

Item 1: Cover Page



2 Sound View Drive
Greenwich, CT 06830

Part 2A of Form ADV

www.tower3partners.com

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This brochure provides information about the qualifications and business practices of Tower Three Partners LLC. If you have any questions about the contents of this brochure, please contact us at (203) 485-5800 or via email at dbricker@tower3partners.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Tower Three Partners LLC is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2: Material Changes

Tower Three Partners LLC is submitting this ADV Part 2 as part of its annual amendment.

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Item 4: Advisory Business

Tower Three Partners LLC (“Tower Three”) has been in business since November 2, 2007. Tower Three is principally owned by William D. Forrest. Tower Three is headquartered in Greenwich, Connecticut.

Tower Three, through its affiliated management entities, serves as the investment manager of Tower Three Partners Fund I LP (“Fund I”), and Tower Three Partners Fund II LP (“Fund II”) (each, a “Fund”, and together, the “Funds”), which are private pooled investment vehicles. As of December 31, 2018, Tower Three managed \$241.8 million on a discretionary basis on behalf of the Funds.

The Funds primarily focus on making controlling investments in U.S. based middle market companies that are underperforming their potential or facing significant challenges. Tower Three exercises oversight of its investments through representation on the board of directors of its portfolio companies by one or more members of senior management.

As the investment adviser to the Funds, Tower Three is responsible for evaluating and monitoring the Fund’s investments and provides periodic reports to the investors of each Fund as well as administrative services. Investors and prospective investors in a Fund should refer to the respective Funds offering documents, including its Limited Partnership Agreement and Private Placement Memorandum for complete information on the specific terms, including objectives and investment restrictions.

For additional discussion of the Funds, and their investment objectives and risks, please see response to Item 8.

Item 5: Fees and Compensation

Management Fee

The Funds will pay an annual management fee (the “Management Fee”) to Tower Three payable quarterly in advance equal to 2% per annum, based on the total amount of committed capital in the Fund during a defined commitment period. Thereafter, the management fee is reduced as its basis shifts from aggregate capital commitments to invested capital. Such fees are pro-rated for any period that is less than a full calendar quarter.

Tower Three has the right to contract for and receive Transaction Fees, Break-up Fees, portfolio company management fees and Directors’ Fees in connection with the activities of the Funds. Such fees are retained in full by Tower Three; however, a percentage (e.g. 50% -100%) of such fees received reduces management fees otherwise payable by the applicable fund. Tower Three may receive these fees regardless if a Fund profits from an investment.

Detailed information regarding management fees and offsets for each fund is contained in the respective Fund’s offering documents and Limited Partnership Agreements. Investors should not consider an investment in a Fund without fully understanding the Fund’s management fee structure.

Performance-Based Fee

The Funds are subject to a carried interest of 20% of profits on distributions from the disposition of investments (after taking into account limited partner expenses of the Fund, including management fees) and following a preferred return of 8% to the Investors, which is paid to affiliates of Tower Three.

Fund Expenses

Detailed information regarding the fees charged to each Fund is provided in the respective Fund's offering documents and Limited Partnership Agreements. In addition to management fees and carried interest, the Funds will bear all legal, organizational and offering expenses, including the out-of-pocket expenses of Tower Three and its agents, actually incurred in the formation of the Funds. The Funds will also pay all costs and expenses relating to its respective operations, including, but not limited to: legal, auditing, consulting and accounting fees and expenses (including costs of reports to the Partners, financial statements, tax returns and K-1s), expenses of meetings of the LP Advisory Committee and of Limited Partners, expenses incurred in connection with the maintenance of the Partnership's books of account and the preparation of audited or unaudited financial statements required to implement the provisions of this Agreement, directors and officers liability insurance premiums allocable to the Funds, all extraordinary expenses (such as litigation), all expenses relating to unconsummated transactions, fees and expenses incurred in sourcing, evaluating and negotiating investment opportunities, including expenses related to third party services providers which may include research and valuation providers, and fees and expenses incurred in managing the Funds' investments. Out-of-pocket expenses also include meals, entertainment, lodging and travel expenses, which may include travel by way of private or non-commercial aircraft. Tower Three will be responsible for its own operations, including rent, salaries and benefits, furniture and fixtures and all other office equipment.

