

KLH Capital Partners, L.P.

Part 2A of Form ADV

The Brochure

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This brochure provides information about the qualifications and business practices of KLH Capital Partners, L.P., a Florida limited partnership (“KLH” or the “Adviser”). If you have any questions about the contents of this brochure, please contact us at 813-222-0160. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

KLH is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended, and the rules and regulations promulgated thereunder. However, such registration does not imply a certain level of skill or training.

Additional information about KLH is also available on the SEC’s website at: www.adviserinfo.sec.gov.

ITEM 2 – MATERIAL CHANGES

Not Applicable

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ITEM 4 – ADVISORY BUSINESS

KLH is a private equity firm that provides investment advisory services to privately offered pooled investment vehicles (and certain co-investment vehicles and alternative investment vehicles thereof). KLH seeks to make value-oriented investments in lower middle-market companies with an emphasis on specialty services, value-added distribution industries and niche manufacturing. KLH makes majority and minority equity investments in companies through (i) management buyouts, (ii) family restructuring, (iii) recapitalizations, (iv) minority recapitalizations, and (v) corporate divestitures. The principals of KLH are James B. Darnell, William L. Dowden III, and Kyle P. Madden. KLH was founded in 2004.

KLH serves as an investment adviser to KLH Capital Fund III, L.P. and KLH Capital Fund IV, L.P. (and certain feeder funds and alternative investment vehicles thereof), and is also a sub-adviser to KLH Capital Fund II, L.P. (each, a “Fund” and collectively, the “Funds”). KLH Capital Management, LLC (“KCM”), a Florida limited liability company, is the investment adviser of KLH Capital Fund II, L.P. and an affiliate of KLH. Certain principals of KLH maintain a direct or indirect ownership interest in KCM.

Two Funds, KLH Capital Fund II, L.P. and KLH Capital Fund III, L.P. (collectively, the “SBIC Funds”), are currently licensed as small business investment companies by the United States Small Business Administration (“SBA”). The SBIC Funds use private capital and leverage from the SBA to make investments in companies.

In the future, KLH and its affiliates may, and may permit certain related persons, to form one or more partnerships or other entities to invest side-by-side with the Funds, or form one or more partnerships or other entities to invest with the same or substantially similar criteria and objectives of the Funds. KLH and its affiliates may also form one or more partnerships, joint ventures or other entities or arrangements to facilitate investment by certain investors (a “Co-investment Opportunity”). A Co-investment Opportunity may, and typically will, be offered to some limited partners, and no other limited partners in a Fund, and may be offered to other persons who are not limited partners in any Fund. Decisions regarding whether and to whom to offer co-investment opportunities may be made by KLH and/or its affiliates in accordance with a Fund’s applicable private placement memorandum or term sheet, limited partnership agreement and investment management agreement (collectively, the “Governing Documents”).

KLH has the general authority to recommend investments to the Funds, subject to the limitations set forth in the relevant Governing Documents. However, the management and the conduct of the activities of each Fund remain the ultimate responsibility of each Fund’s general partner. The investment advice provided by KLH and its affiliates to the Funds is tailored to meet the individual investment objectives and restrictions of each Fund, as set forth in the relevant Governing Documents.

Investments made by the Funds are referred to herein collectively as “Portfolio Companies” and individually as a “Portfolio Company.”

As of March 31, 2019, KLH has \$132,908,771 of regulatory assets under management.

ITEM 5 – FEES AND COMPENSATION

Adviser Compensation

Generally, for each Fund, KLH receives a management fee (each, a “Management Fee”) and carried interest in connection with the provision of advisory services to such Fund. KLH or other entities or affiliates receive additional compensation in connection with management and other services performed for portfolio companies of Funds (“Portfolio Companies”) and such additional compensation is intended to offset in whole or in part the Management Fees otherwise payable and due in accordance with each Fund’s Governing Documents. Investors in a Fund also bear certain expenses. Fees and other compensation paid by a Fund to KLH may vary from Fund to Fund and may be different from the fees and compensation payable in respect of any successor fund or co-investment vehicle formed to facilitate a Fund investment. Investors should carefully review the Governing Documents of the relevant Fund in conjunction with this Brochure for complete information about fees and compensation. Except as otherwise agreed, KLH is permitted to exempt certain investors in a Fund from payment of all or a portion of the relevant Management Fees and/or carried interest, including certain limited partners who are affiliates or employees of KLH and any other person designated by KLH.

Management Fees

KLH Capital Fund IV, L.P., KLH Capital Fund IV-A, L.P. and KLH Capital Fund IV-B, L.P. (collectively, “Fund IV”) will pay KLH, quarterly in advance, a management fee (the “Fund IV Management Fee”) equal to 2.0% on an annual basis of aggregate Fund IV investor capital commitments (“Fund IV Commitments”). Investors participating in a closing after the initial closing of Fund IV (or such later date as is determined by the general partner of Fund IV (the “Fund IV General Partner”)) (such date, the “Fund IV Effective Date”) bear the Fund IV Management Fee from the Fund IV Effective Date. Upon the earlier to occur of (i) the expiration of the investment period of Fund IV or (ii) certain events as set forth in its Governing Documents, the Fund IV Management Fee will equal 2.0% of (a) the aggregate investment contributions made (or payable to Fund IV pursuant to capital call notices then issued or to be issued to repay indebtedness incurred by Fund IV and/or used to fund an investment), less (b) the aggregate amount of investment contributions with respect to the portion of each investment that has been disposed of or permanently written-down, in each case with respect to partners not designated as “affiliated partners;” provided that investments in a Portfolio Company will be treated as having been disposed of or permanently written down only to the extent that, as of the date of any such disposition or write down, the aggregate fair market value of all remaining Fund IV investments in such Portfolio Company is less than Fund IV’s aggregate investment contributions made with respect to such Portfolio Company. The Fund IV Management Fee will be payable until all portfolio investments are distributed or until KLH’s relationship with Fund IV is terminated for other reasons (as described in the Fund IV’s Governing Documents). Installments of the Fund IV 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 is expected to be reduced by all or a portion of a Fund’s share of any directors’ fees, management services or advisory consulting fees, transaction fees and certain other fees paid

to KLH or any of its affiliates, partners, members, officers or employees, by any Portfolio Company (collectively, “Supplemental Fees”). To the extent that such an offset credit would reduce the Management Fee for a given Management Fee payment period below zero, the credit will be carried forward for future application against payable Management Fees and if a credit remains upon liquidation a payment will be made crediting limited partners unless a limited partner has elected to waive such amount (e.g., where an adverse tax consequence may result).

As a matter of practice, KLH is typically paid fees of the type referred to in the preceding paragraph from, on behalf of or with respect to co-investors in an investment. With respect to Fund IV, any Supplemental Fees with respect to an investment or potential investment (including a transaction not consummated) shall be allocated to Fund IV (and offset against the Fund IV Management Fee as described above) only to the extent of Fund IV’s relative ownership (or anticipated ownership) of such investment or potential investment on a fully diluted basis. Accordingly, Fund IV will, in most cases, only benefit from the Fund IV Management Fee reduction described above with respect to its allocable portion of any such Supplemental Fee and not the portion allocable to any other person that holds an economic interest in (or, in the case of a transaction not consummated, would have held an economic interest in) the applicable investment.

In accordance with the relevant Governing Documents, the SBIC Funds will each pay KLH a Management Fee quarterly in advance. The Management Fee payable by Fund II to KLH is equal to a certain management fee rate multiplied by the cost basis of its investments (including investments made with both private capital and SBA leverage) in active companies. The Management Fee payable by Fund III to KLH is equal to a certain management fee rate multiplied by the sum of (i) paid-in capital, (ii) unfunded commitments from investors determined to be creditworthy under the standards promulgated under the Small Business Investment Act of 1958, as amended, and the rules and regulations promulgated thereunder, and (iii) the maximum amount of SBA leverage made available to Fund III (both drawn and undrawn). Beginning in April of 2021, the Management Fee for Fund III will be equal to a certain management fee rate multiplied by the cost basis of its investments (including investments made with both private capital and SBA leverage) in active companies. The management fee rate on which the Management Fees are payable by Fund II and Fund III range from 2.0% to 2.5% depending on value of the base on which the Management Fee is calculated.

Additional Fees and Expenses

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

KLH is liable for its normal operating overhead and administrative expenses, including salaries, bonuses and employee benefits, office facilities, back office support, accounting, management/finance functions, marketing, travel, and other management-related costs. The principals or other current or former employees of KLH generally receive salaries and other compensation derived from, and which in certain cases may be structured to include a portion of, the Management Fee, performance-based compensation (i.e., carried interest) or other compensation received by KLH or its affiliates.

In addition to the relevant Management Fee and carried interest the Funds pay KLH, each Fund will pay, or reimburse, the relevant General Partner and/or its affiliates for all other fees, costs, expenses, liabilities and obligations relating to the relevant Fund and/or its subsidiaries' activities, business, Portfolio Companies or actual or potential investments (to the extent not borne or reimbursed by a Portfolio Company or potential Portfolio Company) pursuant to the relevant Governing Documents. These costs and expenses are detailed in the relevant Funds' Governing Documents and may include fees, costs, expenses, liabilities and obligations relating or attributable to:

(i) activities with respect to origination, identifying and sourcing of investment opportunities for a Fund, including meeting with consultants, broker-dealers, investment banks and other sources of investments and developing an investment pipeline;

(ii) activities with respect to the structuring, organizing, negotiating, consummating, financing, refinancing, diligencing (including any subscriptions to any periodicals, databases and/or research services), acquiring, bidding on, owning, managing, monitoring, operating, holding, hedging, restructuring, trading, taking public or private, selling, valuing, winding up, liquidating, dissolving or otherwise disposing of, as applicable, a Fund's portfolio companies and its actual and potential investments (including follow-on investments) or seeking to do any of the foregoing (including any associated legal, financing, commitment, transaction or other fees and expenses payable to attorneys, accountants, tax professionals, investment bankers, lenders, expert networks, third-party diligence and deal-sourcing software and service providers, consultants and similar professionals in connection therewith and any fees and expenses related to transactions that may have been offered to co-investors), whether or not any contemplated transaction or project is consummated and whether or not such activities are successful;

(iii) indebtedness of, or guarantees made by, a Fund, KLH, the relevant General Partner or any "affiliated partner" on behalf of such Fund (including any credit facility, letter of credit or similar credit support), including the repayment of principal and interest with respect thereto, or seeking to put in place any such indebtedness or guarantee;

(iv) financing, commitment, origination and similar fees and expenses;

(v) broker, dealer, finder, underwriting (including both commissions and discounts), loan administration, private placement fees, sales commissions, investment banker, finder and similar services;

(vi) brokerage, sale, custodial, depository (including any depository appointed pursuant to the European Union Alternative Investment Fund Managers Directive (the "AIFMD") or any law, rule or regulation relating to the implementation thereof in any relevant jurisdiction), Swiss representative and paying agent appointed pursuant to the Swiss Collective Investment Schemes Act (as amended), including any law, rule or regulation relating to the implementation thereof, trustee, record keeping, account and similar services;

(vii) legal, accounting, research, auditing, administration (including fees and expenses associated with compliance with any anti-money laundering laws and regulations and any third-party administrator and administration, tracking or reporting software, if any), information, appraisal,

advisory, valuation (including third-party valuations, appraisals or pricing services as well as costs related to the establishment or maintenance of such other services), consulting (including consulting and retainer fees, salary and other compensation paid and benefits provided to the Operations Group (as defined below) or any of its members, consultants performing investment initiatives or providing services related to environmental, social and governance investment considerations and policies and other consultants), tax and other professional services;

(viii) reverse breakup, termination and other similar fees;

(ix) insurance (including directors and officers liability, fidelity bond, cyber-security, portfolio company management liability, errors and omissions liability, crime coverage and general partnership liability premiums and other insurance and regulatory expenses, including any costs and expenses related to any retention or deductibles and broker fees, costs and commissions) and the costs of any consultants or other advisors utilized in the procurement, review and analysis of insurance policies;

(x) filing, title, transfer, survey, registration and other similar fees and expenses;

(xi) printing, communications, mailing, courier, marketing and publicity;

(xii) the preparation, distribution or filing of financial statements or other reports, tax returns, tax estimates, Schedule K-1s or similar forms or other communications with partners, any other administrative, compliance or regulatory filings or reports (including Form PF and Bureau of Economic Analysis Reports) or other information, including fees, costs and expenses of any third-party service providers and professionals related to the foregoing;

