

INVESTMENT ADVISER BROCHURE

CALTIVS CAPITAL MANAGEMENT, LP

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This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Caltius Capital Management, LP (“Adviser”). If you have any questions about the contents of this Brochure, please contact us at (310) 996-9585. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.

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

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

Material Changes

This Brochure contains material changes to the initial Form ADV Part 2 filed by Caltius Capital Management, LP on February 14, 2012 (the “**Prior Brochure**”). Immediately below is a discussion of such material changes. Such discussion sets forth only material changes to the Prior Brochure. Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in this Brochure.

This Brochure reflects the following material changes to the Prior Brochure: (1) conforming changes to the amounts of assets under management, (2) updates and clarifications of provisions relating to management fees for certain funds, (3) the insertion of language updating the “Methods of Analysis, Investment Strategies and Risk of Loss” section with respect to the Caltius Equity Funds, and (4) the insertion of language updating the “Risk of Investments” section for both the Caltius Equity Funds and the Caltius Mezz Funds.

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ADVISORY BUSINESS

Caltius is a private investment management firm, including a number of registered investment advisory entities and other organizations affiliated with Caltius Capital Management, LP (collectively, “**Caltius**”), that manages approximately \$875.7 million in private fund assets. Caltius commenced operations in June 1997.

Caltius Capital Management, LP, a Delaware limited partnership and a registered investment adviser (“**Adviser**” or “**Caltius Management**”), provides investment advisory services to Caltius’ private investment funds. Caltius Management commenced operations in November 2000.

The private investment funds for which Caltius Management provides investment advisory services are:

- Caltius Private Equity Partners I, LP (“**Caltius Equity I**”), formed in 1998 and no longer making new investments except for potential follow-on investments in portfolio companies.
- Caltius Equity Partners II, LP (“**Caltius Equity II Main Fund**”) and Caltius Equity Partners Executive II, LP (“**Caltius Equity II Executive Fund**”), and with the Caltius Equity II Main Fund, “**Caltius Equity II**”), each formed in 2006 and no longer making new investments except for potential follow-on investments in portfolio companies.
- Caltius Mezzanine Partners II, LP (“**Caltius Mezz II Main Fund**”) and Caltius Mezzanine Partners II-A LP (“**Caltius Mezz II Parallel Fund**”), and with Caltius Mezz II Main Fund, “**Caltius Mezz II**”), each formed in 2000 and no longer making new investments except for potential follow-on investments in portfolio companies.
- Caltius Partners III, LP (“**Caltius Mezz III Main Fund**”) and Caltius Partners Executive III, LP (“**Caltius Mezz III Executive Fund**”), and with Caltius Mezz III Main Fund, “**Caltius Mezz III**”), each formed in 2004 and no longer making new investments except for potential follow-on investments in portfolio companies.
- Caltius Partners IV, LP (“**Caltius Mezz IV Main Fund**”) and Caltius Partners Executive IV, LP (“**Caltius Mezz IV Executive Fund**”) and with Caltius Mezz IV Main Fund, “**Caltius Mezz IV**”), each formed in 2008 and currently making investments in new portfolio companies.

Caltius Equity I and Caltius Equity II (the “**Caltius Equity Funds**”) primarily make private equity investments, while Caltius Mezz II, Caltius Mezz III and Caltius Mezz IV (the “**Caltius Mezz Funds**”) primarily make mezzanine debt investments (see “Methods of Analysis, Investment Strategies and “Risk of Loss”). The Caltius Equity Funds and the Caltius Mezzanine Funds, together with any parallel and alternative investment vehicles, are referred to herein individually as a “**Fund**” and collectively as the “**Funds**”, and all Funds, together with any future private investment fund for which Caltius Management provides investment advisory services are referred to herein as the “**Private Investment Funds**.” The Funds and any other

Private Investment Fund are private investment funds and invest through negotiated transactions in operating entities. Investors in Private Investment Funds participate in the overall investment program for the applicable Fund, but may be excluded from a particular investment due to legal, regulatory or other applicable constraints. Each Fund or its General Partner may have entered into, and in the future may enter into, side letters or other similar arrangements with certain investors that have the effect of establishing rights under, or altering or supplementing, the Fund's limited partnership agreement.

Each Fund has a general partner that has the authority to manage the business and affairs of the Fund. The general partners of the Funds are as follows: LFE, L.L.C. ("**LFE**") is the general partner of Caltius Equity I; CEP II, LP ("**CEP II**") is the general partner of each of the Caltius Equity II partnerships; LUSB, LLC ("**LUSB**") is the general partner of Caltius Mezz II Main Fund; Libra Investors III-A, LLC ("**LI III-A**") is the general partner of Caltius Mezz II Parallel Fund; CP III, LP ("**CP III**") is the general partner of each of the Caltius Mezz III partnerships; and CP IV, LP ("**CP IV**") is the general partner of each of the Caltius Mezz IV partnerships (LFE, CEP II, LUSB, LI III-A, CP III and CP IV are referred to herein individually as a "**General Partner**", and collectively as the "**General Partners**").

Each General Partner's investment advisory services to its Fund consists of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for such investments. Investments are made predominantly in non-public companies, although investments in public companies are permitted. From time to time, where such investments consist of portfolio companies, the senior principals or other personnel of the applicable General Partner or its affiliates may serve on, or act as observer to, such portfolio companies' respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Fund.

The Adviser's advisory services for each Fund are detailed in the applicable private placement memoranda and limited partnership agreements for such Fund and are further described below under "Methods of Analysis, Investment Strategies and Risk of Loss." Each General Partner is registered under the Investment Advisers Act pursuant to the Adviser's registration in accordance with SEC guidance. This Brochure also describes the business practices of each General Partner, which operate as a single advisory business together with the Adviser.

As of December 31, 2012, Caltius Management managed an aggregate of \$875,702,702 (unaudited) in client assets on a discretionary basis. Caltius Capital Management, LLC, a Delaware limited liability company ("**CCM**"), acts as the general partner of Caltius Management. Through CCM, Caltius Management is controlled by James B. Upchurch.

FEES AND COMPENSATION

In general, each General Partner receives a management fee and a carried interest in connection with advisory services, with each General Partner paying over the management fee to Caltius Management in consideration for the services it provides while retaining its carried interest. General Partners or other Caltius entities or affiliates also may receive additional compensation in connection with management and other services performed for portfolio

companies of Private Investment Funds and such additional compensation may offset in whole or in part the management fees otherwise payable to the General Partner. Investors in the Funds also bear certain fund expenses.

Management Fees

The following describes generally the management fees payable by each Fund to its General Partner (see also the partnership agreement for each Fund). Such management fees, as and when received by each General Partner, generally are then paid over to Caltius Management in consideration for the services it provides to the General Partner.

Caltius Equity I and LFE

Caltius Equity I will pay LFE, quarterly in advance, a management fee equal to 1.25% on an annual basis of the difference between (a) aggregate Fund investor capital commitments, and (b) the portion of fund commitments not drawn or drawn but returned to the partners of the Fund as a non-utilized portion of fund commitments or drawn and utilized but return to the partners of the Fund as a return of capital. The management fee will be payable until the Fund is dissolved or terminated (as described in the limited partnership agreement of the Fund). Installments of the management fee payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

The management fee will be reduced by an amount equal to 50% of all of the Fund's share of directors' fees, break-up fees (net of broken deal expenses), transaction fees, amendment fees or other fees paid to LFE, its affiliates or partners or employees of LFE or its affiliates, all can more particularly described in the partnership agreement for Caltius Equity I.

Caltius Equity II and CEP II

The Caltius Equity II Main Fund and the Caltius Equity II Executive Fund each will pay CEP II, quarterly in advance, a management fee equal to 2.0% on an annual basis of (x) the aggregate amount of capital contributions for investments that have not been disposed of, less (y) the aggregate amount of investment contributions used to fund investments which have been written down (net of subsequent write-ups) at least 80% from the original cost thereof to the extent distributions have not been made with respect thereto, in each case as determined on the first day of the period with respect to which a determination is being made (with such determination being made on January 1 of each year with respect to payments for the first two quarters of the year and on July 1 of each year with respect to payments for the last two quarters of the year). The management fees for each Fund will be payable until all portfolio investments are distributed or until CEP II's relationship with the applicable Fund is terminated for other reasons (as described in the applicable limited partnership agreements of the Funds). Installments of the management fees payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

The management fee for the Caltius Equity II Main Fund will be reduced by 50% of such Fund's share of closing fees, commitment fees, funding fees, break-up fees, litigation proceeds, investment banking fees, placement fees, monitory fees, consulting fees, directors' fees and other

similar fees paid by portfolio companies to partners or employees of Adviser or its affiliates, all as more particularly described in the partnership agreement for the Fund.

As permitted under the partnership agreements, CEP II may waive or agree to reduce the management fee. Any such waived or reduced portion of the management fee reduces the amount of capital CEP II would otherwise be required to contribute to the Fund. The limited partners of the Fund may be required to make a *pro rata* contribution according to their respective commitments to fund any contribution that would otherwise be required of CEP II in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration of investor capital contributions. Waived or reduced management fees are not subject to the management fee offsets described above. Due to waived or reduced management fees by CEP II and/or timing of receipt of compensation subject to offsets (as described above), it is possible that management fee offsets will not be fully realized by investors in the Fund, resulting in a net additional benefit to CEP II.

