defined above).

- **Carlyle/Riverstone Renewable Energy Infrastructure Fund I, L.P.**

- investors are no longer required to pay management fees with respect to this fund.

- **Riverstone/Carlyle Renewable Energy and Alternative Energy Fund II, L.P.**

- during the commitment period, 1.5% of the investor's capital commitments;
- after the commitment period, 1.0% of the investor's funded amounts for investments that the client holds, reduced proportionately by the amount of any permanent net writedowns associated with the portfolio of investments.

- **Riverstone Energy Limited**

- a management fee of 1.5% of the net asset value of the fund payable quarterly in arrears (but management fees will only be charged to the extent that cash proceeds from the sale of the fund's shares have been invested or are committed to an investment).

Occasionally, we provide investors in our funds or third parties (including third parties whose participation might add value to the investment in terms of consummating, operating or exiting the investment) the opportunity to participate in investment vehicles sponsored by us that will invest in certain of our portfolio companies alongside our funds. Such investment vehicles typically are required to invest and dispose of their investment in the applicable portfolio companies at the same time and on the same terms as the applicable fund making the investment. Investors in such investment vehicles are often charged a fee expressed as a percentage of capital commitments or capital contributions made by such investors. Currently, such fees in these investment vehicles are generally 1% of an investor's capital commitments or capital contributions.

### **Performance-Based Compensation**

After returning all capital contributions to investors and subject to any writedowns associated with our clients' investment portfolios, our funds generally (but not certain coinvestment vehicles) will distribute to our firm or our affiliates a certain percentage of the profits of each realized investment, which is commonly referred to as "carried interest." Please see below for the applicable carried interest with respect to each client.

- **Carlyle/Riverstone Global Energy and Power Fund II, L.P.**
  - distributes 20% of realized gains to our affiliate only after investors receive a 9% compound, cumulative annual preferred return on capital contributions.
- **Carlyle/Riverstone Global Energy and Power Fund III, L.P.**
  - distributes 20% of realized gains to our affiliate only after investors receive an 8% compound, cumulative annual preferred return on capital contributions.
- **Riverstone/Carlyle Global Energy and Power Fund IV, L.P.**
  - distributes 20% of realized gains to our affiliate only after investors receive an 8% compound, cumulative annual preferred return on capital contributions.
- **Riverstone Global Energy and Power Fund V, L.P.**
  - distributes 20% of realized gains to our affiliate only after investors receive an 8% compound, cumulative annual preferred return on capital contributions.
- **Riverstone Global Energy and Power Fund VI, L.P.**
  - distributes 20% of realized gains to our affiliate only after investors receive an 8% compound, cumulative annual preferred return on capital contributions.
- **Riverstone Credit Partners, L.P.**
  - distributes 15% of realized gains to our affiliate only after investors receive a 6% compound, cumulative annual preferred return on capital contributions.



- **Carlyle/Riverstone Renewable Energy Infrastructure Fund I, L.P.**
  - distributes 15% of realized gains to our affiliate only after investors receive a 7% compound, cumulative annual preferred return on capital contributions.
- **Riverstone/Carlyle Renewable Energy and Alternative Energy Fund II, L.P.**
  - distributes 20% of realized gains to our affiliate only after investors receive an 8% compound, cumulative annual preferred return on capital contributions.
- **Riverstone Energy Limited**
  - generally a performance allocation, calculated and payable at the underlying holding subsidiary level, equal to 20% of the realized gains (if any) on the sale of any underlying asset of the fund. In some cases, Riverstone may elect to get paid a performance allocation on unrealized gains to the extent a underlying asset of the fund has been held for seven years or longer (subject to certain conditions).

Each year, we charge management fees quarterly in advance of each quarter, except Riverstone Energy Limited, which pays fees in arrears. Investors in our funds pay these fees to our clients pursuant to capital calls made by our clients (or based on net asset value in the case of Riverstone Energy Limited).

For the co-investment vehicles described above where fees paid by investors are based on capital commitments, such fees are paid concurrently with each investor's initial capital contribution. For the co-investment vehicles described above where fees paid by investors are based on capital contributions, such fees are paid concurrently with each investor's capital contributions from time to time.

We also receive performance-based compensation or carried interest from our clients, except certain co-investment vehicles. We generally receive a carried interest from our clients when distributions occur to investors in such clients under the circumstances described above. As a result, we do not receive carried interest on a regularly scheduled basis.

In connection with our advisory services, clients bear all of their own expenses (ordinary and extraordinary). The enumerated lists below are detailed but do not include every possible expense a client may incur. The expense arrangements summarized below are set out in the offering materials and governing documents for each sponsored investment fund.

We may offset some of the investment-related expenses listed below against the management fees.

### **Organizational Expenses**

Our clients pay for expenses related to their organization, including:

- legal expenses,
- accounting expenses,
- filing expenses and fees incurred in connection with organizing and establishing the fund client and its affiliates, and
- expenses incurred in connection with marketing and offering of interests in the fund and its affiliates (including travel expenses (which in some cases includes reimbursement of private air charters and personal jet expenses, as well as business and first class travel) (“travel expenses”), and printing costs or other similar amounts, incurred in connection with the offering of interests in our fund client and its affiliates).

Our clients generally have a cap on the expenses listed above, and our affiliates, typically the general partner of a fund, bear expenses in excess of these caps.

### **Operational Expenses**

Our clients also pay for expenses related to their operation, such as:

- fees, costs and expenses directly related to the purchase, holding and sale of the fund’s investments,
  - expenses of any administrators, custodians, counsel, accountants and other professionals (including the audit and certification fees and costs of printing and distributing reports to the fund’s investors) and any other out of pocket expenses incurred in connection with the administration of a fund or otherwise with fund accounting, tax and legal advice (including with respect to actual or potential litigation, if any) and information technology, in each case whether performed by staff of the firm and its affiliates, or by third parties,
  - all out-of-pocket fees, costs and expenses, if any, incurred in developing, negotiating, structuring, acquiring, trading, settling, monitoring, holding and disposing of actual investments, directly or through one or more intermediate vehicles, including without limitation any financing, legal, accounting, advisory and consulting expenses in connection therewith (including travel, meal, communication, certain entertainment and selected research subscription expenses) (to the extent not subject to any reimbursement of such costs and expenses by entities in which a fund invests or other third parties),
  - any insurance, indemnity or litigation or extraordinary expense or liability,
  - brokerage commissions, custodial expenses, other bank service fees and other investment costs, fees and expenses actually incurred in connection with actual investments,

- principal and interest on and fees and expenses arising out of all borrowings made by a fund, including, but not limited to, the arranging thereof,
- certain structuring expenses, such as blocker expenses,
- out-of-pocket expenses of the fund's investor advisory committee,
- certain taxes,
- any fees or other governmental charges levied against the fund, and
- expenses for transactions not completed, including amounts payable to third parties and all fees and expenses of lenders, investment banks and other financing sources in connection with arranging financing for transactions that are not consummated, and any deposits or draw-down payments that are forfeited in connection with unconsummated transactions.

We allocate the expenses among the applicable clients and the applicable investments of each client in a fair and reasonable manner. In certain cases friends and family co-investment vehicles that invest alongside the main Riverstone funds in all portfolio companies may not share in broken deal expenses of the main funds. This occurs in cases where Riverstone initially pays broken deal expenses but does not seek reimbursement of such expenses from the applicable main fund. In such cases, the next drawdown for management fees is subject to offset for other fees received by Riverstone, but the offset amount is itself decreased by broken deal expenses for which no drawdown notice was issued. As the internal friends/family co-investment vehicles are not subject to management fees, by terms of main fund's partnership agreements the internal co-invest vehicles are not apportioned broken deal expenses in such cases.

### **Investment-Related Expenses**

In addition, our clients may incur expenses in connection with an investment, such as:

- break-up fees,
- organizational fees,
- set-up fees,
- monitoring fees,
- directors' fees,
- investment banking fees,
- underwriting fees, and
- syndication fees.

We allocate the expenses among the applicable clients and the applicable investments of each client in a fair and reasonable manner. Because we render advice to private equity funds, and investments are made on a negotiated basis, opportunities for trade executions are rare. In these circumstances, our clients will pay brokerage fees. Please see Section 9 for further details.

Our funds pay their asset-based management fees in advance, except Riverstone Energy Limited, which pays fees in arrears. Should our management services be terminated prior to the complete rendering of services for the period, we would refund to the relevant clients an amount of their management fees pro rated from the date of our termination to the end of the period to which the advance fee covered. The relevant clients would then refund such amount to their investors based on the amount of management fees paid by them.

From time to time, our affiliates may cause our funds to make distributions to them in amounts sufficient to permit the payment of the tax obligations of our affiliates and their direct and indirect owners in respect of allocations of income related to their carried interest. These advances will reduce any amounts of carried interest that we and our affiliates later receive until these advances are restored to the fund. In the event that the prior advances are greater than the actual amount of carried interest to which our affiliates are entitled upon a final distribution by a fund client, we and our affiliates must repay any outstanding balances to the fund through a “clawback” mechanism (except for in the case of Riverstone Energy Limited which does not have a “clawback” provision).

Neither our firm nor any of our principals, affiliates or employees receives any transaction-based compensation for the sale of securities of our funds to investors in those funds.

We may receive certain fees in connection with the portfolio investments of our funds. Please see Section 11 for a discussion of those arrangements.

### **3. Performance-Based Fees and Side-By-Side Management**

Our firm or our affiliates generally receive performance-based compensation in the form of carried interest or performance allocations from each of our clients, except with respect to certain co-investment vehicles. The firm does not believe that this arrangement creates a conflict of interest since the co-investment vehicles are generally intended to invest alongside a fund on substantially the same terms and in accordance with the terms of the applicable fund governing documents. Please see Section 2 for a detailed explanation of our performance-based compensation. The existence of the carried interest or performance allocation may create an incentive for our firm or our affiliates to make riskier or more speculative investments on behalf of our clients than would be the case in the absence of these arrangements, although our commitment of capital to our funds should reduce this incentive. Furthermore, when allocating investments, the firm or our affiliates may have incentives to favor clients with higher potential for carried interest over clients with lower potential for carried interest. As described in more detail below,

the Advisers have adopted allocation policies designed to treat all clients fairly and equitably in accordance with the applicable governing documents.

#### **4. Types of Clients**

All of our clients are private equity funds. Our clients rely on certain exclusions from the definition of “investment company” in the Investment Company Act of 1940, as amended. Accordingly, none of our funds are registered as investment companies with the SEC. Investors participating in our private equity funds may include individuals, certain banks or thrifts institutions, sovereign wealth funds, pension and profit sharing plans, trusts, estates, charitable organizations or other corporate or business entities (which may include entities that are owned, directly or indirectly, by principals or other employees of Riverstone or its affiliates). One of our funds is publicly traded on the London Stock Exchange.

Our firm determines in its sole discretion any requirements for entering into an investment advisory contract with a fund or otherwise opening or maintaining an account, including whether a private fund is large enough to implement its desired investment program.

#### **5. Method of Analysis, Investment Strategies and Risk of Loss**

In managing our funds, we employ methods of analysis and investment strategies suitable for each fund’s investment objective as summarized below. More detailed descriptions of each fund’s investment methods of analysis and investment strategies are included in the fund’s offering documents and governing documents. There can be no assurance that Riverstone will achieve the investment objectives of a fund and loss of investment capital is possible.

##### **Investment Strategies**

We employ various investment strategies, including investing in energy and power companies as well as renewable energy companies.

Our firm, on behalf of our clients, invests in companies with a broad range of enterprise values, as either controlling or strategic minority positions. In minority investments, we seek on behalf of our clients to negotiate varying degrees of control over certain key areas of corporate governance, including capital spending, external financing and major corporate transactions, as well as controls over exits.

With respect to our buyout and growth capital funds, our clients’ investments may include buyouts of non-core assets or operating subsidiaries of large corporations, build-up and consolidation plays, growth capital investments, and strategic industry partnerships. With respect to our credit fund, our client’s investments will primarily be in primary and secondary investments in the debt securities of small to mid-sized companies. We source investments worldwide.

We vary the investment programs within the energy and power sectors according to our clients' needs. Among all of our buyout and growth capital fund clients we may engage in any combination of the following:

- Investing in the energy and power sectors, such as:
  - investing in restructuring of energy and power companies,
  - investing in renewable energy companies,
  - investing in utility companies, and
  - investing in oil and natural gas companies,
- investing in equity and equity-related securities,
- investing in debt securities, including, among others:
  - debt instruments made in connection with an investment in equity or equity-related securities,
  - debt investments with a view to a restructuring in which we anticipate that our client will receive an equity interest,
  - debt investments intended to facilitate consummation of an equity investment, and
  - debt investments that are equity-related investments,
- investing in non-U.S. securities,
- investing in emerging markets,
- investing in small capitalization companies,
- royalty interests or mineral production payments,
- borrowing/leveraging, including short-term bridge loans (on an unsecured basis),
- hedging equity, credit, currency, commodity price and/or interest rate exposure, and
- investing in or with other partnerships and entities.

