

**ITEM 1 – COVER PAGE**

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**March 29, 2019**

**This brochure provides information about the qualifications and business practices of Castle Creek Advisors IV LLC. If you have any questions about the contents of this brochure, please contact us at 858-756-8300. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Castle Creek Advisors IV LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Castle Creek Advisors IV LLC is a registered investment adviser. This registration does not imply any level of skill or training.**

## **ITEM 2 – MATERIAL CHANGES**

This brochure is intended to provide potential and existing clients with an overview of the Company (as defined below). It also contains important disclosures such as certain practices of the firm, potential material conflicts that may arise, and key potential investment risks.

The Company last filed its annual amendment to its brochure with the Securities and Exchange Commission (the “SEC”) on March 29, 2018 (the “Prior Brochure”).

This brochure contains routine annual updates to the Prior Brochure, including an update regarding conflicts of interest.

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#### **ITEM 4 – ADVISORY BUSINESS**

**A. Describe your advisory firm, including how long it has been in business. Identify your principal owner(s).**

Castle Creek Advisors IV LLC and Castle Creek Special Situations Advisors LLC (collectively, the “Company” or the “Firm”) are Delaware limited liability companies formed in November 2008 and May 2014, respectively. The significant voting owner(s) of the Company are JME Advisory Corp. and Pietrzak Advisory Corp., each a Delaware Corporation owned respectively by John M. Eggemeyer III and John T. Pietrzak (each a “Principal”). The Company, the Company’s predecessor advisory company, the General Partners (as defined below) and the four current Castle Creek Funds (as defined below) (known aggregately as “Castle Creek”) were founded by Mr. Eggemeyer.<sup>1</sup> Currently, Mr. Eggemeyer, in combination with the other significant voting owners of the Company, serve as Principals and are collectively responsible for running the Company. The Company provides investment advisory services to (i) private equity funds sponsored by the Company or its affiliates (a “Castle Creek Fund” or “Fund”), whose respective general partners (“General Partners”) are affiliates of the Company, and (ii) discretionary and non-discretionary managed accounts (the “Managed Accounts”).

Beginning in 1990, Castle Creek’s Principals helped forge the way for private equity investing in the banking industry, and today, the Firm remains a prominent and active investor in the community banking sector. The team’s strategy remains true to its original roots, effectuating change through board participation, hands-on strategic and operational input, and in most cases, acting in the “lead investor” role of equity syndications that have coalesced around Castle Creek. Together the Principals have over 100 years of experience working in the banking industry as well as extensive industry experience in raising capital, managing risk, cutting costs and enhancing profitability. As part of Castle Creek, the Principals have initiated and led over \$1 billion of equity investments in over 100 community banks. In the non-hostile environment in which each of Castle Creek’s investments are made, the Firm believes that it is an attractive partner for both community bank management teams and boards of directors, given the cumulative banking experience and financial leadership demonstrated by the Principals.

**B. Describe the types of advisory services the firm offers. If the firm holds itself out as specializing in a particular type of advisory service, explain the nature of that service in detail. If the firm provides investment advice only with respect to limited types of investments, explain the type of investment advice firm offers and disclose that the advice is limited to those types of investments.**

Castle Creek Funds are structured as limited partnerships, with a specific General Partner formed for each respective Castle Creek Fund, and both the Castle Creek Fund and its General Partner are deemed affiliates of the Company. In addition, the Company provides investment advisory services to Managed Accounts. The investors and other persons who invest in a Castle Creek Fund are generally referred to herein as “investors”, and the beneficial owner of a Managed Account is generally referred to herein as an “owner.” Unless otherwise expressly stated herein, the terms “Castle Creek Fund” and “Managed Account” do not include “investors” or “owners”, respectively.

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<sup>1</sup> Note: For Castle Creek Advisors IV LLC, its predecessor advisory company and the general partners of the Castle Creek Funds advised by such entities, William J. Ruh was a co-founder.

The Castle Creek Funds and the Managed Accounts invest in the banking and financial services industry. On each Castle Creek Fund's and Managed Account's behalf, the Company will (1) originate, recommend, structure, and identify sources of capital for investment, (2) monitor, evaluate, and make investment recommendations regarding the timing and manner of disposition of portfolio investments, and (3) provide such other services as required in support of such Fund or such Managed Account.

