

**ITEM 1      COVER PAGE**

**INVESTMENT ADVISER BROCHURE**

**ARSENAL CAPITAL MANAGEMENT LP**

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**March 29, 2019**

**This Brochure (“Brochure”) provides information about the qualifications and business practices of Arsenal Capital Management LP (“Arsenal Capital Management” or “ACM”). If you have any questions about the contents of this Brochure, please contact us at (212) 771-1717. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.**

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

Additional information regarding Arsenal Capital Management is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **ITEM 2        MATERIAL CHANGES**

This Item of the Brochure will discuss only specific material changes that have been made to the Brochure since our last annual update and provide clients with a summary of such changes. The last annual update of our brochure was March 29, 2018.

This Brochure reflects the addition of an affiliated investment adviser and includes updates to disclosures relating to fees and compensation, risk factors and potential conflicts of interest and Arsenal's business practices and regulatory assets under management.

We will further provide you with either a summary of material changes or a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting the Chief Compliance Officer at (212) 771-1717.

### **ITEM 3        TABLE OF CONTENTS**

<b>Item 1</b>	<b>Cover Page.....</b>	<b>1</b>
<b>Item 2</b>	<b>Material Changes.....</b>	<b>2</b>
<b>Item 3</b>	<b>Table of Contents.....</b>	<b>3</b>
<b>Item 4</b>	<b>Advisory Business .....</b>	<b>4</b>
<b>Item 5</b>	<b>Fees and Compensation.....</b>	<b>5</b>
<b>Item 6</b>	<b>Performance-Based Fees and Side-By-Side Management .....</b>	<b>10</b>
<b>Item 7</b>	<b>Types of Clients.....</b>	<b>11</b>
<b>Item 8</b>	<b>Methods of Analysis, Investment Strategies and Risk of Loss.....</b>	<b>12</b>
<b>Item 9</b>	<b>Disciplinary Information.....</b>	<b>29</b>
<b>Item 10</b>	<b>Other Financial Industry Activities and Affiliations.....</b>	<b>29</b>
<b>Item 11</b>	<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....</b>	<b>29</b>
<b>Item 12</b>	<b>Brokerage Practices.....</b>	<b>30</b>
<b>Item 13</b>	<b>Review of Accounts.....</b>	<b>31</b>
<b>Item 14</b>	<b>Client Referrals and Other Compensation.....</b>	<b>32</b>
<b>Item 15</b>	<b>Custody .....</b>	<b>32</b>
<b>Item 16</b>	<b>Investment Discretion.....</b>	<b>32</b>
<b>Item 17</b>	<b>Voting Client Securities.....</b>	<b>33</b>
<b>Item 18</b>	<b>Financial Information.....</b>	<b>33</b>

## ITEM 4      ADVISORY BUSINESS

Arsenal Capital Management LP (“Arsenal Capital Management” or “ACM”), a Delaware limited partnership formed in 2000 provides investment advisory services on a discretionary basis to several private equity funds: (i) Arsenal Capital Partners II LP, Arsenal Capital Partners QP II LP, Arsenal Capital Partners QP II-B LP and Arsenal Capital Partners Executive Fund II LP comprise “Fund II”; (ii) Arsenal Capital Partners III LP and Arsenal Capital Partners III-B LP comprise “Fund III”; and (iii) Arsenal Capital Partners IV LP, Arsenal Capital Partners IV-B LP, comprise “Fund IV”. Fund II, Fund III, Fund IV are organized to invest in portfolio companies (together with any future private equity fund to which ACM or its affiliates provide investment advisory services, each an “Arsenal Fund” and collectively the “Arsenal Funds”). In addition, ACM also provides investment advisory services to three co-investment vehicles: (i) ACP WCG Co-Invest 1 LLC (“ACP WCG Co-Invest 1”) (ii) ACP WCG Co-Invest 2 LLC (“ACP WCG Co-Invest 2”) and (iii) ACP Biospecimen Holdings, LLC (“ACP Biospecimen Holdings” and together with ACP WCG Co-Invest 1 and ACP WCG Co-Invest 2, the “Co-Invest Vehicles”, and together with the Arsenal Funds, the “Funds”). The Co-Invest Vehicles were organized to facilitate individual investments into portfolio companies of Arsenal Funds for a discrete group of co-investors.

Arsenal Capital Investment II LP (“Fund II GP”), a Delaware limited partnership, serves as the general partner to Fund II. Arsenal Capital Investment III LP (“Fund III GP”), a Delaware limited partnership, serves as the general partner to Fund III. Arsenal Capital Investment IV LP (“Fund IV GP”), a Delaware limited partnership, serves as the general partner to Fund IV. ACP WCG Co-Invest 1 LLC, ACP WCG Co-Invest 2 LLC and ACP Biospecimen Holdings, LLC are each controlled by a board of managers (the “Board of Managers”). Fund II GP, Fund III GP, Fund IV GP and the Board of Managers are collectively the “General Partners.”

ACM is controlled by its general partner, Arsenal Capital Group LLC, a Delaware limited liability company, which is controlled by its board of managers which consists of Jeffrey B. Kovach and Terrence M. Mullen (collectively, the “Senior Partners”). As of December 31, 2018, ACM managed approximately \$3,306,199,160 on a discretionary basis.

ACM serves as the management company to Fund II and Fund III. Employees of ACM comprise the Board of Managers for each of the Co-Invest Vehicles. Arsenal Capital Management IV LP (“ACM IV”), a Delaware limited partnership and an affiliate of ACM, serves as the management company of Fund IV. Arsenal Capital Management V LP (“ACM V”), a Delaware limited partnership and an affiliate of ACM, is expected to serve as the management company of a future Arsenal Fund. ACM, ACM IV, ACM V, the General Partners and other affiliates are collectively referred to as “Arsenal.”

In their capacity as the management companies of the Arsenal Funds and through ACM’s appointees to the Board of Managers of the Co-Invest Vehicles, ACM and ACM IV have, and ACM V is expected to have, the authority to manage the business and affairs of the Funds.

Arsenal’s investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for such investments. Investments are made predominantly in non-public companies, although investments in public companies are permitted to some extent. From time to

time, where such investments consist of portfolio companies, the senior professionals or other personnel of ACM or its affiliates serve on such portfolio companies' respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Funds.

Arsenal makes buyout, recapitalization, and growth equity investments in the middle-market Specialty Industrial (specialty chemicals and specialty materials) and Healthcare (business services to pharmaceutical/biotech and hospital end markets; and healthcare services, with a focus on providers of clinical care) sectors. Within these sectors, Arsenal seeks to invest in businesses that have the potential for further value creation by accelerating growth and enhancing operational capabilities and competitiveness.

Advisory services provided to the Funds are tailored to the investment objectives and investment restrictions, if any, as set forth in the respective Funds' limited partnership agreements ("Partnership Agreements"), limited liability company agreements, private placement or offering memorandum, and other Fund documents (together, the "Governing Documents"). As used herein, the term "limited partners" refers to the Funds' limited partners, shareholders and /or other investors, as applicable. Arsenal does not tailor Fund investments to the individual needs of investors in the Fund, nor may Fund investors impose restrictions on Arsenal's ability to invest in certain securities or types of securities. The Funds' General Partners may, however, enter into side letters or other written agreements with investors of the Funds ("Side Letters") that have the effect of establishing rights under, or altering or supplementing the terms of, the Governing Documents of the respective Funds. Such Side Letters may be entered into with a Fund investor without the consent of or notice to any other Fund investor.

Additionally, from time to time and as permitted by the relevant Governing Documents, Arsenal provides co-investment opportunities to certain investors, including limited partners, lenders, market participants, finders, other investors and Arsenal's personnel and/or certain other persons associated with Arsenal and/or its affiliates. Such co-investments typically involve investment and disposal of interests in the applicable portfolio company at the same time and on the same terms as the Fund making the investment. However, from time to time, for strategic and other reasons, a co-investor or co-invest vehicle may purchase a portion of an investment from one or more Funds after such Funds have consummated their investment in the portfolio company (also known as a post-closing sell-down or transfer). Any such purchase from a Fund by a co-investor generally occurs shortly after the Fund's completion of the investment to avoid any changes in valuation of the investment. Where appropriate, and in Arsenal's sole discretion, Arsenal is authorized to charge interest on the sale to the co-investor or co-invest vehicle (or otherwise equitably adjust the purchase price under certain conditions), and to seek reimbursement to the relevant Fund for related costs. However, to the extent such amounts are not so charged or reimbursed, they will be borne by the relevant Fund.

## **ITEM 5 FEES AND COMPENSATION**

Arsenal (or its Operating Partners (as defined below)) receives various fees and other compensation from its limited partners or Fund portfolio companies. As discussed in further detail below, "Operating Partners" are individuals retained by the General Partners, the Funds and/or the

portfolio companies who will be employees of Arsenal or its affiliates, including current or future individuals with the title of Operating Partner.