Most of the above strategies involve medium to long-term investment in equity or debt securities with some investment in swaps, commodities and property interests.

From time to time, we may need to make short-term investments on behalf of clients for cash management purposes that may include investments in bank depository products, commercial paper and government securities. Other investments may take the form of

privately negotiated investment instruments including unregistered equity and debt from both foreign and domestic issuers.

The above strategies are generally applicable to the firm's credit fund as well, except its investment activities will be focused on debt securities of North American companies, as described further below, and will generally not include investments in equity securities. In particular, the credit fund's investments may include investing in individual debt securities of companies trading at distressed levels but that we believe are fundamentally sound, providing senior secured financing alternatives to small and mid-sized energy companies and acquiring existing loans from banks on an opportunistic basis.

We describe material risks relevant to our investment strategies below.

## **Methods of Analysis**

With respect to each of our clients, we use our extensive industry expertise and relationships with key players in the industry to thoroughly evaluate and investigate the fundamentals of our investment prospects. We also have significant experience in conducting due diligence, valuation and all other aspects of deal execution, including financial and legal structuring, accounting and compensation design. We draw upon our extensive network of relationships with industry-focused professional advisory firms to assist with due diligence in other areas such as regulatory risk, contractual liabilities, accounting, tax, employee benefits, environmental, engineering and insurance.

Our firm, on behalf of a client, will generally only make an investment in a company after a comprehensive review of:

- a target company's management team,
- industry dynamics,
- competitors and competing technologies,
- the quality of a company's assets, products and services,
- the company's competitive position and strategy,
- financial statements,
- off-balance sheet and contingent liabilities,
- debt capacity and financing needs,
- equity and debt market perspectives,
- environmental, political and regulatory risks, and
- economic risk, exit alternatives and return potential.



We analyze and evaluate investment opportunities using conventional financial measures, regardless of the sector or the development stage of the portfolio company. We work with the management teams of target companies to analyze past and present results, create a thorough operating plan and assess the organizational and capital resources necessary to improve the target company's performance as well as exit alternatives.

Our approach to portfolio monitoring and development requires a close working relationship with senior management of our clients' portfolio companies, a clear blueprint for portfolio companies' growth and an incentive plan to ensure the organization's commitment to success. Working together with management, we expect to create value through:

- carefully reviewing capital investments,
- redirecting capital spending and operating priorities as necessary,
- optimizing asset portfolios through acquisitions and divestitures,
- adopting cost management efforts,
- adding appropriate personnel, or
- completing value-creating acquisitions.

Despite our thorough research and analysis, investing in any security involves a risk of loss that any clients and investors in our clients must be prepared to bear. The following is a detailed explanation of some of the significant risks associated with the investment strategies we employ.

Certain general risks associated with an investment in any fund we advise include:

- *Investment Judgment and Market Risk.* The success of our investment programs depends, in large part, on correctly evaluating the future price movements of potential investments. We cannot guarantee that we will be able to accurately predict these price movements and that our investment programs will be successful.
- *Highly Competitive Market for Investment Opportunities.* The activity of identifying, completing and realizing attractive private equity investments is highly competitive and involves a high degree of uncertainty. The availability of investment opportunities generally will be subject to market conditions. Our clients compete for investments with other private equity investors, as well as companies, public equity markets, individuals, financial institutions and other investors. Furthermore, over the past several years, private equity funds have an unprecedented amount of capital available for private equity investment. Additional funds with similar objectives may be formed in the future by other unrelated parties. It is possible that competition for appropriate investment opportunities may increase, thus reducing the number of investment opportunities available to our clients and adversely affecting the terms



upon which investments can be made. There is no assurance that we will be able to locate, consummate and exit investments that satisfy our clients' rate of return objectives or realize upon their values, or that our clients will be able to invest fully their committed capital.

- *Financial Markets and Regulatory Change.* The instability pervading global financial markets has heightened the risks associated with the investment activities and operations of investment funds, including those resulting from a reduction in the availability of credit and the increased cost of short-term credit, a decrease in market liquidity and an increased risk of bankruptcy of third parties with which we work. Market disruptions over the recent years and the increase in capital being allocated to investment funds and other alternative investment vehicles have led to increased scrutiny and regulation over the investment fund and asset management industry. In addition, the laws and regulations affecting business continue to evolve unpredictably. Laws and regulations applicable to our clients, especially those involving taxation, investment and trade, can change quickly and unpredictably in a manner adverse to our clients' interests.
- *Risk of Limited Number of Investments.* We anticipate that our clients may participate in a limited number of investments. As a consequence, the aggregate return of our clients may be substantially adversely affected by the unfavorable performance of even a single investment.
- *Investments Longer than Term.* We, on behalf of a fund, may make investments that may not be advantageously disposed of prior to the date the fund will be dissolved, either by expiration of our client's term or otherwise.
- *Uncertainty of Financial Projections.* Our firm or our affiliates will generally establish the capital structure of portfolio companies on the basis of financial projections for these portfolio companies. Projections are only estimates of future results which rely on assumptions made at the time of the projections. There can be no assurance that we can attain these projected results, and actual results may vary significantly from the projections. In addition, general economic conditions, which are not predictable, can have a material adverse impact on the reliability of the projections.
- *European Union Directive on Alternative Investment Fund Managers.* The European Union Directive on Alternative Investment Fund Managers came into force in July 2011 (together with regulations and national laws related thereto, the "Directive"). The Directive regulates the activities of certain private fund managers undertaking fund management activities or marketing fund interests to investors within the European Economic Area (the "EEA"). In that regard, the Directive is intended to apply additional regulation and operating requirements to: (1) alternative investment fund managers ("AIFM") established in the EEA; and (2) non-EEA AIFM that manage EEA alternative investment funds ("AIF") or actively market AIF to investors in (or, in some cases, from) the EEA. Regulatory changes arising from the transposition of the Directive into national law that impair the ability of the firm to

manage the investments of a fund, or limit the firm's ability to market fund interests in the future, may require increased compliance efforts and associated expenses, or otherwise may materially and adversely affect a fund's ability to carry out its investment approach and achieve its investment objectives. The Directive could have an adverse effect on firm or a fund by, among other things, increasing the regulatory burden and costs of doing business in the EEA member states; imposing extensive disclosure obligations on companies located in EEA member states, if any, in which a fund invests; and potentially disadvantaging a fund as an investor in private companies located in EEA member states when compared to competitors (e.g., those not in the alternative investment space) that may not be in scope of the Directive.

The following is a description of some important risks associated with the investment strategies that we employ. The following explanation of certain risks is not exhaustive, but rather highlights the significant risks involved in our investment strategies. We do not use every strategy listed below when managing each fund's assets, but rather we use various combinations of strategies that depend on each fund's circumstances and investment goals.

- *Investments in Oil and Natural Gas.* Our firm, on behalf of our clients, may invest in oil and natural gas companies. The following is a description of some of the risks associated with this type of investment.
  - *Volatility of Oil and Natural Gas Prices; Recent Energy Price Trends.* The performance of certain investments of our clients is substantially dependent upon prevailing prices of oil and natural gas. Historically, the markets for oil and natural gas have been volatile, and these markets are likely to continue to be volatile in the future. Prices for oil and natural gas are subject to wide fluctuation in response to relatively minor changes in the supply of and demand for oil and natural gas and a variety of additional factors that are beyond our control. These factors include:
    - market uncertainty,
    - the level of consumer product demand,
    - the refining capacity of oil purchasers,
    - weather conditions,
    - domestic and foreign governmental regulations,
    - the price and availability of alternative fuels,
    - political conditions in the Middle East and other oil producing regions,
    - actions of the Organization of Petroleum Exporting Countries,
    - the foreign supply of oil and natural gas,

- the price of foreign imports, and
- overall economic conditions.

Recently, oversupply in the oil and natural gas markets has caused a sharp decrease in the price of oil and natural gas, leading to pressure on companies operating throughout the industry. Oil or natural gas prices may return to historic levels, or may continue to fall, and this heightened volatility may have a material adverse effect on the investments of our clients. There can be no assurance as to the duration of any market cycle or market dislocation.

- *Drilling, Exploration and Development Risks.* Our firm, on behalf of our clients, may invest in businesses that engage in oil and gas exploration and development, a speculative business involving a high degree of risk. Oil and gas drilling may involve unprofitable efforts, not only from dry holes, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs.

Acquiring, developing and exploring for oil and natural gas involves many risks. These risks include:

- encountering unexpected or irregular formations or pressures,
- premature declines of reservoirs,
- blow-outs,
- equipment failures and other accidents in completing wells and otherwise,
- cratering,
- sour gas releases,
- uncontrollable flows of oil,
- natural gas or well fluids,
- adverse weather conditions
- issues related to compliance with environmental regulations;
- title problems, and
- pollution, fires, spills and other environmental risks.

In addition, in making these investments, we must rely on estimates of oil and gas reserves. The process of estimating oil and gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological,

geophysical, engineering and economic data for each reservoir. As a result, these estimates are inherently imprecise.

- *Midstream Capacity Constraints and Interruptions.* Certain portfolio companies may rely on various midstream facilities and systems, including facilities and systems operated by third parties. Regardless of who operates the midstream systems, a portfolio company's business may be interrupted or shut-in from time to time due to loss of access to plants, pipelines or gathering systems. Such access could be lost due to a number of factors, including, but not limited to, weather conditions, accidents, field labor issues or strikes. Such interruptions or constraints could negatively impact a portfolio company's profitability, and thus investment returns to a client fund.
- *Regulatory Risks.* Federal, state, local and other laws and regulations can substantially impact the performance of certain investments of our clients. Regulations may place restrictions on production and permitting of companies in which our clients invest. In addition, changes in taxes, deductions, royalties and other amounts payable to governments or governmental agencies may also impact our clients' investments. To comply with the regulations, the companies in which our clients invest may need to obtain and maintain numerous permits, approvals and certificates from various federal, state and local governmental authorities. These companies may incur substantial costs. Their costs of compliance may increase if existing laws, including environmental and tax laws, and regulations are revised or reinterpreted, or if new laws and regulations become applicable to their operations. Moreover, the portfolio companies' operations and properties are subject to numerous federal, state, local and non-U.S. laws and regulations relating to environmental protection. These laws and regulations may impose substantial liabilities for the companies' failure to comply with them or for any contamination resulting from their operations. Future environmental laws and regulations, such as proposed legislation regulating climate change, may negatively impact the oil and natural gas industry.
- *Risks Relating to Hydraulic Fracturing Activities.* Several of our portfolio companies engage in hydraulic fracturing, which is a practice in the oil and natural gas industry that involves the injection of water, sand and chemicals under pressure into rock formations to fracture the surrounding rock and stimulate the production of hydrocarbons, particularly natural gas, from tight formations. The hydraulic fracturing process is typically regulated by state oil and gas commissions, but there has been increasing scrutiny and regulatory initiatives and proposed initiatives at the federal, state and local level to ban or regulate hydraulic fracturing and to study the environmental impacts of hydraulic fracturing and the need for further regulation of the practice. For example, debate exists over whether certain of the chemical constituents in hydraulic fracturing fluids may contaminate drinking water supplies, with some members of the United States Congress and others proposing to revisit the exemption of hydraulic fracturing from the permitting requirements of the United States Safe Drinking Water Act (the "SDWA"). Eliminating this exemption could establish an

additional level of regulation and permitting at the federal level that could lead to operational delays or increased operating costs for those portfolio companies and could result in additional regulatory burdens that could make it more difficult to perform hydraulic fracturing and increase a portfolio company's costs of compliance and doing business. Even in the absence of new legislation, the United States Environment and Protection Agency (the "EPA") recently asserted the authority to regulate hydraulic fracturing involving the use of diesel additives under the SDWA's Underground Injection Control Program.

Scrutiny of hydraulic fracturing activities continues in other ways, with the EPA having commenced a multi-year study of the potential environmental impacts of hydraulic fracturing on drinking water, the initial results of which were made available in December 2012. Hydraulic fracturing operations require the use of water and the disposal or recycling of water that has been used in operations. The United States Clean Water Act (the "CWA") restricts the discharge of produced waters and other pollutants into waters of the United States and requires permits before any pollutants may be discharged. The CWA and comparable state laws and regulations in the United States provide for penalties for unauthorized discharges of pollutants including produced water, oil, and other hazardous substances. Compliance with and future revisions to requirements and permits governing the use, discharge, and recycling of water used for hydraulic fracturing may increase a portfolio company's costs and cause delays, interruptions or terminations of its operations which cannot be predicted.