Caltius Mezz II Main Fund and LUSB

The Caltius Mezz II Main Fund will pay LUSB, quarterly in advance, a management fee equal to 1.25% of aggregate capital contributions to the Fund less the aggregate amount of any permanent write-downs on Fund investments to the extent distributions have not been made with respect thereto, as determined on the first day of the period with respect to which a determination is being made. The management fees will be payable until all portfolio investments are distributed or until LUSB relationship with the Fund is terminated for other reasons (as described in the limited partnership agreement of the Fund). Installments of the management fee payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

The management fee will be reduced by an amount equal to 80% of the Fund's share of break-up fees, transaction fees, directors' fees and other similar fees paid by portfolio companies to partners or employees of LUSB and its affiliates, all as more particularly described in the partnership agreement for the Fund.

Caltius Mezz II Parallel Fund and LI III-A

For periods commencing on or after January 14, 2013, the Caltius Mezz II Parallel Fund will not be charged a management fee by the General Partner.

Caltius Mezz III and CP III

The Caltius Mezz III Main Fund and the Caltius Mezz II Executive Fund each will pay CP III, quarterly in advance, a management fee equal to 2.0% on an annual basis of (x) the aggregate amount of capital contributions for investments, less (y) the aggregate amount of distributions to partners representing a return of investment contributions made for disposed investments and (with respect to the Main Fund only) the aggregate amount of investment contributions used to fund investments which have been written down (net of subsequent write-ups) at least 80% from the original cost thereof to the extent distributions have not been made with respect thereto, in each case as determined on the first day of the period with respect to

which a determination is being made (with such determination being made on January 1 of each year with respect to payments for the first two quarters of the year and on July 1 of each year with respect to payments for the last two quarters of the year). The management fees for each Fund will be payable until all portfolio investments are distributed or until CP III's relationship with the applicable Fund is terminated for other reasons (as described in the applicable limited partnership agreements of the Funds). Installments of the management fees payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

The Caltius Mezz III Main Fund's management fee will be reduced by all of the Main Fund's share of break-up fees, transaction fees, directors' fees and other similar fees paid by portfolio companies to partners or employees of CP III or its affiliates, all as more particularly described in the partnership agreement for the Main Fund.

Caltius Mezz IV and CP IV

The Caltius Mezz IV Main Fund will pay CP IV, quarterly in advance, a management fee equal to 2.0% on an annual basis of aggregate Main Fund investor capital commitments. The Caltius Mezz IV Executive Fund will pay CP IV, quarterly in advance, a management fee equal to 1.0% on an annual basis of aggregate Executive Fund investor capital commitments. Investors participating in a closing of the Main Fund after August 1, 2008 bear the Main Fund management fee from August 1, 2008, and investors participating in a closing of the Executive Fund after August 1, 2008 bear the Executive Fund management fee from August 1, 2008. Upon the first day of the first calendar quarter after the earlier to occur of (i) the date when all Fund commitments have been invested or otherwise used to pay expenses of the Fund or (ii) August 1, 2013, (x) the Main Fund management fee will be reduced and will equal 2.0% of (a) the aggregate funded Main Fund Commitments plus the aggregate amount of unapplied waived management fee, if any, as reduced by (b) permanent write downs and distributions constituting returns of capital and (y) the Executive Fund management fee will be reduced and will equal 1.0% of (a) the aggregate funded Executive Fund Commitments plus the aggregated amount of unapplied waived management fee, if any, as reduced by (b) permanent write downs and distributions constituting returns of capital. Management Fees are determined on the first day of the period with respect to which a determination is being made (with such determination being made on January 1 of each year with respect to payments for the first two quarters of the year and on July 1 of each year with respect to payments for the last two quarters of the year). The management fees will be payable until all portfolio investments are distributed or until CP IV's relationship with the Fund is terminated for other reasons (as described in the applicable limited partnership agreements of the Funds). Installments of the management fees payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

The Caltius Mezz IV Main Fund management fee will be reduced by all of the Main Fund's share of break-up fees, transaction fees, directors' fees and other similar fees paid by portfolio companies to partners or employees of CP IV or its affiliates, all as more particularly described in the partnership agreement for the Main Fund.

As permitted under the partnership agreements, CP IV may waive or agree to reduce the management fee. Any such waived or reduced portion of the management fee reduces the amount of capital Adviser would otherwise be required to contribute to the Fund. The limited partners of the Fund may be required to make a *pro rata* contribution according to their respective Commitments to fund any contribution that would otherwise be required of CP IV in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration of investor capital contributions. Waived or reduced management fees are not subject to the management fee offsets described above. Due to waived or reduced management fees by CP IV and/or timing of receipt of compensation subject to offsets (as described above), it is possible that management fee offsets will not be fully realized by investors in the Fund, resulting in a net additional benefit to CP IV.

Carried Interest

Each General Partner receives a carried interest from the Fund or Funds for which it acts as general partner. The following generally describes the carried interest payable to each General Partner.

Caltius Equity I and LFE

LFE will receive a carried interest with respect to Caltius Equity I equal to 20% of all realized profits (subject to an 8% compound preferred return), as more fully described in the partnership agreement for the Fund. The carried interest distributed to LFE is subject to a potential giveback at the end of life of the Fund if LFE has received excess cumulative distributions.

Caltius Equity II and CEP II

CEP II will receive a carried interest with respect to the Caltius Equity II Main Fund equal to 20% of all realized profits (subject to an 8% compound preferred return), as more fully described in the Main Fund partnership agreement. The carried interest distributed to CEP II is subject to a potential giveback at the end of life of the Fund if CEP II has received excess cumulative distributions.

No carried interest is payable with respect to the Caltius Equity II Executive Fund. It is expected that any future Private Investment Funds formed with respect to Caltius Equity II will have a similar fee structure as the Caltius Equity II Main Fund.

Caltius Mezz II Main Fund and LUSB

LUSB will receive a carried interest with respect to the Caltius Mezz II Main Fund equal to 20% of all realized profits (subject to an 8% compound preferred return), as more fully described in the partnership agreement for the Fund. The carried interest distributed to LUSB is subject to a potential giveback at the end of life of the Fund if LUSB has received excess cumulative distributions.

Caltius Mezz II Parallel Fund and LI III-A

LI III-A will receive a carried interest with respect to the Caltius Mezz II Parallel Fund equal to 20% of all realized profits (subject to an 8% compound preferred return), as more fully described in the partnership agreement for the Fund. The carried interest distributed to LI III-A is subject to a potential giveback at the end of life of the Fund if it has received excess cumulative distributions.

Caltius Mezz III and CP III

CP III will receive a carried interest with respect to the Caltius Mezz III Main Fund equal to 20% of all realized profits (subject to an 8% compound preferred return) determined with respect to each investment, as more fully described in the partnership agreement for the Main Fund. The carried interest distributed to CP III is subject to a potential giveback at the end of life of the Fund if CP III has received excess cumulative distributions determined across all Fund investments.

No carried interest is payable with respect to the Caltius Mezz III Executive Fund. It is expected that any future Private Investment Funds formed with respect to Caltius Mezz III will have a similar fee structure as the Caltius Mezz III Main Fund.

Caltius Mezz IV and CP IV

CP IV will receive a carried interest with respect to the Caltius Mezz IV Main Fund equal to 20% of all realized profits (subject to an 8% compound preferred return) determined with respect to each investment, as more fully described in the applicable partnership agreement. The carried interest distributed to CP IV is subject to a potential giveback at the end of life of Caltius Mezz IV Main Fund if CP IV has received excess cumulative distributions determined across all Fund investments.

No carried interest is payable with respect to the Caltius Mezz IV Executive Fund. It is expected that any future Private Investment Funds formed with respect to Caltius Mezz IV will have a similar fee structure as the Caltius Mezz IV Main Fund.

Expenses

Caltius Equity I and LFE

In addition to the management fees and carried interest payable to LFE, Caltius Equity I bears certain expenses. As more fully set forth in the partnership agreement for the Fund, the Fund bears all expenses incurred in connection with the business and activities of the Fund to the extent not paid by portfolio companies, including without limitation legal, investment consulting, auditors' and tax accountants' fees, insurance costs, transactional costs, broken deal expenses, and other expenses incurred associated with the acquisition, holding and dispositions of investments such as travel costs and extraordinary fees and expenses, but not LFE's ordinary administrative and overhead expenses related to managing the Fund and monitoring investments (including salaries, rent and equipment and administrative expenses (except that the partnership

agreement for the Fund permits the Fund to reimburse LFE and its affiliates for the cost of providing tax and accounting services to the Fund)). Brokerage fees may be incurred in accordance with the practices set forth in “Brokerage Practices.”

Caltius Equity II and CEP II

In addition to the management fees and carried interest payable to CEP II, Caltius Equity II bears certain expenses. As more fully set forth in the partnership agreements for the Caltius Equity II Main Fund and the Caltius Equity II Executive Fund, each Fund bears all expenses relating to the Fund’s activities, investments and business to the extent not paid by portfolio companies, including without limitation all expenses attributable to acquiring, holding and disposing of investments (including interest on money borrowed, and brokerage, finders’, custodial and other fees); legal, accounting, auditing, insurance, travel, litigation and indemnification, judgments and settlements, consulting, financing, appraisal, filing and tax preparation expenses; expenses of the Caltius Equity II Main Fund advisory board; broken deal expenses; expenses of partner meetings; and any taxes or other governmental charges levied against the Fund, but not ordinary overhead and administrative expenses of the Fund incurred by CEP II or its affiliates in connection with maintaining and operating their offices (including salaries, rent and equipment expenses). Brokerage fees may be incurred in accordance with the practices set forth in “Brokerage Practices.”