(xiii) expenses associated with the reporting, filings or other ongoing compliance requirements contemplated by the AIFMD (excluding, for clarity, the initial and/or preliminary registrations, filings and compliance related thereto) or any law, rule or regulation relating to the implementation thereof in any relevant jurisdiction, or any similar law, rule or regulation and including any secondary legislation, regulations, rules and/or associated guidance, and any related requirements;

(xiv) compliance with any financial account reporting regime applicable to a Fund, any alternative investment vehicle of a Fund and/or the relevant General Partner, including the “Foreign Account Tax Compliance Act” or “FATCA” and the OECD Standard for Automatic Exchange of Financial Account Information - Common Reporting Standard, and any fees, costs and expenses of any third-party services providers and professionals related to the foregoing;

(xv) developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software (including accounting, investor reporting and ledger systems) or other administrative or reporting tools (including subscription-based services);

(xvi) any activities with respect to protecting the confidential or non-public nature of any information or data (including any costs and expenses incurred in connection with compliance with the General Data Protection Regulation (EU 2016/679) (as amended) and the Freedom of Information Act, 5 U.S.C. § 552); (xvii) to the extent provided in the Governing Documents, or otherwise approved by the relevant General Partner in its sole discretion, activities or proceedings of the advisory board for a Fund (the “Advisory Board”) (including any costs and expenses incurred

by representatives of the relevant General Partner, the Advisory Board members, permitted observers and other persons in attending or otherwise participating in meetings of the Advisory Board);

(xviii) indemnification obligations (including legal and any other fees, costs and expenses incurred in connection with indemnifying any partner or other person pursuant to the relevant Governing Documents and advancing fees, costs and expenses incurred by any such person in defense or settlement of any claim that may be subject to a right of indemnification pursuant to the relevant Governing Documents), except as otherwise set forth in the relevant Governing Documents;

(xix) actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including the costs and expenses of any discovery related thereto and any judgment, other award or settlement entered into in connection therewith;

(xx) any annual limited partner meeting or other periodic, if any, meetings of the limited partners, any other conference, meeting or webcast with any limited partner(s) and any periodic executive forum of portfolio company management and other persons;

(xxi) except as otherwise determined by the relevant General Partner in its sole discretion, any fee, cost, expense, liability or obligation relating to any alternative investment vehicle or its activities, business, portfolio companies or actual or potential investments (to the extent not borne or reimbursed by a portfolio company of such alternative investment vehicle) that would be a Fund expense or organizational expense if it were incurred in connection with such Fund, and any expenses incurred in connection with the formation, management, operation, termination, winding up and dissolution of any feeder vehicles related to such Fund to the extent not paid by the investors investing in such entities and any other costs and expenses related to any structuring or restructuring of such Fund and/or its affiliated entities;

(xxii) the termination, liquidation, winding up or dissolution of a Fund and any legal entities owned directly or indirectly by such Fund, including portfolio companies and related entities;

(xxiii) defaults by partners in the payment of any capital contributions;

(xxiv) amendments to, and waivers, consents or approvals pursuant to, the constituent documents of a Fund, the relevant General Partner and related entities, any entities owned directly or indirectly by such Fund (including portfolio companies) and any alternative investment vehicle of such Fund, including the preparation, distribution and implementation thereof;

(xxv) (A) compliance with any law, rule, regulation, policy directive or special measure (including in relation to privacy, data protection, know-your-customer, anti-money laundering, sanctions or anti-terrorism considerations), including any legal, administrator, consulting or other third-party service provider fees, costs and expenses related thereto, any regulatory expenses of the relevant General Partner incurred in connection with the operation of a Fund and any costs and expenses related to compliance with any environmental, social or governance investment considerations and policies of the relevant General Partner and/or a Fund and/or (B) any costs and expenses related to the validation of any payments made to a Fund or the relevant General Partner in connection with any voluntary or compulsory review (including any anti-money laundering laws, rules or regulations);

(xxvi) any litigation or governmental inquiry, investigation or proceeding, including any costs and expenses of discovery related thereto and the amount of any judgments, settlements or fines paid in connection therewith, except as set forth in the relevant Governing Documents;

(xxvii) any experts, including independent appraisers, engaged by the relevant General Partner in connection with a Fund considering, making, holding or disposing of, directly or indirectly, an investment in the same entity as one or more investment vehicles (other than such Fund) managed or controlled by the relevant General Partner or any of its affiliates;

(xxviii) unreimbursed costs and expenses incurred in connection with any transfer or proposed transfer by a limited partner or any limited partner's name change, internal restructuring or change in registered agent or custodian;

(xxix) any taxes, fees and other governmental charges levied against a Fund and/or any alternative investment vehicle and all expenses incurred in connection with any tax audit, inquiry, investigation settlement or review of such Fund and/or any alternative investment vehicle (except to the extent that such Fund is reimbursed therefor by a partner or such tax, fee or charge is treated as having been distributed to the partners pursuant to the relevant Governing Documents) and any costs and expenses of or related to the "partnership representative" of such Fund;

(xxx) distributions to the partners and other expenses associated with the acquisition, holding and disposition of investments, including extraordinary expenses;

(xxxi) unreimbursed expenses and unpaid fees of the Operations Group or its members, employees or other persons engaged by the Operations Group;

(xxxii) compliance or regulatory matters, except as otherwise set forth in the relevant Governing Documents, including compliance with the relevant Governing Documents and/or any letter agreement;

(xxxiii) amendments to, and waivers, consents or approvals pursuant to, side letters and similar agreements with limited partners and "most-favored-nations" election processes in connection therewith;

(xxxiv) any travel (including, where appropriate as determined by the relevant General Partner, the cost of using or chartering private aircraft or other private air travel (at a cost not to exceed the cost of corresponding first class commercial airfare), car or ride sharing services or other modes of transportation), lodging, meals or entertainment relating to any of the foregoing, including in connection with consummated and unconsummated investment and disposition opportunities;

(xxxv) attendance of any member, manager, shareholder, partner, director, officer, employee or affiliate of the relevant General Partner or KLH at any trade conference, including any applicable registration fees and exhibition, sponsorship or other presentation fees, costs and expenses;

(xxxvi) any Organizational Expenses (as defined in the relevant Governing Documents, as applicable);

(xxxvii) any Placement Fees (as defined in the relevant Governing Documents, as applicable); and

(xxxviii) any other fees, costs, expenses, liabilities or obligations approved by the Advisory Board.

To the extent that the relevant General Partner, KLH or their affiliates bear any Fund expenses, they shall be entitled to be reimbursed by the applicable Fund or to offset such amounts against any reduction of the relevant Management Fee as described below.

The Fund IV General Partner is authorized to create an operations group (the “Operations Group”) comprised of persons retained or employed by such General Partner or any of its affiliates primarily to provide manufacturing, sales, marketing, technology, human resources, acquisition integration/rationalization, supply chain, logistics, sourcing and/or other operations services, acquisition or other due diligence, or similar services to Fund IV, any alternative investment vehicle or any Portfolio Company of Fund IV or any prospective Portfolio Company or any alternative investment vehicle of Fund IV. Any compensation, including fees, incentive equity or other stock awards, and any reimbursement of certain travel and other costs, received by the Operations Group members may be paid by a Portfolio Company or prospective Portfolio Company of Fund IV (which payments are not included as “Supplemental Fees” or directly by Fund IV.

As is typical for private equity funds, the Funds likely bear additional and greater expenses, directly or indirectly, than many other pooled investment products, such as mutual funds. To the extent brokerage fees are incurred, they will be incurred in accordance with the general practices set forth in “Brokerage Practices.”

Waiver of Management Fees

Certain Governing Documents may reduce the Management Fee for a Fund by an amount based on a fixed, or formulaically calculated, percentage of limited partner capital contributions, with KLH receiving a contingent interest in such Fund’s profits in lieu of such foregone Management Fee amounts. This contingent interest in a Fund’s profits is created by designating a portion of the capital contributions (generally corresponding to the Management Fee reduction amount) of a Fund’s limited partners as an investment in the Fund attributable to KLH. KLH’s right to receive and retain amounts under these provisions is contingent on the Fund generating a sufficient amount of certain types of profit over its life. The foregoing Governing Document provisions may result in an acceleration (or delay) of a portion of investor capital contributions relative to the timing of such contributions in the absence of such Governing Document provisions. The applicable Management Fee reduction under these provisions has the potential to be significant. Due to the reduction in Management Fees resulting from such provisions, it is possible that Management Fee offsets (described above) might not be fully realized by investors in a Fund, resulting in a net additional benefit to KLH.

Carried Interest

Fund IV General Partner will receive a carried interest with respect to Fund IV equal to 20% of all realized profits subject to an 8% compound preferred return, as more fully described in the Governing Documents. The carried interest distributed to KLH is subject to a potential giveback at the end of the life of Fund IV if KLH has received excess cumulative distributions and at an interim interval as provided in the Governing Documents.

Operating Professionals.

Additionally, as further described herein and in the applicable Governing Documents of each Fund, KLH expects to use or retain certain operating professionals, such as consultants, advisors or Operations Group members, to provide services to (or with respect to) one or more Funds or certain current or prospective Portfolio Companies in which one or more Funds invest. Such operating professionals generally provide services in relation to the identification, acquisition, holding, improvement and disposition of Portfolio Companies, including operational aspects of such companies. In certain circumstances, these services also include serving in management or policy-making positions for Portfolio Companies. Operating professionals are expected to receive compensation, including, but not limited to, cash fees, retainers, transaction fees, a profits or equity interest in a Portfolio Company, profits or equity interests in one or more Funds or General Partners, remuneration from KLH and/or its Funds or affiliates or other compensation, which typically is determined according to one or more methods, including the value of the time (including an allocation for overhead and other fixed costs) of such operating professionals, a percentage of the value of the Portfolio Company, the invested capital exposed to such Portfolio Company, amounts charged by other providers for comparable services and/or a percentage of cash flows from such company. Operating professionals also generally will be reimbursed for certain travel and other costs in connection with their services. With respect to certain of the Funds, no such amounts paid by Portfolio Companies (or a Fund) are expected to offset the Management Fee.

In addition, operating professionals generally make use of KLH resources or otherwise are associated with KLH. KLH and/or its affiliates may agree to compensate certain of such persons to the extent Portfolio Company-related compensation falls below certain specified levels on an aggregate annualized basis, or provide other compensation. Although the use of operating professionals and the allocation of compensation paid to them by KLH, its affiliates and/or the Portfolio Companies subjects KLH and/or its affiliates to potential conflicts of interest, KLH believes that such potential conflicts may be reduced by the anticipated cost savings to Portfolio Companies (which is expected to be to the benefit of the applicable Fund(s)) that will result if the cost of the operating professional is lower than market rates for the services provided and/or if the services of the operating professionals align with KLH's model for the Portfolio Company and improve Portfolio Company performance. Although KLH seeks to retain operating professionals with a view to reducing costs to Portfolio Companies (and, ultimately, the Funds) and/or improving Portfolio Company performance, a number of factors may result in limited or no cost savings from such retention. KLH also seeks to reduce potential conflicts of interest resulting from such arrangements by structuring compensation packages for such persons in a manner that KLH believes will align such persons' interests with those of the Funds' limited partners, and seeks to retain only operating professionals and service providers which it believes provide a level of service at a value generally consistent with other relevant market alternatives. However, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

KLH or its affiliates may be faced with a variety of potential conflicts of interest when it determines allocations of various fees and expenses to the Funds. KLH or its affiliates, in its sole discretion, will allocate fees and expenses in accordance with the Funds' Governing Documents and in a manner that it believes in good faith is fair and equitable to the Funds under the circumstances and considering such factors as it deems relevant.

ITEM 6 – PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Pursuant to the relevant Governing Documents, the applicable general partner of a Fund (a “General Partner”) is entitled to receive “carried interest” with respect to each investor in a Fund. Generally, carried interest is paid out of the proceeds realized from the investments of the applicable Fund. The percentage of the proceeds paid to a General Partner as carried interest may vary between investors.

Each General Partner is an affiliated entity of KLH. Because a General Partner is entitled to receive carried interest based on the performance of a relevant Fund, the carried interest or other performance-based compensation may create an incentive for KLH to make more speculative investments and make different decisions regarding the timing and manner of the realization of such investments, than would be made if such carried interest or performance-based compensation were not allocated to KLH.