Investment opportunities in the Castle Creek Funds are privately offered only to persons who are both (1) "accredited investors" as defined in and pursuant to exemptions available under the Securities Act of 1933, as amended (the "Securities Act"), and the regulations promulgated thereunder and (2) "qualified purchasers" as defined in and pursuant to exemptions available under the Investment Company Act of 1940, as amended ("1940 Act"), and the regulations promulgated thereunder. Such Castle Creek Funds, including any parallel funds and alternate investment vehicles thereof, are not registered with the SEC as investment companies based on specific exclusions from the 1940 Act. Managed Account services are privately offered only to "qualified clients" as defined in the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Typically, interests in Castle Creek Funds and Managed Account services are offered to institutional investors and high net worth individuals. Other qualified individuals who may not be employees of Castle Creek, but who have pre-existing business relationships with Castle Creek or industry experience in the banking sector in which a particular Fund or Managed Account may be investing, also may invest or participate in or alongside the Funds and/or Managed Accounts. Some of these outside investors and industry experts are current and/or former executives of portfolio companies in which a Fund or a Managed Account may invest.

**C. Explain whether (and, if so, how) the firm tailors advisory services to the individual needs of clients. Explain whether clients may impose restrictions on investing in certain securities or types of securities.**

The Company must tailor its advisory services to the limitations imposed by the organizational documents of the applicable Castle Creek Fund and the investment advisory agreement of the applicable Managed Account. In addition, certain Castle Creek Funds (x) are subject to investment restrictions provided for in such Fund's organizational documents, (y) have a limited partner advisory committee that is composed of certain of such Fund's investors and that may have purview over certain investments made by such Fund and/or (z) are subject to letter agreements entered into between such Fund and certain clients of such Fund.

**D. If the firm participates in wrap fee programs by providing portfolio management services, (1) describe the differences, if any, between how the firm manages wrap fee accounts and how it manages other accounts, and (2) explain that the firm receives a portion of the wrap fee for its services.**

The Company does not provide portfolio management services to wrap fee programs.

**E. If the firm manages client assets, disclose the amount of client assets it manages on a discretionary basis and the amount of client assets on a non-discretionary basis. Disclose the date “as of” which it calculated the amounts.**

As of December 31, 2018, the Company managed approximately \$716,306,000 in client assets over which it or an affiliate of the Company has full investment discretion (subject to the investment guidelines for the applicable Castle Creek Funds), and \$0 in client assets on a non-discretionary basis.

## **ITEM 5 – FEES AND COMPENSATION**

**A. & B. Describe how the firm is compensated for its advisory services. Provide the fee schedule. Disclose whether the fees are negotiable. Describe whether the firm deducts fees from clients' assets or bills client for fees incurred. Explain how often firm bills clients or deducts its fee.**

The Company and/or its affiliates receive management fees and/or carried interest or similar performance fees from the Castle Creek Funds and the Managed Accounts. Castle Creek Funds may also indirectly incur or generate other fees payable to the Company and its affiliates, depending on the nature of their portfolio activities. The Company or its affiliates may, for example, earn fees and other compensation from prospective and actual portfolio companies, purchasers, sellers and other parties as compensation for services (collectively, "Other Fees"). These Other Fees can include structuring, break-up, directors', organizational, closing, advisory, and similar fees in connection with the purchase, monitoring, or disposition of underlying investments or from unconsummated transactions. The organizational documents of the relevant Castle Creek Fund (or the investment advisory agreement between the Company and such Castle Creek Fund) or the investment advisory agreement between the Company and the relevant Managed Account sets forth the fee structure relevant to such Castle Creek Fund or such Managed Account. In the case of Castle Creek Funds, to the extent provided in the applicable organizational documents or investment advisory agreements for such Funds, the Company's management fees in many cases are reduced by 100% of the Other Fees that are borne by such Fund.

For most Castle Creek Funds, the annual management fee typically ranges from one-half percent to two percent of third-party investors' committed capital during the relevant Castle Creek Fund's investment period, and afterward, the fee percentage is typically applied only to the amount of third-party capital remaining in investments that have not yet been exited. In some situations, a Castle Creek Fund pays management fees based on the cost basis of the investments held by such Castle Creek Fund during and after the investment period. For most Managed Accounts, the annual management fee typically ranges from one-half percent to one percent of the cost basis of the investments held by such Managed Account.