Caltius Mezz II Main Fund and LUSB

In addition to the management fees and carried interest payable to LUSB, Caltius Mezz II Main Fund bears certain expenses. As more fully set forth in the partnership agreement for the Fund, the Fund bears all expenses relating to the Fund’s activities, investments and business to the extent not paid by portfolio companies, including without limitation all expenses attributable to acquiring, holding and disposing of investments (including interest on money borrowed; brokerage, finders’, custodial and other fees; and costs and expenses for insurance, litigation and indemnification, and judgments and settlements); legal, accounting, auditing, consulting, financing, and tax preparation expenses; broken deal expenses; expenses of partner meetings; and any taxes or other governmental charges levied against the Fund, but not ordinary overhead and administrative expenses of the Fund incurred by LUSB or its affiliates in connection with maintaining and operating their offices (including salaries, rent and equipment expenses). Brokerage fees may be incurred in accordance with the practices set forth in “Brokerage Practices.”

Caltius Mezz II Parallel Fund and LI III-A

In addition to the management fees and carried interest payable to LI III-A, Caltius Mezz II Parallel Fund bears certain expenses. As more fully set forth in the partnership agreement for the Fund, the Fund bears all expenses relating to the Fund’s activities, investments and business to the extent not paid by portfolio companies, including without limitation all expenses attributable to acquiring, holding and disposing of investments (including interest on money borrowed; brokerage, finders’, custodial and other fees; and costs and expenses for insurance, litigation and indemnification, and judgments and settlements); legal, accounting, auditing, consulting, financing, and tax preparation expenses; broken deal expenses; expenses of partner

meetings; and any taxes or other governmental charges levied against the Fund, but not ordinary overhead and administrative expenses of the Fund incurred by LI III-A or its affiliates in connection with maintaining and operating their offices (including salaries, rent and equipment expenses). Brokerage fees may be incurred in accordance with the practices set forth in “Brokerage Practices.”

Caltius Mezz III and CP III

In addition to the management fees and carried interest payable to CP III, Caltius Mezz III bears certain expenses. As more fully set forth in the partnership agreements for Caltius Mezz III Main Fund and Caltius Mezz III Executive Fund, each Funds bears all expenses relating to the Fund’s activities, investments and business to the extent not paid by portfolio companies, including without limitation all expenses attributable to acquiring, holding and disposing of investments (including interest on money borrowed; brokerage, finders’, custodial and other fees; and costs and expenses for litigation and indemnification, and judgments and settlements); insurance; legal, accounting, auditing, consulting, financing, filing and tax preparation expenses; expenses of the Caltius Mezz III Main Fund advisory board; broken deal expenses; expenses of partner meetings; and any taxes or other governmental charges levied against the Fund, but not ordinary overhead and administrative expenses of the Fund incurred by CP III or its affiliates in connection with maintaining and operating their offices (including salaries, rent and equipment expenses, external technical and marketing consulting services unrelated to a specific proposed or existing investment and travel expenses) to the extent not borne or reimbursed by a portfolio company. Brokerage fees may be incurred in accordance with the practices set forth in “Brokerage Practices.”

Caltius Mezz IV and CP IV

In addition to the management fees and carried interest payable to CP IV, Caltius Mezz IV bears certain expenses. As more fully set forth in the partnership agreements for Caltius Mezz IV Main Fund and Caltius Mezz IV Executive Fund, each Fund bears all expenses relating to the Fund’s activities, investments and business to the extent not paid by portfolio companies, including without limitation all expenses attributable to acquiring, holding and disposing of investments (including interest on money borrowed; brokerage, finders’, custodial and other fees; and costs and expenses for litigation and indemnification, and judgments and settlements); insurance; legal, accounting, auditing, consulting, financing, finders’, appraisal, filing and tax preparation expenses; expenses of the Caltius Mezz IV Main Fund advisory board; broken deal expenses; expenses of partner meetings; and any taxes or other governmental charges levied against the Fund, but not ordinary overhead and administrative expenses of the Fund incurred by CP IV or its affiliates in connection with maintaining and operating their offices (including salaries, rent, equipment expenses, external technical and marketing consulting services unrelated to a specific proposed or existing investment and travel expenses to the extent not borne or reimbursed by a portfolio company). Brokerage fees may be incurred in accordance with the practices set forth in “Brokerage Practices.”

Other Information

Generally, each General Partner may exempt certain investors in Private Investment Funds from payment of all or a portion of Management Fees and/or carried interest, including the General Partner itself and any other person designated by the General Partner. Any such exemption from fees and/or carried interest may be made by a direct exemption, a rebate by the General Partner and/or its affiliates, or through other Private Investment Funds which co-invest with the Fund.

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

Principals or other employees of Caltius may receive a portion of the management fees, carried interest or other compensation received by a General Partner or its affiliates.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As described under “Fees and Compensation,” CEP II, CP III and CP IV each receives a carried interest allocation on certain realized profits in the related main Fund for which it serves as general partner but not with respect to the related executive Fund. This practice could present a conflict of interest because the General Partner has an incentive to favor accounts for which the General Partner receives a performance-based fee. The Adviser seeks to address this potential conflict of interest by causing the main Fund and the executive Fund to invest, to the extent practicable, in the same portfolio companies at the same time and on the same terms on a pro rata basis based on relative commitment sizes of the Funds.

TYPES OF CLIENTS

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

The Caltius Funds generally have minimum investment amounts ranging from \$100,000 to \$5,000,000 for third party investors (which minimum investment amounts may be waived by the General Partners of such Funds). Fund interests are generally offered and sold either solely to qualified purchasers (or qualified knowledgeable Caltius personnel) or solely to accredited investors who are also qualified clients (or qualified knowledgeable Caltius personnel).

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Caltius Equity Funds

General

The Caltius Equity Funds seek to invest primarily in control transactions, growth financings and recapitalizations of Micro Market¹ companies. The Caltius Equity Funds intend to make primarily equity and equity-related investments within a targeted range of \$10 million to \$30 million principally based in the United States and Canada, with a regional emphasis on companies in California and the Western United States. The members of the investment committees for the Caltius Equity Funds are James Upchurch, President and Chief Executive Officer of Caltius; Garrick Ahn, Managing Director; and Michael Morgan, Managing Director (collectively, the “**Equity Principals**”).

The Caltius Equity Funds have been providing equity capital and operational guidance to Micro Market companies since 1999. The Caltius Equity Funds seek to apply the operational knowledge of the Equity Principals and, where applicable, rely on the broad skill sets of the members of their executive network (the “**Executive Network**”) with relevant experience to build company infrastructure in preparation for future growth. As a portfolio company begins to leverage newly established systems, protocols and personnel investments to demonstrate the potential for growth, Caltius monitors industry and market conditions in an effort to optimize exit timing and valuation.

The key elements of the investment process for the Caltius Equity Funds are:

- (i) **Target Selection** – seek to make discerning target company and industry selections;
- (ii) **Platform Development** – seek to develop portfolio company infrastructure and strategy;
and
- (iii) **Strategic Exit Timeline and Process** – seek to execute a well-managed and timely exit process.

Target Selection

Sourcing

Among their transaction sources, the Caltius Equity Funds maintains two distinctive sourcing relationships:

Executive Network. The Executive Network historically has been a significant source of transaction flow. The Executive Network includes current and former senior level operating executives, many of whom are current or past executives of Caltius Equity Fund or Caltius Mezz Fund portfolio companies.

¹ As used herein, the term “**Micro Market**” is defined as companies with revenues between \$10M and \$50M. While the focus of the Caltius Equity Funds is on investments in companies in the Micro Market, the Caltius Equity Funds also may make investments in companies that are larger or smaller than Micro Market companies.

Caltius Mezz Funds. The Caltius Mezz Funds employs their own investment professionals and augment transaction flow for the Caltius Equity Funds directly through referrals of opportunities generally not appropriate for its investment focus or indirectly through co-marketing with the Caltius Equity Funds to companies and intermediaries throughout the United States.²

Micro Market Company Characteristics

In the experience of the Caltius Equity Funds, Micro Market companies often possess addressable weaknesses that limit their ability to independently maximize operating potential and to develop and exploit growth opportunities. These characteristic may include:

- Limited depth, skills sets and breadth of management
- Unsophisticated financial and management reporting infrastructure, protocols and systems
- Lack of operational strategy design
- Lack of access to capital to fund capital equipment or to fund organic and acquisition-driven growth initiatives

The Caltius Equity Funds seek to leverage the Equity Principals' experience to identify targets that have addressable weaknesses and/or growth opportunities. Compelling target companies generally also possess:

- Strong but under-developed growth potential that can be unlocked with the proper human resources and/or capital investment
- Defensible niche market positions
- Cost and balance sheet improvement opportunities
- Ability to leverage Executive Network resources to provide strategic or operational support

Industry Characteristics

The Caltius Equity Funds typically target industries that have:

- *Organic demand* growth driven by a macro catalyst including demographic, regulatory or structural trends
- *High levels of fragmentation*, which can allow for add-on acquisition candidates, opportunities for niche leadership through product or service differentiation, and diverse potential strategic exit options
- *Recurring revenue streams* generated by high re-use of services or consumable products that can result in more stable and less cyclical cash flows

² From time to time investment opportunities may be presented where both a Caltius Equity Fund and a Caltius Mezz Fund will pursue an investment in the same company, typically with the Caltius Equity Fund seeking to provide equity capital and the Caltius Mezz fund seeking to provide debt financing (which may include an equity participation). In any such case, before consummating the investment, the Caltius Equity Fund and the Caltius Mezz Fund will obtain the approval of their respective advisory boards.

While the Caltius Equity Funds are not focused on any particular industry, they have developed a specific expertise in and have historically had a particular emphasis on the following industries: Business Services, Consumer Services, Health Care Services, Branded Consumer Products and Specialty Chemical Formulation and Productions.

