



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

### **Huron Capital Partners LLC**

March 2015

Detroit, MI 48226

313-962-5800

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

This brochure provides information about the qualifications and business practices of Huron Capital Partners LLC and its affiliates (collectively "HCP" or "Advisor"). For more information on the disclosure requirements required for Part 2A see the "General Instructions for Part 2 of Form ADV" by visiting [www.sec.gov/rules/final/2010/ia-3060.pdf](http://www.sec.gov/rules/final/2010/ia-3060.pdf). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer at 313-962-5810 or email [dreynolds@huroncapital.com](mailto:dreynolds@huroncapital.com). Additional information about HCP is also available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

HCP is registered as an investment adviser with the United States Securities and Exchange Commission (the "SEC") under the Investment Advisers Act of 1940 (the "Advisers Act"). Registration as an investment adviser with the SEC does not imply a certain level of skill or training. In addition, the information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

**Item 2 – Material Changes**

In December 2014, Huron Capital Partners completed a change of control which is reflected in Item 4 and in our ADV Part 2B Supplement.

Pursuant to SEC rules, HCP provides a summary of material changes to its brochure within 120 days of the close of HCP's fiscal year. HCP may provide further disclosures about material changes as deemed necessary. Additionally, HCP will provide to its clients a new Brochure as necessary without charge. HCP's Brochure may be requested by contacting David Reynolds at (313) 962-5810 or dreynolds@huroncapital.com.

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**Item 4: Advisory Business**

HCP is a private equity firm organized in 1999 as a limited liability company under the laws of the State of Michigan. The day to day investment activities of HCP are led by Messrs. Demkowicz (the “Managing Partner”), Michael R. Beauregard, Peter E. Mogk, and John C. Higgins (collectively the “Investment Committee”) who review and approve all investments for HCP. These individuals bring a wealth of investment, operational and financial expertise and experience to HCP, and together with a number of other investment professionals, work to execute HCP’s investment strategy.

HCP serves as an investment manager and provides discretionary advisory services to several collective investment vehicles organized as private investment partnerships (the “Fund” or collectively the “Funds”). Typically, within each Fund structure is a designated general partner or manager (the “General Partner(s)”), who is deemed to be a relying adviser and also subject to HCP’s compliance program. Unless and only to the extent that the context otherwise requires, references to HCP includes the General Partner(s).

The Funds primarily seek to obtain control-oriented positions through private equity investments in lower middle-market companies located throughout the United States and Canada. Industry sectors include, but are not limited to, specialty manufacturing, consumer goods and service, healthcare, and service businesses. As of December 31, 2014, HCP manages \$899 million of regulatory assets under management on a discretionary basis. HCP does not manage any assets on a non-discretionary basis.

HCP’s clients currently include: The Huron Fund II, L.P.; The Huron Fund III, L.P.; The Huron Fund IV Executives L.P.; The Huron Fund IV L.P.; and The Huron Fund IV Management L.P.

The following general partners are affiliated with HCP and deemed to be relying advisers with authority to make investment decisions on behalf of each Fund: Huron Capital Partners GP II LLC; Huron Capital Partners GP III LLC; Huron Fund IV Management LLC.

In providing services to the Funds, HCP formulates each Fund’s investment objectives, directs and manages the investment and reinvestment of each Fund’s assets, and provides reports to investors. Investment advice is provided directly to the Funds and not individually to the limited partners of the Funds (the “Investors” or “Limited Partners”). HCP manages the assets of the Funds in accordance with the terms of each Fund’s confidential offering and/or private placement memoranda, individual limited partnership agreements, side letters and other

governing documents applicable to each Fund (the “Governing Fund Documents”). All terms are generally established at the time of the formation of a Fund, and are only terminable once the applicable Fund is dissolved, wound up, and terminated. Except as otherwise described in the Governing Fund Documents, the Investors may not restrict investments by the Funds in any capacity, and except in limited circumstances, Limited Partners are not permitted to withdraw from a Fund prior to the Fund’s dissolution.

Limited partnership interests in the Funds are not registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and the Funds are not registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Accordingly, interests in the Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements in private transactions within the United States.

