

**INVESTMENT ADVISER BROCHURE**

**CALTIVS CAPITAL MANAGEMENT, LP**

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**March 29, 2019**

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

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

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

## **Material Changes**

This Brochure has been revised since the prior version dated March 30, 2018. This annual amendment reflects updates to the descriptions of certain of the operations, terms and business practices of the Adviser and its affiliates.

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## ADVISORY BUSINESS

Caltius is a private investment management firm, including a number of registered investment advisory entities and other organizations affiliated with Caltius Capital Management, LP (collectively, “**Caltius**”), that, as of December 31, 2018, manages approximately \$647,384,724 million in private fund assets.

Caltius Capital Management, LP, a Delaware limited partnership and a registered investment adviser (“**Adviser**” or “**Caltius Management**”), and its affiliated investment advisers provide investment advisory services to Caltius’ investment funds privately offered to qualified investors in the United States and elsewhere. Caltius Management commenced operations in November 2000.

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

- Caltius Equity Partners II, LP (“**Caltius Equity II Main Fund**”) and Caltius Equity Partners Executive II, LP (“**Caltius Equity II Executive Fund**,” and with the Caltius Equity II Main Fund, “**Caltius Equity II**”), each formed in 2006 and no longer making new investments except for potential follow-on investments in existing portfolio companies approved by the Fund’s advisory board.
- Caltius Equity Partners III, LP (“**Caltius Equity III Main Fund**”) and Caltius Equity Partners Executive III, LP (“**Caltius Equity III Executive Fund**,” and with the Caltius Equity III Main Fund, “**Caltius Equity III**”), each formed in 2013 and currently making investments in new portfolio companies.
- Caltius Partners III, LP (“**Caltius Mezz III Main Fund**”) and Caltius Partners Executive III, LP (“**Caltius Mezz III Executive Fund**,” and with Caltius Mezz III Main Fund, “**Caltius Mezz III**”), each formed in 2004 and no longer making new investments except for potential follow-on investments in existing portfolio companies.
- Caltius Partners IV, LP (“**Caltius Mezz IV Main Fund**”) and Caltius Partners Executive IV, LP (“**Caltius Mezz IV Executive Fund**” and with Caltius Mezz IV Main Fund, “**Caltius Mezz IV**”), each formed in 2008 and no longer making new investments except for potential follow-on investments in existing portfolio companies.
- Caltius Partners V, LP (“**Caltius Mezz V Main Fund**”), Caltius Partners V-A, LP (“**Caltius Mezz V Parallel Fund**”) and Caltius Partners Executive V, LP (“**Caltius Mezz V Executive Fund**”), each formed in 2014, and Caltius Partners V (SBIC), LP (“**Caltius Mezz V SBIC Fund**”), formed in 2016, and all currently making investments in new portfolio companies (Caltius Mezz V Main Fund, Caltius Mezz V Parallel Fund and Caltius Mezz V Executive Fund are referred to herein, collectively, as the “**Caltius Mezz V Unlevered Funds**,” and together with Caltius Mezz V SBIC, as “**Caltius Mezz V**”).

Caltius Equity II and Caltius Equity III (the “**Caltius Equity Funds**”) primarily make private equity investments, while Caltius Mezz III, Caltius Mezz IV and Caltius Mezz V (the

“**Caltius Mezz Funds**”) primarily make mezzanine debt investments (see “Methods of Analysis, Investment Strategies and Risk of Loss”). The Caltius Equity Funds and the Caltius Mezz Funds, together with any parallel and alternative investment vehicles, are each referred to herein individually as a “**Fund**” and collectively, along with any future private investment fund(s) for which Caltius Management provides investment advisory services, as the “**Funds.**” The Funds invest through negotiated transactions in operating entities. Investors in the Funds participate in the overall investment program for the applicable Fund, but may be excluded from a particular investment due to legal, regulatory or other agreed-upon circumstances pursuant to the relevant partnership agreement. Each Fund or its General Partner may have entered into, and in the future may enter into, side letters or other similar arrangements with certain investors that have the effect of establishing rights under, or altering or supplementing, the Fund’s partnership agreement.

Additionally, from time to time, the Adviser may provide (or agree to provide) certain investors or other persons the opportunity to participate in co-invest vehicles that will invest in certain portfolio companies alongside a Fund. Such co-invest vehicles typically invest and dispose of their investments in the applicable portfolio company at the same time and on the same terms as the relevant Fund making the investment. However, from time to time, for strategic and other reasons, a co-invest vehicle may purchase a portion of an investment from a Fund. Any such purchase from a Fund by a co-investor generally occurs at original valuation and within a reasonable time period after such Fund’s completion of the investment. Where appropriate, and in the Adviser’s sole discretion, the Fund reserves the right to charge the co-investor an additional amount on the purchase to compensate the original Fund for the holding period and to seek reimbursement to the relevant Fund for related costs. However, to the extent such additional amounts are not so charged or reimbursed, they generally will be borne by the relevant Fund.

Each Fund has a general partner that has the authority to manage the business and affairs of the Fund. The general partners of the Funds are as follows: CEP II, LP (“**CEP II**”) is the general partner of each of the Caltius Equity II partnerships; Caltius GPE III, LP (“**GPE III**”) is the general partner of each of the Caltius Equity III partnerships; CP III, LP (“**CP III**”) is the general partner of each of the Caltius Mezz III partnerships; CP IV, LP (“**CP IV**”) is the general partner of each of the Caltius Mezz IV partnerships; GPM V, LP (“**GPM V**”) is the general partner of each of the Caltius Mezz V Unlevered Funds; and Caltius Partners V (SBIC) GP, LP (“**CP V (SBIC) GP**”) is the general partner of Caltius Mezz V SBIC Fund (CEP II, GPE III, CP III, CP IV, GPM V and CP V (SBIC) GP are referred to herein individually as a “**General Partner,**” and collectively as the “**General Partners**”).

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

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

As of December 31, 2018, Caltius Management managed an aggregate of approximately \$647,384,724 in client assets on a discretionary basis. Caltius Capital Management, LLC, a Delaware limited liability company ("CCM"), acts as the general partner of Caltius Management. Through CCM, Caltius Management is controlled by James B. Upchurch.

#### *Caltius Mezz V SBIC Fund and Caltius Mezz V Unlevered Funds*

In June 2016, Caltius Mezz V SBIC Fund received its license as a Small Business Investment Company ("SBIC") from the U.S. Small Business Administration ("SBA") pursuant to the Small Business Investment Act of 1958, as amended, and the rules and regulations promulgated thereunder (collectively, the "SBIC Act"). Accordingly, the Caltius Mezz V SBIC Fund will be granted access to non-recourse SBA debentures ("SBA Leverage") in an amount generally equal to up to two times the Caltius Mezz V SBIC Fund's private capital commitments. The Caltius Mezz V SBIC Fund intends to apply for SBA Leverage in multiple tranches; however, there is no guarantee that the full amount of leverage sought will be granted or that the full amount of leverage will be available for the entirety of the investment period of the Caltius Mezz V SBIC Fund.

The Caltius Mezz V SBIC Fund and the Caltius Mezz V Unlevered Funds generally invest side-by-side in investments made during their respective investment periods, *pro rata* based on the aggregate available capital, including consideration of SBA Leverage, subject to certain legal, regulatory, tax or similar considerations. In this regard, the SBIC Act limits the type and size of businesses in which an SBIC may invest, and, as a result, the Caltius Mezz V Unlevered Funds have invested, and may in the future invest, in portfolio companies in which the Caltius Mezz V SBIC Fund has not been, or in the future may not be, permitted to invest in. In addition, because the Caltius Mezz V Unlevered Funds were formed prior to the formation of the Caltius Mezz V SBIC Fund, the Caltius Mezz V Unlevered Funds completed two portfolio company investments in which the Caltius Mezz V SBIC Fund did not participate.

#### **FEES AND COMPENSATION**

In general, each General Partner receives a management fee and a carried interest in connection with advisory services, with each General Partner paying over the management fee to Caltius Management in consideration for the services it provides while retaining its carried interest. General Partners or other Caltius entities or affiliates also receive additional compensation in connection with management and other services performed for portfolio companies of the Funds and such additional compensation will offset in whole or in part the management fees otherwise payable to the General Partner. Investors in the Funds also bear certain fund expenses.

## Management Fees

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

### *Caltius Equity II and CEP II*

Effective with the quarter commencing April 1, 2018, Caltius Equity II Main Fund and the Caltius Equity II Executive Fund each no longer pay CEP II any management fee.

The partnership agreement of Caltius Equity II Main Fund provides that the Fund's management fee will be reduced by 50% of such Fund's share of closing fees, commitment fees, funding fees, break-up fees, litigation proceeds, investment banking fees, placement fees, monitoring fees, consulting fees, directors' fees and other similar fees paid by portfolio companies to partners or employees of the Adviser or its affiliates, up to \$18 million, and by 100% of such amounts thereafter. Since the Fund has already exceeded the \$18 million threshold and there will be no management fees to offset, to the extent the Adviser receives any such fees they will be remitted to the Fund.

### *Caltius Equity III and GPE III*

Caltius Equity III Main Fund and the Caltius Equity III Executive Fund each will pay GPE III, quarterly in advance, a management fee generally equal to 2.0% on an annual basis of each partners' investor capital commitments. Investors participating in a closing after January 1, 2014 bear their share of the applicable Fund management fee from January 1, 2014. Upon the first day of the first calendar quarter after the earlier to occur of (i) the date when all Caltius Equity III Main Fund commitments have been invested or otherwise used to pay expenses of the Fund; (ii) January 1, 2020; and (iii) the date that fees are received with respect to a successor fund, the Caltius Equity III Main Fund and the Caltius Equity III Executive Fund each will pay GPE III, quarterly in advance, a management fee generally equal to 2.0% on an annual basis of such partners' share of (x) the aggregate amount of capital contributions for investments that have not been disposed of, less (y) the aggregate amount of investment contributions used to fund investments which have been written down (net of subsequent write-ups) at least 80% from the original cost thereof to the extent distributions have not been made with respect thereto, in each case as determined on the first day of the period with respect to which a determination is being made. The management fees for each Fund will be payable until all portfolio investments are disposed of or distributed or until GPE III's relationship with the applicable Fund is terminated for other reasons (as described in the applicable partnership agreements of the Funds). Installments of the management fees payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

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

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

As permitted under the partnership agreements, GPE III may waive or agree to reduce the management fee. Certain waived portions of the management fee are treated by the partnership agreements as a deemed capital contribution by GPE III, which is effectively invested in the relevant Fund on GPE III's behalf and operates to reduce the amount of capital GPE III would otherwise be required to contribute to the Fund. The limited partners of the Fund may be required to make a *pro rata* contribution according to their respective commitments to fund any contribution that would otherwise be required of GPE III in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration (or delay) of investor capital contributions. Waived or reduced management fees are not subject to the management fee offsets described above and the amount of such waived or reduced management fees may be significant.

