



**CLEARLAKE CAPITAL GROUP, L.P.**

**Form ADV Part 2A**

233 Wilshire Blvd., Suite 800  
Santa Monica, CA 90401  
310-400-8800  
[www.clearlake.com](http://www.clearlake.com)

**November 27, 2019**

This brochure provides information about the qualifications and business practices of Clearlake Capital Group, L.P. (together with its related persons, "Clearlake"). If you have any questions about the contents of this brochure, please contact Clearlake's Chief Compliance Officer, Fred Ebrahemi, at 310-400-8875. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Clearlake is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **ITEM 2 MATERIAL CHANGES**

This Form ADV Part 2A (“Brochure”) serves as an update to the Brochure of Clearlake Capital Group, L.P. dated March 29, 2019. This other-than-annual amendment updates the description of Clearlake’s advisory business and other financial industry activities and affiliations.

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## ITEM 4 ADVISORY BUSINESS

Clearlake Capital Group, L.P. (together with its related persons, “Clearlake”), a Delaware limited partnership formed in 2007, is an investment adviser that provides advice to privately offered investment funds that focus on investing in special situations, distressed, value private equity and opportunistic debt investments across the capital structure in small and medium-sized companies in both control and non-control scenarios. Clearlake is led and principally owned by José E. Feliciano and Behdad Eghbali (the “Co-Founders”), who hold their ownership interests in Clearlake indirectly through CCG Global, LLC. In addition, affiliates of Dyal Capital Partners (“Dyal”), a division of Neuberger Berman, Goldman Sachs Asset Management’s Petershill program (“Petershill”) and Landmark Partners (“Landmark”) and, together with Dyal and Petershill, the “Minority Investors”) hold a passive non-voting minority interest in Clearlake. The Minority Investors do not have any authority over the day-to-day operations or investment decisions of Clearlake as they relate to the Funds (as defined below), but they do have certain customary minority protections with respect to their respective ownership interests in Clearlake. The Minority Investors do not have representation on the investment committees of any of the Clearlake strategies.

Clearlake provides investment advisory services to the following privately offered investment funds as of the date of this Brochure:

- Clearlake Capital Partners II, L.P., its parallel fund, Clearlake Capital Partners II (Offshore), L.P., and their master fund, Clearlake Capital Partners II (Master), L.P. (collectively, “Fund II”);
- Clearlake Capital Partners III, L.P., and its master fund, Clearlake Capital Partners III (Master), L.P. (collectively, “Fund III”);
- Clearlake Capital Partners IV, L.P. and its parallel fund, Clearlake Capital Partners IV (Offshore), L.P. (collectively, “Fund IV”);
- Clearlake Capital Partners V, L.P. and its parallel funds Clearlake Capital Partners V (Offshore), L.P. and Clearlake Capital Partners V (USTE), L.P. (collectively, “Fund V”);
- Clearlake Capital Partners VI, L.P. and its parallel funds Clearlake Capital Partners VI (USTE), L.P. and Clearlake Capital Partners VI (Offshore), L.P. (collectively “Fund VI” and, together with Fund V, Fund IV, Fund III and Fund II, the “CCP Funds”);
- Clearlake Opportunities Partners (P), L.P., its parallel fund, Clearlake Opportunities Partners (P-Offshore), L.P., the parallel fund’s mini-master fund, Clearlake Opportunities Partners (P) Mini-Master Fund, L.P., and their master fund, Clearlake Opportunities Partners (P) Master Fund, L.P. (collectively, “COP (P)”);
- Clearlake Opportunities Partners II, L.P., its parallel fund, Clearlake Opportunities Partners (Offshore) II, L.P., the parallel fund’s mini-master fund, Clearlake Opportunities Partners Mini-Master Fund II, L.P., and their master fund, Clearlake Opportunities Partners Master Fund II, L.P. (collectively, “COP II” and, together with COP (P) and the CCP Funds, the “Closed End Funds”);
- Clearlake Opportunities Partners (E), L.P., its parallel fund, Clearlake Opportunities Partners (E-Offshore), L.P., the parallel fund’s mini-master fund, Clearlake Opportunities Partners (E) Mini-Master Fund, L.P., and their master fund, Clearlake Opportunities Partners (E) Master Fund, L.P., together with Clearlake Opportunities Partners (E-C), L.P., its parallel fund, Clearlake Opportunities Partners (E-C) Offshore, L.P., and their master funds, Clearlake Opportunities Partners (E-C) Master Fund I, L.P. and Clearlake Opportunities Partners (E-C) Master Fund II, L.P. (collectively, the “Evergreen Fund” and, together with COP II and COP (P), the “Opportunities Funds” and, together with the Closed End Funds, the “Funds”);
- Snowbird Co-Investment Partners, LLC (the “Snowbird Co-Investment Fund”), Diligere Co-Investment Partners, LLC (the “Diligere Co-Investment Fund”), Amber Co-Investment Partners, LLC (the “Amber

Co-Investment Fund”), Ulysses Co-Investment Partners, L.P. and Ulysses Co-Investment Partners (GV), LLC (together the “Ulysses Co-Investment Funds”), Dragon Co-Investment Partners, L.P. (the “Dragon Co-Investment Fund”), and White Cypress Co-Investment Partners, L.P. (the “White Cypress Co-Investment Fund”), together the “Co-Investment Funds” and, together with the Funds and any other fund or account to which Clearlake may provide investment advisory services from time to time, the “Clients”.

The term “Clients” will be deemed to include their respective alternative investment vehicles, if and as applicable.

As of the date of this Brochure, Clearlake provides investment advisory services to Fund II through its subsidiary Clearlake Capital Management II, L.P., provides investment advisory services to Fund III through its subsidiary Clearlake Capital Management III, L.P., provides investment advisory services to Fund IV and the Snowbird Co-Investment Fund through its subsidiary Clearlake Capital Management IV, L.P., provides investment advisory services to Fund V, the Ulysses Co-Investment Funds and the Dragon Co-Investment Fund through its subsidiary Clearlake Capital Management V, L.P., provides investment advisory services to Fund VI through its subsidiary Clearlake Capital Management VI, L.P., provides investment advisory services to COP (P), the Evergreen Fund, the Diligere Co-Investment Fund and the Amber Co-Investment Fund through its subsidiary Clearlake Capital Management Opportunities, L.P., provides investment advisory services to COP II through its subsidiary Clearlake Capital Management Opportunities II, L.P. and provides investment advisory services to the White Cypress Co-Investment Fund through its subsidiary Meridian GP, LLC. Each such investment advisory entity is registered under the U.S. Investment Advisers Act of 1940 (as amended, the “Advisers Act”) because each such investment advisory entity is an affiliate of Clearlake, is subject to Clearlake’s supervision and control for compliance purposes and is a “relying adviser” of Clearlake. For regulatory, legal, tax or other reasons, Clearlake may direct more than one of its affiliated relying advisers to provide certain services to a Client, or to serve in a sub-advisory role with respect to a Client. In addition, each general partner of a Client is a “related person” of Clearlake and a special purpose vehicle formed to act as the general partner of such Client. Each such related person is covered by Clearlake’s registration as an investment adviser with the SEC and deemed to be registered with the SEC. References in this Brochure to the “general partner” of a Client will also be deemed to refer to the “non-member manager” of a Client in the case of the Co-Investment Funds and any other Client that is a limited liability company.

As of September 30, 2019, Clearlake had approximately \$11,772,798,442 assets under management, all of which is managed by Clearlake on a discretionary basis.<sup>1</sup> Clearlake does not manage any Client assets on a non-discretionary basis.

## **ITEM 5 FEES AND COMPENSATION**

### *Compensation and Fee Schedules*

Clearlake (or the applicable investment advisory entity, as described above) is compensated for its investment advisory services by each of the Funds through the payment of a management fee as set forth in each Funds’ Management Agreement (as defined below). Management Fees are typically in the range of 1.5-2 percent per annum of capital commitments, actively invested capital or net asset value of the applicable fund (collectively, the “Management Fees”). The advisory relationship between each Client and the relevant Clearlake investment advisory entity is governed by their respective investment management agreement (each, a “Management Agreement”). Management Agreements are generally negotiated among related parties and, as such, their terms, including the fees payable to Clearlake, may not be as favorable to the Clients as if they had been negotiated with an unaffiliated, unrelated third party. These Management Fees are typically charged quarterly in advance and are paid directly from the Funds’ assets. Management Fees are payable quarterly in advance and are pro-rated for any period that is less than a full three-month period.

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<sup>1</sup> Assets under management is calculated as of September 30, 2019 as adjusted for material transactions through November 22, 2019.

Each of the Closed End Funds is subject to a carried interest of between 10% to 20% of profits payable to the general partner of a Closed End Fund (the “Carried Interest”) after a return of all capital contributions and an 8% preferred return thereon to the investors in such Closed End Fund, though the general partner of each of Fund V and COP II may take an advance of a portion of the carried interest to which it is entitled pursuant to the applicable Fund Agreement (as defined below). The Evergreen Fund is subject to an incentive allocation of 20% of the aggregate realized and unrealized net capital appreciation and profits, generally calculated on an annual (or potentially longer) basis and at other times, such as when withdrawals and/or distributions are made from the Evergreen Fund, payable to the general partner of the Evergreen Fund (the “Incentive Allocation”) after a 6% preferred return has been achieved (on a realized or unrealized basis) with respect to the capital account of an investor in the Evergreen Fund. The Carried Interest and the Incentive Allocation are separate and distinct from the Management Fees paid to Clearlake for advisory services.

All Management Fees, Carried Interests and Incentive Allocations are negotiated with the Funds’ investors during the fundraising period of the applicable Fund. The Management Fees, Carried Interests and Incentive Allocations may be waived or reduced at the discretion of Clearlake for certain investors (including Dyal, Petershill, Landmark and affiliates, partners and employees of Clearlake). Clearlake does not receive Management Fees, Carried Interest or Incentive Allocations for its services from the Co-Investment Funds.

In accordance with common industry practice, one or more of the Clients or its general partner may enter into letter agreements with certain investors whereby in consideration for agreeing to invest certain amounts in such Client and other considerations deemed material to such Client, such investors may be granted rights, benefits and privileges that are not otherwise afforded to other investors, including, without limitation, the right to receive reports from such Client on a more frequent basis or to receive reports that include information not provided to other investors, the right to pay a reduced (or bear no) Carried Interest, Incentive Allocation and/or Management Fee, the right to receive a share of the Carried Interest, Incentive Allocation and/or Management Fees earned by such Client’s general partner and/or manager, and such other rights as may be negotiated between such Client, its general partner and its manager, on the one hand, and such investors, on the other hand. In some cases, these investors may also directly or indirectly (through an affiliate) provide financing, insurance or other advisory services to one or more Clients and/or one or more of their respective portfolio companies.

The nature and amount of compensation paid to Clearlake by a Client or an investor may differ from that paid by other Clients or investors, even those investing in similar investments.

Generally, any eligible Clearlake partner, member, employee, officer or director (or their respective family trusts or other estate planning vehicles) and other related persons who invest his or her own capital in any Client does not bear or pay any Management Fees, Carried Interest or Incentive Allocation.

All investors and prospective investors should review the limited partnership agreements or other governing agreements of each Client (as amended or restated from time to time, the “Fund Agreements”) and offering documents of each Client in which they have invested or intend to invest in conjunction with this Brochure for complete information on the fees and compensation payable with respect to a particular Client.

Clearlake’s services may be terminated by any of the Clients as set out in the applicable Fund Agreements. Upon termination, any prepaid, unearned Management Fees will be promptly refunded or otherwise not payable, and any earned, unpaid Management Fees will be due and payable.

#### *Other Fees and Expenses*

As set forth in the Fund Agreements, each Client generally bears expenses relating to its operations. These expenses vary by Client, but typically will include, among other things: legal, organizational, offering and travel expenses (which may include private, first-class or business class travel), including the out-of-pocket expenses, of personnel of the Client’s general partner and advisors incurred in connection with the formation and marketing of the Client and related entities, up to a specified dollar cap. Each Client will also pay any and all other expenses attributable to the activities of the Client (collectively, “Operating Expenses”) including, without limitation: (i) fees, costs and expenses incurred in connection with the evaluation, discovery, investigation, development, acquisition, monitoring, managing, holding, maintaining or disposition of investments, including private placement fees, sales commissions,

appraisal fees, taxes, brokerage fees, oversight servicer and servicer fees (including fixed and/or performance fees), research fees, dealer spreads, interest and clearing and settlement charges, commitment fees, underwriting commissions and discounts, expenses relating to short sales, fees and expenses related to market data (including, without limitation, expenses incurred in connection with any multimedia, analytical, database, news or third-party research or information services and any computer hardware and connectivity hardware (e.g., terminals and telephone and fiber optic lines) incorporated into the cost of obtaining such research and market data), administrator fees, costs and expenses (including with respect to administrators that perform anti-money laundering or “know your customer” diligence in connection with the onboarding and ongoing participation of investors in the Fund), and legal, accounting, auditing, investment banking, third-party industry, appraisal, valuation, due diligence experts (including, but not limited to, for credit and risk analytics, loss mitigation, real estate and real estate related matters), finders and originators, consulting fees (including without limitation, salary, fees, carried interest or other compensation of any nature paid by the Client to any individual who acts as an officer of or in an active management role at any portfolio company or issuer (including, without limitation industry executives, advisors, consultants, operating executives, senior operating advisors, subject matter experts or other persons acting in a similar capacity employed by Clearlake (including, without limitation, Clearlake’s Operating Advisors and other members of Clearlake’s Executive Council)<sup>2</sup> but excluding investment professionals employed by Clearlake engaged primarily in the investment activities of the Client)), filing, information services and professional fees, travel and related expenses that are incurred in accordance with the terms of the Fund Agreement and Clearlake’s travel and expense policies and procedures (including airfare which may include first, business, premium class flights or similar cost alternatives and, in certain circumstances, private air travel, lodging, ground transportation, and meals), business development, entertainment and all other fees, costs and expenses related to the evaluation, discovery, investigation, development, acquisition, monitoring, managing, holding, maintaining or disposition of potential or actual investments (whether or not consummated and whether or not incurred prior to the Client’s initial closing); (ii) fees, costs and expenses incurred in connection with the carrying or management of investments, including interest and related expenses and custodial, trustee, record keeping and other administration fees, operations fees and expenses and reconciliation expenses; (iii) fees, costs and expenses incurred in implementing or maintaining third-party or proprietary software tools, programs or other technology for the benefit of the Client or the investors (including, without limitation, any and all costs and expenses of any investment, books and records, portfolio compliance, reporting systems, including, without limitation, consultant, consumer relations management, software licensing, data management and recovery services fees and expenses, and any web portal, extranet tools or other administrative or reporting tools (including subscription-based services) for the benefit of the Client or the investors)); (iv) fees, costs and expenses incurred in connection with the incurrence of leverage and indebtedness, including, without limitation, borrowings (including, without limitation, principal, interest, fees, costs, and expenses incurred in obtaining lines of credit, loan commitments and letters of credit for the account of the Client and in guaranteeing the obligations of any portfolio companies or issuers or their affiliates), dollar rolls, reverse purchase agreements, credit facilities, securitizations, margin financing and derivatives and swaps; (v) expenses incurred in connection with the Client’s financial statements, reports, notices, tax returns, Schedule K-1s (or similar schedules) and engaging tax advisors or tax return preparers for the Client, including the costs of creating, printing and distributing such financial statements, notices, reports, tax returns and Schedule K-1s (or similar schedules), other communications with investors including expenses incurred in connection with providing investors access to a database or other forum hosted on a website designated by Clearlake and costs and expenses with respect to the partnership representative’s representation of the Client and the investors; (vi) costs and expenses (including fees and disbursements) of attorneys, auditors, accountants and consultants (including consultants performing investment initiatives or providing services related to environmental, social and governance investment considerations and policies); (vii) taxes and other governmental charges that may be incurred or payable by the Client; (viii) fees, costs and expenses relating to the maintenance of registered offices, corporate licensing and similar expenses; (ix) insurance premiums or expenses (including in respect of errors, omissions, fidelity, general partner liability, directors’ and officers’ liability, ERISA, cyber, crime and similar coverage for the Client’s general partner and manager, Clearlake, their respective affiliates and related entities, any other persons acting on behalf of the Client and any persons acting on behalf of such general partner, manager, Clearlake, their respective affiliates and related entities), (x) fees and expenses (and damages), including accounting, regulatory, administrative and legal fees and expenses (and damages) of such general partner, manager and Clearlake and any of their respective affiliates in

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<sup>2</sup> The Executive Council, also referred to as “Operating Advisors,” is a network of operating executives and consultants whose members may, at times, participate in various advisory or direct capacities with portfolio companies and issuers and provide Clearlake additional insights into the operating dynamics of businesses.

connection with ongoing compliance, filing and reporting obligations related to the activities of the Clients, their alternative investment vehicles, their parallel partnerships and any other entities through which they make investments, including, without limitation, relating to capital raising activities, investment activities and ongoing operations (including Form PF and other similar regulatory filings in respect of the Client's activities), including, without limitation, relating to capital raising activities, investment activities and ongoing operations (but not in connection with ongoing compliance-related matters and regulatory filings necessary for the Manager's operation as an investment adviser, other than related to Form PF and other similar regulatory filings in respect of the Client's activities), in respect of U.S. federal, state, local, non-U.S. or other law and regulation (including, for example, under applicable "blue sky" rules and regulations, the Foreign Account Tax Compliance Act, the European Union Alternative Investment Fund Managers Directive and any comparable legislation or regulations published by or any other relevant jurisdiction, including filing fees and expenses and expenses related to the preparation and filing of Form PF and other similar regulatory filings) in respect of the Fund's activities (excluding, for the avoidance of doubt, any regulatory expenses related to the relevant Clearlake manager's compliance obligations, as detailed in the relevant Client's private placement memorandum), or incurred in connection with any litigation or governmental inquiry, investigation or proceeding involving the Client, the general partner of a Client, Clearlake or their respective affiliates, including the amount of any judgments, settlements or fines paid in connection therewith, except, however, to the extent such expenses or amounts have been determined to be excluded from the indemnification provided for in the Fund Agreement; (xi) fees, costs and expenses related to the organization, maintenance, development, structuring, operation and winding up of administrative structures in non-U.S. jurisdictions and any special purpose vehicle, including without limitation any travel related expenses that are incurred in accordance with the terms of the Fund Agreement and Clearlake's travel and expense policies (including airfare which may include first, business, premium class flights or similar cost alternatives and, in certain circumstances, private air travel), lodging, ground transportation, and travel meals) related to any such entity and the salary and benefits of any personnel (including personnel of the manager or its affiliates) reasonably necessary and/or advisable for the maintenance and operation of any such entity, or other overhead expenses in connection therewith (to the extent not subject to any reimbursement of such costs and expenses by portfolio companies or other third parties and not capitalized as part of the acquisition price of the transaction); (xii) fees, costs and expenses incurred in connection with the winding up, termination, dissolution or liquidation of the Client, its general partner or any alternative investment vehicle or special purpose vehicle (including any parallel fund vehicles); (xiii) fees, costs and expenses, including travel expenses (which may include private, first or business class air travel), of personnel of the Client's general partner and its advisors, and other expenses, in each case, incurred in connection with the ongoing marketing and offering of interests in the Client, including preparation and negotiation of side letters; (xiv) fees, costs and expenses relating to defaults by investors in the payment of any capital contributions; (xv) broken deal expenses, to the extent not reimbursed by an entity in which the Fund has invested or proposes to invest or by co-investors; (xvi) fees, costs and expenses incurred in connection with any restructuring, modifications, revisions or amendments (except as otherwise provided in the Fund Agreement) to the applicable Fund Agreements of a Client and its related entities, including its general partner, manager and Clearlake, to the extent that such restructuring, modifications, revisions or amendments are incurred in relation to any regulatory changes affecting the Client, its general partner, manager and/or Clearlake; (xvii) fees, costs and expenses incurred in connection with any restructuring, modifications, revisions or amendments to the constituent documents of any alternative investment vehicles and special purpose entities (including any parallel fund vehicles); (xviii) fees, costs and expenses incurred in connection with the formation, organization and operation of alternative investment vehicles or special purpose vehicles (including any parallel fund vehicles) to the extent permitted under the Fund Agreements; (xix) fees, costs and expenses incurred in connection with distributions to investors and in connection with any meetings of the investors called by the Client or any meetings of a committee established pursuant to the applicable Fund Agreements (including the Client's advisory board or a conflicts review agent) (and ancillary activities related thereto, including any legal counsel appointed on behalf of such advisory board pursuant to the applicable Fund Agreements) or the annual meeting of investors (including travel (including airfare which may include first, business, premium class flights or similar cost alternatives and, in certain circumstances, private air travel) and related expenses that are incurred in accordance with the terms of the Fund Agreement, and Clearlake's travel and expense policies and procedures (including airfare, lodging, ground transportation, and meals), of Clearlake and its representatives and members of the Client's advisory board and other reasonable expenses of the investors as determined in Clearlake's reasonable discretion, in each case, incurred in connection with attending the annual meeting); (xx) reasonable third-party fees, costs and expenses incurred in connection with computing the value of the assets of the Client (including, without limitation and as applicable, fees, costs and expenses associated with advisors, independent pricing services and third-party valuation consultants); (xxi) expenses related to the Client's indemnification obligations pursuant to the Fund Agreements; (xxii) reasonable administration fees payable to an



administrator of the Client or any other person providing administrative or similar services to the Client; (xxiii) fees, costs and expenses incurred by the Client, its general partner, Clearlake or their respective affiliates or employees or any service provider for, or resulting from, letters of credit or similar credit support of the Client; (xxiv) the Management Fees payable pursuant to the Fund Agreements; (xxv) expenses incurred in connection with compliance with side letters and most favored nations processes; (xxvi) travel, costs and expenses incurred in connection with organizing and maintaining special purpose vehicles (including rent, salaries and ancillary costs of such entities, and costs and expenses of administrators of such entities); (xxvii) any fees, costs and expenses of the Client, its manager or their respective affiliates approved by the Client's advisory board; and (xxviii) all fees, costs, expenses, liabilities and obligations relating or attributable to sale, custodial, depository (including a depository appointed pursuant to the European Union Alternative Investment Fund Managers Directive), a Swiss representative and paying agent appointed pursuant to the Swiss Collective Investment Schemes Act, as amended, including any law, rule or regulation related to the implementation thereof, trustee, record keeping, account and similar services; (xxix) any activities with respect to protecting the confidential or non-public nature of any information or data, including confidential information (including any costs and expenses incurred in connection with Section 552(a) of Title 5, United States Code (commonly known as the "Freedom of Information Act"), any state public records access laws, any state or other jurisdiction's laws similar in intent or effect to the Freedom of Information Act or any other similar statutory or regulatory requirement that might result in the public disclosure of confidential information whether currently in force or enacted in the future); (xxxvii) all fees, costs, expenses, liabilities and obligations relating to the Client's compliance with any law, rule, regulation, policy, directive or special measure (including in relation to privacy, know-your-customer, anti-money laundering, sanctions, anti-terrorism or environmental, social or governance considerations); (xxxviii) fees, costs and expenses incurred in connection with the attendance of any member, manager, shareholder, partner, director, officer, employee or affiliate of the general partner or the manager at any trade conference, including any applicable registration fees and exhibition, sponsorship or other presentation fees, costs and expenses; and (xxxix) all fees, costs, expenses, liabilities and obligations relating to actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including any judgment, other award or settlement entered into in connection therewith, except, however, to the extent such expenses or amounts have been determined to be excluded from the indemnification provided for in the Fund Agreement.

Clearlake and its affiliates from time to time incur fees, costs, and expenses on behalf of one or more Clients. If any operating expenses are incurred for the account or for the benefit of more than one Client, Clearlake will allocate such operating expenses among the Clients in such manner as Clearlake considers fair and reasonable. Notwithstanding the foregoing, Clearlake may in the future develop policies and procedures to address the allocation of expenses that differ from its current practice.

The expenses borne by each of the Clients are more fully described in the applicable Fund Agreements.