Further, the Fund will bear the costs associated with sourcing, evaluating and negotiating investment opportunities incurred by Partners (who may be compensated by the Fund) even though the opportunity may not be pursued by the Fund and the Partners act independently.

For more specific discussion of fees and expenses paid by investors please refer to the private placement memorandum and the Limited Partnership Agreement for each of the Funds. The fees and expenses borne by a Fund are negotiated with the Investors during such Fund's fundraising period. Investors should review all fees charged by Tower Three to fully understand the total amount of fees paid by the Fund.

Reserves

Each General Partner may, in its discretion, retain on behalf of a Fund any amount (which would otherwise be distributed to the partners in accordance with the applicable Fund's governing documents) which it deems prudent as reserves to meet future Fund expenses or liabilities.

Pro-rata Fees

Due to the nature of the Funds, clients will be committed to investing a specified amount into a Fund at designated times. Clients will not generally be permitted to withdraw from a Fund or become an investor in a Fund after that Fund closes. Clients who invest in a Fund subsequent to the first closing of that Fund will be required to (a) purchase from the first closing investors their pro-rata share of any investments made by the Fund; (b) reimburse the first closing investors for their pro-rata share of Management Fees and expenses incurred by the Fund since the first close; and (c) pay interest to the first close investors. Accordingly, there will be no need to calculate pro-rata fees.

Compensation for the Sale of Securities

None of the employees of Tower Three is a registered representative of a broker-dealer. None of the employees of Tower Three will receive any compensation for executing trades on behalf of a Fund aside from Tower Three's receipt of fees described above.

Other Professionals

Tower Three and its affiliates also engage and retain senior advisors, consultants, operating partners and other similar professionals who are not employees or affiliates of Tower Three and who will, from time to time, receive payments from, or allocations with respect to, portfolio companies. The nature of the relationship with each of the senior advisors, consultants, operating partners and/or other professionals and the amount of time devoted or required to be devoted by them varies considerably. In certain cases, they provide the Funds, and/or Tower Three with industry-specific insights and feedback on investment themes, assist in transaction due diligence, make introductions to and provide reference checks on management teams. In other cases, they may take on more extensive roles and serve as executives or directors on boards of portfolio companies or contribute to the origination of new investment opportunities. In certain instances, Tower Three may have formal arrangements with these senior advisors, consultants, operating partners and/or other professionals (which may or may not be terminable upon notice by any party), and in other cases the relationships may be more informal. They may be compensated (including pursuant to retainers and expense reimbursement) from Tower Three, Funds and/or portfolio companies or otherwise uncompensated unless and until an engagement with a portfolio company develops. In such circumstances, such payments from, or allocations with respect to, portfolio companies and/or the Funds will not, even if they have the effect of reducing any retainers or minimum amounts otherwise payable by Tower Three, be deemed paid to or received by Tower Three and such amounts will not be subject to the offset provisions as described above. These senior advisors, consultants, operating partners and/or other professionals may have the right or may be offered the ability to co-invest alongside the Funds, including in those investments in which they are involved, or otherwise participate in equity plans for management of any such portfolio company. There can be no assurance that any of the senior advisors, consultants, operating partners and/or other professionals will continue to serve in such roles and/or continue their arrangements with Tower Three and/or any portfolio companies throughout the terms of Funds.

Item 6: Performance Based Fees

As discussed in the Fees and Compensation section of this Brochure, the Funds are subject to a carried interest of 20%, which is paid to General Partners that are affiliated with Tower Three. This carried interest is derived from profits on dispositions of investments (after taking into account limited partner expenses of the Fund, including management fees) and following a preferred return of 8% to the Investors.