- Further, at the state level, some states have adopted, and other states are considering adopting, regulations that could restrict hydraulic fracturing in certain circumstances or otherwise require the public disclosure of chemicals used in the hydraulic fracturing process.

If these or any other new laws or regulations that significantly restrict hydraulic fracturing are adopted, such laws or regulations could make it more difficult or costly for, or even prohibit, our portfolio companies to perform fracturing to stimulate production from tight formations as well as make it easier for third parties opposed to the hydraulic fracturing process to initiate legal proceedings based on allegations that specific chemicals used in the fracturing process could adversely affect groundwater. Such developments could materially adversely affect our portfolio companies' revenues and results of operations and result in the potential for adverse judgments against our portfolio companies. In addition, if hydraulic fracturing is regulated at the federal level, our portfolio companies' fracturing activities could become subject to additional permitting and financial assurance requirements, more stringent construction specifications, increased monitoring, reporting and recordkeeping obligations, plugging and abandonment requirements, and attendant permitting delays and potential increases in costs. Restrictions on hydraulic fracturing could also reduce the amount of, or prevent our portfolio companies from accessing, oil and natural gas that our portfolio companies are ultimately able to produce from their reserves..

- *Oil Shale Exploration and Extraction.* Our clients may, at times, invest in portfolio companies that engage in oil shale exploration and extraction. Exploration and development operations in oil shale extraction are subject to environmental regulations (further discussed below, see *Environmental Matters*), which could result in additional costs and operational delays. Future changes in environmental regulation, if any, could negatively affect the operations of portfolio companies involved in oil shale exploration and extraction. In addition, portfolio companies involved in oil shale exploration and extraction incur substantial expenditures to acquire oil shale properties, establish reserves through drilling and analysis, develop processes to extract oil, and develop the processing facilities and infrastructure at a site chosen for oil shale production. Portfolio companies cannot be sure they will acquire or discover sufficient quantities or adequate quality of oil from oil shale or that they will be able to obtain enough funds required for development on a timely basis.

Significantly, oil shale exploration, development and operating activities are inherently hazardous. Any liabilities that a portfolio company engaged in oil shale exploration and extraction might incur may exceed any insurance policy limits, and it is possible that certain of their liabilities and hazards may be uninsurable.

Finally, if a portfolio company's exploration and extraction properties experience any title defects, the portfolio company may be required to compensate other parties or reduce its interest in the affected property. Also, the investigation and resolution of title issues would divert the company's focus away from ongoing exploration and development programs.

- *Offshore Operations.* Certain companies in which our clients invest conduct offshore operations. Their operations and financial results could be significantly impacted by conditions in some of these areas, such as the Gulf of Mexico. As a result of this activity, they are vulnerable to the risks associated with operating offshore, such as:
  - repatriation,
  - transparency issues,
  - hurricanes and other adverse weather conditions,
  - oil field service costs,
  - availability of oil fields,
  - terrorist attacks,
  - remediation and other costs resulting from oil spills,
  - lack of infrastructure, and



- failure of equipment or facilities.
- *Investments in the Utility Industry.* Our firm, on behalf of our clients, may make certain investments in electric utility industries both in the United States and abroad.
  - *Effects of Ongoing Changes in the Utility Industry.* In many regions, including the United States, the electric utility industry is experiencing increasing competitive pressures, primarily in wholesale markets, as a result of consumer demand, technological advances, greater availability of natural gas and other factors. A number of countries, including the United States, are considering or implementing methods to introduce and promote retail competition. To the extent competitive pressures increase and the pricing and sale of electricity assume more characteristics of a commodity business, the economics of independent power generation projects into which a client may invest may come under increasing pressure. Deregulation is fueling not only the current trend toward consolidation among domestic utilities, but also the disaggregation of many vertically integrated utilities into separate generation, transmission and distribution businesses. As a result, additional significant competitors could become active in the independent power industry. In addition, independent power producers may find it increasingly difficult to negotiate long-term power sales agreements with solvent utilities, which may affect the profitability and financial stability of independent power projects.

We cannot give any assurance that:

- the existing regulations applicable to electric utility portfolio companies will not be revised or reinterpreted;
- new laws and regulations will not be adopted or become applicable to electric utility companies;
- the technology and equipment selected by the companies to comply with current and future regulatory requirements will meet these requirements;
- the companies' business and financial conditions will not be materially and adversely affected by future changes in, or reinterpretation of, laws and regulations (including the possible loss of exemptions from laws and regulations) or any failure to comply with current and future laws and regulations; or
- regulatory agencies or other third parties will not bring enforcement actions in which they disagree with regulatory decisions made by other regulatory agencies.
- *Changes in Environmental Laws and Regulations.* Certain companies in which our clients invest are subject to a number of environmental laws and regulations that are currently in effect, including those related to the handling, disposal, and treatment of hazardous materials. Changes in compliance requirements or the

interpretation by governmental authorities of existing requirements may impose additional costs, all of which could have an adverse impact on these companies.

- *Regulation of Greenhouse Gases.* In particular, both in the United States and globally, emissions of greenhouse gases (“GHGs”) are increasingly regarded as linked to global climate change; this may lead to more stringent regulation of GHGs in the future. Increased public concern and mounting political pressure may result in more international, United States federal or United States regional requirements to reduce or mitigate the effects of GHGs. The EPA has promulgated several rules to address GHG emissions, and has recently proposed additional rules to address GHGs from new and existing coal-fired power plants; such regulations and proposed regulations have been, and many continue to be, the subject of litigation. A number of state and regional efforts have emerged that are aimed at tracking and/or reducing GHG emissions by means of cap and trade programs that typically require major sources of GHG emissions, such as electric power plants, to acquire and surrender emission allowances in return for emitting those GHGs. Any such future laws and regulations imposing reporting obligations on, or limiting emissions of GHGs from, a portfolio company’s equipment and operations could require it to incur costs to reduce emissions of GHGs associated with its operations. Substantial limitations on GHG emissions could also adversely affect demand for the oil and natural gas. Changes in the regulation of GHGs could impact an investment or make future investments undesirable.
- *Operational Risk.* The utility industry is subject to various operational risks, including:
  - incidents relating to property damages,
  - equipment failures, and
  - personal injuries.

These incidents may expose utility companies to potential claims beyond the scope of their insurance coverage.

- *Weather Conditions.* Weather conditions directly influence the demand for electricity. Significant fluctuations in temperatures could have a material impact on energy sales for any given period. Milder temperatures reduce demand for electricity and have a corresponding effect on utility companies’ revenues. In addition, severe storms, such as hurricanes and ice storms, could cause damage to a utility company’s facilities that may require additional costs to repair and have a material adverse impact on the company’s results of operations, cash flows or financial position.
- *Disruption of Supplies.* Disruption in the delivery of fuel could limit utility companies’ ability to operate their facilities. In addition, the supply markets for coal, natural gas and uranium are subject to price fluctuations, availability



restrictions and counterparty default. It is not possible to predict the ultimate cost or availability of these commodities. Any of these costs could have a material adverse effect on the companies' financial results.

- *Start-Up, Venture Capital and Technology-Related Investments.* Our firm, on behalf of our clients, may invest in portfolio companies that:
  - are at a conceptual or early stage of development or that may have little or no operating history;
  - may offer services or products that are not yet developed or ready to be marketed or that have no established market;
  - may be operating at a loss or have significant fluctuations in operating results;
  - may be engaged in a rapidly changing business; and
  - may need substantial additional capital to set up infrastructure, hire management and personnel, develop product prototypes, support expansion or achieve or maintain a competitive position.

Our firm, on behalf of our clients, may make significant investments in companies in rapidly changing high-technology fields.

- *Risks of Start-Up, Venture Capital and Technology-Related Investments.* Our firm, on behalf of our clients, may invest a significant portion of its assets in the securities of smaller, less-established companies, including start-up ventures with qualified management teams. Investments in these companies may involve greater risks than are generally associated with investments in more established companies. These companies may have shorter operating histories (or no operating history) on which to judge future performance and, in many cases, if operating, will have negative cash flow. There is also no guarantee that management teams of start-up ventures in which we invest will be able to successfully execute the business plan of the company. Additionally, to the extent there is any public market for the securities held by our client, these 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. We cannot give any assurance that any losses will be offset by gains (if any) realized on a client's other assets.

Our firm, on behalf of our clients, may also make significant investments in companies in rapidly changing high-technology fields. The technology industry is characterized by rapid change, evidenced by rapidly changing market conditions and participants, new competing products and improvements in existing products. Accordingly, energy technology companies may face special risks of product obsolescence. Additionally, technology companies may face intense competition, including competition from companies with greater financial

resources, more extensive development, manufacturing, marketing and service capabilities and a larger number of qualified managerial and technical personnel. There can be no assurance that products sold by portfolio companies will not be rendered obsolete or adversely affected by competing products or that portfolio companies will not be adversely affected by other challenges inherent in the sector.

- *Investments in Renewable Energy.*
  - *Uncertainty of Renewable Energy Market.* The market for renewable energy products is emerging and rapidly evolving, and its future success is uncertain. If renewable energy technology proves unsuitable for widespread commercial deployment or if demand for renewable energy products fails to develop sufficiently, our clients' portfolio companies could be unable to generate enough revenue to achieve and sustain profitability. In addition, demand for renewable energy products in the markets and geographic regions a client targets may not develop or may develop more slowly than anticipated. Many factors will influence the widespread adoption of renewable energy technology and demand for renewable energy products, including the cost-effectiveness, performance and reliability of renewable energy technology and availability of government subsidies and incentives.
  - *Competition from Fossil Fuels and Other Non-Renewable Energy Resources.* The performance of certain investments of a client will be substantially dependent upon prevailing prices of oil and natural gas. As energy derived from fossil fuels and other non-renewable sources becomes more expensive, the value of renewable energy and renewable energy technology increases as well. Conversely, if new oil, coal or natural gas deposits or other non-renewable sources are found, or if the cost of producing energy from these non-renewable sources decreases significantly for other reasons, the attractiveness of renewable energy sources would likely decrease.

Historically, the markets for oil and natural gas have been volatile, and these markets are likely to continue to be volatile in the future. Prices for oil and natural gas are subject to wide fluctuation in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors that are beyond our control. These factors include:

- the level of consumer product demand,
- the refining capacity of oil purchasers,
- weather conditions,
- domestic and foreign governmental regulations,
- the price and availability of alternative fuels,

- political conditions in the Middle East,
- actions of the Organization of Petroleum Exporting Countries,
- the foreign supply of oil and natural gas,
- the price of foreign imports, and
- overall economic conditions.

In addition, recent technological progress in pollution control equipment for coal-fired generation plants may make it feasible for utilities to continue to operate those plants under newly mandated clean air regulations. Coal is plentiful in the United States and continued use of coal in electric generation facilities will also apply pressure to the cost of renewable energy.

- *Weather and Climatological Risks.* Certain renewable energy companies may be particularly sensitive to weather and climate conditions. For example, portfolio companies specializing in hydroelectric power may be subject to variations in precipitation and the flow of the watersheds upon which their power plants are situated. An extended drought in a region where a portfolio company operates could reduce the operating effectiveness of the portfolio company and its assets. Likewise, companies focused on wind and solar energy also are subject to variations in weather patterns.
- *High Capital Costs for Certain Renewable Energy Investments.* Renewable energy projects typically involve relatively high levels of capital investment. These up-front expenditures involve a certain degree of risk. For example, geothermal power projects are characterized by high capital investment for exploration, drilling wells (including exploration wells which may not result in useful production) and installation of plants. Accordingly, geothermal exploration runs the risk of not finding a useable heat resource after expending effort on early reconnaissance and surface exploration equipment. A client may not achieve a return on investment in other renewable energy companies with similar high capital costs also as quickly as with cheaper fossil fuel power plants.
- *Challenges from Natural Resource Activists.* Renewable energy projects will be subject to siting requirements that are similar in many respects to those applicable to fossil fuels plants. Although a renewable energy plant is not likely to face the level of environmental or security issues that conventional fossil fuels and nuclear plants face, natural resource activists may challenge proposals to site a renewable energy plant in many favorable locations based on alleged disturbances to natural habitats for wildlife and adverse aesthetic impacts.