#### *Transaction-Based Compensation*

From time to time, Clearlake, the Co-Founders or any of their respective affiliates may receive certain fee income, including origination fees, management fees, consulting fees, commitment fees, closing fees, restructuring fees, transaction fees, advisory fees, monitoring fees, directors' fees, trustees' fees, topping fees, break-up fees or other similar fees or payments (whether in the form of cash, options, stock or otherwise) with respect to investments or proposed or unconsummated investments by a Client ("Fee Income"). Any unreimbursed out-of-pocket expenses related to the applicable transaction (including any unconsummated transactions) will be applied to reduce Fee Income. Thereafter, any Fee Income allocable to consummated or unconsummated investments by the Client after payment of such unreimbursed out-of-pocket expenses will be used to reduce the Management Fees otherwise payable by the Management Fee-bearing investors in the manner described in the relevant Fund Agreement. To the extent that such reductions have eliminated all future Management Fees, the remaining amounts of such reductions will not be refunded to the Client for distribution to the investors (unless otherwise explicitly agreed with an investor) and will be for the benefit of Clearlake and its affiliates. These fees are not always based on an exit or sale of an investment. Accordingly, Clearlake may receive such fees even when a Client does not ultimately profit from an investment. If more than one Client has participated in an investment or would have participated in an unconsummated investment generating a Fee Income, then only such portion of such Fee Income that is fairly allocable to each such Client based on the nature of the transaction giving rise to such Fee Income will be included in the applicable Management Fee offset described below. In Fund II, 80%, in Fund III, 80% (and up to 100% under certain circumstances described in the applicable Fund Agreements), in Fund IV, 100%, in Fund V, 100%, in COP (P), 100%, in the Evergreen Fund,

100%, and in COP II, 100%, of the remaining portion of the Fee Income that is allocable to the applicable Fund is used to reduce or offset the Management Fees otherwise payable by the applicable Client by an identical amount. Fee Income that is not allocated to such Client and, in turn, not allocated to the Management Fee-bearing investors in such Client, will not be applied to reduce the Management Fee otherwise payable by such Client and may be returned for the benefit of Clearlake. Notwithstanding the foregoing, “Fee Income” will not include (and therefore will not result in reductions or offsets to the Management Fee), (i) reimbursements by issuers of the costs or expenses incurred by a Fund, its general partner, its manager, Clearlake or any of their respective affiliates in connection with an investment, (ii) fees and expenses incurred in connection with the entering into revolving credit facilities or any other debt or leverage facility or facilities or other loans or extensions of credit provided by Clearlake, any Minority Investor and their respective affiliates, (iii) fees and expenses that comprise or constitute “Operating Expenses” of a Fund, and (iv) salary, fees, carried interest, incentive allocation or other compensation of any nature paid by any portfolio company or issuer to any individual who acts as an officer of or in an active management role at such portfolio company or issuer (including, without limitation, industry executives, advisors, consultants, operating executives, senior operating advisors, subject matter experts or other persons acting in a similar capacity employed by Clearlake (including, without limitation, operating advisors and other members of Clearlake’s Executive Council) but excluding investment professionals regularly employed by Clearlake engaged primarily in the ongoing investment activities of a Fund). If more than one Client has participated in an investment or would have participated in an unconsummated investment generating a Fee Income, then only such portion of such Fee Income that is fairly allocable to each such Client based on the nature of the transaction giving rise to such Fee Income will be included in the applicable Management Fee offset described above. Complete information regarding the use and distribution of Fee Income is found in the applicable Fund Agreements.

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

### *Performance-Based Fees*

As described under “Fees and Compensation” above, each of the Funds is subject to a Carried Interest or an Incentive Allocation based on the investment performance of the Funds. The Carried Interest and the Incentive Allocation may create an incentive for Clearlake to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement. Clearlake seeks to address these conflicts through careful vetting of investment opportunities by its investment professionals and the disclosure of investments to the investors by way of capital call notices and quarterly or annual reports. Additionally, the Co-Founders and other Clearlake investment professionals invest, directly and indirectly, in certain Funds in an effort to align Clearlake’s and the Funds’ interests. Upon the final liquidation of certain Funds, the general partner of such a Fund may be required to contribute the relevant amount (on a net after-tax basis) to such Fund for distribution to the investors to the extent that it has received cumulative distributions of Carried Interest to which it was not otherwise entitled on an aggregate basis, taking into account all investments made by such Fund. The Incentive Allocation that is payable in the case of the Evergreen Fund is not subject to such a “clawback” arrangement; however, in the case of certain of the investment vehicles comprising the Evergreen Fund, the general partner of such investment vehicles is required to maintain an escrow arrangement at the level of such investment vehicles such that a portion of the Incentive Allocation otherwise allocable to such general partner is required to be held back and not distributed to such general partner until the Client distributes to an investor an amount equal to such investor’s capital contribution plus the 6% preferred return thereon, or until the general partner of such Client reasonably determines in good faith that the Client has (or would have) realized a cumulative amount attributable to such investor, in cash, equal to all of such investor’s capital contributions plus the 6% preferred return thereon.

### *Side-by-Side Management*

Subject to the terms of each Clients’ applicable Fund Agreements, Clearlake may commence the operation of another pooled investment fund with overall objectives substantially similar to those of a Closed End Fund. In the event that a successor pooled investment fund is making investments at the same time as a predecessor Fund, Clearlake will allocate investment opportunities between such Funds in accordance with its investment allocation policies and procedures.

From time to time, Clearlake may provide concurrent advisory services to Clients, including the Co-Investment Funds, that charge different rates of Carried Interest, Incentive Allocations, Management Fees or other types of compensation. The potential for Clearlake's related persons to receive greater Carried Interest, Incentive Allocations or Management Fees may create a conflict of interest with respect to the allocation of investment opportunities, as Clearlake may have an incentive to allocate investments in favor of the Client that pays a higher Carried Interest, Incentive Allocation or Management Fee.

Clearlake may also face a conflict of interest when (1) the actions taken on behalf of one Client may impact other similar or different Clients (e.g., because such Clients have the same or similar investment strategies or otherwise compete for investment opportunities) and (2) Clearlake and its personnel have differing interests in such Client (e.g., the Clients expose Clearlake or its related persons, including an affiliate of Clearlake in its capacity as the general partner of a Client, to differing potential for gain or loss through differing ownership interests or compensation structures, such as performance-based allocations) because Clearlake may have an incentive to favor certain Clients over others with respect to which Clearlake may be entitled to less compensation.

Clearlake's policies and procedures are intended to mitigate the potential conflicts of interest associated with the making of investment decisions.

## **ITEM 7 TYPES OF CLIENTS**

### *Types of Clients and Investment Vehicles*

Clearlake provides advice to pooled investment vehicles, including the Funds and the Co-Investment Funds. The investors in the Clients may include corporations, endowments, foundations, trusts, estates, private investment funds, individuals, governmental entities and corporate and governmental pension and profit sharing plans.

Interests in the Clients are offered pursuant to the exemptions from registration under the Securities Act of 1933, as amended (the "Securities Act") and the Clients are exempt from registration as investment companies under the Investment Company Act of 1940 (as amended, the "Investment Company Act"). Accordingly, interests in the Clients are offered only to persons who are "accredited investors" (as defined in Regulation D under the Securities Act) or to persons who are otherwise permitted to invest under applicable securities laws. Additionally, with respect to each Client, either (i) all of the investors in the Client are required to be "qualified purchasers" or "knowledgeable employees," each as defined in the Investment Company Act, or a "non-U.S. person," as defined under Rule 902 under the Securities Act or (ii) the Client will be permitted to be beneficially owned by no more than 99 persons.

### *Minimum Investment Requirements*

In general, the minimum capital commitment required of an investor to participate in a Fund is \$5,000,000; however, the general partner of each Client reserves the right to reduce the minimum capital commitment, as well as accept capital commitments of lesser amounts, in its sole discretion. Investors are requested to refer to the Fund Agreements and offering documents of each Client for complete information on minimum investment requirements for participation in such Client.

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

### *Methods of Analysis and Investment Strategies.*

Clearlake provides investment advisory services for the Clients. Each Fund is a privately offered fund that makes investments primarily in distressed and special situations opportunities in small and medium-sized companies in both control and non-control scenarios. Special situations investment opportunities are created when industries go through transitions and companies undergo transformation, experience challenging situations, or face capital scarcity. Clearlake's strategy in special situations and distressed investing helps companies confront the common issues faced

in volatile situations, such as: difficulty accessing capital; uncertainty amongst customers, vendors, employees and other stakeholders; need for sponsorship and leadership; and complexity of transaction structures.

Typically in private transactions, the main source of information regarding prospective portfolio companies or issuers is due diligence performed on such companies, which involves among other activities, inspecting the books and records of the company, initiating dialogue about potential acquisitions with the management teams or owners of such companies and formulating and researching investment theses of such companies. On certain occasions, an investment is made in a public company, in which case publicly filed corporate documents are also inspected by Clearlake. In the course of undertaking transactions, Clearlake consults with professional advisers, including lawyers, accountants and other professional advisers.

The Fund Agreements and offering documents of each Client set out investment objectives, limitations and restrictions, which vary from Client to Client.

### *Risks*

Investing in the Clients involves a high degree of risk that investors should carefully consider before making an investment. A more detailed discussion of specific risks applicable to a particular Client are enumerated in the confidential private placement memorandum or other disclosure documents with respect to each Client, which should be reviewed carefully by each prospective investor in a Client. The investment programs of Clients entail, among others, the following risks:

**Risk of Loss:** Investing in the Clients involves a risk of loss and there can be no guarantee that a particular level of return will be achieved. Investors should understand that they could lose some or all of their investment and should be prepared to bear the risk of such potential losses. Clearlake's services are not intended to provide a complete investment program for investors and are suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in the Clients. Clearlake expects that the assets it manages do not represent all of an investor's assets. There can be no assurance that any Client will be able to implement its investment strategy or avoid losses.

**General Economic Conditions and Recent Events:** The turmoil in recent years in the global financial markets, particularly in the United States, Europe and China, has illustrated that the current environment continues to be characterized by uncertainty, volatility and instability. These conditions have resulted in disruption in the global credit markets, periods of reduced liquidity, greater volatility, general widening of credit spreads, an acute contraction in the availability of credit and a lack of price transparency. These volatile and often difficult global credit market conditions have episodically adversely affected the market values of equity, fixed-income and other securities and this volatility may continue and conditions could even deteriorate further. Some of the largest banks and companies across many sectors of the economy in the United States and Europe have declared insolvency, entered into bankruptcy, administration or similar proceedings, been nationalized by government authorities, and/or agreed to merge with or be acquired by other banks or companies that had been considered their peers. Moreover, the current U.S. administration has taken actions to withdraw from and/or modify certain international trade agreements and has supported greater restrictions on trade generally. In particular, the ongoing trade dispute with China and mounting tariffs have rattled global markets and have created increased uncertainty over global economic growth such that the World Trade Organization downgraded its forecast for global trade for 2019. Any such actions, and the continued escalation in tensions between with the U.S. and China, may adversely affect the broader geopolitical environment and global economic stability, which could negatively impact the business, financial condition and performance of the Fund and its investments. The long-term impact of these events is uncertain, but could continue to have a material effect on general economic conditions, consumer and business confidence and market liquidity. Investments made by the Clients are expected to be sensitive to the performance of the overall economy. A negative impact on economic fundamentals and consumer and business confidence would likely increase market volatility and reduce liquidity, both of which could have a material adverse effect on the performance of a Client and these or similar events may affect the ability of a Client to execute its investment strategies.

**Business and Market Risks:** The investments made by the Clients involve a high degree of business and financial risk that can result in substantial losses. In particular, these risks could arise from changes in the financial condition or prospects of the entity in which the investment is made, changes in competitive environment, changes in national

or international economic and market conditions and changes in laws, regulations, trade barriers, commodity prices and controls, fiscal policies or political conditions of countries in which investments are made, including the risks of war and the effects of terrorist attacks and security operations. In addition, the ability of Clearlake to successfully implement its strategy may entail a high degree of uncertainty. The possibility of partial or total loss of capital will exist and investors should not invest unless they can readily bear the consequences of such loss.

**Acts of God; Force Majeure Risk:** Portfolio companies may be affected by force majeure events (*i.e.*, events beyond the control of the party claiming that the event has occurred, including, without limitation, “Acts of God,” fire, hurricanes, tropical storms, floods, earthquakes or other natural disasters, outbreaks of an infectious disease, pandemic or any other serious public health concern, war, terrorism, labor strikes, electricity shortages or other national or local emergencies) that are beyond the control of, and are not easily foreseeable by the Clients, their general partners or Clearlake. Some force majeure events may adversely affect the ability of a party (including a portfolio company or a counterparty to the Clients or a portfolio company) to perform its obligations until it is able to remedy the force majeure event. In addition, the cost to a portfolio company or the Clients of repairing or replacing damaged assets resulting from such force majeure event could be considerable. Certain force majeure events (such as war or an outbreak of an infectious disease) could have a broader negative impact on the world economy and international business activity generally, or in any of the countries in which the Clients may invest specifically. Additionally, a major governmental intervention into industry, including the nationalization of an industry or the assertion of control over one or more companies or its assets, could result in a loss to the Clients, including if its investment in a portfolio company is canceled, unwound or acquired (which could be without what the Clients consider to be adequate compensation). Any of the foregoing may therefore adversely affect the performance of the Clients and their investments. There is a risk of terrorist attacks causing significant loss of life and property damage and disruptions in global markets. Economic and diplomatic sanctions may be in place or imposed on certain states and military action may be commenced. The impact of such events is unclear, but could have a material effect on general economic conditions and market liquidity.

**Availability of Insurance Against Certain Catastrophic Losses:** Certain losses of a catastrophic nature, such as wars, earthquakes, typhoons, hurricanes, terrorist attacks, mass shootings, floods, or other similar events, may be either uninsurable or, insurable at such high rates that to maintain such coverage would cause an adverse impact on the related investments. In general, losses related to terrorism are becoming harder and more expensive to insure against. Some insurers are excluding terrorism coverage from their all-risk policies. In some cases, the insurers are offering significantly limited coverage against terrorist acts for additional premiums, which can greatly increase the total costs of casualty insurance for a property, if decided to be obtained. Similarly, cybersecurity incidents and cyber-attacks are becoming harder and more expensive to insure against. Losses related to such incidents are difficult to assess and quantify. As a result, all investments may not be insured against terrorism, cybersecurity incidents or certain other risks. If a major uninsured loss occurs, the Clients could lose both invested capital in and anticipated profits from the affected investments. In general, the applicable general partner will have discretion as to the type and level of coverage to obtain, or whether to obtain insurance at all.

**Highly Competitive Market for Investment Opportunities:** The activity of identifying, completing and realizing attractive investments to be pursued as part of the Clients’ investment programs is highly competitive and involves a high degree of uncertainty. The availability of investment opportunities generally will be subject to market conditions as well as the prevailing regulatory and political climate. In particular, in light of changes in such conditions, including changes in the availability and cost of debt financing, certain types of investment opportunities may not be available to the Clients on terms that are as attractive as the terms on which opportunities were available to previous investment programs sponsored by Clearlake. The Clients will be competing for investment opportunities with a significant number of other investors, some of whom will have greater financial, human and other resources than the Clients and may have a competitive advantage over the Clients. Such competitors may include, without limitation, other investment partnerships and corporations, business development companies, sovereign wealth funds, domestic and international public pension plans, the public debt and equity markets, individuals, financial institutions and other financial investors investing directly or through affiliates. Furthermore, over the past several years, an ever-increasing number of private investment funds with objectives similar to those of the Clients have been formed and many such existing funds have grown substantially in size. Additional funds with similar investment objectives may be formed in the future by other unrelated parties.

Some of the foregoing competitors may have more relevant experience, greater financial, technical, marketing and other resources, more personnel, higher risk tolerances, different risk assessments, lower return thresholds, lower cost of capital, synergistic cost savings and access to funding sources unavailable to Clearlake and the Clients. Consequently, competition for appropriate investment opportunities has increased, and it is possible that competition for appropriate investment opportunities may continue to increase, thus reducing the number of investment opportunities available to the Clients and adversely affecting the terms, including without limitation, pricing, upon which investments can be made. Such competition may be particularly acute with respect to participation by the Clients in auction proceedings. In addition, the availability of investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate. Therefore, identification of attractive investment opportunities is difficult and involves a high degree of uncertainty, and competition for such opportunities may become more intense. There can be no assurance that the returns on the Clients' investments will be commensurate with the risk of the investment in the Clients.

**Enhanced Scrutiny and Regulations of Private Funds and Financial Services Industries:** A Client's ability to achieve its investment objectives, as well as the ability of the Client to conduct its operations, is based on laws and regulations which are subject to change through legislative, judicial or administrative action. Future legislative, judicial or administrative action could adversely affect a Client's ability to achieve its investment objectives, as well as the ability of the Client to conduct its operations. The alternative asset management and financial services industries are subject to enhanced governmental scrutiny and/or increased regulation, and a number of legislative initiatives have been signed into law affecting alternative investment firms, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), a key feature of which is the extension of prudential regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") to financial institutions that are not currently subject to such regulation but that potentially pose risk to the financial system. The Dodd-Frank Act defines a "nonbank financial company" as a company that is substantially engaged in activities that are financial in nature. The Financial Stability Oversight Council (the "FSOC"), an interagency body created to monitor and address systemic risk, has the authority to subject such a company to regulation by the Federal Reserve Board (including capital, leverage and liquidity requirements) if the FSOC determines that such company is systemically important. The Dodd-Frank Act does not contain any minimum size requirements for such a designation, and it is possible that it could be applied to private funds.

The Dodd-Frank Act also imposes a number of restrictions on the relationship and activities of banking organizations with certain private equity funds and hedge funds and other provisions that will affect the private fund industry, either directly or indirectly. Included in the Dodd-Frank Act is the so-called "Volcker Rule," which prohibits any "banking entity" (generally defined as any insured depository institution, any company that controls such an institution, a non-U.S. bank that is treated as a bank holding company for purposes of U.S. banking law and any affiliate or subsidiary of the foregoing entities) from sponsoring or acquiring or retaining an ownership interest in a private equity fund or hedge fund that is not subject to the provisions of the U.S. Investment Company Act in reliance upon either Section 3(c)(1) or Section 3(c)(7) of the U.S. Investment Company Act.

Although Clearlake is currently registered with the SEC and the managers are relying advisers under the Advisers Act, the enactment of these reforms and/or other similar legislation could nonetheless have an adverse effect on the private investment funds industry generally and on Clearlake and/or the Clients specifically, and may impede the Clients' ability to effectively achieve their investment objectives. As registered investment advisers under the Advisers Act, the managers are subject to the record-keeping, disclosure, custody and other obligations specified in the Advisers Act and are required to comply with a variety of periodic reporting and compliance-related obligations under applicable federal and state securities laws (including, without limitation, the obligation of the managers and their affiliates to make regulatory filings with respect to the Clients and their activities under the Advisers Act (including, without limitation, Form PF)). In light of the heightened regulatory environment in which the Clients and the managers operate and the ever-increasing regulations applicable to private investment funds and their investment advisors, it has become increasingly expensive and time-consuming for the Clients, the managers and their affiliates to comply with such regulatory reporting and compliance-related obligations. For example, Form PF requires that Clearlake report information regarding the Clients' portfolios, and because the Clients are required to bear the Clients' expenses relating to compliance-related matters and regulatory filings, the Clients may bear the costs and expenses of initial and ongoing Form PF compliance applicable to the Clients, including costs and expenses of collecting and calculating data and the preparation of such reports and filings. Such expenses are likely to be material, including on a cumulative basis over the life of the Clients. Any further increases in the regulations applicable to private investment funds

generally or the Clients and/or the managers in particular may result in increased expenses associated with the Clients' activities and additional resources of the managers being devoted to such regulatory reporting and compliance-related obligations, which may reduce overall returns for the investors and/or have an adverse effect on the ability of the Clients to effectively achieve their investment objective.

Furthermore, various federal, state and local agencies have been examining the role of placement agents, finders and other similar service providers in the context of investment by public pension plans and other similar entities, including investigations and requests for information, and in connection therewith, new and/or proposed rules and regulations in this arena may increase the possibility that the general partners and their affiliates may be exposed to claims and/or actions that could require an investor to withdraw from the Clients. Relatedly, Clearlake may be required to provide certain information regarding some of the investors in the Clients to regulatory agencies and bodies in order to comply with applicable laws and regulations.

The Dodd-Frank Act, as well as future related legislation, may have an adverse effect on the private fund industry generally and/or on Clearlake or the Clients, specifically. Therefore, there can be no assurance that any continued regulatory scrutiny or initiatives will not have an adverse impact on Clearlake or otherwise impede the Clients' activities. There can be no assurance that the Clients, the general partners, the managers or any of their affiliates will avoid regulatory examination and possibly enforcement actions in the future. Even if an investigation or proceeding did not result in a sanction or the sanction imposed against any of the Clients, the general partners, the managers or their respective affiliates was small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of any such sanction could harm the Clients, the general partners, the managers or their respective affiliates' reputations which may adversely affect the Clients' investment performance by hindering their ability to obtain favorable financing or consummate a potentially profitable investment or occupying the time and attention of the managers' personnel. The current regulatory environment in the United States may be impacted by future legislative developments, such as amendments to key provisions of the Dodd-Frank Act.

In addition to the U.S. legislation described above, other jurisdictions, including many European jurisdictions, have proposed modernizing financial regulations that have called for, among other things, increased regulation of and disclosure with respect to, and possibly registration of, hedge funds and private equity funds. There is therefore a material risk that regulatory agencies in the U.S., Europe, Asia, or elsewhere may adopt burdensome laws (including tax laws) or regulations, or changes in law or regulation, or in the interpretation or enforcement thereof, which are specifically targeted at the private equity industry, or other changes that could adversely affect private equity firms and the funds they sponsor, including the Clients.

The growth of the private equity industry and its role in the overall economic landscape, as well as the increasing size and reach of private equity transactions, has prompted additional governmental and public attention to the industry and its practices. In particular, attention from the candidates of the 2020 U.S. presidential election is likely to continue to increase as the election draws near. The outcome of any future U.S. federal election and changes in the control of the U.S. federal legislative and executive branches during a Client's term could result in potential changes in laws and regulations affecting the private equity industry, which could negatively impact the performance of a Client and its investments. In addition, as private fund firms and other alternative asset managers become more influential participants in the U.S. and global financial markets and economy generally, the private fund industry has been subject to criticism by some politicians, regulators and market commentators. The negative perception of the private fund industry in certain countries could make it harder for a Client to successfully bid for and complete investments.

**Increased Reporting Requirements for Registered Advisers:** As a result of the various reforms under the Dodd-Frank Act, registered advisers will be subject to substantial regulatory reporting and record-keeping requirements regarding the private funds they advise. Such increased reporting, registration, and compliance requirements will require the attention of certain personnel of Clearlake.

**European Union Alternative Investment Fund Managers Directive:** The European Union Alternative Investment Fund Managers Directive ("AIFMD") regulates the activities of private fund managers undertaking fund management activities on behalf of, or marketing fund interests to, investors within the European Union. If interests in a Client are offered to European Union-based investors, the Client (i) may be required to pay fees to local regulators in connection with the marketing of the Client, (ii) will be subject to certain reporting and disclosure obligations under AIFMD to the regulators of each member state of the European Union in which they have offered interests, and (iii) in certain

member states of the European Union may be required to appoint a local depositary or comply with certain additional requirements as may be required by the national laws under which AIFMD has been adopted, which will likely result in the Client incurring additional costs and expenses. Additionally, AIFMD seeks to restrict certain activities of a Client in relation to European Union portfolio companies including, without limitation, the Client's ability to recapitalize, refinance or potentially restructure a European Union portfolio company within the first two years of ownership. In the event that a Client acquires control of a portfolio company with a registered office in the European Union and its control of such portfolio company is subject to these rules, the Client will be required to comply with these restrictions.

**EU Securitisation Regulation:** To the extent a Client is actively marketed to investors domiciled or having their registered office in the European Economic Area ("EEA"), the EU Securitisation Regulation may prohibit such Client from acquiring securitization positions which do not comply with the EU's risk retention criteria, where the securities/instruments of such securitizations were issued on or after January 1, 2019. The EU's risk retention criteria for securitizations may not be aligned with the criteria for securitizations under the laws of non-EU jurisdictions, where such laws exist, including under U.S. law. This could result in the Client being prohibited from acquiring positions in certain securitizations or similar structures, whether originated in the EU or otherwise, notwithstanding that such transactions would otherwise be permitted in accordance with the Client's investment strategy/restrictions.

**United Kingdom Exit from the European Union:** On March 29 2017, the United Kingdom triggered Article 50 of the Treaty on European Union, thereby commencing the process of leaving the European Union, commonly known as "Brexit". While the long-term economic effects of Brexit on the United Kingdom may or may not be positive, it is nevertheless likely that a period of significant political, regulatory and commercial uncertainty will result. Brexit may also result in other member states of the European Union re-evaluating their membership, thus resulting in further political, regulatory and commercial instability throughout the European Union. Among other things, uncertainty in relation to Brexit may affect borrowers' ability to service investments and the price, volatility and/or liquidity of a Client's investments. Regulatory mismatch between the United Kingdom and the rest of Europe may lead to a period of regulatory uncertainty and increase the regulatory expenses of a Client. All or any of the circumstances described above, as well as any other consequences of Brexit, may impair a Client's profitability, result in losses and/or materially affect the ability of the Client to carry out its investment approach and achieve its investment objective. The full effect of Brexit on the Clients is impossible to predict.

**No Assurance of Investment Return:** The Clients' task of identifying and evaluating investment opportunities, managing such investments and realizing a significant return for investors is difficult. Many organizations operated by persons of competence and integrity have been unable to make, manage and realize on such investments successfully. There is no assurance that a Client will be able to invest its capital on attractive terms, generate returns for its investors or that the returns will be commensurate with the risks of investing in the type of companies and transactions contemplated as part of the Clients' investment strategy. Investors in a Client could experience losses on their investment, including a loss of all capital. There may be little or no near-term cash flow available to the investors from a Client and there can be no assurance that a Client will make any distribution to the investors. Partial or complete sales, transfers or other dispositions of investments that may result in a return of capital or the realization of gains, if any, may not occur for a number of years after an investment is made. Accordingly, an investment in a Client should only be considered by prospective investors for whom a speculative, illiquid and long-term investment is an appropriate component of a larger investment program and who can afford a loss of their entire investment. There can be no assurance that projected or target returns for the Clients will be achieved.

**Recourse to Client Assets:** A Client's assets, including, without limitation, all investments made by such Client and any capital held by such Client, are available to satisfy all liabilities and other obligations of such Client, including, without limitation, indemnification of indemnitees. If a Client or an issuer of a portfolio investment defaults on secured indebtedness, for example, the lender may foreclose and such Client could lose its entire investment in the security for such loan. If such Client itself becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to all of such Client's assets.

