

## **HGGC, LLC**

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Part 2A of Form ADV: Firm Brochure  
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**This brochure provides information about the qualifications and business practices of HGGC, LLC. If you have any questions about the contents of this brochure, please contact us at (650) 321-4910. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about HGGC, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). An investment adviser’s registration with the SEC does not imply a certain level of skill or training.**

**Item 2. Material Changes**

HGGC, LLC's brochure dated March 31, 2014 was previously amended on June 6, 2014. This annual amendment updates the descriptions of the advisory business of HGGC, LLC and its affiliates.

### **Item 3. Table of Contents**

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#### **Item 4. Advisory Business**

For purposes of this brochure, the “Adviser” means HGGC, LLC, a Delaware limited liability company, together (where the context permits) with its affiliates that provide advisory services to and/or receive advisory fees from the Funds (as defined below). Such affiliates may or may not be under common control with HGGC, LLC, but possess a substantial identity of personnel and/or equity owners with HGGC, LLC. These affiliates may be formed for tax, regulatory or other purposes in connection with the organization of the Funds (as defined below), or may serve as general partners of the Funds. Such affiliates that are controlled by or under common control with the Adviser are deemed registered under the Advisers Act pursuant to the Adviser’s registration in accordance with SEC guidance. This brochure describes the business practices of the Adviser and such affiliates, which operate as a single advisory business. References contained in this brochure to the strategy and operations of the Adviser should be read to include the activities of the Adviser and such affiliates that collectively engage in the investment process and ongoing management of the Funds and their portfolio companies.

The Adviser and/or its affiliates provide investment supervisory services to investment vehicles (the “Main Funds”) that are exempt from registration under the Investment Company Act of 1940, as amended (the “1940 Act”) and whose securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”).

Additionally, the Adviser and/or its affiliates may also organize and serve as general partner (or in an analogous capacity) to certain other “feeder” vehicles (each such vehicle, a “Feeder Vehicle”) organized to invest exclusively in a Main Fund.

The Main Funds and the Feeder Vehicles are collectively referred to as the “Funds.”

The Funds make primarily long-term private equity and equity-related investments, as well as investments in debt instruments. In accordance with the Funds’ respective investment objectives, investments are generally made in middle market or growth equity companies, generally referred to herein as “portfolio companies.” The Adviser’s advisory services consist of investigating, identifying and evaluating investment opportunities, structuring, negotiating the terms of, and making investments on behalf of the Funds, supervising and monitoring the performance of such investments and disposing of such investments. The Adviser may serve as the investment adviser or general partner to the Funds in order to provide such services.

The Adviser provides investment supervisory services to each Fund in accordance with separate investment and advisory, investment management or portfolio management agreements (each, an “Advisory Agreement”), offering documents, limited partnership agreement (or analogous organizational document) or side letters with the Fund’s investors (such side letters, together with the limited partnership agreement (or analogous organizational document), the “Governing Documents”) of such Fund. Such side letters may have the effect of establishing rights under, or altering or supplementing a Fund’s Governing Documents, including by providing, among other things, different information rights, co-investment rights, liquidity or transfer rights and other economic rights that may be material.

Investment advice is provided directly to the Funds, subject to the discretion and control of the applicable general partner, and not individually to the investors in the Funds. Services are provided to the Funds in accordance with the Advisory Agreement, Governing Documents and/or offering documents of the applicable Fund. Investment restrictions for the Funds, if any, are generally established in the Governing Documents or offering documents of the applicable Fund.

The principal owners of HGGC, LLC are Gregory M. Benson, Gary L. Crittenden, Richard F. Lawson, Jr., J. Steven Young, Kurt A. Krieger and Leslie M. Brown, Jr. HGGC, LLC is managed by a Board of Managers consisting of Messrs. Benson, Crittenden, Lawson and Young. The Adviser has been in business since October 24, 2007. As of December 31, 2014, the Adviser manages a total of \$1,871 million of client assets, all of which are managed on a discretionary basis.

## **Item 5. Fees and Compensation**

As compensation for investment supervisory services rendered to the Main Funds, the Adviser or its affiliate receives from each such Fund an advisory fee or management fee (each, an “Advisory Fee”). Advisory Fees paid by a Main Fund are indirectly borne by investors in such Main Fund (such as Feeder Vehicles).

In addition, the Adviser may perform management, consulting, advisory, transaction-related, financial advisory and other services (“Related Services”) for, and receive fees from, actual or prospective portfolio companies or other investment vehicles of the Funds, including fees in connection with mergers, acquisitions, add-on acquisitions, refinancings, public offerings, sales and similar transactions. These fees may be substantial. Although these fees are in addition to the Advisory Fees, the Adviser will in some circumstances reduce the amount of Advisory Fees paid by the applicable Fund in connection with the receipt of such fees. The amount and manner of such reduction is set forth in the Advisory Agreement and/or Governing Documents of the applicable Fund. Additionally, a portfolio company may reimburse the Adviser for expenses (including without limitation travel expenses, which may include expenses for private, chartered or first class travel) incurred by the Adviser in connection with its performance of services for such portfolio company, and such reimbursements are not subject to the sharing arrangements described above. For a discussion of material conflicts of interest created by the receipt of such fees and reimbursements, please see “Conflicts of Interest” under Item 11 below.

Additionally, as further described herein, the Adviser also engages and retains advisors, consultants, and other similar professionals (“Capital Advisers”) who are not employees or affiliates of the Adviser and who may, from time to time, receive payments from, or allocations with respect to, portfolio companies and/or other entities. Such Capital Advisers generally may provide services in relation to the identification, acquisition, holding, improvement and disposition of portfolio companies, including operational aspects of such companies. These services may also include serving in management or policy-making positions for portfolio companies. In such circumstances, such amounts will not be deemed paid to or received by the Adviser and such amounts will not be subject to the sharing arrangements described above.

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

Related Services fees may also include amounts prepaid in anticipation of future services or otherwise accelerated in certain situations (*e.g.*, an initial public offering), which will be offset against the applicable Advisory Fees to the extent set forth in the relevant Advisory Agreement and/or Governing Documents. Although such prepaid or accelerated fees generally will be based on the anticipated level and duration of services that the Adviser believes at the time of such prepayment or acceleration are likely to be provided to the portfolio company, over time, they may be greater or less than the amount that is ultimately incurred with respect to services ultimately provided to such portfolio company. Furthermore, a Fund will, in most cases, only

benefit with respect to its allocable portion of any such fee and not the portion of any fee allocable to another entity, including, if applicable, any co-investment vehicle.

The precise amount of, and the manner and calculation of, the Advisory Fees for each Main Fund are established by the Adviser or its affiliate receiving the Advisory Fee, as modified by negotiations with investors in the applicable Main Fund, and are set forth in such Main Fund's Advisory Agreement, Governing Documents and/or other documentation received by each investor prior to investment in such Main Fund. The Advisory Fees and other fees and distributions described above are generally subject to waiver or reduction by the Adviser (or such affiliate receiving the Advisory Fee) in its sole discretion, both voluntarily and on a negotiated basis with selected investors. Certain waived portions of the Advisory Fees are treated by the Governing Documents as a deemed capital contribution by the relevant general partner, which is effectively invested in the relevant Main Fund on such general partner's behalf, and operates to reduce the amount of capital such general partner would otherwise be required to contribute to the Main Fund. Waived or reduced Advisory Fees are not subject to the Advisory Fee reductions, and the amount of such waived or reduced Advisory Fees may be significant.

The fee structures described above may be modified from time to time. Fees may differ from one Main Fund to another, as well as among investors in the same Main Fund.

Advisory Fees billed to and received from the Main Funds are payable quarterly in advance and are deducted from the assets of the Funds.

Upon termination of an Advisory Agreement, Advisory Fees that have been prepaid under such Advisory Agreement are generally returned on a prorated basis.

The Advisory Fees paid by a Main Fund generally will be reduced by the amount of fees paid by such Main Fund to persons acting as a placement agent in connection with the offer and sale of interests in such Main Fund to certain potential investors, as well as by fees incurred by the Adviser in connection with the organization of such Main Fund that exceed a limit specified in such Main Fund's Governing Documents. In addition, the Adviser or its affiliate receiving the Advisory Fee may waive or reduce all or a portion of the Advisory Fee paid by a Main Fund in full or partial satisfaction of any obligation of the Adviser and certain employees of the Adviser to invest in and alongside such Main Fund.

To the extent provided in the Advisory Agreements and the Governing Documents of the Funds, the Adviser or its affiliate receiving the Advisory Fee will pay out of Advisory Fees certain operating expenses, including expenses on account of rent, utilities, office supplies, office equipment, compensation of its partners and employees (other than Carried Interest described in Item 6 below), certain travel and entertainment expenses (to the extent not borne by a fund or its portfolio companies), and other routine administrative expenses relating to the services and facilities provided by the Adviser to the Funds. As set forth more fully in the Funds' Governing Documents, each Fund will bear all other expenses relating to its activities, investments and business to the extent not reimbursed by a portfolio company, including legal, accounting, audit, investment banking, consulting, research, brokerage, finders', custody, transfer, registration, advisory board (including the expenses of advisors engaged by the advisory board), directors'

and officers' insurance, interest, taxes and extraordinary expenses, such Fund's allocable share of expenses and fees generated in the course of evaluating potential investments, including investments which are not consummated (such expenses and fees hereinafter referred to as "Broken Deal Expenses"), such Fund's allocable share of expenses and fees incurred in the course of making investments, and other similar fees and expenses, as well as any other fees or expenses incurred by the Adviser or such Fund in connection with such Fund's operations that are not specifically set forth above as being paid by the Adviser or such affiliate receiving the Advisory Fee. As is typical for private equity funds, the Funds likely bear additional and greater expenses, directly or indirectly, than many other pooled investment products, such as mutual funds.

In some cases, a co-investment vehicle may be formed in connection with the consummation of a transaction. Accordingly, where a proposed transaction is not consummated, no co-investment vehicle generally will have been formed, and the full amount of any Broken Deal Expenses relating to any such proposed transaction would therefore be borne by the Fund or Funds selected by the Adviser as proposed investors for such proposed transaction, and not by any prospective co-investors that were to have participated in such transaction. However, to the extent that such co-investors have already invested in a co-investment or other vehicle in connection with such transaction, such vehicle may bear its share of such Broken Deal Expenses.