In addition to the above risks that relate to the energy and power sectors, there are some important risks associated with Riverstone Credit Fund, L.P. (“Credit Fund”) and the primary and secondary debt investments that the Credit Fund intends to make.

- *New Strategy.* The size and type of investments to be made by the Credit Fund will differ from prior Riverstone equity investments or funds, which have substantially different investment strategies and objectives than that of the credit fund and were managed by different investment professionals than those involved with the Credit Fund. Although certain investment professionals who will participate in providing investment advice to the Credit Fund have previously worked together as employees at various financial institutions, they have not previously worked together at Riverstone or elsewhere individually or as a group in the context of managing a debt investment fund. The success of the Credit Fund will be dependent, in whole or in part, on the ability of the Credit Fund's personnel, who are new to Riverstone to be successfully integrated into the Riverstone organization. The prior transactional advisory experience of the Credit Fund's professionals is not fully relevant to the principal transactions they will pursue for the Credit Fund. Accordingly, investors should draw no conclusions from the prior experience of the investment professionals or the performance of any other Riverstone investments or fund and should not expect to achieve similar returns.
- *Nature of investment in Senior Loans.* The assets of the Credit Fund will likely include first lien senior secured debt, but may also include selected second lien senior secured debt, which involves a higher degree of risk of a loss of capital. The factors affecting an issuer's first and second lien leveraged loans, and its overall capital structure, are complex. Some first lien loans may not necessarily have priority over all other debt of an issuer. Any secured debt is generally secured only to the extent of its lien and only to the extent of the value of the underlying assets on already secured assets. Moreover, underlying assets are subject to credit, liquidity, and interest rate risk. Although the amount and characteristics of the underlying assets selected as collateral may allow the Credit Fund to withstand certain assumed deficiencies in payments occasioned by the borrower's default, if any deficiencies exceed such assumed levels or if underlying assets are sold it is possible that the proceeds of such sale or disposition will not be equal to the amount of principal and interest owing to the Credit Fund in respect to its investment. The borrowers on loans constituting the Credit Fund's assets may seek the protections afforded by bankruptcy, insolvency and other debtor relief laws.

Senior secured loans are also subject to other risks, including (i) the possible invalidation of a debt or lien as a "fraudulent conveyance", (ii) the recovery as a "preference" of liens perfected or payments made on account of a debt in the 90 days before a bankruptcy filing, (iii) equitable subordination claims by other creditors, (iv) so-called "lender liability" claims by the issuer of the obligations and (v) environmental liabilities that may arise with respect to collateral securing the obligations. Loans may become non-performing for a variety of reasons. Adverse credit events with respect to any portfolio company, such as missed or delayed payment of interest and/or principal, bankruptcy, receivership, or distressed exchange, can significantly diminish the value of the Credit Fund's investment in any such company. The Credit Fund's investments may be subject to early redemption features, refinancing options, pre-payment options or similar provisions which, in each case, could result in the issuer repaying the principal on an obligation held by the Credit

Fund earlier than expected. In addition, depending on fluctuations of the equity markets, warrants and other equity securities may become worthless. To the extent the Credit Fund holds subordinated debt securities, such debt may be unsecured and structurally or contractually subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured. Such debt investments may not be protected by financial covenants or limitations upon additional indebtedness. Certain of the Credit Fund's senior loans may be unsecured or be senior subordinated notes.

- *Credit Risk.* One of the fundamental risks associated with the Credit Fund's investments is credit risk, which is the risk that an issuer will be unable to make principal and interest payments on its outstanding debt obligations when due. The Credit Fund's returns would be adversely impacted if an issuer of debt in which the Credit Fund invests becomes unable to make such payments when due.

Although the Credit Fund may make investments that the general partner believes are secured by specific collateral the value of which may initially exceed the principal amount of such investments or the Credit Fund's fair value of such investments, there can be no assurance that the liquidation of any such collateral would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal payments with respect to such investment, or that such collateral could be readily liquidated. The Credit Fund may also invest in leveraged loans, high yield securities and other unsecured investments, each of which involves a higher degree of risk than senior secured loans. Furthermore, the Credit Fund's right to payment and its security interest, if any, may be subordinated to the payment rights and security interests of the senior lender. Certain of these investments may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the investment. In addition, certain instruments may provide for payments-in-kind, which have a similar effect of deferring current cash payments. In such cases, a portfolio company's ability to repay the principal of an investment may be dependent upon a liquidity event or the long-term success of the portfolio company, the occurrence of which is uncertain.

With respect to the Credit Fund's investments in any number of credit products, if the borrower or issuer breaches any of the covenants or restrictions under the indenture governing notes or the credit agreement that governs loans of such issuer or borrower, it could result in a default under the applicable indebtedness as well as the indebtedness held by the Credit Fund. Such default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. This could result in an impairment or loss of the Credit Fund's investment or result in a pre-payment (in whole or in part) of the Credit Fund's investment. As it relates to all of the foregoing risks and related considerations discussed above, it should also be noted that the Credit Fund is expected to also invest in high yield bonds and other unsecured investments, each of which involves a higher degree of risk than senior secured loans.

- Sub-investment Grade and Unrated Debt Obligations.* The Credit Fund's investment strategy is focused on investing in instruments that may include first lien loans and notes, second lien loans and notes, senior unsecured and senior subordinated notes and capital leases, each of which may be sub-investment grade debt obligations. Investments in the sub-investment grade categories are subject to greater risk of loss of principal and interest than higher-rated instruments and may be considered to be predominantly speculative with respect to the obligor's capacity to pay interest and repay principal. Such investments may also be considered to be subject to greater risk than those with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with non-investment grade instruments, the yields and prices of such instruments may fluctuate more than those that are higher-rated. The market for non-investment grade instruments may be smaller and less active than those that are higher-rated, which may adversely affect the prices at which these investments can be sold and result in losses to the Credit Fund, which, in turn, could have a material adverse effect on the performance of the Credit Fund. In addition, the Credit Fund may invest in debt investments which may be unrated by a recognized credit rating agency, which may be subject to greater risk of loss of principal and interest than higher-rated debt obligations or debt obligations which rank behind other outstanding investments of the obligor, all or a significant portion of which, may be secured on substantially all of that obligor's assets. The Credit Fund may also invest in debt investments which are not protected by financial covenants or limitations on additional indebtedness. In addition, evaluating credit risk for debt investments involves uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult. Any of these factors could have a material adverse effect on the performance of the Credit Fund.
- High Yield Debt.* The Credit Fund may invest in debt securities that may be classified as "higher-yielding" (and, therefore, higher-risk) debt securities. In most cases, such debt will be rated below "investment grade" or will be unrated and will face both ongoing uncertainties and exposure to adverse business, financial or economic conditions and the issuer's failure to make timely interest and principal payments. The market for high yield securities has experienced periods of volatility and reduced liquidity. High yield securities may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these debt securities may reflect individual corporate developments. General economic recession or a major decline in the demand for products and services in the industry in which the borrower operates would likely have a materially adverse impact on the value of such securities or could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of these high yield debt securities.



- *Capital Structure Arbitrage.* In certain circumstances the execution of a distressed investing strategy involves the ability of the general partner to identify and exploit the relationships between movements in different instruments within an issuer's or borrower's capital structure (e.g., senior bank debt, second liens, debt instruments and other obligations, convertible and non-convertible senior and subordinated debt, preferred equity and common stock). Identification and exploitation of these opportunities involve uncertainty. In the event that the perceived pricing inefficiencies underlying the investments of an issuer held by the Credit Fund were to fail to materialize as expected by the general partner, the Credit Fund could incur a loss.
- *Nature of Junior, Subordinated and/or Unsecured investments.* The Credit Fund's strategy may entail acquiring investments that are junior, subordinated and/or unsecured instruments. If the portfolio company in question does not successfully reorganize, the Credit Fund will have no assurance (as do those distressed investors that acquire only fully collateralized positions) that it will recover any of the principal that it has invested. While such junior, subordinated or unsecured investments may benefit from the same or similar financial and other covenants as those enjoyed by the indebtedness ranking ahead of the investments and may benefit from cross-default provisions and security over the portfolio company's assets, some or all of such terms may not be part of particular investments. Moreover, the ability of the Credit Fund to influence a portfolio company's affairs, especially during periods of financial distress or following an insolvency, is likely to be substantially less than that of senior creditors. For example, under typical subordination terms, senior creditors are able to block the acceleration of the debt or the exercise by debt holders of other rights they may have as creditors. Accordingly, the Credit Fund may not be able to take steps to protect its investments in a timely manner or at all and there can be no assurance that the rate of return objectives of the Credit Fund or any particular investment will be achieved. In addition, the debt investments in which the Credit Fund may invest may not be protected by financial covenants or limitations upon additional indebtedness, may have limited liquidity and may not be rated by a credit rating agency.

The Credit Fund's investments may be in the form of subordinated debt instruments, which will rank behind the borrower's more senior indebtedness. As a result, upon any distribution to a borrower's creditors in a bankruptcy, liquidation or reorganization or similar proceeding, the holders of such borrower's more senior and/or secured indebtedness (to the extent of the collateral securing such obligation) will be entitled to be paid in full before any payment may be made on the Credit Fund's investment. In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to a borrower, the Credit Fund will participate with all other holders of such borrower's indebtedness in the assets remaining after the borrower has paid all of its more senior and/or secured indebtedness (to the extent of the collateral securing such obligation). A borrower may not have sufficient funds to pay all of its creditors and the Credit Fund may receive nothing, or less, ratably, than the holders of more senior and/or secured indebtedness of such borrower or the holders of indebtedness that is not subordinated.

The Credit Fund's investments may be subject to early redemption features, refinancing options, pre-payment options or similar provisions which, in each case, could result in the issuer repaying the principal on an obligation held by the Credit Fund earlier than expected. This may happen when there is a decline in interest rates. Early repayments of the Credit Fund's investments may have a material adverse effect on the Credit Fund's investment objectives and the internal rate of return on invested capital. In addition, depending on fluctuations of the equity markets and other factors, warrants and other equity investments may become worthless. There can be no assurance that attempts to provide downside protection through contractual or structural terms with respect to the Credit Fund's investments will achieve their desired effect. Certain investments of the Credit Fund may not have all of the characteristics targeted by the Credit Fund. Furthermore, the Credit Fund has limited flexibility to negotiate terms when purchasing newly issued investments in connection with a syndication of mezzanine or certain other junior or subordinated investments or in the secondary market.

- *Bank Loans and Participations.* A portion of the Credit Fund's assets may be invested in bank loans and participations in bank loans. These obligations are subject to unique risks, including, without limitation: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; (iv) adverse consequences resulting from participating in such instruments with other institutions with lower credit quality; and (v) limitations on the ability of the Credit Fund to directly enforce its rights with respect to participations. The loans invested in by the Credit Fund may include term loans and revolving loans, may pay interest at a fixed or floating rate and may be senior or subordinated.

Successful claims by third parties arising from these and other risks may be borne by the Credit Fund. Bank loans are frequently traded on the basis of standardized documentation, which is used in order to facilitate trading and market liquidity. There can be no assurance, however, that future levels of supply and demand in bank loan trading will provide an adequate degree of liquidity, that the current level of liquidity will continue or that the same documentation will be used in the future. The settlement of trading in bank loans often requires the involvement of third parties, such as administrative or syndication agents, and there presently is no central clearinghouse or authority that monitors or facilitates the trading or settlement of all bank loan trades. Often, settlement may be delayed based on the actions of any third party or counterparty, and adverse price movements may occur in the time between trade and settlement, which could result in adverse consequences for the Credit Fund.

The Credit Fund may acquire interests in bank loans either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a contracting party under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. In addition, if the Credit Fund acquires loans pursuant to an assignment it



is possible that the Credit Fund's claims may be subject to attack (i.e., equitable subordination or disallowance) on account of the conduct of the transferee.

Participation interests in a portion of a debt obligation typically result in a contractual relationship only with the institution participating out the interest and not with the borrower. In purchasing participations, the Credit Fund may have no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, and the Credit Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Credit Fund may assume the credit risk of both the borrower and the institution selling the participation to the Credit Fund. In certain circumstances, investing in the form of a participation may be the most advantageous or only route for the Credit Fund to make or hold any investment, including in light of limitations relating to local laws or the willingness of administrative agents or borrowers to allow the Credit Fund to become a direct lender. Some of the bank loans acquired by the Credit Fund may be below investment grade. In terms of liquidity with respect to such investments, there can be no assurance that levels of supply and demand in bank loan trading will provide an adequate degree of liquidity for the Credit Fund's investments therein. In addition, the Credit Fund may make investments in stressed or distressed bank loans, which are often less liquid than performing bank loans.