**Investments in Equity Securities:** The Clients may invest in equity or equity-like securities and there is no limitation on the type, size or operating experience of the companies in which the Clients may invest. Investments in equity securities of small or medium-sized market capitalization companies will have more limited marketability than the securities of larger companies. In particular, securities of smaller companies may have greater price volatility. All of



the Clients' investments in stocks will be subject to normal market risks. While diversification among issuers may mitigate these risks, the Clients are not required to diversify their respective investments in equity securities; and investors must expect fluctuations in value of equity securities held by the Clients based on market conditions. Because equity securities rank lower in the capital structure of an issuer, such investments may subject investors to additional risks not applicable to debt securities. In addition, holders of equity securities may be wiped out or substantially reduced in value in a bankruptcy proceeding or corporate restructuring.

**Other Equity and Non-Distressed Investments:** The general partner of a Client is authorized to cause such Client to make investments other than in distressed securities. Such investments may include, without limitation, publicly traded equity securities, post-reorganization securities, special situation equities, securities of U.S. and non-U.S. issuers, private debt or equity securities, convertible securities, warrants, futures, options, real estate securities and risk arbitrage, which involve special risks. Investments in publicly traded equity securities typically will be based primarily on fundamental research regarding the issuer and its industry. However, the market price of a publicly-traded equity security can be adversely affected by a wide variety of broad macroeconomic and market factors unrelated to the financial condition and prospects of the issuer. For example, a Client's investments in securities of publicly-traded companies may be sensitive to movements in the stock market and trends in the overall economy. Because equity securities rank lower in the capital structure of an issuer, such investments may subject investors to additional risks not applicable to debt securities. Special-situation equities are event-driven and may be subject to greater volatility than other equity securities. Investments in U.S. and non-U.S. jurisdictions and issuers may be less liquid and subject to greater price volatility than investments in U.S. markets and issuers. Dividends and interest paid by foreign issuers may be subject to withholding and other foreign taxes. In addition, there may be higher brokerage, custodial and other transactional costs and less governmental regulation of the securities markets (including less publicly available information about foreign issuers and a lack of uniform accounting standards), as well as risks associated with economic and political developments, different legal systems and currency conversions. Emerging-market debt securities are not required to meet any rating standards and may not be rated for creditworthiness by any internationally recognized credit rating organization. Emerging-market debt securities rated in the lower and lowest rating categories of internationally recognized credit rating organizations and unrated securities of comparable quality are predominantly speculative with respect to the capacity to pay interest and repay principal in accordance with their terms and generally involve a greater risk of default and volatility in price than securities in higher rating categories. Futures and options involve risks of pricing differences between the market value of the underlying securities and the futures and options and a possible lack of a liquid secondary market for a futures or options contract and the resulting inability to close a futures or options position, which could adversely affect a Client. Real estate securities may be subject to the risks associated with direct ownership of real estate, including market, credit and regulatory risks. Risk arbitrage is subject to high risk because of the uncertainty of the outcome of an arbitrage situation, which may depend on the outcome of litigation, changes in the terms of a transaction or regulatory developments or actions. If an evaluation by the manager of a Client of an anticipated outcome of an arbitrage situation should prove incorrect, such Client could experience substantial losses as a result of a decline in the market value of securities in which such Client holds a long position or an increase in the value of securities in which such Client holds a short position. Furthermore, a Client may hold significant equity investments in post-organization portfolio companies, which pose different risk/reward and risk mitigation profiles than do distressed debt securities.

**Nature of Distressed Investments:** The Clients may invest in equity and debt obligations, securities, and assets that are inefficiently priced as a result of business, financial, market or legal uncertainties. The level of analytical sophistication, both financial and legal, necessary to generate successful returns on such investments is unusually high. There can be no assurance that the general partner or the manager will correctly evaluate the nature and magnitude of the various factors that could affect the value of the Client's investments. In particular, the Clients may purchase securities and other obligations of companies that are experiencing significant financial or business distress, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although such investments may result in significant returns to the Client, they involve a substantial degree of risk and may not show any return for a considerable period of time, if at all.

The Clients may also invest in obligations or securities that are rated below investment grade by recognized rating services and in unrated securities. Securities rated below investment grade and unrated securities are generally expected to offer a higher current yield than that available from higher grade issues but typically involve greater risk. Securities rated below investment grade and unrated securities are typically subject to adverse changes in general economic conditions, to changes in the financial condition of their issuers and to price fluctuation in response to

changes in interest rates. During periods of economic downturn or rising interest rates, issuers of securities rated below investment grade and unrated instruments may experience financial stress that could adversely affect their ability to make payments of principal and interest and increase the possibility of default. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the values and liquidity of securities rated below investment grade and unrated securities, especially in a market characterized by a low volume of trading. In addition, the secondary market for high yield securities, which is concentrated in relatively few market makers, may not be as liquid as the secondary market for more highly rated securities. As a result, the market prices of such securities are subject to erratic and abrupt market movements and the spread between bid and ask prices may be greater than expected in respect of non-distressed securities. Accordingly, a Client could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded.

**Senior Loans Risk:** Senior secured loans are usually rated below investment grade or may also be unrated. As a result, the risks associated with senior secured loans are similar to the risks of below investment grade fixed income instruments, although senior secured loans are senior and secured in contrast to other below investment grade fixed income instruments, which are often subordinated or unsecured. Investment in senior secured loans rated below investment grade is considered speculative because of the credit risk of their issuers. Such companies are more likely than investment grade issuers to default on their payments of interest and principal owed to a Client, and such defaults could have a material adverse effect on the Client's performance. An economic downturn would generally lead to a higher non-payment rate, and a senior secured loan may lose significant market value before a default occurs. Moreover, any specific collateral used to secure a senior secured loan may decline in value or become illiquid, which would adversely affect the senior secured loan's value. Senior secured loans are subject to a number of risks, including liquidity risk and the risk of investing in below investment grade fixed income instruments. There may be less readily available and reliable information about most senior secured loans than is the case for many other types of securities, including securities issued in transactions registered under the Securities Act, or registered under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). As a result, the managers will rely primarily on their own evaluation of a borrower's credit quality rather than on any available independent sources. Therefore, a Client will be particularly dependent on the analytical abilities of the applicable manager. In general, the secondary trading market for senior secured loans is not well developed. No active trading market may exist for certain senior secured loans, which may make it difficult to value them. Illiquidity and adverse market conditions may mean that a Client may not be able to sell senior secured loans quickly or at a fair price. To the extent that a secondary market does exist for certain senior secured loans, the market for them may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods.

**Subordinated Loans or Securities:** Certain Clients' investments may consist of loans or securities, or interests in pools of securities that are subordinated or may be subordinated in right of payment and ranked junior to other securities issued by, or loans made to obligors. If an obligor experiences financial difficulty, holders of its more senior securities will be entitled to payments in priority to the Client. Some of the Client's asset-backed investments may also have structural features that divert payments of interest and/or principal to more senior classes of loans or securities backed by the same assets when loss rates or delinquency exceeds certain levels. This may interrupt the income the Client receives from its investments, which may lead to the Client having less income to distribute to investors. In addition, many of the obligors are highly leveraged and many of a Client's investments may be in securities which are unrated or rated below investment grade. Such investments are subject to additional risks, including an increased risk of default during periods of economic downturn, the possibility that the obligor may not be able to meet its debt payments and limited secondary market support, among other risks.

**Bank Loans:** The Clients' investment program may include investments in bank loans and participations acquired through a process of transfer, assignment, participation or otherwise in the secondary market. These obligations are subject to unique risks, which are in addition to the underlying borrower credit risk, including: (i) the possible invalidation of an investment transaction as a preference or transaction at an undervalue or fraudulent conveyance (or the equivalent under local law) in the context of the insolvency of the selling institution; (ii) lender-liability type claims by the issuer or creditors of the obligations; (iii) adverse consequences resulting from the additional risk assumed with respect to an institution making a participation (as opposed to a transfer or assignment) available to such Client, particularly where that institution is of lower credit quality; (iv) environmental liabilities that may arise with respect to collateral securing the obligations; (v) the possible invalidity of any transfer, assignment or participation by virtue of non-adherence to the required method of transfer or breach of transfer or assignment prohibitions or claims arising from unauthorized information disclosure; and (vi) limitations on the ability of such Client to directly enforce its rights

with respect to participations. In analyzing each bank loan or participation, Clearlake compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks may be borne by such Client.

The means by which a Client acquires an interest in a loan will be determined by the terms applicable to that loan and the governing law of that loan. Transfers, assignments, novations and participations are usually concluded without recourse to the selling institutions and the selling institutions will generally make no representations or warranties about the underlying loan, the borrowers, the documentation of the loans or any collateral securing the loans. In addition, a Client will be bound by provisions of the underlying loan agreements, if any, that require the preservation of the confidentiality of information provided by the borrower. Because of certain terms in a loan agreement including lender eligibility requirements and confidentiality provisions, the unique and customized nature of the loan agreement and the private syndication of the loan, loans are not purchased or sold as easily or as quickly as are publicly traded securities.

**Bridge Loans:** From time to time, a Client may lend to portfolio companies or issuers on a short-term, unsecured basis in anticipation of a future issuance of equity or long-term debt securities. Such bridge loans will typically be convertible into more permanent, long-term security; however, for reasons not always in the Client's control, such long term securities may not be issued and such bridge loans may remain outstanding. In such event, the interest rate on such loans may not adequately reflect the risk associated with the unsecured position taken by the Client.

**Loan Origination:** Clients may seek to originate loans, including, but not limited to, secured and unsecured notes, senior and second lien loans, mezzanine loans and other similar investments. The Clients may subsequently offer such investments (or portions thereof) for sale to its affiliates or to third parties, which could include certain other investment funds managed by Clearlake or its affiliates. However, there is no assurance that the Client will complete any such sale as anticipated. In determining the target amount to allocate to such investments, the Client may take into consideration the fact that it may sell, assign or offer participations in such investments to its affiliates or third parties as described above. If the Client is unable to sell, assign or successfully close transactions for the loans that it originates, it will be forced to hold its interest in such loans for an indeterminate period of time. This could result in the investments of the Client being over-concentrated in certain borrowers.

**Lower Credit Quality Securities:** There are no restrictions on the credit quality of the investments of many of the Clients. Securities in which a Client may invest may be deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. Other securities may be unrated. Lower-rated and unrated securities in which a Client may invest have large uncertainties or major risk exposures to adverse conditions and are considered to be predominantly speculative. Generally, such securities offer a higher return potential than higher-rated securities, but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these securities (such as subordinated securities) also tend to be more sensitive to changes in economic conditions than higher-rated securities. The value of such securities may also be affected by changes in the market's perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies. In general, the ratings of nationally recognized rating organizations represent the opinions of these agencies as to the quality of securities that they rate. These ratings may be used by the managers as initial criteria for the selection of portfolio securities. Such ratings, however, are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

**Lender Liability:** Lender liability is founded upon the premise that a lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to a borrower or has assumed a degree of control over the borrower that creates a fiduciary duty owed to the borrower, its creditors or shareholders. To the extent that a Client's investments constitute participations in purchased loans (however acquired), such Client could be subject to allegations of lender liability. For example, in the United States, there is a line of cases whereby an abrupt, arbitrary and sudden withdrawal of credit, albeit contractually justified, may result in lender liability or liability for damage to the borrower. Certain non-U.S. jurisdictions may have similar rules that could result in imposing lender liability on a Fund.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender, (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of

such borrower; (ii) engages in other inequitable conduct to the detriment of such other creditors; (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors; or (iv) uses its influence as a shareholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination”.

To the extent that a Client acts as a primary lender, the Client may be subject to additional liability such as liability resulting from the breach of fiduciary duty or duty of good faith and fair dealing, or its claims may be subject to equitable subordination, which may materially affect the Client’s business, financial condition and results of operations.

**Nature of Bankruptcy Proceedings:** There are a number of significant risks when investing in companies involved in bankruptcy proceedings, including the following: First, many events in a bankruptcy are the product of contested matters and adversarial proceedings that are beyond the control of the creditors. Second, a bankruptcy filing may have adverse and permanent effects on a company. For instance, the company may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. Further, if the proceeding is converted to a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment. Third, the duration of a bankruptcy proceeding is difficult to predict. A creditor’s return on investments can be adversely impacted by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court, and until it ultimately becomes effective. Fourth, the administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor’s estate prior to any return to creditors. Fifth, creditors can lose their ranking and priority if they exercise “domination and control” over a debtor and other creditors can demonstrate that they have been harmed by such actions, especially in the case of investments made prior to the commencement of bankruptcy proceedings. Similarly, the Client may purchase creditor claims subsequent to the commencement of a bankruptcy case, which may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller that may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser. Sixth, certain claims, such as claims for taxes, may have priority by law over the claims of certain creditors. Seventh, if the Client seeks representation on creditors’ committees, it may owe certain obligations generally to all creditors similarly situated to those that the committee represents, and it may be subject to various trading or confidentiality restrictions. As the Client will indemnify any person serving on a committee on its behalf for claims arising from breaches of those obligations, indemnification payments could adversely affect the return on the Client’s investment in a reorganization.

**Bankruptcy Claims:** Subject to applicable jurisdictional laws, a Client may invest in loans to, or bankruptcy claims against, companies in financial difficulty. Such claims are likely to be illiquid, may not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation with respect to such loans or bankruptcy claims. Such claims may be unsecured and holders of such claims may have a lower priority in terms of payment than certain other creditors. All of the risks associated with borrowers affected by insolvency proceedings which are highlighted above under “Nature of Bankruptcy Proceedings” are relevant to loans to companies in financial difficulty and bankruptcy claims in which the Client invests or in which it acquires an interest.

**Control Investments:** A Client may make control investments that allows it to acquire control or exercise influence over management and the strategic direction of a portfolio company (including, but not limited to, assets, projects and/or businesses in which the Client invests). These investments could expose a Client to risk of liability for environmental damage, product defect, failure to supervise management, violation of governmental regulations and other types of liability, in which the limited liability characteristic of business operations may be ignored. A Client may also be exposed to risk in connection with the disposition of these investments. When disposing of these investments, the Client may be required to make representations and warranties about the business and financial affairs of the investments typical of those made in connection with the sale of any business, or may be responsible for the contents of disclosure documents under applicable securities law. The Client may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations and warranties or disclosure documents turn out to be incorrect, inaccurate or misleading. The exercise of control over an investment could expose the assets of a Client to contingent liabilities and/or other liabilities and claims by the relevant portfolio companies, its shareholders and its creditors. While Clearlake intends to manage Clients in a manner that will seek to minimize the exposure of these risks, the possibility of successful claims cannot be precluded.

**Non-Control Investments:** A Client may hold non-controlling interests or minority positions in a number of issuers and, therefore, may have a limited ability to protect its position in such issuers. Where practicable and appropriate, shareholder rights or similar rights in non-corporate vehicles may protect such Client's interests. It is also possible that the Co-Founders and other Clearlake personnel will be members of creditor's committees established with respect to such Client's investments in certain issuers. There can be no assurance that such rights will be available or that such rights will provide sufficient protection of such Client's rights. Moreover, certain countries in which such Client intends to invest either directly through the portfolio company or indirectly through its subsidiary do not have well-developed legal systems and bodies of commercial law and provide inadequate legal remedies for breaches of contract, which could adversely affect such Client's minority investments and rights under governing agreements. In such cases, such Client will typically be significantly reliant on the existing management, board of directors and other equity holders of such investments, who may not be affiliated with the Client and whose interests may conflict with its interests.

**Litigation:** In the ordinary course of its business, a Client may be subject to litigation from time to time. The outcome of such proceedings may materially adversely affect the value of such Client and may continue without resolution for long periods of time. Any litigation may consume substantial amounts of Clearlake's time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation. It is likely that many of the investments in which a Client may invest may involve various types of restructurings, foreclosures or other activist efforts, which can be contentious and adversarial. It is by no-means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. The applicable general partner, manager, the Clients and one or more of their respective affiliates may be named as defendants in civil proceedings. Furthermore, the adoption of new or enhancement of existing laws and regulations may increase the risk to the Client of litigation still more. Any such litigation would likely have a negative financial impact on Clearlake and/or the Clients. For instance, the expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Clients and would reduce the Clients' net assets. The applicable general partner and manager and others are entitled to be indemnified by the Clients in connection with any such litigation, subject to certain conditions.

**Creditors' Rights:** A Client's investments and the collateral underlying those investments will be subject to various laws for the protection of creditors in the jurisdictions of the investments concerned. Such differences in law may also adversely affect the rights of the Client as a lender with respect to other creditors. Additionally, a Client, to the extent it acts as a creditor, may experience less favorable treatment under different insolvency regimes than those that apply in the United States, including in cases where the Client seeks to enforce any security it may hold as a creditor. In particular, it should be noted that a number of continental European jurisdictions operate "debtor-friendly" insolvency regimes which could result in delays in payments where obligations, debtors or assets thereunder are subject to such regimes. The different insolvency regimes applicable in the different European jurisdictions result in a corresponding variability of recovery rates for senior loans, high-yield bonds and other debt obligations entered into or issued in such jurisdictions.

Jurisdiction-specific insolvency regimes may negatively impact borrowers' or issuers' ability to make payments to a Client, or a Client's recovery in a restructuring or insolvency, which may adversely affect the Client's business, financial condition and results of operations.

**Board & Officer Participation:** It is expected that the Co-Founders and other members of the investment team will serve as directors and officers of certain portfolio companies and, as such, may have duties to persons other than the Clients, including shareholders of such portfolio companies. The designation of directors, officers and other measures contemplated could expose the assets of the Clients to claims by a portfolio company, its security holders and its creditors. The exercise of control over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability which the limited liability characteristic of business operations usually ignores. If these liabilities were to occur, the Clients could suffer losses in their investments. While Clearlake intends to manage Clients in a manner that will seek to minimize the exposure of these risks, the possibility of successful claims cannot be precluded. Additionally, such director positions may have the effect of impairing a Client's ability to sell certain securities when, and upon the terms, it may otherwise desire, and may subject the Clients' general partners, the managers and the Clients to claims they would not otherwise be subject to as an investor, including, without limitation, claims of breach of duty or loyalty, securities claims, and other director-related claims. Subject to the terms set forth in the applicable Fund Agreements,

a Client will indemnify its general partner, its manager and the Client and its employees from such claims and, as a result, will be indirectly exposed to any such liability.

**Changes in Credit Markets:** A decrease in the availability of financing (or an increase in the interest cost) for leveraged transactions (*e.g.*, due to adverse changes in economic or financial market conditions, a decreased appetite for risk by lenders and/or constraints on the amount of debt banks may extend for transactions in the capital markets) could impair, potentially materially, a Client's ability to consummate or profit from these transactions. More specifically, the ability of a Client's portfolio investments to finance or refinance debt securities may depend on their ability to sell new securities in the high-yield debt or bank financing markets, which may be difficult to access at favorable rates. Moreover, general fluctuations in the market prices of securities may affect the value of the investments held by a Client, and instability in the securities markets may also increase the risks inherent in the Client's investments. In addition, the ability of a Client to raise capital in the leveraged finance debt markets, which historically have been cyclical with regard to the availability of financing, will likely fluctuate during the life of the Client.

An economic downturn could adversely affect the financial resources of a Client's portfolio investments and their ability to make principal and interest payments on, or refinance, outstanding debt when due. In the event of such defaults, the Client could lose both invested capital in and anticipated profits from the affected investment. Such a marketplace may impair the Client's ability to consummate certain transactions or cause the Client to enter into certain transactions on less attractive terms. The Client's ability to generate attractive investment returns for its investors may be adversely affected to the extent its portfolio investments are unable to obtain favorable financing terms for their investments.

**Loans to Small- and Medium-Sized Companies:** Loans to small- and medium-sized companies involve a number of particular risks that may not exist in the case of large public companies, including: (i) these companies may have limited financial resources and limited access to additional financing, which may increase the risk of their defaulting on their obligations, leaving creditors such as a Client dependent on any guarantees or collateral they may have obtained; (ii) these companies frequently have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns; (iii) there may not be as much information publicly available about these companies as would be available for public companies and such information may not be of the same quality; and (iv) these companies are more likely to depend on the management talents and efforts of a small group of persons; as a result, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on these companies' ability to meet their obligations.

**Counterparty Risk:** Some of the markets in which a Client may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the applicable Client to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the applicable Client to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Client has concentrated its transactions with a single or small group of counterparties. A Client may not be restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, a Client's internal credit function, which evaluates the creditworthiness of its counterparties, may prove insufficient. The lack of a complete and "foolproof" evaluation of the financial capabilities of a Client's counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Clients.

Clients are subject to the risk of failure of any of the exchanges on which their positions trade or of their clearing houses. Because securities owned by a Client that are held by broker-dealers are generally not held in the Client's name, the bankruptcy of any such broker-dealer could have a greater adverse impact on the Client than if such securities were registered in the Client's name.

**Minority Positions:** A Client may hold non-controlling interests or minority positions in a number of issuers and, although such Client will seek negative covenants, other contractual restrictions for each investment and board seats where feasible, it will primarily be the responsibility of management teams and boards of directors of the underlying businesses, which may include representation by other investors whose interests may conflict with the interests of

such Client, to operate the portfolio companies on a day-to-day basis. Accordingly, such Client may have a limited ability to protect its position in such issuers; although, where practicable and appropriate, it is expected that shareholder rights or similar rights in non-corporate vehicles generally will be sought to protect such Client's interests. Further, such Client may not be entitled to appoint directors and may have a limited ability to protect its interests in such businesses and to influence such companies' management; however, it is also possible that the Co-Founders and other members of the Clearlake team will be members of creditor's committees established with respect to such Client's investments in certain issuers.

**Credit Default Swaps:** A Client may invest in credit default swaps. A credit default swap is a contract between two parties that transfers the risk of loss if a company fails to pay principal or interest on time or files for bankruptcy. In essence, an institution that owns corporate debt instruments can purchase a limited form of default protection by entering into a credit default swap with another bank, broker-dealer or financial intermediary. Upon an event of default, the swap may be terminated in one of two ways: (i) by the purchaser of credit protection delivering the referenced instrument to the swap counterparty and receiving a payment of par value, or (ii) by the parties pairing off payments, with the purchaser of the protection receiving a payment equal to the par value of the reference security less the price at which the reference security trades subsequent to default. The first way is the more common form of credit default swap termination. In the manner described above, credit default swaps can be used to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds. A Client may also "purchase" credit default protection even in the case in which it does not own the referenced instrument. Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock, potential loss upon default and the shape of the U.S. Treasury Market curve, among other factors. As such, there are many factors upon which market participants may have divergent views. The general partner of a particular Client may also enter into credit default swap transactions, even if the credit outlook is positive, if it believes that participants in the marketplace have incorrectly valued the components which determine the value of a swap.

**Short Selling:** The investment program of certain Clients may include short selling. Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the applicable Client engages in short sales will depend upon its investment strategy and perception of market direction. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the applicable Client of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

**Securities Lending:** The risks in lending portfolio securities, as with other extensions of credit, consist of the failure of another party, in this case the approved intermediary, to comply with the terms of agreement entered into between the lender of the securities (i.e., the applicable Client) and the approved intermediary. Such failure to comply can result in the possible loss of rights in the collateral put up by the borrower of the securities and the inability of the approved intermediary to return the securities deposited by the applicable Client and the possible loss of any corporate benefits (including, without limitation, certain voting rights) accruing to the applicable Client from the securities deposited with the approved intermediary.

**Hedging Transactions:** The markets in which a Client may invest are subject to fluctuations and the market value of any particular investment may be subject to substantial variation. The entire market or, particular securities traded on a market, may decline even if earnings or other factors improve since the prices of debt securities and equity securities are subject to numerous economic, political, procedural and other factors that have little or no correlation to the performance of a particular company. A Client may use a variety of financial instruments, such as derivatives, options, interest rate swaps, caps and floors, futures and forward contracts, for risk management purposes. When used, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent the Client from achieving the intended hedging effect or expose the Client to risk of loss. While a Client may enter into hedging transactions to seek to reduce risk, such transactions may result in a weaker overall performance for the Client than if it had not engaged in any such hedging transaction. The manager of a Client may determine not to hedge a position and may not identify appropriate risks to hedge. Moreover, it should be noted that a Client's portfolios will always be exposed to certain risks that cannot be hedged. In connection

with a hedging transaction, a Client may be required to allocate funds or provide a credit line to be used as collateral for the margin capital of the hedge. Such a requirement would tie up a portion of such Client's capital that could otherwise have been available for investment. This could cause such Client to be less invested in its core investment strategy than it would have been absent such hedging transaction and could possibly result in an adverse effect on the overall returns of such Client.