For Castle Creek Funds, management fees are generally paid by or on behalf of each such Fund by (i) requiring investors in such Fund to make capital contributions in respect of such fees, or (ii) withholding the amount of such fees from investment proceeds that would otherwise be distributable to the investors of such Fund. In addition, the Company often has the ability to cause a Fund to borrow money for the payment of such fees. For Managed Accounts, management fees are generally invoiced to the applicable Managed Account's owner quarterly.

Management fees are negotiable and, depending on the Castle Creek Fund or the Managed Account, may be paid in advance or in arrears. If management fees with respect to a Castle Creek Fund or a Managed Account are assessed in advance, they are generally required to be returned to the investors in such Castle Creek Fund or owner of such Managed Account should Castle Creek's management services to such Castle Creek Fund or such Managed Account be terminated prior to the end of the period in respect of which the fees have been paid (including, for example, situations where the final distribution from a Castle Creek Fund or the termination of an investment advisory agreement with a Managed Account occurs prior to the end of a period for which management fees have already been paid). In general, the amount of such fees to be returned is calculated based on the number days remaining in the applicable period.

Management fees payable by Castle Creek Funds and Managed Accounts generally are paid on a quarterly basis.

**C. Describe any other types of fees or expenses clients may pay in connection with firm's advisory services, such as custodian fees or mutual fund expenses. Disclose that clients will incur brokerage and other transaction costs, and direct clients to the section(s) of your brochure that discuss brokerage.**

#### BROKERAGE EXPENSES

Expenses paid to third parties in connection with the acquisition or disposition of investments are borne by the investors in the Castle Creek Funds or owners of the Managed Accounts. These expenses include brokerage commissions (direct or in the form of a spread), account fees, custodial expenses, other bank service fees and other investment costs, fees, and expenses incurred in connection with completed investments. These fees and expenses are also discussed in more detail in Item 12 – “Brokerage Practices”.

#### ORGANIZATIONAL/OFFERING EXPENSES

Typically, legal, accounting, filing, travel, capital raising, and other expenses incurred in connection with organizing and establishing a Castle Creek Fund or a Managed Account are borne by the investors in such Castle Creek Fund or owner of such Managed Account. For Castle Creek Funds, such expenses often are capped in the organizational documents for such Castle Creek Funds.

#### OTHER FUND EXPENSES

Investors in a Castle Creek Fund and owners of a Managed Account generally are required to pay all costs and expenses related to the operation of such Fund or such Managed Account. These costs and expenses can include fees, costs, expenses, liabilities and obligations relating or attributable to: (i) activities with respect to the developing, investigating, structuring, organizing, negotiating, financing, refinancing, bidding on, consummating, acquiring, owning, managing, monitoring, operating, holding, hedging, restructuring, trading, settling, taking public or private, selling, valuing, winding up, liquidating or disposing of, as applicable, portfolio companies and actual or prospective portfolio investments or seeking to do any of the foregoing, whether or not such activities are successful; (ii) legal, tax, accounting, auditing, advisory, consulting, administration (including fees and expenses associated with the Castle Creek Fund's or the Managed Account's third-party administrators, if any, and administration and reporting software, if any), appraisal, investment banking, broker, dealer, finder, underwriting, loan administration, private placement, agent, valuation, certification, research, information and other professional or other services; (iii) brokerage, custodial, depository, trustee, record keeping, accounting, agent and other bank services, and other similar services; (iv) financing, commitment, origination and similar fees and expenses; (v) borrowings, other indebtedness of or guarantees made by the Castle Creek Fund or the applicable General Partner on behalf of such Fund, including, but not limited to, principal and interest with respect thereto and the arranging or attempted arranging thereof; (vi) the costs of any (x) litigation, governmental inquiry, investigation or proceeding (including



any actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including any judgment, other award, settlement or fines entered into in connection therewith), (y) directors and officers liability, errors and omissions liability, crime coverage, general partner liability, liability premiums and other insurance expenses for the Company, the General Partners, the Castle Creek Funds, the Managed Accounts and their affiliates and (z) any indemnification or extraordinary expense or liability relating to the affairs of the Funds or the Managed Accounts; (vii) legal and regulatory compliance with federal, state, local, non-U.S. or other law and regulation related to the activities of the Funds or the Managed Accounts (including regulatory expenses of the affiliated General Partner incurred in connection with the operation of the Funds and legal fees and expenses), including, without limitation, reports, disclosures, filings and notifications prepared, distributed or filed in connection therewith; (viii) distributions to the partners and other expenses associated with the acquisition, holding and disposition of the Funds' investments, including extraordinary expenses; (ix) expenses of terminating, winding up and dissolving the Funds and the Managed Accounts and liquidating the assets of the Funds and the Managed Accounts; (x) any taxes, fees or other governmental charges levied against the Funds or the Managed Accounts and all expenses incurred in connection with any tax audit, investigation, settlement or review of the Funds or the Managed Accounts; (xi) the preparation, distribution or filing of Fund-related or investment-related financial statements or other reports, tax returns, tax estimates, Schedule K-1s, or any other administrative, informational or similar reports, or other information, including fees and costs of any third-party service providers and professionals related to the foregoing; (xii) reverse breakup, termination and other similar fees; (xiii) filing, title, transfer, registration and other similar fees and expenses; (xiv) printing, communications, marketing and publicity; (xv) developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software or other administrative or reporting tools (including subscription-based services) for the benefit of the Funds or the Managed Accounts; (xvi) any activities with respect to protecting the confidential or non-public nature of any information or data, including confidential information; (xvii) amendments to, and waivers, consents or approvals pursuant to, the constituent documents of the Funds or the Managed Accounts; (xviii) to the extent provided in the applicable partnership agreement, or otherwise approved by the applicable General Partner in its sole discretion, activities or proceedings of the limited partner advisory committee (including any reasonable costs and expenses incurred by members in attending or otherwise participating in meetings of the limited partner advisory committee); (xix) expenses for business development related to the development and management of portfolio companies; (xx) unreimbursed costs and expenses incurred in connection with any transfer of interests in the Funds or the Managed Accounts or proposed transfer of interests in the Funds or the Managed Accounts; (xxi) the out-of-pocket expenses incurred in connection with compliance with the provisions in side letters entered into with limited partners that are not affiliates of the applicable General Partner, including "most favored nations" provisions; (xxii) any annual limited partner meeting or other periodic, if any, meetings of the limited partners and any other conference or meeting with any limited partner(s); (xxiii) travel costs (including airfare, hotels, meals and ground transportation) of the applicable General Partner or its affiliates related to the Fund or the Managed Account expenses described above, including in connection with consummated and unconsummated investment and

disposition opportunities; and (xxiv) any other fees, costs, expenses, liabilities or obligations approved by the limited partner advisory committee.

**D. If the firm's clients either may or must pay your fees in advance, disclose this fact. Explain how a client may obtain a refund of a pre-paid fee if the advisory contract is terminated before the end of the billing period. Explain how you will determine the amount of the refund.**

Management fees are negotiable and, depending on the Castle Creek Fund or the Managed Account, may be paid in advance or in arrears. If management fees with respect to a Castle Creek Fund or a Managed Account are assessed in advance, they are generally required to be returned to the investors in such Castle Creek Fund or owner of such Managed Account should Castle Creek's management services to such Castle Creek Fund or such Managed Account be terminated prior to the end of the period in respect of which the fees have been paid (including, for example, situations where the final distribution from a Castle Creek Fund or the termination of an investment advisory agreement with a Managed Account occurs prior to the end of a period for which management fees have already been paid). In general, the amount of such fees to be returned is calculated based on the number days remaining in the applicable period.

**E. If the firm or any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds, disclose this fact.**

The Company does not accept compensation for the sale of securities or other investment product.

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

**If the firm or any of its supervised persons accepts performance-based fees, that is, fees based on a share of capital gains on or capital appreciation of the assets of a client, disclose this fact. If the firm or any of its supervised persons manages both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or asset-based fee, disclose this fact.**

In addition to the management fee paid to the Company, the General Partner of a Castle Creek Fund or the Company with respect to a Managed Account may receive a performance-based fee or carried interest that is calculated as a share of the profits for such Fund or such Managed Account, respectively, based as a percentage of such profits, which may vary from Fund to Fund or Managed Account to Managed Account. The terms of the manner of calculation and application of management fees and carried interest profit allocations or other performance-based fees, as applicable, with respect to the Company, the affiliated General Partner or other affiliates are set forth in the organizational documents of the relevant Fund or the investment advisory agreement between the Company and the relevant Managed Account. In addition, known or reasonably anticipated conflicts of interest involving the Company (or its affiliates) with respect to carried interest profit allocations or other performance-based fees are disclosed in the offering documents of the applicable Fund or Managed Account, if any. Investors in the Castle Creek Funds and owners of Managed Accounts are strongly encouraged to actively review the offering documents of such Funds, if any, prior to undertaking an investment.