In order to address the potential conflicts of interest described above, KLH seeks to determine the allocation of investment opportunities among the Funds in a manner that it believes is fair and equitable consistent with each Fund’s investment objectives and in accordance with each Fund’s Governing Documents. To determine whether a Fund will participate in an investment opportunity, KLH assesses whether an investment opportunity is appropriate for such Fund based on the Fund’s investment restrictions and objectives (including those set forth in each Fund’s Governing Documents), strategy, capital structure, risk profile, time horizon, investment size, tax sensitivity, tolerance for turnover, asset composition, cash level (if any), applicable regulatory restrictions, life cycle and structure.

ITEM 7 – TYPES OF CLIENTS

KLH's clients are the Funds, which operate as exempt investment pools under the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder (the "Investment Company Act"). The investors participating in each Fund may include individuals, banks or thrift institutions, other investment entities, endowments, sovereign wealth funds, family offices, public and private pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities.

Generally, an investor in a Fund must be an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, and unless waived in the discretion of a General Partner, a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act.

The minimum investment commitment for each of the Funds are not the same and range from \$1 million to \$5 million, however a General Partner may permit investments below the minimum amount set for in the relevant Governing Documents and minimum investment commitments are typically established for each investor.

ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Methods of Analysis and Investment Strategies

KLH's investment strategy seeks to drive operational transformation across lower middle-market companies in the specialty services, value-added distribution, and niche manufacturing industries. KLH seeks to transform companies that it believes have stable fundamentals and well-demonstrated performance by strategically repositioning them to achieve their next level of growth through (i) management buyouts, (ii) family restructuring, (iii) recapitalization, (iv) minority recapitalizations, and corporate divestitures. KLH seeks to pursue businesses that it believes (i) are fundamentally stable, (ii) have talented, coachable management, and (iii) exhibit substantial growth potential through strategically repositioning a product/service offering.

KLH seeks opportunities where founders want a targeted list of qualified partners, rather than pursue a broad auction process. KLH employs a two-pronged strategy whereby high impact outreach is achieved through the use of customized content and chemistry and trust is built early. Through a highly collaborative approach, KLH acts as a partner with management to develop a plan to enhance the areas of (i) strategic planning, (ii) leadership development, (iii) infrastructure, and (iv) add-on acquisitions to increase a company's capability and scalability and generate outperformance.

KLH's Investment Committee is comprised of William L. Dowden III, James B. Darnell, Kyle P. Madden, Chris Hart and Josh Kuder. The Investment Committee generally meets weekly to discuss existing and prospective investments. Investments are evaluated independently, as well as in the context of a Fund's existing holdings and sector exposures.

There can be no assurance that KLH will achieve the investment objectives of any Fund and a loss of investment is possible.

Certain Risks Relating to the Investment Strategies of the Funds

Investing in the Funds involves a significant risk of loss that investors should be prepared to bear, including, but not limited to, the risk summarized below:

Investments in Private Companies.

The Fund's investment portfolio is expected to 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; Loss of Principal.

Certain of the Funds may, and in the future, consists of newly organized entities that have no prior operating history or track record. Accordingly, such Funds would not have performance history for a prospective investor to consider. Prospective investors should understand that an

investment in a Fund does not represent an interest in any investment or investment portfolio of any other Fund managed by KLH. Information about the prior performance of a Fund is not necessarily indicative of another Fund's future results, and there can be no assurance that such Fund will achieve comparable results. An investor should not rely on any expectation and there can be no assurance that the risk/return profile of an investment in a Fund will resemble that of another Fund managed by KLH. An investor should only invest in a Fund as part of an overall investment strategy, and only if the investor is able to withstand a total loss of its investment in such Fund. While KLH and/or its affiliates intend for the Fund to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that any targeted internal rate of return will be achieved. With respect to any of the Funds' investments, loss of principal will be possible.

Investment in Junior Securities.

The securities in which the Funds 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 a Fund's investment once made.

Concentration of Investments; Lack of Diversification.

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

Unspecified Investments.

Investors will be relying on the ability of KLH to locate and evaluate the investments to be made by the Funds using the proceeds of the relevant offering. The activity of identifying, structuring, completing and realizing private equity investments involves a high degree of uncertainty and is subject in some cases to the prevailing capital market, regulatory or political environment. There can be no assurance that KLH will be able to identify, or the Funds will be able to complete, portfolio investments that satisfy the Funds' relevant rate of return objectives or, if completed, realize such investments for fair or attractive values or that the Funds will be able to fully invest their committed capital.

Lack of Sufficient Investment Opportunities.

The business of identifying, structuring and completing private equity transactions is highly competitive. The Funds will encounter competition from other entities having similar investment objectives. Potential competitors include other investment partnerships and corporations, strategic industry acquirers and other financial investors, including hedge funds, investing directly or through affiliates, and other private equity funds. Over the past several years, an ever-increasing number of investment funds have been or are being formed, and many fund sponsors have increased the size of successor funds as compared to their corresponding prior funds. Other investment funds with

similar investment objectives to the Funds likely will be formed in the future by other unrelated parties. Some of these competitors may have more relevant experience, greater financial resources, a greater willingness to take on risk, and/or more personnel than KLH, the General Partner, the Funds and their respective affiliates.

To the extent that a Fund encounters significant competition for investments, returns to the relevant investors may decrease. In addition, it is possible that a Fund will never be fully invested if enough sufficiently attractive investments are not identified and consummated. Regardless of the extent to which the commitments of the investors are invested, certain investors may be required to bear Management Fees through a Fund during the investment period based on the entire amount of such investor's commitments and other expenses as set forth in each Fund's Governing Documents.

Dynamic Investment Strategy.

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

Impact of Government Regulation, Reimbursement and Reform.

Certain industry segments in which the Funds may invest are (or may become) (i) highly regulated at both the federal and state levels in the U.S. and internationally and (ii) subject to frequent regulatory change. Certain segments may be highly dependent upon various government (or private) reimbursement programs. While the Funds intend to invest in companies that seek to comply with applicable laws and regulations, the laws and regulations relating to certain industries are complex, may be ambiguous or may lack clear judicial or regulatory interpretive guidance. An adverse review or determination by any applicable judicial or regulatory authority of any such law or regulation, or an adverse change in applicable regulatory requirements or reimbursement programs, could have a material adverse effect on the operations and/or financial performance of the Portfolio Companies.

Illiquidity; Lack of Current Distributions.

Investments in the Funds should be viewed as illiquid investments. 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 Funds' ability to dispose of investments may be limited for several reasons. Illiquidity may result from the absence of an established market for the investments, as well as legal, contractual or other restrictions on their resale by the Funds. Dispositions of investments may be subject to contractual and other limitations on transfer or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms that could be obtained upon any disposition thereof. In view of these limitations on liquidity, the Funds generally will not be able to return capital or realize gains, if any, on an investment in a privately-held entity until the partial or complete disposition of such entity. While an investment may be sold at any time, it is generally expected that this will not occur for a number of years after

the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating the Funds (including the Management Fee payable to KLH) may exceed its income, thereby requiring that the difference be paid from a Fund's capital, including, without limitation, unfunded commitments.

Leveraged Investments; Borrowing.

The 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 a Fund's opportunities for gain and its risk of loss from a particular investment, and the magnification of the risk of loss may be substantial. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which may be impacted by regulatory restrictions and guidelines and which are difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage. The availability of leverage also is subject to governmental and regulatory oversight, and certain governmental bodies (including, but not limited to, the U.S. Federal Reserve System, the U.S. Office of the Comptroller of the Currency and the U.S. Federal Deposit Insurance Corporation) may restrict or otherwise discourage lending that results in companies carrying large amounts of debt.

The use of leverage may impose restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to operate its business as desired and/or finance future operations and capital needs. The 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 and could accelerate and magnify declines in the value a 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 its 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 such Fund. Additionally, lenders would typically have a claim that has priority over any claim by a Fund to the assets of such Portfolio Company in an insolvency event or proceeding. Should the credit markets be limited or costly at the time a Fund determines that it is desirable to sell all or a part of a Portfolio Company, such Fund may not achieve an exit multiple or enterprise valuation consistent with its forecasts. If a Portfolio Company is unable to obtain favorable financing terms for its investments, refinance its indebtedness or maintain a desired or optimal amount of financial leverage, a Fund may hold a larger than expected equity investment in such Portfolio Company and may realize lower than expected returns from the Portfolio Company that would adversely affect a Fund's ability to generate attractive returns for such Fund as a whole. Any failure by lenders to provide previously committed financing could also expose the Funds to potential claims by sellers of businesses which the Funds may have been contracted to purchase. Moreover, the companies in which the Funds will invest may not be rated by a credit rating agency.

A Fund may also borrow money or guaranty indebtedness (such as a guaranty of a Portfolio Company's debt) or otherwise be liable therefor, and in such situations, it is not expected that a Fund would be compensated for providing such guarantee or exposure to such liability. Any use of leverage by a Fund may result in interest expense and other costs to such Fund that may exceed, or otherwise not be covered by, distributions made to such Fund or appreciation of its investments. A

Fund may incur leverage on a joint and several basis with one or more other investment funds and/or other entities managed by or otherwise affiliated with KLH, a General Partner or any of their affiliates and, in connection with incurring such indebtedness, KLH or a General Partner may, in its sole discretion, cause a Fund to enter into one or more agreements to obtain a right of contribution, subrogation or reimbursement from or against such entities. However, it is possible that, if and when a Fund were to seek to enforce any such right, any such entity could default on its obligation and/or such right may otherwise be unenforceable. In addition, to the extent a Fund incurs leverage (or provides any guaranty), such amounts may be secured by the capital commitments of a Fund's investors and other Fund assets. The inability of a Fund to repay any leverage secured by the capital commitments of a Fund's investors could enable a lender to issue a capital call on behalf of KLH or the General Partner of a Fund.

Use of Credit Facility.

A Fund will be permitted to borrow funds pursuant to a revolving credit facility or other debt facility, including a facility based on the aggregate commitments available to be called. A Fund's use of such facilities will be determined by KLH, and the performance of a Fund may be impacted by how KLH causes such Fund to utilize such facilities. Although the use of such a facility may increase a Fund's ability to swiftly invest capital, it also will cause such Fund to incur interest expense and other costs. Conflicts of interest may arise in that the use of such facilities may, and likely would, delay the need for investors to make certain contributions to a Fund, which may enhance a Fund's performance figures and thereby benefit the KLH, the General Partner and their affiliates.

No Market for Interests; Restrictions on Transfer; No Right of Withdrawal.

Limited partner interests in a Fund may not generally be transferred, sold, assigned, pledged or otherwise encumbered without the prior written consent of the General Partner, which may be withheld pursuant to the relevant Governing Documents, and the volume of transfers permitted in any calendar year may be restricted in order to comply with certain safe harbors under the tax regulations promulgated under U.S. Internal Revenue code of 1986. Voluntary withdrawals from a Fund will not be permitted except in very limited circumstances generally involving situations where retaining an interest in a Fund would violate certain laws or regulations. In addition, interests in a Fund are not redeemable. There will be no public market for interests in a Fund, and none is expected to develop. Interests in a Fund have not been registered under the Securities Act, the securities laws of any U.S. state or the securities laws of any non-U.S. jurisdiction and therefore cannot be resold unless they are subsequently registered under the Securities Act and other applicable securities laws, or unless an exemption from registration is available. It is not contemplated that registration of the interests in the Fund will ever be effected. Investors may not be able to liquidate their investments prior to the end of a Fund's term and must be prepared to bear the risks of an investment in such Fund for an extended period of time.

Investments Longer than Term.

A Fund may make investments that may not be advantageously disposed of prior to the date the Fund is dissolved, either by expiration of the Fund's term or otherwise, or the Fund's term may be extended to facilitate the wind-down of such Fund. Although KLH, a General Partner or their

affiliates generally expect that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, KLH, a General Partner or their affiliates have a limited ability to extend the term of a Fund, and the Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. To the extent that such investments are held in trust, the trust may incur operating and formation expenses. In addition, there can be no assurances with respect to the timeframe in which the winding-up and the final distribution of proceeds to investors will occur.

Distributions in Kind.