For more specific discussion in determining when the General Partner is entitled to receive carried interest please refer to the private placement memorandum and Limited Partnership Agreement for each of the Funds. Investors should not consider an investment in a Fund without fully understanding the carried interest structure.

Although carried interest is generally used to align Tower Three's interests with those of its Funds' Investors, it may also create an incentive for Tower Three to make more speculative investments. In addition the carried interest may incentivize Tower Three to make decisions regarding the timing and manner of the realization of its Funds' portfolio investments than would be the case if carried interest did not exist. Tower Three seeks to address these conflicts through careful vetting of investment opportunities by its investment professionals and disclosure of investments to Investors by way of capital call notices and quarterly reports. In addition, the Limited Partnership Agreements provide "clawback" provisions applicable in the event of overpayment of the carried interest.

The receipt of Carry presents a perceived conflict of interest and gives Tower Three or its supervised persons an incentive to recommend certain investments or the timing of exits to maximize either management fees or capital gains. This risk is generally mitigated by the investment by certain of the owners of the relevant general partner of a significant portion of their individual liquid net worth pro rata with such Fund's investments and the Fund's receipt of a preferred return of fund profits, the amount of which includes all fund expenses (including management fees).

In addition, in allocating investment opportunities, there could be incentives to favor Funds with higher potential performance fees or Carry over Funds with lower or no potential performance fees or Carry. Tower Three has instituted an allocation policy in order to mitigate those conflicts. In particular, to seek to reduce the effect of such incentives, Tower Three has adopted a written investment allocation policy pursuant to which it seeks to allocate investment opportunities among Funds in a fair and equitable manner, taking into account, among other factors, the size, investment objectives, acceptable risk levels, return targets, permissible asset classes, preferred asset classes and liquidity requirements of each Fund. This policy prohibits the allocation of investment opportunities based solely on anticipated compensation or profits to Tower Three or any of its affiliates or professionals, and requires the review and approval of the relevant investment committees (comprised of senior Tower Three personnel) for allocations of opportunities that may be appropriate for multiple Funds. Each Fund typically has its own investment guidelines, governing agreements, and asset class focus that must be taken into account when making investment allocation determinations. While it is generally anticipated that the Funds will have a first-look presumption for debt investments Tower Three retains discretion to allocate debt investments to another Fund if it determines that such allocation is fair and reasonable in accordance with its allocation policy.

Item 7: Types of Clients

Tower Three provides investment advisory services to privately-offered pooled investment vehicles. The funds are operated such that they qualify as “private equity funds” for purposes of Form PF.

Investment in the Funds is limited to Investors that meet certain financial sophistication requirements. Investors in the Funds must be (i) “accredited investors” within the meaning of Regulation D under the Securities Act of 1933, as amended, and (ii) “qualified purchasers” within the meaning of the Investment Company Act of 1940, as amended (the “1940 Act”). Certain Tower Three employees who qualify as “knowledgeable employees” under Rule 3c-5 of the 1940 Act are also permitted to invest (directly or indirectly) in the Funds. Investors considering an investment in the Funds should consult with their own investment, tax and/or legal consultants prior to investing.

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

Tower Three is an operationally focused private equity firm. Tower Three pursues control investments in underperforming and distressed middle-market businesses and businesses that are undergoing significant operational transitions. The Funds will typically target well-established North American headquartered middle-market businesses in need of a catalyst for change with a goal of driving value by identifying and implementing strategic, operational and financial initiatives to stabilize the business and provide a solid platform for growth. Tower Three invests with a philosophy of obtaining equity control or substantial control through debt securities and making a substantial institutional and senior leadership commitment to each investment.

In formulating strategies and investment advice for the Funds, Tower Three conducts comprehensive due diligence. Tower Three utilizes a rigorous underwriting process to analyze, structure, document and approve potential transactions. Tower Three focuses on quickly identifying any material issues to avoid spending time and resources on unlikely transactions. Transactions are structured to provide Tower Three with sufficient control to drive operational change, replace management and control the timing of any exit.