The types of fees and compensation received by Arsenal and its Operating Partners are:

1. Management fees (“Management Fee”) in connection with its advisory services to the Arsenal Funds.
2. Transaction fees, break-up fees, closing fees, monitoring fees, directors’ fees or other similar fees from portfolio companies, as further described below (collectively, “Portfolio Company Fees”) for financial and management consulting services performed for Fund portfolio companies under a management services agreement; such fees generally will offset in whole or in part the Management Fees otherwise payable to Arsenal in accordance with the relevant Governing Documents.
3. Compensation (including cash and non-cash compensation) as an Operating Partner serving in an “Operating Partner - Portfolio Company and Fund Role,” and/or an “Operating Partner - Sourcing Role” for services provided to or with respect to portfolio companies or the Funds. The potential roles of Operating Partners are discussed in detail, and the relevant terms are defined, under “Operating Partner Services and Compensation” in this Item 5. Compensation and other amounts received by Operating Partners serving in the Operating Partner - Portfolio Company and Fund Role and in the Operating Partner - Sourcing Role are borne by the relevant Fund and/or portfolio company and do not offset Management Fees.

In addition, investors in the Funds also bear certain fund expenses.

### **Management Fees**

Management Fees from Fund II were 2% of limited partner capital commitments during the Commitment Period. After the Commitment Period, the Management Fees were based on Investment Contributions and charged at either 2% or 1.5% as described in the Partnership Agreements. As of August 2018, Fund II no longer pays Management Fees. Arsenal Capital Partners Executive Fund II LP does not pay, and historically has not paid, a Management Fee.

Management Fees from Fund III were 2% of capital commitments during the Commitment Period. After the Commitment Period, or upon certain events, the Management Fees are based on Investment Contributions and charged at either 2% or 1.5% as described in the Partnership Agreements. Fund III Management Fees are currently 1.5% of Investment Contributions. Limited partners designated as affiliated partners by Fund III GP do not pay a Management Fee.

Management Fees from Fund IV are 2% of capital commitments during the Commitment Period. After the Commitment Period, or upon certain events, the Management Fees are based on Investment Contributions and charged at either 2% or 1.5% as described in the Partnership Agreements. Limited partners designated as affiliated partners by Fund IV GP do not pay a Management Fee.

The Co-Invest Vehicles do not pay a Management Fee.

Each of the applicable Arsenal Funds' Management Fees is reduced by an amount determined by the applicable General Partner ("Waived Management Fees"). As a result of such reduction, the amount of capital contributions the applicable General Partner, ACM IV or ACM V would otherwise be required to contribute to such Arsenal Fund will be reduced by an equivalent amount, and the amount of such reduction will instead be contributed by the applicable limited partners, on behalf of the applicable General Partner or ACM IV or ACM V, *pro rata* based upon their respective capital commitments. Waived Management Fees are not subject to the Management Fee offsets described below.

### **Portfolio Company Fees**

Arsenal and its affiliates may receive Portfolio Company Fees associated with investments, proposed investments or commitments made by each Fund. Portfolio Company Fees are described in each Arsenal Fund's Governing Documents, and generally include directors' fees, financial consulting fees, monitoring fees and transaction fees paid by portfolio companies to Arsenal with respect to the relevant Fund's investments, and breakup fees paid to Arsenal with respect to the relevant Fund's transactions not completed, in each case net of certain expenses as set forth in the Governing Documents. Portfolio Company Fees generally do not include (A) amounts received by Arsenal or its employees or partners or any other person from a portfolio company as reimbursement for out-of-pocket expenses directly related to such portfolio company or amounts received as reasonable compensation for services provided by any of Arsenal's employees or partners in a "seconded" capacity to, or as employees of, portfolio companies or their subsidiaries, in their capacity as such and (B) amounts received by Operating Partners to the extent serving in the Operating Partner - Portfolio Company and Fund Role or in the Operating Partner - Sourcing Role (each as defined in Item 8 below).

Upon receipt of Portfolio Company Fees, Arsenal attributes such fees (net of expenses) to the investors of the applicable portfolio company in proportion to the ownership in such portfolio company. Consequently, to the extent that investors in a portfolio company include both one or more Arsenal Funds and one or more co-investors, any Portfolio Company Fees will be allocated among such Arsenal Fund(s) and such co-investor(s). The portion of Portfolio Company Fees attributable to co-investors is retained by Arsenal and does not reduce the Management Fees payable by any Arsenal Funds that have also invested in the relevant portfolio company. As a result, in most cases the Management Fee offset described below will be applied only to the relevant Arsenal Fund's allocable portion of any such Portfolio Company Fees, and not to the portion that relates to any co-investors.

The portions of the Portfolio Company Fees attributed to the Arsenal Funds (excluding affiliated partners in Fund II, Fund III and Fund IV) are credited against Management Fees as follows:

- 80% for Fund II (previously 50%, but in 2016 the aggregate threshold of \$25 million of Portfolio Company Fees was reached, increasing the offset to 80%);
- 100% for Fund III; and
- 100% for Fund IV

In the event that the aggregate amount of Portfolio Company Fees applied against the respective Arsenal Funds' Management Fee exceeds the Management Fee for a specific period (the "Unapplied Excess"), such amount will be carried forward to reduce the Management Fee payable in future periods. In Fund II, Fund III and Fund IV, any Unapplied Excess will be returned *pro rata* to the non-affiliated limited partners at the end of the Fund's term, as provided in the Partnership Agreements.

## **Operating Partner Services and Compensation**

Operating Partners are expected to play a combination of roles, which generally fall into the following three categories:

1. **Operating Partner - Portfolio Company and Fund Role.** In this role, an Operating Partner is engaged by a portfolio company or a Fund when the services required or requested are in addition to the services the operating role of an investment team is already providing, which may be based on the volume, scope, quality or other character of such services. Such services in this role may include in-depth sub-sector specific expertise and analysis, development of sub-sector and strategy initiatives, market analysis and assessment, due diligence services, operational knowledge and consulting, strategy implementation, executive chairman roles, portfolio company board roles, integration/transition services, functional roles that could include operations, technology, sales and marketing and accounting, and other similar activities, and such additional roles as otherwise approved by the applicable Fund's advisory board.
2. **Operating Partner - Sourcing Role.** In this role, individuals designated by a General Partner to the applicable Fund's advisory board provide sourcing services for such Fund and receive amounts directly or indirectly from a portfolio company in connection with such sourcing services.
3. **Operating Partner - Management Company Role.** In this role, an Operating Partner is engaged by a General Partner to serve Arsenal, such General Partner and their respective affiliates in providing co-leadership on individual investments, including having primary Arsenal-level responsibility for portfolio company operational oversight. In this capacity, Operating Partners provide general support of portfolio company strategy formulation and general management, as well as leadership and guidance on operational and functional matters. At a firm level, this role also provides leadership of a sub-sector and strategy development initiatives, and contributes to sector and firm leadership.

Arsenal anticipates that certain Operating Partners will provide services in more than one of the three categories of Operating Partner roles. Pursuant to the Governing Documents, fees, expenses and other compensation associated with services provided by Operating Partners, to the extent serving in the Operating Partner - Portfolio Company and Fund Role and in the Operating Partner - Sourcing Role (collectively, "Operating Partner Fees and Expenses"), may be paid and/or reimbursed by applicable portfolio companies and/or the Funds, and Operating Partner Fees and Expenses do not offset Management Fees. Operating Partner Fees and Expenses are expected to include, at the discretion of the relevant General Partner and taking into account the particular services, cash fees, profits or equity interests in a portfolio company, a share of proceeds upon sale



of a portfolio company and/or other incentive-based compensation. Such compensation may be determined according to one or more methods, including, but not limited to, the value of the time (including an allocation for overhead and other fixed costs) of the Operating Partners, a percentage of the value of the portfolio company and amounts charged by other providers for comparable services. Operating Partners also receive reimbursements of certain costs relating to their services. With respect to certain Arsenal Funds, certain Operating Partner Fees and Expenses are subject to a cap as described in the Governing Documents of each relevant Arsenal Fund. However, certain Arsenal Funds do not impose any cap on Operating Partner Fees and Expenses.

Compensation paid to Operating Partners for services provided in the Operating Partner - Management Company Role are not considered Operating Partner Fees and Expenses and will be borne by the relevant General Partner and/or Arsenal and not by the relevant Fund or portfolio company.

### **Co-Investment Expenses**

As described above, in certain circumstances, Arsenal permits certain investors to invest in portfolio companies alongside one or more Arsenal Funds, subject to Arsenal's related policies and the relevant Governing Document(s) and/or Side Letter(s). In the event that a transaction in which a co-investment was planned, including a transaction for which a co-investment was believed necessary in order to consummate such transaction or would otherwise have been beneficial, ultimately is not consummated, all Broken Deal Expenses relating to such proposed transaction will be borne by the Arsenal Fund(s), and not by any potential co-investors, that were to have participated in such transaction. In a situation where a co-invest vehicle is formed, such entity will bear the expenses related to its formation and operation, many of which are similar in nature to those borne by the Arsenal Funds.