Although, under normal circumstances, prior to the termination of a Fund, the Fund intends to make distributions in cash or marketable securities, it is possible that under certain circumstances (including the winding-up of such Fund), distributions of investments for which there is no readily available public market and/or which may be subject to substantial restrictions on sale or transfer may be made in-kind. It may be difficult for investors to liquidate the investments received at a price or within a time period that is determined thereby to be ideal, and significant administrative burden may be involved. After a distribution of investments is made, the recipients may decide to liquidate such investments within a short period of time, which could have an adverse impact on the price of such investments. Investors in receipt of a distributed investment will have no guidance from a Fund or a General Partner with respect to disposition of such investment (including timing of such disposition). The price at which such investments may be sold by such investors may be lower than the value of such investments determined pursuant to the relevant Governing Documents, including the value used to determine the amount of carried interest accruing to the General Partner with respect to such investment. In addition, the direct holding of certain investments may subject the holder to suit or taxes in jurisdictions in which such investments are located.

Reliance on the General Partner and Portfolio Company Management.

Control over the operation of a Fund, including decisions with respect to structuring, negotiating and purchasing, financing and eventually divesting investments on behalf of the Fund, will be vested with KLH. Consequently, a Fund's future profitability and investment performance will depend largely upon the business and investment acumen of KLH's principals. The loss or reduction of service of one or more of KLH's principals could have an adverse effect on a Fund's ability to realize its investment objectives. In addition, the principals currently, and may in the future, manage or advise other investments and/or investment funds besides the Funds and the principals may need to devote substantial amounts of their time to the investment activities of such other investments and/or funds, which may pose conflicts of interest in the allocation of the time of the principals. Investors generally have no right or power to take part in the management of a Fund, and as a result, the investment performance of the Fund will depend on the actions of KLH and its affiliates. In addition, certain changes KLH or its affiliates or circumstances relating to KLH or its affiliates may have an adverse effect on a Fund or one or more of its Portfolio Companies, including potential acceleration of debt facilities. Furthermore, there can be no assurance that a Fund's investments will achieve results similar to those attained by previous investments of the principals. In addition, a Fund's investments may differ from previous investments made by the principals in a number of respects, including target return levels, level of risk associated with a particular investment, amount invested in a particular company, types of companies within a particular

industry sector, amount of leverage used, structure and holding period.

The success of many of a Fund's Portfolio Companies is heavily dependent on the management of such companies. Each Portfolio Company's day-to-day operations will be the responsibility of such company's management team. Additionally, KLH, or its affiliates will generally establish the capital structure of companies in which a Fund invests on the basis of financial projections for such companies, which will contain significant judgment and input from the Portfolio Company management team. Although KLH or its affiliates will be responsible for monitoring the performance of each portfolio investment and the Funds generally intend to invest in companies with strong management or recruit strong management to such companies, there can be no assurance that the existing management team, or any successor, will be able or willing to successfully operate a company in accordance with a Fund's objectives. Portfolio Companies may need to attract, retain and develop executives and members of their management teams. The market for executive talent can be extremely competitive. There can be no assurance that the management team of a Portfolio Company on the date a portfolio investment is made will remain the same or continue to be affiliated with the company throughout the period the Portfolio Company is held by a Fund. There can be no assurance that Portfolio Companies will be able to attract, develop, integrate and retain suitable members of its management team and, as a result, a Fund may be adversely affected thereby.

Projections.

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

Risks in Effecting Operating Improvements.

In some cases, the success of a Fund's investment strategy will depend, in part, on the ability of the Fund to effect improvements in the operations of a Portfolio Company. The activity of identifying and implementing operating improvements at Portfolio Companies entails a high degree of uncertainty. In addition, executing operational improvements may divert the attention of key personnel and disrupt normal business. There can be no assurance that a Fund will be able to successfully identify and implement such improvements or that any such successfully implemented improvements will result in a return on invested capital with respect to such Portfolio Company.

Risks Relating to Due Diligence of and Conduct at Portfolio Companies; Expedited Transactions.

Before making investments, KLH and its affiliates will typically conduct such due diligence as it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. Due diligence may entail evaluation of important and complex business, financial, tax, accounting, technical, environmental, regulatory and legal issues. Outside consultants, legal

advisors, accountants, investment banks and other third parties may be involved in the due diligence process to varying degrees depending on the type of investment and the facts and circumstances related thereto and KLH may rely on the advice received from such third parties. Investment analyses and decisions by KLH will often be undertaken on an expedited basis in order for a Fund to take advantage of investment opportunities and/or consummate investments. In such cases, the information available to KLH at the time of an investment decision may be limited, and KLH may not have access to the detailed information necessary for a full evaluation of the investment opportunity. The due diligence investigation carried out with respect to any investment opportunity will not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in an investment being successful or even ensure a return on invested capital.

Tax Information Exchange Regimes; FATCA Withholding Tax on Certain Non-U.S. Entities.

Numerous jurisdictions have enacted, or have committed to enact, legislation and administrative guidance requiring the collection and sharing of certain information in order to combat tax avoidance. The U.S., pursuant to the “Foreign Account Tax Compliance Act” or “FATCA” has entered into numerous intergovernmental agreements with various jurisdictions concerning the exchange of information as a means to combat tax evasion by United States tax residents using foreign accounts. It includes certain provisions on withholding taxes and requires financial institutions outside the United States to collect and share information about their U.S. customers. In addition, the Organization for Economic Co-operation and Development (“OECD”) has published a global Common Reporting Standard for the exchange of information pursuant to which many countries have now signed multilateral agreements. One or more of these information exchange regimes are likely to apply to the Funds and/or alternative investment vehicles, and may require KLH to collect and share with applicable taxing authorities information concerning investors (including identifying information and amounts of certain income allocable or distributable to them). An investor’s failure to provide required information may result in withholding taxes, government-imposed penalties, expulsion from a Fund and/or alternative investment vehicles or other potential remedies.

Tax Liability Considerations.

The Funds may take positions with respect to certain tax issues that depend on legal and other interpretive conclusions. Should any such positions be successfully challenged by a taxing authority, an investor might be found to have a different tax liability for that year than that reported on its tax returns. In addition, a taxing authority’s review of a Fund may result in a review of the returns of some or all of the investors in such Fund, which examination could result in adjustments to the tax consequences initially reported by the Fund and affect items not related to an investor’s investment in the Fund. If such adjustments result in an increase in tax liability for any year, a Fund or one or more of the relevant investors may also be liable for interest and penalties with respect to the amount due. The legal and accounting costs incurred in connection with any taxing authority’s review of a Fund’s tax returns will be borne by the Fund. The cost of any review of an investor’s tax return will be borne solely by the investor.

Conflicting Investor Interests.

Investors may have conflicting investment, tax, and other interests with respect to their investments in a Fund, including conflicts relating to the structuring and timing of investment acquisitions and dispositions. As a consequence, conflicts may arise in connection with decisions made by KLH 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, KLH generally will consider the investment, tax and other relevant objectives of each Fund and its investors as a whole, not the investment, tax, or other objectives of any investor individually.

Enhanced Scrutiny and Certain Effects of Potential Regulatory Changes.

There continue to be discussions 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 the Funds' activities, including the ability of the Funds to effectively and timely address such regulations, implement operating improvements or otherwise execute its investment strategy or achieve its investment objectives.

The combination of such 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 2007-2008 downturn in the U.S. and global financial markets, may complicate or prevent a Fund's efforts to structure, consummate and/or exit investments, both in general and relative to competing bidders outside of the alternative asset space. As a result, such Fund may invest in fewer transactions or incur greater expenses or delays in completing or exiting investments than it otherwise would have.

Privacy, Data Protection and Information Security Compliance Risk.

Compliance with current and future privacy, data protection and information security laws could significantly impact current and planned privacy and information security related practices, the collection, use, sharing, retention and safeguarding of personal data and some of the Funds' current and planned business activities and as such could increase costs for the Funds and/or the Portfolio Companies. A failure to comply with such laws and regulation could result in fines, sanctions or other penalties, which could materially and adversely affect the results of operations of the Funds and/or its Portfolio Companies and overall business, as well as have an impact on reputation.

Portfolio Companies are generally subject to laws and regulations related to privacy, data protection and information security in the jurisdictions in which they do business. As privacy, data protection and information security laws and regulations are implemented, interpreted and applied, compliance costs may increase, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place.

The European Union (the "EU") data protection law currently in effect is in the form of the General Data Protection Regulation (EU 2016/679) (the "GDPR"), which took direct effect across the EU member states on May 25, 2018. The GDPR seeks to harmonize national data protection laws across the EU, while at the same time, modernizing the law to address new technological developments. The GDPR notably has a greater extra-territorial reach than pre-existing legislation

and has a significant impact on data controllers and data processors (i) with an establishment in the EU, (ii) which offer goods or services to EU data subjects or (iii) which monitor EU data subjects' behavior within the EU. The GDPR imposes more stringent operational requirements on both data controllers and data processors and introduces significant penalties for non-compliance, with fines of up to 4% of total annual worldwide revenue or €20 million (whichever is higher), depending on the type and severity of the breach.

The current ePrivacy Directive will also be repealed by the EU Commission's Regulation on Privacy and Electronic Communications (the "ePrivacy Regulation"), which aims to reinforce trust and security in the digital single market by updating the legal framework on ePrivacy. Although the ePrivacy Regulation was projected to take effect in early 2019, the draft text is currently in the process of being finalized. Due to delays in negotiations on the final agreed text, the ePrivacy Regulation may not be adopted until later in 2019, meaning that it would not take effect until 2021.

The GDPR principles on the processing of personal data have been implemented into laws enforceable in the UK by the Data Protection Act 2018. As noted in the below section "United Kingdom Exit from the European Union," the terms of the UK's exit from the EU are unclear and it is uncertain whether a transitional arrangement or a deal will be agreed between the UK and the EU. In the event that a transitional arrangement is not agreed, and the UK leaves the EU without a deal, the UK will be deemed a "third country" for the purposes of EU data protection law. To the extent the Funds and/or the Portfolio Companies transfer personal data from the EU to the UK, additional mechanisms may be required to legitimize such transfers. The UK's exit from the EU is therefore likely to lead to an increase in data protection compliance costs.

European Union Alternative Investment Fund Managers Directive.

The AIFMD regulates the activities of certain private fund managers undertaking fund management activities or marketing fund interests to investors within the European Economic Area (the "EEA").

To the extent that the Funds are actively marketed to investors domiciled or having their registered office in the EEA: (i) the Funds, KLH and/or a General Partner will be subject to certain reporting, disclosure and other compliance obligations under the AIFMD, which will result in the Funds incurring additional costs and expenses; (ii) the Funds, KLH and/or the General Partner may become subject to additional regulatory or compliance obligations arising under national law in certain EEA jurisdictions, which would result in the Funds incurring additional costs and expenses or may otherwise affect the management and operation of the Funds; (iii) the Funds, KLH and/or the General Partner will be required to make detailed information relating to the Funds and their investments available to regulators and third parties; and (iv) the AIFMD will restrict certain activities of the Funds in relation to EEA Portfolio Companies (including, in some circumstances, the Funds' ability to recapitalize, refinance or potentially restructure an EEA Portfolio Company within the first two years of ownership), which may in turn affect operations of the Funds generally. In addition, it is possible that some EEA jurisdictions will elect to restrict or prohibit the marketing of non-EEA funds to investors based in those jurisdictions, which may make it more difficult for the Funds to raise its target amount of commitments.

United Kingdom Exit from the European Union.

On March 29, 2017, the UK formally notified the European Council of its intention to leave the European Union (“Brexit”). Under the process for leaving the EU contemplated in article 50 of the Treaty on the Functioning of the EU, the UK will remain a member state until a withdrawal agreement is entered into or, failing that, the period agreed for ratifying the withdrawal agreement expires (or the United Kingdom chooses to revoke its notice of its intention to leave the EU before the expiry of such period).

The European Commission and the UK’s negotiators reached a provisional agreement on the terms of the UK’s withdrawal from the EU and a political declaration regarding their future relationship. The Parliament of the UK has rejected the withdrawal agreement and political declaration on numerous occasions to date and it is therefore unclear as to whether Parliament will ratify the withdrawal agreement and declaration in due course. It is therefore possible that the UK may leave the EU without a withdrawal deal and lose many, if not all, of its membership benefits, including its EU single market passports permitting the exchange of goods and services between the UK and the EU. Even in the event that a withdrawal agreement is ratified, the nature of the future trading relationship between the UK and the European Union has yet to be negotiated and this could take a number of years.