Once a deal team has been established, Tower Three’s professionals assess material operational and financial elements of a business, together with the assistance of outside advisors and consultants, as appropriate, to facilitate the process.

More detailed information regarding Tower Three’s investment strategy and process are contained in the offering documents of each Fund.

Acquiring an interest in a Fund involves a number of risks. It is designed for sophisticated investors who fully understand and are capable of bearing the risk of an investment in a Fund, and are capable of bearing illiquidity for substantial periods of time. An investment in any Funds involves a risk of loss or capital. No guarantee or representation is made that the Fund will achieve its investment objective or that a client and its investors will receive a return of its capital. In addition, there will be occasions when Tower Three and its affiliates may encounter potential conflicts of interest in connection with a Fund.

This Brochure does not contain all risks that are relevant to a prospective investor in a Fund. Please see each Fund's offering documents with regard to risks associated with investing with that Fund.

The following discussion represents some of the material risks related to Tower Three's investment strategy:

Nature of Investments. While investments in the types of companies Tower Three recommends for the portfolio offer the opportunity for gains, they also involve a high degree of risk. The nature of the types of companies Tower Three seeks for the portfolio is one that is distressed or in need of some sort of restructuring. These same companies may be more sensitive than others to business developments or other economic factors for the same reasons the company is attractive as an investment. If the company is adversely affected, the Fund holding that investment may lose money.

General Economic Conditions. General economic conditions may affect a Fund's activities. Interest rates, general levels of economic activity, the price of securities and participation by other investors in the financial markets may affect the value and number of investments made by a Fund or considered for prospective investment.

Illiquid and Long-Term Investments. Most investments will not be sold or realized for a number of years. It is unlikely that there will be a public market for the securities held by the Funds at the time of their acquisition. A Fund generally will not be able to sell its securities publicly. In addition, in some cases, a Fund may be prohibited or limited by contract from selling certain securities for a period of time, and as a result, may not be permitted to sell an investment at a time it might otherwise desire to do so.

Highly Competitive Market for Investment Opportunities. The activity of identifying, completing and realizing attractive Portfolio Investments is highly competitive and involves a high degree of uncertainty, especially with respect to timing. There can be no assurance that the Fund will be able to identify and complete Portfolio Investments that satisfy its investment objective or to realize the value of such Portfolio Investments, or that it will be able to invest fully its Commitments.

Portfolio Company Management Risks. With respect to management at the investment level, many companies rely on the services of a limited number of key individuals, the loss of any one of whom could significantly affect the company's performance. If the company's performance is negatively affected, performance of the Fund holding that investment will be as well. Tower Three expects to monitor company management, but Tower Three will not have day-to-day responsibility with respect to the business of the companies in which the Funds invest.

Tower Three Management Risks. Tower Three's strategy of investing in a concentrated number of control investments where it can provide active, operational oversight to each business increases Tower Three's reliance on the continued performance of a few key executives, particularly the Managing Member of Tower Three. If such executives were to leave Tower Three or be unable to perform their responsibilities, the performance of the Funds could be adversely affected. This risk is mitigated by the automatic suspension of the obligation of Limited Partners to make additional contributions to the Funds in certain circumstances involving the loss of the Managing Member (also known as a "Key Person Event"). For further information regarding a Key Person Event, investors and potential investors should consult their respective Fund's offering documents.

Board Participation. The Fund may be represented on the boards of directors of certain of its Portfolio Companies or may have its representatives serve as observers to such boards of directors. Although such positions in certain circumstances may be important to the Fund's investment strategy and may enhance the General Partner's and Tower Three's ability to manage such Portfolio Investments, they may also have the effect of impairing the General Partner's ability to sell the related securities when and upon the terms it may otherwise desire, and may subject the General Partner, Tower Three and the Fund to claims they would not otherwise be subject to as an investor, including claims of breach of duty of loyalty, securities claims and other director-related claims.

Concentration of Investments. The Funds will participate in a limited number of investments and, as a consequence, the aggregate return of the Funds may be affected by the performance of a small number of investments. This means that the Funds will not be diversified.