While the Company may act as the investment adviser to more than one Castle Creek Fund with similar investment objectives at the same time, other than in cases of customized “fund of one” Castle Creek Funds, typically the earlier Castle Creek Fund is in its realization or wind down phase when a subsequent Castle Creek Fund completes its initial close. Other than in cases of customized “fund of one” Castle Creek Funds, the organizational documents are typically drafted to limit the side-by-side management conflicts that can occur by stipulating that none of the Company, the General Partner of the applicable Castle Creek Fund nor any of their respective related parties can close any other limited partnership or pooled investment vehicle (i.e., a subsequent Castle Creek Fund) in which any of the foregoing acts as the general partner or investment manager until a certain level (usually 75% or greater) of the committed capital to such Fund is invested or until the end of the investment period of such Fund.

The existence of performance fees or carried interest allocations may create an incentive for the Company and/or its affiliates to make more speculative investments on behalf of a Castle Creek Fund or a Managed Account than it would otherwise make in the absence of such performance-based arrangement. If there should ever be an instance in which more than one Castle Creek Fund or Managed Account has the ability to participate in an investment opportunity, there could be incentives in allocating riskier investment opportunities to favor Castle Creek Funds or Managed Accounts with higher potential performance fees or carried interest allocations over Castle Creek Funds or Managed Accounts with lower potential performance fees or carried interest allocations. Each Castle Creek Fund and Managed Account has its own investment guidelines and organizational documents and/or investment advisory agreement that must be taken into account when making investment allocation determinations. Final allocation decisions are under the purview of the Principals, which is charged with allocating investment opportunities in compliance with the Company’s fair allocation policies.

## **ITEM 7 - TYPES OF CLIENTS**

**Describe the types of clients to whom the firm generally provide investment advice, such as individuals, trusts, investment companies or pension plans. If the firm has any requirements for opening or maintaining an account, such as a minimum account size, disclose the requirements.**

Castle Creek Funds are pooled investment vehicles or investment funds with entities affiliated with the Company acting as the general partners of such Castle Creek Funds. The Company and its affiliates require that each third-party investor in a Castle Creek Fund be an “accredited investor” as defined in Regulation D under the Securities Act and a “qualified purchaser” as defined in the 1940 Act. The Managed Accounts are discretionary and non-discretionary managed accounts for which the Company acts as investment adviser. The Company requires the owner of a Managed Account to be a “qualified client” as defined in the Advisers Act.

Other than customized “fund of one” Castle Creek Funds, typically a minimum investment amount is imposed on third parties investing in a Castle Creek Fund. This minimum investment often is set at \$10 million, but can be subject to a reduction upon prior agreement with the Company or an affiliate (subject to applicable legal requirements). A minimum investment amount can also be established pursuant to the laws of the jurisdiction in which the investment vehicle was established.

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

### **A. Describe the methods of analysis and investment strategies you use in formulating investment advice or managing assets.**

Castle Creek's investment strategy has been developed over the past two decades in combination with more than 65 direct and follow-on bank acquisitions. The process has four steps: screening, investment, operational execution and exit.

#### **SCREENING**

Castle Creek primarily seeks bank investments, be they distressed or healthy, operating in regions of the U.S. that are characterized by favorable demographics (e.g., above average population and economic growth) and/or fragmentation (e.g., top 5 banks in the market have less than 65% combined deposit market share). Castle Creek believes that fragmentation provides significant opportunity for potential acquisitions once a "platform" investment has been completed in an established market. Many of the past investments by Castle Creek were underperforming at the point of investment or simply lacked the critical mass necessary to offer comprehensive banking services. Castle Creek believed these banks were undervalued relative to the ultimate realizable value of their banking franchise.