Registration under the U.S. Commodity Exchange Act.

Registration with the U.S. Commodity Futures Trading Commission (“CFTC”) as a “commodity pool operator” or as a “commodity trading advisor” or any change in a Fund’s operations necessary to maintain KLH’s and/or the General Partner’s ability to rely upon the exemptions from registration as a “commodity pool operator” or “Commodity trading advisor” could adversely affect such Fund’s ability to implement its investment program, conduct its operations and/or achieve its objectives and subject the Fund to certain additional costs, expenses and administrative burdens. Furthermore, any determination by KLH to cease or to limit investing in interests which may be treated as “commodity interests” in order to comply with the regulations of the CFTC may have a material adverse effect on a Fund’s ability to implement its investment objectives and to hedge risks associated with its operations.

Sanctions Compliance Considerations.

Economic sanction laws in the United States and other jurisdictions may prohibit or otherwise restrict KLH, a General Partner, the Funds, the Portfolio Companies and their respective officers, directors and employees from engaging in transactions in or relating to certain countries and relating to certain individuals and entities. In the United States, the U.S. Department of the Treasury’s Office of Foreign Assets Control (“OFAC”) and U.S. Department of State administer and enforce laws, executive orders and regulations establishing U.S. economic and trade sanctions. Such sanctions prohibit, among other things, transactions with, and the provision of services to, certain foreign countries, territories, entities and individuals. These persons and entities include specially designated nationals and other persons and entities targeted by OFAC sanctions programs. The lists of OFAC restricted countries, territories, persons and entities, including the List of Specially Designated Nationals and Blocked Persons, as such list may be amended from time to time, can be found on the OFAC website at www.treas.gov/ofac. In addition, certain programs

administered by OFAC prohibit dealing with individuals or entities in certain countries regardless of whether such individuals or entities appear on the lists maintained by OFAC. These types of sanctions and similar laws and regulations in non-U.S. jurisdictions may significantly restrict the Funds' direct or indirect investment activities in certain countries. The economic sanctions and related laws of different jurisdictions in which the Funds makes investments also may conflict with one another, such that compliance with all applicable laws may be difficult. Failure by KLH, a General Partner, the Funds or any of the Funds' Portfolio Companies to comply with OFAC or other relevant sanctions could have serious legal and reputational consequences, including civil and criminal penalties.

Anti-Corruption & Anti-Boycott Considerations.

The U.S. Foreign Corrupt Practices Act ("FCPA"), the U.K. Bribery Act ("UKBA") and other anti-corruption and anti-bribery laws, as well as U.S. anti-boycott regulations may impact KLH, the General Partner, the Funds and the Funds' Portfolio Companies. The Funds may be adversely affected or miss out on opportunities because of KLH's and/or a General Partner's unwillingness to participate in transactions that potentially violate such laws and regulations. Such laws and regulations may make it difficult in certain circumstances for the Funds to act successfully on investment opportunities or to obtain or retain business. In recent years, U.S. regulators have been increasingly focused on private equity sponsors' compliance with the FCPA. Any determination that KLH, a General Partner, the Funds, Portfolio Companies or any of their respective officers, directors or employees has violated the FCPA, the UKBA or other applicable anti-corruption laws, anti-bribery laws, or U.S. anti-boycott regulations, could subject it to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and/or a general loss of investor confidence, any one of which could adversely affect a Fund's business prospects and/or financial position, as well as the ability to achieve its investment objective and/or conduct its operations.

Need for Follow On Investments.

Following its initial investment in a given Portfolio Company, a 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 (whether for opportunistic reasons, to fund the needs of the business, as an equity cure under applicable debt documents or for other reasons). There is no assurance that a Fund will make follow on investments or that such 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 (including an event of default under applicable debt documents in the event an equity cure cannot be made). Additionally, such failure to make such investments may result in a lost opportunity for the Fund to increase its participation in a successful Portfolio Company or the dilution of such Fund's ownership in a Portfolio Company if a third party invests in such Portfolio Company.

Over-Commitment.

In order to facilitate the acquisition of a Portfolio Company, the Funds may make (or commit to make) an investment in such company with a view to selling a portion of such investment to co-

investors or other persons prior to or within a brief period after the closing of the acquisition. In such event, a Fund will bear the risk that any or all of the excess portion of such investment may not be sold or may only be sold on unattractive terms and that, as a consequence, the Fund may bear the entire portion of any breakup fee or other fees, costs and expenses related to such investment, hold a larger than expected investment in such Portfolio Company or may realize lower than expected returns from such investment.

Non-U.S. Investments.

The Fund may invest in Portfolio Companies that are organized or headquartered or have substantial sales or operations outside of the United States, its territories, and possessions. Investments in non-U.S. securities or instruments involve certain factors not typically associated with investing in U.S. securities and instruments, including risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various non-U.S. currencies in which the Fund's non-U.S. investments are denominated (including risks associated with potentially rapid inflation), and costs associated with conversion of investment principal and income from one currency into another; (ii) exposure to fluctuations in interest rates payable with respect to the instruments in which the Fund invests; (iii) differences in conventions relating to documentation, settlement, corporate actions, stakeholder rights and other matters; (iv) differences between the U.S. and non-U.S. securities markets, including potential price volatility in and relative illiquidity of some non-U.S. securities markets; (v) the absence of uniform accounting, auditing, and financial reporting standards, practices and disclosure requirements, and less or more government supervision and regulation; (vi) certain economic, social and political risks, including potential exchange control regulations and restrictions on non-U.S. investment and repatriation of capital, the risks of political, economic, governmental or social instability, including the risk of sovereign defaults, regulatory change, and the possibility of expropriation or confiscatory taxation; (vii) the possible imposition of non-U.S. taxes on income, gains and gross sales or other proceeds recognized with respect to such securities or instruments; (viii) the application of complex U.S. and non-U.S. tax rules to cross-border investments; (ix) possible non-U.S. tax return filing requirements for the Fund and/or the Partners; (x) differing and potentially less well-developed or well-tested corporate laws regarding stakeholder rights, creditors' rights (including the rights of secured parties), fiduciary duties and the protection of investors; (xi) differences in the legal and regulatory environment or enhanced legal and regulatory compliance; (xii) political hostility to investments by foreign or private equity investors; and (xiii) less publicly available information.

Hedging Arrangements; Related Regulations.

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

In some cases, particularly in OTC contexts, hedging arrangements will subject a Fund to

the risk of a counterparty's inability or refusal to perform under a hedging contract, or the potential loss of assets held by a counterparty, custodian or intermediary in connection with such hedging. OTC contracts may expose a Fund to additional liquidity risks if such contracts cannot be adequately settled.

Certain hedging arrangements may create for KLH, a General Partner and/or one of their affiliates an obligation to register with the CFTC or other regulator or comply with an applicable exemption. Losses may result to the extent that the CFTC or other regulator imposes position limits or other regulatory requirements on such hedging arrangements, including under circumstances where the ability of a Fund or a Portfolio Company to hedge its exposures becomes limited by such requirements.

Significant Adverse Consequences for Default.

The Governing Documents provide for significant adverse consequences in the event an investor defaults on its commitment or any other payment obligation. In addition to losing its right to potential distributions from a Fund, a defaulting investor may be forced to transfer its interest in the relevant Fund for an amount that is less than the fair market value of such interest and that may be paid over a period of up to ten years, without interest. Whether and how to exercise KLH and/or a General Partner's remedies against a defaulting investor will be in the sole discretion of KLH and/or the General Partner, and KLH and/or the General Partner may require the non-defaulting investors to contribute capital to make up for the shortfall created by such defaulting investor.

Impacts of Excuse or Exclusion.

An investor's participation in a Fund's investments may be limited by virtue KLH and/or a General Partner's right to exclude an investor from, or an investor's right to be excused from, participating in certain of a Fund's investments as set forth in the relevant Governing Documents, thereby increasing the participation of other investors. As a consequence of one or more investors being excused or excluded or other factors limiting their participation in investments, the aggregate returns realized by the participating investors could be adversely affected in a material manner by the unfavorable performance of even one investment by the Fund.

Dilution.

Investors admitted or that increase their respective commitments to a Fund at subsequent closings generally will participate in then-existing investments of such Fund, thereby diluting the interest of existing investors in such investments. Although any such new investors will be required to contribute its pro rata share of previously made capital contributions, there can be no assurance that this contribution will reflect the fair value of a Fund's existing investments at the time of such contributions.

Failure to Make Capital Contributions.

If an investor fails to pay when due installments of its commitment to a Fund, and the contributions made by non-defaulting investors and borrowings by such Fund are inadequate to cover the defaulted amount, the Fund may be unable to pay its obligations when due. As a result,

the Fund may be subjected to significant penalties that could materially adversely affect the returns to investors (including non-defaulting investors).

Transfer by KLH.

To the extent KLH, a General Partner, their partners, the principals and/or their respective affiliates commit to make a direct or indirect investment in or along-side a Fund, a participation in or a portion of such investment may thereafter be transferred to others, subject to any express limitations thereon in such Fund's Governing Documents.

Recycling; Reinvestment.

During the investment period for a Fund, KLH and/or a General Partner generally has the right to recall certain capital returned or distributed to the investors. Accordingly, during the term of a Fund, an investor may be required to make capital contributions in excess of its commitment (with certain limitations), and to the extent such recalled or retained amounts are reinvested in investments, an investor will remain subject to investment and other risks associated with such investments.

Fees and Expenses.

The Funds will pay and bear all expenses related to its operations, including Management Fees and the costs of holding, monitoring, maintaining and disposing of Portfolio Companies, including investment banking fees and consulting fees, whether or not the Funds make any profits. While it is difficult to predict the future expenses of a Fund, such expenses may be substantial and may surpass such Fund's operating income. The amount of these partnership expenses will reduce the actual returns realized by investors on their investment in a Fund (and may, in certain circumstances, reduce the amount of capital available to be deployed by the Fund for investments). Fund expenses include recurring and regular items, as well as extraordinary expenses for which it may be hard to budget or forecast. As a result, the amount of a Fund expenses ultimately called or called at any one time may exceed expectations.

Control Person Liability.

The Funds are expected to have controlling interests in a number of its Portfolio Companies. The exercise of control over a company may impose additional risks of liability for environmental damage, product defects, pension and other fringe benefits, failure to supervise management, violation of laws and governmental regulations (including securities laws and regulations) and other types of liability, for which the limited liability generally afforded to investors may be ignored. In particular, if determined to be a direct owner or operator of any of the Portfolio Company's facilities or operations, a Fund could face strict, joint and several liability under environmental laws for hazardous substance or contamination-related liabilities. If any such liabilities were to arise, a Fund might suffer significant losses. While KLH intends to manage the Funds in manner that will minimize the exposure of these risks, the possibility of successful claims against a Fund and/or its affiliates cannot be precluded.

Non-controlling Investments.

The Funds may hold meaningful minority stakes in privately held companies and in some cases may have limited minority protection rights. In addition, during the process of exiting investments, the Funds at times may hold minority equity stakes of any size such as might occur if Portfolio Companies are taken public. As is the case with minority holdings in general, such minority stakes that the Funds may hold will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes.

To the extent a Fund invests alongside third parties, such as institutional co-investors or private equity funds of other sponsors, or makes a minority investment, the relevant Portfolio Companies may be controlled or influenced by persons who have economic or business interests, investment or operational goals, tax strategies or other considerations that differ from or are inconsistent with those of such Fund or its investors. Such third parties may be in a position to take action contrary to a Fund's business, tax or other interests, and such Fund may not be in a position to limit such contrary actions or otherwise protect the value of its investment. When taking non-control positions, the Funds generally will seek to negotiate certain negative controls and veto rights on major decisions, but there can be no assurance that the Funds will be able to control the timing or occurrence of an exit strategy for such Portfolio Companies in a manner that maximizes or protects value.

Director Liability.

KLH expects that the Funds will often seek to obtain the right to appoint one or more representatives to the board of directors (or similar governing body) of the companies in which it invests (each, a "Board Representative"). In those instances where the Funds are not the sole shareholder of the applicable Portfolio Company, a Board Representative may have duties to persons other than the Funds. Serving on the board of directors (or similar governing body) of a Portfolio Company exposes the Board Representative, and ultimately the Funds, 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. In addition, involvement in litigation can be time consuming for such persons and can divert the attention of such persons from the Funds' investment activities.