Additionally, please see Item 6 below regarding "Carried Interest" that the Funds may pay.

Although the Adviser does not generally utilize the services of broker-dealers to effect portfolio transactions for the Funds, in the event that it chooses to use a broker-dealer for limited purposes relating to a particular Fund, such Fund will incur brokerage and other transaction costs. For additional information regarding brokerage practices, please see Item 12 below.



## **Item 6. Performance-Based Fees and Side-By-Side Management**

A portion of the profits of each Main Fund is allocated to the capital account of its general partner, if any, as “carried interest” (the “Carried Interest”). Each general partner of a Fund is a related person of the Adviser.

In the future, the Adviser may agree to advise additional Funds that may have different Carried Interest arrangements. The payment by some, but not all, Funds of Carried Interest or the payment of Carried Interest at varying rates may create an incentive for the Adviser to disproportionately allocate time, services or functions to Funds paying Carried Interest or Funds paying Carried Interest at a higher rate, or allocate investment opportunities to such Funds. Generally, and except as may be otherwise set forth in the Governing Documents of the Funds, this conflict is mitigated by (i) certain limitations on the ability of the Adviser to establish new investment funds, (ii) contractual provisions requiring certain Funds to purchase and sell investments contemporaneously and/or (iii) contractual provisions and procedures setting forth investment allocation requirements. Additionally, the Adviser periodically reviews the time and services being devoted to the Funds to ensure that the necessary resources are being allocated to each Fund. Please also see Item 12 below regarding trade aggregation, as well as Item 11 below for additional information relating to how conflicts of interests are generally addressed by the Adviser.

## **Item 7. Types of Clients**

The Adviser currently provides investment supervisory services to the Funds. Investment advice is provided directly to the Funds (subject to the direction and control of the general partner of each such Fund, if applicable) and not individually to investors in such Fund.

Interests in the Funds are offered pursuant to applicable exemptions from registration under the Securities Act and the 1940 Act. Investors in the Funds are generally “qualified purchasers” or “knowledgeable employees” as defined in the 1940 Act, and may include, among others, high net worth individuals, banks, thrift institutions, pension and profit sharing plans, trusts, estates, charitable organizations, university endowments, sovereign wealth funds, family offices, corporations, limited partnerships and limited liability companies or other entities, employees of the Adviser and members of their families, Capital Advisers or other service providers retained by Adviser.

The Adviser does not have a minimum size for a Fund but minimum investment commitments may be established for investors in the Funds. The general partner of each Fund may in its sole discretion permit investments below the minimum amounts set forth in the offering documents of such Fund.

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

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

HGGC employs its “Advantaged Investing” approach, focusing on middle-market North American companies that it believes have leading competitive positions in defensible market niches, to which it aims to add value through HGGC’s relationships and the Firm’s team members’ investing and operating expertise in multiple industries.

HGGC’s investment strategy is based on: deal flow focusing on opportunities in core investing segments, deal execution capabilities, portfolio management and aligned incentives.

#### **Deal Flow Sourcing**

HGGC has institutionalized a multi-faceted deal sourcing strategy and focus, which it believes provides for a robust and diverse pipeline of transaction opportunities. Transactions are sourced primarily through (i) comprehensive evaluation and maintenance of intermediary relationships (the Reverse-Sponsor Coverage Model), (ii) exclusive and complementary networks of HGGC Managing Partners and investment professionals, and (iii) in-depth, proactive industry analysis.

#### ***Reverse-Sponsor Coverage Model***

In order to institutionalize its approach to sourcing, HGGC established a Transaction Origination Group, which maintains relationships with investment banks, business brokers and other intermediaries and seeks a view into many broad processes that involve businesses that meet the Firm’s investment criteria – the Reverse-Sponsor Coverage Model. HGGC believes that this approach gives HGGC a better understanding of the current state of the markets, both equity and credit, as well as an introduction to potential acquisition candidates that may become attractive, exclusive opportunities at a later time. On occasion, when HGGC finds a target in an auction process compelling and believes it can uniquely contribute to the growth of the target’s business, HGGC may seek to acquire that target. In those circumstances, due to its reputation in the market and the seniority and experience of HGGC’s team, HGGC has become a preferred partner of management or the selling shareholders and changing the dynamic from a traditional auction focused on the highest bidder, to one more favorable to HGGC.

#### ***HGGC Networks***

HGGC benefits from the extensive networks of HGGC and its team members. The Managing Partners and the entire HGGC team have a variety of complementary sourcing relationships, which provide HGGC with interesting deal opportunities outside traditional auction processes.

#### ***Industry Analysis***

The HGGC team members have investing and operating expertise in multiple industries and their aim is to capitalize on their extensive sector and market knowledge by focusing on companies with competitive positions in defensible market niches, to which they believe they can add value through the Firm’s relationships and expertise. This focus has led HGGC to

concentrate more heavily on certain sectors it believes to be particularly attractive and well suited to the Firm's "Advantaged Investing" approach.

### **Deal Execution Capabilities**

Once an opportunity is identified, HGGC employs an intensive, analytical due diligence process focused on fundamental analysis to drive an investment decision, exit planning prior to transaction close and development of a detailed post-close action plan. HGGC is also consistently focused on potential synergistic acquisitions and the appropriate capital structure for each investment.

### ***Proven Approach to Evaluating Transactions***

HGGC principally seeks to invest in middle-market North American companies that have leading competitive positions in defensible market niches to which it believes it can add value through its relationships and expertise. HGGC looks for companies that it can transform in a meaningful way and strives in its due diligence process to identify the ways in which a company will be different and more valuable when sold. Every platform transaction is evaluated relative to its defined investment thesis, and while all of the target attributes may not be met at closing, the deal teams remain focused on developing those critical company characteristics throughout the course of an investment. Primary criteria include:

- Scale: The ability to invest equity capital of between \$25-100 million in companies that generally have EBITDA at closing of between \$15-75 million.
- Competitive Position: A strong competitive position where HGGC believes a company has the tools necessary to be successful (such as relatively strong market presence, scalability and potential to transform the business to exit at a higher multiple).
- Risk/Return Profile: HGGC targets portfolio companies with the potential for appropriate base case multiples of money returned relative to risk potential.
- Unique Advantages: HGGC aims to invest in situations where it believes it can add value, often by collaborating with management teams and founder/sellers that desire to take their business global.

### ***Exit Planning on Entrance***

HGGC focuses on exit planning as soon as it begins evaluating an investment opportunity, typically developing a solutions-based, operational and strategic plan to drive value enhancements and optimize return outcomes before a transaction has even closed. HGGC usually seeks to create such value enhancements through a combination of exit multiple expansion and EBITDA growth while reducing net debt over the investment horizon. HGGC looks to create multiple exit avenues for each company, and to identify a shared vision with management as to what each company must achieve in order to position itself for a successful exit. This collaboration not only serves to strengthen HGGC's preferred partner relationships, but also establishes a specific and actionable framework for portfolio company value creation.

### ***Detailed Post-Close Action Plan***

The development of a detailed post-close action plan links directly with the Firm's sourcing strategy. Because HGGC seeks to develop preferred partner relationships with sellers, including management teams and/or founder owners, its deal team professionals have the time to work closely with each target company's management team on post-closing plans during the due diligence process. These action plans focus on addressing strengths, weaknesses and opportunities found during due diligence, with the goal of improving the company's strategic position, optimizing operations, strengthening management and capitalizing on industry trends. HGGC professionals work together with each individual company's management team to develop and implement unique growth strategies best suited to that company. The custom strategies are built upon factors such as focused marketing and sales plans, operating objectives, organizational structure and strategic investments. HGGC also works together with company management to seek to ensure that capital spending programs are prioritized to produce sustained growth.

### ***Synergistic Acquisitions***

Another key element of HGGC's strategy is to pursue synergistic acquisitions through existing investment platforms. These acquisitions may improve product offerings, provide access to untapped customers and markets, drive cost savings and efficiencies, leverage management expertise, enhance strategic positioning and/or otherwise improve the performance and prospects for existing investment platforms. As appropriate, HGGC professionals work closely with the management teams and other stakeholders in existing portfolio investments to identify, fund, execute and integrate acquisitions that are deemed to be accretive to the portfolio company. HGGC believes these "add-on" acquisitions have been and may continue to be a successful source of building value.

### ***Appropriate Capital Structure***

In connection with the development of each portfolio company's strategic plan, HGGC puts into place a carefully designed capital structure intended to permit the acquired business to execute a well-considered business plan that allows for growth opportunities, as well as the ability to ride out business cycles.

Depending on the needs of the individual portfolio company, HGGC may identify opportunities for institutional co-investment by potential institutional investors willing to invest both significant capital as well as other strategic benefits to the company. While HGGC intends to take a control position in its portfolio companies, it also strives to treat its co-investors as partners.

### ***Portfolio Management***

#### ***Identify and Support Management Needs***

HGGC intends to pursue investment opportunities with capable portfolio company management teams, and augment such management teams as necessary. During the due diligence process, and on an on going basis after closing each transaction, HGGC professionals are involved in monitoring portfolio companies, supporting management and assessing the management resources needed at each portfolio company. HGGC believes it has broad resources to develop or supplement managers. As it deems necessary, HGGC will work with portfolio company management to assist with the development of effective leaders and managers to strive towards optimal performance throughout the organization.

HGGC believes one of the reasons it has been successful in executing a significant percentage of exclusive transactions is its cultural fit with the management teams of the companies it acquires. HGGC approaches each opportunity with more than just a transaction orientation, an approach that HGGC believes is recognized and appreciated by the sellers with whom it partners. In each case, HGGC must identify with the management team a shared vision for the company, its industry and management, and must demonstrate why HGGC is the right partner for that business. For these reasons, HGGC believes it is positioned to better support portfolio company management.

#### ***Extensive Operational and Strategic Expertise***

HGGC's team members have backgrounds in management consulting, investment banking, finance, operations and law, and have worked actively with prior portfolio management teams to improve profitability and enhance value. In addition, certain members of the team have public company experience as board members or senior officers.