Due to waived or reduced management fees by the Adviser and/or the timing of receipt of compensation subject to offsets (as described above), it is possible that the management fee offsets will be delayed.

#### *Caltius Mezz III and CP III*

Effective with the quarter commencing October 1, 2016, Caltius Mezz III Main Fund and the Caltius Mezz III Executive Fund each no longer pay CP III any management fee.

The partnership agreement of Caltius Mezz III Main Fund provides that the Fund's management fee will be reduced by all of such Fund's share of any break-up fees, transaction fees, directors' fees and other similar fees paid by portfolio companies to partners or employees of CP III or its affiliates. While the Adviser is not expected to receive any such fees from portfolio companies, since there will be no management fees to offset, to the extent the Adviser receives any such fees they will be remitted to the Fund.

#### *Caltius Mezz IV and CP IV*

The Caltius Mezz IV Main Fund will pay CP IV, quarterly in advance, a management fee equal to 2.0% on an annual basis with respect to investments made prior to July 21, 2014 and any later follow-on investments made with respect thereto, and 1.0% on an annual basis with respect to any other investments made after July 31, 2014, and the Caltius Mezz IV Executive Fund will pay CP IV, quarterly in advance, a management fee equal to 1.0% on an annual basis, in each case of (x) the aggregate amount of capital contributions for investments, less (y) the aggregate amount of distributions to partners representing a return of investment contributions made for disposed investments and the aggregate amount of investment contributions used to fund investments which have been written down (net of subsequent write-ups) at least 80% from the original cost thereof to the extent distributions have not been made with respect thereto, in each case as determined on the first day of the period with respect to which a determination is being made (with such determination being made on January 1 of each year with respect to payments for the first two quarters of the year and on July 1 of each year with respect to payments for the last two quarters of the year). The management fees will be payable until all portfolio investments are disposed of



or distributed or until CP IV's relationship with the Fund is terminated for other reasons (as described in the applicable partnership agreements of the Funds). Installments of the management fees payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

The Caltius Mezz IV Main Fund management fee will be reduced by all of such Fund's share of break-up fees, transaction fees, directors' fees and other similar fees paid by portfolio companies to partners or employees of CP IV or its affiliates, all as more particularly described in the partnership agreement for the Fund. Due to the timing of receipt of compensation subject to offsets and/or waived or reduced management fees by the Adviser (as described below), it is possible that such management fee offsets will be delayed.

As permitted under the partnership agreements, CP IV may waive or agree to reduce the management fee. Certain waived portions of the management fee are treated by the partnership agreements as a deemed capital contribution by CP IV, which is effectively invested in the relevant Fund on CP IV's behalf and operates to reduce the amount of capital CP IV would otherwise be required to contribute to the Fund. The limited partners of the Fund may be required to make a *pro rata* contribution according to their respective commitments to fund any contribution that would otherwise be required of CP IV in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration (or delay) of investor capital contributions. Waived or reduced management fees are not subject to the management fee offsets described above and the amount of such waived or reduced management fees may be significant.

#### *Caltius Mezz V Unlevered Funds and GPM V*

Caltius Mezz V Main Fund and Caltius Mezz V Parallel Fund each will pay GPM V, quarterly in advance, a management fee generally equal to 1.75% on an annual basis of each partners' investor capital commitments, and Caltius Mezz V Executive Fund will pay GPM V, quarterly in advance, a management fee generally equal to 1.0% on an annual basis of each partners' investor capital commitments. Investors participating in a closing after the initial closing are expected to bear their share of the applicable Fund management fee from Caltius Mezz V's effective date. Upon the first day of the first calendar quarter after the earlier to occur of (i) the date when all Caltius Mezz V Main Fund and Caltius Mezz V Parallel Fund commitments have been invested or otherwise used to pay expenses of the Fund; (ii) the fifth anniversary of the final closing date of Caltius Mezz V Main Fund and the Caltius Mezz V Parallel Fund ; and (iii) the date that fees are received with respect to a successor fund, the Caltius Mezz V Main Fund and the Caltius Mezz V Parallel Fund each will pay GPM V, quarterly in advance, a management fee generally equal to 1.75% on annual basis, and the Caltius Mezz V Executive Fund will pay GPM V, quarterly in advance, a management fee generally equal to 1.0% on annual basis, in each case of such partners' share of (x) the aggregate amount of capital contributions for investments that have not been disposed of, less (y) the aggregate amount of investment contributions used to fund investments which have been written down (net of subsequent write-ups) at least 80% from the original cost thereof to the extent distributions have not been made with respect thereto, in each case as determined on the first day of the period with respect to which a determination is being made. The management fees for each Fund will be payable until all portfolio investments are disposed of or distributed or until GPM V's relationship with the applicable Fund is terminated for

other reasons (as described in the applicable partnership agreements of the Funds). Installments of the management fees payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

The management fee for each investor of the Caltius Mezz V Main Fund, the Caltius Mezz V Parallel Fund and the Caltius Mezz V Executive Fund will be reduced by such investor's share of such Fund's share of all closing fees, consent fees, commitment fees, funding fees, break-up fees, litigation proceeds, investment banking fees, placement fees, monitoring fees, consulting fees, directors' fees and other similar fees paid by portfolio companies to partners or employees of the Adviser or its affiliates, all as more particularly described in the partnership agreements for such Funds.

As permitted under the partnership agreements, GPM V may waive or agree to reduce the management fee. Certain waived portions of the management fee are treated by the partnership agreements as a deemed capital contribution by GPM V, which is effectively invested in the relevant Fund on GPM V's behalf and operates to reduce the amount of capital GPM V would otherwise be required to contribute to the Fund. The limited partners of the Fund may be required to make a *pro rata* contribution according to their respective commitments to fund any contribution that would otherwise be required of GPM V in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration (or delay) of investor capital contributions. Waived or reduced management fees are not subject to the management fee offsets described above and the amount of such waived or reduced management fees may be significant.

Due to waived or reduced management fees by the Adviser and/or the timing of receipt of compensation subject to offsets (as described above), it is possible that such management fee offsets will be delayed.

#### *Caltius Mezz V SBIC Fund and CP V (SBIC) GP*

The Caltius Mezz V SBIC Fund will pay CP V (SBIC) GP, quarterly in advance and commencing on the date of SBIC licensing approval from the SBA, a management fee equal to 1.75% on an annual basis of the sum of "Unreduced Regulatory Capital" and "Assumed SBA Leverage." "Unreduced Regulatory Capital" means the sum of the Fund's regulatory capital as defined in the SBIC Act, less any Fund organizational expenses in excess of \$500,000, plus any distributions previously payable made under 13 CFR Section 107.585 which reduced regulatory capital by no more than 2% or which the SBA approves for inclusion in the calculation of management compensation. "Assumed SBA Leverage" means up to two tiers of leverage as defined in the SBIC Act drawn or planned to be drawn by the Fund, as reflected in its then current plan of operations approved by SBA. Investors participating in a closing after the initial closing are expected to bear their share of the applicable Fund management fee from the first day of the calendar quarter in which they made their commitment.

Upon the fifth anniversary of the commencement of the Caltius Mezz V SBIC Fund's investment period (as provided in the Fund's partnership agreement), a management fee generally equal to 1.75% on annual basis, of the aggregate cost of all loans and investments in respect of the portion of "Active Portfolio Companies" attributable to the partners of the Fund (other than the

affiliated partners). The term “Active Portfolio Companies” for this purpose shall mean any ongoing concerns in which the Fund has invested and as to which the Fund has not written off its entire investment, subject to SBA review. Notwithstanding anything to the contrary in the partnership agreement for the Fund, in no event shall the management fees exceed the maximum amount approved by SBA.

The management fees for the Fund will be payable until all portfolio investments are disposed of or distributed or until CP V (SBIC) GP’s relationship with Caltius Mezz V SBIC Fund is terminated for other reasons (as described in the applicable partnership agreement of the Fund). Installments of the management fees payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

The management fee for each investor of the Caltius Mezz V SBIC Fund will be reduced by 100% of such investor’s share of such Fund’s share of all management service fees (as described under 13 CFR Section 107.900, closing fees, consent fees, commitment fees, funding fees, break-up fees, litigation proceeds, investment banking fees, placement fees, monitoring fees, consulting fees, directors’ fees and other similar fees paid by portfolio companies to partners or employees of the Adviser or its affiliates, all as further described in the partnership agreement for the Fund and/or as required under the SBIC Act.

Due to the timing of receipt of compensation subject to offsets (as described above), it is possible that such management fee offsets will be delayed.

### **Carried Interest**

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

#### *Caltius Equity II and CEP II*

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

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

#### *Caltius Equity III and GPE III*

GPE III will receive a carried interest with respect to the Caltius Equity III Main Fund equal to 20% of all realized profits (subject to an 8% compound preferred return), as more fully described in the Fund’s partnership agreement. The carried interest distributed to GPE III is subject to a potential giveback at the end of the investment period of the Fund, on the tenth

anniversary of the effective date of the Fund and at the end of life of Caltius Equity III Main Fund if GPE III has received excess cumulative distributions.

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

#### *Caltius Mezz III and CP III*

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

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

#### *Caltius Mezz IV and CP IV*

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

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

#### *Caltius Mezz V Unlevered Funds and GPM V*

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

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

### *Caltius Mezz V SBIC Fund and CP V (SBIC) GP*

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

It is expected that any future Funds formed with respect to the Caltius Mezz V SBIC Fund will have a similar fee structure as the Caltius Mezz V SBIC Fund.