## **Item 5: Fees and Compensation**

### General

HCP typically receives compensation from fees based on a percentage of assets under management, carried interest allocations and certain other fees or expenses related to the Funds’ investments in portfolio companies (see below). Investors should refer to their relevant Governing Fund Documents for further clarification about the fees paid by each Fund. Such amounts are deducted or allocated from an Investor’s capital account(s) in the applicable Fund. Investors’ ability to redeem from the Funds is subject to “lock-up” restrictions and formal notice requirements as outlined in the Governing Fund Documents. The Funds generally invest on a long-term basis. Accordingly, management fees are expected to be paid, except as otherwise described in each Fund’s Governing Fund Documents, over the term of the Funds and Limited Partners generally are not permitted to withdraw or redeem interests in the Funds. In the event of a “non-voluntary withdrawal,” HCP will refund all pre-paid fees that have not been earned.<sup>1</sup>

### Management Fee

The Funds pay HCP an annual management fee (the “Management Fee”). The Management Fee is payable quarterly in advance and is calculated as a percentage (2.0% per annum) of committed capital during the commitment period and of invested capital thereafter (subject to certain adjustments as described in the Governing Fund Documents), in each case in accordance with

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<sup>1</sup> Investors generally may not withdraw any amount from the Funds, except that a non-voluntary withdrawal may be permitted to avoid a prohibited transaction under the Employee Retirement Income Security Act of 1974.

the Governing Fund Documents. HCP and its affiliates reserve the right to waive or reduce management fees for certain investors, including employees, a limited number of strategic partners, advisors and consultants and others as may be determined in HCP's sole discretion.

#### Carried Interest Allocations

A portion of each Fund's net investment profit may be allocated to the capital account of its General Partner as "carried interest." The manner of calculation of such carried interest is disclosed in the Governing Fund Documents, and may vary by fund. Generally, however, 20% of the investment profits of the Funds are allocated as carried interest to such Fund's General Partner. This allocation of profits is subject to the Limited Partners first receiving a preferred return of 8% per annum, and is subject to a giveback, as defined in the Governing Fund Documents. As is the case with Management Fees, HCP and its affiliates reserve the right to waive or reduce carried interest for certain investors, including employees, a limited number of strategic partners, advisors and consultants and others as may be determined in HCP's sole discretion.

#### Other Fees Earned by HCP

HCP may also receive fee income paid by portfolio companies or other third parties, including advisory fees, directors' fees, monitoring fees, transaction fees, break-up fees, or other similar fees received with respect to investments or proposed investments by HCP, the General Partner, or any affiliate of the foregoing (collectively, "Other Fees"). Such Other Fees will typically be paid to HCP or the General Partner and will reduce or offset Management Fees by 50% to 80% of the amount which would otherwise be due from the Fund to HCP, as defined in the Governing Fund Documents. The recipients of this Brochure should refer to the detailed information found in the Governing Fund Documents for specific information about the fees earned by HCP, including Other Fees, and the fees charged to the Funds.

#### Other Expenses

In addition to the Management Fee, Each Huron Fund is responsible for the organizational and startup expenses of the Fund, as further described in each Fund's Governing Fund Documents. The Funds will pay all other costs and expenses of the Funds that are not reimbursed by third parties, including without limitation, legal, auditing, consulting, financing and accounting fees and expenses, expenses associated with the Funds' financial statements, tax returns and K-1s; out-of-pocket expenses incurred in connection with transactions not consummated; expenses of the Advisory Council (as defined in Item 11); costs and expenses associated with indemnification under the Partnership Agreement; insurance; marketing expenses; other expenses associated with the acquisition, holding and disposition of its investments, including extraordinary expenses

(such as litigation, if any); fees incurred for special advisory or consulting services; and any taxes, fees or other governmental charges levied against the Funds.

HCP maintains a non-employee network of seasoned operating professionals (collectively the “Huron Resource Group”, individually an “Operating Partner”). These individuals provide advice and services to HCP and its portfolio companies on matters such as deal sourcing, interim management, technical consulting, consolidation activities, operational improvement initiatives, human capital management, industry networking, and other similar projects. Typically, an Operating Partner will work with one or more portfolio company and will be compensated directly by the portfolio company(ies) for which such Operating Partner is providing advice. On occasion, the applicable portfolio company or prospective portfolio company may be charged by the General Partner and/or its affiliates for such services in an amount not to exceed what an unaffiliated third party would charge for comparable services, without any reduction to the applicable Fund’s management fee. To the extent that the cost of providing and making available the capacity to provide such services is not fully recouped from the applicable portfolio companies and prospective portfolio companies, the Funds may be charged to the extent permitted by the applicable Fund's Governing Fund Documents.