The HGGC team collaborates extensively with each portfolio company management team to set the strategic direction and operational objectives at each business. HGGC receives regular reports showing each company's performance relative to its operational and strategic objectives. Performance is measured across a variety of core operating metrics and strategic initiatives specific to each portfolio company's business plan. These reports, as well as frequent interaction with the management team, allow HGGC to play an active supporting role in each portfolio company's efforts to maximize value creation.

#### ***Expansive Network of World-Class Managers***

HGGC's professional team members have been instrumental in completing numerous deals, and have worked with hundreds of managers. They have personal relationships with world-class managers who have established track records and a demonstrated ability to meet operational objectives. HGGC believes that these types of relationships are unique for a private equity firm of its size, and that the ability to recruit top managers to portfolio companies will lead to significant value creation.

#### ***Aligned Incentives***

HGGC seeks to align the incentives of all participants in the Firm's transactions in an effort to best position a portfolio company in the market. These participants include HGGC's leadership, who are investing a significant amount of capital in each of the transactions, and the portfolio company management teams, who will be compensated based on meeting performance objectives and who may rollover meaningful amounts of their equity in the acquired portfolio company.

#### ***Portfolio Management Equity Rollover and Performance-Based Incentive Plans***

HGGC believes that capable portfolio company management teams are an important element of the success of HGGC. In an effort to align these management teams with the Funds, HGGC seeks to have portfolio company managers that remain in leadership roles rollover a material portion of their equity in connection with the acquisition of the business by Fund II.

HGGC uses its extensive network of managers to seek the best talent available as necessary to support its portfolio companies. Typically, portfolio company managers have

compensation packages based on performance and have the ability to participate in the equity upside of their portfolio company.

## **Risks**

Investing in securities involves a substantial degree of risk. A Fund may lose all or a substantial portion of its investments, and investors in the Funds must be prepared to bear the risk of a complete loss of their investments.

In addition, as described more fully in the applicable Fund's offering documents, material risks relating to the investment strategies and methods of analysis described above, and to the types of securities typically purchased by or for the Funds, include the following:

### **Leveraged Nature of Investments**

While investments in leveraged companies offer the opportunity for capital appreciation, such investments also involve a high degree of risk. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to operate its business as desired and/or finance future operations and capital needs. The Funds' investments often involve significant leverage, as a result of which recessions, operating problems and other general business and economic risks may have a pronounced effect on the profitability or survival of the Funds' portfolio companies. Also, increased interest rates (which recently have been at or near historic lows) generally increase portfolio company interest expenses. In the event any portfolio company cannot generate adequate cash flow to meet its debt service, a Fund may suffer a partial or total loss of capital invested in the portfolio company.

### **Highly Competitive Market for Investments**

The business of identifying, structuring and completing transactions of the nature contemplated by the Funds is highly competitive. The Funds will be competing for investments with other private equity investment vehicles as well as other institutional investors and strategic acquirors. The size and number of private equity investment vehicles has grown dramatically in recent years, and it is likely that these trends will continue in the future. There can be no assurance that the Funds will be able to locate suitable investment opportunities, acquire them for an appropriate level of consideration, achieve targeted rates of return, or fully invest committed capital. However, the limited partners will be required to bear Advisory Fees through such Fund during the commitment period based on the entire amount of the limited partners' commitments to such Fund and other expenses as set forth in the Governing Documents. An investor in limited partner interests must rely upon the ability of the Adviser to identify, structure and implement investments consistent with a Fund's investment objective and policies.

### **Concentration of Investments.**

The Funds will participate in a limited number of investments and may seek to make several investments in one industry or one industry segment or within a short period of time. As a result,

a Fund's investment portfolio could become highly concentrated, and the performance of a few holdings or of a particular industry may substantially affect its aggregate return. Furthermore, to the extent that the capital raised by a Fund is less than the targeted amount, such Fund may invest in fewer portfolio companies and thus be less diversified.

### Financial Market Fluctuations

General fluctuations in the market prices of securities and economic conditions generally, particularly of the type experienced in the recent financial crisis, may reduce the availability of attractive investment opportunities for the Funds and may affect the Funds' ability to make investments and the value of the Funds' investments. Instability in the securities markets and economic conditions generally may also increase the risks inherent in the Funds' investments. The public securities markets have seen increased volatility and the ability of companies to obtain financing for ongoing operations or expansions may be severely hampered by any future tightening of the credit markets or financial turmoil. Moreover, it remains unknown whether governmental measures undertaken in response to such turmoil (whether regulatory or financial in nature) will have a positive or negative effect on market conditions. There can be no assurance that the market will remain liquid and it may well experience future volatility. The ability to realize investments depends not only on portfolio companies and their historical results and prospects, but also on political, market and economic conditions at the time of such realizations. In the past, many private equity funds have looked to the public securities markets as a potential exit strategy and there can be no assurance that the Funds will be able to exit from their investments in portfolio companies by listing their shares on securities exchanges. The trading market, if any, for the securities of any portfolio company may not be sufficiently liquid to enable to a Fund to sell these securities when the Adviser believes it is most advantageous to do so, or without adversely affecting the portfolio company's value. Renewed volatility in the financial sector may have an adverse material effect on the ability of the Funds to buy, sell and partially dispose of their portfolio company investments. The Funds may be adversely affected to the extent that they seek to dispose of any of their portfolio investments into an illiquid or volatile market, and a Fund may find itself unable to dispose of investments at prices that the Adviser believes reflect the fair value of such investments. The ability of portfolio companies to refinance debt securities may depend on their ability to sell new securities in the public high yield debt market or otherwise.

### Uncertain Economic, Social and Political Environment

Consumer, corporate and financial confidence may be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises or other sources of political, social or economic unrest. Such erosion of confidence may lead to or extend a localized or global economic downturn. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. In addition, limited availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, in an uncertain environment or economic downturn may have an adverse effect on the economy generally and on the ability of a Fund and its portfolio companies to execute their respective strategies and to receive an attractive multiple



of earnings on the disposition of businesses. This may slow the rate of future investments by such Fund and result in longer holding periods for investments. Furthermore, such uncertainty or general economic downturn may have an adverse effect upon such Fund's portfolio companies.

#### Dynamic Investment Strategy.

While a Fund generally intends to seek attractive returns primarily through making control-oriented equity investments in middle market businesses as described herein, a Fund may pursue additional investment strategies and may modify or depart from its initial investment strategy, investment process and investment techniques as it determines appropriate. A Fund may pursue investments outside of the industries and sectors in which the principals of the Adviser have previously made investments or have internal operational experience.

#### Long-Term Nature of Portfolio Investments

It is anticipated there will be a significant period of time (up to five years) before a given Fund completes its investment program. Investments may typically take from three to seven years from the date of initial investment to reach a state of maturity when realization of the investment can be achieved. Transaction structures may not provide liquidity for a Fund's investment prior to that time. In light of the foregoing, it is likely that no significant return from the disposition of a Fund's investments will occur for a significant period of time after the first closing of the Fund.

#### Illiquidity of Fund's Portfolio Investments

It is anticipated that all or a substantial portion of a Fund's investments will consist of securities that are subject to restrictions on sale by such Fund because they were acquired from the issuer in "private placement" transactions or because the Fund will be deemed to be an affiliate of the issuer. Generally, the Fund will not be able to sell these securities publicly without the expense and time required to register the securities under the Securities Act of 1933, as amended (the "Securities Act"), or will be able to sell the securities only under Rule 144 or other rules under the Securities Act which permit limited sales under specified conditions. When restricted securities are sold to the public, the Funds may be deemed an "underwriter", or possibly a controlling person, with respect thereto for the purpose of the Securities Act and be subject to liability as such under that Act.

In addition, practical limitations may inhibit a Fund's ability to liquidate certain of its investments in portfolio companies since the issuer will be privately held and such Fund will own a relatively large percentage of the issuer's equity securities. Sales may also be limited by market conditions, which may be unfavorable for sales of securities of particular issuers or issuers in particular industries. The above limitations on liquidity of a Fund's investments could prevent a successful sale thereof, result in delay of any sale, or reduce the amount of proceeds that might otherwise be realized.

As a result of illiquidity or for other reasons as set forth in the Governing Documents, certain investments may be distributed in kind to the limited partners of a Fund and it may be difficult to liquidate the securities received at a price or within a time period that is determined to be ideal by such limited partners. After a distribution of securities is made to the limited partners, many

limited partners may decide to liquidate such securities within a short period of time, which could have an adverse impact on the price of such securities. The price at which such securities may be sold by such limited partners may be lower than the value of such securities determined pursuant to the Governing Documents, including the value used to determine the amount of Carried Interest available to the relevant general partner with respect to such investment.

#### Early-Stage and Start-Up Investments

A Fund may make investments in start-up and early-stage companies that have inherently greater risk than more established businesses. Accordingly, the growth of these companies may require significant time and effort resulting in a longer investment horizon than can be expected with lower risk investment alternatives. Such investments can experience failure or substantial declines in value at any stage. There is no assurance that such investments by a Fund will be successful.

#### Growth-Equity Transactions

A Fund may make growth-equity investments. While growth-equity investments offer the opportunity for significant capital gains, such investments may involve a higher degree of business and financial risk that can result in substantial or total loss. Growth-equity portfolio companies may operate at a loss or with substantial variations in operating results from period to period, and many will need substantial additional capital to support additional research and development activities or expansion, to achieve or maintain a competitive position, and/or to expand or develop management resources. Growth-equity portfolio companies may face intense competition, including from companies with greater financial resources, better brand recognition, more extensive development, marketing and service capabilities and a larger number of qualified managerial and technical personnel.

#### Need for Follow-On Investments

Following its initial investment in a given portfolio company, the Adviser may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a portfolio company, whether for opportunistic reasons, to fund the needs of the business, as an equity cure under applicable debt documents or for other reasons. There is no assurance that any Fund will make follow-on investments or that any Fund will have sufficient funds to make all or any of such investments. Any decision by a Fund not to make follow-on investments or its inability to make such investments may have a substantial negative impact on a portfolio company in need of such an investment (including an event of default under applicable debt documents in the event an equity cure cannot be made) or may result in a lost opportunity for such Fund to increase its participation in a successful operation.

#### Projections

Projected operating results of a company in which a Fund invests normally will be based primarily on financial projections prepared by such company's management, with adjustments to such projections made by the Adviser in its discretion. In all cases, projections are only estimates of future results that are based upon information received from the company and third parties and assumptions made at the time the projections are developed. There can be no

assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.