### **Other Information**

The Funds 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 terms of the Funds and investors generally are not permitted to withdraw or redeem interests in the Funds. The Senior Partners and employees of Arsenal receive salaries and other compensation derived from, and in certain cases include a portion of, the Management Fee, Carried Interest (as defined below) or other compensation received by Arsenal. Arsenal waives a portion of Management Fees and reserves the right to waive or defer all or a portion of Carried Interest payable by Fund investors in order to satisfy its obligations.

As mentioned above, Arsenal is permitted to exempt certain "affiliated partner" investors in the Funds from payment of all or a portion of Management Fees and/or Carried Interest. Such "affiliated partners" may include Arsenal and any other person designated by Arsenal, such as "friends and family" of Arsenal or its personnel, or other investors based on consideration of certain factors. For the avoidance of doubt, the Management Fee offsets described above apply only with respect to the capital commitments of fee-paying investors.

### **Incentive Fees (Carried Interest)**

In addition to the Management Fees, Arsenal is also entitled to 20% of the applicable Arsenal Funds' distributions in excess of a limited partner's capital contributions and expenses, which is referred to as "carried interest" ("Carried Interest"), assuming the Arsenal Fund delivers a preferred return of at least 8% to the limited partners and subject to a General Partner catch-up provision, as more fully described in the applicable Governing Documents.

Arsenal Capital Investment WCG LLC, a member of ACP WCG Co-Invest 2, is entitled to Carried Interest of 10% of ACP WCG Co-Invest 2's distributions in excess of an investor's capital contributions and expenses, assuming ACP WCG Co-Invest 2 delivers a preferred return of at least 8% to the investors and subject to a General Partner catch-up provision, as more fully described in ACP WCG Co-Invest 2's limited liability company agreement.

ACP WCG Co-Invest 1 and ACP Biospecimen Holdings do not pay Carried Interest.

See below, "Performance-Based Fees and Side-by-Side Management."

### **Other Fees and Expenses**

In addition to any Management Fee and/or Carried Interest payable to Arsenal, the Funds bear certain expenses. As set forth in the applicable Governing Documents, the Funds generally bear all expenses to the extent not paid by portfolio companies, including legal, administration, accounting, investment banking, travel, consulting, research, brokerage, finder's fees, custody, transfer, registration, insurance, advisory board, interest, taxes, conferences or meetings with limited partner(s), extraordinary expense and other similar fees and expenses. In general, expenses incurred are specifically related to individual Funds, however, to the extent expenses relate to a matter that is shared across Funds (e.g. annual meeting or insurance), Arsenal allocates such costs across the Funds in an equitable manner, as determined by the relevant General Partner(s). In certain circumstances, one Fund may be expected to pay an expense common to multiple Funds (including fees or expenses in connection with services for which the benefits are received by other Funds over time), and be reimbursed by the other Funds by their share of such expense, without interest. While Arsenal believes such circumstances to be highly unlikely, it is possible that one of the other Funds could default on its obligation to reimburse the paying Fund. In certain circumstances, Arsenal is expected to advance amounts related to the foregoing and receive reimbursement from the Funds to which such expenses relate.

## **ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

With exceptions for certain Co-Invest Vehicles, the Funds' General Partners receive performance based compensation in the form of Carried Interest, as more fully described in Item 5 above, and in the applicable Governing Documents. If any General Partner receives Carried Interest distributions during the life of the applicable Fund which are, in the aggregate, in excess of 20% (10% with respect to ACP WCG Co-Invest 2) of such Fund's cumulative net profits (including a preferred return of 8% and subject to a General Partner catch-up provision, as more fully described in the applicable Governing Documents), then such excess Carried Interest distributions will be subject to repayment by such General Partner.

Performance based compensation may cause Arsenal to engage in a higher risk, more speculative investment strategy than it would in the absence of such compensation arrangement. Additionally, to the extent that Arsenal personnel are assigned varying percentages of Carried Interest from the Funds, such personnel are subject to potential conflicts of interest, to the extent they are involved in decision-making for multiple Funds from which they are entitled to receive a higher Carried Interest percentage.

Arsenal also manages Co-Invest Vehicles that are not charged performance based compensation. This scenario presents a conflict of interest for Arsenal, as it would be beneficial for Arsenal to favor entities for which it receives performance based compensation or a relatively higher level of performance based compensation.

Arsenal seeks to address the potential for conflicts of interest in these matters with allocation policies that provide that transactions and investment opportunities will be allocated to the Funds in accordance with each Fund's investment guidelines and Governing Documents, as well as other factors that do not include the amount of performance-based compensation received by Arsenal or any personnel.

Arsenal manages each Fund in accordance with the investment strategy disclosed in the Funds' Governing Documents to help ensure that investors are aware of the investment strategy and the risks associated with the strategy. Arsenal engages in certain procedures to fair value securities in a manner deemed to establish the most accurate valuations possible based on information gathered by Arsenal.

Fund investors should review the respective Governing Documents for detailed information with respect to performance based allocations and distributions and the allocation of investment opportunities.

## **ITEM 7        TYPES OF CLIENTS**

Arsenal provides investment advice to the Funds.

Generally, only "accredited investors" or "qualified purchasers" as specified in the Funds' Governing Documents may invest in the Funds. Fund investors may include individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations, corporations or business entities and generally include, directly or indirectly, principals or employees of Arsenal.

Arsenal may establish alternative investment vehicles from time to time in order to permit one or more investors to participate in one or more particular Fund investment opportunities in a manner desirable for tax, regulatory or other reasons. Alternative investment vehicle sponsors generally have limited discretion to invest the assets of these vehicles independent of limitations or other procedures set forth in the organizational documents of such vehicles and the related Fund.

Details concerning applicable fees, minimum investment amounts and suitability criteria are set forth in the respective Funds' Governing Documents. The General Partner of each Fund typically reserves the right, in its sole discretion, to waive the minimum investment amount requirement.

## **ITEM 8        METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **General**

Arsenal primarily makes control investments in growing lower middle market companies in which Arsenal believes there are opportunities to create value post-acquisition. More specifically, Arsenal principally seeks to invest within the Specialty Industrials and Healthcare sectors.

Arsenal follows its Strategic Company Building investment strategy focused on identifying attractive market opportunities, developing high-potential strategies, and building high-growth, technology-rich market leaders that are attractive to buyers. Through deep market immersion in its sectors of focus, Arsenal continuously seeks to discern market needs and trends to identify the most attractive sub-sectors in which to apply its strategy. The team looks ahead, typically five to 10 years, to identify important trends in technology, innovation, and market demand, and craft strategies that provide a material benefit in the market. Leveraging the team's experience and networks in these markets, Arsenal often spends years meeting with business owners and management teams, before ultimately selecting and sequencing a combination of platform and strategic add-on acquisitions to construct companies that can be leaders in their market spaces.

Arsenal believes that transforming businesses into technology-rich market leaders requires intensive, high-impact company building. For each platform investment, Arsenal seeks to develop strategies with "multiple ways to win," which typically means identifying three to five significant value creation levers and two to three key value holdbacks or risks to be mitigated. After a thorough evaluation of these options, the team creates detailed operating plans to build and shape each company. The operating plans often include strengthening, and in many cases, dramatically augmenting management teams (typically adding four to eight executive and senior managers) and improving operations within a company. These plans usually incorporate initiatives to achieve high organic growth and complete accretive acquisitions to assemble broader value-add solutions and grow market positions. In each portfolio company, Arsenal seeks to scale and compound growth, while intensively managing risk and promptly addressing underperformance. Throughout the life of each investment, the team seeks to build a strategically valuable business, or a "must-have" asset, with strong future growth prospects.

Arsenal typically invests in established businesses with enterprise values ranging from \$100 million to \$400 million. Arsenal seeks to invest in specific industry segments within the Specialty Industrials and Healthcare sectors that it has identified as attractive for long-term growth, cash flow generation, and sustainable profitability. Arsenal has a team of professionals with investment and transaction acumen, industry knowledge within the Specialty Industrials and Healthcare sectors, and operating capabilities that it leverages from investment sourcing to exit.

There can be no assurance that Arsenal will achieve the investment objectives of the Funds and a loss of investment is possible.

## Investment and Operating Strategy

*Lower Middle Market Focus.* Arsenal is focused on sectors of the lower end of the U.S. middle market, which is composed of thousands of established companies with revenues between \$10 million and \$1.0 billion. Arsenal believes this segment of the market sustainably offers attractive opportunities to invest in companies to which Arsenal's Strategic Company Building strategy is well-suited and, therefore, remains committed to investing in this segment. Arsenal believes the lower end of the middle market is attractive for private equity investment as it is a large fragmented marketplace with many niche markets that consist of companies with innovative business models and differentiated technologies that offer strong future growth potential.