#### **Item 6: Performance Based Fees and Side-by-Side Management**

As described above in Item 5, each General Partner receives a carried interest allocation on certain realized profits in the Funds equal to 20% of all realized profits subject to an 8% annually compounded preferred return and a related General Partner catch-up provision. A carried interest allocation represents an adviser’s compensation based on a percentage of net profits of the funds it manages. The carried interest allocated to a General Partner is subject to a potential giveback at the end of life of a Fund if the respective General Partner has received excess cumulative distributions.

Each Fund’s carried interest fee structure is described in detail in the relevant Governing Fund Documents. These performance fee arrangements have been structured subject to Section 205(a)(1) of the Advisers Act in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3.

As described above, HCP or its affiliates receive performance-based compensation in the form of “carried interest”, the calculation of which is based on the profits generated on the sale or disposition of Fund assets. However, HCP does not have an incentive to favor certain Funds because all active Funds advised by HCP are subject to identical carried interest calculations, or

are otherwise required to invest on the same terms as Funds which are subject to carried interest.

The fact that a significant portion of the Advisor's compensation (and its affiliates and investment professionals compensation) may be directly computed on the basis of profits generated by the sale or disposition of Fund assets may create an incentive for HCP to make investments on behalf of the Funds that are riskier or more speculative than would be the case in the absence of such compensation.

### **Item 7: Types of Clients**

HCP provides discretionary management and advisory services to the Funds directly, subject to the direction and control of the General Partner of each Fund, and not individually to the Limited Partners. The Funds limit their respective investors to persons who are "accredited investors" as defined in the Securities Act of 1933 and who, in often cases, are "qualified clients" and/or "qualified purchasers" as defined in the Investment Company Act of 1940. Investors in the Funds may include, but are not limited to, high net worth individuals, pension plans (corporate, state and foreign), endowments, insurance companies and pooled investment vehicles (e.g., funds-of-funds).

The minimum commitment for a Limited Partner is outlined in the Governing Fund Documents of each Fund and is generally \$1.0 million; however HCP maintains discretion to accept less than the minimum investment threshold. In addition, the Funds may enter into separate agreements, commonly referred to as "side letters", with certain Investors, to waive or introduce certain terms, or allow such Investors to invest on different terms than those specifically described in the Governing Fund Documents. Under certain circumstances, these agreements could create preferences or priorities for such Investors with respect to other Limited Partners.

In certain circumstances, HCP may also serve as investment manager to various co-investors who may invest alongside the Funds in certain portfolio companies. Certain limited partners of the Funds may be permitted to co-invest directly in a particular portfolio company. Opportunities to co-invest in a portfolio company may be made available to any person or entity, including without limitation strategic investors, lenders, deal sources, other private equity or venture capital firms, Fund Limited Partners, other persons or entities affiliated, associated or otherwise known to HCP or its personnel and unrelated third parties. These opportunities to co-invest may arise whenever HCP has the opportunity for an investment in an existing or prospective portfolio company and HCP determines that all or a portion of the



applicable opportunity is not required to be offered to, or is not appropriate for, a Fund. Such determinations are based on the provisions of the applicable Funds' Governing Fund Documents and such other factors as HCP may consider in its sole discretion, including those that may be specified from time to time in policies on investment allocation and co-investments.

Co-investor limited partners do not pay a management fee or carried interest with respect to the co-investment amounts, but may bear certain expenses (e.g., legal and other expenses associated with a portfolio company investment). HCP will select which limited partners are permitted to co-invest in a particular portfolio company based on various factors, including the sophistication of the investor, the ability of the investor to fund and complete the investment on a timely basis and for strategic or other reasons as more fully described in the applicable Fund's Governing Fund Documents. Except as provided in each Fund's Governing Fund Documents, HCP is not obligated to make co-investment opportunities available to any particular limited partners.