### Hedging Arrangements

The general partner may (but is not obligated to) endeavor to manage a Fund's or any portfolio company's currency exposures, interest rate exposures or other exposures, using hedging techniques where available and appropriate. A Fund may incur costs related to such hedging arrangements, which may be undertaken in exchange-traded or over-the-counter ("OTC") contexts, including futures, forwards, swaps, options and other instruments. There can be no assurance that adequate hedging arrangements will be available on an economically viable basis or that such hedging arrangements will achieve the desired effect, and in some cases hedging arrangements may result in losses greater than if hedging had not been used.

In some cases, particularly in OTC contexts, hedging arrangements will subject a Fund to the risk of a counterparty's inability or refusal to perform under a hedging contract, or the potential loss of assets held by a counterparty, custodian or intermediary in connection with such hedging. OTC contracts may expose a Fund to additional liquidity risks.

Certain hedging arrangements may create for the general partner of a Fund and/or one of its affiliates a registration or exemption obligation with the U.S. Commodity Futures Trading Commission or other regulator.

### Reliance on Management of the Adviser

Decisions with respect to the management of the Funds will be made by the general partners with the advice of the Adviser. The success of the Funds will depend on the ability of the general partners and the Adviser to identify and consummate suitable investments, to improve the operating performance of portfolio companies and to dispose of investments at a profit. There can be no assurance that all of the professionals of the general partners and the Adviser will continue to be associated with the Funds throughout their terms. The loss of the services of one or more members of the professional staff of the Adviser or of the principals of the general partners could have an adverse impact on the Funds' ability to realize their investment objective.

### Other Activities of Principals of Adviser

The principals of the Adviser will devote such time as is necessary to conduct the affairs of the Funds in an appropriate manner. However, certain principals of the Adviser will be engaged in some activities unrelated to the Funds. The performance of the Funds could be adversely affected by the other commitments of the principals of the Adviser.

### Contingent Liabilities on Disposition of Portfolio Investments

In connection with the disposition of an investment in a portfolio company, the Funds may be required to make representations about the business and financial affairs of such company, and to indemnify the purchasers of such investment if those representations are inaccurate. The Adviser

intends to establish reserves as it deems appropriate to provide for such contingent liabilities. In the event that the amount of such contingent liabilities exceeds the reserves and other assets of the Funds, the limited partners of the Funds may be required to repay to the Funds or to pay to creditors of the Funds distributions previously received by them.

#### Adverse Consequences of Ownership of Controlling Interest in Portfolio Companies

It is expected that the Funds will often own a controlling percentage of the common equity of portfolio companies which, depending upon the amount of equity owned by the Funds, contractual arrangements between the company and the Funds, and other relevant factual circumstances, could result in an extension to one year of the 90-day bankruptcy preference period with respect to payments made to the Funds. In addition, because of its equity ownership, representation on the board of directors and/or contractual rights, the Funds may often be thought to control, participate in the management of or influence the conduct of portfolio companies. This could expose the assets of the Funds to claims by a portfolio company, its other security holders, its creditors or governmental agencies.

#### Special Risks Associated with Offshore Investments

The Funds may invest a portion of their capital commitments in portfolio companies that are headquartered and that have their principal operations outside the United States and Canada. These investments involve special risks not typically associated with investments in the securities of U.S. issuers, including (a) economic and political factors, such as the risk of expropriation, restrictions on repatriation of profits, and political and social instability, (b) differences between U.S. and foreign securities markets, including the absence of uniform accounting, auditing, and financial reporting standards in foreign markets, and the relatively greater price volatility and illiquidity of foreign securities markets, (c) currency exchange risks, including the cost of converting investment cash flows from one currency into another and the possibility of fluctuations in exchange rates, and (d) tax-related issues, including the possibility of withholding taxes, confiscatory foreign taxes, and the possibility of double taxation of income earned overseas.

#### Conflicting Interests of Limited Partners

The Funds are likely to have a diverse range of limited partners that may have conflicting interests stemming from differences in investment preferences, tax status, and regulatory status. The Adviser will attempt to consider the objectives of the Funds and each of their respective partners as a whole when making decisions with respect to the selection, structuring, and sale of portfolio investments. However, it is inevitable that such decisions may be more beneficial for one limited partner than for another limited partner.

#### Failure to Achieve Investment Objective

There can be no assurance that the Funds will be able to achieve their targeted returns or achieve their investment objectives. Any given investment made by the Funds may prove to be

worthless. Investors in the Funds should be able to absorb a loss of some or all of the capital invested in the Funds.

#### Impact of Carried Interest Structure

The general partners, in respect of its Carried Interest, are entitled to 20% of the net profits generated by the Funds but does not have to bear 20% of the net losses, if any, suffered by the Funds. This feature may cause the general partners and the Adviser to make investments that have a greater risk/reward profile than would be the case in the absence of such a feature.

#### Risk of Receiving Liquidating Distributions of Illiquid Securities

The general partners are authorized to make liquidating distributions of restricted or otherwise illiquid securities. Limited partners therefore must be prepared to bear the risks of owning such securities for an indefinite period of time.

#### Absence of Regulatory Oversight

None of the Funds intends to register as an investment company under the Investment Company Act. Accordingly, investors will not benefit from the protections that would have been available to them if the Funds were registered under the Investment Company Act.

**Item 9. Disciplinary Information**

Gary L. Crittenden, the Chairman of the Adviser, served as the Chief Financial Officer of Citigroup from March 2007 to March 2009. In July 2010, Mr. Crittenden entered into an order with the SEC in which the SEC found that he should have known that certain statements made by Citigroup, while he was the Chief Financial Officer of Citigroup, were materially misleading and he paid a civil monetary penalty of \$100,000. Mr. Crittenden did not admit any wrongdoing in connection with the matter or disgorge any amount to Citigroup, and he did not face a ban from any future activities.

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

### **Related General Partners**

The Adviser is affiliated with other investment advisers registered with the SEC under the Advisers Act pursuant to the Adviser's registration in accordance with SEC guidance. These advisers are Huntsman Gay Capital Partners Fund GP, L.P., Huntsman Gay Capital Partners Fund GP, Ltd., HG Private Investors GP, Ltd., HGGC Fund II GP, L.P. and HGGC Fund II GP, Ltd. These affiliated investment advisers operate as a single advisory business together with the Adviser and serve as general partners of the Funds and may share common owners, officers, partners, consultants or persons occupying similar positions. For a description of material conflicts of interest created by the relationship among the Adviser and the general partners, as well as a description of how such conflicts are addressed, please see Item 11 below.

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

### **Code of Ethics**

The Adviser has adopted a written Code of Ethics that is applicable to all of its members, officers and employees, as well as certain independent contractors (collectively, “Adviser Personnel”). The Code of Ethics, which is designed to comply with Rule 204A-1 under the Advisers Act, establishes guidelines for professional conduct and personal trading procedures, including certain pre-clearance and reporting obligations. In addition, the Code of Ethics requires Adviser Personnel to comply with procedures designed to prevent the misuse of, or trading upon, material non-public information. Adviser Personnel and their families and households may purchase investments for their own accounts, including the same investments as may be purchased or sold for a Fund, subject to the terms of the Code of Ethics. Under the Code of Ethics, Adviser Personnel are also required to file certain periodic reports with the Adviser’s Chief Compliance Officer as required by Rule 204A-1 under the Advisers Act. The Code of Ethics helps the Adviser detect and prevent potential conflicts of interest.

Adviser Personnel who violate the Code of Ethics may be subject to remedial actions, including, but not limited to, profit disgorgement, fines, censure, demotion, suspension or dismissal. Adviser Personnel are also required to promptly report any violation of the Code of Ethics of which they become aware. Adviser Personnel are required to annually certify compliance with the Code of Ethics.

A copy of the Code of Ethics is available to any client or prospective client upon written request to: Kurt A. Krieger, General Counsel and Chief Compliance Officer, HGGC, LLC, 1950 University Avenue, Suite 350, Palo Alto, CA 94303.

### **Participation or Interest in Client Transactions**

Certain employees of the Adviser may invest in and alongside the Funds, either through the Funds’ general partners, through co-investment vehicles (as described below), as direct investors in the Funds or otherwise. A Fund or its general partner, as applicable, may reduce all or a portion of the Advisory Fee and Carried Interest related to investments held by such persons in accordance with the Governing Documents of such Fund. For further details regarding these arrangements, as well as conflicts of interest presented by them, please see “Conflicts of Interest” immediately below.

Due in part to the fact that potential investors in a Fund (including purchasers of a limited partner’s interests in a secondary transaction) or a co-investment opportunity (see below) may ask different questions and request different information, the Adviser may provide certain information to one or more prospective investors that it does not provide to all of the prospective investors or limited partners.

### **Conflicts of Interest**



The Adviser and its related entities engage in a broad range of activities, including investment activities for their own account and for the account of other investment funds, and providing transaction-related, investment advisory, management and other services to funds and operating companies. In the ordinary course of conducting its activities, the interests of a Fund may conflict with the interests of the Adviser, other Funds or their respective affiliates. Certain of these conflicts of interest, as well a description of how the Adviser addresses such conflicts of interest, can be found below.

The Adviser may, from time to time, establish certain investment vehicles through which certain employees of the Adviser or its affiliates, certain business associates, other “friends of the firm,” or other persons may invest alongside one or more Funds in one or more investment opportunities. Such vehicles, referred to herein as “co-investment vehicles,” generally are contractually required, as a condition of investment, to purchase and sell each investment opportunity at substantially the same time and substantially the same terms as the applicable Fund that is invested in that investment opportunity. However, from time to time, for strategic and other reasons, a co-investment vehicle may purchase a portion of an investment from a Fund. Any such purchase from a Fund by a co-investment vehicle generally occurs shortly after the Fund’s completion of the investment to avoid any changes in valuation of the investment, and the co-investment vehicle may be charged interest on the purchase to compensate the relevant Fund for the holding period. Such co-investment vehicles may not pay Advisory Fees or Carried Interest.