*Targeted Industry Focus.* Arsenal carefully selected the Specialty Industrials and Healthcare sectors for what it believes are their sustainable and exploitable long-term trends, applicability of the Arsenal strategy and model, size and high degree of fragmentation, number of attractive niche markets with high value-add and technology-based differentiation and ability to support companies at the lower end of the middle market becoming niche market leaders. Because of these characteristics, Arsenal believes the Specialty Industrials and Healthcare sectors offer continuous and compelling long-term investment opportunities. Within these sectors, Arsenal believes that it has developed the requisite domain and technical expertise and established the networks and resources essential to function in a highly strategic and impactful manner. Arsenal believes that its depth of knowledge and insight enable it to operate like an industry insider and a strategic investor, capable of developing insightful forward-looking perspectives and strategies.

Arsenal believes that each of the Specialty Industrials and Healthcare sectors includes a multitude of sub-sectors with promising growth trends and is populated with companies possessing innovative technologies and advantaged business models. Arsenal regularly performs a rigorous review of sector trends and conditions to identify sub-sectors and opportunities that are most attractive for Arsenal's Strategic Company Building strategy. Arsenal believes that these sub-sectors are target-rich, possess valuable intersections of technologies and attractive end markets, and contain many companies at the lower end of the middle market with barriers to entry, customer intimacy, potential to broaden and better apply their product and service solution and global expansion opportunities. Arsenal believes that many of these companies have the potential for further differentiated solutions, consolidation of their market spaces and superior growth through add-on acquisitions.

*Investment Parameters.* Within its target sectors, Arsenal seeks companies that typically exhibit some or all of the following characteristics:

- Defensible market leading positions in niche segments,
- Significant growth potential through organic and strategic acquisition avenues,
- Opportunities to improve efficiency, reduce costs and improve margins,
- Options to expand the value-added component of the company's offering, and
- Global market and supply chain opportunities.

*Collaborative / Multidisciplinary Approach.* Arsenal believes that its team of investment professionals, Operating Partners and Consultants has the skills and experience necessary to create advantages throughout the investment process. This team combines industry-specific knowledge and relationships, experience in managing and improving businesses, and functional resources to support management teams. Arsenal strives to work in a coordinated manner designed to improve the efficiency and effectiveness of execution in all phases of the investment cycle.

*Source and Complete Investments.* Arsenal professionals engage in leveraging their broad network of relationships within Arsenal's targeted industries to access high-quality deal flow. In addition, industry expertise creates advantages in diligence, strategy formulation, and value assessment through an improved understanding of key business drivers, competitive and structural dynamics, and potential opportunities and risks. Arsenal incorporates this industry and operating knowledge into its disciplined valuation approach, carefully balancing the risks and opportunities identified with respect to a given investment and making sure they are appropriately reflected in a reasonable valuation.

*Employ a Prioritized Growth and Improvement Program.* Prior to acquisition, Arsenal identifies and prioritizes what it believes are the key value creators and holdbacks for a particular investment. Arsenal will not make an investment if it does not believe that there is an opportunity for Arsenal to create significant value post-acquisition. The Arsenal team works in active collaboration with the management teams of portfolio companies to address these value creators and holdbacks. This process is often enabled by an Arsenal assessment and strengthening of the management team and improvement of a company's business processes. In any given investment, Arsenal looks to: (i) accelerate growth, (ii) mitigate key risks, and (iii) fundamentally improve businesses.

*Capture Value on Exit.* Arsenal's realization process begins prior to acquisition with the development of an investment strategy to guide the business toward attractive exits. With its experience in its focus industries, Arsenal believes it is equipped to understand the acquisition interests and criteria of strategic buyers and strives to take a proactive approach to developing relationships with these buyers that could ultimately lead to attractive exits.

Arsenal seeks to take a conservative approach to the amount of leverage in the capital structures of its portfolio companies so that they can invest in growth and improvement initiatives that will fundamentally improve cash flow and build long-term value. Arsenal believes that conservative leverage also provides additional downside protection, allowing companies greater flexibility as well as an ability to address unforeseen issues. Once Arsenal determines that a company has sufficiently improved but still has significant upside, Arsenal often seeks to appropriately recapitalize the business and return capital to investors.

## **Risk of Loss**

Investing in securities involves risk of loss that investors in the Funds should be prepared to bear.

The risks involved with Arsenal's investment strategy and an investment in the Funds include, but are not limited to the following:

*Business Risks.* The Funds' investment portfolios will consist primarily of securities issued by privately held companies, and operating results in a specified period will be difficult to predict.

Such investments involve a high degree of business and financial risk that can result in substantial losses.

*Future and Past Performance.* The performance of Arsenal's prior investments is not necessarily indicative of the Funds' future results. While Arsenal intends for the Funds to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that the targeted internal rates of return will be achieved. On any given investment, loss of the entire invested capital is 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 an investment once made.

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

The Funds may provide interim financing ("Bridge Financing") to facilitate portfolio company investments. It is possible that all or a portion of a Bridge Financing will not be recouped within the time period specified in the relevant Governing Documents, in which case the investment would be treated as a permanent investment of a Fund. As a result, such Fund's portfolio could become more concentrated with respect to such investment than initially expected or otherwise provided for under such Fund's investment limitations, certain of which exclude Bridge Financing investments.

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

*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 increase 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.

*Illiquidity; Lack of Current Distributions.* An investment in the Funds should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains, if any, on successful investments are realized. The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of an investment. 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 annual Management Fee payable to Arsenal) may exceed their income, thereby requiring the difference to be paid from the applicable Funds' capital.

*Leveraged Investments.* The Funds may make use of leverage by incurring or having a portfolio company incur debt to finance a portion of an investment in a given portfolio company. Leverage generally magnifies both opportunities for gain and risks of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets (and such credit markets may be impacted by regulatory restrictions and guidelines), which state is difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage. The use of leverage will also result in interest expense and other costs to the Funds that may not be covered by distributions made to the Funds or appreciation of investments. The use of leverage also imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to 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 the Funds' investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of the Funds' 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, the Funds may suffer a partial or total loss of capital invested in such portfolio company, which could adversely affect the returns of the Funds. Furthermore, 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. Moreover, the companies in which the Funds invest generally will 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 such Fund would be compensated for providing such guarantee or exposure to such liability. The use of leverage by a Fund also will result in interest expense and other costs to such Fund that may not be covered by distributions made to such Fund or appreciation of its investments. While Fund-level borrowings generally will be interim in nature, asset-level leverage generally will not be subject to any limitations regarding the amount of time such leverage may remain outstanding. A Fund may incur leverage on a joint and several basis with one or more other Funds and entities managed by Arsenal or any of its affiliates and may have a right of contribution, subrogation or reimbursement from or against such entities. In addition, to the extent a Fund incurs leverage (or provides such guaranties), such amounts may be secured by capital commitments made by such Fund's investors and such investors' contributions may be required to be made directly to the lenders instead of such Fund.



*Subscription Lines.* A Fund may enter into a subscription line with one or more lenders in order to finance its operations (including the acquisition of the Fund's investments). Fund-level borrowing subjects limited partners to certain risks and costs. For example, because amounts borrowed under a subscription line typically are secured by pledges of the relevant General Partner's right to call capital from the limited partners, limited partners may be obligated to contribute capital on an accelerated basis if the Fund fails to repay the amounts borrowed under a subscription line or experiences an event of default thereunder. Moreover, any limited partner claim against the Fund would likely be subordinate to the Fund's obligations to a subscription line's creditors. In addition, Fund-level borrowing will result in incremental partnership expenses that will be borne by investors. To the extent a particular limited partner's cost of capital is lower than the Fund's cost of borrowing, Fund-level borrowing can negatively impact a limited partner's overall individual financial returns even if it increases the Fund's reported net returns.

*Restricted Nature of Investment Positions.* Generally, there will be no readily available market for a substantial number of the Funds' investments, and hence, most of the Funds' investments will be difficult to value. Certain investments may be distributed in-kind to the Funds' limited partners. After a distribution of securities is made to the partners, many partners may decide to liquidate such securities within a short period of time, which could have an adverse impact on the price of such securities. Alternatively, it may be difficult to liquidate the securities received at a price or within a time period that is determined to be ideal by such partners. In addition, the Funds' limited partners may incur costs and delays in converting such assets to cash and the price at which such securities may be sold by such partners may be lower than the value of such securities determined pursuant to the relevant Governing Documents, including the value used to determine the amount of Carried Interest available to Arsenal with respect to such investment.