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

HCP seeks to acquire or recapitalize specialty manufacturing, consumer goods and service, healthcare, and service businesses. Through customized buy-and-build investment strategies, the Funds primarily acquires controlling positions which are achieved using leveraged acquisitions, market-entry strategies, recapitalizations, restructurings and growth equity transactions. For each Fund, HCP expects to invest efficiently over three to five years in 10 to 15 platform companies as well as maintain a sufficient amount of capital for follow-on investments. HCP will focus on (i) control transactions with valuations generally under \$150 million; (ii) committing \$10 million to \$70 million per transaction; and (iii) use its operational capabilities to create value.

The cornerstone of the HCP strategy is to combine its operational approach, capital and transaction experience with proven management teams who have the expertise and commitment to successfully grow their businesses. HCP utilizes the in-house operational expertise of its investment professionals as well as senior industry operating executive consultants (each an "Operating Partner", collectively the "Huron Resource Group"). These Operating Partners represent an experienced group of accomplished executives who i) provide HCP with proprietary deal flow; ii) assist HCP with its due diligence; and iii) work with the investment professionals and existing management teams to advise on operational, financial and administrative strategies, often as Directors of HCP's portfolio companies.

Associated Risks

An investment in the Funds involves a high degree of risk. There can be no assurance that the Funds will meet its investment objectives or otherwise be able to successfully carry out its investment program. Therefore, an investment in the Funds should be undertaken only by qualified investors whose financial resources are sufficient to enable them to bear the loss of all or part of their investment and who do not need liquidity with this investment. The following risk factors should be considered carefully, but are not meant to be an exhaustive listing of all potential risks associated with an investment in the Funds. Investors should consult with their own financial, legal and tax advisors prior to investing in the Funds.

*No Assurance of Investment Return.* While private equity investments in highly leveraged companies offer the opportunity for capital appreciation, such investments also involve a high degree of risk. Many organizations operated by persons of competence and integrity have been unable to make, manage and realize a return on such investments successfully. There is no assurance that the Funds will be able to invest its capital with attractive terms or generate returns for its Investors. The past investment performance of HCP or its investment professionals are not necessarily indicative of the Funds' future results.

*Illiquidity of Limited Partner Interests.* The Limited Partner interests are highly illiquid, have no public market and are subject to substantial restrictions on transferability. Voluntary withdrawals of Limited Partner interests are not permitted, except in limited instances when necessary to comply with certain laws or regulations applicable to a Limited Partner, including applicable ERISA regulations. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of an investment, and the Partnership's interests will be highly illiquid. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the initial investment. Prior to such time, there often will be no current return on the investments.

*Risks Associated with the Funds' Investment Strategy.* Investing in smaller companies generally involves greater risks than investments in similar larger companies, since smaller companies have more limited resources, products, services and customer bases. In addition, typically there is a more limited market for the sale of lower middle market companies, which can make it more difficult to realize gains upon a disposition of the investment.

*Risks Associated with a Limited Number of Investments.* The Funds will invest in a limited number of investments. Hence, the aggregate return of the Funds may be affected by the

performance of one or a small number of investments. To the extent that less capital is raised than targeted, the Funds may invest in fewer companies and thus be less diversified. It is possible that the Funds will never be fully invested if not enough quality investments are available or identified due to intense competition or the marketplace. However, Limited Partners will be required to pay annual management fees based on the entire amount of their commitments.

*Leverage.* The Funds may invest in companies whose capital structures are highly leveraged. Such investments involve a high degree of risk in that adverse fluctuations in the cash flow of such companies, or increased interest rates, may impair their ability to meet their debt obligations. In addition, since the Funds will be making equity investments, the Fund's investment will be junior to all of the company's debt holders and any senior equity classes, and thus subject to greater risk of loss. Accordingly, if a portfolio company does not generate sufficient cash flow to service its debt, the Funds could lose some or all of its investment in the company.

*Illiquidity of Investments.* Most investments of the Funds will not have any readily available public market. Disposition of such investments may require a lengthy time period or may result in distributions in kind to the Limited Partners.