Geographic Characteristics

Although the Caltius Equity Funds have in the past and will continue to seek investments primarily throughout the United States and Canada, the Caltius Equity Funds believe that the Micro Market opportunity is particularly attractive in California and the Western United States. A significant number of the Caltius Equity Funds' platform investments have been headquartered in the Western United States, including California.

Platform Development

The Caltius Equity Funds believe that significant value is created by building, within each portfolio company, the infrastructure required to exploit opportunities and deliver strong growth through identified strategies. The Caltius Equity Funds seek to work with portfolio companies to build this infrastructure as the foundation for future growth, often with assistance from the Executive Network.

Executive Network Role

The Equity Principals have developed a broad network of operating executives. The Executive Network includes current and former senior level operating executives, many who are current or past executives of Caltius equity Fund or Caltius Mezz Fund portfolio companies.

One (or more) Executive Network members typically have been involved in various stages of a Caltius Equity Fund transaction, including as the transaction source, as an advisor regarding operational and industry aspects of due diligence, and/or in the post-investment platform development activities. Executive Network members may also participate in portfolio companies through board positions, coaching/consulting of company executives, personal co-investments and options, and through permanent or interim operating roles.

Infrastructure Enhancement and Preparation for Growth

Upon closing an investment, the Caltius Equity Fund seeks to focus on addressing weakness that it typically finds common to Micro Market companies, especially in the areas of operations, personnel capabilities and systems/physical infrastructure. Areas of focus may include:

Operational Process Improvements

- Establish operational reporting protocols; develop and monitor operational KPIs
- Refine process flow in key functional areas, especially in R&D, sales management, and service/manufacturing operations

- Align compensation to reward achievement of KPIs or motivate behavior to comply with new process design
- Create and require delivery of key financial tracking metrics often on a daily or weekly basis

Personnel Capabilities Upgrades

- Use of Organizational Development consultant to solicit blinded/candid 360° feedback on all levels of employees
- Evaluation of management depth and employee capabilities, followed by training, replacements and/or additions to team

Capital Investment

- Implement new or upgraded IT and ERP systems
- Invest in physical infrastructure such as new branch locations or additional service/production capacity

Growth Strategy Construction

In parallel with infrastructure enhancement initiatives, the Caltius Equity Fund may work with portfolio companies to evaluate and ultimately design executable growth strategies tailored to leverage the infrastructure being developed. Key elements may include efforts to:

Market Penetration

- Improve management of processes and execution and add sales/marketing resources to gain market share
- Increase focus on customer retention activities and upsell opportunities to drive sales to current customers
- Design and execute sales and marketing initiatives to expand base of customers by converting non-users to users

New Market Development

- Assess, design, and execute on plans to expand sales of existing services/products in:
 - New market segments
 - New distribution channels
 - New geographic territories

New Service / Product Development

- Invest in development of new services/products for existing and/or new markets
- Create service and/or product line extensions: higher-lower price and/or quality offerings, integration of upstream or downstream offerings
- Acquire new service/product capability through mergers and acquisitions

Strategic Exit Timeline and Process

As platform development activities progress, the Caltius Equity Fund seeks to monitor its portfolio companies' industry and competitor dynamics to determine whether or not to implement an accelerated exit process (an “**Accelerated Exit**”) or to continue to progress toward a traditional exit timeline (a “**Traditional Exit**”).

In general, the Caltius Equity Funds target holding a given investment for a three- to seven-year period. The exact timing of an exit is evaluated in an effort to maximize returns, while balancing potential risks. In addition, the Caltius Equity Fund typically conducts a quarterly review of each portfolio company and considers a variety of factors including, but not limited to, each portfolio company's: (i) historical and budgeted operating results, (ii) progress in completing platform development and growth strategy design/execution and other strategic initiatives, such as cost cutting actions, (iii) current capital structure, and (iv) industry environment, including changes to competitive dynamics, merger & acquisition activity, and valuations.

Accelerated Exit

If strategic buyers in an industry are aggressively active and one or more of the following (or other select criteria) applies, the Caltius Equity Fund may seek to execute an Accelerated Exit, even if the portfolio company has not yet fully realized on its growth potential: (i) Can an acquisition of the portfolio company address a product, service or geographic deficiency for potential buyers?, (ii) Is the portfolio company perceived as a current, threat either on a standalone-basis or as a subsidiary of a competitor? and (iii) Have or will buyers recognize the improved quality and growth potential of the business and be willing to reflect this future value in a premium purchase price?

In an Accelerated Exit, the Caltius Equity Fund generally engages an investment bank to create the threat of a broad auction and maintain process tension. A limited number of prospective buyers, frequently strategic in nature, may be contacted with pricing discussions providing guidance toward higher-than-market comparable multiples to reflect the unrealized growth potential and quality of the business or other unique company characteristics. Upon a successful sale pursuant to an Accelerated Exit, the Caltius Equity Funds's investment goals could be achieved with the benefit of an exit accelerated by 1-3 years and the elimination of longer term execution risk.

Traditional Exit

In a Traditional Exit, the Caltius Equity Fund would continue to work with management to execute the strategic growth plan of the business after the platform has been developed (typically another 1-3 years). At the appropriate time, the Caltius Equity Fund generally engages an investment bank to run a broad auction, including both financial and strategic buyers. If such a sale is successful, the Caltius Equity Fund would realize competitive market multiples on a more developed company that could enable it to achieve its investment goals.

Caltius Mezz Funds

General

The Caltius Mezz Funds intend to make mezzanine investments of up to \$75 million in lower middle market companies located in the United States (although the Funds also may make senior debt and/or equity investments and may invest in companies located outside the United States). These investments are expected to be in a broad range of industries with non-capital

intensive businesses, such as consumer services/products, business services and light manufacturing. Caltius focuses on the underserved “non-sponsored” market, which Caltius believes has less competition than the “sponsored” market, allowing for more attractive pricing characteristics and enhanced equity upside. In addition, Caltius believes it has significant experience investing with private equity sponsors and will selectively invest in sponsored transactions. Caltius generally expects to be the lead mezzanine investor in its investments.

The Caltius Mezz Funds will seek to build a portfolio that will generate high current returns and provide meaningful upside through equity participation. The Funds will continue to focus on capital preservation through rigorous credit analysis and due diligence, transaction structuring and active ongoing involvement with portfolio companies.

Investment and Operating Strategy

Investment Strategy

Focus on the lower middle market. The Caltius Mezz Funds expect to continue the strategy utilized by prior Caltius funds of investing in the lower middle market, defined as small to medium sized companies with enterprise values of \$25 million to \$250 million. Caltius believes that the capital markets historically have not focused on this segment of the market, leading to what Caltius views as a shortage of capital for smaller companies. Caltius believes the inefficiency or absence of capital within the target market is due, in large part, to most capital providers being too large to focus on small transactions. Caltius believes it benefits from this reduced competition in the lower middle market by completing transactions at lower leverage multiples than in markets where there is an abundance of capital.

Provide customized and flexible financing solutions. The Caltius Mezz Funds will seek to structure customized financing solutions to support a diverse range of transaction types, including: acquisition financing, growth capital, dividend recapitalizations, management buyouts and sponsored buyouts.

Investments in both non-sponsored and sponsored transactions. The Caltius Mezz Funds will seek to make some of its investments in non-sponsored companies (i.e., companies that do not have a private equity fund as a significant investor). In these non-sponsored transactions, Caltius believes it has benefited from less competition and structuring and pricing advantages because many senior lenders and mezzanine lenders have a preference towards backing equity sponsored transactions and avoiding non-sponsored transactions. In addition to investments in non-sponsored transactions, the Fund expects to invest in companies with equity sponsors. In an effort to reduce the risks associated with change-of-control situations, the Fund’s preference to provide acquisition and growth capital to existing portfolio companies of equity sponsors, but the Fund may also invest in change-of-control situations. The sponsored transactions in which the Fund invests may involve more complex situations where Caltius’ skills and experience may add value.

Focus on service oriented, non-capital intensive businesses. The Caltius Mezz Funds typically utilize a cash flow oriented investment approach that is expected to result in a portfolio of predominantly non-capital intensive businesses. When reviewing transactions, the Funds seeks to differentiate between capital intensive and non-capital intensive businesses by defining financial risk based on cash flow as opposed to

EBITDA. Caltius believes that companies with lower capital expenditure requirements often can better withstand adverse economic environments than businesses with larger capital expenditure requirements. Consequently, by investing in a diversified portfolio of service oriented, non-capital intensive businesses, Caltius believes its portfolio may enjoy greater financial flexibility with less portfolio volatility. Furthermore, because senior lenders may prefer to finance asset heavy companies instead of service oriented businesses, there may be a lack of attractive capital available for service oriented, non-capital intensive businesses. Caltius believes that this absence of capital and financing alternatives could increase the number of investment opportunities and allow the Fund to achieve better pricing and lower levels of risk.

Pursue companies with superior exit options. The Caltius Mezz Funds expect to favor investments that allow for multiple exit opportunities, giving each Fund flexibility in its exit strategy depending upon the portfolio company's performance. These exit opportunities may include a sale of the company in its entirety, a partial sale of a division or other assets (thereby allowing for a debt pay down while retaining the potential for equity upside), a recapitalization, or a refinancing. By focusing on companies with superior exit options, Caltius believes it may experience (i) enhanced downside protection; (ii) more frequent liquidity events; and (iii) superior equity upside with higher overall returns.