**Use and Availability of Leverage:** A Client may leverage its investments with debt financing which by their nature may result in issuers undertaking a high ratio of fixed charges to available income. Such investments are inherently more sensitive to declines in revenues and to increases in expenses. Utilization of leverage is a speculative investment technique and involves risks. The leverage provided will result in fees, interest expense and other costs incurred in connection with such borrowings, which may not be covered by available cash flow. While leverage may enhance total returns and increase the number of investments that can be made, if investment results fail to cover borrowing costs, then returns will be lower than if there had been no borrowings. Furthermore, although the managers will seek to use leverage in a manner they believe to be appropriate under the circumstances, the leveraged capital structure of certain issuers will increase the exposure of such issuers to adverse economic factors (such as rising interest rates, downturns in the economy or a deterioration in the condition of such investment or its sector), each of which may impair such investment's ability to finance its future operations and capital needs and may result in the imposition of restrictive financial and operating covenants. As a result, certain issuers' flexibility to respond to changing business and economic conditions may be limited. If, for any of these reasons, an issuer is unable to generate sufficient cash flow to meet principal and/or interest payments on its indebtedness or make regular dividend payments, the value of a Client's investment in such issuer could be significantly reduced or even eliminated. Similarly, with respect to leverage at the level of a Client, if the assets of such Client are not sufficient to pay the principal of, and interest on, the debt when due, such Client could sustain a total loss of its investments. The ability of issuers to refinance debt securities may depend on their ability to sell new securities in the public high yield debt market or otherwise, or to raise capital in the leveraged finance debt markets, which historically have been cyclical with regard to the availability of financing. To the extent that a Client co-invests with any vehicles managed or controlled by Clearlake, including any other Funds, vehicles and accounts (including vehicles formed to permit Clearlake professionals or other associated persons to co-invest alongside such Client), such Client may incur indebtedness and guarantee obligations together with such vehicles on a joint and several or cross-collateralized basis (which may be on an investment-by-investment or portfolio-wide basis). While such arrangements may be joint and several with respect to such Client, such arrangements are not expected to impose reciprocal joint and several obligations on such vehicles. As a result of the incurrence of indebtedness on a joint and several or cross-collateralized basis, such Client may be required to contribute amounts in excess of its pro rata share, including additional capital to make up for any shortfall if such vehicles are unable to repay their pro rata share of such indebtedness. Moreover, such Client could also lose its interests in performing investments in the event such performing investments are cross-collateralized with poorly performing or non-performing investments.

The extent to which a Client uses leverage may have important consequences to the investors in such Client, including, but not limited to, the following: (i) greater fluctuations in the net asset value of such Client's assets; (ii) use of cash flow (including capital contributions) for debt service and related costs and expenses, rather than for additional investments, distributions or other purposes; (iii) increased interest expense if interest rate levels were to increase significantly; (iv) in certain circumstances, prematurely harvesting investments to service such Client's debt obligations; and (v) limitation on the flexibility of such Client to make distributions to its partners or sell assets that are pledged to secure the indebtedness. There can be no assurance that a Client will have sufficient cash flow to meet its debt service obligations. As a result, a Client's exposure to losses may be increased due to the illiquidity of its investments generally.

In addition, a Client may need to refinance its outstanding debt as it matures. There is a risk that a Client may not be able to refinance existing debt or that the terms of any refinancing may not be as favorable as the terms of the existing loan agreements. If prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase. These risks could adversely affect such Client's financial condition, cash flows and return on its investments.

The general partner of a Client will be authorized to pledge or grant security interests in the assets of such Client in connection with any borrowing or other leverage. The amount of borrowings which such Client may have outstanding at any time may be substantial in relation to its capital.



**Borrowing:** Subject to certain limitations set forth in the applicable Fund Agreements, a Client has broad authority to borrow, make guarantees and provide other credit support for investment purposes, including, without limitation, by entering into one or more revolving credit facilities or any other debt or leverage facility or facilities or other loans or extensions of credit provided by one or more lenders, including Clearlake and their respective affiliates. In addition, a Client may enter into arrangements with one or more lenders, including Clearlake and their respective affiliates, for cash management purposes and to provide interim financing prior to the receipt of capital contributions. Such borrowings may be secured by the obligations of investors to make capital contributions, a pledge of a Client's general partner's right to draw down on such obligations, and/or a security interest in such Client's investments. The inability of such Client to repay borrowings under a credit facility secured by the capital commitments of investors could enable a lender to all unfunded commitments from investors and, if investors' unfunded commitments are insufficient to repay such borrowings, investors may be required to return amounts distributed to them to fund such borrowings, subject to certain limitations set forth in such Client's Fund Agreement.

In addition, a Client may need to refinance its outstanding debt as it matures. There is a risk that a Client may not be able to refinance existing debt or that the terms of any refinancing may not be as favorable as the terms of the existing loan agreements. If prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase. These risks could adversely affect a Client's financial condition, cash flows and return on its investments.

Because a Client or its subsidiaries may engage in portfolio financings where investments are cross-collateralized or cross-defaulted, multiple investments may be subject to the risk of loss. As a result, a Client could lose its interests in performing investments in the event such investments are cross-collateralized or cross-defaulted with poorly performing or non-performing investments.

Also, a Client may, in the future, enter into financing arrangements that contain financial covenants that could require it to maintain certain financial ratios. If the Client were to breach the financial covenants contained in any such financing arrangement, it might be required to repay such debt immediately in whole or in part, together with any attendant costs, and the Client might be forced to sell some of its assets to fund such costs. The Client might also be required to reduce distributions. Such financial covenants would also limit the ability of the Clients to adopt the financial structure (*i.e.*, by reducing levels of borrowing) which they would have adopted in the absence of such covenants.

Recourse debt, which a Client reserves the right to obtain, may subject other assets of a Client to the risk of loss and the Partner's capital commitments to be called or a Client's assets to be sold to satisfy such debt. Full or partial recourse debt may also limit the ability of a Client to effect a debt restructuring at or prior to maturity of the debt.

To the extent that a Client co-invests with any vehicles managed or controlled by Clearlake, including any other Client or Other Account, a Client may incur indebtedness and guarantee obligations together with such vehicles on a joint and several or cross-collateralized basis (which may be on an investment-by-investment or portfolio-wide basis). While such arrangements may be joint and several with respect to a Client, such arrangements are not expected to impose reciprocal joint and several obligations on such vehicles. As a result of the incurrence of indebtedness on a joint and several or cross-collateralized basis, a Client may be required to contribute amounts in excess of its pro rata share, including additional capital to make up for any shortfall if such vehicles are unable to repay their pro rata share of such indebtedness. Moreover, a Client could also lose its interests in performing investments in the event such performing investments are cross-collateralized with poorly performing or nonperforming investments.

A Client's incurrence of fund-level debt (subject to the limitations set forth in the applicable Fund Agreement), such as debt resulting from bridge, subscription and asset-backed facilities, exposes a Client to refinancing, recourse and other risks. With respect to any asset-backed facility entered into by a Client (or an affiliate thereof), a decrease in the market value of a Client's investments would increase the effective amount of leverage and could result in the possibility of a violation of certain financial covenants pursuant to which a Client must either repay the borrowed funds to the lender, which could, subject to any limitations set forth in the Fund Agreement, require investors in such Client to make additional capital contributions in respect of such borrowings, or suffer foreclosure or forced liquidation of the pledged assets. Liquidation of a Client's investments at an inopportune time in order to satisfy such financial covenants could adversely impact the performance of a Client and could, if the value of its investments had declined significantly, cause a Client to lose all or a substantial amount of its capital. Moreover, if additional capital

contributions were required to satisfy such financial covenants, such capital contributions would effectively reduce the amount of capital available for other investments and could adversely affect the diversification of a Client's portfolio. In the event of a sudden, precipitous drop in the value of a Client's assets, a Client might not be able to dispose of assets quickly enough to pay off its debt, resulting in a foreclosure or other total loss of some or all of the pledged assets. Fund-level debt facilities typically include other covenants such as, but not limited to, covenants against a Client incurring or being in default under other recourse debt, including certain Fund guarantees of asset-level debt, which, if triggered, could cause adverse consequences to a Client if it is unable to cure or otherwise mitigate such breach.

Also, in light of the distress in the global financial markets, any bankruptcy, insolvency or default by a counterparty to a Client could result in a loss of a Client's investments, including, for example, where fund assets and securities are re-hypothecated or otherwise held by such counterparties and become subject to general claims of their creditors.

**Subscription Credit Facilities.** Clearlake believes performance metrics such as net MOIC, and gross and net IRRs tend to become more reliable performance metrics as a Client matures beyond the ramp up period. Furthermore, the use of credit, capital call or subscription facilities tends to increase net IRRs and decrease net multiple of invested capital in most circumstances, than if the facility had not been utilized and instead the investors' capital had been contributed at the inception of an investment and does not have any effect on the Gross IRR, particularly in the earlier part of a fund's life, because such metrics are generally based on actual investment or investor cash flows. Nonetheless, gross and net IRRs early in the life of a Client may not be predictive or reliable indicators of long term fund performance and may experience significant volatility, particularly after making pro forma adjustments for the use or lack of use of credit, capital call or subscription facilities. Clearlake expects the difference between levered and unlevered performance for a Client to narrow over time as the Client gets closer to full deployment and the use of the credit/capital call facility relative to invested capital decreases. Finally, please note that calculating pro forma unlevered performance for all of the Clients involves making certain adjustments that may not be possible to replicate in future periods and/or may not be reflective of actual fund performance if the Client did not have access to such credit/capital call facilities.

Use of such leverage arrangements may present conflicts of interest as a result of certain factors, including the interest rate on borrowings typically being less than the rate of the preferred return, and that such preferred return does not accrue on such borrowings and only accrues on capital contributions when made. As a result, use of such leverage arrangements with respect to investments may reduce or eliminate the preferred return received by the investors and accelerate or increase distributions of Carried Interest to the applicable general partner, providing the general partner with an economic incentive to fund investments through borrowings in lieu of capital contributions. Subject to any express limitations in a Fund Agreement, the use of a subscription-based credit facility by a Client is within the applicable general partner's discretion. As a general matter, use of leverage in lieu of drawing down commitments amplifies returns (either negative or positive) to investors.

**Illiquidity of Investments:** There may be little or no active market for many of the securities and other obligations owned by a Client. Consequently, a Client may not be able to dispose of an investment when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. Dispositions of investments may be subject to legal, contractual, and other limitations on transfer, the absence of an established market for the investments, or other restrictions that would interfere with sales of investments or adversely affect the terms that could be obtained upon any disposition thereof. Such restrictions may apply even after the term of the Client has ended or the Client has otherwise been dissolved. In the event of a portfolio company initial public offering, if a Client has designated a member of the board of directors or otherwise exercises control over such portfolio company, the securities of such portfolio company held or being acquired by a Client may be restricted and subject to lock-up or otherwise designated as control securities under Rule 144 of the Securities Act. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. As such, restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. Because the markets for such securities are still evolving, liquidity in these securities is limited and liquidity with respect to lower-rated and unrated subordinated classes may be even more limited. In some instances, the sale of securities, loans or other investments owned by a Client may require lengthy negotiations. The Client may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of its dissolution. A potential exit for securities that cannot be liquidated within the term of the Client is to distribute such securities in-kind to the investors upon the

dissolution of the Client. In view of these limitations on liquidity, which are illustrative only and not exhaustive, the Client will generally not be able to realize an investment in a privately-held entity for a substantial number of years. There is no assurance that a Client will be able to dispose of its investments at the price and at the time it wishes to do so.

**Debt Instruments Generally:** Certain Clients may invest predominantly in debt, debt-like (such as structured equity) and credit-related instruments, which could include leveraged loans, high yield bonds or other instruments or securities. Such debt may be unsecured and structurally or contractually subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured. Moreover, such debt investments may not be protected by financial covenants or limitations upon additional indebtedness and there is no minimum credit rating for such debt investments. Additionally, debt investments will typically not provide the holders with any governance rights, and so a Client's ability to influence the success of the portfolio company may be significantly limited. Other factors may materially and adversely affect the market price and yield of such debt investments, including investor demand, changes in the financial condition of the applicable issuer, government fiscal policy and domestic or worldwide economic conditions. It is likely that many of the debt instruments in which such Clients may invest may be unrated, and whether or not rated, the debt instruments may have speculative characteristics. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, an economic recession could severely disrupt the market for most of these instruments and may have an adverse impact on the value of such instruments. It also is likely that any such economic downturn could adversely affect the ability of the issuers of such instruments to repay principal and pay interest thereon and increase the incidence of default for such instruments. In addition, the market for selling debt may not be as liquid as the market for selling public equity securities, which may impair the ability of a Client to sell the investment at the opportune time.

**Convertible Securities:** Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into, or exchanged for, a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by a Client is called for redemption, the Client will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Client ability to achieve its investment objectives.

**Zero Coupon and PIK Bonds:** Because investors in zero coupon or PIK bonds receive no cash prior to the maturity or cash payment date applicable thereto, an investment in such securities generally has a greater potential for complete loss of principal and/or return than an investment in debt securities that make periodic interest payments. Such investments are more vulnerable to the creditworthiness of the issuer and any other parties upon which performance relies.

**Limited Amortization Requirements:** A Client may invest in loans that have limited mandatory amortization requirements. While these loans may obligate an issuer to repay the loan out of asset sale proceeds or with annual excess cash flow, repayment requirements may be subject to substantial limitations that would allow an issuer to retain such asset sale proceeds or cash flow, thereby extending the expected weighted average life of the investment. In addition, a low level of amortization of any debt over the life of the investment may increase the risk that the issuer will not be able to repay or refinance the loans held by the Client when it matures.

**Risks Arising from Purchases of Debt on a Secondary Basis:** A Client may invest in loans and debt securities acquired on a secondary basis. The Client is unlikely to be able to negotiate the terms of such debt as part of its acquisition and, as a result, these investments may not include some of the covenants and protections the Client may generally seek. Even if such covenants and protections are included in the investments held by the Client, the terms of the investments may provide portfolio companies substantial flexibility in determining compliance with such covenants. In addition, the terms on which debt is traded on the secondary market may represent a combination of the general state of the market for such investments and either favorable or unfavorable assessments of particular investments by the sellers thereof.

**Usury Laws:** Interest charged on loans owned by a Client may be subject to usury laws imposing maximum interest rates and penalties for violation, including restitution of excess interest and unenforceability of debt.

**Portfolio Company Designation:** A Client may purchase or hold through a special purpose vehicle or other subsidiary a group of investments (regardless of whether such investments are purchased from a single seller or not) in a single issuer or a group of related issuers. If a Client purchases or holds through a special purpose vehicle or other subsidiary a group of investments (regardless of whether such investments are purchased from a single seller or not) in a single issuer or a group of related issuers, the applicable general partner may, in its sole discretion, treat any such special purpose vehicle or subsidiary as a portfolio company. Any such special purpose vehicle or other subsidiary will be authorized to freely reinvest proceeds in, provide one or more guarantees, letters of credit, equity commitment letters or similar credit support (including on a joint and several or cross-collateralized basis or otherwise as described in the applicable Fund Agreement) for, and otherwise engage in financial transactions with, any of the entities comprising the enterprise conducted through such special purpose vehicle or other subsidiary. In connection therewith, any such special purpose vehicle or other subsidiary may utilize or reserve proceeds generated at the level of any such special purpose vehicle or other subsidiary for purposes of making additional investments or paying or reserving for the payment of fees, costs, expenses and other obligations of such special purpose vehicle or other subsidiary without having any obligation to necessarily cause such proceeds to be distributed by such special purpose vehicle or other subsidiary to the Client (and, in turn, to the Client's partners), even if such special purpose vehicle or other subsidiary is an entity that is utilized to facilitate the making of investments by the Client only, or the Client together with other Clients. No restriction, limitation or obligation set forth herein or in the applicable Fund Agreement that is applicable to a Client will be deemed to apply at the level of a special purpose vehicle, subsidiary, portfolio company or issuer.

**Difficulty of Locating Suitable Investments:** There can be no assurance that there will be a sufficient number of suitable investment opportunities to enable the Clients to invest all of their committed capital in opportunities that satisfy the Clients' investment objectives or that such investment opportunities will lead to completed investments by the Clients. The activity of identifying, completing and realizing an attractive investment opportunity is highly competitive and involves a high degree of uncertainty. There can be no assurance that the Clients will be able to identify or consummate investments satisfying the investment criteria of the managers of the Clients. The success of the Clients will depend on the abilities of the general partners and the managers of the Clients to identify suitable investments, to negotiate and arrange the closing of appropriate transactions and to arrange the timely disposition of investments. Likewise, there can be no assurance that the Clients will be able to realize upon the values of their investments or that the Clients will be able to invest their commitments.

**Foreign Investments:** Investments in foreign securities may involve certain special risks not typically associated with investing in U.S. securities, including, but not limited to, the following: (i) political or economic instability; (ii) the unpredictability of international trade patterns and the viability of international trade agreements; (iii) the imposition of restrictions on and/or heightened regulatory burdens with respect to non-U.S. investments by the U.S. and/or the imposition of tariffs by the U.S. on non-U.S. goods (e.g., the current U.S. administration's imposition of tariffs on Chinese goods); (iv) the possibility of foreign governmental actions such as expropriation, nationalization, confiscatory taxation, the imposition of restrictions on inbound capital (e.g., from the U.S.) and/or the imposition of tariffs on U.S. goods; (v) the imposition or modification of exchange controls or currency pegs; (vi) differences between U.S. and non-U.S. securities markets, including potential price volatility in, and relative illiquidity of, some foreign securities markets; (vii) the imposition of withholding taxes on dividends, interest and gains; (viii) fluctuations in currency exchange rates and costs associated with the conversion of investment principal and income from one currency into another and greater risk of inflation; (ix) different bankruptcy laws and customs; (x) less developed corporate laws regarding, among other things, fiduciary duties and the protection of investors; (xi) less developed compliance infrastructure, regarding, among others, anti-money laundering protections; (xii) less developed cybersecurity and technology infrastructure and greater risk of misappropriation of intellectual property and/or personal information; (xiii) less developed transportation infrastructure and supply chain logistics; and (xiv) greater social unrest and market uncertainty. As compared to U.S. entities, foreign entities generally disclose less financial and other information publicly, and they are subject to less stringent and less uniform accounting, auditing and financial reporting standards. Also, it may be more difficult to obtain and enforce legal judgments against foreign entities than against domestic entities. The Client is not obligated to engage in any currency hedging operations, and there can be no assurance as to the success of any hedging operations that the Client may implement. Additionally, in some countries outside the United States and Western Europe, there is the possibility of expropriation of value, including through confiscatory taxation, limitations on the repatriation or sale of securities, debt obligations, property or other assets of the Client, political or social instability or diplomatic developments, each of which could have an adverse effect on the Client's investments in such foreign countries. While a Client's general partner will take these factors into consideration in making investment decisions for the Client, no assurance can be given that the Client's general partner will be able to evaluate these risks accurately.

**Concentration of Investments:** Subject to the applicable Fund Agreements, because a significant portion of a Client's capital commitments may be invested in a single company, type of security or geographic region, any single loss may have a significant adverse impact on such Client's capital. Accordingly, such Client's assets may be subject to greater risk of loss than if they were more widely diversified, since the failure of one or a limited number of investments could have a material adverse effect on such Client. In addition, there may be no restriction requiring diversification by industry. To the extent a Client concentrates investments in a particular issuer, security or geographic region, its investments will become more susceptible to fluctuations in value resulting from adverse economic or business conditions with respect thereto. As a consequence, the aggregate return of such Client may be adversely affected by the unfavorable performance of one or a small number of investments. Moreover, because it is not reasonable to expect all of a Client's investments to perform well or even return capital, for such Client to achieve above-average returns, at least one or more of its investments must perform very well. There are no assurances that this will be the case.

**Projections:** The applicable general partner will generally establish the pricing of transactions and the capital structure of a Client's investments on the basis of financial projections for such investments. Estimated operating results will normally be based primarily on management judgments but may also reflect projections developed by the manager, a prospective portfolio company or issuer or other third-party source (or in reliance on multiple sources) concerning such company's future performance and cash flow. Projections are inherently uncertain and subject to factors beyond the control of the manager, the portfolio company or issuer or such other sources. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events could impair the ability of a portfolio company or issuer to realize projected values. There can be no assurance that the projected assumptions will be accurate or that the estimated results will be obtained, and actual results may vary significantly from the projections. General economic, political and market conditions, which are difficult to predict, can have a material adverse impact on the reliability of such projections. Other participants in the industry may disagree with the feasibility of projections.

**Confidential or Material Non-Public Information:** By reason of their responsibilities in connection with the Client and other investment activities, and notwithstanding procedural safeguards including, but not limited to information barriers, where applicable, and restricted securities lists, Clearlake personnel may acquire confidential or material, non-public information that would limit the ability of a Client to buy and sell certain of its investments. The Client's investment flexibility may be constrained due to the inability of its manager to use such information for investment purposes. Moreover, the manager may be restricted from initiating transactions in certain securities or selling certain investments, due to its acquisition of confidential or material, non-public information, at a time when the manager would otherwise take such action.

**Dependence on the Co-Founders:** The Clients will be highly dependent on the continued service of the Co-Founders. In the event of death, disability, or departure of any such persons, Clearlake's business and the Clients may be adversely affected. The Co-Founders are not required to devote all or any specified portion of their time to managing the Clients' affairs, but only to devote so much of their time to the Clients' affairs as they determine to be necessary to accomplish the Clients' purposes and to conduct properly the Clients' operations. The Co-Founders currently serve on the investment committees for certain Clients and may serve in the future on one or more investment committees for other Clearlake strategies. Conflicts of interest may arise in allocating management time, services, or functions as well as in allocating investment opportunities, and the applicable manager and the ability of the members of the investment team to access other professionals and resources within Clearlake for the benefit of the Clients may be limited.

**Expedited Transactions:** Investment analyses and decisions by the applicable general partner and manager will often be undertaken on an expedited basis in order for a Client to take advantage of investments opportunities. In such cases, the information available to the general partner and the manager at the time of an investment decision may be limited, and the applicable general partner and manager may not have access to the detailed information necessary for a full evaluation of the investment opportunity. In addition, the financial information available to the applicable general partner and manager may not be accurate or provided based upon accepted accounting methods, and the applicable general partner and manager may rely upon independent consultants or advisors in connection with the evaluation of proposed investments. There can be no assurance that these consultants or advisors will accurately evaluate such investments. Further, a Client may conduct its due diligence activities in a very brief period and may assume the risks of obtaining certain consents or waivers under contractual obligations.

**Distributions:** There can be no assurance that the operations of the Clients will be profitable, that the Clients will be able to avoid losses or that cash from their investments will be available for distribution to their respective investors. The Clients will have no source of funds from which to pay distributions to their respective investors other than income and gains received on its investments and the return of capital.

**Distributions in Kind:** Under certain limited circumstances, distributions in kind of investments for which market quotations are not readily available may be made. If distributions are made of property other than cash, the amount of any such distribution will be accounted for at the fair market value of such property. Widespread holding of portfolio investments, particularly of private illiquid securities, may entail a significant administrative burden. In addition, the direct holding of certain portfolio investments may subject the holder to suit or taxes in states in which such investments are located.

**Disclosure of Confidential Client Information:** Investors in the Clients may include persons and entities that are subject to state public records or similar laws that may compel public disclosure of confidential information regarding the Clients, their investments and their investors. There can be no assurance that such information will not be disclosed either publicly to regulators or otherwise. The amount of information about their investments that is required to be disclosed has increased in recent years, and that trend may continue. To the extent that disclosure of confidential information relating to a Client, or its portfolio companies results from interests in such Client being held by public investors, the Client may be adversely affected. To the extent that the applicable general partner determines in good faith that, as a result of the U.S. Freedom of Information Act ("FOIA"), any governmental public records access law, any state or other jurisdiction's laws similar in intent or effect to FOIA, or any other similar statutory or regulatory requirement, an investor or any of its affiliates may be required to disclose information relating to a Client, its affiliates, and/or any entity in which an investment is made (other than certain fund-level, aggregate performance information described in the applicable Fund Agreements), which disclosure could, for example, affect the Client's competitive advantage in finding attractive investment opportunities. To the extent that the applicable general partner determines

in good faith that, as a result of such public records or similar laws, an investor or any of its affiliates or agents may be required to disclose information relating to a Client, its affiliates, and/or any portfolio investment (other than information the applicable general partner has previously consented in writing that an investor Partner may disclose), the applicable general partner may, in order to prevent any such potential disclosure, withhold all or any part of the information otherwise to be provided to such investor (other than certain basic capital account information). Confidential Client information may also become subject to public disclosure or regulatory disclosure due to the relationship between the Client and a public entity.

**Privacy Law Compliance Risk:** Compliance with current and future privacy data protection and information security laws and regulations (“Privacy Laws”) could significantly impact current and planned privacy and information security related practices, the collection, use, sharing, retention and safeguarding of personal data and current and planned business activities of a Client or its manager, general partner or portfolio companies, and as such could increase costs and require the dedication of additional time and resources to compliance for such entities. A failure to comply with such Privacy Laws could result in fines, sanctions or other penalties, which could materially and adversely affect the results of operations and overall business, as well as have a negative impact on reputation and Client performance. As Privacy Laws are implemented, interpreted and applied, compliance costs for the Clients and/or their portfolio companies are likely to increase, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place.

For example, California has passed the California Consumer Privacy Act of 2018 (the “CCPA”). The CCPA generally applies to businesses that collect personal information about California consumers, and meet certain revenue thresholds or engage in certain consumer transactions. The CCPA imposes stringent legal and operational obligations on such businesses as well as certain affiliated entities that share common branding. The CCPA is enforceable by the California Attorney General. Additionally, if unauthorized access, theft or disclosure of a consumer’s personal information occurs, and the business did not maintain reasonable security practices, consumers could file a civil action (including a class action) without having to prove actual damages. Statutory damages range from \$100 to \$750 per consumer per incident, or actual damages, whichever is greater. As another example, the Cayman Islands has passed the Data Protection Law, which imposes certain obligations on entities formed in the Cayman Islands which handle any individual’s personal information. Such obligations include limiting the scope for which the personal information was collected, requiring that personal data be collected only if necessary for the purpose for which it was collected, imposing security and confidentiality requirements, and limitations on transferring such data.