*Reliance on Arsenal and/or Portfolio Company Management.* Control over the operation of the Funds will be vested entirely with Arsenal, and future profitability will depend largely upon the business and investment acumen of Arsenal. The loss or reduction of service of one or more of the Senior Partners could have an adverse effect on the Funds' abilities to realize their investment objectives. In addition, these individuals currently, and may in the future, manage other investment funds besides the Funds and may need to devote substantial amounts of their time to the investment activities of such other funds, which may pose conflicts of interest in the allocation of the time of the Senior Partners. Fund investors generally have no right or power to take part in the management of the Funds, and as a result, the investment performance of the Funds will depend entirely on the actions of Arsenal. In addition, certain changes in Arsenal or circumstances relating to Arsenal may have an adverse effect on the Funds or one or more of their portfolio companies including potential acceleration of debt facilities. Although Arsenal will monitor the performance of each Fund investment, it will primarily be the responsibility of each portfolio company's management team to operate such portfolio company on a day-to-day basis. Although the Funds generally intend to invest in companies with strong management, there can be no assurance that the existing management of such companies will continue to operate a portfolio company successfully.

*Projections.* Projected operating results of a portfolio company in which a Fund invests normally will be based primarily on financial projections prepared by such company's management. In all cases, projections are only estimates of future results that are based upon 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, the inaccuracy of certain assumptions and general economic factors, which are not predictable, can have a material impact on the reliability of projections.

*Need for Follow-On Investments.* Following an initial investment in a given portfolio company, Arsenal may decide, or have the opportunity, 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 a Fund will have sufficient funds to make all or any of such investments. Any decision by Arsenal not to make follow-on investments or its inability to make such investments may have a substantial negative impact on a portfolio company in need of such an investment (including an event of default under applicable debt documents in the event an equity cure cannot be made). Additionally, such failure to make such investments may result in a lost opportunity for such 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.

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

Additional risks of non-U.S. investments include: (a) economic dislocations in the host country; (b) less publicly available information; (c) less well-developed, rapidly changing and/or more restrictive laws, regulations, regulatory institutions and judicial systems; (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction; (e) civil disturbances; (f) political, social, economic or government instability; and (g) nationalization and expropriation of private assets. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

*Public Company Holdings.* The Funds' investment portfolios may contain securities and debt issued by publicly held companies. Such investments may subject the Funds to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the Funds to dispose of such securities at certain times, increased likelihood of shareholder litigation and insider trading allegations against such companies' executives and board members, including Arsenal, and increased costs associated with each of the aforementioned risks.

*Material Non-Public Information; Other Regulatory Restrictions.* Due to the nature of its operations, Arsenal frequently comes into possession of confidential or material, non-public information. Therefore, Arsenal may have access to material, non-public information that may be

relevant to an investment decision to be made by a Fund. Consequently, a 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 Arsenal's internal policies.

Similarly, anti-money laundering, anti-boycott and economic and trade sanction laws and regulations in the United States and other jurisdictions may prevent Arsenal or the Funds from entering into transactions with certain individuals or jurisdictions. The United States Department of the Treasury's Office of Foreign Assets Control ("OFAC") and other governmental bodies administer and enforce laws, regulations and other pronouncements that establish economic and trade sanctions on behalf of the United States. Among other things, these sanctions may prohibit transactions with or the provision of services to, certain individuals or portfolio companies owned or operated by such persons, or located in jurisdictions identified from time to time by OFAC. Additionally, antitrust laws in the United States and other jurisdictions give broad discretion to the U.S. Federal Trade Commission, the United States Department of Justice and other U.S. and non-U.S. regulators and governmental bodies to challenge, impose conditions on, or reject certain transactions. In certain circumstances, antitrust restrictions relating to one Fund's acquisition of a portfolio company may preclude other Funds from making an attractive acquisition or require one or more other Funds to sell all or a portion of certain portfolio companies owned by them.

As a result of any of the foregoing, a Fund may be adversely affected because of Arsenal's inability or unwillingness to participate in transactions that may violate such laws or regulations, or by remedies imposed by any regulators or governmental bodies. Any such laws or regulations may make it difficult or may prevent a Fund from pursuing investment opportunities, require the sale of part or all of certain portfolio companies on a timeline or in a manner deemed undesirable by Arsenal or may limit the ability of one or more portfolio companies to conduct their intended business in whole or in part. Consequently, there can be no assurance that any Fund will be able to participate in all potential investment opportunities that fall within its investment objectives.

*Director Liability.* The Funds will often obtain the right to appoint a representative to the board of directors of the companies in which they invest. Serving on the board of directors of a portfolio company exposes the Funds' representatives, 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.

*Valuation of Assets.* There is not expected to be an actively traded market for most of the securities owned by the Funds. When estimating fair value, Arsenal 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 Arsenal may give rise to conflicts of interest.

*Cyber Security.* The information technology systems of Arsenal, the Funds, the Funds' portfolio companies and/or their respective service providers 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 (including fires, tornadoes, floods, hurricanes and earthquakes). If such a system is compromised, becomes inoperable for an extended period of time or ceases to function properly, Arsenal, a Fund and/or a portfolio company may be required to spend time and/or incur expenses seeking to fix or replace such system or otherwise remedy the effects of such issues. The failure of such a system and/or disaster recovery plan may cause significant interruptions in Arsenal's, a Fund's and/or a portfolio company's operations and may result in a failure to maintain the security, confidentiality or privacy of sensitive data (including information relating to limited partners and/or the beneficial owners of limited partners). Such a failure could harm Arsenal's, a Fund's, a portfolio company's, or a limited partner's beneficial owner's reputation, subject such persons to legal claims, or otherwise affect the business and financial performance of such persons.

### **Conflicts of Interest**

Arsenal and its related entities engage in a broad range of advisory and non-advisory activities, including investment activities for their own account and for the account of others, and providing transaction-related, investment advisory, management and other services to Funds and portfolio companies. Arsenal will devote such time, personnel and internal resources as are necessary to conduct the business affairs of the Funds in an appropriate manner, as required by the relevant Governing Documents, although the Funds and their respective investments will place varying levels of demand on these over time. In the ordinary course of Arsenal conducting its activities, the interests of a Fund may conflict with the interests of Arsenal, one or more other Funds, portfolio companies or their respective affiliates. Certain of these conflicts of interest are discussed herein. As a general matter, Arsenal will determine all matters relating to structuring transactions and Fund operations using its reasonable judgment considering all factors it deems relevant, but in its sole discretion, subject in certain cases to the required approvals by the advisory boards of the participating Funds.

### **General**

During the commitment period of an Arsenal Fund, substantially all appropriate investment opportunities generally will be pursued by Arsenal principals through such Arsenal Fund, subject to certain limited exceptions set forth in such Fund's Governing Documents and Arsenal's allocation policies. Without limitation, Arsenal principals may manage several other investments similar to those in which the Arsenal Funds may be investing, and for reasons set forth in the Governing Documents (e.g. no Arsenal Fund capital available to invest, etc.) may direct certain investment opportunities to those investments. Arsenal principals and investment staff will manage and monitor such investments until their realization. Such other investments that Arsenal principals may control or manage may also potentially compete with companies acquired by the Funds. Arsenal principals expect to continue to spend time on other opportunities and areas unrelated to the Funds' investments, subject to limitations set forth in the Governing Documents. Where necessary, Arsenal consults and receives consent to conflicts from an advisory board consisting of limited partners of the applicable Arsenal Fund and/or other investment vehicles.

### Multiple Clients in Same Investment

Investment opportunities may be appropriate for multiple Funds at the same, different or overlapping levels of a portfolio company's capital structure. Conflicts may arise when a Fund makes investments in conjunction with an investment being made by another Fund, or if it were to invest in the securities of a company in which another Fund has already made an investment. A Fund may not, for example, invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as other Funds. This may result in differences in price, terms, leverage and associated costs. Conflicts may arise in determining the terms of each such investment, particularly where Funds invest in different types of securities in a single portfolio company. Investments by more than one Fund may also raise the risk of using assets of a client of Arsenal to support positions taken by other clients of Arsenal. Further, questions may arise subsequently as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced or restructured. In troubled situations, decisions including whether to enforce claims, or whether to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any workout or restructuring may raise conflicts of interest, particularly with respect to Funds that have invested in different securities within the same portfolio company. Further, there can be no assurance that the relevant Fund and the other Fund(s) or vehicle(s) with which it co-invests will exit such investment at the same time or on the same terms. Arsenal and its affiliates may express inconsistent views of commonly held investments or of market conditions more generally. There can be no assurance that the return on one Fund's investment will be the same as the returns obtained by other Funds participating in such transaction. Given the nature of the relevant conflicts there can be no assurance that any such conflict can be resolved in a manner that is beneficial to all relevant Funds. In that regard, actions may be taken for one or more Funds that adversely affect other Funds.