Credit-oriented approach. Caltius seeks to maintain rigorous underwriting standards with a focus on capital preservation. Caltius seeks to invest in companies with many of the following characteristics:

- Favorable industry dynamics and stable competitive environment
- Consistent historical operating performance
- Customer and end-market diversity
- Moderate capital expenditure and working capital requirements
- Low leverage measured by debt to cash flow ratios
- Meaningful market share and distinct competitive advantages
- Proven and properly incentivized management

Investment Process

The Caltius Mezz Funds will seek to utilize a systematic investment process that capitalizes on a combination of deal flow from an established and diverse referral network, investment structuring, due diligence and credit analysis, and portfolio company involvement.

Investment Origination. By virtue of Caltius being an active participant in the same market since 1997 and the investing experience of Caltius' professionals, Caltius believes it enjoys, and will continue to utilize, a large network of relationships with deal sources (intermediaries, investment banks, senior lenders, equity sponsors, attorneys, accountants, industry executives and other deal sources). The key elements of Caltius' current deal sourcing strategy include:

1) Geographic coverage: In addition to maintaining its strong referral network in California, Caltius professionals visit major U.S. cities throughout the year, leveraging conferences, trade shows, and company visits in these major cities.

2) Finding or creating non-sponsored/non change-of-control transactions: These types of transactions have included shareholder dividends, equity cash-out transactions, refinancings, management buyouts, acquisition financings and internal growth/working capital financings.

3) Utilizing tracking and data mining capabilities: Caltius seeks to utilize its contact management and deal-flow databases to identify key referral sources and develop focused efforts to deepen relationships with these key deal sources. Caltius also has been able to identify target transaction types, industries and geographies.

4) Developing referral programs: Caltius seeks to develop programs with financial institutions and intermediaries for referring investment opportunities.

5) Utilizing online marketing: Caltius utilizes the internet through website updates and blast emails describing noteworthy events such as new investments and deal realizations.

6) Leveraging executive partners: Executives of current and past portfolio companies are investors in the Caltius' executive Funds. Caltius seeks to leverage these relationships to create deal flow, assist in evaluating potential investment opportunities and serve as references to prospective portfolio company management teams.

Investment Selection and Approval Process. The Caltius Mezz Funds seek to utilize a methodical approach to their investment selection and approval process, which is focused on assuring the preservation of the Fund's capital. The most common reasons for rejecting investment opportunities are: insufficient or volatile historical cash flow generation, an absence of a sustainable competitive advantage, an inappropriate capital structure, cyclical end-market demand and poor exit prospects. The general steps involved include:

Investment Analysis: After completing an initial review of an investment opportunity, fund personnel internally distribute information outlining the transaction. The information summarizes the business, industry, competitive dynamics, financial performance, transaction structure and strengths/weaknesses gathered from the initial review of the materials received. The information is then reviewed at a deal meeting in which members of the Fund team contributes his or her relevant market knowledge and experience, at which point the group concludes whether or not to pursue the transaction further.

The Fund then performs research and analysis on each potentially attractive transaction.

Due Diligence: Typically upon executing an exclusive letter of intent, the Fund begins a due diligence process that is customized to each transaction. Key due diligence findings are discussed on a real-time basis with members of the Fund's investment committee.

Investment Approval: The principal results of due diligence efforts are compiled in an investment memorandum that is used as the basis for investment review and approval. Each investment in the Fund will require unanimous approval of the Fund's investment committee.

Documentation: While the fund uses outside legal counsel to document each transaction, fund personnel remain actively involved in the documentation process through negotiation of business related issues and review of document iterations.

Customized Structuring. The Caltius Mezz Funds typically will customize structures to meet the unique attributes of each transaction. Investments are expected predominantly to take the form of a debt security, often with equity participation rights. In certain transactions, The Fund occasionally may provide "bridge senior" loans (short term senior debt with a maturity of less than two years or senior debt that converts to mezzanine pricing within two years). The Fund may later reinvest the capital invested in these bridge senior loans so long as the bridge senior debt has been repaid within two years of its original investment. As part of a mezzanine transaction, the Fund also may make equity co-investments structured as common and/or preferred stock. These equity co-investments are typically a small percentage of the Fund's overall investment.

Involvement with Portfolio Companies

The Caltius Mezz Funds seek to maintain active post-closing involvement with portfolio companies. Monitoring activities generally include: (i) monthly analysis of financial performance and covenant compliance; (ii) contact with key management team members; (iii) board of director meeting participation (through board observation rights); and (iv) periodic site visits.

Value Realization

Certain of the Caltius Mezz Funds' investments are redeemed or sold prior to maturity. These early realizations typically arise as a result of a transaction such as an asset sale, a sale of the company or a recapitalization/refinancing. When a Fund exits a debt investment prior to maturity as a result of a transaction other than a company sale, it may retain some or all of any equity securities associated with that investment, allowing for continued equity upside potential.

Risks of Investment

Caltius Equity Funds

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

Future and Past Performance. The performance of Caltius Equity Funds' prior investments is not necessarily indicative of a Fund's future results. While the General Partner of

each Caltius Equity Fund intends for the Fund to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that the targeted IRR will be achieved. On any given investment, loss of principal is possible.

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

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

Lack of Sufficient Investment Opportunities. It is possible that a Caltius Equity Fund will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring private equity transactions is highly competitive and involves a high degree of uncertainty. However, investors will be required to pay annual management fees during the investment period of the Fund based on the entire amount of their commitments.

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

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

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

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

Reliance on General Partner and Portfolio Company Management. Control over the operation of a Caltius Equity Fund will be vested entirely with the General Partner, and a Fund's future profitability will depend largely upon the business and investment acumen of the Equity Principals. The loss or reduction of service of one or more of the Equity Principals or other investment professionals could have an adverse effect on the Fund's ability to realize its investment objectives. Investors generally have no right or power to take part in the management of the Fund, and as a result, the investment performance of the Fund will depend entirely on the actions of the general partner of the Fund. In addition, certain changes in the general partner or circumstances relating to the general partner may have an adverse effect on the Fund or one or more of its portfolio companies including potential acceleration of debt facilities. Although the general partner of the Fund will monitor the performance of each Fund investment, it will primarily be the responsibility of each portfolio company's management team to operate such portfolio company on a day-to-day basis. Although the Caltius Equity 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 the Fund's objectives.

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

New Withholding Tax on Certain Non-U.S. Entities. Legislation enacted in 2010 generally imposes, beginning January 1, 2014, a new withholding tax of 30% that will apply to distributions from a Fund (or income allocations from the Fund, if no corresponding distributions are made) to non-U.S. entities in respect of most payments attributable to investments in the United States, including distributions (or income allocations if no corresponding distributions are made) attributable to dividends, interest, and gross proceeds of a disposition of stock, unless the foreign entity complies with certain conditions or an exception applies.

Conflicting Investor Interests. Limited partners in a Caltius Equity Fund may have conflicting investment, tax, and other interests with respect to their investments in the Fund, including conflicts relating to the structuring of investment acquisitions and dispositions. Conflicts may arise in connection with decisions made by the general partner regarding an investment that may be more beneficial to one limited partner than another, especially with respect to tax matters. In structuring, acquiring and disposing of investments, the general partner generally will consider the investment and tax objectives of the Fund and its partners as a whole, not the investment, tax, or other objectives of any limited partner individually.

Enhanced Scrutiny and Certain Effects of Potential Regulatory Changes. There has recently been significant discussion regarding enhanced governmental scrutiny and/or increased regulation of the private equity industry. There can be no assurance that any such scrutiny or regulation will not have an adverse impact on a Caltius Equity Fund's activities, including the ability of the Fund to implement operating improvements or otherwise execute its investment strategy or achieve its investment objectives.

The combination of recent scrutiny of private equity firms (along with other alternative asset managers) and their investments by various politicians, regulators and market commentators, and the public perception that certain alternative asset managers, including private equity firms, contributed to the recent downturn in the U.S. and global financial markets, may complicate or prevent a Fund's efforts to consummate investments, both in general and relative to competing bidders outside of the alternative asset space. As a result, the Fund may invest in fewer transactions or incur greater expenses or delays in completing investments than it otherwise would have.

Additionally, Congress has recently considered proposed legislation that would treat certain income allocations to service providers by partnerships such as the Funds (including any carried interest) as ordinary income for U.S. federal income tax purposes that under current law is treated as an allocation of the partnership's income, which may be taxed at lower rates than ordinary income. Enactment of any such legislation, whether during or after the initial closing of a Fund, could adversely affect the Equity Principals, employees or other individuals associated with the Caltius Equity Funds, Caltius Management or the general partner of a Caltius Equity Fund who were or may in the future be granted direct or indirect interests in the general partner entitling such persons to benefit from carried interest. This may reduce such persons' after-tax returns from the Fund and the general partner, which could make it more difficult for the general partner and its affiliates to incentivize, attract and retain individuals to perform services for the Fund.

Dynamic Investment Strategy. While the general partners of the Caltius Equity Funds generally intend to seek attractive returns for the Funds primarily through making private equity investments as described herein, the general partners may pursue additional investment strategies and may modify or depart from its initial investment strategy, investment process and investment techniques as it determines appropriate. The general partner may pursue investments outside of the industries and sectors in which the Equity Principals have previously made investments.

Alternative Investment Fund Managers Directive. The EU Alternative Investment Fund Managers Directive (the "AIFMD") comes into effect on July 22, 2013. The AIFMD regulates

the activities of private fund managers undertaking fund management activities or marketing fund interests to investors within the European Union (“EU”). If a Caltius Equity Fund is marketed to EU-based investors from July 22, 2013: (i) the Fund will be subject to certain reporting, disclosure and other compliance obligations under the AIFMD, which may result in the Fund incurring additional costs and expenses; and (ii) the AIFMD will also restrict certain activities of the Fund in relation to EU portfolio companies including, in some circumstances, the Fund’s ability to recapitalize, refinance or potentially restructure an EU portfolio company within the first two years of ownership. In addition, it is possible that some EU jurisdictions will elect to restrict or prohibit the marketing of non-EU funds to investors based in those jurisdictions, which may make it more difficult for the Fund to raise its targeted amount of commitments.