Control Position. Each Fund will generally seek investment opportunities that allow that Fund to have significant influence on the management, operations and strategic direction of the companies in which it invests. The exercise of control and/or significant influence over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management and other types of liability in which the limited liability generally characteristic of business operations may be ignored. The exercise of control and/or significant influence over a company could expose the assets of a Fund to litigation.

Non-U.S. Investments. The Funds may invest globally. Foreign securities involve certain risks not typically associated with investing in U.S. securities, including risks relating to (i) currency exchange matters including fluctuations in the rate of exchange between the U.S. dollar and the various foreign currencies in which the Fund's foreign investments may be denominated, and costs associated with conversion of investment principal and income from one currency into another, (ii) differences between the U.S. and foreign securities markets, including potential price volatility in and relative illiquidity of some foreign securities markets, (iii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation, (iv) certain economic and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital and the risks of political, economic or social instability, (v) obtaining foreign governmental approvals and complying with foreign laws and (vi) the possible imposition of foreign taxes on income and gains recognized with respect to such securities. Anti-fraud and anti-insider trading legislation in these countries may be rudimentary. There may be prohibitions or restrictions on the ability of management to terminate existing business operations, sell or otherwise dispose of a company's assets, or otherwise materially affect the value of the company without the consent of the company's shareholders. Anti-dilution protection also may be very limited. In these countries, the concept of fiduciary duty on the part of the management or directors of companies to shareholders may be limited. The legal systems in these countries may offer no effective means for the Fund to seek to enforce its rights or otherwise seek legal redress or to seek to enforce foreign legal judgments.

Expedited Transactions. Investment analyses and decisions may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available at the time an investment decision is made may be limited.

Leverage. The Funds may borrow for the purpose of short-term financing, to cover shortfalls of capital contributions arising from the default of investors or for other purposes related to a Fund's

business. Tax-exempt investors should note that the use of leverage by a Fund may create “unrelated business taxable income” and should refer to the Limited Partnership Agreement and Private Placement Memorandum for their respective Fund as well as their own tax advisors.

Performance Allocation. The existence of Tower Three’s performance-based fee may create an incentive for Tower Three to make more speculative investments on behalf of the Funds. Tower Three’s capital commitment to the Funds described in the Private Placement Memorandum should tend to reduce this incentive.

Expense Allocation. Tower Three may be incented to allocate to the Funds expenses that it should bear as investment advisor. Tower Three seeks to mitigate this risk by requiring the review and approval of all expenses allocated to the Funds or to the Funds’ portfolio companies by Tower Three’s Chief Financial Officer and Managing Member.

Valuation of Investments. The Fund generally invests in the securities of portfolio companies which are not publicly traded and for which there is no readily ascertainable market value. While the valuation of investments has no effect on fees paid by the Funds to Tower Three, Tower Three may be incented to overstate the value of the Funds’ portfolio companies to enhance reported performance, particularly at times when Tower Three is seeking to raise capital for a new fund. Tower Three seeks to mitigate this risk through a disciplined process that requires the review and approval of the valuation of each portfolio company by the Chief Financial Officer and Managing Member.

Cyber Security Breaches and Identity Theft. Tower Three’s and 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 earthquakes. Although Tower Three has implemented, and portfolio companies may 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, Tower Three, the Funds and/or a portfolio company may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in Tower Three’s, the Funds’ 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 Tower Three’s, the Funds’ and/or a portfolio company’s reputation, subject any such entity and their respective affiliates to legal claims and otherwise affect their business and financial performance.

Business With Portfolio Companies, Investors and Affiliates

Situations may arise where Tower Three is in the position of recommending the services of a portfolio company to other portfolio companies, or the products or services of an affiliate to a portfolio company or other affiliate. Tower Three has a conflict of interest in making such recommendations, in that Tower Three has an incentive to maintain goodwill between it and the existing and prospective portfolio companies for the Funds, while the products or services recommended may not necessarily be the best available to the portfolio companies held by the Funds.