Liability of Limited Partners.

Certain of the Funds have been organized as Delaware limited partnerships. Generally, an investor should not be personally liable for the debts of such Funds except that, in the event the Fund is otherwise unable to meet its obligations, the investors may, under applicable law, be obligated to repay amounts previously received by them to the extent such amounts are deemed to have been wrongfully distributed to them, subject to certain limitations set forth in the relevant Governing Documents. In addition, any investor's commitment is susceptible to risk of loss as a result of any liability of a Fund irrespective of whether such liability is attributable to an investment to which such investor did not contribute any capital.

Limitation of Recourse and Indemnification.

The Governing Documents of the Funds will limit the circumstances under which KLH, a General Partner and their affiliates will be held liable to a Fund. As a result, investors may have a more limited right of action in certain cases than they would have in the absence of such provision. In addition, the Governing Documents will provide that the Funds will indemnify KLH, a General Partner and their affiliates for certain claims, losses, damages and expenses arising out of their activities on behalf of the relevant Fund. Such indemnification obligations could materially impact the returns to investors.

Litigation.

The transactional nature of the business of the Funds exposes the Funds, KLH, a General Partner and their respective affiliates generally to the risk of third-party litigation. In the ordinary course of its business, the Funds may be subject to litigation from time to time. Additional regulation could also increase the risks of third-party litigation. The outcome of such proceedings may materially adversely affect the values of the Funds and may continue without resolution for long periods of time. Any litigation may consume substantial amounts of KLH, the General Partner's and the principals' time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

Advisory Board.

KLH and/or a General Partner will appoint one or more investor representatives to the an advisory board. The Governing Documents may provide that to the fullest extent permitted by applicable law, none of the advisory board members shall owe any fiduciary duties to the relevant Funds or any other investor. In addition, representatives of the advisory board may have various business and other relationships with KLH and its partners, officers, directors, employees and affiliates. These relationships may influence their decisions as members of the advisory board.

U.S. Taxation of Carried Interest.

U.S. federal income tax law treats certain allocations of capital gains to service providers by partnerships such as the Funds as short-term capital gain (taxed at higher ordinary income rates) unless the partnership has held the asset which generated such gain for more than three years. This could reduce the after-tax returns of individuals associated with the Funds, KLH or a General Partner who were or may in the future be granted direct or indirect interests in carried interest, which could make it more difficult for KLH and/or a General Partner and their affiliates to incentivize, attract and retain individuals to perform if such three-year holding period requirement did not exist. services for the Funds. This could also create an incentive for the principals to cause the Funds to hold investments for a longer period than would be the case

Changes in U.S. Tax Laws.

All statements contained herein concerning the U.S. federal income tax (or other tax) consequences of an investment in the Funds are based on existing law and interpretations thereof. Recent or future changes in U.S. federal income tax law could materially affect the tax consequences of an investor's investment in a Fund, and the tax treatment of a Fund's Portfolio Companies. While some of these changes could be beneficial, others could negatively affect the after-tax returns of a

Fund and the relevant investors. Accordingly, no assurance can be given that the currently anticipated tax treatment of an investment in the Funds, or of investments made by the Funds, will not be modified by legislative, judicial or administrative changes, possibly with retroactive effect, to the detriment of investors.

Recently enacted legislation changes the U.S. taxation of U.S. taxable investors, tax-exempt investors and non-U.S. investors. Among other changes, this legislation modifies the taxation of investments in flow-through entities conducting an operating business, imposes new limitations on various types of deductions (particularly for U.S. individual taxpayers), limits the deductibility of interest expense for investors in flow-through entities and imposes new limits on the use by tax-exempt investors of losses from unrelated business activities.

The legislation also makes significant changes to the U.S. taxation of corporations. Among other changes, the legislation reduces the U.S. federal income tax rate on corporations from 35% to 21%, adds new limitations on interest expense and net operating loss deductions, allows 100% “bonus” first-year expensing of certain tangible personal property and purchased software, accelerates the time at which certain deferred revenue must be recognized, moves the U.S. towards a modified territorial tax system under which domestic corporations receive a 100% deduction for foreign-source portions of dividends received from 10%-owned foreign corporations, adds new provisions designed to discourage U.S. companies from locating their intellectual property in low-tax jurisdictions and adds new rules to prevent so-called “base erosion” and corporate inversions.

The full implications of the recent legislation for investors and Portfolio Companies are not yet clear. Accordingly, there can be no assurance that the recent legislation or subsequent legislation, regulations and interpretations thereof will not have an adverse effect on a Fund’s investment performance or any investor’s after-tax returns from a Fund.

Tax and Distributions; Phantom Income.

Due to possible difference between the allocation of gain or income for any tax purposes and distribution of cash relating to gain or income (including possible timing differences), there can be no assurance that investors who are subject to tax on the allocated gain or income will receive distributions sufficient to satisfy their tax liabilities fully. Further, there can be no assurance that a Fund will have sufficient cash flow to enable them to make distributions in the amount necessary for payment of all tax liability resulting from that investor’s ownership of an interest in such Fund.

U.S. Federal Income Tax Liability Resulting from IRS Audits.

U.S. federal income taxes arising from a U.S. Internal Revenue Service (“IRS”) audit will be paid by the Funds absent an election to the contrary. In addition, a “partnership representative” will have the power to act on behalf of a Fund and its investors in all IRS audits and other proceedings involving such Fund’s U.S. federal income, loss, deductions, and credits.

Delayed Tax Information.

The Funds may not be able to provide final tax filing information to investors for any given fiscal year until after the initial tax filing deadlines for investor tax returns. Accordingly, investors

should plan to obtain extensions of the filing dates for their income tax returns. Each prospective investor should consult with its own adviser as to the advisability and tax consequences of an investment in the Funds.

Uncertain Economic, Social and Political Environment.

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

General Economic and Market Conditions.

The private equity industry generally and the success of the Funds' investment activities specifically will be affected by general economic and market conditions, as well as by changes in laws, currency exchange controls, and national and international political and socioeconomic circumstances. Such factors are unpredictable and cannot be controlled by the KLH and/or General Partner. Moreover, governmental measures undertaken in response to such turmoil (whether regulatory or financial in nature) may have a negative effect on market conditions. General fluctuations in the market prices of securities and economic conditions generally may reduce the availability of attractive investment opportunities for the Funds and may affect each Fund's ability to make investments. Instability in the securities markets and economic conditions generally (including a slow-down in economic growth and/or changes in interest rates or foreign exchange rates) may also increase the risks inherent in the Funds' investments and could have a negative impact on the performance and/or valuation of the Funds' Portfolio Companies. The Funds' performance can be affected by deterioration in the capital markets and by market events, including events similar to the credit crisis in the summer of 2007 or the downgrading of the credit rating of the U.S. 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 each Fund's performance. Volatility and illiquidity in the financial sector may have an adverse effect on the ability of the Funds to sell and/or partially dispose of their Portfolio Company investments. Such adverse effects may include the requirement of a Fund to pay break-up, termination or other fees and expenses in the event such Fund is not able to close a transaction (whether due to the lenders' unwillingness to provide previously committed financing or otherwise) and/or the inability of the Fund to dispose of investments at prices that KLH and/or General Partner believes reflect the fair value of such investments. The impact of market and other economic events may also affect the Funds' ability to raise funding to support their investment objectives.

Deterioration of Credit Markets May Affect Ability to Finance and Consummate Investments.

In the event that the global credit markets deteriorate and it becomes more difficult for investment funds such as the Funds to obtain favorable financing for investments, the Funds' ability to generate attractive investment returns may be adversely affected. Moreover, to the extent that such deterioration is not temporary and continues, it 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 deterioration also may restrict the ability of the Funds to realize their investments at favorable times or for favorable prices.

Adequacy and Availability of Insurance.

While the Funds may seek to make investments where insurance and other risk management products (to the extent available on commercially reasonable terms) are utilized to mitigate the potential loss resulting from catastrophic events and other risks customarily covered by insurance, this may not always be practicable or feasible. Moreover, it will not be possible to insure against all such risks, and such insurance proceeds as may be derived in a timely manner from covered risks may be inadequate to completely or even partially cover a loss of revenues, an increase in operating and maintenance expenses and/or a replacement or rehabilitation. Certain losses of a catastrophic nature, such as those caused by wars, earthquakes, terrorist attacks or other similar events, may be either uninsurable or insurable at such high rates as to adversely impact a Fund's profitability.

Material Non-Public Information.

As a result of the operations of KLH and its affiliates, KLH may come into possession of confidential or material, non-public information. Therefore, KLH and its affiliates may have access to material, non-public information that may be relevant to an investment decision to be made by a Fund. Consequently, such Fund may be restricted from initiating a transaction or selling an investment which, if such information had not been known to it, may have been undertaken on account of applicable securities laws or KLH's internal policies. Due to these restrictions, a Fund may not be able to make an investment that it would otherwise might have made or sell an investment that it otherwise might have sold.

Conflict of Interest.

Investors should be aware that various actual and potential conflicts will arise from the overall investment activities of the Funds, KLH, a General Partner and their respective affiliates. The following discussion identifies certain potential conflicts of interest that should be carefully considered before making an investment in a Fund. In addition, investors should be aware that the KLH, a General Partner and their respective personnel may in the future engage in further activities that may result in additional conflicts of interest not addressed below. There can be no assurance that KLH or a General Partner will identify or resolve all conflicts of interest and, if resolved, that such conflicts will be resolved in a manner that is favorable to the Funds.

Until such time as KLH and/or a General Partner is permitted under the Governing Documents to raise a successor investment fund to the Funds, the principals generally will pursue substantially all appropriate investment opportunities that meet the investment criteria of each Fund

principally for the benefit of each Fund, subject to certain exceptions set forth in each Fund's Governing Documents. However, the principals currently, and may in the future, manage several other investment funds besides the Funds and investments similar to those in which the Funds will be investing and may direct certain relevant investment opportunities to those investment funds and investments. Over time, certain investment opportunities suitable for the Funds are likely also to be suitable for other investment funds sponsored by KLH, a General Partner or their affiliates. In determining which investment funds should participate in such investment opportunities, subject to the relevant Governing Documents, KLH, a General Partner, the principals and their affiliates are subject to potential conflicts of interest among the investors in a Fund and investors in the other investment funds sponsored by KLH, a General Partner and the principals. To determine whether the Fund or other investment funds sponsored by the General Partner or its affiliates will participate in the relevant investment opportunity, the General Partner generally assesses whether an investment opportunity is appropriate for each relevant fund based on the terms of such fund's limited partnership agreement, as well as factors including, but not limited to: each fund's investment restrictions and objectives (including those set forth in the relevant fund's partnership agreements, where applicable), strategy, capital structure, risk profile, time horizon, investment size, tax sensitivity, tolerance for turnover, asset composition, cash level (if any), applicable regulatory restrictions, life cycle and structure. The Fund may invest together with other funds advised by an affiliated adviser of the General Partner in the manner set forth in the relevant partnership agreements. The General Partner will determine the allocation of investment opportunities among funds in a manner that it believes is fair and equitable consistent with the General Partner's obligations and may take into consideration factors such as those set forth above. In the event that the available amount of an investment opportunity in which the Fund will invest exceeds an amount appropriate for the Fund, such excess may also be offered to one or more potential investors.

The General Partner's allocation of investment opportunities among the Fund and any of the other investment funds sponsored by the General Partner or an affiliate thereof may not always, and often will not, be proportional. Therefore, such allocations may be more advantageous to the Fund relative to one or all of the other investment funds, or vice versa. While the General Partner will allocate investment opportunities in a way that it believes in good faith is fair and equitable to the Fund, there can be no assurance that the Fund's actual allocation of an investment opportunity, if any, or terms on which the allocation is made, will be as favorable as they would be if the conflicts of interest to which the General Partner may be subject did not exist.

Additionally, conflicts of interest can arise if the Fund makes an investment in a Portfolio Company in conjunction with an investment made by another investment fund sponsored by the General Partner or an affiliate. For instance, the Fund may not invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as such other investment fund. This may result in differences in price, investment terms, leverage and associated costs between the Fund and any other investing fund sponsored by the General Partner or an affiliate. There can be no assurance that the Fund and the other investing fund(s) will exit the investment at the same time or on the same terms, and there can be no assurance that the Fund's return on such an investment will be the same as the returns achieved by any other investment fund participating in the transactions. Given the nature of these conflicts, there can be no assurance that the resolution of these conflicts will be beneficial to the Fund.