## **Expenses**

### *Caltius Equity II and CEP II*

In addition to the management fees and carried interest payable to CEP II, Caltius Equity II bears certain expenses. As more fully set forth in the partnership agreements for the Caltius Equity II Main Fund and the Caltius Equity II Executive Fund, each Fund bears all expenses relating to the Fund's activities, investments and business to the extent not paid by portfolio companies, including without limitation all expenses attributable to acquiring, holding and disposing of investments (including interest on money borrowed, and brokerage, finders', custodial and other fees); legal, accounting, auditing, insurance, travel, litigation and indemnification, judgments and settlements, consulting, financing, appraisal, filing and tax preparation expenses; expenses of the Caltius Equity II Main Fund advisory board; broken deal expenses; expenses of partner meetings; and any taxes or other governmental charges levied against the Fund, but not ordinary overhead and administrative expenses of the Fund incurred by CEP II or its affiliates in connection with maintaining and operating their offices (including salaries, rent and equipment expenses). To the extent that such expenses are of a type that are common to the activities of one or more of the Caltius Equity II Funds (e.g., audit expenses, tax preparation expenses, the costs of maintaining investor information portals, etc.), CEP II will allocate such expenses among the Funds based on the relative commitments to such Fund(s) or in such manner as CEP II otherwise determines to be equitable. Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

### *Caltius Equity III and GPE III*

In addition to the management fees and carried interest payable to GPE III, Caltius Equity III bears certain expenses. As more fully set forth in the partnership agreements for the Caltius Equity III Main Fund and the Caltius Equity III Executive Fund, each Fund bears all expenses relating to the Fund's activities, investments and business to the extent not paid by portfolio companies, including without limitation all expenses attributable to acquiring, holding and disposing of investments (including interest on money borrowed, and brokerage, finders', custodial and other fees); legal, accounting, auditing, insurance, travel, litigation and indemnification, judgments and settlements, consulting, finders', financing, appraisal, filing and tax preparation expenses; expenses of the Caltius Equity III Main Fund advisory board; broken deal expenses; expenses of partner meetings, including attendance at such meetings of current or

former executives that GPE III believes can provide advice with respect to Fund activities (“**strategic executives**”); expenses of meetings of strategic executives, up to a maximum of \$50,000 per year; any taxes or other governmental charges levied against the Fund; placement fees paid to third parties; extraordinary expenses; expenses incurred in connection with any alternative investment vehicles formed in connection with fund investments; and Fund organizational expenses (up to a maximum of \$1,500,000) but not ordinary overhead and administrative expenses of the Fund incurred by GPE III or its affiliates in connection with maintaining and operating their offices (including salaries, rent and equipment expenses) or costs or expenses directly associated with the registration of the Adviser or its affiliates as an investment adviser with the SEC or any state securities agency or any Form ADV reporting related thereto. To the extent that such expenses are of a type that are common to the activities of one or more of the Caltius Equity III Funds (*e.g.*, audit expenses, tax preparation expenses, the costs of maintaining investor information portals, etc.), GPE III will allocate such expenses among the Funds based on the relative commitments to such Fund(s) or in such manner as GPE III otherwise determines to be equitable. Brokerage fees may be incurred in accordance with the practices set forth in “Brokerage Practices.”

#### *Caltius Mezz III and CP III*

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

#### *Caltius Mezz IV and CP IV*

In addition to the management fees and carried interest payable to CP IV, Caltius Mezz IV bears certain expenses. As more fully set forth in the partnership agreements for Caltius Mezz IV Main Fund and Caltius Mezz IV Executive Fund, each Fund bears all expenses relating to the Fund’s activities, investments and business to the extent not paid by portfolio companies, including without limitation all expenses attributable to acquiring, holding and disposing of investments (including interest on money borrowed; brokerage, finders’, custodial and other fees; and costs

and expenses for litigation and indemnification, and judgments and settlements); insurance; legal, accounting, auditing, consulting, financing, finders', appraisal, filing and tax preparation expenses; expenses of the Caltius Mezz IV Main Fund advisory board; broken deal expenses; expenses of partner meetings; and any taxes or other governmental charges levied against the Fund, but not ordinary overhead and administrative expenses of the Fund incurred by CP IV or its affiliates in connection with maintaining and operating their offices (including salaries, rent, equipment expenses, external technical and marketing consulting services unrelated to a specific proposed or existing investment and travel expenses) to the extent not borne or reimbursed by a portfolio company. To the extent that such expenses are of a type that are common to the activities of one or more of the Caltius Mezz IV Funds (e.g., audit expenses, tax preparation expenses, the costs of maintaining investor information portals, etc.), CP IV will allocate such expenses among the Funds based on the relative commitments to such Fund(s) or in such manner as CP IV otherwise determines to be equitable. Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

#### *Caltius Mezz V Unlevered Funds and GPM V*

In addition to the management fees and carried interest payable to GPM V, the Caltius Mezz V Unlevered Funds bear certain expenses. As more fully set forth in the partnership agreements for the Caltius Mezz V Main Fund, the Caltius Mezz V Parallel Fund and the Caltius Mezz V Executive Fund, each Fund bears all expenses relating to the Fund's activities, investments and business to the extent not paid by portfolio companies, including without limitation all expenses attributable to acquiring, holding and disposing of investments (including interest on money borrowed, and brokerage, finders', custodial and other fees); legal, accounting, auditing, insurance, travel, litigation and indemnification, judgments and settlements, consulting, finders', financing, appraisal, filing and tax preparation expenses; expenses of the Caltius Mezz V Main Fund advisory board; broken deal expenses; expenses of partner meetings, including attendance at such meetings of current or former executives that GPM V believes can provide advice with respect to Fund activities ("**strategic executives**"); expenses of meetings of strategic executives, up to a maximum of \$50,000 per year; any taxes or other governmental charges levied against the Fund; placement fees paid to third parties; extraordinary expenses; expenses incurred in connection with any alternative investment vehicles formed in connection with fund investments; and Fund organizational expenses (up to a maximum of \$1,500,000) but not ordinary overhead and administrative expenses of the Fund incurred by GPM V or its affiliates in connection with maintaining and operating their offices (including salaries, rent and equipment expenses). To the extent that such expenses are of a type that are common to the activities of one or more of the Caltius Mezz V Funds (e.g., audit expenses, tax preparation expenses, the costs of maintaining investor information portals, etc.), GPM V and CP V (SBIC) GP will allocate such expenses among the Funds based on the relative commitments to such Fund(s) or in such manner as GPM V and CP V (SBIC) GP otherwise determines to be equitable. Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

#### *Caltius Mezz V SBIC Fund and CP V (SBIC) GP*

In addition to the management fees and carried interest payable to CP V (SBIC) GP, the Caltius Mezz V SBIC Fund bears certain expenses. As more fully set forth in the partnership

agreements for the Caltius Mezz V SBIC Fund, the Fund bears all expenses relating to the Fund's activities, investments and business to the extent not paid by portfolio companies, including without limitation all expenses attributable to acquiring, holding and disposing of investments (including interest on money borrowed, registration expenses and brokerage, finders', custodial and other fees, litigation and indemnification costs and expenses, judgments and settlements) but excluding the development, investigation or monitoring of investments; insurance premiums or similar expenses incurred by CP V (SBIC) GP and certain other related parties in connection with the management of the Fund; legal, accounting, administration (including third party administrators), custodian, depository, auditing, consulting, finders', financing, appraisal, filing and tax preparation expenses; expenses of the Caltius Mezz V SBIC Fund advisory board; broken deal expenses; expenses of partner meetings, including attendance at such meetings of current or former executives that CP V (SBIC) GP believes can provide advice with respect to Fund activities ("**strategic executives**") excluding travel expenses; expenses of meetings of strategic executives (but excluding travel expenses), up to a maximum of \$50,000 per year in aggregate for the Fund and the Caltius Mezz V Unlevered Funds; any taxes or other governmental charges levied against the Fund; placement fees paid to third parties; extraordinary expenses; amounts payable to the SBA under the SBIC Act and amounts payable in connection with any leverage commitment from the SBA and any outstanding leverage thereunder and all expenses incurred by the Fund for issuance of such leverage; and Fund organizational expenses (up to a maximum of \$750,000), but not ordinary overhead and administrative expenses of the Fund incurred by CP V (SBIC) GP or its affiliates in connection with maintaining and operating their offices (including salaries, rent and equipment expenses). To the extent that such expenses are of a type that are common to the activities of one or more of the Caltius Mezz V Funds (e.g., audit expenses, tax preparation expenses, the costs of maintaining investor information portals, etc.), CP V (SBIC) GP and GPM V will allocate such expenses among the Funds based on the relative commitments to such Fund(s) (including the Fund's Assumed SBA Leverage for this purpose) or in such manner as CP V (SBIC) GP and GPM V otherwise determines to be equitable. Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

## **Other Information**

Generally, each General Partner may exempt certain investors in the relevant Fund(s) it advises from payment of all or a portion of management fees and/or carried interest, including a General Partner itself and any other person designated by such General Partner, such as "friends and family" of the Adviser or its personnel, or other investors meeting certain qualification requirements based on commitment size or other strategic or relationship factors. Any such exemption from fees and/or carried interest may be made by a direct exemption, a rebate by a General Partner and/or its affiliates, or through other Funds which co-invest with a Fund. For example, in instances where a Caltius professional or its affiliate invests in a Fund, such professional or its affiliate generally will be exempt from payment of the management fee and/or carried interest with respect to such Fund. Additionally, to the extent permitted by the relevant partnership agreements, certain General Partners may have the right to permit investors, affiliated with the Adviser or otherwise, to invest through the relevant General Partner or other vehicles that do not bear carried interest. In general, the management fee offsets described above apply only with respect to the capital commitments of fee-paying investors.



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

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

In certain circumstances, one Fund is expected to pay an expense common to multiple Funds (including without limitation legal expenses for a transaction in which all such Funds participate, or other fees or expenses in connection with services the benefit of which are received by other Funds over time), and be reimbursed by the other Funds for their share of such expense, without interest. While the Adviser 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, the Adviser is expected to advance amounts related to the foregoing and receive reimbursement from the Funds to which such expenses relate.

As described above, in certain circumstances, the relevant General Partner is expected to permit certain investors to co-invest in portfolio companies alongside one or more Funds, subject to the Adviser's related policies and the relevant partnership agreement(s) and/or side letter(s). Where a co-invest vehicle is formed, such entity generally will bear expenses related to its formation and operation, many of which are similar in nature to those borne by the Funds. 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 be beneficial, in the judgment of the general partner, ultimately is not consummated, all broken deal expenses relating to such proposed transaction are expected to be borne by the Fund(s), and not by any potential co-investors, that were to have participated in such transaction.

Caltius and/or its affiliates generally have discretion over whether to charge transaction fees, monitoring fees or other compensation to a portfolio company and, if so, the fee rate, timing and/or amount of such compensation. In most circumstances, such compensation is not reviewed or approved by an independent third party. The receipt of such compensation generally will give rise to potential conflicts of interest between the Funds, on the one hand, and Caltius and/or its affiliates on the other hand.

As is typical for private equity funds, the Funds likely bear additional and greater expenses, directly or indirectly, than many other pooled investment products, such as mutual funds.

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

As described under "Fees and Compensation," CEP II, GPE III, CP III, CP IV, GPM V and CP V (SBIC) GP each receives a carried interest allocation on certain realized profits in the related main and/or parallel Fund for which it serves as general partner but not with respect to any related executive Fund. This practice could present a conflict of interest because a General Partner has an incentive to favor accounts for which such General Partner receives a performance-based fee. Additionally, to the extent that Caltius 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 identifying investment opportunities as appropriate for Funds from which they are entitled to receive a higher carried interest percentage.

The Adviser seeks to address the potential for conflicts of interest in these matters with practices that provide that transactions and investment opportunities will be allocated to the Funds in accordance with each Fund's investment guidelines and partnership agreement, as well as other factors that do not include the amount of performance-based compensation received by the Adviser or any personnel. For example, the Adviser causes the relevant main Fund and executive Fund to invest, to the extent practicable, in the same portfolio companies at the same time and on the same terms on a *pro rata* basis based on the relative commitment sizes of such Funds.

The existence of performance-based compensation has the potential to create an incentive for a General Partner to make more speculative investments on behalf of a Fund than it would otherwise make in the absence of such arrangement, although the Adviser generally considers performance-based compensation to better align its interests with those of its investors.