### Investment Allocations

As noted above, from time to time, Arsenal will be presented with investment opportunities that may be appropriate for multiple Arsenal Funds or which the applicable Arsenal Fund(s) cannot complete on their own. When such a situation arises, Arsenal applies its Investment Allocation Policy in determining which Arsenal Funds should participate in such investment opportunities and in determining whether and to whom to allocate co-investment opportunities. In making such determinations, Arsenal is subject to conflicts of interest. The Investment Allocation Policy requires Arsenal to allocate investment opportunities first to Arsenal Funds in a fair and equitable manner, consistent with its fiduciary obligations and underlying documents, as applicable. Arsenal 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: each Fund's investment restrictions and objectives (including those set forth in the relevant Fund's Governing Documents, where applicable), strategy, risk profile, time horizon, tax sensitivity, tolerance for turnover, asset composition, diversification limitation, cash level (if any), applicable tax and regulatory considerations, life cycle and other relevant factors. For example, a newly organized Arsenal Fund generally will seek to purchase a disproportionate amount of investments until it is substantially invested. However, except as required by the relevant Governing Documents, Arsenal is not obligated to recommend any investment to any particular investment vehicle.

Following such determination of allocation among Arsenal Funds, Arsenal will determine if the amount of an investment opportunity in which one or more Arsenal Fund(s) will invest exceeds the amount that would be appropriate for such Arsenal Fund(s) and any such excess may be offered to one or more potential co-investors (including limited partners in Arsenal Funds and third parties), as determined in accordance with the Arsenal Funds' Governing Documents, Side Letters and Arsenal's procedures regarding allocation. Arsenal does not guarantee any co-investors the right to invest in any particular transaction.

Arsenal's procedures to allocate co-investments permit it to take into consideration a variety of factors, including but not limited to: the size of the investment allocation available to Arsenal (and not being allocated to the Arsenal Funds), and the practicality of splitting the allocation into smaller tranches; any requirements of any third-party lenders as to the identity of any investors participating as co-investors, or as to the creditworthiness of any co-investors, or as to the number of co-investors, or as to other matters with respect to the investors in the transaction; the knowledge and sophistication of the prospective co-investor with respect to the issuer, segment, industry, geographic region or other characteristics that are relevant to the investment (as determined by Arsenal in good faith); the prospective co-investor's ability to approve the investment pursuant to any applicable internal approval processes, and to otherwise execute the transaction, in a timely manner with respect to the timeframe in which Arsenal believes favorable transaction terms may be achieved (as determined by Arsenal in good faith); any tax, regulatory and/or securities law considerations (i.e., qualified purchaser or qualified institutional buyer status); and other factors that Arsenal considers important in connection with the specific transaction or investment, including, without limitation, expected investment holding period, services provided by the prospective co-investor to the issuer of the investment (or otherwise provided by the prospective co-investor with respect to the investment) and other factors. Although a prospective co-investor's willingness to invest in future Arsenal Funds may be considered by Arsenal, it generally will not be the sole determining factor considered by Arsenal in identifying co-investors. Arsenal may permit Operating Partners and Consultants to co-invest alongside the Arsenal Funds. Specifically, Arsenal expects to permit certain Consultants (in particular, those with the title of Senior Advisor) to co-invest a predetermined amount or range in each investment in such person's sector (i.e., specialty industrials or healthcare). It is expected that Arsenal would loan such person a portion of the amount to make such co-investment.

The Arsenal Funds also 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 Arsenal Funds, or may be in a position to take action contrary to the investment objectives of the Arsenal Funds. In addition, an Arsenal Fund may in certain circumstances be liable for actions of its third-party co-venturer or partner. There can be no assurance that an Arsenal 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.

In the event that one or more Arsenal Funds and one or more co-investors invest together through a holding company, the expenses related to the structuring, formation and operation of such holding company will generally be allocated pro rata amongst the relevant Arsenal Fund(s) and the co-investor(s) in such vehicle. For the avoidance of doubt, in the event that a transaction in

which a co-investment was to be sought ultimately is not consummated, all obligations, liabilities and out-of-pocket fees (including any break-up fees), costs and expenses relating to such unconsummated transaction are expected to be borne by the relevant Arsenal Fund(s), and not by any potential or expected co-investors (including Operating Partners and Consultants).

Furthermore, decisions regarding whether and to whom to offer co-investment opportunities may be made by Arsenal 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 Arsenal investors, and the consideration of the factors set forth above may result in certain investors receiving multiple opportunities to co-invest while others expressing interest in co-investments may receive none. When and to the extent that employees and related persons of Arsenal make capital investments in or alongside the Arsenal Funds, Arsenal is subject to conflicting interests in connection with these investments.

While Arsenal will allocate investment opportunities in a manner that it believes will be beneficial to the investment opportunity, considering relevant factors, the allocation among the persons and in the manner discussed herein will mostly likely not result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others.

#### Allocation of Fees and Expenses

Subject to any relevant restrictions or other limitations contained in the Governing Documents of the Funds, Arsenal will allocate fees and expenses in a manner that it believes in good faith is fair and equitable to its clients under the circumstances and considering such factors as it deems relevant. In exercising such discretion, Arsenal may be faced with a variety of potential conflicts of interest. As a general matter, Fund expenses typically will be allocated among all relevant Funds or co-invest vehicles eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made by Arsenal or its affiliates using their reasonable judgment, considering such factors as they deem 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 number of Funds or co-invest vehicles receiving related benefits or proportionately in accordance with asset size, or in certain circumstances determining whether a particular expense has greater benefit to a Fund or Arsenal. The Funds have different expense reimbursement terms, including with respect to Management Fee offsets, which may result in the Funds bearing different levels of expenses with respect to the same investment.

#### Conflicts Relating to Operating Partners

Operating Partners are expected to receive compensation from Arsenal, the Funds and portfolio companies. For a detailed description of services provided by, and compensation paid to, Operating Partners, please see Item 5 “Fees and Compensation”.

Arsenal will be subject to potential conflicts of interest in determining whether an Operating Partner’s activities should be classified as Operating Partner - Management Company Role, Operating Partner - Portfolio Company and Fund Role, or Operating Partner - Sourcing Role. For

example, Arsenal generally will not bear the cost of compensation and related expenses of an Operating Partner to the extent that such compensation and related expenses relate to activities classified as Operating Partner - Portfolio Company and Fund Role and Operating Partner - Sourcing Role. However, these activities will also provide a benefit to Arsenal in its investment-related activities, in that the cost of performing such activities would be borne by a Fund or one or more portfolio companies (and therefore indirectly by such Fund) rather than by Arsenal. Therefore, Arsenal may have an incentive to classify a particular activity as Operating Partner - Portfolio Company and Fund Role or Operating Partner - Sourcing Role even though it may directly or indirectly benefit Arsenal, in whole or in part. In addition, the economic impact of such compensation and related expenses borne by a portfolio company may not be proportional as between a Fund and the various other owners of the applicable portfolio company, and any determinations in respect thereof involve inherent matters of discretion by Arsenal. Arsenal generally intends to determine how compensation and expenses of an Operating Partner are allocated among the Operating Partner - Management Company Role, the Operating Partner - Portfolio Company and Fund Role, or the Operating Partner - Sourcing Role based on time spent by such Operating Partner on the activities of such roles. While Arsenal intends for Operating Partners to track their time and activities and intends for the relevant General Partner to review and monitor such tracking, Arsenal may estimate or use other methods to approximate time spent serving in such roles or to otherwise allocate activities and compensation to such roles. Such estimates may not be accurate and Arsenal will be subject to potential conflicts of interest in making such determinations.

Furthermore, although Arsenal intends to retain Operating Partners with a view to improving portfolio company performance and/or to reducing costs to portfolio companies (and, ultimately, the Funds), a number of factors may result in limited or no improvement in performance or cost savings from such retention. Arsenal intends to retain only such Operating Partners 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 a lesser cost.

#### *Conflicts Relating to Consultants*

The General Partners, the Funds and/or the portfolio companies also retain third-party consultants (including individual operational group members, consultants, and external executives), employees of portfolio companies of the Funds, strategic partners, executive partners or senior or other advisors, including current or future individuals with the title of Senior Advisor, which persons may be employees or affiliates of Arsenal and/or its affiliates (“Consultants”).

Consultants will be engaged to provide services to, or in connection with, the Funds in relation to their activities, or one or more portfolio companies, including in relation to the identification, acquisition, holding, improvement, strategy and disposition of such portfolio companies and including portfolio company strategy, board roles, general commercial activities, sales, marketing, human resources, operations, technology, integration/transition services, sourcing, due diligence, development of sub-sector strategy initiatives, market analysis and assessment, or other similar activities to portfolio companies, as well as provide due diligence, sourcing, industry-specific advice, operational advice, assistance and leadership roles with the General Partners and their



employees or partners on actual and potential investments, investment advice or similar services to the Funds, any alternative investment vehicles and/or their respective portfolio companies.

Pursuant to the Governing Documents, fees, expenses and other compensation associated with the Consultant services described above (collectively, “Consultant Fees and Expenses”) may be paid and/or reimbursed by applicable portfolio companies and/or the Funds, and Consultant Fees and Expenses do not offset Management Fees. Under the Governing Documents of the Arsenal Funds, Consultant Fees and Expenses generally are not subject to any cap.