The European Union has enacted a similar law in the form of the General Data Protection Regulation (EU 2016/679) (the “GDPR”). The GDPR seeks to harmonize national data protection laws across the European Union, whilst at the same time, modernizing the law to address new technological developments. The GDPR notably has a greater extra-territorial reach than pre-existing legislation and has a significant impact on data controllers and data processors, (i) with an establishment in the European Union, (ii) which offer goods or services to European Union data subjects, or (iii) which monitor European Union data subjects’ behavior within the European Union. The GDPR imposes more stringent operational requirements on both data controllers and data processors, and introduces significant penalties for non-compliance with fines of up to 4% of total annual worldwide turnover or €20 million (whichever is higher), depending on the type and severity of the breach.

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

The GDPR principles on the processing of personal data have been implemented into laws enforceable in the United Kingdom by the Data Protection Act 2018. As noted below in “United Kingdom Exit from the European Union,” the terms of the United Kingdom’s exit from the European Union are unclear and it is uncertain whether a transitional arrangement or a deal will be agreed between the United Kingdom and the European Union. If the United Kingdom leaves the European Union without a deal, the United Kingdom will be deemed a “third country” for the purposes of European Union data protection law. To the extent a Client and/or portfolio companies transfer personal data from the European Union to the United Kingdom, additional mechanisms may be required to legitimize such transfers. The

United Kingdom's exit from the European Union is therefore likely to lead to an increase in data protection compliance costs. Seeking compliance with applicable data protection laws may divert the applicable manager's and the general partner's respective time and effort and entail substantial expense. Any failure by the Clients, the applicable manager and/or the general partner to comply with applicable data protection laws could result in negative publicity and may subject the Clients, the applicable manager and/or the general partner to significant costs associated with remediation actions, litigation, settlements, regulatory action, fines, judgments, liabilities and other penalties, for which the Clients, the applicable manager and/or the general partner may not have insurance coverage. In addition, changes to and/or expansion of applicable data protection laws could adversely affect the business operations of the Clients, the applicable manager and/or the general partner.

Other jurisdictions, including other U.S. states, have proposed or are considering similar Privacy Laws, which if enacted could impose similarly significant costs and operational and legal obligations. Such Privacy Laws and regulations are expected to vary from jurisdiction to jurisdiction, thus increasing costs and operational and legal burdens on regulated entities. Further, compliance with current and future Privacy Laws could significantly impact current and planned privacy and information security related practices, the collection, use, sharing, retention and safeguarding of personal data and some of our current and planned business activities. Any of such Privacy Laws could materially and adversely affect results of operations and overall business, as well as have a negative impact on reputation and Client performance.

**Legal and Regulatory Risks:** Legal and regulatory changes could occur during the term of a Client that may adversely affect the Clients, its portfolio investments or its partners. For example, a Client expects to make investments in a number of different industries, some of which are or may become subject to regulation by one or more U.S. federal or international agencies and by various agencies of the states, localities and counties in which they operate. New and existing regulations, changing regulatory schemes and the burdens of regulatory compliance all may have a material negative impact on the performance of portfolio investments that operate in these industries. Neither the general partner nor the manager of a Client can predict whether new legislation or regulation governing those industries will be enacted by legislative bodies or governmental agencies, nor can either of them predict what effect such legislation or regulation might have. There can be no assurance that new legislation or regulation, including changes to existing laws and regulations, will not have a material negative impact on a Client's investment performance.

Increased scrutiny and newly proposed legislation applicable to private investment funds and their sponsors may also impose significant administrative burdens on the applicable manager and may divert time and attention from portfolio management activities. In addition, and in particular in light of the changing global regulatory climate, a Client may be required to register under certain foreign laws and regulations, and need to engage distributors or other agents in certain non-U.S. jurisdictions in order to market interests to potential investors. The effect of any future regulatory change on a Client could be substantial and adverse. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies.

In addition, Clearlake and its affiliates engage in a broad variety of activities. These activities have in the past, and may in the future, subject Clearlake or one or more of its affiliates to risks of becoming involved in litigation by third parties or may subject Clearlake or any such affiliate to investigations or proceedings initiated by governmental authorities. It is difficult to determine what impact, if any, such litigation may have on Clearlake, or any such affiliate or the Clients. As a result, there can be no assurance that the foregoing will not have an adverse impact on Clearlake, any of its affiliates or the Clients, or otherwise impede a Client's ability to effectively achieve its objectives.

**Trade Errors:** Clearlake has adopted a policy for the purpose of addressing trade errors that may arise, from time to time, with respect to the securities transactions of a Client. Clearlake, pursuant to this policy, will seek to identify and correct any trade errors in an expeditious manner. Clearlake will only remain liable for trade errors that are the result of its gross negligence or willful misconduct. The determination of whether or not a trade error has occurred will be in the sole discretion of Clearlake, and investors should be aware that, in making such determinations, Clearlake will have a conflict of interest.

**Valuation Methodologies:** The fair value of all investments or of property received will be determined by the applicable general partner in accordance with Clearlake's valuation policies and procedures. Valuations depend on various methodologies, which are inherently subjective and capable of producing a range of values that may be



considered reasonable to different parties and that may be different than valuations done by others applying their own judgment at different or similar dates. There is no assurance that the valuations determined by Clearlake represent values that can or will be realized in a sale or exchange of investments with an independent third-party. Where valuations are derived predominantly from market quotations, such valuations typically do not take into account various factors that may affect the value that may ultimately be realized in the future, such as the possible illiquidity associated with a large ownership position, subsequent illiquidity in a market for an investment, future market price volatility or the potential for a future loss in value based upon market conditions, but may take into account legal issues that may limit or restrict transfer. Clearlake may change its valuation procedures and methods from time to time (within the framework of U.S. generally accepted accounting principles (“GAAP”)) to reflect market practice, regulatory requirements, or other factors deemed appropriate by Clearlake.

**Market Disruptions:** The Clients may incur major losses in the event of market disruptions and other extraordinary events in which historical pricing relationships (on which the manager of a Client bases a number of its trading positions) become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The availability of credit is typically reduced during market disruptions. Market disruptions caused by unexpected political, military and terrorist events, and “Acts of God” described above, may from time to time cause dramatic losses for the Clients and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

**Defaults by Investors:** Investors in certain Client are obligated to make capital contributions when called by the applicable general partner. If investors fail to fund their commitment obligations when due, a Client’s ability to complete its investment program or otherwise to continue operations may be substantially impaired. A default by a substantial number of investors or by one or more investors who have made substantial commitments would limit opportunities for investment diversification and likely would reduce returns to the Client.

**Agreements with Certain Investors:** Each Client, its general partner and its manager may from time to time enter into agreements with one or more investors whereby in consideration for agreeing to invest certain amounts in the Client and other consideration deemed material to the Client, such investors may be granted rights not otherwise afforded to other investors, including, without limitation, the right to receive reports from the Client on a more frequent basis or to receive reports that include information not provided to other investors, the right to pay a reduced Carried Interest, Incentive Allocation and/or Management Fee, the right to receive a share of the Carried Interest, Incentive Allocation and/or Management Fees earned by the general partner and/or the manager, rights related to greater portfolio transparency, minimum investment amounts, confidentiality, indemnification, sovereign immunity, payment of placement fees, advisory board representation, excuse rights, rights relating to tax, regulatory and organizational matters, and other more favorable or different investment terms and/or and such other rights as may be negotiated between the Client, its general partner and its manager, on the one hand, and such investors, on the other hand. Although such agreements will apply with respect to certain investors with whom they are entered into, not all investors will receive the rights or benefits granted to those investors pursuant to such agreements, thereby resulting in differential treatment among the investors. For example, investors will not be able to receive any rights or benefits granted to any of the Minority Investors in such agreements. Such agreements will have the effect of establishing rights under, or altering or supplementing the terms of, the applicable Fund Agreement with respect to such investors. To the extent that compliance with any of the provisions of any such agreement would cause the Client, its general partner, its manager or any of their respective affiliates to violate their respective fiduciary obligations to other clients or to violate any applicable laws, any non-compliance with any such provisions will not be deemed to be a breach of such letter agreements.

**Investments in Less Established Companies:** A Client may invest a portion of its assets in the securities of less established companies, or early stage companies. Investments in such early stage companies may involve greater risks than those generally associated with investments in more established companies. For instance, less established companies tend to have smaller capitalizations and fewer resources and, therefore, are often more vulnerable to financial failure. Such companies also may have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow. In the case of start-up enterprises, such companies may not have significant or any operating revenues. In addition, less mature companies could be more susceptible to irregular accounting or other fraudulent practices. Such companies may have relatively limited product lines, markets, and financial and other resources. As a result, such companies may be more vulnerable to general economic trends and to

specific changes in markets and technology. In addition, future growth may be dependent on additional financing, which may not be available on acceptable terms when required. Furthermore, to the extent there is any public market for the securities held by a Client, securities of less established companies may be subject to more abrupt and erratic market price movements than those of larger, more established companies.

Some of the portfolio investments that may be made by a Client should be considered highly speculative and may result in the loss of such Client's entire investment therein. There can be no assurance that any such losses will be offset by gains (if any) realized on such Client's other investments. Subject to the geographic concentration limits set forth in the applicable Fund Agreements, a Client will be permitted to make investments in all U.S. and non-U.S. countries, including countries located in emerging market countries. Investing in emerging markets involves risks and special considerations not typically associated with investing in more established economies or markets.

**Investments in Technology Industries:** Clients may make investments in portfolio companies involved in technology industries. Concentration in those industries may involve risks greater than those generally associated with more diversified funds and may experience significant fluctuations in returns. The technology sector is challenged by various factors, including rapidly changing market conditions and participants, new competing products and services, and improvements in existing products and services. Some of the Client's portfolio companies may compete in this volatile environment. In addition, certain countries in which a Client may invest may have less developed laws regarding the protection of intellectual property rights. There is no assurance that products or services sold by such portfolio companies will not be rendered obsolete or adversely affected by competing products and services, new technologies or other challenges, or that such portfolio companies or the Client will be able to adequately enforce intellectual property rights. Instability, fluctuation or an overall decline within technology industries may not be balanced by investments in other industries not so affected. In the event that the technology sector declines or a Client is unable to adequately enforce its intellectual property rights, returns to investors may decrease.

**Investments in the Communications Industry:** Clients may make investments in portfolio companies involved in the communications industry. Communications companies in developed and emerging countries are undergoing significant changes mainly due to evolving levels of governmental regulation or deregulation as well as the rapid development of communication technologies. Competitive pressures within the communications industry are intense, and the securities of communications companies may be subject to significant price volatility. In addition, because the communications industry is subject to rapid and significant changes in technology, the companies in this industry that a Client may invest in will face competition from technologies being developed or to be developed in the future by other entities, which may make such companies' products and services obsolete.

**Investments in Energy Industries:** Clients may make investments in portfolio companies involved in the energy sector. Such portfolio companies will be subject to many unique and acute risks. Significant among such risks is commodity price risk, including, without limitation, the price of oil, gas and other commodities, and the results of its operations and cash flows may depend, in some cases to a significant extent, upon prevailing or improving market prices for energy commodities (such as oil and gas). Commodity prices over the past several years have been, and are likely to continue to be, volatile and subject to wide fluctuations and such volatility may continue in response to changes in the global supply of and demand for such commodities. In addition, the energy sector is challenged by various factors, including rapidly changing market conditions and participants, new competing products and services and improvements in existing products and services. There is no assurance that such portfolio companies will succeed in this volatile environment.

In addition, the energy sector is subject to comprehensive U.S and non-U.S. federal, state and local laws and regulations. Present, as well as future, statutes and regulations could cause additional expenditures, decreased revenues, restrictions and delays that could materially and adversely affect a Client's investments and the prospects of the Client. There can be no assurance that (i) existing regulations applicable to investments generally or the portfolio companies will not be revised or reinterpreted; (ii) new laws and regulations will not be adopted or become applicable to portfolio companies; (iii) the technology and equipment selected by portfolio companies to comply with current and future regulatory requirements will meet such requirements; (iv) such portfolio companies' business and financial conditions will not be materially and adversely affected by such future changes in, or reinterpretation of, laws and regulations (including the possible loss of exemptions from laws and regulations) or any failure to comply with such current and future laws and regulations; or (v) regulatory agencies or other third parties will not bring enforcement actions in which they disagree with regulatory decisions made by other regulatory agencies. In addition, in many

instances, the operation or acquisition of energy assets may involve an ongoing commitment to or from a government agency. The nature of these obligations exposes the owners of infrastructure investments to a higher level of regulatory control than typically imposed on other businesses.

**Investments in Public Companies:** A Client may invest in public companies or take private companies public. Investments in public companies may subject the Client to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, movements in the stock market and trends in the overall economy, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies (including the Client's ownership of such companies), limitations on the ability of the Client to dispose of such securities at certain times (including due to the possession by the Client of material non-public information), increased likelihood of shareholder litigation against such companies' board members, which may include Clearlake personnel, regulatory action by U.S. and non-U.S. regulators and increased costs associated with each of the aforementioned risks.

**Forward Trading:** A Client may invest in forward contracts and options thereon, which, unlike futures contracts, are not traded on exchanges and are not standardized; rather banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward contracts may be entered into, for among other reasons, to hedge exchange risk exposure. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The participants who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they are prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by a Client due to unusually high trading volume, political intervention or other factors. The imposition of controls by government authorities might also limit such forward (and futures) trading to less than that which the applicable manager would otherwise recommend, to the possible detriment of a Client. Market illiquidity or disruption could result in major losses to a Client.

**"Widening" Risk:** For reasons not necessarily attributable to any of the risks enumerated above (for example, supply/demand imbalances or other market forces), the prices of the assets in which a Client invests may decline substantially. In particular, purchasing assets at what may appear to be "undervalued" levels is no guarantee that these assets will not be trading at even more "undervalued" levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such "spread widening" risk.

**Misrepresentation, Fraud and Misconduct:** Of significant concern in lending and investing is the possibility of material misrepresentation or omission by a counterparty. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the investment or may adversely affect the ability of a Client to perfect or effectuate a lien on the collateral securing the investment. A Client generally relies upon the accuracy and completeness of representations made by counterparties, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to a Client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. Instances of fraud and other deceptive practices committed by third parties in connection with any financial asset in which the a Client invests may undermine the applicable manager's due diligence efforts with respect to such investments, and if such fraud is discovered, negatively affect the valuation of the Client's investments. In addition, when discovered, financial fraud may contribute to overall market volatility, which can negatively impact a Client's investment program. Misconduct by employees of the applicable manager, general partner or by third-party service providers could cause significant losses to a Client. Employee misconduct may include binding a Client to transactions that exceed authorized limits or present unacceptable risks and unauthorized trading activities or concealing unsuccessful trading activities (which, in either case, may result in unknown and unmanaged risks or losses). Losses could also result from actions by third-party service providers, including, without limitation, failing to recognize trades and misappropriating assets. In addition, employees and third-party service providers may improperly use or disclose confidential information, which could result in litigation or serious financial harm, including limiting a Client's business prospects or future marketing activities. No assurances can be given that the due diligence performed by the managers will identify or prevent any such misconduct.

**Contingent Liabilities:** In connection with executing an investment, a Client may assume, or acquire, a financial asset subject to contingent liabilities. These liabilities may be material and may include liabilities associated with pending litigation, regulatory investigations or environmental actions, among other things. To the extent these liabilities are realized, they may materially and adversely affect the value of a financial asset. In addition, if a Client has assumed or guaranteed these liabilities, the obligation would be payable from the assets of the Client. In connection with the disposition or financing of an investment, a Client may be required to make representations about the investment or be responsible for the contents of disclosure documents. A Client may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents are inaccurate or with respect to certain potential liabilities or other obligations. These arrangements may result in the incurrence of accrued expenses, liabilities or contingencies for which the applicable general partner may establish reserves or escrow accounts. In that regard, distributions, including final distributions, to investors will be subject to any such reserves or holdbacks and investors may be required to return amounts distributed to them to fund a Client's indemnity obligations or other Client obligations arising out of any legal proceeding against the Client, subject to certain limitations set forth in the applicable Fund Agreement. Furthermore, each investor that receives a distribution in error or in violation of applicable law will, under certain circumstances, be obligated to recontribute such distribution to the applicable Client.

**Additional Capital:** Certain of a Client's investments may, from time to time, require additional financing to satisfy their working capital requirements, capital expenditure and acquisition strategies. The amount of additional financing needed will depend upon the maturity and objectives of the particular investment. If the funds provided are not sufficient, such investment may have to raise additional capital at a price unfavorable to existing investors, including a Client. In addition, a Client may make additional debt and equity investments or exercise warrants, options or convert convertible securities that were acquired in the initial investment in order to preserve the Client's proportionate ownership when a subsequent financing is planned or to protect the Client's investment. The availability of capital is generally a function of capital market conditions that are beyond the control of the Clients or any investment. There can be no assurance that the managers will be able to predict accurately the future capital requirements necessary for success or that additional funds will be available from any source.

**Need for Follow-On Investments:** A Client may be called upon to provide follow-on funding for an investment or have the opportunity to increase its original investment. There can be no assurance that a Client will wish to make follow-on investments or that the Client will have sufficient funds to do so. Additionally, the Clients will be subject to limitations in respect of follow-on investments set forth in the applicable Fund Agreements. Any decision by a Client not to make follow-on investments or its inability to make them may have a substantial negative impact on an investment or may diminish the Client's ability to influence the investment's future development.

**Third-Party Involvement/Co-Investors:** The general partner of a Client may, from time to time, depending on the type of investment opportunity, in its discretion, offer co-investment opportunities to (i) co-investment vehicles (formed to invest in issuers of portfolio investments, a predetermined subset thereof or otherwise), (ii) limited partnerships, other pooled investment vehicles or managed accounts that are affiliates of the general partner or which are managed by an affiliate of the general partner, (iii) any of the investors in the Client or (iv) any other person or entity, including, without limitation, persons or entities who the general partner believes will be of benefit to the Client or one or more issuers or who may provide a strategic, sourcing or similar benefit to Clearlake, the Client, an issuer or one or more of their respective affiliates, due to industry expertise or otherwise (and may also organize one or more entities to invest in the Client or to co-invest alongside the Client to facilitate personal investments by such persons or entities). The manager of a Client may, but will be under no obligation to, provide co-investment opportunities to investors in the Client. Any such co-investment opportunity may be provided on such terms and conditions, including fees and carried interest applicable to such co-investment opportunity, if any, as the general partner of the Client and the investors in the Client participating therein agree.

Clearlake has adopted guidelines governing the offering of co-investment opportunities to investors of a Client pursuant to which Clearlake may, to the extent it believes in its sole discretion that it is appropriate to do so, offer limited partners of a Client the opportunity to co-invest in a transaction in which a Client has made, or will make, an investment, subject to any restrictions contained in the Fund Agreements of the relevant Client or any side letter or other terms negotiated with respect to such Client. Clearlake may (or may not) in its discretion charge carried interest, management fees or other similar fees or incentive compensation to co-investors (which compensation will be retained by Clearlake or its affiliate and not considered Fee Income). Such guidelines do not apply to co-investment

opportunities that Clearlake may choose to offer to persons (i) who are not limited partners of a Client, or (ii) who are operating advisors of Clearlake or members of Clearlake's Executive Council who may hold a limited partner interest(s) in the Clients. If Clearlake determines to offer to one or more persons who are not limited partners of a Fund (e.g., third parties, Clearlake's operating advisors or members of Clearlake's Executive Council) the opportunity to co-invest in a transaction in which a Fund has made, or will make, an investment, the guidelines governing the offering of co-investment opportunities to limited partners of a Client will only apply to the extent there is any co-investment opportunity remaining after the allocation to such other persons and to the extent determines it is appropriate to offer such remaining co-investment opportunity to limited partners of such Fund.

The commitment of co-investors may be substantial and such investments may involve risks not present in investments where such co-investors are not involved. Co-investors will typically bear their pro rata share of fees, costs and expenses related to the discovery, investigation, development, acquisition or consummation, ownership, maintenance, monitoring, hedging and disposition of their consummated co-investments but are not expected to be required to pay their pro rata share of fees, costs and expenses related to potential investments that are not consummated, such as breakup fees or broken deal expenses. Operating Expenses associated with a co-investment vehicle organized in connection with a particular portfolio investment may be borne by the applicable portfolio investment (rather than the co-investment vehicle itself), and therefore, indirectly by the investors in such portfolio investment, including, without limitation, the applicable Client and such co-investment vehicle. Although Clearlake endeavors to allocate such fees, costs and expenses on a fair and reasonable basis, there can be no assurance that such fees, costs and expenses will in all cases be allocated appropriately. In addition, co-investors will likely not agree and historically have not agreed to pay or otherwise bear fees, costs or expenses related to unconsummated co-investments or certain categories of fees, costs and expenses that constitute Operating Expenses. In such event, such fees, costs and expenses will be considered operating expenses of and be borne by a Client and not offset the Management Fee. Investments made with co-investors also may involve a portion of Fee Income allocated to such co-investors based on such co-investors' ratable share (or proposed share) of a particular investment (based on its investment (or proposed investment) therein), and such Fee Income allocated to such co-investors will not be treated as Fee Income under the applicable Fund's governing documents and will be retained by and be for the benefit of Clearlake or its affiliate. (See also "Other Fees" under Item 11 below.) Further, it is possible that a co-investor may experience financial, legal or regulatory difficulties, may at any time have economic or business interests or goals that are inconsistent with those of a Client, may take a different view from Clearlake as to the appropriate strategy for an investment, or may be in a position to take action contrary to such Client's investment objectives. Finally, a Client may in certain circumstances be liable for the actions of its co-investors.

In those circumstances where such co-investors involve a company's management group, such co-investors may receive compensation arrangements relating to the investment, including incentive compensation arrangements.

**Over-Commitment:** In order to facilitate an investment, a Client may make (or commit to make) such investment with a view to selling a portion of such investment to co-investors or other persons or obtaining third-party financing prior to or within a brief period after the closing of the acquisition. In such event, the Client will bear the risk that any or all of the excess portion of such investment may not be sold or financed or may only be sold or financed on unattractive terms and that, as a consequence, the Client may bear the entire portion of any breakup fee or other fees, costs and expenses related to such investment, hold a larger than expected investment or may realize lower than expected returns from such investment.

**Currency and Exchange Rate Risks:** Although a Client's investments, and income received by such Client with respect to such investments, are expected to be denominated primarily in U.S. dollars, certain investments may be made in currencies other than U.S. dollars. In addition, the books of such Client will be maintained, and capital contributions to and distributions from the Client are expected to be made, in U.S. dollars. To the extent the Client's investments are made in currencies other than U.S. dollars, changes in currency exchange rates, costs of conversion and exchange control regulations may adversely affect the dollar value of investments, interest and dividends received by the Client, gains and losses realized on the sale of such investments and the amount of distributions, if any, to be made by the Client in respect of such investments. Moreover, the Client will incur costs or could experience substantial delays when, or be prohibited from, converting one currency into another. While the applicable general partner may enter into hedging transactions designed to reduce such currency risks, there can be no assurance that any such transactions would achieve their intended results. Further, such hedging transactions could result in diminished returns

(or increased losses on capital) to the extent overall returns are less than the Client's costs or losses associated with such hedging transactions.

**Ability to Acquire Investments at Favorable Spreads; Competition and Supply:** A Client's potential for current income and capital appreciation for its investors will depend, in large part, on its manager's ability to acquire investments for such Client on advantageous terms. In acquiring investments, such Client will compete with a broad spectrum of institutional investors, many of which have greater financial resources than such Client. Increased competition for, or a reduction in the available supply of, qualifying investments could result in higher prices for, and thus lower yields on, such investments.

**Risks Relating to Due Diligence of and Conduct at Portfolio Companies; Risk of Fraud in Portfolio Companies:** Before making investments, Clearlake will typically conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. Due diligence may entail evaluation of important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants, investment banks and other third parties may be involved in the due diligence process to varying degrees depending on the type of investment. Such involvement of third-party advisors or consultants may present a number of risks primarily relating to Clearlake's reduced control of the functions that are outsourced. In addition, if Clearlake is unable to timely engage third-party providers its ability to evaluate and acquire more complex targets could be adversely affected. When conducting due diligence and making an assessment regarding an investment, Clearlake will rely on the resources available to it, including information provided by the investment and, in some circumstances, third-party investigations. The due diligence investigation that Clearlake carries out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. There can be no assurance that Clearlake will interpret any due diligence facts appropriately or appropriately weight the importance of any such facts. Moreover, such an investigation will not necessarily result in the investment being successful. There can be no assurance that attempts to provide downside protection, including pursuant to risk management procedures, with respect to investments will achieve their desired effect. Furthermore, while Clearlake strives to implement environmental, social and governance ("ESG") practices at its portfolio companies, there can be no assurance that Clearlake will be able to identify all ESG issues or will be able to successfully implement its ESG policies, or that implementation of ESG practices at a portfolio company will result in an investment being successful. The use of ESG metrics in the investment process may be subjective and are not subject to uniform standards, and, as such, there is no guarantee that Clearlake will be able to accurately assess and measure the ESG risks and ESG compliance of its portfolio companies and potential investments. ESG-based exclusionary criteria may result in a Client foregoing opportunities to make certain investments when it might otherwise be advantageous to do so, and/or selling certain investments due to their ESG characteristics when it might be disadvantageous to do so. The use of ESG criteria may affect a Client's investment performance and, as such, the Client may perform differently compared to similar funds that do not use such criteria.