- *Convertible Securities.* Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (a) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (b) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (c) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its

conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by the Credit Fund is called for redemption, the Credit Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Credit Fund's ability to achieve its investment objective.

- *Covenant Lite Loans.* Although the firm generally expects the loan documentation of most of the Credit Fund's investments to include both incurrence and maintenance-based covenants, there may be instances, such as those investments purchased by the Credit Fund on the secondary market, in which the Credit Fund invests in covenant-lite loans. An investment by the Credit Fund in a covenant-lite loan may potentially hinder the ability to reprice credit risk associated with the portfolio company and reduce the ability to restructure a problematic loan and mitigate potential loss. As a result, the Credit Fund's exposure to losses may be increased, which could result in an adverse impact on the Credit Fund's return to its investors.
- *Collateralized Loan Obligations.* The Credit Fund's investments may include collateralized loan obligations ("CLO") products and other securitizations (including "equity" or residual tranches; and in such cases a double layer of fees and expenses would be borne by investors in the Credit Fund), which are generally limited recourse obligations of a portfolio company ("Securitization Vehicles") payable solely from the underlying assets ("Securitization Assets") of the portfolio company or proceeds thereof. Consequently, holders of equity or other instruments or obligations issued by Securitization Vehicles must rely solely on distributions on the Securitization Assets or proceeds thereof for payment in respect thereof. The Securitization Assets may include, without limitation, broadly syndicated leverage loans, middle-market bank loans, CLO debt tranches, trust preferred securities or instruments, insurance surplus notes, asset-backed securities or instruments, mortgages, REITs, high-yield bonds, mezzanine debt, second lien leverage loans, credit default swaps and emerging market debt and corporate bonds, which are subject to liquidity, market value, credit, interest rate, reinvestment and certain other risks. Securitization Vehicles are typically actively managed by an investment advisor, and as a result the Securitization Assets will be traded, subject to rating agency and other constraints, by such investment advisor. The aggregate return on the CLO equity instruments will depend in part upon the ability of each investment advisor to actively manage the related portfolio of Securitization Assets.
- *Market Risk.* Issuers in which the Credit Fund invests could deteriorate as a result of, among other factors, an adverse development in their business (including due to adverse commodity price movements), a change in the competitive environment or the continuation or worsening of the current (or any future) economic and financial market downturns and dislocations. As a result, issuers that the Credit Fund expected to be stable or improve 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 maintain their competitive position, or may otherwise have a weak financial condition or be experiencing financial distress. In addition, exogenous factors such as fluctuations of the credit markets and capital markets also could result in investments owned by the Credit Fund becoming worthless. Similarly, while the Credit Fund will generally target investing in companies that the general partner believes are of high quality, these companies could still present a high degree of business and credit risk. There is a possibility that the Credit Fund may incur substantial or total losses on its investments. During an economic downturn or recession, investments of financially troubled or operationally troubled issuers are more likely to go into default than those of other issuers. Investments of financially troubled issuers and operationally troubled issuers are less liquid and more volatile than those of companies not experiencing financial difficulties. The market prices of such investments are subject to erratic and abrupt market movements and the spread between bid and asked prices may be greater than normally expected. In addition, it is anticipated that many of the Credit Fund's investments may not be widely traded and that the Credit Fund's investment in any such investment may be substantial relative to the market for such investments. The level of analytical sophistication, both financial and legal, necessary for successful investment in investments of issuers experiencing significant business and financial difficulties is unusually high. There is no assurance that the general partner will correctly evaluate the current or prospective future value of the assets underlying the Credit Fund's investments at any point in time or the prospects for a successful reorganization or similar action. As a result, the Credit Fund may experience delays and incur losses and other costs in connection with the sale of its investments.

- *Credit Ratings are Not a Guarantee of Quality.* Credit ratings of assets represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. A credit rating is not a recommendation to buy, sell or hold assets and may be subject to revision or withdrawal at any time by the assigning rating agency. In the event that a rating assigned to any corporate debt obligation is lowered for any reason, no party is obligated to provide any additional support or credit enhancement with respect to such corporate debt obligation. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value; therefore, ratings may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an obligor's current financial condition may be better or worse than a rating indicates. Consequently, credit ratings of any corporate debt obligation are only a preliminary indicator of investment quality, and not a completely reliable indicator of investment quality. Rating reductions or withdrawals may occur for any number of reasons and may affect numerous assets at a single time or within a short period of time, with material adverse effects upon the corporate debt obligation. It is possible that many credit ratings of assets included in or similar to the corporate debt obligation will be subject to significant or severe adjustments downward.

- *Prepayment Risk.* The value of the Credit Fund's assets may be affected by prepayment rates on loans. Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond the Credit Fund's control. Therefore, the frequency at which prepayments (including voluntary prepayments by borrowers and liquidations due to defaults and insolvency) occur on the Credit Fund's investments can adversely impact the Credit Fund and prepayment rates cannot be predicted with certainty making it impossible to insulate the Credit Fund from prepayment or other such risks. Early prepayments give rise to increased re-investment risk, including, for example, when the prevailing level of interest rates falls, the Credit Fund may be unable to re-invest cash in a new investment with an expected rate of return at least equal to that of the investment prepaid.
- *Spread Widening Risk.* For reasons not necessarily attributable to any of the risks set forth herein (for example, supply/demand imbalances or other market forces), the prices of the debt instruments and other securities in which the Credit Fund invests may decline substantially. In particular, purchasing debt instruments or other assets at what may appear to be "undervalued" or "discounted" levels (due to perceived market dislocations or otherwise) is no guarantee that these assets will not be trading at even lower levels at a future time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such "spread widening" risk. Additionally, the perceived discount in pricing from previous environments described herein may still not reflect the true value of the assets underlying debt instruments in which the Credit Fund invests.
- *General Economic Conditions; The "Wedge".* The success of the Credit Fund's activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Credit Fund's investments), trade barriers, currency exchange controls, rate of inflation, currency depreciation, asset reinvestment, resource self-sufficiency, emerging market volatility and national and international political, environmental and socioeconomic circumstances (including wars, terrorist acts or security operations). The recent global recession (which may or may not have ended) was prolonged and serious. To the extent that current conditions continue (or even worsen), this may have a further adverse impact on the availability of credit to businesses generally and further contribute to an overall weakening of the U.S. and global economies. The continuation of the economic downturn could adversely affect the financial resources of the Credit Fund's portfolio companies and their ability to make principal and interest payments on, or refinance, outstanding debt when due. In the event of such defaults, the Credit Fund could lose both invested capital in and anticipated profits from the affected portfolio companies. Such marketplace events have also impacted the availability and terms of financing for leveraged transactions. Private equity investors have recently been required to finance transactions with a greater proportion of equity relative to prior periods and the terms of debt financing are significantly less flexible for borrowers compared to prior periods. These developments may impair the Credit Fund's ability to consummate transactions and may cause the Credit Fund to enter into transactions on less attractive terms than those enjoyed by prior energy debt

financing funds. No assurance can be given that current or anticipated market conditions, trends or opportunities will arise or continue, as applicable, or that the “Wedge,” the growing gap between supply and demand for energy credit, will remain stable or grow during the life of the Credit Fund, since this will depend upon events and factors outside Riverstone’s control. There can be no assurance that default and recovery rates experienced by companies in the energy sector relative to companies outside the energy sector will continue to compare favorably. There can be no assurance that conditions in the global financial markets will not worsen and/or adversely affect one or more of the Credit Fund’s investments, its access to capital for leverage or the Credit Fund’s overall performance. The Credit Fund’s investment strategy and the availability of opportunities satisfying the Credit Fund’s risk-adjusted return parameters relies in part on the continuation of certain trends and conditions observed in the market for investments (e.g., the inability of certain companies to obtain financing solutions from traditional lending sources or otherwise access the capital markets) and the broader financial markets as a whole, and in some cases the improvement of such conditions. Trends and historical events do not imply, forecast or predict future events and, in any event, past performance is not necessarily indicative of future results. There can be no assurance that the assumptions made or the beliefs and expectations currently held by Riverstone will prove correct and actual events and circumstances may vary significantly.

- *Borrowing and Leverage.* The general partner expects to utilize permanent investment leverage in connection with the Credit Fund’s investments (on up to a 1:1 portfolio-wide basis (the “Portfolio Leverage Limit”)). Such investment leverage will increase the exposure of an investment to adverse economic factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the investment. Borrowings by the Credit Fund have the potential to enhance the Credit Fund’s returns, however, they will further diminish returns (or increase losses on capital) to the extent overall returns are less than the Credit Fund’s cost of funds. As a general matter, the presence of leverage can accelerate losses. In addition, the Credit Fund may exceed the Portfolio Leverage Limit with respect to individual investments. Accordingly, the failure of any highly leveraged investment could have a disproportionate impact on the returns of the Credit Fund.

The Credit Fund’s use of investment leverage may, amongst others, have the following consequences to the investors, including, but not limited to: (i) greater fluctuations in the net asset value of the Credit Fund’s assets; (ii) use of cash flow (including capital contributions) for debt service, distributions, or other purposes; (iii) to the extent that Credit Fund revenues are required to meet principal payments, the investors may be allocated income (and therefore tax liability) in excess of cash distributed; and (iv) in certain circumstances, the Credit Fund may be required to dispose of investments at a loss or otherwise on unattractive terms in order to service its debt obligations or meet its debt covenants. There can be no assurance that the Credit Fund will have sufficient cash flow to meet its debt service obligations. As a result, the Credit Fund’s exposure to foreclosure and other losses may be increased due to the illiquidity of its investments.



The identity of the lender or group of lenders that will provide the Leverage Facility and investment leverage, and the terms upon which such leverage will be made available, have not yet been determined. The general partner may in its sole discretion at any time throughout the life of the Credit Fund, in light of then prevailing business and markets conditions and portfolio considerations, amend, modify, restructure or refinance any Leverage Facility or investment leverage with such parties and on such terms as the general partner determines appropriate for the Credit Fund. In addition, the Credit Fund may need to refinance its outstanding debt as it matures. There is a risk that the Credit Fund may not be able to refinance existing debt or that the terms of any refinancing may not be as favourable as the terms of the existing loan agreements. In such circumstances, certain terms of any new or amended Leverage Facility may be less favorable than its predecessor facility. If prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase. These risks could adversely affect the Credit Fund's financial condition, cash flows and the return on its investments. No assurance can be given that the Leverage Facility will be available throughout the life of the Credit Fund. If the Credit Fund is unable to maintain the Leverage Facility or replace such facility upon its termination, the Credit Fund would not necessarily be able to make investments on a leveraged basis and in such circumstances, the general partner may, in its discretion, terminate the Commitment Period, dissolve the Credit Fund or take other appropriate actions. The Leverage Facility may also be secured by assignment of the obligations of the Partners to make capital contributions to the Credit Fund and a security interest in the investments made by the Credit Fund.

The Credit Fund expects that it may operate at or near the Portfolio Leverage Limit or such higher amount as may be approved by the Credit Fund's limited partner advisory committee or a majority in interest of the limited partners. The Credit Fund's debt generally will take the form of secured lines of credit. There can be no assurance that such financing will continue to be available or be available on acceptable terms. It is also possible that the Credit Fund may decide to repay any leverage with funds drawn from the Commitments of the limited partners or to make future investments with little or no corresponding leverage. If the Credit Fund decides to pay down its leverage or to make its investments with little or no leverage, the returns of the limited partners may be adversely affected. Such returns may also be adversely affected if the Credit Fund is required to renew its Leverage Facility at times when the costs of borrowing in the leveraged market are not as favorable as when the Credit Fund made its underlying loans.

Because the Credit Fund may engage in portfolio financings where investments are cross-collateralised or cross-defaulted, multiple investments may be subject to the risk of loss. As a result, the Credit Fund could lose its interests in performing investments in the event such investments are cross-collateralised or cross-defaulted with poorly performing or nonperforming investments.

Recourse debt, which the Credit Fund reserves the right to obtain, may subject other assets of the Credit Fund to the risk of loss and an investor's Commitment to be

called or Credit Fund assets to be sold to satisfy such debt. Full or partial recourse debt may also limit the ability of the Credit Fund to effect a debt restructuring at or prior to maturity of the debt.