### **TYPES OF CLIENTS**

Caltius Management provides investment advice to the Funds. Such Funds may include investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder. The investors participating in the Funds may include individuals, banks or thrift institutions, other investment entities, university endowments, sovereign wealth funds, family offices, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of Caltius Management and its affiliates and members of their families, Executive Network (as defined below) members or other service providers retained by the Adviser.

The Funds may include alternative investment vehicles established from time to time in order to permit one or more investors to participate in one or more particular 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.

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

## METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### Caltius Equity Funds

#### General

The Caltius Equity Funds seek to invest primarily in control transactions, growth financings and recapitalizations of Micro Market<sup>1</sup> companies. The Caltius Equity Funds intend to make primarily equity and equity-related investments within a targeted range of \$10 million to \$30 million principally based in the United States and Canada, with a regional emphasis on companies in California and the Western United States. The members of the investment committees for the Caltius Equity Funds are James Upchurch, President and Chief Executive Officer of Caltius; Garrick Ahn, Managing Director; Michael Morgan, Managing Director; and, with respect to Caltius Equity III, Jeffrey Holdsberg, Managing Director (collectively, the “**Equity Principals**”).

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

#### Investment and Operating Strategy

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

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

#### Target Selection

##### *Sourcing*

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

*Executive Network.* The Executive Network historically has been a significant source of transaction flow. The Executive Network includes current and former senior level operating

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

executives, many of whom are current or past executives of Caltius Equity Fund or Caltius Mezz Fund portfolio companies.

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

#### *Micro Market Company Characteristics*

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

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

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

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

#### *Industry Characteristics*

The Caltius Equity Funds typically target industries that have:

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

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

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

### *Geographic Characteristics*

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

### **Platform Development**

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

### *Executive Network Role*

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

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

### **Infrastructure Enhancement and Preparation for Growth**

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

#### *Operational Process Improvements*

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

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

#### *Personnel Capabilities Upgrades*

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

#### *Capital Investment*

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

### **Growth Strategy Construction**

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

#### *Market Penetration*

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

#### *New Market Development*

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

#### *New Service / Product Development*

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

### **Strategic Exit Timeline and Process**

As platform development activities progress, the Caltius Equity Fund seeks to monitor its portfolio companies' industry and competitor dynamics to determine whether or not to implement

an accelerated exit process (an “**Accelerated Exit**”) or to continue to progress toward a traditional exit timeline (a “**Traditional Exit**”).

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

#### *Accelerated Exit*

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

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

#### *Traditional Exit*

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

### **Caltius Mezz Funds**

#### **General**

The Caltius Mezz Funds intend to make mezzanine investments of up to \$50 million in lower middle market companies located in the United States and Canada (although the Funds also

may make senior debt and/or equity investments and may invest in companies located outside the United States and Canada). These investments are expected to be in a broad range of industries with non-capital intensive businesses, such as consumer services/products, business services and light manufacturing. Caltius focuses on the underserved “non-sponsored” market, which Caltius believes has less competition than the “sponsored” market, allowing for more attractive pricing characteristics and enhanced equity upside. In addition, Caltius believes it has significant experience investing with private equity sponsors and will selectively invest in sponsored transactions. Caltius generally expects to be the lead mezzanine investor in its investments.

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

## **Investment and Operating Strategy**

### *Investment Strategy*

**Focus on the lower middle market.** The Caltius Mezz Funds expect to continue the strategy utilized by prior Caltius funds of investing in the lower middle market, defined as small to medium sized companies with enterprise values of \$25 million to \$250 million. Caltius believes that the capital markets historically have not focused on this segment of the market. Although more capital has been devoted to this segment in recent years, Caltius believes this segment continues to provide investment opportunities with a more favorable risk profile than the middle and upper segments of the market.

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

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

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



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

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

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

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

#### *Investment Process*

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

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

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

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

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

**4) Developing direct calling programs:** Caltius from time to time has engaged outside direct calling firms to identify potential non-sponsored transactions.

**5) Leveraging executive network:** Caltius has developed a network of executives, including senior-level operating executives of current and past portfolio companies that also are investors in the Caltius' executive Funds. Caltius seeks to leverage these relationships to create deal flow, assist in evaluating potential investment opportunities and serve as references to prospective portfolio company management teams.

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

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

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

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

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

**Creative Structuring.** The Caltius Mezz Funds typically will customize structures to meet the unique attributes of each transaction. Investments are expected predominantly to take the form of a debt security, often with equity participation rights. In certain transactions, the Fund occasionally may provide “bridge senior” loans (short term senior debt with a maturity of less than two years or senior debt that converts to mezzanine pricing within two years). The Fund may later reinvest the capital invested in these bridge senior loans so long as the bridge senior debt has been repaid within any applicable time limits set forth in the partnership agreement for the Fund. Caltius Mezz Funds may also participate in “unitranche” structures in conjunction with a bank or other senior lender, with the Caltius Mezz Fund providing junior debt and the senior lender providing senior debt. As part of a mezzanine transaction, the Fund also may make equity co-investments structured as common and/or preferred stock. These equity co-investments are typically a relatively small percentage of the Fund’s overall investment, but in certain instances the Fund may make a more substantial equity investment.

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

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

## **Risks of Investment**

The Caltius Funds and their investors bear the risk of loss that the Adviser’s investment strategy entails. The risks involved with the Adviser’s investment strategies and investments in the Funds include, but are not limited to:

### **Caltius Equity Funds**

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

*Future and Past Performance.* The performance of Caltius Equity Funds’ prior investments is not necessarily indicative, or a guarantee, of a Fund’s future results. While the General Partner of each Caltius Equity Fund intends for the Fund to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that any targeted internal rate of return will be achieved. On any given investment, loss of principal is possible.

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

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

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

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

*Leveraged Investments; Fund Leverage.* The Caltius Equity Funds may make use of leverage by incurring or having a portfolio company incur debt to finance a portion of its investment in such portfolio company, including in respect of companies not rated by credit agencies. Leverage generally magnifies both the Fund's opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets (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 also often 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 Fund's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates (which recently have been at or near historic lows) and could accelerate and magnify declines in the value of the Fund's investments in the leveraged portfolio companies in a down market. In the event any

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

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 the Adviser 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.

To the extent a Fund provides bridge financing to facilitate portfolio company investments, it is possible that all or a portion of such bridge financing will not be recouped within the time period specified in the partnership agreement, in which case the investment would be treated as a permanent investment of the Fund. As a result, the Fund's portfolio could become more concentrated with respect to such investment than initially expected or otherwise provided for under the Fund's investment limitations, certain of which exclude bridge financing investments.

*Subscription Lines.* A Caltius Equity 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. These expenses typically include interest on the amounts borrowed, unused commitment fees on the committed but unfunded portion of a subscription line, an upfront fee for establishing a subscription line, and other one-time and recurring fees and/or expenses, as well as legal fees relating to the establishment and negotiation of the terms of the borrowing facility. Because a subscription line's interest rate is based in part on the creditworthiness of the relevant Fund's limited partners and the terms of the partnership agreement, it may be higher than the interest rate a limited partner could obtain individually. 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 in certain methods of calculation.

A credit agreement may contain other terms that restrict the activities of a Fund and the limited partners or impose additional obligations on them. For example, a subscription line may impose restrictions on the relevant General Partner's ability to consent to the transfer of a limited partner's interest in the Fund. In addition, in order to secure a subscription line, the relevant General Partner may request certain financial information and other documentation from limited partners to share with lenders. The General Partner will have significant discretion in negotiating the terms of any subscription line and may agree to terms that are not the most favorable to one or more limited partners.

Fund-level borrowing involves a number of additional risks. For example, drawing down on a subscription line allows the General Partner to fund investments and pay partnership expenses without calling capital, potentially for extended periods of time. Calling a large amount of capital at once to repay the then-current amount outstanding under a subscription line could cause short-term liquidity concerns for limited partners that would not arise had the relevant General Partner called smaller amounts of capital incrementally over time as needed by a Fund. This risk would be heightened for a limited partner with commitments to other funds that employ similar borrowing strategies or with respect to other leveraged assets in its portfolio; a single market event could trigger simultaneous capital calls, requiring the limited partner to meet the accumulated, larger capital calls at the same time. A Fund may also utilize Fund-level borrowing when the General Partner expects to repay the amount outstanding through means other than Limited Partner capital, including as a bridge for equity or debt capital with respect to an investment. If the Fund ultimately is unable to repay the borrowings through those other means, limited partners would end up with increased exposure to the underlying investment, which could result in greater losses.

*Restricted Nature of Investment Positions.* Generally, there will be no readily available market for a substantial number of the Caltius Equity Funds' investments, and hence, most of the Funds' investments will be difficult to value. Certain investments may be distributed in kind to the partners of the Fund and 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. 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. 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 partnership agreement, including the value used to determine the amount of carried interest available to the Adviser with respect to such investment.

*Reliance on General Partner and Portfolio Company Management.* Control over the operation of a Caltius Equity Fund will be vested with the General Partner of such Fund, and a Fund's future profitability will depend largely upon the business and investment acumen of the Equity Principals. The loss or reduction of service of one or more of the Equity Principals or other investment professionals could have an adverse effect on the Fund's ability to realize its investment objectives. Investors generally have no right or power to take part in the management of the Fund, and as a result, the investment performance of the Fund will depend entirely on the actions of the General Partner of the Fund. Although the General Partner of the Fund will monitor the performance of each Fund investment, it will primarily be the responsibility of each portfolio

company's management team to operate such portfolio company on a day-to-day basis. Although the Caltius Equity Funds generally intend to invest in companies with strong management or recruit strong management to such companies, there can be no assurance that the existing management of such companies will be able or willing to successfully operate a company in accordance with the Fund's objectives. In addition, certain changes in the General Partner or circumstances relating to the General Partner may have an adverse effect on the Fund or one or more of its portfolio companies including potential acceleration of debt facilities.

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

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

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

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

*Dynamic Investment Strategy.* While the General Partners of the Caltius Equity Funds generally intend to seek attractive returns for the Funds primarily through the investment strategy

and methods described herein, the General Partners may pursue additional investment strategies and may modify or depart from its initial investment strategy, investment process and investment techniques as it determines appropriate and consistent with the relevant partnership agreements. The General Partner may pursue investments outside of the industries and sectors in which the Equity Principals have previously made investments or have internal operating experience.