*No Assurance of Projected Results.* The General Partner will generally determine the appropriate capital structure for each portfolio company in which the Funds invest based upon financial projections for that company. Projected operating results will normally be based primarily on management judgments. In all cases, projections are only estimates of future results based upon assumptions made at the time.

*Investments with Third Parties.* The Funds may co-invest with third parties through joint ventures or other entities. Such investments may involve additional risks due to the involvement of a third party, including the possibility that a third party may have financial difficulties which have a negative impact on the investment or that a third party may have economic or business interests which are inconsistent with the Funds. In addition, joint ventures and similar arrangements may allow a third party to take or block an action contrary to the interests of the Funds with respect to the investment.

*Reliance on the General Partners and Portfolio Company Management.* Control over the operation of the Funds will be vested entirely with HCP, and the Funds' future profitability will depend largely upon the business and investment acumen of the HCP principals. The loss of

service of one or more of such principals could have an adverse effect on a Fund's ability to realize its investment objectives. Limited partners generally have no right or power to take part in the management of a Fund, and as a result, the investment performance of the Funds will depend entirely on the actions of HCP. Although HCP will monitor the performance of each Fund's investment, it will primarily be the responsibility of each portfolio company's management team to operate the portfolio company on a day-to-day basis. Although the Funds generally intend to invest in companies with strong management or recruit strong management to such companies, there can be no assurance that the management of such companies will be able or willing to successfully operate a company in accordance with a Fund's objectives.

*Future and Past Performance.* The performance of HCP's prior investments is not necessarily indicative of a Fund's future results. While HCP intends for the Funds to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that positive returns will be achieved. On any given investment, loss of principal capital is possible.

*Need for Follow-On Investments.* Following its initial investment in a given portfolio company, the Funds may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company. There is no assurance that the Funds will make follow-on investments or that the Funds 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 effect on a portfolio company in need of such an investment or may result in a lost opportunity for a Fund to increase its participation in a operation.

*Dilution.* Limited partners admitted to a Fund at subsequent closings will participate in the existing investments of the Fund, thereby diluting the interest of existing limited partners in such investments. Although any such new limited partner will be required to contribute its pro rata share of previously made capital contributions, there can be no assurance that this contribution will reflect the fair value of a Fund's existing investments at the time of such contributions.

*Director Liability.* The Funds will often obtain the right to appoint a representative to the board of directors of the companies in which they invest. Serving on the board of directors of a portfolio company exposes a Fund's representatives, and ultimately the Fund, to potential liability. Although portfolio companies often have insurance to protect directors and officers from such liability, such insurance may not be obtained by all portfolio companies and may be insufficient if obtained.

*Conflicts of Interest.* During the commitment period of the Funds, all appropriate investment opportunities will be pursued by HCP principals through such Funds, subject to certain limited exceptions. HCP's principals and investment staff will continue to manage and monitor such investments until their realization. Following the commitment period, HCP principals may and likely will focus their investment activities on other opportunities and areas unrelated to such Fund's investments.

#### **Item 9: Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or investor's evaluation of the adviser or the integrity of the adviser's management. Neither HCP nor any of its officers, directors, employees or other management persons, have been involved in any legal or disciplinary events that would require disclosure in response to this Item.

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

HCP is not actively engaged in a business other than giving investment advice to its clients, the Funds. Neither HCP nor any of its management persons are registered or have an application pending to register as a broker-dealer or a registered representative of a broker-dealer. Neither HCP nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading adviser, or an associated person of the foregoing.

HCP has and will continue to develop relationships with professionals who provide services it does not provide, including: legal; accounting; banking; tax preparation; insurance brokerage; investment management services; and other personal services. None of the above relationships, however, creates a material conflict of interest with any of the Funds or limited partners.

From time to time, HCP may receive training, information, promotional material, meals, gifts or prize drawings from vendors and others with whom it may do business or to whom it may make referrals. At no time will HCP accept any benefits, gifts or other arrangements that are conditioned on directing individual client transactions to a specific security, product or provider.

#### General Partners

As described in Item 4, HCP is affiliated with the following entities as General Partners: Huron Capital Partners GP II LLC; Huron Capital Partners GP III LLC; Huron Fund IV Management LLC.