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

Non-U.S. Investments. A Caltius Equity Fund may invest in portfolio companies that are organized or headquartered or have substantial sales or operations outside of the United States, its territories, and possessions, including Canada. Such investments may be subject to certain additional risks due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be given effect during the term of the Fund), the application of complex U.S. and non-U.S. tax rules to cross-border investments, possible imposition of non-U.S. taxes on the Fund and/or the Partners with respect to the Fund’s income, and possible non-U.S. tax return filing requirements for the Fund and/or the partners. Additional risks of non-U.S. investments include: (a) economic dislocations in the host country; (b) less publicly available information; (c) less well-developed regulatory institutions; (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction; (e) civil disturbances; (f) government instability; and (g) nationalization and expropriation of private assets. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

Hedging Arrangements. The general partner of a Caltius Equity Fund may (but is not obligated to) endeavor to manage the Fund’s or any portfolio company’s currency exposures, interest rate exposures or other exposures, using hedging techniques where available and appropriate. The 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 the 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 the 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.

General Partner's Carried Interest. The fact that a General Partner's carried interest is based on a percentage of net profit, may create an incentive for a General Partner to cause a Fund to make riskier or more speculative investments than otherwise would be the case.

Public Company Holdings. A Caltius Equity Fund's investment portfolio may contain securities issued by publicly held companies. Such investments may subject the Fund to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the Fund to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members, including the Equity Principals, and increased costs associated with each of the aforementioned risks.

Non-controlling Investments. A Caltius Equity Fund may hold meaningful minority stakes in privately held companies. In addition, during the process of exiting investments, the Fund at times may hold minority equity stakes of any size such as might occur if portfolio holdings are taken public. As is the case with minority holdings in general, such minority stakes that the Fund may hold will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes.

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

Uncertain Economic and Political Environment. The current global economic and political climate is one of uncertainty. Prior acts of terrorism in the United States, the threat of additional terrorist strikes and the fear of a prolonged global conflict have exacerbated volatility in the financial markets and can cause consumer, corporate and financial confidence to weaken, increasing the risk of a "self reinforcing" economic downturn. The availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, continues to be restricted. This may have an adverse effect on the economy generally and on the ability of a Caltius Equity Fund and its portfolio companies to execute their respective strategies and to

receive an attractive multiple of earnings on the disposition of their businesses. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. Furthermore, such uncertainty may have an adverse effect upon portfolio companies in which a Fund makes investments.

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

Deterioration of Credit Markets May Affect Ability to Finance and Consummate Investments. Changes in the global credit markets can make it more difficult for investment funds such as the Caltius Equity Funds to obtain favorable financing for investments. A widening of credit spreads, coupled with the deterioration of the sub-prime and global debt markets and a rise in interest rates, dramatically reduces investor demand for high yield debt and senior bank debt, which in turn causes some investment banks and other lenders to be unwilling to finance new private equity investments or to only offer committed financing for these investments on unattractive terms. A Equity Fund's ability to generate attractive investment returns may be adversely affected to the extent the Fund is unable to obtain favorable financing terms for its investments. Moreover, such marketplace events may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the U.S. and global economies. Such marketplace events also may restrict the ability of a Fund to realize its investments at favorable times or for favorable prices.

Caltius Mezz Funds

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

Future and Past Performance. The performance of the Caltius Mezz Funds' prior investments is not necessarily indicative of the Caltius Mezz Funds' future results. While the Caltius Mezz Funds intend to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that the targeted internal rate of return will be achieved. On any given investment, loss of principal is possible.

Leveraged Nature of Mezzanine Investments. The portfolio companies in which the Caltius Mezz Funds will invest may be highly leveraged, thereby increasing the degree of credit risk inherent in each investment. 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 finance future operations and capital needs or to pay principal and interest on a Fund's investments when due. The leveraged capital structure of portfolio companies will increase the exposure of a Fund's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates. A Fund's investments may be unsecured and subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured and bear floating interest rates. In the event any portfolio company cannot generate adequate cash flow to meet debt service, a Fund may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of the Fund. Furthermore, the companies and securities in which a Fund will invest generally will not be rated by a credit rating agency.

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

Lack of Sufficient Investment Opportunities. It is possible that a Fund will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring mezzanine transactions is highly competitive and involves a high degree of uncertainty. However, investors will be required to pay annual management fees during the commitment period based on the entire amount of their commitments. See "Fees and Compensation."

Illiquidity; Long-Term Investments. An investment in a Caltius Mezz Fund should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. Although most Fund investments are expected to generate current income, such investments may take several years from the date of the initial investment to reach a state of maturity when realization of the investments can be achieved. Furthermore, the expenses of operating a Fund (including the annual management fee payable to a General Partner) may exceed its income, thereby requiring that the difference be paid from the Fund's capital, including, without limitation, unfunded commitments. It is anticipated that there will be no public market for all or a portion of the securities held by a Fund at the time of their acquisition. The Fund will generally not be able to sell its securities publicly unless their sale is registered under the applicable securities laws, or unless an exemption from such registration is available. In addition, in some cases a Fund may be prohibited from selling securities for a period of time.

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

Reliance on the General Partner and Portfolio Company Management. Control over the operation of the Caltius Mezz Funds will be vested entirely with the General Partner of the Funds, and the Funds' future profitability will depend largely upon the business and investment acumen of the members of its investment committee, Michael Kane, Greg Howorth and James Upchurch (the "**Mezz Founders**"). The loss or reduction of service of one or more of the Mezz Founders or other investment professionals could have an adverse effect on the Caltius Mezz Funds' ability to realize its investment objectives. Investors generally have no right or power to take part in the management of the Funds, and as a result, the investment performance of a Caltius Mezz Fund will depend entirely on the actions of the General Partner of the Fund. In addition, certain changes in the general partner or circumstances relating to the general partner may have an adverse effect on the Fund or one or more of its portfolio companies including potential acceleration of debt facilities. Although the General Partner will monitor the performance of each Caltius Mezz Fund investment, it will primarily be the responsibility of each portfolio company's management team to operate such portfolio company on a day-to-day basis. Although the Caltius Mezz 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 the Fund's objectives.

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

Conflicting Investor Interests. Investors may have conflicting investment, tax, and other interests with respect to their investments in a Caltius Mezz Fund, including conflicts relating to the structuring of investment acquisitions and dispositions. Conflicts may arise in connection with decisions made by a General Partner regarding an investment that may be more beneficial to one investor than another, especially with respect to tax matters. In structuring, acquiring and disposing of investments, the General Partner generally will consider the investment and tax objectives of a Fund and its partners as a whole, not the investment, tax, or other objectives of any investor individually.

Need for Follow-On Investments. Following its initial investment in a given portfolio company, a Calitus Mezz Fund may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company. There is no assurance that the Fund will make follow-on investments or that the Fund will have sufficient funds to make all or any of such investments. Any decision by 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. Additionally, such failure to make investments may result in a lost opportunity for the Fund to increase its participation in a successful portfolio company or the dilution of the Fund's ownership in a portfolio company if a third party invests in such portfolio company .

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

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

General Partner's Carried Interest. The fact that the a General Partner's carried interest is based on a percentage of net profits, may create an incentive for the General Partner to cause a Fund to make riskier or more-speculative investments than otherwise would be the case.

Non-controlling Investments. The Caltius Mezz Fund anticipate that they will principally hold debt obligations and other non-controlling interests in portfolio companies and, therefore, will have a limited ability to protect a Fund's position in such portfolio companies. However, the General Partner will seek appropriate creditor and shareholder rights to help protect the Fund's interest.

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

Enhanced Scrutiny and Certain Effects of Potential Regulatory Changes. There has recently been significant discussion regarding enhanced governmental scrutiny and/or increased regulation of the private equity industry. There can be no assurance that any such scrutiny or regulation will not have an adverse impact on a Caltius Mezz Fund's activities, including the ability of the Fund to implement operating improvements or otherwise execute its investment strategy or achieve its investment objectives.

The combination of recent scrutiny of private equity firms (along with other alternative asset managers) and their investments by various politicians, regulators and market commentators, and the public perception that certain alternative asset managers, including private equity firms, contributed to the recent downturn in the U.S. and global financial markets, may complicate or prevent a Fund's efforts to consummate investments, both in general and relative to competing bidders outside of the alternative asset space. As a result, the Fund may

invest in fewer transactions or incur greater expenses or delays in completing investments than it otherwise would have.

Additionally, Congress has recently considered proposed legislation that would treat certain income allocations to service providers by partnerships such as the Funds (including any carried interest) as ordinary income for U.S. federal income tax purposes that under current law is treated as an allocation of the partnership's income, which may be taxed at lower rates than ordinary income. Enactment of any such legislation, whether during or after the initial closing of a Fund, could adversely affect the Mezz Founders, employees or other individuals associated with the Caltius Mezz Funds, Caltius Management or the general partner of a Caltius Mezz Fund who were or may in the future be granted direct or indirect interests in the general partner entitling such persons to benefit from carried interest. This may reduce such persons' after-tax returns from the Fund and the general partner, which could make it more difficult for the general partner and its affiliates to incentivize, attract and retain individuals to perform services for the Fund.