The general partner may cause the Credit Fund to incur debt, such as debt resulting from bridge financing, subscription and/or asset-backed facilities. Such debt exposes the Credit Fund to refinancing, recourse and other risks. With respect to any asset-backed facility entered into by the Credit Fund (or an affiliate thereof), a decrease in the market value of the Credit Fund's investments would increase the effective amount of leverage and could result in the possibility of a "margin call" or violation of certain financial covenants pursuant to which the Credit Fund must either repay the borrowed funds to the lender, which could, subject to any limitations set forth in the Partnership Agreement require investors to make additional capital contributions in respect of such borrowings, or suffer foreclosure or forced liquidation of the pledged assets. Liquidation of the Credit Fund's investments at an inopportune time in order to satisfy such financial covenants could adversely impact the performance of the Credit Fund and could, if the value of its investments had declined significantly, cause the Credit Fund to lose all or a substantial amount of its capital. Moreover, if additional capital contributions were required to satisfy such financial covenants this would effectively reduce the amount of capital available for other investments and could adversely affect the diversification of the Credit Fund's portfolio. In the event of a sudden, precipitous drop in the value of the Credit Fund's assets, the Credit Fund might not be able to dispose of assets quickly enough to pay off its debt resulting in a foreclosure or other total loss of some or all of the pledged assets. Fund-level debt facilities may include other covenants such as, but not limited to, covenants against the Credit Fund making distributions to investors if there is a default under the Fund-level debt facility and covenants against the Credit Fund incurring or being in default under other recourse debt, including certain Credit Fund guarantees of asset level debt. Any breach of those covenants could cause adverse consequences to the Credit Fund if it is unable to cure or otherwise mitigate such breach.

The general partner may obtain its leverage through the use of a total return swap or other derivative contract, instrument or similar arrangement designed to substantially replicate the benefits and risks of holding its investments, but on a leveraged basis. Total return swap agreements generally are contracts in which one party (e.g., a bank or other financial institution) agrees to make periodic payments to another party (e.g., the Credit Fund) based on the change in market value of the assets underlying the contract and also in respect of interest generated by such underlying assets (e.g., the leveraged loans in which the Credit Fund will seek to indirectly invest) during a specified period, in return for periodic payments based on a fixed or floating yield on the total notional value of such underlying assets. Such total return swap agreements would allow the Credit Fund to obtain exposure to a portfolio of leveraged loan investments without owning or taking physical custody of such loans or investing directly therein. It is anticipated that such total return swap agreements would be structured to effectively add investment leverage to the Credit Fund's portfolio because, in addition to its total net assets, the Credit Fund would be subject to investment exposure on the notional amount of the swap. The leverage provided by

such instruments will magnify the gains and losses experienced by the Credit Fund and cause the value of the Credit Fund's assets to be subject to wider fluctuations than would be the case if the Credit Fund did not use the leverage feature in such instruments. Total return swap agreements entered into by the Credit Fund would be subject to the risk that one or more counterparties thereto would default on their payment obligations to the Credit Fund, due to such counterparty's insolvency, bankruptcy or other factors that are outside of the control of the general partner and the Credit Fund. Swap agreements also bear the risk that the Credit Fund will not be able to meet its obligation to such counterparty and therefore be subject to various remedies, including cross-defaults to other transactions with the same counterparty. Defaults by either the Credit Fund or a counterparty with respect to any such total return swap could cause the Credit Fund to lose all or a portion of its assets. In addition, if the Credit Fund fails to maintain sufficient collateral to support its obligations under any total return swap or if certain specified credit event occurs with respect to the Credit Fund, then the swap contract will be terminated early and the Credit Fund will lose access to the leverage provided by such swap and, to the extent the Credit Fund owes payment obligations to its swap counterparty upon such early settlement of the swap, the Credit Fund will be required to make such payment at a time earlier than the scheduled settlement of the swap. Any total return swap providing investment leverage will not be traded on an exchange and, therefore, the risk to the Credit Fund of nonperformance by the counterparty to such an instrument may be greater, and the ease with which the Credit Fund can dispose of or enter into closing transactions with respect to such an instrument may be less, than in the case of an exchange traded instrument. Total return swaps are also not subject to the same type of government regulation as exchange traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions. Also, any bankruptcy, insolvency or default by a counterparty to the Credit Fund could result in a loss of the Credit Fund's investments, including, for example, where investments are re-hypothecated or otherwise held by such counterparties and become subject to general claims of their creditors. Tax-exempt investors should note that the use of leverage by the Credit Fund may create "unrelated business taxable income".

- *Investments in Highly Leveraged Companies; Use of Leverage.* The Credit Fund's investments are expected to include investments in companies whose capital structures may have significant leverage (which may include substantial leverage senior to the Credit Fund's investments), a considerable portion of which may be at floating interest rates. The leveraged capital structure of such companies will increase their exposure to adverse economic factors such as rising interest rates, downturns in the economy or further deteriorations in the financial condition of the company or its industry. This leverage may result in more serious adverse consequences to such companies (including their overall profitability or solvency) in the event these factors or events occur than would be the case for less leveraged companies. In using leverage, these companies may be subject to terms and conditions that include restrictive financial and operating covenants, which may impair their ability to finance or otherwise pursue their future operations or otherwise satisfy additional capital needs. Moreover, rising interest rates may significantly increase the portfolio



company's interest expense, or a significant industry downturn may affect a company's ability to generate positive cash flow, in either case causing an inability to service outstanding debt. Such leverage, when combined with the Fund-level leverage described under "Leverage" above, will serve to magnify both the Credit Fund's opportunities for gain and its risk of loss from a particular investment.

- *Risks Associated with Short Sales.* The Credit Fund may sell investments short. Selling investments short runs the risk of losing an amount greater than the amount invested. Short selling is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of an investment may appreciate before the short position is closed out. In addition, the supply of investments which can be borrowed fluctuates from time to time. The Credit Fund may be subject to losses if a counterparty or other lender demands return of the lent investments and an alternative lending source cannot be found or if the Credit Fund, as the case may be, is otherwise unable to borrow investments which are necessary to hedge its positions.

In addition to the above risks that relate to specific segments of the energy and power sectors, there are some important risks associated with investments related to the energy and power sectors generally.

- *Environmental Matters.* Environmental laws, regulations and regulatory initiatives play a significant role in the energy and power industry and can have a substantial impact on investments in this industry. For example, global initiatives to minimize pollution have played a major role in the increase in demand for natural gas and alternative energy sources, creating numerous new investment opportunities. Conversely, required expenditures for environmental compliance have adversely impacted investment returns in a number of segments of the industry. The energy and power industry will continue to face considerable oversight from environmental regulatory authorities. Our firm seeks to evaluate carefully the expected impact of environmental compliance on all potential investments. Our firm, on behalf of our clients, may invest in portfolio companies that are subject to changing and increasingly stringent environmental and health and safety laws, regulations and permit requirements.

There can be no guarantee that we will be able to identify all costs and risks regarding compliance with environmental laws and regulations. New and more stringent environmental and health and safety laws, regulations and permit requirements or stricter interpretations of current laws or regulations could impose substantial additional costs on portfolio companies or potential investments. Compliance with current or future environmental requirements does not ensure that the operations of the portfolio companies will not cause injury to the environment or to people under all circumstances or that the portfolio companies will not incur additional unforeseen environmental expenditures. Moreover, failure to comply with any these requirements could have a material adverse effect on a portfolio company. There can be no assurance that portfolio companies will at all times comply with all applicable environmental laws, regulations and permit requirements. Past practices or future

operations of portfolio companies could also result in material personal injury or property damage claims.

- *Regulatory Approvals and Related Portfolio Company Matters.* Our clients may require the consent or approval of applicable regulatory authorities in order to acquire or hold particular portfolio companies. A portfolio company could be materially and adversely affected as a result of statutory or regulatory changes or judicial or administrative interpretations of existing laws and regulations that impose more comprehensive or stringent requirements on the company. Moreover, additional regulatory approvals, including without limitation, renewals, extensions, transfers, assignments, reissuances or similar actions, may become applicable in the future due to a change in laws and regulations, a change in the companies' customer(s) or for other reasons. We cannot give any assurance that our clients or any portfolio company will be able to:
  - obtain all required regulatory approvals that they do not yet have or that they may require in the future;
  - obtain any necessary modifications to existing regulatory approvals; or
  - maintain required regulatory approvals.

A portfolio company's delay in obtaining or failure to obtain and maintain in full force and effect any regulatory approvals could result in additional costs to a portfolio company. In connection with the regulatory approval, licensing or review processes for any portfolio company, disclosures and other undertakings may be required from or in respect of the existing or prospective owners of the portfolio company, potentially including our clients.

- *Non-U.S. Investments.* Our firm, on behalf of our clients, may invest in portfolio companies located or operating principally outside of the United States. Non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to:
  - currency exchange matters, such as fluctuations in the rate of exchange between the U.S. dollar and the various non-U.S. currencies in which a client's non-U.S. investments are denominated, and costs associated with conversion of investment principal and income from one currency into another;
  - differences between the U.S. and non-U.S. securities markets, including potential price volatility in and relative illiquidity of some non-U.S. securities markets;
  - the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation;
  - certain economic and political risks, including potential exchange control regulations and restrictions on non-U.S. investment and repatriation of capital,

nationalization of business enterprises, the risks of political, economic or social instability, the possibility of substantial rates of inflation and the possibility of expropriation or confiscatory taxation;

- the possible imposition of non-U.S. taxes on income and gains recognized with respect to these securities; and
  - less developed laws regarding corporate governance, fiduciary duties and the protection of investors, and other differences in applicable legal systems, including the possibility that our clients may experience difficulty in asserting legal claims or obtaining legal remedies in non-U.S. jurisdictions.
- *Reliance on Portfolio Company Management.* Each portfolio company's management team is responsible for the day-to-day operations. Although our firm or our affiliates are responsible for monitoring the performance of each investment and generally intend 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 our clients' plans and/or objectives.
  - *Risks in Effecting Operating Improvements.* In some cases, the success of our clients' investment strategy will depend, in part, on the ability of our firm 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. We cannot give any assurance that we will be able to successfully identify and implement these restructuring programs and improvements.
  - *Investment in Restructurings.* Our firm or our affiliates may make investments in restructurings that involve portfolio companies that are experiencing or are expected to experience financial difficulties. These financial difficulties may never be overcome and may cause portfolio companies to become subject to bankruptcy proceedings. These types of investments could, in certain circumstances, subject our clients to certain additional potential liabilities that may exceed the value of our clients' original investment therein. For example, under certain circumstances, a lender who has inappropriately exercised control over 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 its actions. In addition, under certain circumstances, payments to our clients and distributions by our clients to the investors may be reclaimed if any payment or distribution is later determined to have been a fraudulent conveyance, preferential payment or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, investments in restructurings may be adversely affected by statutes relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims or re-characterize investments made in the form of debt as equity contributions.

- *Currency and Exchange Rate Risks.* A portion of our clients' investments, and the income received by our clients with respect to these investments, may be denominated primarily in foreign currencies. However, the books of our clients will be maintained, and contributions to and distributions from our clients generally will be made, in U.S. dollars. Accordingly, changes in currency exchange rates may adversely affect the dollar value of investments and the amounts of distributions, if any, to be made by our clients. In addition, our clients will incur costs in converting investment proceeds from one currency to another.
- *Hedging Policies and Commodities Price Risks.* In connection with certain investments, our firm, on behalf of a client, or a client's portfolio companies may employ hedging techniques designed to reduce the risks of adverse movements in commodities prices, interest rates, securities prices and currency exchange. While these transactions may reduce certain risks, the transactions themselves may entail certain other risks. Thus, while a client may benefit from the use of these hedging mechanisms, unanticipated changes in commodity prices, interest rates, securities prices or currency exchange rates may result in a poorer overall performance for a client than if there had not been any hedging transactions.
- *Use of Derivatives and Other Specialized Techniques.* Companies in the energy and power industry engage in derivatives transactions to insulate against changes in commodities prices. Our firm, on behalf of a client, or a client's portfolio companies may engage in other derivative or similar transactions as described above. These transactions may involve the purchase and sale of commodities or commodity futures, the use of forward contracts, swap agreements, put and call options, floors, collars or other arrangements. Those instruments may be difficult to value, may be illiquid and may be subject to wide swings in valuation caused by changes in the price of commodities or other underlying assets. Derivative instruments may trade principally on markets organized outside the United States. Markets for these instruments may be illiquid, highly volatile and subject to interruption. Suitable hedging instruments may not continue to be available at reasonable cost.

The investment techniques related to derivative instruments are highly specialized and may be considered speculative. These techniques often involve forecasts and complex judgments regarding relative price movements and other economic developments. The success or failure of these investment techniques may turn on small changes in exogenous factors not within the control of portfolio companies, our firm or our clients. For all the foregoing reasons, the use of derivatives and related techniques can expose a client and its portfolio companies to significant risk of loss.