These General Partners are deemed registered with the SEC under the Advisers Act pursuant to HCP's registration. These affiliated investment advisers operate as a single advisory business together with HCP and serve as General Partners of the Funds, and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

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

#### Code of Ethics and Personal Trading

Pursuant to Rule 204A-1 of the Advisers Act, HCP has adopted a written Code of Ethics (the "Code") predicated on the principal that the Advisor owes a fiduciary duty to the Funds and its Investors. The Code is designed to address and avoid potential conflicts of interest and is applicable to all officers, directors, members, partners or employees of HCP (the "Employees"), as well as each other individual designated in writing by a compliance officer as being subject to all or a portion of the compliance procedures or policies adopted by the Advisor (collectively the "Supervised Persons"). HCP requires its Supervised Persons to act in the Funds' best interests, abide by all applicable regulations and avoid any action that is, or could even appear to be, legally or ethically improper.

The Advisor generally prohibits the purchase or sale of securities that are held by the Funds; requires pre-clearance before Supervised Persons make a discretionary purchase of an IPO or limited offering (i.e., private placement); requires periodic reporting of Employees' Supervised Persons' personal securities transactions and all holdings; and requires prompt internal reporting of Code violations. HCP endeavors to maintain current and accurate records of all personal securities accounts of its Supervised Persons in an effort to monitor all such activity. A copy of HCP's Code is available upon request.

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

HCP employees are prohibited from trading, either personally or on behalf of others, in securities while in possession of material non-public information regarding these securities or communicating material non-public information to others.

Participation in Client Transactions

HCP or a company related to HCP serves as the investment adviser and general partner, respectively, to the Funds. HCP, its employees, and/or the General Partner of the Funds will have an investment in the Funds. Therefore, HCP may be considered to participate indirectly in transactions effected for those clients. The foregoing relationships, fees, and any other actual or potential conflicts of interest arising therefrom are disclosed in the respective Funds' offering documents.

It is HCP's policy that the Firm will not affect any principal or agency cross securities transactions for client accounts without first obtaining the relevant advisory board and/or limited partner approval. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells a security to an advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

Conflicts of Interest

HCP's Code of Ethics requires Firm employees to place the interests of clients first, and on an annual basis each employee must certify that he or she has read and understands the Code and has complied with its provisions. If any matter arises that HCP determines in its good faith constitutes an actual conflict of interest, HCP may take such actions as may be necessary or appropriate, within the context of Governing Fund Documents to address the conflict.

The offering documents for each Fund details a complete description of what HCP believes to be the most significant conflicts of interest associated with an investment in the Funds. Investors should carefully consider the conflicts of interest herein as well as those outlined in HCP's Governing Fund Documents prior to investing in a Fund.

HCP principals and employees may serve on the boards of Fund portfolio companies. Serving in such capacity may give rise to conflicts to the extent that an employee's fiduciary duties to a portfolio company as a director may conflict with the interests of a Fund in general; however, as the Funds will generally be significant shareholders of such companies, it is expected that such interests will generally be aligned. While HCP employees do not receive fees for sitting on such portfolio company boards, they may receive reimbursement from such

portfolio company for expenses incurred in carrying out their responsibilities as a board member, such as travel, meals and entertainment, etc. HCP may also appoint non-HCP employees to portfolio company boards. Fees paid to such appointees are borne by the relevant portfolio company and not by HCP or its relevant Fund.

As described in the Governing Fund Documents, HCP establishes an advisory council (the “Advisory Council”) consisting solely of Limited Partner representatives invited by the General Partner. The Advisory Council will provide such advice and counsel as is requested by the General Partner in connection with Fund investments, potential conflicts of interest, and other Fund matters. The General Partner will retain ultimate responsibility for all decisions relating to the operation and management of the Funds, including, but not limited to, investment decisions, subject to the approval of the Advisory Council on investments involving a conflict of interest. A conflict of interest may exist in that not all Limited Partners are asked to join a Fund’s Advisory Council.