*Alternative Investment Fund Managers Directive.* The EU Alternative Investment Fund Managers Directive (the “AIFMD”) regulates the activities of certain private fund managers undertaking fund management activities or marketing fund interests to investors within the European Economic Area (“EEA”). If a Caltius Equity Fund is actively marketed to investors domiciled or having their registered office in the EEA in circumstances where no transitional relief is available:: (i) may be subject to certain reporting, disclosure and other compliance obligations under the AIFMD, which may result in the Fund incurring additional costs and expenses; (ii) the Fund and/or the General Partner may become subject to additional regulatory or compliance obligations arising under national law in certain EEA jurisdictions, which may result in the Fund incurring additional costs and expenses or otherwise affect the management and operation of the Fund; (iii) the General Partner may be required to make detailed information relating to the Fund and its investments available to regulators and third parties; and (iv) the AIFMD may also restrict certain activities of the Fund in relation to EEA portfolio companies including, in some circumstances, the Fund’s ability to recapitalize, refinance or potentially restructure an EEA portfolio company within the first two years of ownership. In addition, it is possible that some EEA jurisdictions will elect to restrict or prohibit the marketing of non-EEA funds to investors based in those jurisdictions, which may make it more difficult for the Fund to raise its targeted amount of commitments.

*Need for Follow-On Investments.* Following its initial investment in a given portfolio company, a Caltius Equity Fund may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company, whether for opportunistic reasons, to fund the needs of the business, as an equity cure under applicable debt documents or other reasons. There is no assurance that the Fund will make follow-on investments or that the Fund will have sufficient funds to make all or any of such investments. Any decision by the Fund not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment (including an event of default under applicable debt documents in the event an equity cure cannot be made). Additionally, such failure to make investments may result in a lost opportunity for the Fund to increase its participation in a successful portfolio company or the dilution of the Fund’s ownership in a portfolio company if a third party invests in such portfolio company.

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



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

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

In some cases, particularly in OTC contexts, hedging arrangements will subject the Fund to the risk of a counterparty's inability or refusal to perform under a hedging contract, or the potential loss of assets held by a counterparty, custodian or intermediary in connection with such hedging. OTC contracts may expose the Fund to additional liquidity risks.

Certain hedging arrangements may create for the General Partner of a Fund and/or one of its affiliates a registration or exemption obligation with the U.S. Commodity Futures Trading Commission (the "CFTC") or other regulator or comply with an applicable exemption. Losses may result to the extent that the CFTC or other regulator imposes position limits or other regulatory requirements on such hedging arrangements, including under circumstances where the ability of a Fund or a portfolio company to hedge its exposures becomes limited by such requirements.

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

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

*Non-controlling Investments.* A Caltius Equity Fund may hold meaningful minority stakes in privately held companies. In addition, during the process of exiting investments, the Fund at times may hold minority equity stakes of any size such as might occur if portfolio holdings are taken public. As is the case with minority holdings in general, such minority stakes that the Fund

may hold will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes.

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

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

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

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

to raise funding to support its investment objectives and also the level of profitability achieved on realizations of investments.

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

*Lack of Unilateral Control.* Even if a Caltius Equity Fund is the majority investor or controlling shareholder, as applicable, of a portfolio company, in certain circumstances it may not have unilateral control of the portfolio company. To the extent a Caltius Equity Fund invests alongside third parties, such as institutional co-investors or private equity funds of other sponsors, the relevant portfolio companies may be controlled or influenced by persons who have economic or business interests, investment or operational goals, tax strategies or other considerations that differ from or are inconsistent with those of such Caltius Equity Fund or its limited partners. Such third parties may be in a position to take action contrary to a Caltius Equity Fund's business, tax or other interests, and a Caltius Equity Fund may not be in a position to limit such contrary actions or otherwise protect the value of its investment.

*Material Non-Public Information; Other Regulatory Restrictions.* As a result of the operations of the Adviser and its affiliates, the Adviser and its affiliates may come into possession of confidential or material non-public information. Therefore, the Adviser and its affiliates may have access to material, non-public information that may be relevant to an investment decision to be made by a Caltius Equity Fund. Consequently, a Caltius Equity 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 Caltius' 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 the Adviser 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 the Adviser'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 the Adviser or may limit the ability of one or more portfolio companies from conducting 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.

*Unfunded Pension Liabilities of Portfolio Companies.* Certain court decisions have found that, where an investment fund owns 80% or more (or under certain circumstances less than 80%) of a portfolio company, such fund (and any other 80%-owned portfolio companies of such fund) might be found liable for certain pension liabilities of such a portfolio company to the extent the portfolio company is unable to satisfy such liabilities. Although the Adviser intends to manage each Caltius Equity Fund's investments to minimize any such exposure, a Caltius Equity Fund may, from time to time, invest in a portfolio company that has unfunded pension fund liabilities, including structuring the investment in a manner where such Caltius Equity Fund may own an 80% or greater interest in such a portfolio company. If such Caltius Equity Fund (or other 80%-owned portfolio companies of such Fund) were deemed to be liable for such pension liabilities, this could have a material adverse effect on the operations of the Caltius Equity Fund and the companies in which such Fund invests. This discussion is based on current court decisions, statute and regulations regarding control group liability under the Employee Retirement Income Security Act of 1974, as amended, as in effect as of the date of this Brochure, which may change in the future as the case law and guidance develops.

*Valuation of Investments.* Generally, the relevant General Partner will determine the value of all the related Caltius Equity Fund's investments for which market quotations are available based on publicly available quotations. However, market quotations will not be available for virtually all of a Caltius Equity Fund's investments because, among other things, the securities of portfolio companies held by such Caltius Equity Fund generally will be illiquid and not quoted on any exchange. Each General Partner will determine the value of all of a Fund's investments that are not readily marketable based on ASC 820 guidelines as promulgated by the Financial Accounting Standards Board and any subsequent valuation guidelines required of an investment fund reporting under generally accepted accounting principles as promulgated in the United States. There can be no assurance that the relevant General Partner will have all the information necessary to make valuation decisions in respect of these investments, or that any information provided by third parties on which such decisions are based will be correct. There can be no assurance that the valuation decision of a General Partner with respect to an investment will represent the value realized by the relevant Caltius Equity Fund on the eventual disposition of such investment or that would, in fact, be realized upon an immediate disposition of such investment on the date of its valuation. Accordingly, the valuation decisions made by such General Partner may cause it to

ineffectively manage the relevant Fund's investment portfolios and risks, and may also affect the diversification and management of such Fund's portfolio of investments.

*Cybersecurity Risks.* Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject. To the extent that a portfolio company is subject to cyber-attack or other unauthorized access is gained to a portfolio company's systems, such portfolio company may be subject to substantial losses in the form of stolen, lost or corrupted (i) customer data or payment information; (ii) customer or portfolio company financial information; (iii) portfolio company software, contact lists or other databases; (iv) portfolio company proprietary information or trade secrets; or (v) other items. In certain events, a portfolio company's failure or deemed failure to address and mitigate cybersecurity risks may be the subject of civil litigation or regulatory or other action. Any of such circumstances could subject a portfolio company, or the relevant Caltius Equity Fund, to substantial losses. In addition, in the event that such a cyber-attack or other unauthorized access is directed at the Adviser or one of its service providers holding its financial or investor data, the Adviser, its affiliates or the Caltius Equity Funds may also be at risk of loss, despite efforts to prevent and mitigate such risks under the Adviser's policies.

### **Caltius Mezz Funds**

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

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

*Leveraged Nature of Mezzanine Investments; Fund Leverage.* The portfolio companies in which the Caltius Mezz Funds will invest may be highly leveraged, thereby increasing the degree of credit risk inherent in each investment. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to operate its business as desired and/or finance future operations and capital needs or to pay principal and interest on a Fund's investments when due. The leveraged capital structure of portfolio companies will increase the exposure of a Fund's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates (which recently have been at or near historic lows). A Fund's investments may be unsecured and subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured and bear floating interest rates. In the event any portfolio company cannot generate adequate cash flow to meet debt service, a Fund may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of the Fund. Furthermore, the companies and securities in which a Fund will invest generally will not be rated by a credit rating agency.

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. A Fund may incur leverage on a joint and several basis with one or more other Funds and entities managed by the Adviser 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 Caltius Mezz 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. These expenses typically include interest on the amounts borrowed, unused commitment fees on the committed but unfunded portion of a subscription line, an upfront fee for establishing a subscription line, and other one-time and recurring fees and/or expenses, as well as legal fees relating to the establishment and negotiation of the terms of the borrowing facility. Because a subscription line's interest rate is based in part on the creditworthiness of the relevant Fund's limited partners and the terms of the partnership agreement, it may be higher than the interest rate a limited partner could obtain individually. 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 in certain methods of calculation.

A credit agreement may contain other terms that restrict the activities of a Fund and the limited partners or impose additional obligations on them. For example, a subscription line may impose restrictions on the relevant General Partner's ability to consent to the transfer of a limited partner's interest in the Fund. In addition, in order to secure a subscription line, the relevant General Partner may request certain financial information and other documentation from limited partners to share with lenders. The General Partner will have significant discretion in negotiating the terms of any subscription line and may agree to terms that are not the most favorable to one or more limited partners.

Fund-level borrowing involves a number of additional risks. For example, drawing down on a subscription line allows the General Partner to fund investments and pay partnership expenses without calling capital, potentially for extended periods of time. Calling a large amount of capital at once to repay the then-current amount outstanding under a subscription line could cause short-

term liquidity concerns for limited partners that would not arise had the relevant General Partner called smaller amounts of capital incrementally over time as needed by a Fund. This risk would be heightened for a limited partner with commitments to other funds that employ similar borrowing strategies or with respect to other leveraged assets in its portfolio; a single market event could trigger simultaneous capital calls, requiring the limited partner to meet the accumulated, larger capital calls at the same time. A Fund may also utilize Fund-level borrowing when the General Partner expects to repay the amount outstanding through means other than Limited Partner capital, including as a bridge for equity or debt capital with respect to an investment. If the Fund ultimately is unable to repay the borrowings through those other means, limited partners would end up with increased exposure to the underlying investment, which could result in greater losses.

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

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

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

*Restricted Nature of Investment Positions.* Generally, there will be no readily available market for a substantial number of the Caltius Mezz Funds' investments, and hence, most of the Funds' investments will be difficult to value. Certain investments may be distributed in kind to the partners of the Fund and 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. 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. 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 partnership agreement, including the value used to determine the amount of carried interest available to the Adviser with respect to such investment.

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

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

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

*Non-U.S. Investments.* The Caltius Mezz Funds may invest in portfolio companies that are organized or headquartered or have substantial sales or operations outside of the United States, its territories, and possessions, including Canada. Such investments may be subject to certain additional risks due to, among other things, potentially unsettled points of applicable governing



law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be given effect during the term of a Fund), the application of complex U.S. and non-U.S. tax rules to cross-border investments, possible imposition of non-U.S. taxes on the Fund and/or the investors with respect to a Fund's income, and possible non-U.S. tax return filing requirements for the Fund and/or the investors. Additional risks include: (a) economic dislocations in the host country; (b) less publicly available information; (c) less well-developed regulatory institutions; (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction; (e) civil disturbances; (f) government instability; and (g) nationalization and expropriation of private assets. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

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

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

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

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

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

Additionally, Congress has recently considered proposed legislation that would treat certain income allocations to service providers by partnerships such as the Funds (including any

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

*Dynamic Investment Strategy.* While the General Partners of the Caltius Mezz Funds generally intend to seek attractive returns for the Funds primarily through the investment strategy and methods described herein, the General Partners may pursue additional investment strategies and may modify or depart from its initial investment strategy, investment process and investment techniques as it determines appropriate and consistent with the relevant partnership agreements. The General Partners may pursue investments outside of the industries and sectors in which the Mezz Principals have previously made investments or have internal operating experience.