A Fund's portfolio companies may be counterparties or participants in agreements, transactions or other arrangements with affiliates of Tower Three or portfolio companies of other Funds managed by Tower Three. These arrangements, although consistent with the requirements of such Fund's organizational documents, may not have otherwise been entered into but for the affiliation with Tower Three, and which may provide economic or other benefits to affiliates of Tower Three that are not subject to the fee offset provisions described in Fund organizational documents. While Tower Three has a conflict of interest because its economic benefit may incentivize Tower Three to seek out and maintain such arrangements, Tower Three will not permit such arrangements unless it believes that such agreements benefit the portfolio companies. However, it should not be assumed that a company related to, or otherwise affiliated with Tower Three will only take actions that are beneficial to, or not opposed to, the interests of a Fund and its portfolio companies.

Item 9: Disciplinary Information

Tower Three and its employees have not been involved in any legal or disciplinary events.

Item 10: Other Financial Industry Activities and Affiliations

Related Persons of Tower Three may serve as members of directors and officers of, and provide advice to, publicly traded and private companies. Investors should be aware that receipt of non-public information could preclude Tower Three from effecting transactions in the securities of such companies. Even if these companies might be a suitable investment for the Fund, the Fund may be unable to invest in them.

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

Tower Three has adopted a code of ethics and related internal compliance policies which discusses among other things, our fiduciary duty to clients, political contributions, gifts, entertainment, and trading guidelines. A copy of our Code of Ethics is available upon request to any investor or prospective investor.

Tower Three employees must put the interest of the Funds before their own personal interests and must act honestly and fairly in all respects in dealing with the Funds and its investors.

Tower Three's sole business is the management of the Funds. Its only clients are the Funds, and therefore cannot recommend to "clients" that they invest in any security in which Tower Three or any principal thereof has any financial interest. Our Code of Ethics details rules for employees regarding personal trading and avoiding conflicts of interest related to trading in one's own account. Employee statements are reviewed to confirm compliance with the trading procedures. Should a conflict arise, Tower Three employees have an ongoing responsibility to report such conflicts to the CCO who will address such conflicts on a case-by-case basis. Tower Three has adopted policies and procedures regarding gifts and entertainment as well as political contributions. The CCO and his/her designee regularly review its compliance policies and systems and procedures.

Certain employees of Tower Three invest in the Funds as indirect partners of the General Partners of the Funds and as such, invest in transactions made by the Funds. While investments by such related parties are intended to align interests of Tower Three and the related parties with those Funds, such investments may create conflicts of interests. To address such conflicts, the investment arrangements are described in the offering documents of each Fund. Generally, investments and dispositions are made on the same economic terms for all Investors and each investment is made pro rata among the Investors of each Fund so that Tower Three's related persons may not receive favorable terms or greater exposure to certain investments.

Conflicts of Interest. Funds and their investors should be aware that there will be occasions when Tower Three and its respective affiliates will encounter potential conflicts of interest in connection with a Fund's activities. The following discussion enumerates certain potential conflicts of interest that should be carefully evaluated by Funds and their investors.