There can be no assurance that Clearlake will be able to detect or prevent irregular accounting, employee misconduct or other fraudulent practices during the due diligence phase or during its efforts to monitor the investment on an ongoing basis or that any risk management procedures implemented by Clearlake will be adequate. In the event of fraud by any portfolio company or any of its managers or affiliates, a Client may suffer a partial or total loss of capital invested in that portfolio company. There can be no assurances that any such losses will be offset by gains (if any) realized on a Client's other investments. An additional concern is the possibility of material misrepresentation or omission by a counterparty. Such inaccuracy or incompleteness may adversely affect the value of a Client's securities and/or instruments in such portfolio company or may adversely affect the ability of a Client to perfect or effectuate a lien on the collateral securing the investment. The Client will rely upon the accuracy and completeness of representations made by counterparties in the due diligence process to the extent reasonable when it makes its investments, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to a Client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

**Cybersecurity Risks:** Cybersecurity incidents and cyber-attacks have been occurring globally at a more frequent and severe level and will likely continue to increase in frequency in the future. As part of its business, Clearlake and the managers process, store and transmit large amounts of electronic information, including information relating to the transactions of the Clients and personally identifiable information of the investors. Similarly, service providers of the managers or the Clients, especially an administrator, may process, store and transmit such information. Clearlake and

the managers' and portfolio companies' information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes, typhoons, earthquakes, wars, terrorist attacks and other similar events. Measures designed to manage risks relating to these types of events cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. If these systems are compromised, become inoperable for extended periods of time or cease to function properly, the Clients and/or a portfolio company may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in Clearlake's, the Clients' and/or a portfolio company's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). A cybersecurity incident could have numerous material adverse effects, including on the operations, liquidity and financial condition of the Clients. Cyber threats and/or incidents could cause financial costs from the theft of Client assets (including proprietary information and intellectual property) as well as numerous unforeseen costs including, but not limited to: litigation costs, preventative and protective costs, remediation costs and costs associated with reputational damage, any one of which, could be materially adverse to the Fund. Such a failure could harm Clearlake's, the Clients' and/or a portfolio company's reputation, subject any such entity and their respective affiliates to legal claims and otherwise affect their business and financial performance. The service providers of the managers and the Clients are subject to the same electronic information security threats as the managers. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of the Clients and personally identifiable information of the investors may be lost or improperly accessed, used or disclosed.

**Reliance on Portfolio Company Management Team:** In the case of investments made in portfolio companies or platform, each portfolio company's day-to-day operations will be the responsibility of such portfolio company's management team. Although Clearlake will be responsible for monitoring the performance of each investment and intend to invest in companies operated by strong management, there can be no assurance that the existing management team, or any successor, will be able to successfully operate the portfolio company in accordance with a Client's investment thesis and plans. Additionally, portfolio companies need to attract, retain and develop executives and members of their management teams. The market for executive talent can be, notwithstanding general unemployment levels or developments within a particular industry, extremely competitive. There can be no assurance that portfolio companies will be able to attract, develop, integrate and retain suitable members of its management team and, as a result, a Client may be adversely affected thereby.

**Reliance On The Manager:** Decisions made with respect to the management of a Client will be made by the applicable general partner and the manager and its affiliated designees. The applicable general partner and the manager and its affiliated designees will have exclusive responsibility for the Client's activities and, other than as set forth in the Fund Agreement, investors will not be able to make investment or other decisions with respect to the management of the Client. If a manager resigns or otherwise no longer serves as the investment manager of the Client, the investments may be terminated or otherwise no longer be available to the Client, which may have an adverse impact on the Client's investment performance. Moreover, subjective decisions made by a manager may cause the Client to incur losses or to miss profit opportunities on which it may otherwise have capitalized.

**Risk of Acquiring Asset-Backed Loans and Participations:** Asset-backed loans acquired by a Client may be at the time of their acquisition, or may become after acquisition, non-performing for a wide variety of reasons. Such non-performing asset-backed loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial writedown of the principal of such loans. However, even if a restructuring were successfully accomplished, a risk exists that upon maturity of such asset-backed loan, replacement "takeout" financing will not be available. Purchases of participations in asset-backed loans raise many of the same risks as investments in asset-backed loans and also carry risks of illiquidity and lack of control. It is possible that Clearlake may find it necessary or desirable to foreclose on collateral securing one or more asset-backed loans purchased by a Client. The foreclosure process can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the holder of an asset-backed loan including, without limitation, lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action. In some jurisdictions, foreclosure actions can take up to several years or more to conclude. At any time during the foreclosure proceedings, the borrower may file for

bankruptcy, staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

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

**Risks Arising from Potential Control Group Liability:** Under ERISA, upon the termination of a tax-qualified single employer defined benefit pension plan, the sponsoring employer and all members of its “controlled group” will be jointly and severally liable for 100% of the plan’s unfunded benefit liabilities whether or not the controlled group members have ever maintained or participated in the plan. In addition, the U.S. Pension Benefit Guaranty Corporation (the “PBGC”) may assert a lien with respect to such liability against any member of the controlled group on up to 30% of the collective net worth of all members of the controlled group. Similarly, in the event a participating employer partially or completely withdraws from a multiemployer (union) defined benefit pension plan, any withdrawal liability incurred under ERISA will represent a joint and several liability of the withdrawing employer and each member of its controlled group.

A “controlled group” includes all “trades or businesses” under 80% or greater common ownership (or under certain circumstances less than 80%). This common ownership test is broadly applied to include both “parent-subsidiary groups” and “brother-sister groups” applying complex exclusion and constructive ownership rules. However, regardless of the percentage ownership that a Client holds in one or more of its portfolio companies, a Client itself cannot be considered part of an ERISA controlled group unless such Client is considered to be a “trade or business.”

While there are a number of cases that have held that managing investments is not a “trade or business” for tax purposes, in 2007 the PBGC Appeals Board ruled that a private equity fund was a “trade or business” for ERISA controlled group liability purposes and at least one U.S. Federal Circuit Court has similarly concluded that a private equity fund could be a trade or business for these purposes based upon a number of factors including the Fund’s level of involvement in the management of its portfolio companies and the nature of any management fee arrangements.

If a Client were determined to be a trade or business for purposes of ERISA, it is possible, depending upon the structure of the investment by the Client and/or its affiliates and other co-investors in a portfolio company and their respective ownership interests in the portfolio company, that any tax-qualified single employer defined benefit pension plan liabilities and/or multiemployer plan withdrawal liabilities incurred by the portfolio company could result in liability being incurred by a Client, with a resulting need for additional capital contributions, the appropriation of Client assets to satisfy such pension liabilities and/or the imposition of a lien by the PBGC on certain Client assets. Moreover, regardless of whether or not the Client were determined to be a trade or business for purposes of ERISA, a court might hold that one of a Client’s portfolio companies could become jointly and severally liable for another portfolio company’s unfunded pension liabilities pursuant to the ERISA “controlled group” rules, depending upon the relevant investment structures and ownership interests as noted above. This discussion is based on current court decisions, statute and regulations regarding ERISA control group liability as in effect as of the date of this Brochure, which may change in the future as the case law and guidance develops.

**U.S. Federal Income Tax Reform:** Recently enacted tax reform legislation, the Tax Cuts and Jobs Act (the “Tax Reform Bill”), has resulted in fundamental changes to the U.S. Internal Revenue Code of 1986. Among the numerous changes included in the Tax Reform Bill are (i) a permanent reduction to the corporate income tax rate, (ii) a partial limitation on the deductibility of business interest expense, (iii) an income deduction for individuals receiving certain business income from “pass-through” entities, (iv) a partial shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a territorial system (along with a transitional rule which taxes certain historic accumulated earnings and rules which prevent tax planning strategies which shift profits to low-tax jurisdictions) and (v) a suspension of certain miscellaneous itemized deductions, including deductions for investment fees and expenses,



until 2026. The impact of the Tax Reform Bill on a Client is uncertain and could be adverse. Prospective investors should consult their own tax advisors regarding potential changes in tax laws.

**Compliance with Anti-Money Laundering Requirements:** In response to increased regulatory concerns with respect to the sources of funds used in investments and other activities, investors in a Client may be requested to provide additional documentation verifying, among other things, such investors' identity and source of funds used to purchase the interests in the Client. Clearlake may decline to accept a subscription on the basis of such information that is provided or if this information is not provided. Requests for documentation and additional information may be made at any time during which an investor holds an interest. Clearlake may be required to provide this information, or report the failure to comply with such requests, to appropriate governmental authorities, in certain circumstances without notifying the investors that the information has been provided. Clearlake will take such steps as it determines are necessary to comply with applicable law, regulation, orders, directives or special measures. These steps may include prohibiting an investor from making further contributions of capital to a Client, depositing distributions to which an investor would otherwise be entitled to in an escrow account or causing the exclusion of an investor from such Client.

**OFAC and FCPA Considerations:** Economic sanction laws in the United States and other jurisdictions may prohibit Clearlake, Clearlake's investment professionals and a Client from transacting with or in certain countries and with certain individuals and companies. In the United States, the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") administers and enforces laws, Executive Orders and regulations establishing U.S. economic and trade sanctions. Such sanctions prohibit, among other things, transactions with, and the provision of services to, certain foreign countries, territories, entities and individuals. These entities and individuals include specially designated nationals, specially designated narcotics traffickers and other parties subject to OFAC sanctions and embargo programs. In addition, certain programs administered by OFAC prohibit dealing with individuals or entities in certain countries regardless of whether such individuals or entities appear on the lists maintained by OFAC. These types of sanctions may restrict a Client's investment activities.

In some countries, there is a greater acceptance than in the United States of government involvement in commercial activities, and of corruption. Clearlake, Clearlake's investment professionals and Clients are committed to complying with the U.S. Foreign Corrupt Practices Act ("FCPA") and other anti-corruption laws, anti-bribery laws and regulations, as well as anti-boycott regulations, to which they are subject. As a result, a Client may be adversely affected because of its unwillingness to participate in transactions that violate such laws or regulations. Such laws and regulations may make it difficult in certain circumstances for a Client to act successfully on investment opportunities and for portfolio companies to obtain or retain business.

In recent years, the U.S. Department of Justice and the SEC have devoted greater resources to enforcement of the FCPA. In addition, the United Kingdom has recently significantly expanded the reach of its anti-bribery laws. While Clearlake has developed policies and procedures designed to ensure compliance by Clearlake and its personnel with the FCPA and other anti-bribery laws, such policies and procedures may not be effective in all instances to prevent violations. In addition, in spite of Clearlake's policies and procedures, affiliates of portfolio companies, particularly in cases where a Client or another Clearlake sponsored fund or vehicle does not control such portfolio company, may engage in activities that could result in FCPA violations. Any determination that Clearlake has violated the FCPA or other applicable anti-corruption laws or anti-bribery laws could subject Clearlake to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect Clearlake's business prospects and/or financial position, as well as a Client's ability to achieve its investment objective and/or conduct its operations.

**Pay-to-Play Laws, Regulations and Policies:** In light of controversies and highly publicized incidents involving money managers, a number of states and municipal pension plans have adopted so-called "pay-to-play" laws, regulations or policies which prohibit, restrict or require disclosure of payments to (and/or certain contacts with) state officials by individuals and entities seeking to do business with state entities, including investments by public retirement funds. The SEC also has adopted rules that, among other things, prohibit an investment adviser from providing advisory services for compensation with respect to a government plan investor for two years after the adviser or certain of its executives or employees make a contribution to certain elected officials or candidates. If the managers, the applicable general partner, any of their employees or affiliates or any service provider acting on their behalf fails to comply with such pay-to-play laws, regulations or policies, even in a minor respect, such non-compliance could

have an adverse effect on the Clients by, for example, providing the basis for the withdrawal of the affected government plan investor.

**Government Regulation:** Regulation by governmental, self-regulatory and other authorities affects the Clients and their proposed investment activities. Changing market, economic and regulatory conditions, such as changes in bankruptcy codes, the respective laws of each country in which a Client invests, may make the Client's intended investment strategy less profitable.

**Role of Clearlake and its Investment Professionals:** If the applicable general partner or manager resigns or otherwise no longer serves as the general partner or investment manager of a Client, as applicable, a Client's investments may be terminated or otherwise no longer be available to the Client, which may have an adverse impact on the Client's investment performance. Moreover, subjective decisions made by the applicable general partner and/or manager may cause the Client to incur losses or to miss profit opportunities on which it may otherwise have capitalized.

The success of a Client will depend in part upon Clearlake's ability to attract and retain talented professionals, the skill and expertise of Clearlake's investment professionals and the management of investments. There can be no assurance, for example, that investment professionals will devote any minimum number of hours each week to the affairs of a Client or that they will continue to be employed by Clearlake. The interests of certain of these professionals in the applicable general partner should tend to discourage them from withdrawing from participation in a Client's investment activities. However, there can be no assurance that such professionals will continue to be associated with Clearlake and the applicable general partner throughout the life of a Client, and in the event that such investment professionals cease to be actively involved with a Client, investors will be required to rely on the ability of Clearlake to identify and retain other investment professionals to conduct the Client's business. Should one or more of these professionals become incapacitated or in some other way cease to participate in a Client, the Client's performance could be adversely affected. There is ever-increasing competition among alternative asset firms, financial institutions, private equity firms, investment managers and other industry participants for hiring and retaining qualified investment advisory professionals. There can be no assurance that Clearlake personnel will not be solicited by and join competitors or other firms and/or that Clearlake will be able to hire and retain any new personnel that it seeks to maintain or add to its roster of investment advisory professionals.

**Investments Longer than Term:** Investment in certain Clients requires a long-term commitment with no certainty of return. Many of the investments of certain Clients will be highly illiquid, and there can be no assurance that the Clients will be able to realize on such investments in a timely manner. Although investments by a Client may generate some current income, the return of capital and the realization of gains, if any, from an investment generally will occur only upon the partial or complete disposition or refinancing or securitization of such 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 investment is made. The Clients expect to make investments which may not be advantageously disposed of prior to the date that the dissolution of the applicable Client commences, either by expiration of the applicable Client's term or otherwise. Although the applicable general partners have a limited ability to extend the terms of the Client, and the applicable general partners expect that investments will be disposed of prior to the commencement of the dissolution, the Clients may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of its dissolution. A potential exit for securities that cannot be liquidated within the term of a Client is to distribute such securities in-kind or in specie to the partners of such Client upon the dissolution of the Client. Upon the commencement of the dissolution of a Client, the applicable general partner (or the relevant liquidator) will be required to seek to liquidate the Client's assets by reducing such assets of the Client to cash and cash equivalents, on such terms as the applicable general partner or such liquidator shall determine. In discharging the obligations that arise as a result of the commencement of the dissolution, the applicable general partner or liquidator will be required to exercise its judgment to balance its obligation to ensure the expeditious liquidation of the Client's assets against the interest of limited partners of such Client to obtain fair value for such assets taking into account any contractual, tax, market, legal or other considerations (including legal restrictions on the ability of an investor of such Client to hold any assets to be distributed in-kind). Consequently, there can be no assurances with respect to the time frame in which the dissolution and the final distribution of proceeds of the liquidation of the remaining Client assets to the applicable limited partners in such Client will occur.

**Future Investment Techniques and Instruments:** A Client may employ other investment techniques and invest in other instruments, such as business development companies, that the applicable general partner believes will help achieve the Client's investment objective, whether or not such investment techniques or instruments are specifically described herein. Such investments may entail risks not described herein. New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful investments and, ultimately, losses to the Client. In addition, any new investment strategy or technique developed by a Client may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the Client.

**Risks from Operations of Portfolio Companies:** The Clients have made (and/or will in the future make) investments in portfolio companies that have operations and assets in many jurisdictions around the world. It is possible that the activities of one portfolio company may have adverse consequences on one or more other portfolio companies, even in cases where the portfolio companies are held by different Clients and have no other connection to each other. In particular, the laws and regulations governing the limited liability of such companies vary from jurisdiction to jurisdiction, and in certain contexts (including, by way of example only, bankruptcy, environmental liabilities, consumer protection or pension / labor law matters) the laws of certain jurisdictions may provide not only for carveouts from limited liability protection for the portfolio company that has incurred the liabilities, but also for recourse to assets of other entities under common control with, or that are part of the same economic group as, such company. For example, if one Client's investments is subject to bankruptcy or insolvency proceedings in a jurisdiction and is found to have liabilities under the local consumer protection laws, the laws of that jurisdiction may permit authorities or creditors to file a lien on, or to otherwise have recourse to, assets held by other Clearlake portfolio companies in that jurisdiction. There can be no assurance that a Clients will not be adversely affected as a result of the foregoing risks.

**Environmental Matters:** Ordinary operation or the occurrence of an accident with respect to a portfolio company could cause major environmental damage, which may result in significant financial distress to such portfolio company, even if covered by insurance. In addition, persons who arrange for the disposal or treatment of hazardous materials may also be liable for the costs of removal or remediation of these materials at the disposal or treatment facility, whether or not that facility is or ever was owned or operated by those persons. Certain environmental laws and regulations may require that an owner or operator of an asset address prior environmental contamination, which could involve substantial cost and other liabilities. Such laws and regulations often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of environmental contamination and may impose joint and several liability (including amongst the Clients and the applicable portfolio company) or liabilities or obligations that purport to extend to (and pierce any corporate veil that would otherwise protect) the ultimate beneficial owners of the owner or operator of the relevant property or operating company that stand to financially benefit from such property's or company's operations. A Client may therefore be exposed to substantial risk of loss from environmental claims arising in respect of its investments. Furthermore, changes in environmental laws or regulations or the environmental condition of an investment may create liabilities that did not exist at the time of its acquisition and that could not have been foreseen. Community and environmental groups may protest about the development or operation of portfolio company assets, which may induce government action to the detriment of a Client. New and more stringent environmental or health and safety laws, regulations and permit requirements, or stricter interpretations of current laws, regulations or requirements, could impose substantial additional costs on a portfolio company, or could otherwise place a portfolio company at a competitive disadvantage compared to other companies, and failure to comply with any such requirements could have an adverse effect on a portfolio company. Even in cases where a Client is indemnified by the seller with respect to an investment against liabilities arising out of violations of environmental laws and regulations, there can be no assurance as to the financial viability of the seller to satisfy such indemnities or the ability of the Client to achieve enforcement of such indemnities.

**CFIUS & National Security/Investment Clearance Considerations:** Certain investments by a Client that involve the acquisition of a business connected with or related to national security or critical infrastructure may be subject to review and approval by the U.S. Committee on Foreign Investment in the United States ("CFIUS") and/or non-U.S. national security/investment clearance regulators depending on the beneficial ownership and control of interests in the Client. In the event that CFIUS or another regulator reviews one or more of a Client's proposed or existing investments, there can be no assurances that the Client will be able to maintain, or proceed with, such investments on terms acceptable to the Client. CFIUS or another regulator may seek to impose limitations on or prohibit one or more

of a Client's investments. Such limitations or restrictions may prevent the Client from maintaining or pursuing investments, which could adversely affect the Client's performance with respect to such investments (if consummated) and thus the Client's performance as a whole. In addition, certain of the investors in the Clients are expected to be non-U.S. investors, and in the aggregate, are expected to comprise a substantial portion of certain Clients' aggregate capital commitments, which increases both the risk that investments may be subject to review by CFIUS, and the risk that limitations or restrictions will be imposed by CFIUS or other non-U.S. regulators on a Client's investments. In the event that restrictions are imposed on any investment by a Client due to the non-U.S. status of an investor or group of investors or other related CFIUS or national security considerations, the relevant general partner may choose to restrict such investor's or such group of investors' ability to invest in or receive information with respect to any such portfolio investment or cause the investor to withdraw from the relevant Client. However, there can be no assurance that any restrictions implemented on any such investor or any such group of investors will allow a Client to maintain, or proceed with, any investment.

In addition, pursuant to the relevant Fund Agreement, the relevant general partner may have, in its sole and absolute discretion, the right to remove, or place restrictions on participation by, any member of the Client's advisory board if the general partner determines, taking into consideration the advice of counsel to the Client, that (i) such member's position on the Client's advisory board could make the Client a "foreign person" within the meaning of U.S. laws and regulations establishing CFIUS, 31 C.F.R. Part 800, as may be amended from time to time or (ii) if such member's position on the Client's advisory board would make an investment subject to review by CFIUS or any similar national security investment clearance regulator.

**Eurozone Debt Crisis:** A Client's investments and its investment performance might be affected by economic and fiscal conditions in Eurozone countries and developments relating to the euro. The deterioration of the sovereign debt of several Eurozone countries, together with the risk of contagion to other more stable economies, has further exacerbated the global economic crisis. In addition, these developments have raised a number of uncertainties regarding the stability and overall standing of the European Monetary Union. Economic, political or other factors could still result in changes to the composition of the European Monetary Union. The risk that other Eurozone countries could be subject to higher borrowing costs and face further deterioration in their economies, as well as the risk that some countries could withdraw from the Eurozone altogether, could have a negative impact on a Client's investment activities. A return to national currencies in one or more Eurozone countries or, in more extreme circumstances, the possible dissolution of the European Monetary Union cannot be ruled out. The departure or risk of departure from the European Monetary Union by one or more Eurozone countries and/or the abandonment of the euro as a currency could have major negative effects on a Client. If the European Monetary Union is dissolved entirely, the legal and contractual consequences for holders of euro-denominated obligations would be determined by laws in effect at such time.

## **ITEM 9 DISCIPLINARY INFORMATION**

Clearlake and its Co-Founders have not been the subject of any material legal or disciplinary events in the past 10 years that would be material to a Client's evaluation of the company or its personnel.

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

### *Registered Broker-Dealers*

None of Clearlake or its management persons are registered as a broker-dealer or a registered representative of a broker-dealer. In addition, Clearlake and its management persons are not affiliated with any broker-dealer.

### *Relationships with Related Persons*

As discussed below under "Participation or Interest in Client Transactions; Personal Trading," Clearlake and its related persons are, directly or indirectly, the general partner, limited partners and/or managing members/general partners of the general partner or managing member of each of the Clients.

Certain of Clearlake's principals, including the Co-Founders, may serve as officers, advisors, directors or in comparable management functions for portfolio companies or issuers in which the Clients invest, or provide other services to portfolio companies or issuers, and may receive compensation in connection therewith. Any such compensation may constitute "Fee Income" as discussed above under "Fees and Compensation." Such principals may be given access to confidential information relating to companies in which the Clients invest. As a result, the Clients may, under certain circumstances, be prohibited for a period of time from engaging in transactions with respect to the debt or securities of such a portfolio company or issuer, which prohibition may have an adverse effect on the Clients.

As discussed above under "Performance-Based Fees and Side-By-Side Management," from time to time, co-investment vehicles, such as the Co-Investment Funds, may be formed to invest alongside one or more Funds. As discussed below under "Conflicts of Interest" under Item 11 below, the Clearlake professionals may spend a substantial portion of their time with these related activities.

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

### *Code of Ethics*

Clearlake has adopted a Code of Ethics ("Code") under Rule 204A-1 of the Advisers Act expressing Clearlake's commitment to ethical conduct. Under Clearlake's Code, all supervised personnel have a duty to act only in the best interests of the Clients and all potential conflicts and violations of the Code must be promptly reported to Clearlake's Chief Compliance Officer ("CCO"). It is the policy of Clearlake that no person employed by Clearlake will prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment decisions of advisory clients. All supervised personnel must acknowledge the terms of the Code upon the commencement of employment, annually, or as amended.

To supervise compliance with its Code, Clearlake requires that all personnel provide annual securities holdings reports and direct or cause all applicable broker(s) to send a copy of all transaction confirmations and account statements to the firm's CCO. Clearlake requires personnel to also receive approval from the CCO prior to investing by such personnel, or by certain of their family members as set forth in the Code, in any initial public offerings or private placements.

In an effort to prevent inappropriate securities transactions by Clearlake's personnel, Clearlake maintains and makes available a list of restricted securities. Clearlake personnel are strictly prohibited from trading in restricted securities.

Clearlake requires that all individuals act in accordance with all applicable federal and state regulations governing investment advisory practices. Clearlake's Code also includes the policy prohibiting the use of material non-public information. Any individual not in observance of the above may be subject to discipline or termination.

From time to time, Clearlake employees may be offered and utilize discounts or special offers not otherwise available to the public from a Clearlake portfolio company or other business relationship. Any discounts or special offers received that are not generally provided to the employees of the portfolio company must be approved in advance in writing by the CCO.

Clearlake will provide a copy of its Code to any investor or prospective investor upon request.

### *Conflicts of Interest*

Each Client is subject to a number of actual and potential conflicts of interest. Clearlake, the applicable general partner and manager of a particular Client, and their respective affiliates, members, partners, officers or employees (collectively, but excluding the Minority Investors and their affiliates, the "Clearlake Affiliates") will provide investment management advice and services to other entities and clients, including, without limitation, other managed accounts, collective investment vehicles, business development companies and/or affiliated investment

funds (collectively, the “Other Accounts”), which may also follow investment programs substantially similar to that of such Client. Such Other Accounts may pursue, within a specific business or geographic sector, an investment program that invests in financial instruments (including, without limitation, corporate securities, loans and asset-backed investments) of a type acquired by such Client. The applicable manager of a particular Client and/or the Clearlake Affiliates may also provide investment management services to Other Accounts that follow investment programs that differ from such Client, which may participate in specific investments made by such Client. The applicable general partner and/or manager of a particular Client and/or the Clearlake Affiliates may give advice and recommend financial instruments to Other Accounts that may differ from advice given to, or financial instruments recommended or bought for, such Client, even though their investment objectives may be the same or similar. The nature and amount of compensation paid to Clearlake by the Other Accounts or an investor may differ from that paid by other Clients or investors, even those investing in similar investments. While Clearlake allocates fees, costs and expenses among the Clients and Other Accounts according to the expense allocation policies and procedures for such Clients and in such manner as Clearlake considers fair and reasonable, the actual allocations of fees, costs, and expenses may present an actual or potential conflict of interest. Other present and future activities of the applicable general partner and/or manager of a particular Client and/or the Clearlake Affiliates may give rise to additional conflicts of interest. In the event that a conflict of interest arises, the applicable general partner and/or manager of a particular Client will attempt to resolve such conflicts in a fair and equitable manner over time.