The General Partner may be faced with a variety of potential conflicts of interest when it determines allocations of various fees and expenses to the Fund. The General Partner, in its sole discretion, will allocate fees and expenses in accordance with the Partnership Agreement and in a manner that it believes in good faith is fair and equitable to the Fund under the circumstances and considering such factors as it deems relevant. The allocations of such expenses may not be proportional, and any such determinations involve inherent matters of discretion, e.g., in determining whether to allocate pro rata based on the number of funds or co-investors receiving related benefits or proportionately in accordance with asset size.

The Fund intends to make controlling investments in Portfolio Companies. As a result of these significant investments, the Fund may have the right to appoint Portfolio Company board members (including current or former General Partner personnel or persons serving at their request), or to influence their appointment, and to determine or influence the determination of their compensation. Additionally, from time to time, Portfolio Company board members approve compensation and other amounts payable to the General Partner in connection with services provided by the General Partner and its affiliates to such Portfolio Company, and, except to the extent such amounts are subject to the Partnership Agreement's offset provision, are in addition to the Management Fee or carried interest discussed herein. The General Partner's authority to appoint or influence the appointment of Portfolio Company board members who may be involved in approving compensation payable to the General Partner subjects the General Partner and any such Portfolio Company board appointees to potential conflicts of interest.

Additionally, a Portfolio Company typically will reimburse the General Partner or service providers retained at the General Partner's discretion for expenses (including, without limitation, travel expenses) incurred by the General Partner or such service providers in connection with the performance of services for such Portfolio Company. This subjects the General Partner to conflicts of interest because the Fund generally does not have an interest or share in these reimbursements, and the amount of such reimbursements over time is expected to be substantial. Subject to the Partnership Agreement and its internal reimbursement policies and practices, the General Partner determines the amount of these reimbursements for such services in its own discretion.

The General Partner may also, from time to time, employ personnel with pre-existing ownership interests in or who were employed by Portfolio Companies owned by the Fund or other funds or investment vehicles advised by the General Partner or an affiliate; conversely, former personnel or executives of the General Partner may serve in significant management roles at Portfolio Companies or service providers recommended by the General Partner. Similarly, the General Partner and/or its personnel maintain relationships with (or may invest in) financial institutions, service providers and other market participants, and their respective affiliates and personnel, including managers of private funds, banks, brokers, advisors, consultants, finders (including executive finders and Portfolio Company finders), executives, attorneys, accountants, institutional investors, family offices, lenders, current and former employees and current and former Portfolio Company executives, as well as certain family members or close contacts of these persons. Certain of these persons or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, the General Partner, and/or the Fund, other funds or other investment vehicles the General Partner or an affiliate advises. The General Partner may have a conflict of interest with the Fund in recommending the retention or continuation of a third-party service provider to the Fund or a Portfolio Company owned

by the Fund if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more funds the General Partner or an affiliate advises, will provide the General Partner information about markets and industries in which the General Partner operates (or is contemplating operations) or will provide other services that are beneficial to the General Partner. The General Partner may have a conflict of interest in making such recommendations, in that the General Partner has an incentive to maintain goodwill between itself and the existing and prospective Portfolio Companies for the Fund and other funds and investment vehicles that the General Partner or an affiliate advises, while the products or services recommended may not necessarily be the best available to the Portfolio Companies held by the Fund.

Over the life of the Fund, the General Partner generally expects to exercise its discretion to recommend to the Fund or to a Portfolio Company thereof that it contract for services with various service providers, potentially including, among others: (i) the General Partner (or an affiliate, which may include other Portfolio Companies of the Fund or other investment funds sponsored by the General Partner or an affiliate) and at rates determined or substantively influenced by the General Partner; (ii) an entity with which the General Partner or its affiliates or current or former members of their personnel has a relationship or from which such person derive a financial or other benefit; or (iii) a Limited Partner (or a limited partner of another fund) or its affiliates. This subjects the General Partner to potential conflicts of interest, because although it intends to select service providers that it believes are aligned with its operational strategies and that will enhance Portfolio Company performance, the General Partner may have an incentive to recommend the related or other person because of its financial or business interest. Additionally, there is a possibility that the General Partner, because of such incentive or for other reasons (including whether the use of such persons could establish, recognize, strengthen or cultivate relationships that have the potential to provide longer-term benefits to the General Partner, the Fund or other investment funds sponsored by the General Partner or its affiliates), may favor such retention or continuation even if a better price and/or quality of service provider could be obtained from another person. Whether or not the General Partner has a relationship with or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

The fact that the General Partner's carried interest is based on a percentage of net profits may create an incentive for the General Partner to cause the Fund to make riskier or more speculative investments or to hold an investment longer than otherwise would be the case. In addition, because the Fund has a fixed investment period after which capital from Limited Partners generally may only be drawn down in limited circumstances, and because the Management Fee is, at certain times during the life of the Fund, calculated based upon the invested capital the Fund, the Management Fee structure may create an incentive for the General Partner to deploy capital when it might not otherwise have done so.

Possibility of Fraud or Other Misconduct of Employees and Service Providers.

Misconduct by (i) KLH employees, (ii) Portfolio Company directors, officers or employees, and (iii) service providers to the foregoing and/or their respective affiliates could undermine the due diligence efforts of the Fund and/or the General Partner and cause significant losses to the Fund. Misconduct may include entering into transactions without authorization, the failure to comply with

operational and risk procedures, including due diligence procedures, misrepresentations as to investments being considered by the Fund, the improper use or disclosure of confidential or material non-public information, which could result in litigation or serious financial harm, including limiting the Fund's business prospects or future marketing activities, and non-compliance with applicable laws or regulations (and the concealing of any of the foregoing). Such activities may result in reputational damage, litigation, business disruption, market or industry segment volatility and/or financial losses to the Fund. KLH has controls and procedures through which it seeks to minimize the risk of such misconduct occurring; however, no assurances can be given that such misconduct will be able to be identified or prevented.

Unfunded Pension Liabilities of Portfolio Companies.

Recent court decisions have found that, where an investment fund owns 80% or more (or under certain circumstances less than 80%) of a Portfolio Company, such fund (and any other 80%-owned Portfolio Companies of such fund) might be found liable for certain pension liabilities of such a Portfolio Company to the extent the Portfolio Company is unable to satisfy such liabilities. Although the Fund intends to manage its investments to minimize any such exposure, the Fund may, from time to time, invest in a Portfolio Company that has unfunded pension fund liabilities, including structuring the investment in a manner where the Fund may own an 80% or greater interest in such a Portfolio Company. If the Fund (or other 80%-owned Portfolio Companies of the Fund) were deemed to be liable for such pension liabilities, this could have a material adverse effect on the operations of the Fund and the companies in which the Fund invests. This discussion is based on current court decisions, statute and regulations regarding control group liability under ERISA, as in effect as of the date of this Memorandum, which may change in the future as the case law and guidance develops.

Valuation of Assets.

There is not expected to be an actively traded market for most of the securities owned by the Fund. When estimating fair value, the General Partner will apply a methodology it determines to be appropriate based on accounting guidelines and the applicable nature, facts and circumstances of the respective investments. However, the process of valuing securities for which reliable market quotations are not available is based on inherent uncertainties and the resulting values may differ from values that would have been determined had an active market existed for such securities and may differ from the prices at which such securities ultimately may be sold. The exercise of discretion in valuation by the General Partner may give rise to conflicts of interest, including in connection with determining the amount and timing of distributions of carried interest and the calculation of Management Fees.

Co-Investments.

The General Partner may, in its sole discretion, provide or commit to provide co investment opportunities to one or more Limited Partners and/or other persons (including Operations Group members), in each case on terms to be determined by the General Partner in its sole discretion. Conflicts of interest may arise in the allocation of such co-investment opportunities. The allocation of co-investment opportunities, which may be made to one or more persons for any number of reasons as determined by the General Partner in its sole discretion, may not be in the best interests

of the Fund or any individual Limited Partner. In exercising its sole discretion in connection with such co-investment opportunities, including with respect to allocating a particular investment to and among potential co-investors and determining the terms thereof, the General Partner may consider some or all of a wide range of factors (some or all of which may benefit the General Partner or its affiliates), including, but not limited to: (i) the ability of a potential co investor to react promptly to a co-investment opportunity; (ii) any strategic advantages that may result from a potential co investor's participation in a co-investment opportunity; (iii) a potential co investor's Commitment to the Fund and/or commitment to one or more Other KLH Funds; (iv) the likelihood that a potential co investor may invest in the Fund and/or a future Other KLH Funds; (v) the potential co-investor's investable assets relative to the size of the co-investment opportunity; (vi) tax, regulatory and/or securities law considerations (e.g., qualified purchaser or qualified institutional buyer status); (vii) confidentiality concerns that may arise in connection with providing the potential co-investor with specific information relating to the co-investment opportunity; (viii) whether the potential co-investor's participation in an investment opportunity may subject the relevant KLH fund to legal, regulatory, reporting or other burdens or could impair the ability of either the General Partner or KLH to execute the relevant transaction in the desired time or on desired terms; (ix) the size of the investment allocation and practicality of dividing it among multiple potential co-investors; (x) lender requirements; and/or (xi) whether the General Partner or KLH believes that allocating investment opportunities to the potential co-investor will help establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the Fund or Other KLH Funds. Furthermore, decisions regarding whether and to whom to offer co-investment opportunities may be made by the General Partner in consultation with other participants in the relevant transactions, such as a co-sponsor. Additionally, from time to time, certain service providers (e.g., lenders) seek to negotiate co-investment rights as a component of their compensation or in exchange for granting better terms to KLH, a fund or Portfolio Company in connection with the services provided. Co-investment opportunities may, and typically will, be offered to some and not to other Limited Partners. The General Partner's allocation of co-investment opportunities generally will not result in allocations that are proportional to the amounts committed, if any, by the relevant potential co investors to the Fund, any Other KLH Funds or any other co-investment vehicle, and such allocations may be more or less advantageous to some persons or entities than to others.

The Fund may co-invest with third parties through partnerships, joint ventures or other entities or arrangements. Such investments may involve risks not present in investments where a third-party is not involved, including the possibility that a third-party co venturer or partner may at any time have economic or business interests or goals that are inconsistent with those of the Fund, or may be in a position to take action contrary to the investment objectives of the Fund. In addition, the Fund may in certain circumstances be liable for actions of its third-party co-venturer or partner. There can be no assurance that the Fund's return from a transaction would be equal to and not less than the return of another party that was allocated a co-investment opportunity and that is participating in the same transaction.

Furthermore, decisions regarding whether and to whom to offer co-investment opportunities may be made by the General Partner or its related persons in consultation with other participants in the relevant transactions, such as a co-sponsor. Co-investment opportunities may, and typically will, be offered to some and not to other Limited Partners. When and to the extent that employees and related persons of the General Partner make capital investments in or alongside the Fund, the

General Partner is subject to conflicting interests in connection with these investments. The General Partner's allocation of co-investment opportunities among the persons and in the manner discussed herein may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others.

Contingent Liabilities Upon Disposition.

In connection with the disposition of an investment, the Fund and/or the General Partner may be required to make (and/or be responsible for another person's or entity's breach of) representations and warranties, e.g., about the business and financial affairs of the applicable Portfolio Company, the condition of its assets and the extent of its liabilities, in each case generally in the nature of representations and warranties typically made in connection with the sale of similar businesses, and may be responsible for the content of disclosure documents under applicable securities laws. The Fund and/or the General Partner may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents are inaccurate. These arrangements may result in contingent liabilities, which would be borne by the Fund and, ultimately, its investors. In such a situation, Limited Partners may be required to return distributions received by them to pay such indemnification obligations, subject to certain limitations provided in the Partnership Agreement. Furthermore, under the Delaware Revised Uniform Limited Partnership Act, each Limited Partner that receives a distribution in violation of such Act will, under certain circumstances, be obligated to recontribute such distribution to the Fund.

Cybersecurity Risks and Identity Theft.

Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject. The Fund and its Portfolio Companies' information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquake. Although the General Partner intends to implement various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, the General Partner, the Fund and/or a Portfolio Company may incur specific time or expense to fix or replace them and to seek to remedy the effects of such issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the General Partner's, the Fund's and/or a Portfolio Company's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm the General Partner's, the Fund's and/or a Portfolio Company's reputation, subject any such entity and its respective affiliates to legal claims and/or regulatory actions or otherwise affect their business and financial performance. To the extent that a Portfolio Company is subject to cyber-attack or other unauthorized access is gained to a Portfolio Company's systems, such Portfolio Company may be subject to substantial losses in the form of stolen, lost or corrupted (i) customer data or payment information; (ii) customer or Portfolio Company financial information; (iii) Portfolio Company software, contact lists or other databases; (iv) Portfolio Company proprietary information or trade secrets; or (v) other items. In certain events, a Portfolio Company's failure or deemed failure to address and mitigate cybersecurity risks

may be the subject of civil litigation or regulatory or other action. Any of such circumstances could subject a Portfolio Company, or the Fund, to substantial losses. In addition, in the event that such a cyber-attack or other unauthorized access is directed at the General Partner or one of its affiliates or service providers holding its financial or investor data, the General Partner, its affiliates or the Fund may also be at risk of loss.

Agreements with Certain Investors.

The Fund and/or the General Partner may enter into a side letter or other similar agreement with a particular Limited Partner in connection with its admission to the Fund without the approval of any other Limited Partner, which would have the effect of establishing rights under, altering or supplementing the terms of, or confirming the interpretation of an applicable Fund document (including the Partnership Agreement and any related subscription agreement) with respect to such Limited Partner in a manner more favorable to such Limited Partner than those applicable to other Limited Partners, and such rights may be significant. Such rights, terms or confirmations in any such side letter or other similar agreement may include, without limitation, (i) excuse, exclusion or withdrawal rights applicable to particular investments or Limited Partners (which may increase the percentage interest of other Limited Partners in, and contribution obligations of other Limited Partners with respect to, certain investments); (ii) reporting obligations of the General Partner; (iii) waiver of certain confidentiality obligations; (iv) consent of the General Partner to certain transfers by such Limited Partner; or (v) rights or terms necessary in light of particular legal, regulatory or public policy characteristics of such Limited Partner.

Disclosure of Confidential Fund and Investor Information.

The Limited Partners are expected to include entities that are subject to public disclosure requirements, including state public records or similar freedom of information laws which may compel public disclosure of confidential information regarding the Fund, its investments and its investors. There has been a recent increase in the number of requests under such laws for contracts (including partnership agreements, subscription agreements and side letters) that investors in private equity funds that are subject to such laws have in place with private equity funds. The Fund may incur expenses in connection with responding to any such disclosure requests, even if the Fund ultimately succeeds in asserting confidentiality for any requested documentation. Moreover, notwithstanding the obligation that the Limited Partners will have pursuant to the Partnership Agreement to maintain the confidentiality of the Fund information, there can be no assurance that such information will not be disclosed either publicly or to regulators, law enforcement or otherwise. The General Partner may also in certain circumstances, in an effort to protect any such potential disclosure, withhold all or any part of the information otherwise to be provided to such a Limited Partner, as more fully described in the Partnership Agreement. There can be no assurance that such information will not be disclosed by the Fund, the General Partner, KLH, their affiliates and personnel, Portfolio Companies or services providers to any of them including, without limitation, to comply with laws, regulations or policies to which they are or may become subject. In addition, under the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, the U.S. Securities and Exchange Commission SEC has the authority to require private equity fund advisers, such as KLH, to file additional reports with the SEC regarding their funds and investment activities. Any public disclosure of the Fund information could have an adverse effect on the Fund and its investors, for example, by affecting the Fund's competitive advantage in finding attractive

investment opportunities.

The forgoing risks do not purport to be a complete explanation of all the risks involved in acquiring a limited partnership interest in a Fund. Prospective investors should also read the applicable Governing Documents for a Fund prior to making an investment in such Fund.

ITEM 9 – DISCIPLINARY INFORMATION

KLH and its employees have no information to disclose that is applicable to this item.

ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Each General Partner of a Fund is affiliated with KLH by common ownership. As described in Item 6, a General Partner is entitled to receive performance-based compensation from a Fund which may in certain circumstances, create a conflict of interest. KLH has adopted certain policies relating to the allocation of investments among the Funds, as described in [Item 6 and] the Funds' relevant Governing Documents.

As described in Item 4, KCM is an affiliate of KLH. Certain principals of KLH maintain a direct or indirect ownership interest in KCM. KCM manages privately offered pooled investment vehicles with the same or similar investment objectives and strategies as the Funds.

ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Code of Ethics (Including Personal Trading)

KLH has adopted a written code of ethics (the “Code”) that is applicable to all employees in accordance with Rule 204A-1 under the Advisers Act. Among other things, the Code requires that KLH and its employees act in the Funds’ best interests, abide by all applicable laws and regulations, adhere to an insider trading policy to prevent the misuse of material non-public information, and pre-clear and report certain personal securities transactions. KLH’s restrictions on personal securities trading apply to employees, as well as employees’ family members living in the same household. A copy of KLH’s Code is available upon request.

The Chief Compliance Officer monitors employee trading, relative to Fund trading, to guard against employees engaging in improper transactions. The Chief Compliance Officer does not grant preclearance where it would appear that an employee’s trading could disadvantage the Funds. To avoid any potential conflicts of interest involving personal trades, KLH’s Code requires employees to (i) pre-clear certain personal securities transactions, (ii) report personal securities transactions on at least a quarterly basis, and (iii) provide KLH with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest.

KLH generally intends to avoid any transaction that constitutes a “principal transaction” within the meaning of Section 206(3) of the Advisers Act. In such a transaction, an adviser acts as principal for its own account with respect to the sale of a security to, or purchase of a security from, its client. If, however, KLH determines such a transaction is in the best interests of a Fund, the Adviser may enter into such transaction provided the Adviser has met: (i) the Advisers Act requirements with respect to such a transaction, including the relevant disclosure requirements and the requirement to obtain the informed consent of the Fund; and (ii) any requirements imposed by the Governing Documents.

Participation or Interest in Client Transactions

KLH has the discretion to manage investments of the Funds, as described in Item 16. KLH’s principals have a material financial interest in these investments through their interests in a General Partner of a Fund. Similarly, KLH principals may personally make investments in certain companies prior to KLH investing in such companies. Such investments by KLH’s principals may present a potential conflict of interest. KLH has designed written policies to ensure compliance with the provisions of the Governing Documents, as applicable, addressing potential conflicts of interests involving KLH and its affiliates.

Allocation of Investments

KLH and/or its affiliates currently manage more than one investment fund and may in the future manage one or more other investment funds besides the Funds. In determining which investment funds should participate in such investment opportunities, subject to the relevant Governing

Documents, KLH and/or its affiliates are subject to potential conflicts of interest among the investors in the Funds and investors in the other funds managed by KLH and/or its affiliates. To determine whether a Fund or other investment funds sponsored by KLH and/or its affiliates will participate in the relevant investment opportunity, KLH and/or its affiliates generally assesses whether an investment opportunity is appropriate for each relevant Fund based on the terms of such Fund's Governing Documents, as well as factors including, but not limited to, each Fund's investment restrictions and objectives (including those set forth in the relevant fund's partnership agreements, where applicable), strategy, capital structure, risk profile, time horizon, investment size, tax sensitivity, tolerance for turnover, asset composition, cash level (if any), applicable regulatory restrictions, life cycle and structure. KLH will allocate investments to the Funds and in a manner that it believes in good faith is fair and equitable to each Fund under the circumstances and considering such factors as it deems relevant.

Co-Investment Opportunities

KLH and/or its affiliates may form other partnerships or similar entities to co-invest in a Portfolio Company. As noted in Items 4 and 8, co-investment opportunities may be offered to one or more investors, and/or other persons (including KLH affiliates and/or employees). Decisions regarding whether and to whom to offer co-investment opportunities may be made by KLH and/or its affiliates in consultation with other participants in the relevant co-investment opportunity. Conflicts of interest may arise in the allocation of such co-investment opportunities.

ITEM 12 – BROKERAGE PRACTICES

Due to the nature of the investments the Funds make, KLH does not ordinarily deal with any financial intermediary such as broker-dealers. To the limited extent KLH transacts in public securities, it intends to select brokers based on the broker's ability to provide best execution for a Fund.

KLH does not affect soft dollar arrangements (that is, arrangements under which research and certain other services are acquired in connection with brokerage arrangements). If the Adviser determines to do so, it will endeavor to do so within the "safe harbor" provided by Section 28(c) of the Securities and Exchange Act of 1934.

ITEM 13 – REVIEW OF ACCOUNTS

Portfolio Companies are monitored on an ongoing basis by KLH and the Investment Committee. Because investments made by the Funds are generally private, illiquid and long-term in nature, KLH's review process is not directed toward a short-term decision to dispose of securities. However, the Investment Committee closely monitors the Portfolio Companies to confirm that each Fund is maintained in accordance with its stated objectives. This includes regular phone calls and meetings with management, review of monthly financial statements, and service as a director on a Portfolio Company's board.

In accordance with the relevant Governing Documents, KLH provides or will provide each Fund's investors with annual audited financial statements of the respective Fund.

ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

As the advisory clients are private investment funds, KLH does not provide compensation for client referrals under Rule 206(4)-3.

In connection with the marketing and sale of interests of Fund IV, one or more placement agents may be engaged and compensated in accordance with the relevant Governing Documents.

ITEM 15 – CUSTODY

KLH is deemed to have custody of the Funds' cash and securities in accordance with Rule 206(4)-2 under the Advisers Act (the "Custody Rule") because KLH and/or the General Partner has authority to direct and dispose of the Funds' assets. KLH will comply with the Custody Rule requirements by subjecting the Funds to an annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board.

KLH Capital Fund I, L.P., KLH Capital Fund II, L.P., and KLH Capital Fund III, L.P.'s audited financial statements are expected to be prepared in accordance with the Small Business Investment Act of 1958, as amended, and the rules and regulations thereunder and interpretations thereof promulgated by SBA. Fund IV's audited financial statements are expected to be prepared in accordance with generally accepted accounting principles and distributed to the Fund's investors within 120 days of its fiscal year end. Additionally, the Funds' audited financial statements are expected to be prepared in accordance with generally accepted accounting principles and distributed to the relevant Fund's investors within 120 days of its fiscal year end.

ITEM 16 – INVESTMENT DISCRETION

KLH has discretion to manage investments for the Funds without the consent of the relevant investors, subject to certain limitations set forth in the relevant Governing Documents. However, the management and the conduct of each Fund remain the ultimate responsibility of such Fund's General Partner.

ITEM 17 – VOTING CLIENT SECURITIES

Proxy Voting

The Funds invest in private companies, which typically do not issue proxies. KLH has adopted and implemented written policies and procedures governing the voting of securities (the “Proxy Voting Policy”), in the event KLH is required to vote proxies on behalf of the Funds. In accordance with the Proxy Voting Policy, all proxies that KLH receives in connection with a Portfolio Company, will be treated in the best interest of the relevant Fund.

When voting Fund proxies, KLH will take into consideration all relevant factors, including without limitation, acting in a manner that KLH believes will (i) maximize the economic benefits to the Fund and (ii) generally promote sound corporate governance by the issuer. Occasionally, KLH may be required to exercise a vote for a privately-held Portfolio Company, in which case the same procedures shall apply.

KLH will seek to avoid material conflicts of interest between itself and the Funds. If KLH identifies a material conflict of interest, KLH will take additional steps such as engaging outside counsel to review the material conflict of interest and make a recommendation and/or abstain from voting if it deems it is in a Fund’s best interests.

Class Actions

KLH has also developed policies and procedures regarding the Funds’ participation in class actions (the “Class Action Policy”). KLH will determine whether a Fund will (a) participate in a recovery achieved through a class action, or (b) opt out of the class action and separately pursue its own remedy. KLH may also outsource to a third-party vendor the pursuit of recoveries on behalf of the Funds.

A copy of KLH’s Proxy Voting Policy and Class Action Policy, and specific information about how KLH has voted proxies in the past, is available upon written request.

ITEM 18 – FINANCIAL INFORMATION

KLH does not require prepayment of Management Fees more than six months in advance or is aware of any other events requiring disclosure under this item of the Brochure.