- **Other Fees.** Tower Three and the Funds may receive (i) acquisition fees for investments, (ii) fees for asset management Services, and (iii) fees for advisory and/or transaction services provided to companies in which the Funds have an interest. Additionally, Tower Three may receive fees relating to the Funds' investments or from unconsummated transactions (i.e., break-up and topping fees, director fees and organization, financing, divestment, and other similar fees). Funds and their limited partners will not receive the benefit of any fees relating to the Funds' Investments or paid by portfolio companies except to the extent they are offset by reduced management fees. For greater certainty Tower Three engages and retains strategic advisors, consultants, and other similar professionals who are not employees or affiliates of Tower Three and who will, from time to time, receive payments from, or allocations with respect to, portfolio companies.
- **Side Letter Agreements.** Tower Three has entered into side letter agreements with certain investors that provide such investors with additional or differential rights, including but not limited to excuse rights applicable to particular investments (which may increase the percentage interest of other investors in, and contribution obligations of other investors with respect to such investments), information rights, waiver of certain confidentiality obligations and withdrawal or transfer rights.
- **Portfolio Company Relationships.** The Funds' portfolio companies may be counterparties or participants in agreements, transactions or other arrangements with portfolio companies of other investment funds managed by Tower Three or Tower Three affiliates that, although Tower Three determines to be consistent with the requirements of such Funds' governing agreements, might not have otherwise been entered into but for the affiliation with Tower Three, and which may involve fees and/or servicing payments to Tower Three-affiliated entities which are not subject to the management fee offset provisions. For example, Tower Three may cause portfolio companies to enter into agreements regarding group procurement, benefits management, and other similar operational initiatives that may result in commissions or similar payments, including related to a portion of the savings achieved by the portfolio company.
- **Common Service Providers.** Tower Three and the Tower Three Funds may engage other common service providers. In such circumstances, there will be a conflict of interest between Tower Three and the Funds in determining whether to engage such service providers, including the possibility that Tower Three will favor the engagement or continued engagement of such persons if it receives a benefit from such service providers, such as

lower fees, that it would not receive absent the engagement of such service provider by the Tower Three Funds.

- **Co-Investments.** Tower Three may offer investors and other third parties the opportunity to co-invest in particular investment alongside the Funds. Co-investment opportunities offered to investors will be allocated as determined by the Tower Three General Partners in their discretion, and there is no guarantee for any investor that it will be offered co-investment opportunities. As a general matter, the Tower Three General Partners, in determining the allocation of co-investment opportunities, generally expect to take into account various facts and circumstances deemed relevant by the Tower Three General Partners, including among others, whether a potential co-investor has expressed interest in evaluating co-investment opportunities, whether a potential co-investor has a history of participating in co-investment opportunities with Tower Three, the size of the potential co-investor's interest to be held in the underlying portfolio company as a result of the applicable Fund's investment (which is likely to be based on the size of the potential investor's capital commitment and/or investment in the applicable Fund), whether the potential co-investor has demonstrated a long-term or continuing commitment to the potential success of Tower Three, the applicable Fund, or other co-investment and/or other Funds, and such other factors that Tower Three deems relevant under the circumstances. The terms and conditions of any co-investment opportunities will generally be negotiated by the Tower Three General Partners and the potential co-investor on a case-by-case basis. The allocation of co-investment opportunities may involve a benefit to Tower Three including, without limitation, fees or carried interest from the co-investment opportunity, and capital commitments to the Funds, and such co-investment fees could create an incentive for the Tower Three General Partners to pursue an investment and structure the terms of the Funds' investment differently than it otherwise would in the absence of such co-investment fees. Co-investment fees realized by Tower Three and the costs that the co-investor bears, including the extent to which a co-investor would share any broken-deal costs, are negotiated by Tower Three on a case-by-case basis. This may result in the Funds bearing all such broken-deal costs.
- **Subscription Facility and Capital Calls.** A general partner may fund the making of investments with proceeds from drawdowns under one or more revolving credit facilities (the collateral for which can be, for example, the undrawn capital commitments of investors) prior to calling commitments. The interest expense and other costs of any such borrowings will be expenses of the applicable Fund and, accordingly, decrease net returns of such Fund. It is expected that interest will accrue on any such outstanding borrowings at a rate lower than the preferred return, which will begin accruing when capital contributions to fund such investments, or repay borrowings used to fund such investments, are actually made. In light of the foregoing, the general partners have an incentive to cause Funds to borrow in this manner in lieu of drawing down commitments. As a general matter, use of leverage in lieu of drawing down commitments amplifies returns (either negative or positive) to limited partners.

For additional information regarding the foregoing or the risks and conflicts with respect to any Tower Three fund or investment vehicle sponsored by Tower Three, please see the Confidential Private Placement Memorandum, if applicable, or subscription documents of the applicable Tower Three fund or investment vehicle.