While the applicable manager and/or the Clearlake Affiliates will seek to manage potential conflicts of interest in good faith, the portfolio strategies employed by such manager and/or the Clearlake Affiliates in managing their Other Accounts could conflict with the transactions and strategies employed by the applicable manager in managing a Client and may affect the prices and availability of the investments. Conversely, participation in specific investment opportunities may be appropriate, at times, for both a Client and certain of the Other Accounts. Allocation of identified investment opportunities among the Clients and Other Accounts presents inherent conflicts of interest where demand exceeds available supply. Investors should note that the conflicts inherent in making such allocation decisions may not always be resolved to the advantage of the Clients.

While there will be limitations set forth in Clients’ Fund Agreements with respect to Clearlake’s ability to form or sponsor such Other Accounts, the formation and management of such Other Accounts could create a conflict of interest in that the time and effort of the officers and employees of the general partner and the manager of a particular Client and the Clearlake Affiliates will not be devoted exclusively to the business of such Client, but will be allocated between the business of such Client and the management of the Other Accounts. In addition to the above, except as set forth herein and in the Fund Agreements and offering documents of the Clients, Clearlake will be permitted to engage in other investment and business activities. Such activities may raise conflicts of interest for which the resolution may not be currently determinable.

There can be no assurance that Clearlake will identify or resolve all conflicts of interest in a manner that is favorable to the Clients. The following discussion enumerates certain potential conflicts of interest, but is not intended to be an exclusive list of all such conflicts.

**Allocation of Investment Opportunities:** Certain inherent conflicts of interest arise from the fact that Clearlake provides investment management services both to the Clients and Other Accounts, including the allocation of co-investment opportunities among the Clients and such Other Accounts. Any investment opportunity suitable for a Client (or for one or more Clients) that is presented to the applicable general partner and manager and to the Co-Founders generally will be allocated in accordance with Clearlake’s investment allocation policies and procedures subject to any express limits set forth in the applicable Fund Agreements. The Clients may also co-invest in certain opportunities in accordance with Clearlake’s allocation policies and procedures. In this regard, the CCP Funds are expected to co-invest with the Opportunities Funds, from time to time, generally based on available capital and otherwise in accordance with Clearlake’s allocations policy. In this regard, control investments are generally expected to be allocated to the CCP Funds over time, although, for example only, Clearlake may determine to allocate to the Opportunities Funds and the CCP Funds, a control investment opportunity that meets the return criteria for the Opportunities Funds based on such opportunity’s target returns at the time of investment. In addition, it is expected that opportunities in respect of which the ultimate control nature is not readily identifiable prior to the consummation of one or more transactions in respect of such opportunity, will be allocated to both the Opportunities Funds and the CCP Funds. Further, there may be limited instances in which investments identified as control investments at the time of investment by the Opportunities Funds and/or the CCP Funds, develop into non-control opportunities and *vice versa*

and thereafter, future investments in such portfolio companies may be allocated to the Opportunities Funds and the CCP Funds based on the new circumstances. The allocation of opportunities by Clearlake requires it to make subjective judgments regarding application of its allocations policies. Any such judgments and application involves inherent conflicts and risks that assumptions regarding investment opportunities will not ultimately prove correct and accordingly, there can be no assurance that the subjective judgments made by the managers or Clearlake will prove correct in hindsight. Additionally, an investment opportunity that, in the applicable general partner's discretion, is not suitable for a Client and that is presented to the applicable general partner and manager and to the Co-Founders and their related affiliate parties may be allocated to Clearlake Affiliates.

**Allocation of Expenses:** The applicable general partner and/or manager of a Client, Clearlake, the Co-Founders and/or one or more of their respective affiliates may from time to time incur expenses for the account or for the benefit of a Client, other Clearlake-related entities or investment vehicles and one or more existing or subsequent entities established by such general partner and/or manager, Clearlake, the Co-Founders or any of their respective affiliates. Although attempts will be made to allocate such expenses in such a manner as the applicable general partner considers fair and reasonable (subject to the terms of the applicable Fund Agreement), such allocations will be determined by the applicable general partner and/or Clearlake and such matters will not necessarily be brought to the advisory board or limited partners of such Client for discussion or consultation.

**Material, Non-Public Information:** By reason of their responsibilities in connection with portfolio companies or with their other activities, certain employees of the applicable general partner, the managers or their affiliates may acquire confidential or material non-public information or otherwise be restricted from initiating transactions in certain securities. The applicable Client will not be free to act upon any such information. Due to these restrictions, the applicable Client may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

**Investments in Which Different Clients Have a Different Principal Investment:** From time to time, and subject to the applicable Fund Agreements, a Client may make investments in portfolio companies in which other Clients have, are concurrently making or may make in the future a different principal investment (*e.g.*, a mezzanine or senior debt investment) and Other Accounts that have been or may be formed by Clearlake may invest in companies or other entities in which a Client has made an investment. In such situations, a Client and such Other Account may have conflicting interests (*e.g.*, over the terms of their respective investments). If the portfolio company in which a Client has an equity investment and in which an Other Account has, for example, a mezzanine or senior debt investment becomes distressed or defaults on its obligations under the debt or mezzanine investment, Clearlake may have conflicting loyalties between its duties to the Client and to such Other Accounts. In that regard, actions may be taken for the Other Accounts that are adverse to the Client. In addition, conflicts may arise in determining the amount of an investment, if any, to be allocated among the potential investors and the respective terms thereof. There can be no assurance that the return on a Client's investment will be equivalent to or better than the returns obtained by the Other Accounts participating in the transaction. It is possible that in a bankruptcy, insolvency or similar proceeding a Client's interest may be subordinated or otherwise adversely affected by virtue of the involvement and actions of an Other Account relating to its investment. In such circumstances, Clearlake may, to the fullest extent permitted by applicable law, take steps to reduce the potential for conflicts between the interests of each of the applicable Other Accounts, including causing one or more of such Other Accounts to take certain actions that, in the absence of such conflict, it would not take (*e.g.*, an Other Account might remain passive in a situation in which it is entitled to vote, might divest itself of an asset it might otherwise have held on to, might refer any such matter to the advisory board of such Other Account or a third party unaffiliated with the applicable manager or might invest in a particular asset or class of securities that seeks to align its interests with those of Other Accounts). Any such step could have the effect of benefiting Other Accounts or Clearlake at the expense of a Client.

**Cross Transactions:** From time to time, the general partner of a Client may seek to effect a purchase or sale of an investment (a "cross transaction") between the Client and one or more Other Accounts. The Client may, in particular, but without limitation, enter into cross transactions in connection with the acquisition of loans or other debt instruments or participations in such investments from Other Accounts or Clearlake proprietary accounts that were involved in their origination. Subject to the applicable Fund Agreements, to the extent that such transactions may be viewed as "principal transactions" due to the ownership interest in the prospective portfolio company or issuer by the general partner of the Client, its affiliates and their respective personnel, the manager of the Client will either not effect such transaction or comply with the requirements of Section 206(3) of the Advisers Act, including that the

manager of the Client will notify the Client (or a conflicts committee of the Client) in writing of the transaction and obtain the consent of the Client (or a conflicts committee of the Client). Subject to the applicable Fund Agreements, from time to time, Clearlake may, out of its proprietary assets, acquire an asset of a portfolio company of a Client or an asset of an issuer of securities held by a Client on terms negotiated with the management of such portfolio company or issuer. These transactions do not constitute “principal transactions” or cross transactions that are subject to the restrictions applicable to such transactions.

**Minority Investors:** As discussed under Item 4 above, the Minority Investors each holds a passive non-voting minority interest in Clearlake and, accordingly, currently has a significant relationship with the general partners of the Clients, the managers and the Co-Founders, and each such relationship raises certain actual and potential conflicts of interest. Specifically, the Minority Investors may invest in a Client and have a minority economic interest in the general partner and manager of such Client and in such capacity will be entitled to receive a portion of the Carried Interest and a portion of the net income of Clearlake. The existence of this minority economic interest may diminish the alignment of the Minority Investors’ interests as Client investors with the interests of others in a Client. The Minority Investors do not have any authority over the day-to-day operations or investment decisions of Clearlake as they relate to the Funds (as defined below), but they do have certain customary minority protections with respect to their respective ownership interests in Clearlake. The Minority Investors do not have representation on the investment committees of any of the Clearlake strategies.

Additionally, the Minority Investors may have other relationships with other investment vehicles and accounts that may give rise to potential conflicts. For example, the Minority Investors may sponsor, advise, underwrite, manage or invest in investment vehicles and accounts that pursue investment strategies similar to those of a Client. Such activities could adversely affect the Client; for example, the Minority Investors may compete with the Client for investment opportunities, and are under no obligation to share any investment opportunity, idea or strategy with the Client or the Manager. In addition, the Minority Investors (and/or their affiliates) may invest in the same issuers as a Client. The Minority Investors will have no fiduciary or other duties to (i) the Client or other investors in exercising any of its rights as a limited partner of such Client, (ii) the general partner of such Client or (iii) the manager of such Client. While the existence of a conflict of interest will not necessarily have an adverse impact on such Client and the Minority Investors have incentives to see such Client and its manager succeed, the management or resolution of any conflict of interest could have an adverse effect on such Client and its investors.

**Placement Agents:** Clearlake may engage one or more placement agents in the placement of interests for a Client. As such, the placement agents may be compensated for certain capital commitments made to the Client, except in situations where such compensation is expressly prohibited by applicable law, regulation or written and established policy. All fees and expenses due to the placement agents that are paid by the Client may reduce the Management Fees otherwise payable by the investors by an identical amount or will be paid directly by the general partner of the Client or its affiliates. The prospect of receiving, or the receipt of, placement fees may provide the placement agents and/or their salespersons with an incentive to favor sales of interests in the Client, and in funds whose affiliates make similar compensation available, over sales of interests of funds (or other fund investments) with respect to which the placement agents receive either no such additional compensation or lower levels of additional compensation. Such payment arrangements, however, will not change the price that an investor pays for interests in the Client or the amounts that the Client receives to invest on behalf of an investor. At various times, the placement agents may act as placement agents for other fund sponsors and funds, including unaffiliated fund sponsors and funds, which may offer interests that are similar to the interests for a Client. Those unaffiliated sponsors may pay placement fees on terms different from the fees that the placement agents will receive in connection with the offering of interests in a Client, and this difference in fees may influence the placement agents to introduce or not introduce potential investors in respect of such Client. Furthermore, placement agents may seek to do business with and earn fees or other commissions from other investment funds and their portfolio companies and other Clearlake affiliates. Examples of such business may include without limitation, the provision of financing or other investment banking services, lending or arranging credit and provision of prime brokerage. Investors may wish to take such payment arrangements and conflicts of interest into account when considering and evaluating any recommendations by placement agents relating to interests in the Client.

**Service Providers and Other Counterparties:** The service providers, counterparties or their affiliates (including any lenders, brokers, attorneys, consultants, IT structure and service providers and investment banking firms) of a Client, the applicable general partner, the applicable manager or any of their affiliates may be affiliates of or investors



in the Client and/or sources of investment opportunities and co-investors or counterparties therein, or a portfolio company of the Client or a portfolio company of an Other Account. Additionally, certain employees of Clearlake may have family members or relatives employed by such advisors and service providers, or may have an interest in such advisors and service providers. This may influence Clearlake, the applicable general partner, the applicable manager or any of their affiliates in deciding whether to select such a service provider or have other relationships with Clearlake. Notwithstanding the foregoing, investment transactions for a Client that requires the use of a service provider will generally be allocated to service providers on the basis of best execution, the evaluation of which includes, among other considerations, such service provider's provision of certain investment-related services and research that Clearlake, the applicable manager, general partner or any of their affiliates believe to be of benefit to the Client.

Clearlake, the applicable general partner, the applicable manager, a Client and the portfolio companies may engage common service providers from time to time. In such circumstances, there may be a conflict of interest between Clearlake, the applicable general partner or the manager, on the one hand, and the Client and/or portfolio companies, on the other hand, in determining whether to engage such service providers, including the possibility that Clearlake, the applicable general partner or manager will favor the engagement or continued engagement of such persons if it receives a benefit from such service providers, such as lower fees or better terms, that it would not receive absent the engagement of such service provider by the Client and/or the portfolio companies. In certain circumstances, advisors and service providers, or their affiliates, charge different rates or have different arrangements for services provided to Clearlake, the applicable general partner or its affiliates as compared to services provided to the Client and/or the portfolio companies, which result in Clearlake or the applicable general partner or its affiliates receiving a more favorable rates or arrangements with respect to services provided to it by a common service provider than those payable by the Client and/or the portfolio companies, or Clearlake, the applicable general partner or its affiliates receiving a discount on services even though the Client and/or the portfolio companies receive a lesser, or no, discount. No such discounts will result in additional offsets to the Management Fee. For example, Clearlake, its affiliates, the Client, the Other Accounts and/or their portfolio companies may enter into agreements or other arrangements with service providers, vendors and other similar counterparties from time to time whereby such counterparty may charge lower rates and/or provide discounts or rebates for such counterparty's products and/or services depending on certain factors, including without limitation, volume of transactions entered into and potential transactions to be entered into with such counterparty by Clearlake, its affiliates, the Client, the Other Accounts and/or their portfolio companies in the aggregate. Additionally, the Clients, Other Accounts and their respective portfolio companies and/or Clearlake itself will from time to time engage investment banks or other similar financial advisors in connection with specific projects. In most cases, the costs and expenses of these third parties will be borne (directly or indirectly) by the Clients, Other Accounts and their limited partners (and not Clearlake). However, one of the tangible and/or intangible benefits from these relationships includes general referral of investment opportunities, which opportunities may inure to the benefit of Other Accounts and/or Clearlake (and not necessarily the parties bearing the cost of the particular engagement that created, enhanced or supported the underlying relationship that came to produce such opportunities in the first place).

It is possible that Clearlake may occasionally utilize the services of entities that have, directly or indirectly, or whose affiliates have, investments in Clearlake or Clients managed by Clearlake. Clearlake generally exercises its discretion when using or recommending to a Client or a portfolio company thereof that it contract for services with (i) a Clearlake Affiliate (which may include a portfolio company of such Client), (ii) an entity with which Clearlake or its affiliates or current or former members of their personnel has a relationship or from which Clearlake or Clearlake Affiliates or their personnel otherwise derives financial or other benefit, including lenders, law firms or investment banks or (iii) certain investors or their affiliates. For example, Clearlake may be presented with opportunities to receive financing and/or other services in connection with a Client's investments from certain Client investors or their affiliates that are engaged in lending or related business. This discretion subjects Clearlake to conflicts of interest, because although Clearlake selects service providers that it believes are aligned with its operational strategies and will enhance portfolio company performance and, relatedly, returns of the relevant Client, Clearlake may have an incentive to recommend the related or other person (including an investor) because of its financial or other business interest. There is a possibility that Clearlake, 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 Clients or Clearlake), 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 Clearlake 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.

**Time and Attention of the Clearlake Investment Professionals:** The Clearlake investment professionals will devote such time and attention to the conduct of a Client's business as such business will reasonably require. However, there can be no assurance, for example, that such investment professionals will devote any minimum number of hours each week to the affairs of the Client or that they will continue to be employed by Clearlake. In the event that such investment professionals cease to be actively involved with the Client, investors in the Client will be required to rely on the ability of Clearlake to identify and retain other investment professionals to conduct the Client's business.

**Investments by Co-Founders and Clearlake Investment Professionals:** The Co-Founders and other investment professionals of Clearlake invest directly and indirectly in certain of the Clients. As limited partners of certain Clients, the investment professionals of Clearlake invest in every transaction made by such Clients. While investments by related persons and investment professionals of Clearlake are intended to align interests of Clearlake and its related persons with those of the Clients, such investments may create conflicts of interest. To address such conflicts, the investment arrangements are described and agreed upon in the applicable Fund Agreements and offering documents of each Client. Generally, investments and disposals are made on the same economic terms for all Clients, including for Clearlake's related persons, and each investment is made pro rata among the limited partners of each Client and Clearlake's related persons who are indirect limited partners, so that Clearlake's related persons may not receive favorable terms or greater exposure to certain investments. However, as discussed in Item 5 above, Clearlake's related persons will not bear Management Fees, Carried Interest or Incentive Allocation with respect to such investments.

**Diverse Investor Base:** The investors in the Clients may include taxable and tax-exempt entities and may include persons or entities domiciled or organized in various jurisdictions and subject to different tax and regulatory regimes. The various types of investors, including those that are advising on a Client's advisory board, may have conflicting investment, tax and other interests with respect to their investment in the Clients relating to, among other things, the nature of investments made by the Clients, the structuring or the acquisition of investments and the nature and timing of disposition of investments. As a consequence, conflicts of interest may arise in connection with decisions made by the general partner of a Client, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. For example, investors may invest in certain investments indirectly through an entity treated as a corporation for U.S. federal income tax purposes (a "Corporation") rather than through an entity treated as a partnership for U.S. federal income tax purposes. While investing through a Corporation may provide certain tax benefits to certain investors, the investment returns of investors that invest through a Corporation may be less than the investment returns received by other investors. It is also possible that a Client may seek to sell shares of the Corporation in connection with the disposition of an investment, which would likely provide certain benefits to investors participating through the Corporation but may result in total sales proceeds which are lower than such proceeds otherwise would be had the sale not been structured in part as a sale of shares of the Corporation. Nonetheless, in such case the reduced sales price may be borne by all the investors participating in the investment and not just those investors who participated in the investment through the relevant Corporation. In other circumstances, the acquirer may pay less on a per unit basis for the shares of the Corporation as compared to the underlying assets (and in certain cases the quantum of the reduction may not be specified by the applicable purchaser and may be determined by the Client's general partner in good faith). In those instances where the acquirer pays less on a per unit basis for the shares of the Corporation, the relevant general partner may nonetheless be entitled to receive the same amount of Carried Interest it would have received had the shares of the Corporation not been sold. Accordingly, the Client's general partner will have a conflict of interest in circumstances where shares of the Corporation are intended to be sold in determining the quantum of the reduction in sales proceeds attributable due to the sale of shares of the Corporation, as well as whether or not the reduction should be borne solely by the investors participating through the Corporation. In addition, a Client may make investments which may have a negative impact on related investments made by the investors in separate transactions. In selecting, structuring and managing investments appropriate for a Client, the relevant general partner will generally consider the investment and tax objectives of the Client and its partners (and those investors in other investment vehicles managed or advised by Clearlake) as a whole, and not the investment, tax or other objectives of any investor individually. Prospective investors should note that, to the extent members of the Client's advisory board or the investors in the Client vote on any matter regarding conflicts or otherwise participate in matters involving a vote or action thereby, any such investor in the Client may have an interest in other funds or other Clearlake investment vehicles or provide services (including acting as agents or lenders) to the Client, portfolio companies and investments, Clearlake or other Clearlake investment vehicles and, as a result, may not be motivated to vote solely in accordance with its interests related to the Client. Moreover, such investors are unrestricted from voting, and may affirmatively vote, in a manner that is adverse to the interests of other investors and the Client.

**Advisory Board:** An advisory board may be established with respect to a particular Fund, which would consist of voting and non-voting representatives of certain limited partners unaffiliated with Clearlake, who review certain matters involving a potential conflict of interest. The general partner of a particular Client may designate a non-voting member to the advisory board of such Fund to act as non-voting chairman of such advisory board. A conflict of interest may exist when some, but not all, investors are permitted to designate a member to the advisory board. Except where the applicable Fund Agreement specifically requires that a matter be brought to the advisory board, the general partner of a particular Fund will typically have sole discretion to decide whether to present any potential conflict to the advisory board. In the event that the general partner of a Fund consults with the advisory board of such Fund as to certain potential conflicts of interest, it could be disadvantageous to the investors, including those investors who do not designate a member to the advisory committee.

Typically, the advisory board of a particular Fund may form one or more subcommittees, any of which may be delegated the authority to approve any matter otherwise allocated to the full advisory board (including, but not limited to, a conflicts committee) as a majority of its members (excluding observers) consider appropriate. The applicable Fund Agreement will typically provide that to the fullest extent permitted by law, none of the members of the advisory board, nor the limited partners of such Fund and/or investors in any parallel Fund on behalf of whom such members act as representatives, if applicable, shall be liable to any other partner in such Fund or such Fund for any reason (other than fraud or willful misconduct on the part of such member) or owe any duties (fiduciary or otherwise) to any other investor in such Fund in respect of the activities of the advisory board. Furthermore, members of the advisory board of a Fund may have various business and other relationships with Clearlake and its partners, employees and affiliates (and may be investors in, and/or serve on similar committees of other Funds or arrangements, including those engaged in transactions with such Fund). The presence of these other relationships may influence their decisions as members of such committee.

**Certain Other Fees Paid to Clearlake Affiliates:** Clearlake Affiliates may originate debt for the benefit of a Client. In such circumstances, Clearlake Affiliates may receive nominal origination fees, structuring and other fees from various loan recipients in exchange for originating such transactions. Such fees will not constitute Fee Income.

**Effect of Management Fee, Carried Interest and Incentive Allocation:** The Management Fee payable by a Client to its manager and the Carried Interest and Incentive Allocation that a general partner of a Client may receive under the Client's Fund Agreements would not have been established on the basis of an arm's length negotiation and may affect the determinations of the general partner in various ways. For example, the existence of a general partner's Carried Interest or Incentive Allocation may create an incentive for the general partner to (i) make riskier or more speculative investments on behalf of the Client than would be the case in the absence of such performance-based compensation and (ii) dispose of the Client's investments at a time and in a sequence that would generate the most Carried Interest or Incentive Allocation, even though the capital commitment by the general partner to the Client and the "clawback" obligation of the applicable general partner, if any, should tend to reduce these incentives. The Management Fee may incentivize the general partner of a Client to cause such Client to continue to hold an investment longer than it may have in the absence of such Management Fee.

**Management Fee Waiver:** The manager of a Client or Clearlake itself may from time to time elect to waive in advance a portion of the Management Fee revenue that would otherwise be due from the Client. As a result of any such waiver, the capital contributions funded by the investors in the Client that would otherwise have been used to fund the payment of such Management Fees are instead invested into one or more of the Client's investments (such program, the "Management Profits Interest Program"). In connection with the foregoing, the manager of the Client, only in respect of its rights to receive distributions of profits, (the "MPI Entity"), will receive the right to an interest in future distributions of profits, if any, from those investments made or appreciating after such election. This election also allows certain employees of the manager of the Client or Clearlake to waive a portion of their respective share of future income from the MPI Entity and receive, in lieu of a cash distribution, a profits interest in the Client. Upon realization of such an investment, the MPI Entity or its assignees will generally receive an amount equal to its notional capital contributions in such investment and proportionate profits thereon, but only to the extent of available profits. Available profits will be calculated on a fund-wide basis, rather than investor-by-investor, at the time of distribution, as well as at the end of the applicable Client's term. The general partner may elect to defer distributions with respect to its notional capital contributions and recoup such amounts from future distributions (subject to any conditions placed at the time of such deferral). The application of the Management Profits Interest Program may create an incentive for the manager of a Client to make riskier or more speculative investments on behalf of the Client than it

might otherwise make in the absence of such a program. Furthermore, although management profits interest programs are used extensively across the alternative assets industry, the terms and structure of such programs have become subject to enhanced political, governmental and regulatory scrutiny. This may result in additional administrative expenses or costs for the Client.

**Termination Fees:** Transaction and monitoring fees may be established upon the initial consummation of an investment by a Client. The terms of such monitoring fee agreements may provide for a periodic fee which may be fixed or determined based on the performance of the portfolio company and, under certain circumstances (such as an initial public offering or strategic exit), the applicable manager or its affiliates may be entitled to a termination fee with respect to such arrangements. In many cases with respect to the implementation of such arrangements, there is not an independent third-party involved on behalf of the relevant portfolio company. Therefore, a conflict of interest may exist in the determination of any such transaction, monitoring or termination fees and other related terms in the applicable agreement with the portfolio company. Except as set forth in applicable Fund Agreements, the investors in a Client will not receive the benefit of certain fees received by the applicable general partner and its affiliates from portfolio companies in connection with the purchase, monitoring or disposition of investments or in connection with un consummated transactions (e.g., transaction, directors', consulting, management, investment banking, closing, topping, break-up and other similar fees).