Dynamic Investment Strategy. While the general partners of the Caltius Mezz Funds generally intend to seek attractive returns for the Funds primarily through making mezzanine debt and related investments as described herein, the general partners may pursue additional investment strategies and may modify or depart from its initial investment strategy, investment process and investment techniques as it determines appropriate. The general partner may pursue investments outside of the industries and sectors in which the Mezz Founders have previously made investments.

New Withholding Tax on Certain Non-U.S. Entities. Legislation enacted in 2010 generally imposes, beginning January 1, 2014, a new withholding tax of 30% that will apply to distributions from a Fund (or income allocations from the Fund, if no corresponding distributions are made) to non-U.S. entities in respect of most payments attributable to investments in the United States, including distributions (or income allocations if no corresponding distributions are made) attributable to dividends, interest, and gross proceeds of a disposition of stock, unless the foreign entity complies with certain conditions or an exception applies.

Alternative Investment Fund Managers Directive. The EU Alternative Investment Fund Managers Directive (the "AIFMD") comes into effect on July 22, 2013. The AIFMD regulates the activities of private fund managers undertaking fund management activities or marketing fund interests to investors within the European Union ("EU"). If a Caltius Mezz Fund is marketed to EU-based investors from July 22, 2013: (i) the Fund will be subject to certain reporting, disclosure and other compliance obligations under the AIFMD, which may result in the Fund incurring additional costs and expenses; and (ii) the AIFMD will also restrict certain activities of the Fund in relation to EU portfolio companies including, in some circumstances, the Fund's ability to recapitalize, refinance or potentially restructure an EU portfolio company within the first two years of ownership. In addition, it is possible that some EU jurisdictions will elect to restrict or prohibit the marketing of non-EU funds to investors based in those jurisdictions, which may make it more difficult for the Fund to raise its targeted amount of commitments.

Hedging Arrangements. The general partner of a Caltius Mezz Fund may (but is not obligated to) endeavor to manage the Fund's or any portfolio company's currency exposures, interest rate exposures or other exposures, using hedging techniques where available and appropriate. The 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 the 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 the 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.

Public Company Holdings. A Caltius Mezz Fund's investment portfolio may contain securities issued by publicly held companies. Such investments may subject the Fund to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the Fund to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members, including the Mezz Founders should they sit on a portfolio company board, and increased costs associated with each of the aforementioned risks.

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

Market Conditions. Any material change in the economic environment, including a slow-down in economic growth and/or changes in interest rates or foreign exchange rates, could have a negative impact on the performance and/or valuation of the Caltius Mezz Funds' portfolio companies. A Fund's performance can be affected by deterioration in public markets and by

market events, such as the onset of the credit crisis in the summer of 2007 or the downgrading of the credit rating of the United States in 2011, which, among other things, can impact the public market comparable earnings multiples used to value privately held portfolio companies and investors' risk-free rate of return. Movements in foreign exchange rates may adversely affect the value of investments in portfolio companies and a Fund's performance. The value of publicly traded securities may be volatile and difficult to sell as a block, even following a realization through listing. The impact of market and other economic events may also affect a Fund's ability to raise funding to support its investment objectives and also the level of profitability achieved on realizations of investments.

Conflicts of Interest

During the commitment period for a Fund, the Adviser will pursue all appropriate investment opportunities exclusively through that Fund, subject to certain limited exceptions, as more fully described in the applicable partnership agreements and private placement memoranda for that Fund. However, the Adviser may manage several other investment funds and investments similar to those in which that Fund will be investing, and may direct certain relevant investment opportunities to those investment funds and investments. In addition, the Adviser may spend a portion of its business time and attention pursuing investment opportunities that do not fall within the investment objectives of the Fund for other investment funds and other than on behalf of the Fund. The Adviser's investment staff will continue to manage and monitor such investment funds and investments, although the Adviser expects that the time required to do so will be less than will be spent on Fund matters. The significant investment of the Adviser's principals in the Fund, as well as the interest of the Adviser's principals in the carried interest, are intended to align, to some extent, the interest of the Adviser's principals with the interest of the other investors in the Fund, although the Adviser's principals have economic interests in such other investment funds and investments as well and receive management fees and carried interests relating to these interests. Such other investment funds and investments that the Adviser's principals may control may compete with the Fund or companies acquired by the Fund. Following the commitment period, the Adviser's principals may and likely will focus their investment activities on other opportunities and areas unrelated to the Fund's investments.

From time to time, a Fund will be presented with investment opportunities that would be suitable not only for that Fund, but also for other Private Investment Funds and other investment vehicles operated by advisory affiliates of the Adviser. In determining which investment vehicles should participate in such investment opportunities, The Adviser and its affiliates are subject to conflicts of interest among the investors in such investment vehicles. The Adviser attempts to resolve such conflicts of interest in light of its obligations to investors in its Private Investment Funds and the obligations owed by the Adviser's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among the Fund, other Private Investment Funds and such investment vehicles in a fair and equitable manner. Where appropriate, the Adviser consults and receives consent to conflicts from an advisory committee consisting of limited partners of the Fund and such other investment vehicles.

Because each General Partner's carried interest is based on a percentage of net realized profits, it may create an incentive for the General Partner to cause a Fund to make riskier or more

speculative investments than would otherwise be the case. Also, for CEP II, CP III and CP IV, each General Partner may receive a carried interest allocation on certain realized profits in its main Fund but not with respect to its Executive Fund. This practice could present a conflict of interest because the General Partner has an incentive to favor accounts for which we receive a performance-based fee. We seek to address this potential conflict of interest by causing the main Fund and the executive Fund to invest, to the extent practicable, in the same portfolio companies at the same time and on the same terms on a pro rata basis based on relative commitment sizes of the applicable Funds.

DISCIPLINARY INFORMATION

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

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Caltius Management is affiliated with other Caltius investment advisers registered with the SEC under the Advisers Act. These advisers are CP IV, LP, a Delaware limited liability company; CP III, LP, a Delaware limited partnership; LUSB, LLC, a Delaware limited liability company; Libra Investors III-A, LLC, a Delaware limited liability company; CEP II, LP, a Delaware limited partnership; and LFE, L.L.C., a Delaware limited liability company. These affiliated investment advisers serve as managers or general partners of private investment funds and other pooled vehicles and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

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

Caltius Management has adopted the Caltius Code of Ethics and Securities Trading Policy and Procedures (the “**Code**”), which sets forth standards of conduct that are expected of Caltius principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Caltius personnel to report their personal securities transactions, prohibits or requires pre-clearance for Caltius personnel from directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits Caltius personnel from directly or indirectly acquiring beneficial ownership of securities with limited exceptions, without first obtaining approval from the Caltius Chief Compliance Officer. A copy of the Code will be provided to any investor or prospective investor upon request to Robert G. Morrish, the Caltius Chief Compliance Officer, at (310) 996-9585. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client’s interests in client eligible investments.

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

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

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

The Funds and other Private Investment Funds may invest together with other private investment funds advised by an affiliated adviser of Caltius Management in the manner set forth in the applicable Fund partnership agreement. Caltius Management will determine the allocation of investment opportunity in a manner that it believes is fair and equitable to its clients consistent with each General Partner's obligations and may take into consideration factors such as the following: conflicts provisions in the relevant Caltius fund operating documents, investment and operating guidelines, diversification limitations, tax and regulatory considerations, minimum dollar limits, the need for a Caltius fund to maintain capital availability for potential follow-on investments in existing portfolio companies and other relevant factors, including risk.

Caltius Management and its affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in the Fund, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, the Fund, even though their investment objectives may be the same or similar. The operative documents and investment programs of certain vehicles sponsored by Caltius (the "**Reference Funds**") may restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such Reference Funds or may give priority with respect to investments to such Reference Funds. Some of these restrictions could be waived by investors (or their representatives) in such Reference Funds.

From time to time, a General Partner may borrow funds on behalf of its Fund or the Private Investment Funds and contribute such borrowed amounts to the Fund (or relevant Private Investment Fund, as applicable) as a special capital contribution for investment, to be redeemed at a later date. Interest in connection with such borrowing is borne by the Fund (or the relevant Private Investment Fund, as applicable) as a the Fund expense, consistent with the applicable partnership agreement (or other governing document) and the expense policy described under "Fees and Compensation." In borrowing on behalf of a Fund or a Private Investment Fund, a General Partner is subject to conflicts of interest between repaying its obligations and retaining such borrowed amounts for the benefit of the Fund or Private Investment Fund, as applicable. A General Partner will effect such borrowings in a manner it believes to be fair and equitable to the Fund or Private Investment Fund, as applicable, and consistent with the General Partner's obligations to the Fund and the applicable partnership agreement (or other governing document).

BROKERAGE PRACTICES

Each General Partner 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 is not required. However, a General Partner may also distribute securities to investors in the Fund or sell such securities, including through using a broker-dealer, if a public trading market exists. Although each General Partner does not intend to regularly engage in public securities transactions, to the extent it does so, it follows the brokerage practices described below.

If a General Partner sells publicly traded securities for the Fund, it is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the General Partner. In such event, the General Partner will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, a General Partner may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; and (iv) responsiveness to requests for trade data and other financial information.

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

Consistent with a General Partner seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although the General Partner generally does not make use of such services at the current time and has not made use of such services since its inception. [Such research services could include economic research, market strategy research, industry research, company research, fixed income data services, computer-based quotation equipment and research services and portfolio performance analysis. As a general matter, research provided by these brokers would be used to service all of a General Partner’s Private Investment Funds. However, each and every research service may not be used for the benefit of each and every Private Investment Fund managed by a General Partner, and brokerage commissions paid by one Private Investment Fund may apply towards payment for research services that might not be used in the service of such Private Investment Fund. Research services may be shared between a General Partner and its affiliates.