As noted above, employees of the Advisor may serve as directors and officers of certain portfolio companies and, in that capacity, will be required to make decisions that consider the best interests of such portfolio companies and their respective shareholders. In certain circumstances, for example in situations involving bankruptcy or near-insolvency of a portfolio company, actions that may be in the best interests of the portfolio company may not be in the best interests of the Fund, and vice versa. Accordingly, in these situations, there may be conflicts of interest between such individual’s duties as an employee of the Advisor and such individual’s duties as a director or officer of such portfolio company. Generally, however, HCP believes its interests are aligned with those of its portfolio company investments.

To the extent a Fund elects to participate in an investment with a co-investor, such co-investment investors may include persons or entities resident in various jurisdictions, including the United States and other countries, who may have conflicting investment, tax and other interests with respect to their investments. The conflicting interests of individual investors may relate to or arise from, among other things, the nature of investments made by each Fund and co-investment vehicle, the structuring of the acquisition of portfolio companies and the timing of the disposition of investments. Such structuring of portfolio companies may result in different after-tax returns being realized by different limited partners and other investors. As a consequence, conflicts of interest may arise in connection with decisions made by HCP that may be more beneficial for one investor than another investor, especially with respect to investors’ individual tax situations. HCP considers the investment and tax objectives of each Fund as a whole, and not the individual investment, tax or other objectives of any particular



investor.

From time to time, HCP may be presented with investment opportunities that would be suitable for more than one of the Funds operated by HCP or advisory affiliates of HCP. In determining which investment vehicles should participate in such investment opportunities, HCP and its affiliates are subject to conflicts of interest among the investors. HCP attempts to resolve these conflicts of interest in light of its obligations to investors and attempts to allocate investment opportunities among investors in a fair and equitable manner as described under Item 7. Where appropriate, HCP will consult with and/or receive consent to conflicts from the requisite percentage interest of investors in or the Advisory Council consisting of investors in the applicable Funds and/or co-investment vehicles.

#### **Item 12: Brokerage Practices**

HCP focuses on making investments in private securities, thus it does not engage in traditional brokerage transactions, utilize any soft dollar relationships with any broker, receive client referrals in connection with selecting or recommending broker-dealers for the Funds, nor permit investors to stipulate the direction of brokerage. Also, as a private equity fund manager, HCP does not aggregate the purchase or sale of securities across the Funds.

HCP focuses on making investments in private securities, thus it does not engage in traditional brokerage transactions, utilize any soft dollar relationships with any broker, receive client referrals in connection with selecting or recommending broker-dealers for the Funds, nor permit investors to stipulate the direction of brokerage. Also, as a private equity fund manager, HCP does not aggregate the purchase or sale of securities across the Funds. HCP focuses on securities transactions of private companies and generally purchases and sells such companies through privately negotiated transactions in which the services of a broker-dealer may be retained. HCP may also distribute securities to limited partners in the Funds or sell such securities, including through using a broker-dealer, if a public trading market exists. Although HCP does not intend to regularly engage in public securities transactions, to the extent it does so, it follows the brokerage practices described below.

#### **Item 13: Review of Accounts**

All investments are carefully reviewed and approved by HCP's Investment Committee as described in the applicable Governing Fund Documents. The portfolio companies are reviewed on a continuous basis and the investment personnel meet regularly to discuss investment ideas, economic developments, industry outlook and other issues related to current portfolio holdings

and potential investment opportunities.

HCP provides each Limited Partner with the following reports in accordance with the terms of the applicable Governing Fund Documents: (i) audited annual financial statements; (ii) unaudited quarterly financial statements together with investment information on investments by the Funds; and (iii) annual tax information necessary to complete any applicable tax returns. HCP also provides an annual report with investment information on investments by the Funds and holds annual meetings with the Limited Partners. These reports are prepared in writing delivered electronically, according to each Fund's Governing Fund Documents.

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

HCP does not receive any monetary compensation or any other economic benefit from a non-client for HCP's provision of investment advisory services to a client. HCP receives compensation in the form of fees paid by the limited partners, as disclosed in the Governing Fund Documents. HCP or certain of its affiliates may have the right to receive certain non-investment advisory fees in connection with the Funds' investments and portfolio companies, as described in the Funds' Governing Fund Documents. For example, HCP may be entitled to receive (i) certain professional services or related fees from a portfolio company in connection with certain transactions ("Professional Service Fees"), and (ii) certain monitoring or consulting fees from a portfolio company for services provided to the portfolio company. Generally, 50-80% of such Professional Service Fees and monitoring and consulting fees are offset against the Management Fee, depending on the Governing Fund Documents of the applicable Fund.