#### *Resolution of Conflicts*

In the case of all conflicts of interest, the Adviser’s determination as to which factors are relevant, and the resolution of such conflicts, will be made using the Adviser’s best judgment, but in its sole discretion. In resolving conflicts, the Adviser may consider various factors, including the interests of the applicable Funds with respect to the immediate issue and/or with respect to their longer term courses of dealing. Certain procedures for resolving specific conflicts of interest are set forth below. When conflicts arise, the following factors may mitigate, but will not eliminate, conflicts of interest:

- A Fund will not make an investment unless the Adviser believes that such investment is an appropriate investment considered solely from the viewpoint of such Fund;
- Many important conflicts of interest will generally be resolved by procedures, restrictions or other provisions contained in the relevant offering and/or Governing Documents for the Funds;
- Generally, each Main Fund has established an advisory committee, consisting of representatives of investors not affiliated with the Adviser. The advisory committees meet as required to consult with the Adviser as to certain potential conflicts of interest. On any issue involving actual conflicts of interest, the Adviser will be guided by its good faith discretion;

- Where the Adviser deems appropriate, unaffiliated third parties may be used to help resolve conflicts, such as the use of an investment banker to opine as to the fairness of a purchase or sale price; and
- Prior to subscribing for interests in a Fund, each investor receives information relating to significant potential conflicts of interest arising from the proposed activities of the Fund.

### *Material Conflicts*

The material conflicts of interest encountered by a Fund include those discussed below, although the discussion below does not necessarily describe all of the conflicts that may be faced by a Fund. Other conflicts may be disclosed in the Governing Documents, the offering documents and throughout this brochure and the brochure should be read in its entirety for other conflicts.

### *Allocation of Investment Opportunities Among Clients and Allocation of Co-Investment Opportunities*

In connection with its investment activities, the Adviser may encounter situations in which it must determine how to allocate investment opportunities among various clients and other persons, which may include, but are not limited to, the following:

- The Funds;
- Any co-investment vehicles that have been formed to invest side-by-side with one or more Funds in all or particular transactions entered into by such Fund(s);
- Fund investors and/or third parties that wish to make direct investments (i.e., not through an investment vehicle) side-by-side with one or more Funds in particular transactions entered into by such Fund(s); and
- Fund investors and/or third parties acting as “co-sponsors” with the Adviser with respect to a particular transaction.

The Adviser has adopted written policies and procedures relating to the allocation of investment opportunities, and will make allocation determinations consistently therewith.

The Funds are generally subject to investment allocation requirements (collectively, “Investment Allocation Requirements”), which will also apply directly or indirectly to certain co-investment vehicles with investments contractually tied to the Funds. Investment Allocation Requirements may be set forth in the Funds’ Governing Documents. To the extent the Investment Allocation Requirements of a Fund do not include specific allocation procedures and/or allow the Adviser discretion in making allocation decisions among the Funds, the Adviser will follow the process set forth below.

The Adviser must first determine which Funds will participate in an investment opportunity. The Adviser assesses whether an investment opportunity is appropriate for a particular Fund(s), based on the Fund’s investment objectives, strategies and structure. A Fund’s investment

objectives, strategies and structure typically are reflected in the Fund's offering memoranda and Governing Documents. Prior to making any allocation to a Fund of an investment opportunity, the Adviser determines what additional factors may restrict or limit the offering of an investment opportunity to the Fund(s). Possible restrictions include, but are not limited to:

- **Obligation to Offer:** the Adviser may be required to offer an investment opportunity to one or more Funds. This obligation to offer investment opportunities may be set forth in a Fund's offering documents and/or Governing Documents.
- **Related Investments:** the Adviser may offer an investment opportunity related to an investment previously made by a Fund(s) to such Fund(s) to the exclusion of, or resulting in a limited offering to, other Funds.
- **Legal and Regulatory Exclusions:** the Adviser may determine that certain Funds or investors in such Funds should be excluded from an allocation due to specific legal, regulatory and contractual restrictions placed on the participation of such persons in certain types of investment opportunities.

Once the Funds that will participate in a particular investment have been identified, the Adviser, in its discretion, decides how to allocate such investment opportunity among the identified Funds. In allocating such investment opportunity, the Adviser may consider some or all of a wide range of factors, which may include, but are not necessarily limited to, the following:

- Each Fund's investment objectives and investment focus;
- Transaction sourcing;
- Each Fund's liquidity and reserves;
- Each Fund's diversification;
- Lender covenants and other limitations;
- Amount of capital available for investment by each Fund as well as each Fund's projected future capacity for investment;
- Each Fund's intended rate of return;
- Stage of development of the prospective portfolio company or other investment;
- Composition of each Fund's portfolio;
- The suitability as a follow-on investment for a current portfolio company of a Fund;
- The availability of other suitable investments for each Fund;
- Risk considerations;
- Cash flow considerations;
- Asset class restrictions;
- Industry and other allocation targets;
- Minimum and maximum investment size requirements;

- Tax implications;
- Legal, contractual or regulatory constraints; and
- Any other relevant limitations imposed by or conditions set forth in the applicable offering and Governing Documents of each Fund.

The Adviser will seek to make all allocations of investment opportunities among the Funds in a fair and equitable manner, and will not favor or disfavor, consistently or consciously, any Fund or class of Funds in relation to any other Funds. Further, the Adviser will not allocate investment opportunities based, in whole or in part, on (i) the relative fee structure or amount of fees paid by any Fund, (ii) the profitability of any Fund or (iii) any person's interest in offering or participating in co-investment opportunities outside of any Fund.

Subject to any Investment Allocation Requirements, in general, (i) no investor in a Fund has a right to participate in any co-investment opportunity, (ii) decisions regarding whether and to whom to offer co-investment opportunities are made in the sole discretion of the Adviser or its related persons or other participants in the applicable transactions, such as co-sponsors, (iii) co-investment opportunities may, and typically will, be offered to some and not other investors in the Funds, in the sole discretion of the Adviser or its related persons, and (iv) certain persons other than investors in the Funds (e.g., third parties) may be offered co-investment opportunities, in the sole discretion of the Adviser or its related persons.

The Adviser will determine if the amount of an investment opportunity exceeds the amount the Adviser determines would be appropriate for the Funds (after taking into account any portion of the opportunity allocated by contract to certain participants in the applicable deal, such as co-sponsors, consultants and advisers to the Adviser and/or the Funds or management teams of the applicable portfolio company, certain strategic investors and other investors whose allocation is determined by the Adviser to be in the best interest of the applicable Fund), and any such excess may be offered to one or more co-investors pursuant to the procedures included in such Funds' Governing Documents and as set forth in the following paragraphs.

In exercising its discretion to allocate co-investment opportunities with respect to a particular investment among the Funds and other potential co-investors, the Adviser may consider some or all of a wide range of factors, including, but not limited to, the following:

- The Adviser's evaluation of the size and financial resources of the potential co-investment party and the Adviser's perception of the ability of that potential co-investment party (in terms of, for example, staffing, expertise and other resources) to efficiently and expeditiously participate in the investment opportunity with the relevant Fund(s) without harming or otherwise prejudicing such Fund(s), in particular when the investment opportunity is time-sensitive in nature, as is typically the case;
- Any confidentiality concerns the Adviser may have that may arise in connection with providing the other account or person with specific information relating to the investment opportunity in order to permit such potential co-investment party to evaluate the investment opportunity;

- The Adviser's perception of its past experiences and relationships with the potential co-investment party, such as the willingness or ability of the potential co-investment party to respond promptly and/or affirmatively to potential investment opportunities previously offered by the Adviser;
- The Adviser's perception of whether the investment opportunity may subject the potential co-investment party to legal, regulatory, reporting, public relations, media or other burdens that make it less likely that the other account or person would act upon the investment opportunity if offered;
- The Adviser's evaluation of whether the profile or characteristics of the potential co-investment party may have an impact on the viability or terms of the proposed investment opportunity and the ability of the Funds to take advantage of such opportunity (for example, if the potential co-investment party is involved in the same industry as a target company in which a Fund wishes to invest, or if the identity of the potential co-investment party, or the jurisdiction in which the potential co-investment party is based, may affect the likelihood of a Fund being able to capitalize on a potential investment opportunity); and
- Whether the Adviser believes, in its sole discretion, that allocating investment opportunities to a potential co-investment party will help establish, recognize, strengthen and/or cultivate relationships that may provide indirectly longer-term benefits to current or future Funds.

The Adviser's exercise of its discretion in allocating investment opportunities with respect to a particular investment among the persons, including the Funds, potential co-investors, Fund investors and third parties, and in the manner discussed above may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to other such persons. While the Adviser will determine how to allocate investment opportunities using its best judgment, considering such factors as it deems relevant, but in its sole discretion, there can be no assurance that a Fund's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made will be as favorable as they would be if the conflicts of interest to which the Adviser may be subject, discussed herein, did not exist.

In addition, to the extent the Adviser has discretion over a secondary transfer of interests in a Fund pursuant to such Fund's Governing Documents, the Adviser may consider the factors listed above in exercising such discretion. Subject to any restrictions in the Governing Documents of the applicable Fund, the Adviser or its related persons may be asked to identify a limited number of Fund investors or third parties to potentially acquire the interest being transferred.

The appropriate allocation between Funds, Fund investors and third parties of expenses and fees generated in the course of evaluating and making investments which are not consummated, such as out-of-pocket fees associated with due diligence, attorney fees and the fees of other professionals, will be determined by the Adviser and its affiliates in their good faith discretion, consistent with the Governing Documents of the Funds, as applicable. There may be occasions when one Fund (the "Payor Fund") pays an expense common to multiple funds (the "Allocated

Funds”) (e.g., legal expenses for a transaction in which all such Allocated Funds participate, or other fees or expenses in connection with services, the benefit of which are received by such Allocated Funds over time). On such occasions, each Allocated Fund will reimburse the Payor Fund for its share of such expense, without interest, promptly after the payment is made by the Payor Fund. While highly unlikely, it is possible that one of the Allocated Funds could default on its obligation to reimburse the Payor Fund. The Adviser may also advance amounts related to the foregoing and receive reimbursements from the Allocated Funds to which such expenses relate.

In exercising its discretion to allocate investment opportunities and fees and expenses, the Adviser may be faced with a variety of potential conflicts of interest. For example, in allocating an investment opportunity among Funds with differing fee, expense and compensation structures, the Adviser may have an incentive to allocate investment opportunities to the Funds from which the Adviser or its related persons may derive, directly or indirectly, a higher fee, compensation or other benefit.