General Partners will employ no agreement or formula for the allocation of brokerage business on the basis of research services; however, a General Partner may, in its discretion, cause the Private Investment Funds to pay such brokers a commission for effecting portfolio transactions in excess of the amount of commission another broker adequately qualified to effect

such transactions would have charged for effecting such transactions. This may be done where a General Partner has determined in good faith that such commission is reasonable in relation to the value of brokerage and research services received. In reaching such a determination, a General Partner would not be required to place or attempt to place a specified dollar value on the brokerage or research services provided by such broker.

General Partners will periodically determine which brokers have provided research that has been helpful in the management of Private Investment Funds. To the extent consistent with a General Partner's goal to obtain best execution for their clients, a General Partner may seek to place a portion of the trades that they direct with the brokers who are identified through this process.

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

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

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

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

REVIEW OF ACCOUNTS

The investments made by the Private Investment Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, Caltius Management monitors companies in which the Private Investment Funds invest, and the Caltius Chief Compliance Officer periodically

checks to confirm that each Private Investment Fund is maintained in accordance with its stated objectives.

Each Fund typically will provide to its limited partners (i) annual GAAP audited financial statements, (ii) quarterly unaudited financial statements for the first three calendar quarters, and (iii) annual tax information necessary for each limited partner's tax return. (See the partnership agreement for the applicable Fund for more information.)

CLIENT REFERRALS AND OTHER COMPENSATION

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

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

CUSTODY

Each General Partner maintains custody of its related Fund's assets held in the Fund's name with the following qualified custodians: Merrill Lynch Pierce Fenner & Smith Incorporated; and US Bank.

INVESTMENT DISCRETION

Each General Partner has discretionary authority to manage investments on behalf of the Fund. As a general policy, General Partners do not allow clients to place limitations on this authority. Pursuant to the terms of the applicable partnership agreement, however, a General Partner may enter into "side letter" arrangements with certain limited partners whereby the terms applicable to such limited partner's investment in the Fund may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. Each General Partner assumes this discretionary authority pursuant to the terms of the applicable partnership agreements and powers of attorney executed by the limited partners of the Fund.

VOTING CLIENT SECURITIES

Each General Partner and Caltius Management have adopted the Caltius Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how it will vote proxies, as applicable, for the Fund's (and any Private Investment Fund's) portfolio investments. The Proxy Policy seeks to ensure that each General Partner votes proxies (or similar instruments) in the best

interest of its Fund(s), including where there may be material conflicts of interest in voting proxies. The General Partners generally believe their respective interests are aligned with those of the Fund's investors through the principals' beneficial ownership interests in the Fund(s) and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that each General Partner may address the conflict using several alternatives, including by seeking the approval or concurrence of its Fund's advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, a Fund's advisory board may approve a General Partner's vote in a particular solicitation. General Partners do not consider service on portfolio company boards by Caltius personnel or the General Partner's receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by a General Partner when voting proxies on behalf of the Funds. If you would like a copy of Caltius' complete Proxy Policy or information regarding how a General Partner voted proxies for particular portfolio companies, please contact Robert G. Morrish, the Caltius Chief Compliance Officer, at (310) 996-9585, and it will be provided to you at no charge.

FINANCIAL INFORMATION

None of the General Partners requires prepayment of management fees six months or more in advance or have any other events requiring disclosure under this item of the Brochure.

SUPPLEMENTAL INFORMATION ABOUT CERTAIN PRINCIPALS OF CALTIUS MANAGEMENT

James B. Upchurch

Educational Background and Business Experience

James B. Upchurch, 54, is President and Chief Executive Officer of Caltius. Prior to founding Caltius, he was the President of U.S. Bancorp Libra and its predecessor, Libra Investments, an investment banking firm focused on the sale, trading and placement of debt securities. Previously, he was a Portfolio Manager for high yield bonds at Columbia Savings and Loan Association and, prior thereto, was employed by American Continental Corporation. Mr. Upchurch began his career as a Certified Public Accountant at KPMG. He received his B.S. from Northern Arizona University.

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Upchurch.

Other Business Activities

Mr. Upchurch is not engaged in any investment-related business outside of his roles with Caltius and its affiliated investment advisers.

Additional Compensation

Mr. Upchurch does not receive any additional compensation that is required to be disclosed.

Supervision

As President and Chief Executive Officer of Caltius, Mr. Upchurch is part of a team that is responsible for implementing and overseeing the investment strategy of both the Caltius Equity Funds and the Caltius Mezz Funds. Mr. Upchurch is not subject to the direct supervision of any other individual, although Robert G. Morrish, Chief Compliance Officer for Caltius, oversees his compliance with the Adviser's policies and procedures.

Garrick Ahn

Educational Background and Business Experience

Garrick Ahn, 44, Managing Director, joined Caltius in 1999 and works with the Caltius Equity Funds. Previously, he was an Associate at Bastion Capital, responsible for sourcing, executing and managing investments. Prior to Bastion Capital, he spent two years as a strategy consultant with McKinsey & Company focused on assisting Fortune 500 companies with strategy development and implementation of operational improvement initiatives. Mr. Ahn began his career with Morgan Stanley & Co. in the Equity Capital Markets Group. He received his B.S. and M.S. in Electrical and Computer Engineering from Johns Hopkins University and an M.B.A. from Harvard Business School.

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Ahn.

Other Business Activities

Mr. Ahn is not engaged in any investment-related business outside of his roles with Caltius and its affiliated investment advisers.

Additional Compensation

Mr. Ahn does not receive any additional compensation that is required to be disclosed.

Supervision

As a Managing Director of Caltius, Mr. Ahn is part of a team that is responsible for implementing and overseeing the investment strategy of the Caltius Equity Funds. Mr. Ahn is not subject to the direct supervision of any other individual, although Robert G. Morrish, Chief Compliance Officer for Caltius, oversees his compliance with the Adviser's policies and procedures.

Michael J. Morgan

Educational Background and Business Experience

Michael J. Morgan, 44, Managing Director, joined Caltius in 1999 and works with the Caltius Equity Funds. Previously, he was with Salomon Smith Barney as an Associate in their Financial Sponsor Coverage Group, responsible for executing equity, debt and mergers and acquisitions transactions for the portfolio companies of large private equity firms. Prior to Salomon Smith Barney, he spent two years at Kline Hawkes & Co., responsible for executing late stage growth equity investments in companies located primarily in California, and for the two years prior to Kline Hawkes & Co., worked at Continental Illinois Venture Corporation (now CIVC Partners), a middle market private equity firm based in Chicago, IL. Mr. Morgan received his B.A. in Economics from the University of Pennsylvania and an M.B.A. from the UCLA Anderson School of Management where he was a Venture Capital Fellow.

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Morgan.

Other Business Activities

Mr. Morgan is not engaged in any investment-related business outside of his roles with Caltius and its affiliated investment advisers.

Additional Compensation

Mr. Morgan does not receive any additional compensation that is required to be disclosed.

Supervision

As a Managing Director of Caltius, Mr. Morgan is part of a team that is responsible for implementing and overseeing the investment strategy of the Caltius Equity Funds. Mr. Morgan is not subject to the direct supervision of any other individual, although Robert G. Morrish, Chief Compliance Officer for Caltius, oversees his compliance with the Adviser's policies and procedures.

Michael A. Kane

Educational Background and Business Experience

Michael A. Kane, 51, is a Managing Director of Caltius and works with the Caltius Mezz Funds. Mr. Kane joined Caltius in 1997. Previously, he was a Managing Director of Richard C. Blum and Associates, responsible for managing Building and Construction Capital Partners, L.P., a private equity fund focused on the building and construction industries. Prior to Richard C. Blum and Associates, he spent seven years with the Industrial Finance Division of General Electric Capital Corporation, focused on making loans to companies in various sectors. Mr.

Kane began his career with Metropolitan Life Insurance in the private placements group. He received his undergraduate degree, M.B.A. and a Masters in Accounting from Rice University.

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Kane.

Other Business Activities

Mr. Kane is not engaged in any investment-related business outside of his roles with Caltius and its affiliated investment advisers.

Additional Compensation

Mr. Kane does not receive any additional compensation that is required to be disclosed.

Supervision

As a Managing Director of Caltius, Mr. Kane is part of a team that is responsible for implementing and overseeing the investment strategy of the Caltius Mezz Funds. Mr. Kane is not subject to the direct supervision of any other individual, although Robert G. Morrish, Chief Compliance Officer for Caltius, oversees his compliance with the Adviser's policies and procedures.

Gregory J. Howorth

Educational Background and Business Experience

Gregory J. Howorth, 47, is a Managing Director of Caltius and works with the Caltius Mezz Funds. Previously, he was with FINOVA Capital as a senior credit officer responsible for pre-screening transactions in FINOVA's Corporate Finance Group. Prior to FINOVA Capital, he worked at Heller Financial for eight years and was responsible for underwriting cash flow based senior and subordinated debt transactions for California-based equity sponsors. Mr. Howorth received his B.S. from the University of Southern California.

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Howorth.

Other Business Activities

Mr. Howorth is not engaged in any investment-related business outside of his roles with Caltius and its affiliated investment advisers.

Additional Compensation

Mr. Howorth does not receive any additional compensation that is required to be disclosed.

Supervision

As a Managing Director of Caltius, Mr. Howorth is part of a team that is responsible for implementing and overseeing the investment strategy of the Caltius Mezz Funds. Mr. Howorth is not subject to the direct supervision of any other individual, although Robert G. Morrish, Chief Compliance Officer for Caltius, oversees his compliance with the Adviser's policies and procedures.