*Alternative Investment Fund Managers Directive.* The AIFMD regulates the activities of certain private fund managers undertaking fund management activities or marketing fund interests to investors within the EEA. If a Caltius Mezz Fund is actively marketed to investors domiciled or having their registered office in the EEA in circumstances where no transitional relief is available:: (i) may be subject to certain reporting, disclosure and other compliance obligations under the AIFMD, which may result in the Fund incurring additional costs and expenses; (ii) the Fund and/or the General Partner may become subject to additional regulatory or compliance obligations arising under national law in certain EEA jurisdictions, which may result in the Fund incurring additional costs and expenses or otherwise affect the management and operation of the Fund; (iii) the General Partner may be required to make detailed information relating to the Fund and its investments available to regulators and third parties; and (iv) the AIFMD may also restrict certain activities of the Fund in relation to EEA portfolio companies including, in some circumstances, the Fund's ability to recapitalize, refinance or potentially restructure an EEA portfolio company within the first two years of ownership. In addition, it is possible that some EEA jurisdictions will elect to restrict or prohibit the marketing of non-EEA funds to investors based in those jurisdictions, which may make it more difficult for the Fund to raise its targeted amount of commitments.

*Hedging Arrangements; Related Regulations.* The General Partner of a Caltius Mezz Fund may (but is not obligated to) endeavor to manage the Fund's or any portfolio company's currency exposures, interest rate exposures or other exposures, using hedging techniques where available and appropriate. The Fund may incur costs related to such hedging arrangements, which may be undertaken in exchange-traded or OTC contexts, including futures, forwards, swaps, options and other instruments. There can be no assurance that adequate hedging arrangements will be available on an economically viable basis or that such hedging arrangements will achieve the desired effect, and in some cases hedging arrangements may result in losses greater than if hedging had not been used.

In some cases, particularly in OTC contexts, hedging arrangements will subject the Fund to the risk of a counterparty's inability or refusal to perform under a hedging contract, or the potential loss of assets held by a counterparty, custodian or intermediary in connection with such hedging. OTC contracts may expose the Fund to additional liquidity risks.

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

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

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

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

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

*Material Non-Public Information; Other Regulatory Restrictions.* As a result of the operations of the Adviser and its affiliates, the Adviser and its affiliates may come into possession of confidential or material non-public information. Therefore, the Adviser and its affiliates may have access to material, non-public information that may be relevant to an investment decision to be made by a Caltius Mezz Fund. Consequently, a Caltius Mezz 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 Caltius' 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 the Adviser or the funds from entering into transactions with certain individuals or jurisdictions. 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 the Adviser'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 the Adviser or may limit the ability of one or more portfolio companies from conducting 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.

*Valuation of Investments.* Generally, the relevant General Partner will determine the value of all the related Caltius Mezz Fund's investments for which market quotations are available based on publicly available quotations. However, market quotations will not be available for virtually all of a Caltius Mezz Fund's investments because, among other things, the securities of portfolio companies held by such Caltius Mezz Fund generally will be illiquid and not quoted on any exchange. Each General Partner will determine the value of all of a Fund's investments that are not readily marketable based on ASC 820 guidelines as promulgated by the Financial Accounting Standards Board and any subsequent valuation guidelines required of an investment fund reporting under generally accepted accounting principles as promulgated in the United States. (CP V (SBIC) GP also will determine the value of Caltius Mezz V (SBIC) Fund's investments in accordance with applicable guidelines under the SBIC Act.) There can be no assurance that the relevant General Partner will have all the information necessary to make valuation decisions in respect of these investments, or that any information provided by third parties on which such decisions are based will be correct. There can be no assurance that the valuation decision of a General Partner with respect to an investment will represent the value realized by the relevant Caltius Mezz Fund on the eventual disposition of such investment or that would, in fact, be realized upon an immediate disposition of such investment on the date of its valuation. Accordingly, the valuation decisions made by such General Partner may cause it to ineffectively manage the relevant Fund's investment portfolios and risks, and may also affect the diversification and management of such Fund's portfolio of investments.

*Cybersecurity Risks.* Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject. To the extent that a portfolio company is subject to cyber-attack or other unauthorized access is gained to a portfolio company's systems, such portfolio company may be subject to substantial losses in the form of stolen, lost or corrupted (i) customer data or payment information; (ii) customer or portfolio company financial information; (iii) portfolio company software, contact lists or other databases; (iv) portfolio company proprietary information or trade secrets; or (v) other items. In certain events, a portfolio company's failure or deemed failure to address and mitigate cybersecurity risks may be the subject of civil litigation or regulatory or other action. Any of such circumstances could subject a portfolio company, or the relevant Caltius Mezz Fund, to substantial losses. In addition, in the event that such a cyber-attack or other unauthorized access is directed at the Adviser or one of its service providers holding its financial or investor data, the Adviser, its affiliates or the Caltius Mezz Funds may also be at risk of loss, despite efforts to prevent and mitigate such risks under the Adviser's policies.

### **Additional SBIC Fund Risk Factors**

*Small Business Investment Company Risks.* The Caltius Mezz V SBIC Fund (the "SBIC Fund") intends to operate as an SBIC under the SBIC Act and conduct the activities described under the SBIC Act. As an SBIC, the SBIC Fund will have the powers and responsibilities and be subject to the limitations provided in the SBIC Act. The SBA will have regulatory authority over the SBIC Fund as a licensed SBIC under the provisions of the SBIC Act. If the Senior Principals of the SBIC Fund violate, or otherwise fail to comply with, any of the SBIC Act's provisions or any regulations promulgated thereunder, they may be subject to civil and criminal penalties. In the event of an SBA-imposed liquidation of the SBIC Fund pursuant to the SBIC Act, the SBA's interest shall be senior in priority for all purposes to all other interests in the SBIC Fund.

As an SBIC, the SBIC Fund will be subject to regulations that provide the SBA with a series of remedies for regulatory violations. The remedies are graduated in severity depending on the seriousness of the SBIC Fund's negative financial condition or its misconduct, and may include the removal of the General Partner, the appointment of a receiver, and the operation and liquidation of the SBIC Fund by the SBA.

There is no guarantee that the full amount of SBA Leverage requested will be approved or that it will be approved in a timely manner to facilitate any particular investment. In addition, an SBIC Fund's investments are subject to certain restrictions. Existing SBA policies and funding may change in ways that could impair an SBIC investment vehicle's ability to issue SBA debentures and thereby achieve the SBIC Fund's investment objectives.

*Risk of Leverage.* While the Adviser generally expects the use of SBA leverage to magnify the SBIC Fund's opportunities for additional gains due to the SBA's capped return, the use of SBA leverage could accelerate and magnify declines in the SBIC Fund's performance and reduce the returns of the SBIC Fund's partners due to the potential senior priority of such leverage. Leverage generally magnifies both opportunities for gain and risk of loss. 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 by the SBIC Fund will also result in interest expense and other costs to the SBIC Fund that may not be covered by distributions made to the SBIC Fund or appreciation of its investments. The Caltius Mezz V SBIC Fund's internal rate of return will be negatively affected by the SBIC Fund's use of SBA leverage if the SBIC Fund does not generate investment returns that exceed the costs associated with obtaining the SBA leverage. Capital contributed to the SBIC Fund by a limited partner may, in certain circumstances, be subordinated to any leverage outstanding and any other amounts owed to the SBA. An SBIC is subject to Congressional appropriations and funding of the SBA for purposes of obtaining leverage. If the SBIC program does not receive adequate funding, then the leverage available to existing and newly licensed SBICs could be reduced or eliminated. Although the SBIC Fund intends to draw down SBA funding if eligible, the SBIC Fund plans to pay a management fee to CP V (SBIC) GP, whether or not the SBIC Fund draws down SBA leverage, which management fee amount will be borne exclusively by the SBIC Fund and indirectly by the limited partners.

*Need for Follow-on Investments.* SBA Leverage may not be available or may be limited once used up or after a certain time period. However, portfolio companies may at such time need follow-on investments when SBA leverage is unavailable. In such instances, such failure to make investments may result in a lost opportunity for the SBIC Fund to increase its participation in a successful portfolio company or the SBIC Fund's ownership may be diluted, generally or with respect to the Caltius Mezz V Unlevered Funds.

## **Conflicts of Interest**

The Adviser and its related entities engage in a broad range of advisory and non-advisory activities. The Adviser will seek to devote such time, personnel and internal resources as are necessary to conduct the business of the Funds in an appropriate manner, as consistent with the relevant partnership agreements, although the Funds and their respective investments will place

varying levels of demand on these over time. In the ordinary course of the Adviser conducting its activities, the interests of a Fund may conflict with the interests of the Adviser, one or more other Funds, portfolio companies or their respective affiliates. Certain of these conflicts of interest are discussed herein. As a general matter, the Adviser 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.

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

From time to time, the Adviser will be presented with investment opportunities that would be suitable not only for a certain Fund, but also for other Funds and/or other investment vehicles operated by advisory affiliates of the Adviser. In determining which Funds and/or other investment vehicles should participate in such investment opportunities, the Adviser and its affiliates are subject to conflicts of interest among the investors in such Funds and investment vehicles. Except as required by the relevant partnership agreement(s), the Adviser is not obligated to recommend any investment to any particular investment vehicle. Investments by more than one client of the Adviser in a portfolio company may also raise the risk of using assets of a client of the Adviser to support positions taken by other clients of the Adviser.

The Adviser must first determine which Fund(s) will, or are required to, participate in the relevant investment opportunity. The Adviser generally assesses whether an investment opportunity is appropriate for a particular Fund based on the Fund's partnership agreement, as well as factors including but not limited to: investment and operating guidelines, diversification limitations, tax and regulatory considerations, minimum dollar limits, the need for a Fund to maintain capital availability for potential follow on investments in existing portfolio companies and other relevant factors, including risk. For example, a newly organized Fund generally will seek to purchase a disproportionate amount of investments until it is substantially invested. A Fund

may invest together with other Funds advised by an affiliate of the Adviser in the manner set forth in the relevant partnership agreement and the Adviser's Investment Allocations Policy. The Adviser will determine the allocation of investment opportunities among Funds in a manner that it believes is fair and equitable consistent with the Adviser's obligations and may take into consideration factors such as those set forth above.