HCP has not to date retained a placement agent in the solicitation or engagement of limited partners.

#### **Item 15: Custody**

The Investment Advisers Act of 1940 Rule 206(4) (the "Custody Rule") requires that pooled investment vehicles advised by the adviser either undergo an annual generally accepted accounting principles ("GAAP") financial statement audit or be subject to a surprise custody examination by an SEC-registered auditing firm. HCP is deemed to have custody over client funds because of the ability of its General Partners to deduct fees. HCP has elected to undergo an annual GAAP financial statement audit for each of its Fund vehicles in order to meet the Custody Rule requirements. The HCP Funds are audited annually and HCP delivers to the Funds and their limited partner investors a copy of the annual audited financial statements within 120

days of the fiscal year end.

HCP does not, however, take physical possession of client funds or securities; securities are held by the Firm's qualified custodians and called capital is directly sent or wired into the respective Fund's bank account. HCP receives monthly statements regarding its custody and bank accounts.

#### **Item 16: Investment Discretion**

HCP is retained on a fully discretionary basis and is authorized to determine and direct execution of portfolio transactions pursuant to the terms of each Fund's Governing Fund Documents. The terms upon which HCP serves as an investment manager are established at the time each investor retains HCP as their investment manager. HCP is not required to contact an investor prior to transacting any business once such investor executes these documents. Investment advice is provided directly to the Funds and not to investors in the Fund individually. HCP has discretionary authority based on the Governing Fund Documents to buy and sell securities and other investments on behalf of the Funds.

To invest in the Fund, a limited partner must execute a subscription agreement with a Fund. A limited partner in the Fund may impose limitations on HCP's authority through a side letter agreement and the Firm may choose to accept reasonable limitations or restrictions at its discretion. All limitations and restrictions placed upon a limited partner's investment must be presented to HCP in writing and agreed to by all parties.

#### **Item 17: Voting Client Securities**

HCP's Funds are primarily invested in privately-held portfolio company investments which typically do not issue proxies; therefore, the traditional concept of voting of proxies and participation in class actions is not currently applicable to HCP. The investment opportunities that HCP seeks allows the Funds to have influence on the management, operations and strategic direction of the portfolio companies in which it invests; through its majority interest and/or through its employees who sit as officers and directors on portfolio company boards. The exercise of control and/or significant influence over a portfolio company imposes additional risks of liability for product defects, environmental damage, failure to supervise management and other types of liability in which the limited liability generally characteristic of business operations may be ignored. The exercise of control and/or significant influence over a portfolio company could also expose the assets of the Funds to claims by such portfolio company, its security

holders and its creditors. While HCP intends to manage the Funds in a way that will minimize exposure to these risks, the possibility of successful claims cannot be precluded.

HCP will seek to avoid material conflicts of interest between its own interests on the one hand, and the interests of its Funds on the other. However, as is typical with private equity investing, HCP seeks and accepts the election of one or more HCP representatives to serve on the board of directors on behalf of its Funds and will typically, but not always, vote in favor of board recommendations. In situations where HCP is required to vote the proxy for a company in which employees of HCP serve on the board of directors, HCP has determined that this does not inherently present a conflict of interest, as the sole purpose of this representation is to maximize the return on the Funds' investment in such portfolio company. Accordingly, while HCP is generally, but not automatically, fully supportive of recommendations made by a portfolio company's board of directors with respect to proxy votes related to that issuer, it will review all proxies in accordance with its proxy voting guidelines and may or may not vote in favor of the board's recommendation.

All conflicts of interest will be resolved in the interests of HCP's Funds. In situations where HCP perceives a material conflict of interest, HCP may defer to the voting recommendation of their Advisory Council or take such other action in good faith which HCP believes would protect the interests of HCP's Funds.

**Item 18: Financial Information**

A balance sheet is not required to be provided as HCP (i) does not solicit fees more than six months in advance, (ii) does not have a financial condition that is likely to impair its ability to meet contractual commitments to clients or (iii) has not been subject to any bankruptcy proceeding during the past 10 years.