In addition, principal executive officers and other personnel of the Adviser invest indirectly in and may be permitted to invest directly in Funds and may therefore participate indirectly in investments made by the Funds in which they invest. Such interests will vary Fund by Fund. The existence of these varying circumstances may present conflicts of interest in determining how much, if any, of certain investment opportunities to offer to a Fund.

The Adviser will allocate fees and expenses incurred in connection with the offering and management of a Fund between the Adviser and the Fund in accordance with the Fund’s Governing Documents or to the extent not addressed in such Governing Documents in its sole discretion, in each case using good faith and its best judgment.

The Adviser will allocate fees and expenses related to investment opportunities to be borne by the Funds in accordance with the Fund’s Governing Documents or to the extent not addressed in such Governing Documents in its sole discretion, in each case using good faith and its best judgment. In making such allocations, the Adviser will adhere to the following principals:

- The Adviser will determine expected allocations of an investment opportunity and will track and allocate fees and expenses associated with each investment opportunity (by use of deal codes or other appropriate methods).
- The Adviser will allocate expenses across Funds based on each Fund’s pro rata expected participation in an investment opportunity, subject to any applicable Fund restrictions.
- The relevant investment teams will approve expenses that are allocated to the Funds.
- The Adviser will review the expected allocations as information regarding expected participation in the investment opportunity changes.
- Once the participating Fund(s) have been identified and a final allocation has been determined, the Adviser amends all previously recorded expenses and fees to reflect the Funds’ actual participation in an investment opportunity.

### *Conflicts Related to Purchases and Sales*

Conflicts may arise when a Fund makes investments in conjunction with an investment being made by other Funds, or in a transaction where another Fund has already made an investment. Investment opportunities may be appropriate for Funds at the same, different or overlapping levels of a portfolio company's capital structure. Conflicts may arise in determining the terms of investments, particularly where these clients may invest in different types of securities in a single portfolio company. Questions may arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring may raise conflicts of interest, particularly in Funds that have invested in different securities within the same portfolio company. Certain clients of the Adviser may invest in bank debt and securities of companies in which other clients hold securities, including equity securities. In the event that such investments are made by a Fund, the interests of such Fund may be in conflict with the interest of such other Fund, particularly in circumstances where the underlying company is facing financial distress. The involvement of such persons at both the equity and debt levels could inhibit strategic information exchanges among fellow creditors. In certain circumstances, Funds may be prohibited from exercising voting or other rights, and may be subject to claims by other creditors with respect to the subordination of their interest. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, the Funds may or may not provide such additional capital and if provided each Fund will supply such additional capital in such amounts, if any, as determined by the Adviser. In addition, a conflict may arise in allocating an investment opportunity if the potential investment target could be acquired by either a Fund or a portfolio company of another Fund. Investments by more than one client of the Adviser in a portfolio company may also raise the risk of using assets of a client of the Adviser to support positions taken by other clients of the Adviser. Employees and related persons of the Adviser have made or may make capital investments in or alongside certain Funds and therefore may have additional conflicting interests in connection with these investments. There can be no assurance that the return of a Fund participating in a transaction would be equal to and not less than another Fund participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

A Fund may invest in opportunities that other Funds have declined, and likewise, a Fund may decline to invest in opportunities in which other Funds have invested.

From time to time the Adviser may, in its discretion, enter into transactions with investors in one or more Funds to dispose of all or a portion of certain investments held by one or more Funds. In exercising its discretion to select the purchaser(s) of such investments, the Adviser may consider some or all of the factors listed above under "Allocation of Investment Opportunities Among Clients and Allocation of Co-Investment Opportunities." The sales price for such transactions will be mutually agreed to by the Adviser and such purchaser(s); however, determinations of sales prices involve a significant degree of judgment by the Adviser. Although the Adviser is not obligated to solicit competitive bids for such sales transaction or to seek the

highest available price, it will first determine that such transaction is in the best interests of the applicable Fund(s), taking into account the sales price and the other terms and conditions of the transaction. There can be no assurance, in light of the performance of the investment following such a transaction, that such transaction will ultimately prove to be the most profitable or advantageous course of action for the applicable Fund(s). Any such transactions will comply with the organizational documents of the applicable Fund(s).

### *Cross-Transactions*

In certain cases, the Adviser may cause a Fund to purchase investments from another Fund, or it may cause a Fund to sell investments to another Fund. Such transactions create conflicts of interest because, by not exposing such buy and sell transactions to market forces, a Fund may not receive the best price otherwise possible, or the Adviser might have an incentive to improve the performance of one Fund by selling underperforming assets to another Fund in order, for example, to earn fees. Additionally, in connection with such transactions, the Adviser and/or its professionals (i) may have significant investments, or intentions to invest, in the Fund that is selling and/or purchasing such an investment or (ii) otherwise have a direct or indirect interest in the investment (such as through certain other participations in the investment). The Adviser may receive management or other fees in connection with its management of the relevant Funds involved in such a transaction, and may also be entitled to share in the investment profits of the relevant Funds. To address these conflicts of interest, in connection with effecting such transactions, the Adviser will follow the Investment Allocation Requirements of the relevant Funds. To the extent such matters are not addressed in the Investment Allocation Requirements, the Adviser's Chief Compliance Officer, in consultation with the Adviser's Chief Executive Officer, will be responsible for confirming that the Adviser (i) considers its respective duties to each Fund, (ii) determines whether the purchase or sale and price or other terms are comparable to what could be obtained through an arm's length transaction with a third party, and (iii) obtains any required approvals of the transaction's terms and conditions. The Adviser will not directly or indirectly receive any commission or other transaction-based compensation for effecting any such transaction, and the Adviser will not effect any such transaction for any Fund where the Adviser may be deemed to own more than 25% of the Fund unless such transaction complies with the requirements of the Adviser's principal transactions policy, as described below.

### *Principal Transactions*

Section 206 of the Advisers Act regulates principal transactions among an investment adviser and its affiliates, on the one hand, and the clients thereof, on the other hand. Very generally, if an investment adviser or an affiliate thereof proposes to purchase a security from, or sell a security to, a client (what is commonly referred to as a "principal transaction"), the adviser must make certain disclosures to the client of the terms of the proposed transaction and obtain the client's consent to the transaction. In connection with the Adviser's management of the Funds, the Adviser and its affiliates may engage in principal transactions. The Adviser has established certain policies and procedures to comply with the requirements of the Advisers Act as they relate to principal transactions, including that disclosures required by Section 206 of the Advisers Act be made to the applicable Fund(s) regarding any proposed principal transactions and that any required prior consent to the transaction be received. In addition, the Governing Documents or



offering documents of the Funds generally contain additional restrictions on the ability of the Funds or the Adviser to engage in principal transactions.

### *Management of the Funds*

The Adviser manages a number of Funds that may have investment objectives similar to each other. The Adviser may in the future establish one or more additional investment funds with investment objectives substantially similar to, or different from, those of the current Funds. Allocation of available investment opportunities between the Funds and any such investment fund could give rise to conflicts of interest. See “*Allocation of Investment Opportunities Among Clients and Allocation of Co-Investment Opportunities*” above. In addition, it is expected that employees of the Adviser responsible for managing a particular Fund will have responsibilities with respect to other Funds managed by the Adviser, including Funds that may be raised in the future. Conflicts of interest may arise in allocating time, services or functions of these officers and employees.

The Funds may enter into borrowing arrangements that require the Funds to be jointly and severally liable for the obligations. If one Fund defaults on such arrangement, the other Funds may be held responsible for the defaulted amount. The Funds will only enter into such joint and several borrowing arrangement when the Adviser determines it is in the best interests of the Funds.

### *Follow-on Investments*

Investments to finance follow-on acquisitions may present conflicts of interest, including determination of the equity component and other terms of the new financing as well as the allocation of the investment opportunities in the case of follow-on acquisitions by one Fund in a portfolio company in which another Fund has previously invested. In addition, a Fund may participate in re-leveraging and recapitalization transactions involving portfolio companies in which another Fund has already invested or will invest. Conflicts of interest may arise, including determinations of whether existing investors are being cashed out at a price that is higher or lower than market value and whether new investors are paying too high or too low a price for the company or purchasing securities with terms that are more or less favorable than the prevailing market terms.

### *Conflicts Relating to the General Partners and the Adviser*

The Adviser generally may, in its discretion, contract with any related person of the Adviser (including but not limited to a portfolio company of a Fund) to perform services for the Adviser in connection with its provision of services to the Funds. When engaging a related person to provide such services, the Adviser may have an incentive to recommend the related person even if another person may be more qualified to provide the applicable services and/or can provide such services at a lesser cost. The Governing Documents of the Funds generally contain restrictions on the ability of the Adviser or the general partner of the Funds to engage related persons in such transactions.

The Adviser generally may, in its discretion, recommend to a Fund or to a portfolio company thereof (in response to a solicitation for a recommendation or otherwise) that it contract for services with (i) the Adviser or a related person of the Adviser (including but not limited to a portfolio company of a Fund) or (ii) an entity with which the Adviser or a member of its personnel has a relationship or from which the Adviser or its personnel otherwise derives financial or other benefit subject to any restrictions in the Governing Documents of such Fund. This subjects the Adviser to conflicts of interest, because although the Adviser selects service providers that it believes are aligned with its operational strategies and will enhance portfolio company performance and, relatedly, returns of the relevant Fund, the Adviser may have an incentive to recommend the related or other person because of its financial or other business interest. There is a possibility that the Adviser, because of such belief or for other reasons, may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. Whether or not the Adviser has a relationship or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services and/or can provide such services at a lesser cost.

The Adviser and members, officers, principals and employees of the Adviser may buy or sell securities or other instruments that the Adviser has recommended to Funds. In addition, officers, principals and employees may buy securities in transactions offered to but rejected by Funds. Such transactions are subject to the policies and procedures set forth in the Adviser's Code of Ethics and restrictions set forth in the Governing Documents. The investment policies, fee arrangements and other circumstances of these investments may vary from those of the Funds. If officers, principals and employees of the Adviser have made large capital investments in or alongside the Funds they may have conflicting interests with respect to these investments.