Following such determination of allocation among Funds, the Adviser will determine if the amount of an investment opportunity in which one or more Funds will invest exceeds the amount that would be appropriate for such Fund(s) and any such excess may be offered to one or more potential co-investors, including third parties, as determined by the Funds' partnership agreements, side letters and the Adviser's procedures regarding allocation. The Adviser's procedures permit it to take into consideration a variety of factors in making such determinations, including but not limited to: expertise of the prospective co-investor in the industry to which the investment opportunity relates; perceived ability to quickly execute on transactions; tax, regulatory and/or securities law considerations (*e.g.*, qualified purchaser or qualified institutional buyer status); and other appropriate factors. Although a prospective co-investor's willingness to invest in future Funds may be considered by the Adviser, it generally will not be the sole determining factor considered by the Adviser in identifying co-investors.

Co-investment opportunities may, and typically will, be offered to some and not other Fund 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 the Adviser and its affiliates make capital investments in or alongside certain Funds, the Adviser and its affiliates are subject to conflicting interests in connection with these investments. There can be no assurance that any Fund's return from a transaction would be equal to and not less than another Fund or other investment vehicle participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

The Adviser's allocation of investment opportunities among the persons and in the manner discussed herein may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others. While the Adviser will allocate investment opportunities in a manner that it believes in good faith is fair and equitable to its clients under the circumstances over time and considering relevant factors, there can be no assurance that a Fund's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made, will be as favorable as they would be if the conflicts of interest to which the Adviser may be subject did not exist.

In certain cases, the Adviser will have opportunity (but, subject to any applicable restrictions or procedures in the relevant partnership agreement, no obligation) to identify one or more secondary transferees of interests in a Fund. In such cases, the Adviser 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 partnership agreement, 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.



Because each General Partner's carried interest is based on a percentage of net realized profits, it may create an incentive for the General Partner to cause a Fund to make riskier or more speculative investments than would otherwise be the case. Also, for CEP II, GPE III, CP III, CP IV, GPM V and CP V (SBIC) GP, each General Partner may receive a carried interest allocation on certain realized profits in its main and parallel Fund but not with respect to any related executive Fund. This practice could present a conflict of interest because the General Partner has an incentive to favor accounts for which it receives a performance-based fee. The Adviser seeks to address this potential conflict of interest by causing the main Fund and the executive Fund to invest, to the extent practicable, in the same portfolio companies at the same time and on the same terms on a *pro rata* basis based on relative commitment sizes of the applicable Funds.

Where multiple Funds invest at the same, different or overlapping levels of a portfolio company's capital structure, there is a potential for conflicts of interest in determining the terms of each such investment, particularly where certain Funds are intended to invest in different types of securities in a single portfolio company. 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. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, Funds may or may not provide such additional capital, and if provided, each Fund generally will supply such additional capital in such amounts, if any, as determined by the Adviser in its sole discretion. Because of the different legal rights associated with debt and equity of the same portfolio company, the Adviser may face a conflict of interest in respect of the advice it gives to, and the actions it takes on behalf of one Fund versus another Fund (e.g., the terms of debt instruments, the enforcement of covenants, the terms of recapitalizations and the resolution of workouts or bankruptcies). 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, the Adviser 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 the Adviser 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.

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. 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. The Adviser and its affiliates may express inconsistent views of commonly held investments or of market conditions more generally, including in instances where different portfolio managers express different views regarding the same investment. There can be no assurance that the return

on one Fund's investments will be the same as the returns obtained by other Funds participating in a given 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 both Funds. In that regard, actions may be taken for one or more Funds that adversely affect other Funds.

Subject to any relevant restrictions or other limitations contained in the relevant partnership agreements of the Funds, the Adviser 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, but in its sole discretion. In exercising such discretion, the Adviser 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 the Adviser or its affiliates using their reasonable judgment, considering such factors as they deem relevant, but in their sole discretion. 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 the Adviser. 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.

In cases where a Fund holds controlling interests in portfolio companies, the Adviser and/or its affiliates typically have the right to appoint board members or employees of, or service providers to, such portfolio companies, or to influence their appointment, and to determine or influence a determination of their compensation. Where the Adviser believes it to be advantageous for the relevant portfolio companies, it expects to appoint (or seek the appointment of) certain individuals to serve in roles (including board roles) at multiple portfolio companies, including portfolio companies owned by different Funds. Such roles generally will involve separate responsibilities to, and compensation arrangements with, each respective portfolio company. From time to time, portfolio company board members approve compensation and/or other amounts payable to the Adviser and/or its affiliates. Such amounts will be in addition to any management fees or carried interest paid by a Fund to the Adviser.

Additionally, a portfolio company typically will reimburse the Adviser or service providers retained at the Adviser's discretion for expenses (including without limitation travel expenses) incurred by the Adviser or such service providers in connection with its performance of services for such portfolio company. This subjects the Adviser and its affiliates 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. The Adviser determines the amount of these reimbursements for such services in its own discretion, subject to its internal reimbursement policies and practices. Although the amount of individual reimbursements typically is not disclosed to investors in any Fund, any fee paid or expense reimbursed to the Adviser or such service providers generally is subject to: agreements with or review by sellers, buyers and management teams; the review and supervision of the board of directors of or lenders

to portfolio companies; and/or third-party co-investors in its transactions. These factors help to mitigate related potential conflicts of interest.

From time to time the Adviser may exercise its discretion to recommend to Funds or portfolio companies that they contract for services with (i) the Adviser or a related person of the Adviser (which may include a portfolio company of such Fund), (ii) an entity with which the Adviser or its affiliates or current or former members of their personnel has a relationship or from which the Adviser or its affiliates or their personnel otherwise derives financial or other benefit or (iii) certain limited partners or their affiliates. For example, the Adviser 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 businesses. This subjects the Adviser to conflicts of interest, because although the Adviser 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, the Adviser may have an incentive to recommend the related or other person because of its financial or other business interest. There is a possibility that the Adviser, 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 the Adviser), 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 the Adviser 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.

Although the Adviser 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 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 liability among Funds. In each such case the Adviser 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.

The Adviser 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 the Adviser and/or its affiliates; conversely, former personnel or executives of the Adviser and/or its affiliates may serve in significant management roles at portfolio companies or service providers recommended by the Adviser. Similarly, the Adviser, its affiliates and/or personnel maintain relationships with (or may invest in) financial institutions or other 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, the Adviser and/or its affiliates, and/or the Funds or other investment vehicles they advise. The Adviser 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 the Adviser information about markets and industries in which the Adviser operates (or is contemplating operations) or will provide other services that are beneficial to the Adviser. The Adviser may have a conflict of interest in making such recommendations, in that the Adviser 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.

The Adviser, its affiliates, and equity holders, officers, principals and employees of the Adviser and its affiliates may buy or sell securities or other instruments that the Adviser has recommended to a Fund. In addition, officers, principals and employees may buy securities in transactions offered to but rejected by a Fund. Such transactions are subject to any restrictions in the relevant partnership agreements and the policies and procedures set forth in Caltius' Code of Ethics. The investment policies, fee arrangements and other circumstances of these investments may vary from those of any Fund. Employees and related persons of the Adviser have, and are expected to continue to have, capital investments in or alongside certain Funds, or in prospective portfolio companies directly or indirectly, as well as in investment vehicles (including private funds) sponsored by potential competitors, and therefore may have additional conflicting interests in connection with these investments.

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

In addition, as described above, portfolio companies typically pay certain fees to Executive Network members and other third-party consultants (including consultants introduced or arranged by the Adviser and/or its affiliates that provide services to one or more portfolio companies), and such fees do not offset the management fee as described herein. Executive Network members may make use of the Adviser's resources or otherwise be associated with the Adviser. Although the use of Executive Network members and the allocation of compensation paid to them by the Adviser, its affiliates and/or the portfolio companies may subject the Adviser and/or its affiliates to potential conflicts of interest, the Adviser believes that such potential conflicts may be reduced by the anticipated cost savings to portfolio companies (which is expected to be to the benefit of the applicable Fund(s)) that will result if the cost of the Executive Network members is lower than market rates for the services provided and/or if the quality of the services of the Executive Network members make a greater contribution to the success of the portfolio company. Although the Adviser seeks to retain Executive Network members with a view to reducing costs to portfolio companies (and, ultimately, the Funds) and/or improving portfolio company performance, a number of factors may result in limited or no cost savings, or limited or no improvement in performance, from such retention. The Adviser also seeks to reduce potential conflicts of interest resulting from such arrangements by structuring compensation packages for such persons in a

manner that the Adviser believes will align such persons' interests with those of the Funds' limited partners.

Because there is a fixed investment period after which capital from investors in a Fund may only be drawn down in limited circumstances and because management fees are, at certain times during the life of a Fund, based upon capital invested by such Fund, this fee structure may create an incentive to deploy capital when the Adviser may not otherwise have done so.

The Adviser may enter into side letter arrangements with certain investors in a Fund providing such investors with different or preferential rights or terms, including but not limited to different fee structures, information rights, co-investment rights, and liquidity or transfer rights.

The Adviser has incentives to use or to recommend products or services of one portfolio company to another, which may involve fees, commissions, servicing payments or other compensation. Potential conflicts of interest arise in making such recommendations, as the Adviser has incentives to maintain goodwill between it and its former, existing and prospective portfolio companies, and as a result the products or services recommended may not necessarily be the best or lowest cost option. Discounted prices or better terms offered by a portfolio company to the Adviser, any other portfolio company or third parties may affect the returns of the portfolio company.

Any of these situations subjects the Adviser and/or its affiliates to potential conflicts of interest. The Adviser attempts to resolve such conflicts of interest in light of its obligations to investors in its Funds and the obligations owed by the Adviser's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among 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, the Adviser will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict. Where necessary, the Adviser consults and receives consent to conflicts from an advisory board consisting of limited partners of the relevant Fund(s) and such other investment vehicles.

#### **DISCIPLINARY INFORMATION**

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

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

Caltius Management is affiliated with other Caltius investment advisers registered with the SEC under the Advisers Act pursuant to Caltius Management's registration in accordance with SEC guidance. These advisers are Caltius Partners V (SBIC) GP, LP, a Delaware limited partnership; GPM V, LP, a Delaware limited partnership; CP IV, LP, a Delaware limited partnership; CP III, LP, a Delaware limited partnership; Caltius GPE III, LP, a Delaware limited partnership; and CEP II, LP, a Delaware limited partnership. These affiliated investment advisers operate as a single advisory business together with the Adviser and serve as managers or general

partners of private investment funds and other pooled vehicles and generally share common owners, officers, partners, employees, consultants or persons occupying similar positions.

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

Caltius Management has adopted the Caltius Code of Ethics and Securities Trading Policy and Procedures (the “**Code**”), which sets forth standards of conduct that are expected of Caltius principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Caltius personnel to report their personal securities transactions and requires approval from the Caltius Chief Compliance Officer for Caltius personnel to acquire securities in an initial public offering or limited offering or to acquire or dispose of certain other designated securities. In addition, the Code requires such personnel to comply with procedures designed to prevent the misuse of, or trading upon, material non-public information. A copy of the Code will be provided to any investor or prospective investor upon request to Alisa Frederick, the Caltius Chief Compliance Officer, at (310) 996-9591. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client’s interests in client eligible investments.