- *Regulatory Changes Relating to the Swaps and Foreign Exchange Markets.* The Wall Street Transparency and Accountability Act of 2010 (the "Dodd-Frank Act") required the Commodities Futures Trading Commission (the "CFTC") and the SEC to promulgate certain rules and regulations regarding swaps and gave the CFTC the authority to establish position limits for swaps. The rules and regulations regarding swaps required under Dodd-Frank include those relating to the regulation of certain

swaps entities, the clearing of certain swaps, the electronic trading of certain swaps and the reporting and recordkeeping of swaps.

Due to the requirements imposed by the Dodd-Frank Act, our funds may experience increased transaction costs to pay for the clearing, execution and segregation obligations associated with swaps. In addition, margin requirements may become necessary once the CFTC, SEC and/or certain prudential regulators finalize their rules regarding initial and variation margins for uncleared swaps, which may limit our clients' ability to engage in leverage, and may limit their return. The application of position limits to swap contracts may also limit our clients' ability to concentrate in any particular contract or exposure to an underlying commodity and may negatively impact their ability to take advantage of current market trends or conditions. At this time, there is no pending proposal and no anticipated compliance date for the CFTC's position limit rules for swaps.

If a fund meets certain quantitative or qualitative tests regarding its swaps activities, the client may be deemed to be a "swap dealer" or a "major swap participant," and be required to register with the CFTC as such. If a fund were to register as a swap dealer or major swap participant, it would be required to comply with several regulatory requirements that would significantly impact the client and its returns, including margin and capital requirements, recordkeeping and reporting requirements, disclosure obligations and special duties to governmental entities. These requirements may increase the potential liability of the client when trading swaps and impact the client's ability to deploy its capital in the most productive manner. The extent to which swap dealer or major swap participant registration and compliance obligations will impact our funds is currently unclear.

- *Lending and Credit Risk.* From time to time, our firm, on behalf of our clients, may make either long-term or short-term (bridge financing) loans to certain portfolio companies on both secured and unsecured bases. These types of loans are subject to credit and interest rate risks. "Credit risk" relates to an issuer defaulting in the payment of principal and/or interest on an instrument. It is often difficult to fully assess credit risk, which may change over the life of an instrument. "Interest rate risk" refers to the risks associated with market changes in interest rates. In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Finally, in the case of bridge financings, for reasons not always in our control, a long-term securities issuance or other refinancing may not occur, and the bridge loans may remain outstanding. In this event, the interest rate on these loans or the terms of these interim investments may not adequately reflect the risk associated with our client's unsecured position.
- *Public Company Holdings.* Our clients' investment portfolio may contain securities issued by publicly held companies or their affiliates. These investments may subject a client to risks that differ in type and degree from those involved with investments in privately held companies. These risks include, without limitation:

- greater volatility in the valuation of these companies,
  - increased obligations to disclose information regarding these companies,
  - limitations on the ability of a client to dispose of these securities at certain times,
  - delays in our clients' sale of securities to complete the SEC's registration process,
  - increased likelihood of shareholder litigation against these companies' board members or significant shareholders, and
  - increased costs associated with each of the above-listed risks.
- *Non-Controlling Investments.* We, on behalf of a client, may make a non-controlling investment in certain portfolio companies. Therefore, we may have a limited ability to protect our client's position in these portfolio companies. However, we will seek appropriate shareholder rights to protect our clients' interests.

We, on behalf of our clients, may co-invest with third parties through joint ventures or other entities. These investments may involve risks in connection with third-party involvement, including the possibility that a joint-venture party may have financial difficulties resulting in a negative impact on an investment, may have economic or business interests or goals that are inconsistent with those of our clients or may be in a position to take (or block) action in a manner contrary to our clients' investment objectives. In those circumstances, these third parties may receive compensation arrangements relating to these investments, including incentive compensation arrangements.

Although we do not primarily recommend any single type of security, we focus on equity and debt securities of energy and power companies. Accordingly, we encourage our clients as well as their investors to consider all of the risk factors we have described above. Please refer to Section 5 regarding risk factors related to our investment strategies. Any investment can be risky, and our clients and investors in our clients must be prepared to assume any potential loss.

## **6. Disciplinary Information**

Neither our firm nor any management person has been involved in any investment-related criminal or civil actions in a domestic, foreign or military court.

Neither our firm nor any management person has been subject to an administrative proceeding before the Securities and Exchange Commission, any other federal regulatory agency, any foreign financial regulatory authority or any self-regulatory organization.

In 2008, the Office of the Attorney General of the State of New York commenced an investigation into the use of placement agents by a number of private equity and hedge funds in connection with investments by New York State Common Retirement Fund



(NYSCRF). Our firm and its principals cooperated voluntarily with the Attorney General's investigation. On June 11, 2009, our firm resolved the Attorney General's investigation. According to the agreement between our firm and the Attorney General, we agreed to make a payment of \$30 million to New York State as restitution for the benefit of NYSCRF, and we agreed to adopt the Attorney General's Public Pension Fund Reform Code of Conduct. On December 9, 2009, David M. Leuschen, a Founder of our firm, reached a resolution with the Attorney General. According to the supplemental agreement between Mr. Leuschen and the Attorney General, Mr. Leuschen and our firm agreed to make a \$20 million payment as restitution for the benefit of NYSCRF.

The Securities and Exchange Commission (SEC) also conducted an investigation into the use of placement agents in connection with investments by NYSCRF. The SEC has filed a civil complaint against certain individuals and entities, in which the SEC alleged violations of federal securities laws in connection with investments by NYSCRF. Neither Riverstone nor any of its employees has been named as a defendant in any action by the SEC. The SEC requested that our firm and Mr. Leuschen voluntarily provide certain information. Our firm and Mr. Leuschen cooperated with the SEC. In August 2011, the staff of the SEC's New York Regional Office informed Riverstone and Mr. Leuschen in writing that no action would be taken with respect to Riverstone or Mr. Leuschen in connection with matters covered by the SEC's investigation.

## **7. Other Financial Industry Activities and Affiliates**

Certain affiliates of Riverstone Investment Group serve as general partners or management companies of the various Riverstone sponsored funds. All the Riverstone affiliated entities are registered investment advisers in accordance with SEC guidance under the Advisers Act pursuant to Riverstone Investment Group's registration with the SEC. These affiliated entities operate as a single advisory business together with Riverstone Investment Group and share common owners, officers, members and employees. All of these affiliated entities are under common control and subject to Riverstone Investment Group's code of ethics and Advisers Act compliance program pursuant to the requirements of the Advisers Act.

### Relationships with Pooled Investment Vehicles

Our firm or our affiliates, along with our joint venture partners, sponsor, manage and serve as general partners of the following funds, as well as certain investment vehicles formed to invest alongside these funds:

- Carlyle/Riverstone Global Energy and Power Fund II, L.P.,
- Carlyle/Riverstone Global Energy and Power Fund III, L.P.,
- Riverstone/Carlyle Global Energy and Power Fund IV, L.P.,
- Riverstone Global Energy and Power Fund V, L.P.,



- Riverstone Global Energy and Power Fund VI, L.P.,
- Riverstone Credit Partners, L.P.,
- Carlyle/Riverstone Renewable Energy Infrastructure Fund I, L.P., and
- Riverstone/Carlyle Renewable Energy and Alternative Energy Fund II, L.P.

Please see Sections 3, 7 and 8 for a description of the conflicts of interest that may arise in these relationships and how we manage them.

#### Relationships with Investment Advisers

We are affiliated with the following investment advisers, which are relying advisers:

- Riverstone Europe LLP (registered with the Financial Conduct Authority in the United Kingdom)
- Riverstone International Limited (an exempted company limited by shares incorporated in the Cayman Islands)

Our firm and our joint venture partner, The Carlyle Group, form partnerships or limited liability companies that serve as the general partners to certain of our funds. Our firm and our joint venture partner also provide investment management services to those jointly-sponsored funds pursuant to investment management agreements. Our firm forms partnerships or limited liability companies that serve as the general partners to our other funds that are not jointly-sponsored with The Carlyle Group and provides investment management services to those other funds pursuant to investment management agreements.

These relationships and related management or other fees are further disclosed in the private offering materials of each fund client. See Sections 3 and 8 for a discussion of the conflicts of interests that arise as a result of these relationships (including, the performance-based compensation that our firm or our affiliates may receive and certain trade allocation issues).

In addition, the firm is in the process of setting up Riverstone Capital Services LLC, a broker-dealer to be registered with the SEC and a member of the Financial Industry Regulatory Authority (FINRA).

## **8. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Our firm has established a code of ethics that sets forth standards of ethical conduct for our professionals. This code addresses standards of treating clients ethically, potential conflicts of interest and personal trading by our firm and our affiliates and professionals. In addition, we have established policies and procedures that address, among other things, potential conflicts of interest that might arise in the management of the funds that we sponsor.

Our policies prohibit our employees from purchasing or selling, directly or indirectly, any security while in possession of material, non-public information regarding the security, whether or not this information was obtained in the course of employment. Our employees also may not discuss material, non-public information with anyone outside of our firm and our affiliates. Our firm generally prohibits our employees from trading in equity or debt securities in the energy or power sectors, except that (1) employees may trade in energy- or power-related mutual funds and (2) we do allow employees to trade in energy exchange-traded funds (ETFs), commodity interests, and royalty trusts, only after receiving pre-clearance from our chief compliance officer or his/her designee. In addition, prior to investing in shares of initial public offerings or private placements, an employee must first pre-clear the trade with our chief compliance officer or his/her designee.

Our employees are not permitted to take for their own advantage an opportunity that rightfully belongs to our firm, our affiliates or our funds, are prohibited from using corporate property, information or position for personal gain, and may not compete directly or indirectly with our firm, our affiliates or our funds.

Our employees and control persons must certify annually that they have read and agree to comply in all respects with our Code of Ethics and that they have disclosed or reported all personal securities transactions, holdings and accounts required to be disclosed or reported by our Code of Ethics.

Additionally, our Code of Ethics provides for a range of sanctions, as deemed appropriate by our senior management, should anyone violate the Code of Ethics. These sanctions include, but are not limited to, a warning, fines, disgorgement, suspension, or termination of employment.

The paragraphs above only represent a summary of key provisions in our Code of Ethics. We will provide a copy of our entire Code of Ethics to any prospective client, any client or any investor in our funds upon request.

Under certain circumstances, we may recommend to clients, or buy or sell for client accounts, securities in which we or our affiliates have a material financial interest. Because our affiliates or our joint-venture partners are the general partners of our funds, we have a material interest that could create conflicts that must be managed.

Since our funds may be subject to different management fee and performance allocation structures and we may receive a carried interest from one fund sooner than from another fund, there may be a conflict of interest on how we allocate portfolio investments between various funds. We have instituted a number of allocation policies in order to mitigate those conflicts. Generally, when a core private investment fund which we advise has invested or committed 75% of its committed capital, we may establish a new core private investment fund with a similar investment strategy. In general, the new core private investment fund may co-invest with the existing fund going forward until the existing fund has invested or committed 90% of its committed capital, after which point the new fund may make investments without being required to share them with the existing fund. To the extent that an investment opportunity is appropriate for both the existing fund and the new fund, we expect that both funds should invest on the same terms and conditions, with allocations made between the funds on a basis that the investment committee of each of the funds determines in good faith to be fair and reasonable. In certain cases, the organizational and charter documents of a fund may require the investor advisory committee to approve fund allocations between various funds. In the absence of this requirement, we will seek to allocate investments and investment opportunities on a fair and reasonable basis.

Additionally, for other investment vehicles sponsored by us to invest alongside our funds in specific portfolio companies, the allocation of the investment opportunity to such vehicles is sometimes dictated by the investment limitations of the corresponding fund. In circumstances where an entire investment could be made by the applicable fund, we may still allocate a portion of such investment to one or more other investment vehicles if we believe in our good faith judgment that the full investment would unreasonably limit the diversification of the applicable fund or that a particular strategic co-investor would add value to the investment in terms of consummating, operating or exiting the investment.

In addition, the firm may structure an investment to permit another firm fund focused on credit investments to participate in one or more debt tranches of the capital structure of a portfolio company of an equity fund (either together with, or separate from, participation alongside the portfolio investment made by the equity fund). The firm may face conflicts of interests arising from the different interests held by different firm clients in the underlying portfolio company (e.g., with respect to the terms of high yield securities or other debt or other instruments, the enforcement of covenants, the terms of recapitalizations and the resolution of workouts or bankruptcies). It is possible that in a bankruptcy proceeding one fund's interests may be adversely affected by virtue of the involvement and actions of another fund relating to its investment.