With regards to distressed bank opportunities, investment value is generated from risk stabilization and execution of an operating strategy focused less on asset growth and acquisitions and more on profitability, risk/capital management and cost reductions. While attractive market characteristics are preferable, Castle Creek has, on occasion, pursued distressed investments with a strong franchise value and quantifiable risk in markets where the demographic and fragmentation characteristics were less attractive.

The Company believes that Castle Creek's reputation in the banking community and proactive approach to deal sourcing has created significant deal flow. Castle Creek uses its own proprietary financial model to help identify attractive targets, which a Principal then contacts directly. The Company's Principals have also developed extensive contacts with investment banks, lawyers, consultants and other intermediaries, as well as public money managers who specialize in financial services.

#### **INVESTMENT**

Typically, a preliminary plan for a targeted bank is developed and discussed with the bank's management and board members, followed, as appropriate, by extensive due diligence.

A Principal is assigned to lead the deal team based on past experience, geography and/or chemistry with existing management. Castle Creek has developed a proprietary banking model to analyze the strengths and weaknesses of a potential investment. Castle Creek also utilizes the previously discussed relationships with intermediaries to help assess the financial condition of the bank and the ability of Castle Creek to implement its cost reduction and operational improvements.

Upon completing due diligence, a comprehensive written presentation is compiled, reviewed, and discussed among the Principals and other investment professionals. Maintaining pricing and valuation discipline increases the likelihood that Castle Creek is able to generate desired returns

while maintaining an appropriate margin of safety. Investment decisions must be approved by a majority of the Principals, including Mr. Eggemeyer. Historically, all investment decisions have been unanimously approved.

## OPERATIONAL EXECUTION

Castle Creek's experience as bankers and private equity investors allows for a rapid assessment of the management team and board of directors to identify areas that Castle Creek believes need to be supplemented with Castle Creek's knowledge and experience. Castle Creek simultaneously works in concert with the board of directors to provide insight regarding the alignment of management and shareholder interests. Incentive programs are assessed to increase the likelihood that such programs support desired results and corporate governance and controls are reviewed and improved as necessary. Castle Creek works within the bank regulatory framework to support management and help provide input related to realistic performance goals which are regularly benchmarked against peer banks. As part of monitoring portfolio companies, Castle Creek emphasizes teamwork and clear, open communication.

## EXITS AND REALIZATIONS

The ultimate purpose of the Castle Creek strategy is to work in concert with the board of directors and senior management to build banks with solid franchises, stable and growing earnings bases and conservative balance sheets that are highly profitable as independent community banks and that are also attractive to potential strategic acquirers. The Principals then provide input as needed to help effect a timely investment exit through an outright sale or IPO.

## TARP INVESTMENTS

As part of the U.S. Department of the Treasury's (the "Treasury") ongoing efforts to explore options for the management and ultimate recovery of its remaining investments under the Troubled Asset Relief Program ("TARP"), the Treasury has held a series of auctions to exit many of its TARP investments. Castle Creek believes that the Treasury's auctions exhibit pricing inefficiencies based on numerous factors, and Castle Creek attempts to take advantage of such inefficiencies. Certain customized "fund of one" Castle Creek Funds and Managed Accounts have been formed to participate in such auctions.

**B. For each significant investment strategy or method of analysis the firm uses, explain the material risks involved. If the method of analysis or strategy involves significant or unusual risks, discuss the risks in detail. If the firm's primary strategy involves frequent trading of securities, explain how frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.**

An investment in a Castle Creek Fund or participating in a Managed Account involves a significant degree of risk. There can be no assurance that such Fund's or such Managed Account's investment objectives will be achieved or that there will be any return of or on capital. In addition, potential investors should be aware that there might be occasions when the Company and its affiliates could encounter potential conflicts of interest in connection with such Castle Creek Fund or such Managed Account. Prospective investors should carefully consider the following risk factors before investing in a Fund or participating in a Managed Account. The

following risk factors do not purport to be a complete or exhaustive explanation of the risks involved with respect to a Castle Creek Fund or a Managed Account.