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

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

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

Co-invest opportunities may also be presented to certain affiliates of the Adviser, as well as third-party investors and other persons, and such co-investments may be effected through co-investment vehicles or directly in a particular portfolio company. Such co-investment opportunities generally will be allocated in the manner described under Methods of Analysis, Investment Strategies and Risk of Loss.”

Caltius Management and its affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in a

Fund, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, any Fund, even though their investment objectives may be the same or similar. The operative documents and investment programs of certain Funds may restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such Funds or may give priority with respect to investments to such Funds. Some of these restrictions could be waived by investors (or their representatives) in such Funds.

From time to time, a General Partner may advance funds on behalf of a Fund and contribute such borrowed amounts to such Fund 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 relevant Fund as a Fund expense, consistent with the applicable partnership agreement (or other governing document) and the expense policy described under “Fees and Compensation.”

In borrowing on behalf of a Fund, the Adviser is subject to conflicts of interest between repaying its obligations and retaining such borrowed amounts for the benefit of the Fund, and in circumstances where interest accrues on any such outstanding borrowings at a rate lower than the relevant Fund’s preferred return, is expected to have incentives to cause the Fund 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 the 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 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.

### **BROKERAGE PRACTICES**

Each General Partner focuses on securities transactions of private companies and generally purchases and sells such companies through privately-negotiated transactions in which the services of a broker-dealer are not required. However, a General Partner may also distribute securities to investors in a Fund or sell such securities, including through using a broker-dealer, if a public trading market exists. Although each General Partner does not intend to regularly engage in public securities transactions, to the extent it does so, it follows the brokerage practices described below.

If a General Partner sells publicly traded securities for a Fund, it is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the General Partner. In such event, the General Partner will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, a General Partner

may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; and (iv) responsiveness to requests for trade data and other financial information.

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

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

General Partners will employ no agreement or formula for the allocation of brokerage business on the basis of research services; however, a General Partner may, in its discretion, cause a Fund to pay such brokers a commission for effecting portfolio transactions in excess of the amount of commission another broker adequately qualified to effect such transactions would have charged for effecting such transactions. This may be done where a General Partner has determined in good faith that such commission is reasonable in relation to the value of brokerage and research services received. In reaching such a determination, a General Partner would not be required to place or attempt to place a specified dollar value on the brokerage or research services provided by such broker.

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

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



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

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

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

In the Adviser’s private company securities transactions on behalf of the Funds, the Adviser may retain one or more broker-dealers or investment banks, the costs of which will be borne by the relevant Fund and/or its portfolio companies. In determining to retain such parties, the Adviser may consider a variety of factors, including: (i) capabilities with respect to the type of transaction being contemplated; (ii) commissions or fees charged; (iii) reputation of the firm being considered; and (iv) responsiveness to requests for information. As a result, although the Adviser generally will seek reasonable rates for such services, the market for such services involves more subjective evaluations than public securities brokerage transactions, and the Funds may not pay the lowest commission or fee for such services.

## **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, Caltius Management monitors companies in which the Funds invest, and the Caltius Chief Compliance Officer periodically checks to confirm that each Fund is maintained in accordance with its stated objectives.

Each Fund typically will provide to its limited partners (i) annual GAAP audited financial statements, (ii) unaudited financial statements for the first three quarters of each fiscal year, (iii) annual tax information necessary for each limited partner’s U.S. tax returns, and (iv) descriptive investment information for each portfolio company annually. (See the partnership agreement for the applicable Fund for more information).

## CLIENT REFERRALS AND OTHER COMPENSATION

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

From time to time, Caltius Management may enter into solicitation arrangements pursuant to which it compensates third parties for referrals that result in a potential investor becoming a limited partner in a Fund. Any fees payable to any such placement agents will be borne by Caltius Management indirectly through an offset against the management fee, although related expenses incurred pursuant to the relevant placement agent or similar agreement, including but not limited to placement agent travel, meal and entertainment expenses, typically are borne by the relevant Fund(s).

## CUSTODY

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

## INVESTMENT DISCRETION

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

## VOTING CLIENT SECURITIES

Each General Partner and Caltius Management have adopted the Caltius Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how it will vote proxies, as applicable, for each Fund's portfolio investments. The Proxy Policy seeks to ensure that each General Partner votes proxies (or similar instruments) in the best interest of its Fund(s), including where there may be material conflicts of interest in voting proxies. The General Partners generally believe their respective interests are aligned with those of the Funds' investors through the principals' beneficial ownership interests in the Fund(s) and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that each General Partner may address the conflict using several alternatives, including by seeking the approval or concurrence of its Fund's advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, a

Fund's advisory board may approve a General Partner's vote in a particular solicitation. General Partners do not consider service on portfolio company boards by Caltius personnel or a General Partner's receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by a General Partner when voting proxies on behalf of a Fund. Clients or investors that would like a copy of Caltius' complete Proxy Policy or information regarding how a General Partner voted proxies for particular portfolio companies, please contact Alisa Frederick, the Caltius Chief Compliance Officer, at (310) 996-9591, and it will be provided at no charge.

#### **FINANCIAL INFORMATION**

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

## SUPPLEMENTAL INFORMATION ABOUT CERTAIN PRINCIPALS OF CALTIUS MANAGEMENT

### **James B. Upchurch**

#### *Educational Background and Business Experience*

James B. Upchurch, 60, is President and Chief Executive Officer of Caltius. Prior to founding Caltius, he was the President of U.S. Bancorp Libra and its predecessor, Libra Investments, an investment banking firm focused on the sale, trading and placement of debt securities. Previously, he was a Portfolio Manager for high yield bonds at Columbia Savings and Loan Association and, prior thereto, was employed by American Continental Corporation. Mr. Upchurch began his career as a Certified Public Accountant at KPMG. He received his B.S. from Northern Arizona University.

#### *Disciplinary History*

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

#### *Other Business Activities*

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

#### *Additional Compensation*

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

#### *Supervision*

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

### **Garrick Ahn**

#### *Educational Background and Business Experience*

Garrick Ahn, 50, Managing Director, joined Caltius in 1999 and works with the Caltius Equity Funds. Previously, he was an Associate at Bastion Capital, responsible for sourcing, executing and managing investments. Prior to Bastion Capital, he spent two years as a strategy consultant with McKinsey & Company focused on assisting Fortune 500 companies with strategy development and implementation of operational improvement initiatives. Mr. Ahn began his career with Morgan Stanley & Co. in the Equity Capital Markets Group. He received his B.S. and

M.S. in Electrical and Computer Engineering from Johns Hopkins University and an M.B.A. from Harvard Business School.

*Disciplinary History*

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

*Other Business Activities*

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

*Additional Compensation*

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

*Supervision*

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

**Michael J. Morgan**

*Educational Background and Business Experience*

Michael J. Morgan, 50, Managing Director, joined Caltius in 1999 and works with the Caltius Equity Funds. Previously, he was with Salomon Smith Barney as an Associate in their Financial Sponsor Coverage Group, responsible for executing equity, debt and mergers and acquisitions transactions for the portfolio companies of large private equity firms. Prior to Salomon Smith Barney, he spent two years at Kline Hawkes & Co., responsible for executing late stage growth equity investments in companies located primarily in California, and for the two years prior to Kline Hawkes & Co., worked at Continental Illinois Venture Corporation (now CIVC Partners), a middle market private equity firm based in Chicago, IL. Mr. Morgan received his B.A. in Economics from the University of Pennsylvania and an M.B.A. from the UCLA Anderson School of Management where he was a Venture Capital Fellow.

*Disciplinary History*

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

*Other Business Activities*

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

### *Additional Compensation*

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

### *Supervision*

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

## **Jeffrey Holdsberg**

### *Educational Background and Business Experience*

Jeffrey Holdsberg, 55, Managing Director and Operating Partner, joined Caltius in 2008 and works with the Caltius Equity Funds. Prior to joining Caltius, Jeff was the Chief Executive Officer and President of Northwest Coatings, a former Caltius Equity I portfolio company. Previously, he was an advisor to Charlesbank Capital Partners, LLC, a private equity fund, and President of Alper Ink Group, LLC, a manufacturer of printing inks for the packaging industries. He began his career as a Certified Public Accountant at Arthur Andersen. He received his B.S. in Accounting from Eastern Illinois University.

### *Disciplinary History*

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

### *Other Business Activities*

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

### *Additional Compensation*

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

### *Supervision*

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

## **Michael A. Kane**

### *Educational Background and Business Experience*

Michael A. Kane, 57, is a Managing Director of Caltius and works with the Caltius Mezz Funds. Mr. Kane joined Caltius in 1997. Previously, he was a Managing Director of Richard C. Blum and Associates, responsible for managing Building and Construction Capital Partners, L.P., a private equity fund focused on the building and construction industries. Prior to Richard C. Blum and Associates, he spent seven years with the Industrial Finance Division of General Electric Capital Corporation, focused on making loans to companies in various sectors. Mr. Kane began his career with Metropolitan Life Insurance in the private placements group. He received his undergraduate degree, M.B.A. and a Masters in Accounting from Rice University.

### *Disciplinary History*

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

### *Other Business Activities*

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

### *Additional Compensation*

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

### *Supervision*

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

## **Gregory J. Howorth**

### *Educational Background and Business Experience*

Gregory J. Howorth, 53, is a Managing Director of Caltius and works with the Caltius Mezz Funds. Previously, he was with FINOVA Capital as a senior credit officer responsible for pre-screening transactions in FINOVA's Corporate Finance Group. Prior to FINOVA Capital, he worked at Heller Financial for eight years and was responsible for underwriting cash flow based senior and subordinated debt transactions for California-based equity sponsors. Mr. Howorth received his B.S. from the University of Southern California.

#### *Disciplinary History*

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

#### *Other Business Activities*

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

#### *Additional Compensation*

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

#### *Supervision*

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

### **Alisa G. Frederick**

#### *Educational Background and Business Experience*

Alisa G. Frederick, 54, a Managing Director, joined Caltius in 2000. Between 1989 and 2000, Alisa worked at Fleet Capital Corporation as a Senior Vice President and Portfolio Manager. Between 1986 and 1989, she worked at Chemical Bank as Assistant Vice President and Senior Underwriter. In 1986, Alisa received her B.A., cum laude, from Wellesley College.

#### *Disciplinary History*

There are no legal or disciplinary events to disclose with respect to Ms. Frederick.

#### *Other Business Activities*

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

#### *Additional Compensation*

Ms. Frederick does not receive any additional compensation that is required to be disclosed.

#### *Supervision*

As a Managing Director of Caltius, Ms. Frederick is part of a team that is responsible for implementing and overseeing the investment strategy of the Caltius Mezz Funds. Ms. Frederick is not subject to the direct supervision of any other individual, although James Upchurch, President



and Chief Executive Officer of Caltius, oversees her compliance with the Adviser's policies and procedures.