Because certain expenses are paid for by a Fund and/or its portfolio companies or, if incurred by the Adviser, are reimbursed by a Fund and/or its portfolio companies, the Adviser may not necessarily seek out the lowest cost options when incurring (or causing a Fund or its portfolio companies to incur) such expenses.

#### *Fee Structure*

Because there is a fixed investment period after which capital from investors in the Funds may only be drawn down in limited circumstances and because Advisory Fees are, at certain times during the life of the Funds, based upon capital invested by the Funds, this fee structure may create an incentive to deploy capital when the Adviser or its affiliate receiving the Advisory Fees may not otherwise have done so.

Additionally, as discussed above in Item 6, the general partners of the Main Funds are entitled to Carried Interest under the terms of the limited partnership agreements of such Main Funds. Such general partners are affiliates of the Adviser. The existence of the general partners' Carried Interest may create an incentive for the general partners to cause such Main Funds to make more speculative investments than they would otherwise make in the absence of performance-based compensation.

### *Related Services*

As described in Item 5 above, the Adviser and its affiliates may perform Related Services for, and will receive fees from, actual or prospective portfolio companies or other investment vehicles of the Funds. Such fees will be in addition to any Advisory Fees or Carried Interest paid by the Funds to the Adviser or its affiliate. Consistent with the Funds' Governing Documents, the Adviser may incur expenses, and a portfolio company may reimburse the Adviser for expenses (including without limitation travel expenses, which may include expenses for chartered or first class travel) incurred by the Adviser in connection with its performance of services for such portfolio company, and such reimbursements are not subject to the sharing arrangements described below. This creates a conflict of interest between the Adviser and the Funds and their investors because the amounts of these fees and reimbursements may be substantial and the Funds and their investors generally do not have an interest in these fees and reimbursements. The Adviser determines the amount of these fees for Related Services and reimbursements in its own discretion, subject to agreements with sellers, buyers, and management teams, the board of directors of or lenders to portfolio companies, and/or third party co-investors in its transactions, and the amount of such fees and reimbursements may not (except in connection with the reductions described below) be disclosed to investors in the Funds. The Adviser will in some circumstances reduce the amount of Advisory Fees paid by the applicable Fund in connection with the receipt of the applicable Fund's share of such fees. The amount and nature of this reduction varies from Fund to Fund and is set forth in the Advisory Agreement and/or Governing Documents of the applicable Fund. Entities other than Funds that participate in investments alongside the Funds (such as entities through which the Adviser and certain employees of the Adviser invest alongside the Funds) may have a right to share in such fees, and Advisory Fees will generally not be reduced in connection with the receipt of such entities' share of such fees.

### *Diverse Investor Base with Conflicting Interests*

The investors in the Funds are expected to include U.S. taxable and tax-exempt entities, and institutions from jurisdictions outside of the United States. Such investors may have conflicting investment, tax and other interests with respect to their investments in a Fund. The conflicting interests among the investors may relate to or arise from, among other things, the nature of investments made by a Fund, the structuring of the acquisition of investments and the timing of the disposition of investments. As a consequence, conflicts of interest may arise in connection with decisions made by the Adviser, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for a Fund, the Adviser will consider the investment and tax objectives of the applicable Fund, not the investment, tax or other objectives of any investor individually.

### *Capital Advisers*

The Adviser has established a network of relationships with individuals ("Capital Advisers") intended to augment the number of potential investments considered by the Funds. This program

aims to extend the personal networks of the principals of the Adviser to include the personal networks of the Capital Advisers and thereby opportunistically identify additional acquisition targets (including platform acquisitions as well as add-on acquisitions to existing portfolio companies.) Capital Advisers may be compensated, in the discretion of the Adviser or its affiliates, by the Adviser, may be paid a finder's fees by a Fund or a Fund portfolio company in connection with an investment made by such Fund or Fund portfolio company or may be paid by a portfolio company in connection with services provided to such portfolio company, and such compensation does not reduce the amount of Advisory Fees paid by the applicable Fund. Although the use of Capital Advisers and the allocation of compensation paid to them by the Adviser, its affiliates and/or the portfolio companies may subject Adviser and/or its affiliates to potential conflicts of interest, the Adviser believes that such potential conflicts may be reduced if, among other things, the quality of the services of the Capital Adviser make a greater contribution to the success of the portfolio company. The Adviser also seeks to reduce potential conflicts of interest resulting from such arrangements by structuring compensation packages for such persons in a manner that the Adviser believes will align such persons' interests with those of the Funds' limited partners.

#### *Business with Portfolio Companies and Investors*

Given the Funds' controlling interests in portfolio companies and the collaborative nature of the Adviser's business in relation to the portfolio companies in which the Funds have invested, there are often situations where the Adviser is in the position of recommending portfolio company services to other portfolio companies. The Adviser may have a conflict of interest in making such recommendations, in that the Adviser has an incentive to maintain goodwill between it and the existing and prospective portfolio companies for the Funds, while the products or services recommended may not necessarily be the best available to the portfolio companies in which the Funds have invested.

The Adviser may have an incentive to recommend the products or services of certain investors in the Funds, certain third parties or their related businesses to the Funds or their portfolio companies for use or purchase, even though the products or services recommended may not necessarily be the best available to the Funds or the portfolio companies.

Portfolio companies controlled by a Fund may provide services to certain Fund investors. The Adviser may have an incentive to cause the portfolio company to favor those investors relative to other portfolio company clients or customers in terms of pricing or otherwise, which could adversely affect the portfolio company's profitability to the Fund. Additionally, the portfolio company could recommend to its clients or customers that they invest in a Fund.

The Adviser may engage in business opportunities arising from a Fund's investment in a portfolio company (for example, without limitation, entering into a joint venture with a portfolio company or making a proprietary investment in a portfolio company).

The Adviser has service providers, including for example, its network of Capital Advisers, investment bankers, outside legal counsel and pension consultants, who are investors in Funds and/or who provide services to businesses that are competitors of the Adviser. The Adviser may

have a conflict of interest with the Funds in recommending the retention or continuation of a service provider to the Funds or a portfolio company if such recommendation, for example, is motivated by a belief that the service provider will continue to invest in Funds or will provide the Adviser information about markets and industries in which the Adviser operates or is interested or will provide other services that are beneficial to the Adviser. There is a possibility that the Adviser, because of such belief or for other reasons, may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person.

Certain members of a Main Fund's advisory committee are, or in the future may be, officers or directors of, or otherwise affiliated with, investors in another Fund. The general partner of a Fund may from time to time utilize the services of investors and their affiliates on an arm's length basis, as it deems appropriate.

#### *Positions with Portfolio Companies*

Employees of the Adviser may serve as directors of portfolio companies. Such employees are required to remit any remuneration they may receive as directors to the applicable Funds. In addition, employees of the Adviser may leave the employment of the Adviser or its affiliates and become an officer or employee of a portfolio company. Employees are prohibited from receiving consulting, management or other fees personally from portfolio companies.

#### *Side Letter Agreements*

The Adviser may enter into certain side letter arrangements with certain investors in a Fund providing such investors with different or preferential rights or terms, including but not limited to different fee structures, information rights, co-investment rights, and liquidity or transfer rights.

#### *Other Potential Conflicts*

The Adviser and the Funds will generally engage common legal counsel and other advisers in a particular transaction, including a transaction in which there may be conflicts of interest. Members of the law firms engaged to represent the Funds may be investors in a Fund, and may also represent one or more portfolio companies or investors in a Fund. In the event of a significant dispute or divergence of interest between Funds and the Adviser, the parties may engage separate counsel in the sole discretion of the Adviser, and in litigation and other circumstances separate representation may be required. Additionally, the Adviser and the Funds may engage other common service providers. In such circumstances, there may be a conflict of interest between the Adviser and the Funds in determining whether to engage such service providers, including the possibility that the Adviser may favor the engagement or continued engagement of such persons if it receives a benefit from such service providers, such as lower fees, that it would not receive absent the engagement of such service provider by the Funds.

The Adviser may, in its discretion, have, and may, in its discretion, cause the Funds and/or their portfolio companies to have, ongoing business dealings, arrangements or agreements with persons who are former employees or executives of the Adviser. The Funds and/or their portfolio

companies may bear, directly or indirectly, the costs of such dealings, arrangements or agreements. In such circumstances, there may be a conflict of interest between the Adviser and the Funds (or their portfolio companies) in determining whether to engage in or to continue such dealings, arrangements or agreements, including the possibility that the Adviser may favor the engagement or continued engagement of such persons even if a better price and/or quality of service could be obtained from another person.

A Fund may invest in a pooled investment vehicle that is advised by, or that has another business or other relationship with, the Adviser or its related persons subject to any investment restrictions in the Governing Documents of such Fund. In such a case, investors in such Fund will bear not only the direct Advisory Fees and other expenses associated with their investment in the Fund, but also the expenses and fees associated with the investment in the underlying pooled investment vehicle, some of which fees and expenses may be paid to the Adviser or its related persons. Additionally, the interests of the Fund, as an investor, may conflict with the interests of the underlying pooled investment vehicle or the Adviser or its related persons in their capacity as service providers to the underlying pooled investment vehicle, which would create a conflict of interest for then Adviser.

If a Fund purchases in the secondary market at a discount debt securities of a company in which a Fund has, for example, a substantial equity interest, (a) a court might require a Fund to disgorge profit it realizes if the opportunity to purchase such securities at a discount should have been made available to the issuer of such securities or (b) a Fund might be prevented from enforcing such securities at their full face value if the issuer of such securities becomes bankrupt. The effect of these transactions will vary from jurisdiction to jurisdiction.

The Governing Documents of certain Funds permit the general partner of each such Fund to cause such Fund to distribute such general partner's share of securities resulting from an investment disposition by such Fund to such general partner or its affiliates in kind, while disposing of limited partners' share of such securities and distributing the net cash proceeds of such sale of securities to the limited partners. This ability creates conflicts of interest between the general partners and the limited partners of the applicable Fund, because the general partner may have an incentive to cause the Fund to exit an investment at a time that may result in limited partners receiving a lesser return on such investment than would be the case if the general partner was prohibited from receiving its proceeds from investments in kind (or was otherwise required to receive its share of investment proceeds in the same form as limited partners).