Item 12: Brokerage Practices

Tower Three focuses on making investments in private securities. To the extent any Fund purchases public securities as part of a private equity transaction or acquires such transactions as a result of a portfolio company going public, Tower Three intends to follow applicable SEC guidelines and will seek to obtain best execution when implementing such transactions. Tower Three does not have a formal soft dollar arrangement. Tower Three may receive access to research made available through brokerage firms or investment banks. Tower Three believes this research is available to all managers of similar size.

Tower Three has discretion to select brokers and dealers to execute securities transactions for its Funds. Tower Three seeks to obtain the best prices and executions for orders executed for its Funds, taking into account quantitative and qualitative factors affecting execution quality of portfolio transactions. Tower Three evaluates relationships with investment banks periodically and may make mandate decisions based on the value of the relationship to Tower Three's Funds, including but not limited to referrals for unique investment ideas, deep sector relationships, or other factors.

Tower Three may use broker-dealers to sell a portfolio company, place financing at a portfolio company, or in limited circumstances, to support the acquisition of a portfolio company. In no event does Tower Three refer Fund investors to such broker-dealers who present investment ideas or otherwise offer to make introductions to parties that have assets that may be of interest for a Fund. If Tower Three were to use client brokerage commissions (or markups or markdowns) to obtain research or pay for the research, products or services received from the broker-dealer. Although Tower Three may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than on its Funds' interest in receiving most favorable execution, any decision to otherwise engage the broker-dealer in support of executing a possible acquisition will first and foremost take into account the advantage of using such broker-dealer in consummating a transaction that Tower Three believes to be in the best interest of the Funds at compensation levels Tower Three believes to be at reasonable market rates.

Item 13: Review of Accounts

As mentioned above, Tower Three focuses on investments in private equity. All investments are carefully reviewed and approved by the Investment Committee which is comprised of the Managing Member and Managing Directors. The Compliance Officer is an advisory member of the Investment Committee. The progress of all portfolio companies is monitored on a regular basis. At least one managing member of Tower Three serves on the Board of Directors of each of the portfolio companies and is directly involved in the oversight of such companies. Tower Three's valuation committee reviews the valuation of the Fund's investments in accordance with its valuation policy.

Tower Three furnish quarterly and annual reports to each of the Funds' Investors. Each investor also receives a Schedule K-1 (Internal Revenue Service Form 1065) or an equivalent form annually.

Item 14: Client Referrals and Other Compensation

Tower Three and/or its affiliates may pay placement fees to third parties for referring prospective Limited Partners. The Fund may pay such fees; however, all such fees and expenses due to placement agents by the Fund will reduce the Management Fee otherwise payable by the Limited Partners by an identical amount. Tower Three assumes full economic responsibility for all fees payable to any placement agent in connection with the solicitation of new investors.

Item 15: Custody

To the extent required, the assets of the Funds are held by unaffiliated qualified custodians. Tower Three is deemed to have access to Investor accounts since its affiliates serve as the General Partners of the Funds. Investors will not receive statements from the custodian. Instead, in compliance with the Advisers Act, Tower Three will subject the Funds to an annual audit which are performed in accordance with U.S. generally accepted accounting principles (GAAP) by an independent public accountant that is registered with, and subject to inspection by the Public company Accounting Oversight Board. A copy of the audited financial statements is distributed to each Fund's Investors within 120 days of each Fund's fiscal year end.

Item 16: Investment Discretion

The offering documents and Limited Partnership Agreements of each Fund grant the General Partner and affiliated management entities discretionary investment authority. These investment decisions are subject to limitations set forth in the Funds offering documents and Limited Partnership Agreements.

Item 17: Voting Client Securities

Tower Three will have discretion to vote proxies related to any publicly traded portfolio company. Each proxy will be voted on a case-by-case basis. Copies of our Proxy Voting Policies and Procedures are available upon request.

Item 18: Financial Information

Tower Three has never filed for bankruptcy and there are no material financial circumstances or conditions that would reasonably be expected to impair our ability to meet our contractual obligations to our clients.