**Other Fees:** As described under "Fees and Compensation—Transaction-Based Compensation" above, and as set forth in the Fund Agreements of the Clients, Clearlake may receive certain Fee Income. While the receipt of Fee Income may create a potential conflict of interest for Clearlake, a Co-Founder or any of their respective affiliates to pursue certain investments solely for purposes of receiving such Fee Income, the Management Fee offset described in the relevant Fund Agreement should have the effect of mitigating such potential conflict. If more than one Client has participated or would participate in an un consummated investment generating a Fee Income, then only such portion of such Fee Income that is fairly allocable to the Client based on the nature of the transaction giving rise to such Fee Income will be included in the Management Fee offset applicable to such Client. The Management Fee offset described above shall be reduced by Operating Expenses and the Client's share (pro rata with any Parallel Fund) of broken deal expenses that the applicable general partner or its affiliates had elected to advance instead of calling capital to the extent that such expenses have not already been applied to such Management Fee reduction amount. Thereafter, the amount of Fee Income allocated to a Client (after any reductions pursuant to the foregoing sentence) will be applied to reduce the Management Fee of the Management Fee-bearing investors in the manner described in the relevant Fund Agreement. Fee Income that is not allocated to a Client will not be applied to reduce the Management Fee otherwise payable by the Client and its Management Fee bearing investors. Certain fees may be allocated to co-investors that invest alongside a Fund. Such fees will be allocated to Clearlake but not to such Fund and will not constitute "Fee Income" and therefore will not result in reductions or offsets to the Management Fee.

**Consultants and Senior Advisors:** Clearlake, the Clients and/or their respective portfolio companies or issuers may retain consultants and advisors, including, without limitation, individuals who act as an officer of or in an active management role at any portfolio company or issuer, industry executives, advisors, consultants, operating executives, senior operating advisors, subject matter experts or other persons acting in a similar capacity employed by Clearlake (including, without limitation, operating advisors and other members of Clearlake's Executive Council), in each case, to conduct due diligence, provide industry analysis, and provide ongoing consulting services to the Fund and/or such portfolio companies or issuers. Subject to any Management Fee offset described under "Fees and Compensation—Transaction-Based Compensation" above, the costs and expenses of such dedicated consultants and advisors will be borne by a Client, or its manager, portfolio companies or issuers and will not constitute Fee Income and in such circumstances will not be subject to any Management Fee offset. Such consultants and advisors may also provide services to Clearlake, the Other Accounts and their respective portfolio companies or issuers, in which case the costs and expenses of such services will be allocated in accordance with the services provided, and if more than one such entity benefits from a particular service, the costs and expenses of such service will be allocated among them in an equitable manner. Such compensation may take the form of grants of equity or other incentive compensation arrangements by portfolio companies or issuers. For administrative convenience, Clearlake may retain such consultants and advisors for the benefit of a Client, the Other Accounts and/or their respective portfolio companies or issuers and obtain reimbursement from such Client, the Other Accounts and/or their respective portfolio companies or issuers, as applicable. The consultants and advisors engaged by the Clients and/or their respective portfolio companies or issuers should be expected to change from time to time.

**Portfolio Company Relationships:** A Client's portfolio companies may be counterparties or participants in agreements, transactions, or other arrangements with other portfolio companies of such Client, Other Accounts or other Clearlake affiliates that, although Clearlake determines to be consistent with the requirements of such Clients' Fund Agreements, may not have otherwise been entered into but for the affiliation with Clearlake, and which may involve fees and/or servicing payments to Clearlake or its affiliates that are not subject to the Management Fee offset provisions described herein. For example, Clearlake may in the future cause portfolio companies to enter into agreements regarding group procurement, benefits management, data management and/or mining, technology development, purchase of title and/or other insurance policies (which may be pooled across portfolio companies and discounted due to scale) and other similar operational initiatives that may result in fees, commissions or similar payments and/or discounts being paid to the applicable manager or its affiliates, or a portfolio company, including related to a portion of the savings achieved by the portfolio company. Moreover, Clearlake, the applicable manager and their affiliates are often eligible to receive favorable terms for procurement due in part to the involvement of a Client's portfolio companies in such arrangements, and any discounted amounts will not be subject to the Management Fee offsets or otherwise shared with the relevant Clients. In addition, portfolio companies of Other Accounts may do business with, support, or have other relationships with competitors of a Client's portfolio companies, and in that regard investors should not assume that a company related to or otherwise affiliated with Clearlake will only take actions that are beneficial to or not opposed to the interests of such Client and its portfolio companies.

Moreover, in connection with seeking financing or refinancing of portfolio companies and their assets, it may be the case that better financing terms are available when more than one portfolio company provides collateral, particularly in circumstances where the assets of each portfolio company are similar in nature. As such, rather than seeking such financing or refinancing on its own, a portfolio company of a Client may enter into cross collateralization arrangements with another portfolio company of such Client or portfolio companies of one or more Other Accounts (other than with any of the Opportunities Funds). While Clearlake would expect any such financing arrangements to generally be non-recourse to the Client and Other Accounts, as a result of any cross-collateralization, the Client could also lose its interests in otherwise performing investments due to poorly performing or non-performing investments of Other Accounts.

It is also possible that a counterparty, lender or other unaffiliated participant in a transaction or relationship with respect to a particular portfolio company requires or desires facing a group of portfolio companies, which may result in (i) any portfolio company of a Client or a portfolio company of an Other Account being solely liable with respect to its own and such third party for such other Client's portfolio company's share of the applicable obligation and therefore, being required to contribute amounts in excess of its pro rata share, including additional capital to make up for any shortfall if such vehicles are unable to repay their pro rata share of such indebtedness and/or (ii) any of the Client's portfolio companies and such Other Account's portfolio companies being jointly and severally liable for the full amount of such applicable obligation or liable on a cross-collateralized basis on an investment-by-investment or portfolio wide basis, in each case which may result in the Client's portfolio companies and such Other Account's portfolio company entering into a back-to-back or other similar reimbursement agreement.

**Clearlake Personnel as Directors of Portfolio Companies or Issuers:** Conflicts of interest may arise because Clearlake personnel may serve as directors of certain of a Client's portfolio companies or issuers or other legal entities in which the Client has invested. In instances where the Client is not the sole shareholder of the applicable portfolio company or issuer or other legal entity, in addition to any fiduciary duties that such Clearlake personnel owe to the Client, as directors of portfolio companies or issuers or other legal entities, such Clearlake personnel may owe fiduciary duties to the shareholders of the portfolio companies or issuers or other legal entities and to persons other than the Client. In addition, such Clearlake personnel may serve as directors of, and owe fiduciary duties to the shareholders of, more than one portfolio company or issuer or other legal entity in the same industry. In general, such director positions are often important to the Client's investment strategy and may have the effect of enhancing the ability of Clearlake personnel to manage investments. However, such positions may place Clearlake personnel in a position where they must make a decision that is either not in the best interests of the Fund or not in the best interests of the shareholders of a portfolio company or issuer or other legal entity. Should Clearlake personnel make a decision that is not in the best interest of the shareholders of a portfolio company or issuer, such decision may subject the general partner and the manager of the applicable Client, the Clearlake Affiliates and/or the applicable Client to claims that they would not otherwise be subject to as an investor, including claims of breach of the duty of loyalty, securities claims and other director-related claims. In addition, because of the potential conflicting fiduciary duties, the manager

of a Client may be restricted in choosing investments for the Client, which could negatively impact returns received by the Client.

**Representing Creditors and Debtors:** The general partner and the manager of a Client and their affiliates may represent creditors or debtors in proceedings under relevant bankruptcy or insolvency codes or prior to such filings. From time to time, the manager and its affiliates may serve as advisor to creditor or equity committees. This involvement, for which the manager and their affiliates may be compensated, may limit or preclude the flexibility that the Client may otherwise have to participate in restructurings, or the Client may be required to liquidate any existing positions of the applicable issuer.

**Investments Alongside Other Clearlake Funds:** As described above, a Client may also co-invest with Other Accounts (including co-investment or other vehicles in which Clearlake or its personnel invest and that co-invest with Other Accounts) in investments that are suitable for both such Client and Other Accounts. Even if the Client, such Other Account and/or co-investment or other vehicles invest in the same securities, conflicts of interest may still arise. For example, it is possible that as a result of legal, tax, regulatory, accounting or other considerations, the terms of such investment (including with respect to price and timing) for the Client and/or such Other Account may not be the same. Additionally, the Client and/or such Other Account may have different expected termination dates and/or investment objectives (including target return profiles) and Clearlake, as a result, may have conflicting goals with respect to the price and timing of disposition opportunities. Moreover, while Clearlake will generally seek to use reasonable efforts to avoid cross-guarantees and other similar arrangements, it is possible that a counterparty, lender or other unaffiliated participant in such transaction requires or desires facing only one fund entity or group of entities, which may result in (i) any of the Client and/or such Other Account (including co-investment vehicles formed for third party investors and/or Clearlake personnel) being solely liable with respect to its own and such third party for such other funds' or vehicles' share of the applicable obligation and/or (ii) any of the Client and/or such Other Account and/or vehicles being jointly and severally liable for the full amount of such applicable obligation, in each case which may result in the Client and/or such Other Account entering into a back-to-back or other similar reimbursement agreement. In such situations it is not expected that any of the Client and/or such Other Account would be compensated (or provide compensation to the other) for being primarily liable vis-à-vis such third-party counterparty. Furthermore, as a result of the incurrence of indebtedness on a joint and several or cross-collateralized basis, the Client may be required to contribute amounts in excess of its pro rata share, including additional capital to make up for any shortfall if such vehicles are unable to repay their pro rata share of such indebtedness.

To the extent a Client holds or acquires securities or instruments that are different (including with respect to their relative seniority) than those held or acquired by such Other Accounts, Clearlake and its affiliates may be presented with decisions when the interests of the two funds are in conflict. In that regard, actions may be taken for the Other Accounts that are adverse to the Client. In addition, it is possible that in a bankruptcy proceeding a Client's interest may be subordinated or otherwise adversely affected by virtue of such Other Accounts' involvement and actions relating to its investment.

**Transactions with Potential and Actual Investors and Co-Investors:** Prospective investors should note that Clearlake and its affiliates from time to time engage in transactions with prospective and actual investors and co-investors that entail business benefits to such investors. Such transactions may be entered into prior to, or coincident with, an investor's admission to a Client (or commitment to co-invest) or during the term of their investment. The nature of such transactions can be diverse and may include benefits relating to the Client, Other Accounts and their respective portfolio companies. Examples include the ability to co-invest alongside the Client and Other Accounts, investments in Other Accounts, sales of companies to investors and recommendations to underwriters for allocations in initial public offerings or loans to co-investors (or joint venture partners) by Clearlake or Other Accounts.

**Personnel:** Clearlake may hire short-term or long-term personnel (or interns or consultants) who are relatives of or are otherwise associated with an investor, portfolio company or a service provider. Although reasonable efforts are made to mitigate any potential conflicts of interest with respect to each particular situation, there is no guarantee that Clearlake can control for all such potential conflicts of interest, and there may continue to be an ongoing appearance of a conflict of interest. For example, certain employees and other professionals of Clearlake have family members or relatives that are actively involved in the private equity industry and/or have business, personal, financial or other

relationships with companies in the private equity industry (including the investment banks, advisors and service providers described above), which gives rise to potential or actual conflicts of interest. For example, such persons might be employees, officers, directors or owners of companies or assets which are actual or potential investments of a Client or other counterparties of the Client and its portfolio companies and/or assets. Moreover, in certain instances, the Client or its portfolio companies may purchase or sell companies or assets from or to, or otherwise transact with, companies that are owned by such family members or relatives or in respect of which such family members or relatives have other involvement. In most such circumstances, the applicable Fund Agreement will not preclude the Client from undertaking any particular investment activity and/or transaction. To the extent Clearlake determines appropriate, conflict mitigation strategies may be put in place with respect to a particular circumstance, such as internal information barriers or recusal, disclosure or other steps determined appropriate by the applicable general partner.

**Valuation Matters:** The fair value of all investments or of property received in exchange for any investments will be determined by Clearlake in accordance with Clearlake's valuation policies and procedures pursuant to the applicable Fund Agreement. Accordingly, the carrying value of an investment may not reflect the price at which the investment could be sold in the market, and the difference between carrying value and the ultimate sales price could be material. The valuation of investments will affect the amount and timing of the applicable general partner's carried interest and, under certain circumstances, the amount of Management Fees payable to the applicable manager. Valuations are subject to determinations, judgments and opinions and other third parties or investors may disagree with such valuations. The valuation of investments may also affect the ability of Clearlake to raise a successor fund to the Client. As a result, there may be circumstances where Clearlake is incentivized to determine valuations that may be higher than the actual fair value of investments.

**Insurance:** Clearlake will cause a Client to purchase, and/or bear premiums, fees, costs and expenses (including any expenses or fees of insurance brokers) for, insurance to insure the Client, the applicable general partner, the applicable manager, Clearlake and/or their respective directors, officers, employees, agents, representatives, members of the Advisory Board and other indemnified parties, against liability in connection with the activities of the Client. This includes a portion of any premiums, fees, costs and expenses for one or more "umbrella" or other insurance policies maintained by Clearlake that cover the Client, Other Accounts, the applicable general partner, the applicable manager and/or Clearlake (including their respective directors, officers, employees, agents, representatives, members of the Advisory Board and other indemnified parties). Clearlake will make judgments about the allocation of premiums, fees, costs and expenses for such "umbrella" or other insurance policies among the Client, Other Accounts, the applicable general partner, the applicable manager and/or Clearlake on a fair and reasonable basis, in its sole discretion, and may make corrective allocations should it determine subsequently that such corrections are necessary or advisable. There can be no assurance that a different allocation would not result in the Client bearing less (or more) premiums, fees, costs and expenses for insurance policies.

**Participation in Co-Investments:** Prospective investors should note that while Clearlake may offer co-investment opportunities in its sole discretion, it is not expected to offer co-investment with respect to all investments made by a Client. Moreover, transaction-specific returns, and an investor's overall returns from its exposure to the Client's investments, may be affected significantly by the extent to which investors are offered and choose to participate in co-investment opportunities. Clearlake may present co-investment opportunities to certain investors and other third-party potential co-investors at any time and with respect to any particular co-investment opportunity, at different times. Thus, one or more investors and/or other third-party potential co-investors may have a longer period of time to evaluate a co-investment opportunity relative to other potential co-investors being offered the same opportunity. In addition, Clearlake officers, employees, advisors, operating executives, and affiliates may co-invest with a Client.

There may be circumstances where an amount that would have otherwise been invested by a Client is instead offered to co-investors (e.g., due to a determination by Clearlake's investment committee that allocating such portion to co-investors is in the Client's best interests, for instance in order to increase diversification), which may include, without limitation Clearlake-related funds, accounts or vehicles, Clearlake officers, employees, advisors, operating executives and affiliates or third-parties and there is no guarantee for any investor that it will be offered any co-investment opportunities. As a general matter, in determining the allocation of discretionary co-investment opportunities, Clearlake generally expects to take into account various facts and circumstances it deems relevant. Such factors are likely to include, among others, whether a potential co-investor has expressed an interest in evaluating co-investment opportunities, whether a potential co-investor has a history of participating in co-investment opportunities with Clearlake, the size of the potential co-investor's interest to be held in the underlying portfolio company as a result of

the Client's investment (which is likely to be based on the size of the potential co-investor's capital commitment and/or investment in the Client), the timing of the investor's commitment to the Client, the existence of accounts or vehicles formed to co-invest in investments across all or a portion of the Clearlake platform (whether or not formed in connection with the admission of an investor to the Client), whether the potential co-investor has demonstrated a long-term and/or continuing commitment to the potential success of Clearlake, the Client, or other funds or co-investments, the overall size of a co-investor's commitments to Clients, vehicles and accounts, the expected amount of negotiations required in connection with such co-investor's commitment and such other factors that Clearlake deems relevant under the circumstances. A portion of such co-investment opportunities may also be offered to consortiums of private equity investors. Prospective investors should also note that, except as may be otherwise agreed in advance with an investor, investors are not required to participate in co-investments offered by the applicable general partner. The allocation of co-investment opportunities will in many or all cases involve a benefit to Clearlake including, without limitation, fees or carried interest from the co-investment opportunity, capital commitments to the Client and capital commitments to other Clients. There can be no assurances with respect to the amount of any investment opportunity that will be allocated to the Client. In addition, co-investors generally will not share in broken deal expenses (all of which may be borne by the Client, even if a portion of such investment would have been or was offered for co-investment).

**Holding Period Requirements for Long-Term Capital Gain:** Non-corporate U.S. persons (including the owners of the general partners of the Clients) are subject to U.S. federal income tax on long-term capital gain at rates that are substantially lower than the rates applicable to ordinary income or short-term capital gain. In general, gain from the disposition of an investment of a Client held for more than one year will be treated as long-term capital gain. Under new U.S. federal tax legislation enacted into law on December 22, 2017, however, gain in respect of the Carried Interest and/or Incentive Allocation to which the general partners of the Clients are entitled will be treated as short-term capital gain unless the applicable Client's holding period in the relevant investment is for more than three years. As a consequence, conflicts of interest will arise in connection with the decisions by the general partner of a Client regarding the timing of the acquisition or disposition of such Client's investments and/or how to monetize such Client's investments.

**Additional Potential Conflicts:** Clearlake officers, directors, members, managers and employees of may trade in securities for their own accounts, subject to restrictions and reporting requirements as may be required by law or otherwise determined from time to time Clearlake, as applicable. For the avoidance of doubt, a Client may sell investments to any third party, including investors in the Client, other investment vehicles managed or sponsored by Clearlake and investors in any such vehicles.

## ITEM 12 BROKERAGE PRACTICES

Subject to the investment objectives, policies and restrictions of each Client, as set forth in the applicable Fund Agreements and offering documents, Clearlake will generally have discretionary authority to select the broker or dealer to be used to execute transactions on behalf of the Clients and negotiate the commission cost to be paid.

Clearlake has discretion in deciding which brokers and dealers each Client will use and in negotiating the rates of compensation each Client will pay, and investors are not permitted to direct Clearlake to use a particular broker or dealer to execute portfolio transactions on behalf of a Client.

### *Selection of Broker-Dealers*

Clearlake's objective in selecting brokers and dealers and in effecting portfolio transactions is to seek to obtain the best combination of price and execution on transactions effected for Clients. The best net price, giving effect to brokerage commissions, spreads and other costs, is normally an important factor in this decision, but a number of other judgmental factors will be considered as they are deemed relevant. These factors include, but are not limited to, Clearlake's knowledge of negotiated commission rates and spreads currently available; the nature of the security or instrument being traded; the size and type of the transaction; the nature and character of the markets for the security or instrument to be purchased or sold; the desired timing of the trade; the activity existing and expected in the market for the particular security or instrument; confidentiality; the execution, clearance, and settlement capabilities as well



as the reputation and perceived soundness of the broker or dealer selected and other brokers or dealers considered; Clearlake's knowledge of actual or apparent operational problems of any broker or dealer; the broker's or dealer's execution services rendered on a continuing basis and in other transactions; the reasonableness of spreads or commissions; and the research services and products furnished by the broker or dealer, if any.

In seeking to obtain best execution, Clearlake generally will not seek in advance competitive bidding for the most favorable commission rate or spread applicable to any particular portfolio transaction or to select any broker or dealer on the basis of its purported or "posted" commission rate. Clearlake will endeavor to be aware of the current level of the charges of eligible brokers or dealers and to minimize the expense incurred for effecting portfolio transactions to the extent consistent with the interests and policies of its accounts. Although Clearlake generally seeks competitive commission rates and dealer spreads, it will not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker or dealer involved and would thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

#### *Research and Soft Dollar Arrangements*

Clearlake does not generally have any soft dollar arrangements with any brokers whereby Clearlake can direct a broker to pay for external research services from a soft dollar account, however, subject to the following sentences, it is possible that a broker will (or will seek to) provide soft dollar benefits to Clearlake. No member, officer, director (or other person occupying a similar status or performing similar functions) or employee of Clearlake, or any other person who provides investment advice on behalf of Clearlake and is subject to the supervision and control of Clearlake, may agree with a broker to engage in soft dollar transactions without the express permission of the CCO. If and to the extent that Clearlake has any soft dollar arrangements, any such arrangement will be in compliance with Section 28(e) of the Exchange Act.

#### *Trade Aggregation*

Clearlake has established allocation and aggregation procedures for the allocation of portfolio investment transactions among the Clients. To the extent possible, Clearlake will generally place a combined order for two or more Clients it manages engaged in the sale of the same security if, in its good faith determination, joint execution would be consistent with its duty to seek best execution and otherwise in the best interest of the Clients.

## **ITEM 13 REVIEW OF ACCOUNTS**

#### *Review of Client Accounts*

Clearlake continuously monitors portfolio investments on behalf of the Clients. Investments are reviewed in the context of each Client's stated investment objectives and guidelines as set forth in the applicable Fund Agreements and offering documents. Members of Clearlake's investment team meet regularly to determine and review overall investment objectives, risk tolerance and other information relevant to the Clients.

#### *Reports to Clients*

The general partners of each Client generally distribute quarterly and annual written reports to the Client's respective limited partners in accordance with the applicable Fund Agreements, and any letter agreements executed with investors in the Clients. Annual reports generally contain an individual capital account statement as of the end of such fiscal year and the audited financial statements of the Client. The quarterly reports generally contain unaudited financial statements of the Client for the fiscal quarter.

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

### *Third-Party Compensation for Client Referrals*

Clearlake and related persons of Clearlake has entered into cash compensation arrangements with unaffiliated placement agents or third parties for introducing investors to a Client. Any fee associated therewith will ultimately be borne by Clearlake and/or its related persons, either directly or through an offset of the Management Fee otherwise payable by the relevant Client to Clearlake.

## **ITEM 15 CUSTODY**

Clearlake will not have physical custody of any client assets (other than certain privately offered securities to the extent permitted by the Advisers Act). Nevertheless, Clearlake will generally be deemed to have custody of the assets of the Clients as a result of its position as an affiliate of the general partner or manager of each Client.

It is Clearlake's policy to cause each Client with assets over which Clearlake is deemed to have "custody" to either:

- (i) be audited annually and distribute audited financial statements, prepared in accordance with GAAP to investors no later than 120 days after the end of each fiscal year. In addition, upon the final liquidation of any such Fund, Clearlake will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such Fund to all investors promptly after completion of the audit; or
- (ii) have such Client's assets held by a qualified custodian that will directly distribute quarterly account statements to investors and engage an independent public accountant to conduct an annual surprise audit with respect to such assets.

## **ITEM 16 INVESTMENT DISCRETION**

Subject to the investment objectives, policies and restrictions of each Client as set forth in the applicable Fund Agreements and offering documents, Clearlake has discretionary authority designated to it pursuant to the Fund Agreements to determine the type, amount and price of securities and investments to be bought and sold on behalf of each Client, including the selection of, and commissions paid to, broker-dealers. Clearlake's investment decisions and advice with respect to the Clients are subject to each Client's Fund Agreements, and any letter agreements executed with investors in the Clients.

## **ITEM 17 VOTING CLIENT SECURITIES**

Because Clearlake has, or will accept, authority to vote securities held by a Client, it has adopted policies and procedures (the "Proxy Voting Policies and Procedures") that have been designed to ensure that Clearlake complies with the requirements of Rule 206(4)-6 of the Advisers Act.

When exercising its voting authority over Client securities, Clearlake considers relevant information, evaluates other issues that could have an impact on the value of the security and votes with a view toward maximizing overall value. Clearlake seeks to vote all proxies in a prudent manner, considering the prevailing circumstances at such time and in a manner consistent with the Proxy Voting Policies and Procedures and the best interests of the Clients.

Clearlake reviews each proposal submitted for a vote on a case-by-case basis to determine whether it is in the best interest of the applicable Client. As a result, depending on the Client's particular circumstances, Clearlake may vote one Client's securities differently than it votes those of another Client, or may vote differently on various

proposals, even though the securities or proposals are similar (or identical). In some instances, Clearlake may determine that it is in the Client's best interest for Clearlake to "abstain" from voting or not to vote at all, and will do so accordingly.

Prior to exercising its voting authority, Clearlake, in consultation with the Co-Founders, the CCO and outside legal counsel, where necessary, reviews the relevant facts and circumstances in accordance with the Advisers Act and determines whether or not a material conflict of interest may arise due to business, personal or family relationships of Clearlake, its Co-Founders, its employees and with persons having an interest in the outcome of the vote. When a proxy raises material conflicts of interests, the Co-Founders, in consultation with the CCO, will determine the manner in which such proxy should be voted to achieve the best interests of the particular Clients. Clearlake may, at its discretion, (A) disclose the conflict of interest to the applicable Client's advisory board or investors, as the case may be, in voting such security, and seek the advice of the applicable Client's advisory board, or investors, as the case may be, in voting such security and possibly defer to such voting recommendation; (B) consult with an outside service provider for a recommended course of action to be presented to Clearlake for its approval; and/or (C) take such other action in good faith (in consultation with Clearlake's outside legal counsel) which would serve the best interests of such Client. The Co-Founders, with the assistance of the CCO, will be responsible for making the final decision in voting all proxies.

As is typical in private equity investing, Clearlake generally approves one or more of its employees to act as representatives on the board of directors of portfolio companies or issuers on behalf of the Clients. As noted herein, a number of Clearlake's investment professionals serve as board members of the Clients' public and private portfolio companies or issuers in such representative capacity. Clearlake does not consider service on portfolio company boards by Clearlake personnel or Clearlake'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 or issuers. In situations where Clearlake votes the proxy for a company in which an employee or employees of Clearlake serve on the board of directors, Clearlake will seek to vote the proxy in a manner consistent with its Proxy Voting Policies and Procedures.

Clearlake will deliver to each investor of a Client, upon written request, a complete copy of its Proxy Voting Policies and Procedures and/or information on how it voted proxies for the applicable Client.

## **ITEM 18 FINANCIAL INFORMATION**

Clearlake is not aware of any financial condition that is expected to impair its ability to manage Client assets, and has not been the subject of a bankruptcy proceeding.