The Governing Documents of certain Funds permit each such Fund's general partner to withhold information from certain limited partners or investors in such Fund in certain circumstances. For instance, information may be withheld from limited partners that are subject to Freedom of Information Act or similar requirements. The general partner may elect to withhold certain information to such limited partners for reasons relating to the general partner's public reputation or overall business strategy, despite the potential benefits to such limited partners of receiving such information.

Please see the discussion above under the sub-heading “Resolution of Conflicts” for a description of the means by which the Adviser and its related persons may seek to alleviate conflicts of interest among the Funds or other persons.

## **Item 12. Brokerage Practices**

As Funds invest primarily in private equity ventures, the Adviser anticipates that investments in publicly traded securities will be infrequent occurrences (e.g., money market instruments pending investment in a portfolio company, securities held as a result of initial public offerings of portfolio companies, going-private transactions, etc.). However, to meet its fiduciary duties to the Funds, the Adviser has adopted written policies to address issues that might arise with respect to purchasing, holding, and selling publicly traded securities.

### **Selection of Brokers and Dealers**

For each of the Funds, the Adviser has, subject to the direction of such Fund's general partner, if applicable, sole discretion over the purchase and sale of investments (including the size of such transactions) and the broker or dealer, if any, to be used to effect transactions. In placing each transaction for a Fund involving a broker-dealer, the Adviser will seek "best execution" of the transaction. "Best execution" means obtaining for a Fund account the lowest total cost (in purchasing a security) or highest total proceeds (in selling a security), taking into account the circumstances of the transaction and the reputability and reliability of the executing broker or dealer.

In determining whether a particular broker or dealer is likely to provide best execution in a particular transaction, the Adviser takes into account all factors that it deems relevant to the broker's or dealer's execution capability, including, by way of illustration, price, the size of the transaction, the nature of the market for the security, the amount of the commission, the timing of the transaction taking into account market prices and trends, the reputation, experience and financial stability of the broker or dealer, and the quality of service rendered by the broker or dealer in other transactions. In addition, the Adviser may consider the use of Electronic Communications Networks ("ECNs") when placing trades on behalf of the Funds. When purchasing or selling over-the-counter securities with market makers, the Adviser generally seeks to select market makers it believes to be actively and effectively trading the security being purchased or sold.

In order to monitor best execution, the Adviser will periodically monitor broker-dealers to assess the quality of execution of brokerage transactions effected on behalf of the Adviser and each Fund. The Adviser does not receive "soft dollars" in connection with its use of broker dealers.

### **Aggregation of Trades**

The Adviser may aggregate (or bunch) the orders of more than one Fund for the purchase or sale of the same publicly traded security. Portfolio managers and traders often employ this practice because larger transactions may enable them to obtain better overall prices, including lower commission costs or mark-ups or mark-downs. The Adviser may combine orders on behalf of Funds with orders for other Funds for which it has trading authority, or in which it has an economic interest. In such cases, the Adviser generally aggregates trade orders for publicly traded securities so that each participating Fund will receive the average price for each execution of a transaction.



If an order for more than one Fund for a publicly traded security cannot be fully executed, allocation shall be made based upon the Adviser's procedures for allocation of investment opportunities, as described in Item 11 above.

## **Item 13. Review of Accounts**

### **Oversight and Monitoring**

The investment portfolios of the Funds are generally private, illiquid and long-term in nature, and accordingly the Adviser's review of them is not directed toward a short-term decision to dispose of securities. However, the Adviser closely monitors the portfolio companies of the Funds and generally maintains an ongoing oversight position in such portfolio companies. The portfolios are reviewed by a team of investment professionals on an on-going basis. The team generally includes Managing Partners and other investment professionals of the Adviser. Moreover, the Adviser has a separate group designated to monitoring portfolio company performance. This group provides a second level of review of each client portfolio company on a periodic basis.

### **Reporting**

Investors in the Funds typically receive, among other things, a copy of audited financial statements of the relevant Fund within 120 days after the fiscal year end of such Fund, as well as quarterly performance reports within 60 days after each fiscal quarter end. The Adviser and the applicable general partner, if any, may from time to time, in their sole discretion, provide additional information relating to such Fund to one or more investors in such Fund as they deem appropriate.

#### **Item 14. Client Referrals and Other Compensation**

For details regarding economic benefits provided to the Adviser by non-clients, including a description of related material conflicts of interest and how they are addressed, please see Item 11 above. The Adviser will typically perform management, advisory, investment banking, financial advisory and other services for, and may receive fees from, actual or prospective portfolio companies or other investment vehicles of the Fund, including such fees in connection with mergers, acquisitions, add-on acquisitions, refinancings, public offerings, sales and similar transactions. In addition, the Adviser and its related persons may, in certain instances, receive discounts on products and services provided by portfolio companies of Funds.

While not a client solicitation arrangement, the Adviser may from time to time engage one or more persons to act as a placement agent for a Fund in connection with the offer and sale of interests to certain potential investors. Such persons generally will receive a fee in an amount equal to a percentage of the capital commitments for interests made by such potential investors to such Fund that are subsequently accepted. Such fees are generally paid by the Adviser or Advisory Fees received by the Adviser are generally reduced by the amount of such fees, although related expenses incurred pursuant to the relevant placement agent or similar agreement, including but not limited to placement agent travel, meal and entertainment expenses, typically are borne by the relevant Fund(s).

## **Item 15. Custody**

The Adviser is deemed to have “custody” over the Funds’ assets for purposes of Rule 206(4)-2 under the Advisers Act. To comply with this Rule, each Fund’s assets must be held at qualified custodians to the extent required by the Rule; these qualified custodians include prime brokers, banks and other broker-dealers. In addition, audited financial statements are delivered to each limited partner within 120 days following such Fund’s fiscal year-end. If a delivery error has caused a limited partner not to receive access to audited financial statements in a timely manner, such limited partner should contact the Adviser’s Chief Compliance Officer. The Adviser generally maintains custody of certain assets held in the name of one or more Funds with the following qualified custodian:

- First Republic Bank, 111 Pine Street, San Francisco, CA, 94111

**Item 16. Investment Discretion**

Investment advice is provided directly to the Funds, subject to the direction and control of the general partner of each Fund, and not individually to the investors in the Funds. Services are provided to the Funds in accordance with the Advisory Agreements with the Funds and/or Governing Documents of the applicable Fund. Investment restrictions for the Funds, if any, are generally established in the Governing Documents or offering documents of the applicable Fund.

The assets of a Feeder Vehicle are invested in a Main Fund.

## **Item 17. Voting Client Securities**

The Adviser has established written policies and procedures setting forth the principles and procedures by which the Adviser votes or gives consent with respect to securities owned by the Funds (“Votes”). The guiding principle by which the Adviser votes all Votes is to vote in the best interests of each Fund by maximizing the economic value of the relevant Fund’s holdings, taking into account the relevant Fund’s investment horizon, the contractual obligations under the relevant Advisory Agreements or Governing Documents, and all other relevant facts and circumstances at the time of the vote. The Adviser does not permit Voting decisions to be influenced in any manner that is contrary to, or dilutive of, this guiding principle.

It is the Adviser’s general policy to vote or give consent on all matters presented to security holders in any Vote. However, the Adviser reserves the right to abstain on any particular Vote or otherwise withhold its vote or consent on any matter if, in the judgment of the Adviser’s Chief Compliance Officer (the “CCO”) or the relevant Adviser investment professional, the costs associated with voting such Vote outweigh the benefits to the relevant Funds or if the circumstances make such an abstention or withholding otherwise advisable and in the best interests of the relevant Funds.

Funds generally cannot direct the Adviser’s Vote.

All Voting decisions initially are referred to the Adviser’s Chief Compliance Officer or appropriate investment professional for a voting decision. In most cases, the Adviser’s Chief Compliance Officer or investment professional covering the particular investment will make the decision as to the appropriate vote for any particular Vote. In making such decision, he or she may rely on any of the information and/or research available to him or her. If the investment professional is making the Voting decision, the investment professional will inform the CCO of any such Voting decision, and if the CCO does not object to such decision as a result of his or her conflict of interest review, the Vote will be voted in such manner. If the investment professional and the CCO are unable to arrive at an agreement as to how to vote, then the CCO may consult with the Adviser’s CEO as to the appropriate vote, who will then review the issues and arrive at a decision based on the overriding principle of seeking the maximization of the economic value of the relevant Funds’ holdings. The Adviser’s proxy voting guidelines (“Proxy Guidelines”) state the general view and expected vote of the Adviser under a majority of circumstances with respect to the issues addressed therein.

The Adviser’s CCO has the responsibility to monitor Votes for any conflicts of interest, regardless of whether they are actual or perceived. No conflicts of interest review will be required for any vote taken in accordance with the Proxy Guidelines. Any vote not taken in accordance with the Proxy Guidelines, however, will require a mandatory conflicts of interest review by the Adviser’s CCO, which will include consideration of whether the Adviser or any investment professional or other person recommending how to vote has an interest in how the Vote is voted that may present a conflict of interest. In addition, all Adviser investment professionals are expected to perform their tasks relating to the voting of Votes in accordance with the principles set forth above, according the first priority to the best interest of the relevant Funds. The Adviser’s CCO will use his or her best judgment to address any such conflict of

interest and ensure that it is resolved in accordance with his or her independent assessment of the best interests of the Funds.

Where the Adviser's CCO deems appropriate in his or her sole discretion, unaffiliated third parties may be used to help resolve conflicts. In this regard, the Adviser's CCO shall have the power to retain independent fiduciaries, consultants, or professionals to assist with Voting decisions and/or to delegate voting or consent powers to such fiduciaries, consultants or professionals.

Copies of relevant proxy logs, identifying how proxies were voted in connection with a Fund and copies of proxy voting policies are available to any client or prospective client upon written request to: Kurt A. Krieger, General Counsel and Chief Compliance Officer, HGGC, LLC, 1950 University Avenue, Suite 350, Palo Alto, CA 94303.

**Item 18. Financial Information**

The Adviser does not require prepayment of Advisory Fees more than six months in advance or have any other events requiring disclosure under this item.



**Item 19. Requirements for State-Registered Advisers**

Item 19 is not applicable to HGGC, LLC.