In the unlikely event that we cause one fund to purchase an investment from another fund (known as a cross trade), there may be a conflict of interest in how we allocate that trade and the terms of that trade. If we intend to engage in any cross trade, the investment committees of both relevant funds will review their respective fund's charter and organizational documents to determine if there are any prohibitions or restrictions on cross trades, and the nature of those restrictions. In addition, the investor advisory committee of each fund must approve the cross trade prior to its execution. Our firm or

our affiliates will document the reason for the decision to effect a cross trade, including the price and any potential transaction-cost savings. In any case, neither our firm nor any affiliate may charge any commissions to either fund.

In addition, our funds may buy from or sell to our firm or affiliates. This could potentially create a conflict of interest between our firm and a fund because we have an incentive to negotiate more favorable terms for us or our affiliates at the expense of our client. As a result, we are subject to client notice and consent obligations in connection with the operation of the private investment funds for which we act as investment manager if those transactions are deemed to be “principal transactions.” We have established policies and procedures that address these principal transactions and the funds’ investment guidelines, limited partnership agreements and charter documents typically establish the terms of any principal transactions or restrict principal transactions. To the extent that a fund may engage in principal transactions with our firm or our affiliate, our client receives disclosure of the potential for principal transactions and the process for approving them.

Most importantly, we establish an investor advisory committee for each fund to review and resolve conflicts of interest, including with respect to principal transactions. If we intend for a client to engage in a principal transaction, we will notify the client’s investor advisory committee of the transaction and must obtain written approval from the investor advisory committee before we proceed with the principal transaction. We also review the client’s organizational documents to determine the procedures to be followed to approve principal transactions. In the absence of required consent, we will not proceed with the transaction.

Without the approval of our chief compliance officer, our employees may not buy and sell for themselves securities that they also buy and sell for our clients. We do not permit any of our principals or employees to trade in any account any publicly traded equity or debt security in a company in the energy or power sector, except for energy exchange-traded funds, commodity interests and royalty trusts after receiving pre-clearance from the Chief Compliance Officer pursuant to the firm’s pre-clearance procedures. Our firm, together with our affiliates, has the obligation to invest certain amounts in or alongside our funds on generally the same terms and conditions as the funds or their investors (except with respect to fees and carried interest payable to our firm), as part of our negotiated sponsor commitment. In certain of our funds, our firm and our affiliates have an option to invest up to an additional 10% in the aggregate of any investment made by such funds, which additional amount has been negotiated with investors in these funds.

Certain advisors and other service providers, or their affiliates (including any accountants, administrators, lenders, brokers, attorneys, consultants, investment or commercial banking firms and certain other advisors and agents) to a fund, the firm or their portfolio companies may also provide goods or services to or have business, personal, political, financial or other relationships with the firm. Such advisors and service providers may be investors in a fund, affiliates of a general partner and/or sources of investment opportunities and co investors or counterparties therewith. These relationships may

influence a general partner in deciding whether to select or recommend such a service provider to perform services for a fund or a portfolio company (the cost of which will generally be borne directly or indirectly by a fund or such portfolio company, as applicable). Notwithstanding the foregoing, investment transactions for a fund that require the use of a service provider will generally be allocated to service providers on the basis of best execution, the evaluation of which includes, among other considerations, such service provider's provision of certain investment-related services and research that the general partner believes to be of benefit to a fund. In certain circumstances, advisors and service providers, or their affiliates, may charge different rates or have different arrangements for services provided to the firm and its affiliates as compared to services provided to a fund and its portfolio companies, which will result in more favorable rates or arrangements than those payable by a fund or such portfolio companies.

The Fund's portfolio companies may be counterparties or participants in agreements, transactions or other arrangements with portfolio companies of other investment funds managed by the firm or its affiliates that, although the firm determines to be consistent with the requirements of such funds' governing agreements, may not have otherwise been entered into but for the affiliation with the firm, and which may involve fees and/or servicing payments to the firm's affiliated entities which are not subject to the management fee offset provisions described in the applicable fund governing documents.

In addition, as a result of the funds' controlling interests in portfolio companies, the firm typically has the right to appoint board members to such portfolio companies, or to influence their appointment. Serving on a portfolio company board may give rise to conflicts to the extent that a firm employee's (or consultant's) fiduciary duties to a portfolio company as a director may conflict with the interests of the firm clients that are invested in such portfolio companies.

## **9. Brokerage Practices**

Because we render advice to private equity funds, and investments are made on a negotiated basis, opportunities for trade executions are rare. On those rare occasions that our firm executes trades on behalf of its clients, our professionals must demonstrate compliance with broker selection, recordkeeping and other requirements related to trading, including "best execution."

Our firm seeks the most advantageous terms for fund trades. While trade price is often a significant quantitative factor in determining best execution, it is not the sole determinative factor. When placing orders with brokers for execution, we also evaluate qualitative execution factors, such as:

- available prices and rates of commissions or other compensation to brokers,

- efficiency of execution, bearing in mind the size of the order and characteristics of the security (for example, liquid vs. illiquid),
- financial responsibility of the broker-dealer, and
- the ability of the broker-dealer to execute block trades.

When selecting brokers for underwriting transactions, we consider a different set of factors, such as:

- expertise in a particular industry,
- potential network for selling securities,
- past success with public offerings, and
- potential underwriting discount.

Research and Other Soft Dollar Benefits. We may receive unsolicited research from brokers, dealers, and banks through which we execute portfolio trades. In circumstances in which we use such research, the quality and ability to receive research may factor into the selection of brokers, dealers and banks executing portfolio trades. We do not have any agreements in place that would require that we give any specified amount of brokerage to any broker-dealer.

Referrals in Selecting or Recommending Broker-Dealers. We do not receive referrals for clients from any broker-dealers. In limited circumstances, we may use a broker where a division or affiliate of the broker may have referred or may refer investors to our clients. We may be deemed to have a potential conflict of interest in receiving referrals in that we may have an incentive to select those brokers. In order to mitigate such a conflict, we focus on the criteria set forth above when selecting brokers.

Directed Brokerage. As our clients are all private investment funds managed by us, we select all broker-dealers and do not permit our clients to direct brokerage.

Aggregation of Trades – Policies and Procedures. Because we render advice to private equity funds, and investments are made on a negotiated basis, opportunities for trade aggregation are rare with respect to different funds.

However, in addition to the limited partnerships that serve as the core private investment funds advised by our firm, we may create parallel and alternative investment vehicles, as well as feeder funds that invest directly or indirectly in the core fund or parallel and alternative vehicles, to the extent these structures are consistent with applicable law and the core fund's organizational documents. Generally, a parallel investment vehicle will invest and divest proportionally in the same investments, and on virtually the same terms and conditions and at the same time, as the core private investment fund, subject to any limitations in the parallel investment vehicle's organizational documents. We may

establish alternative investment vehicles for tax reasons to permit certain investors to make investments outside of the core private investment fund, which investments generally will function as if made by the core fund on a substantially equivalent economic basis.

#### Results of Aggregating Trades

Ultimately, clients can benefit when we aggregate trades because we get volume discounts on execution costs. On the other hand, situations may occur where one client could be disadvantaged because:

- the average price received for an aggregate order may be worse than what a client would have received had it traded a smaller quantity of shares on its own, or
- the investment activities we conduct for other clients may result in, among other things, multiple clients needing to dispose of commonly held securities or other common investment positions at the same time.

When we do not aggregate trades, our clients pay higher execution costs than they would have had we aggregated the trades.

## **10. Review of Accounts**

Our firm's professionals serve on the investment committees for the private investment funds for which we act as adviser, and they routinely monitor their portfolio investments. Their reviews focus on operations, financial performance and strategic direction of each portfolio company owned by the funds. The investment committee as a whole performs comprehensive reviews quarterly, and a subset of the investment committee monitors each portfolio investment more frequently to ensure compliance with its stated objective.

In addition, the investment committee reviews the valuations of funds' investments that are non-marketable securities.

Investors in our funds receive written financial reports, including information relevant to each investor's fund investment and a description of the fund's investments, on a quarterly basis. Investors in our clients also receive audited financial statements of the funds in which they are invested, valuations of all the fund's investments and tax information necessary for the completion of U.S. tax returns on an annual basis.

In addition to the information provided to all of our funds' investors, we may arrange to provide certain investors of our clients with additional information or more frequent reports that other investors will not receive.



## **11. Client Referrals and Other Compensation**

Our firm may, at times, receive an economic benefit from non-clients for providing advisory services to our funds. For instance, when we conduct certain private equity-related transactions on behalf of our clients, we might receive fees from portfolio companies in which our clients are invested. From these relationships, we may receive:

- transaction fees (e.g., advisory fees we charge to any portfolio company and organizational or success fees we receive in connection with any fund investment),
- monitoring fees,
- investment banking, underwriting, and/or syndication fees,
- break-up fees, and/or
- directors' fees (including in-kind compensation).

We apply a portion of those fees we receive in these cases to reduce the management fees payable by the applicable client and its investors. The operating agreements of each of our funds set out the terms of these arrangements, which may vary from fund to fund.

We do not have any placement or “finders” arrangements for referrals of funds. However, our affiliates have entered into placement or “finders” arrangements for soliciting investors of our funds, including with certain affiliates of The Carlyle Group, our joint venture partner, with respect to our jointly-sponsored funds. Our funds disclose in their offering documents that they may enter into these arrangements. In addition, our clients generally require investors to acknowledge any fee payments relating to solicitation arrangements.

## **12. Custody**

Due to our access to funds and authority to deduct fees and other expenses from a client's account and services by our affiliates as general partners of our funds, we are deemed under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, to have custody of our clients' funds.

We utilize the services of a bank or other qualified custodian (as defined under Rule 206(4)-2) to hold all assets of any of our clients. We also ensure that the qualified custodian maintains these funds in accounts that contain only clients' funds and securities, under our name as agent or trustee for the clients.

While Rule 206(4)-2 generally requires an investment adviser to ensure that a qualified custodian sends account statements to clients at least quarterly, we are not subject to this requirement because all private equity funds managed by us are subject to audit at least

annually by an independent auditor that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. In these cases, we distribute audited financial statements to all limited partners of our funds within 120 days of the end of the fiscal year of the fund.

### **13. Investment Discretion**

Our firm accepts discretionary authority to manage our clients' securities accounts. Despite this broad authority, we are committed to adhering to the investment strategy and program set forth in each of our fund's private offering materials and/or investment management agreement. These documents cover matters such as the types and amounts of securities of which a client's portfolio will consist, portfolio allocation limitations and the degree of risk assumed by a client's portfolio. Before accepting the discretionary authority inherent in managing our funds, we carefully review the investment strategies and investment programs set out in our funds' offering documents.

### **14. Voting Client Securities**

#### Proxy Voting Policies and Procedures

We have implemented proxy voting policies and procedures in accordance with securities laws and our fiduciary obligations to our clients. We strive to vote client proxies in a manner consistent with each client's best interests.

Our firm votes proxies in accordance with guidelines in effect from time to time. We generally expect to vote proxies in accordance with the recommendations of company management. Generally, we will cast proxy votes in favor of proposals that:

- maintain or strengthen the shared interests of shareholders and management,
- increase shareholder value,
- maintain or increase shareholder influence over the issuer's board of directors and management,
- maintain or enhance the independence of the board of directors, and
- maintain or increase the rights of shareholders.

We will generally cast proxy votes against proposals having the opposite effect of those items listed above, particularly where we believe that a proposal will have a dilutive effect on the value of the underlying security. In addition, we will vote against a proposal or recommendation of management if we determine that such a vote is in the best interests of our client.

Prior to voting, we will determine whether an actual or potential conflict of interest with our firm or any other interested person exists in connection with the proposal(s). If an actual or potential conflict is found to exist, we will engage a reputable non-interested party to independently review our vote recommendation and to confirm that our vote recommendation is in the best interest of the client under the circumstances. If the independent non-interested party determines that our vote recommendation is not in the best interest of a client under the circumstances, then we will vote in the manner suggested by the independent non-interested party.

It is always possible that, after appropriate analysis, we may decide that declining to cast a vote at all is in the best interest of our client.

A copy of the proxy voting policy and procedures is provided to each fund and delivered to each investor upon investment in a fund. A copy is also available upon request. We provide information regarding any proxies actually voted by us to any client and any investor of a fund upon the request of the client or the investor.

In limited situations, we may not have the authority to vote on certain clients' securities. In these cases, clients may contact us, at any time, with questions about a particular proxy solicitation.

## **15. Financial Information**

We do not believe any financial condition exists that is reasonably likely to impair our ability to meet contractual commitments to our clients.

Our firm has never been the subject of a bankruptcy petition.