Consultant Fees and Expenses are expected to include, at the discretion of the relevant General Partner and taking into account the particular services, cash fees, profits or equity interests in a portfolio company, a share of proceeds upon sale of a portfolio company and/or other incentive-based compensation to the Consultants, which may be determined according to one or more methods, including, but not limited to, the value of the time of the Consultants, a percentage of the value of the portfolio company and amounts charged by other providers for comparable services. Consultants are expected to receive compensation from the Funds and portfolio companies and, in some cases, Arsenal, and all such amounts and reimbursements of certain costs are borne by the relevant Fund or portfolio company and do not offset Management Fees.

Although Arsenal intends to retain Consultants with a view to improving portfolio company performance and/or reducing costs to portfolio companies (and, ultimately, the Funds), a number of factors may result in limited or no improvement in performance or cost savings from such retention. In addition, Arsenal intends to retain only such Consultants 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 a lesser cost.

For the avoidance of doubt, Arsenal and its affiliates may utilize different titles and different roles for persons described herein as Senior Advisors, Consultants or Operating Partners without affecting such persons’ status as “Consultants” or “Operating Partners” as described herein or under the Funds’ Governing Documents.

#### Joint and Several Liability to Lenders

If a Fund enters into any indebtedness with another Fund on a joint and several basis, the applicable General Partner is expected to enter into one or more agreements that provide each Fund with a right of contribution, subrogation or reimbursement. In administering, or seeking to reinforce, these agreements, Arsenal may be subject to conflicts of interest, for example between a Fund with a reimbursement obligation and a Fund seeking reimbursement. In certain circumstances, Funds may be prohibited from exercising (or Arsenal may deem it appropriate to refrain from exercising) voting or other rights in order to mitigate the relevant potential conflicts, notwithstanding the fact that the investment(s) of one Fund or the other may be subject to creditor claims regarding subordination of interests. Arsenal intends to mitigate any potential conflicts by structuring such agreement in a manner intended to cause each Fund to bear its proportionate share of the applicable indebtedness, without undue favoritism over time.

#### Transfers of Fund Interests

In certain cases, Arsenal will have the opportunity (but, subject to any applicable restrictions or procedures in the relevant Governing Documents, is under no obligation) to identify one or more secondary transferees of interests in a Fund. In such cases, Arsenal will not receive compensation for identifying such transferees, and will use its discretion to select such transferees based on suitability and other factors (similar to those employed in selecting co-investors), and unless required by the relevant Governing Documents, will determine in its sole discretion whether the opportunity to receive a transfer of Fund interests should be offered to one or more existing Fund investors.

### Transactions Between Funds

Although uncommon, from time to time Arsenal may cause a Fund to enter into a transaction whereby such Fund purchases securities from, or sells securities to, other Funds managed by Arsenal, or co-investors or co-investment vehicles. Such transactions may arise in the context of a portfolio company owned by one Fund being acquired by another Fund or a Fund re-balancing an investment among parallel investing entities. Any such transactions raise potential conflicts of interest, including where the investment of one Fund supports the value of portfolio companies owned by another Fund. These conflicts are heightened to the extent the relevant securities are illiquid or do not have a readily ascertainable value, and there generally can be no assurance that the price at which such transactions are entered into represents what would ultimately be the underlying investment's fair value. To the extent required by the relevant Funds' Governing Documents or otherwise in the sole discretion of Arsenal, Arsenal may seek to mitigate such conflicts by seeking the opinion of an unaffiliated third party (including the use of a consultant or investment banker to opine as to the fairness of a purchase or sale price) or by obtaining the consent of the relevant Fund(s) (including, where authorized, the consent of each Fund's advisory board) to such transactions. In certain circumstances, Arsenal may determine that the willingness of a third party to make an investment on the same terms demonstrates the fairness of the relevant transaction to a Fund under then-current market conditions. Arsenal intends that any such transactions be conducted in a manner that it believes in good faith to be fair and equitable to each Fund under the circumstances, including a consideration of the potential present and future benefits with respect to each Fund.

### Cross-Fund Guarantees

Although Arsenal generally structures Funds to avoid cross-guarantees and other circumstances in which one Fund bears liability for all or part of the obligations of another Fund, in certain circumstances lenders and other market parties may negotiate for the right to face only select Fund entities, which may result in a single Fund being solely liable for other Funds' share of the relevant obligation and/or joint and several liabilities among Funds. In each such case, Arsenal intends to cause the relevant other Funds to enter into a back-to-back guarantee, indemnification or similar reimbursement arrangement, although the Fund undertaking the obligation in the first instance generally will not receive compensation for being primarily liable under these arrangements.

### *Relationships with Portfolio Company Board Members*

As a result of the Funds' controlling interests in portfolio companies, Arsenal and/or its affiliates typically have the right to appoint portfolio company board members (including current or former Arsenal personnel or persons serving at their request), or to influence their appointment, and to determine or influence a determination of their compensation. From time to time, portfolio company board members approve compensation and/or other amounts payable to Arsenal and/or its affiliates. Except to the extent such amounts are subject to the Governing Documents' offset provisions, they will be in addition to any Management Fees or Carried Interest paid by a Fund to Arsenal. Arsenal's authority to appoint or influence the appointment of portfolio company board members who may be involved in approving compensation payable to Arsenal and/or its affiliates subjects Arsenal and any such portfolio company board appointees to potential conflicts of interest.

Additionally, a portfolio company typically will reimburse Arsenal or service providers retained at Arsenal's discretion for expenses (including travel expenses) incurred by Arsenal or such service providers in connection with the performance of services for such portfolio company. This subjects Arsenal to conflicts of interest because the Funds generally do 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 Governing Documents and Arsenal's internal reimbursement policies and practices, Arsenal determines the amount of these reimbursements for such services in its own discretion.

### *Relationships with Service Providers*

Arsenal generally exercises its discretion to recommend to a Fund or to a portfolio company thereof that it contract for services with various service providers, including, among others: (i) Arsenal (or an affiliate, which may include portfolio companies of the relevant Fund or other Funds) and at rates determined or substantively influenced by Arsenal; (ii) an entity with which Arsenal or its affiliates or current or former members of their personnel has a relationship or from which such person derives a financial or other benefit; or (iii) a limited partner (of the relevant Fund or another Fund) or its affiliates. For example, Arsenal may be presented with opportunities to receive financing and/or other services in connection with a Fund's investments from certain limited partners or their affiliates that are engaged in lending or related business. This discretion subjects Arsenal to conflicts of interest, because although Arsenal selects service providers that it believes are aligned with its operational strategies and will enhance portfolio company performance and, relatedly, returns of the relevant Fund, Arsenal may have an incentive to recommend the related or other person (including a limited partner) because of its financial or other business interest. There is a possibility that Arsenal, because of such belief or for other reasons (including whether the use of such persons could establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the relevant Funds or Arsenal), may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. Whether or not Arsenal has a relationship or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

Arsenal and/or its affiliates may also, from time to time, employ personnel with pre-existing ownership interests in portfolio companies owned by the Funds or other investment vehicles

advised by Arsenal and/or its affiliates; conversely, current and former personnel or executives of Arsenal and/or its affiliates may serve in significant management roles at portfolio companies or service providers recommended by Arsenal. Similarly, Arsenal, its affiliates and/or personnel maintain relationships with (or may invest in) financial institutions, service providers and other market participants, including, but not limited to, 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, Arsenal and/or its affiliates, and/or the Funds or other investment vehicles they advise. Arsenal may have a conflict of interest with a Fund in recommending the retention or continuation of a third-party service provider to such Fund or a portfolio company 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, will provide Arsenal information about markets and industries in which Arsenal operates (or is contemplating operations) or will provide other services that are beneficial to Arsenal. Arsenal may have a conflict of interest in making such recommendations, in that Arsenal has an incentive to maintain goodwill between it and the existing and prospective portfolio companies for a Fund, while the products or services recommended may not necessarily be the best available to the portfolio companies held by a Fund.

#### Reimbursement-Related Conflicts

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

#### Management Fees and Carried Interest

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

#### Conclusion

Any of these situations subjects Arsenal and/or its affiliates to potential conflicts of interest. Arsenal attempts to resolve such conflicts of interest in light of its obligations to investors in its Funds and the obligations owed by Arsenal's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among a Fund, other Funds and such investment vehicles in a fair and equitable manner. To the extent that an investment or relationship raises particular conflicts of interest, Arsenal will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict. Where

necessary, Arsenal consults and receives consent to conflicts from an advisory committee consisting of limited partners of the relevant Fund(s) and such other investment vehicles.

## **ITEM 9        DISCIPLINARY INFORMATION**

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

## **ITEM 10       OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

ACM's affiliates include ACM IV, ACM V and the Funds' General Partners. These affiliated investment advisers operate as a single advisory business together with ACM and serve as managers or general partners of private investment funds and other pooled vehicles and share common owners, officers, partners, employees, consultants or persons occupying similar positions.

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

Arsenal Capital Management has adopted a Code of Ethics and Securities Trading Policy and Procedures (the "Code"), which sets forth standards of conduct that are expected of Arsenal principals and employees and addresses conflicts that arise from personal trading. Among others, the Code requires employees to:

- Place the interest of the Funds above personal interests;
- Seek to identify conflicts of interest;
- Keep confidential all material nonpublic information;
- Not effect transactions based on material nonpublic information;
- Pre-clear transactions in initial public offerings and limited offerings of securities; and
- Report personal securities transactions and holdings.

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

From time to time, the General Partners advance funds on behalf of their respective Funds and contribute such amounts to their respective Funds as a special interim capital contribution for investment, to be redeemed at a later date. A yield amount in connection with such borrowing typically is borne by the limited partners consistent with the applicable Governing Documents. In borrowing on behalf of the Funds, the General Partners are subject to conflicts of interest between repaying their obligations and retaining such borrowed amounts for the benefit of their respective Funds, and in circumstances where interest accrues on any such outstanding borrowings at a rate lower than the relevant Fund's preferred return, are expected to have incentives to cause their respective Funds to borrow in this manner rather than drawing down capital commitments. Where a preferred return begins to accrue after capital contributions are due (regardless of when a Fund borrows, makes the relevant investment, or pays expenses) and ceases to accrue upon return of these capital contributions, the use of borrowing to shorten the period between calling and returning capital limits the amount of time the preferred return will accrue. In circumstances where there is not a preferred return on funds borrowed in advance or in lieu of calling capital, Fund-level borrowing typically will reduce the amount of preferred return to which the limited partners would otherwise be entitled had the relevant General Partner called capital, and thus could result in the relevant General Partner receiving Carried Interest sooner than it would without borrowing. In addition, when the Management Fee is calculated as a percentage of invested capital, a limited partner may pay Management Fees on borrowed amounts used to fund investments that have not yet been realized even though such amounts would not accrue preferred return as described above. It is expected that the costs relating to the establishment and/or maintenance of a subscription line of credit will be significant, and there can be no assurance that the benefits to limited partners will be commensurate with such costs.

The General Partners will engage in such borrowings in a manner they believe to be fair and equitable to their respective Funds, and consistent with the General Partners' obligations to their respective Funds and the applicable Governing Documents.

Employees must acknowledge understanding and agree to comply with the Code initially upon employment and must certify on an annual basis that they have read and understood the Code and have complied with it.

Employees who violate the Code are subject to disciplinary action including, but not limited to, written warnings and termination of employment.

A copy of the Code will be provided to any investor or prospective investor upon request made to the Chief Compliance Officer.

## **ITEM 12      BROKERAGE PRACTICES**

Arsenal typically does not utilize broker-dealers to effect transactions of private companies and generally purchase and sell such companies through privately-negotiated transactions. However, the Funds may receive portfolio company shares registered for sale as part of a portfolio company's general distribution or Arsenal may buy or sell publicly traded securities. In these instances, Arsenal may utilize a broker-dealer to effect these transactions.

Generally, Arsenal selects broker-dealers on the basis of best execution. “Best execution” does not mean effecting transactions at the lowest possible commission rate, transaction costs and best price, but includes a number of factors including, but not limited to, (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the broker being considered; (iv) responsiveness to requests for trade data and other financial information; (v) experience in liquidating distributions from private equity funds; (vi) nature and size of the transaction; and (vii) willingness to commit capital, access to a particular trading market, and security conditions (e.g., liquidity, volatility, etc.).

Arsenal has discretion to determine without obtaining prior consent from the Funds the broker-dealer to execute transactions and the commission rates or commission equivalents charged for effecting the transaction.

*Research and Other Soft Dollar Benefits:* Arsenal does not obtain proprietary and third-party research services or products with the Funds’ commissions or “soft dollars.”

*Brokerage for Client Referrals:* Arsenal does not consider investor referrals in selecting broker-dealers.

*Directed Brokerage:* Arsenal does not accept instructions to effect Fund transactions with certain broker-dealers.

*Cross Trades:* From time-to-time, Arsenal may effect a purchase of a security for one or more Funds at the same time as a sale of the same security for another Fund. Such transactions may be effected to rebalance the positions held in the Funds’ portfolios in order to achieve uniform results among Funds, to take into account Funds’ cash flows or to comply with investment guidelines and restrictions. Such transactions, at Arsenal’s discretion, may generally be effected at a price and time as it deems appropriate under the circumstances.

*Principal Transactions:* “Principal transactions” are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. Arsenal is neither registered as, nor is affiliated with, a broker-dealer.

*Aggregation and Allocation:* Generally, aggregation of the purchase and sale of securities for the Funds does not apply as investments are primarily in private equity securities.

However, where practical and appropriate, Arsenal will generally aggregate orders for Funds transacting in the same publicly traded security and will generally allocate the purchase or sale of such security or proceeds to the Funds in the order based on an average price and on a *pro rata* basis if the order is partially filled.

## **ITEM 13      REVIEW OF ACCOUNTS**

The investments made by the Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, ACM’s investment professionals closely monitor companies in which the Funds invest. These reviews include, but are not limited to, reviewing the operational and financial

performance as well as strategic direction of each portfolio company in that the respective Fund has invested.

The Arsenal Funds provide to their limited partners (i) annual GAAP audited financial statements and partner's capital statements, (ii) and quarterly unaudited reports and partner's capital statements, (iii) annual tax information necessary for each limited partner's tax return and (iv) annual and quarterly reports providing a narrative summary of the status of each portfolio company investment.

The Co-Invest Vehicles provide to their limited partners (i) annual GAAP audited financial statements and partner's capital statements, (ii) unaudited quarterly partner's capital statements, and (iii) annual tax information necessary for each limited partner's tax return.

## **ITEM 14      CLIENT REFERRALS AND OTHER COMPENSATION**

As discussed in Item 5 and Item 8, certain Operating Partners and Consultants (both Arsenal employees and outside contractors) provide and receive compensation for a broad range of support and services to and with respect to portfolio companies, the Funds and/or Arsenal. These arrangements have the potential to create conflicts of interest, in that, as provided in the Governing Documents, except under certain limited circumstances described in Item 5, such compensation is not offset against Management Fees. See Item 5 "Fees and Compensation" and the discussion under "Conflicts Relating to Operating Partners and Consultants" in Item 8.

Arsenal has entered into placement agent arrangements pursuant to which it compensates placement agents for referrals that result in a potential investor becoming a limited partner in an Arsenal Fund. Any fees and expenses payable to placement agents will be paid by the applicable Arsenal Fund but borne by Arsenal indirectly through an offset against the Management Fee.

## **ITEM 15      CUSTODY**

ACM is deemed to have custody by virtue of the fact that it or a related person serves as General Partner of certain private funds. The SEC's Custody Rule sets forth certain requirements for the safekeeping of client assets.

ACM's policy is to have the Funds audited annually by an independent auditor registered with and subject to regular inspection by the Public Company Accounting Oversight Board, and to distribute copies of the audited financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") to Fund investors within 120 days of the end of a Funds' fiscal year.

In addition, upon the final liquidation of a Fund, ACM will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP to Fund investors in the liquidated Fund promptly after completion of the audit.

## **ITEM 16      INVESTMENT DISCRETION**

ACM has discretionary authority to manage investments on behalf of the Funds.



ACM assumes this discretionary authority pursuant to the terms of the Partnership Agreements and powers of attorney executed by the limited partners in the Funds. As a general policy, ACM does not allow clients to place limitations on this authority. The Funds' General Partner may enter into Side Letter agreements with certain limited partners whereby the terms applicable to such limited partner's investment in the applicable Fund may be altered or varied including, but not limited to, the right to opt-out of certain investments for legal, tax, regulatory or other reasons.

## **ITEM 17      VOTING CLIENT SECURITIES**

Arsenal has discretionary authority to vote proxies on Fund securities.

Arsenal represents a Fund by its representation on the board of directors of a Fund's portfolio company. In such circumstance, Arsenal typically is involved in establishing the agenda and matters to be voted upon by shareholders. Accordingly, in these situations, Arsenal typically will vote with management. Arsenal exercises its discretion with respect to the voting of proxies in a manner that is intended to serve the best interests of the Fund.

In the event that there is or may be a conflict of interest in voting proxies, Arsenal may address the conflict using several alternatives including, but not limited to, seeking the approval or concurrence of the applicable Fund's advisory board on the proposed proxy vote or through other alternatives.

Fund investors may obtain a free copy of Arsenal's Proxy Voting Policy, as well as relevant proxy voting records, upon written request to the Chief Compliance Officer.

## **ITEM 18      FINANCIAL INFORMATION**

Arsenal Capital Management has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.