#### NO ASSURANCE OF INVESTMENT RETURN

There can be no assurance that a Castle Creek Fund or a Managed Account will be able to choose, make and realize portfolio investments in any particular company or portfolio of companies. In addition, the success of a Fund or a Managed Account may be affected by economic and other factors beyond the control of the Company and its affiliates. There is no assurance that a Fund or a Managed Account will be able to generate returns for its investors or that the returns will be commensurate with the risks of investing in the type of companies and transactions described herein. There can be no assurance that expected returns for a Fund or a Managed Account will be achieved, or that an investor or an owner will receive a return of its capital. An investment in a Fund or participation in a Managed Account is suitable only for investors or owners able to sustain a complete loss of their investment.

#### INVESTMENTS IN WHICH ANOTHER CASTLE CREEK FUND OR MANAGED ACCOUNT HAS A DIFFERENT PRINCIPAL INVESTMENT

A Castle Creek Fund or a Managed Account may invest in companies or other entities in which another Castle Creek Fund or Managed Account has or is concurrently making a different principal investment (e.g., an equity and a debt investment). Castle Creek may have conflicting loyalties between its duties to such Castle Creek Funds or such Managed Accounts.

#### LEVERAGED NATURE OF INVESTMENTS

A Fund's or a Managed Account's portfolio companies may have capital structures with significant leverage. Consequently the leveraged capital structure of such portfolio companies will increase their exposure to adverse economic factors such as rising interest rates, downturns in the economy or a deterioration in the business of a portfolio company or its industry (as well as particular risks associated with investing in the industries targeted by a Fund or a Managed Account), and may impair such companies' ability to meet their debt obligations. Additionally, a Fund or a Managed Account may leverage its portfolio investments by borrowing. Failure to satisfy the terms of debt incurred by a Fund or a Managed Account can have negative consequences, including forced liquidation of other portfolio investments in order to satisfy the borrower's obligations. The use of leverage will have the effect of increasing the volatility of a Fund's or a Managed Account's portfolio investments.

In addition, subject to certain limitations, a Fund or a Managed Account may borrow on a secured or unsecured basis for any purpose, including to cover expenses or to provide interim financing for portfolio investments to the extent necessary to consummate the purchase of portfolio investments prior to the receipt of capital contributions therefor. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the portfolio investments purchased or carried.

#### RELIANCE ON THE COMPANY

Decisions with respect to the management of a Castle Creek Fund will be made by the Company and its affiliates (including the relevant General Partner) and investment advice with respect to a Managed Account will be made by the Company. As such, the Castle Creek Funds and the

Managed Accounts will be wholly dependent for the identification, negotiation, acquisition, management, and disposition of investments on the diligence and skill of the Principals and other professional employees of the Company and its affiliates. For Castle Creek Funds other than customized “fund of one” Castle Creek Funds, the Company and its affiliates will have exclusive responsibility for each such Castle Creek Fund’s activities, and other than as expressly set forth in the organizational documents of such Castle Creek Fund (or the investment advisory agreement between the Company and such Castle Creek Fund), investors will not participate in making investment or other decisions in the management of such Fund. In addition, for such Fund, the investors will also not have the opportunity to evaluate the relevant economic, financial, and other information that will be utilized by the Company and its affiliates in the selection of investments, nor to receive the detailed financial information issued by portfolio companies that is available to the Company and its affiliates.

The success of a Castle Creek Fund or a Managed Account will depend on the ability of the Company and its affiliates to identify suitable investments for such Fund or such Managed Account (and, in the case of a Castle Creek Fund, to consummate and to dispose of investments for a profit). There can be no assurance that all of the Principals will continue to be associated with the Company or its affiliates throughout its term. The loss of the services of John Eggemeyer, in particular, could have a material adverse effect on a Fund’s or a Managed Account’s business and prospects.

## ILLIQUID AND LONG-TERM INVESTMENTS

Investment in a Castle Creek Fund or participation in a Managed Account requires a long-term commitment with no certainty of return. There most likely will be little or no near-term cash flow available to the investors or owners, respectively. Many of the portfolio investments will be highly illiquid and there can be no assurance that such Fund or such Managed Account will be able to realize returns on such portfolio investments in a timely manner. Consequently, dispositions of such portfolio investments may require a lengthy time period or may result in distributions in kind to the investors or owners, respectively. While a portfolio investment may be sold at any time, it is not generally expected that this will occur for a number of years after the portfolio investment is made. Castle Creek Funds and Managed Accounts will generally acquire securities that cannot be sold except pursuant to a registration statement filed under the Securities Act, or in accordance with Rule 144 or another exemption under the Securities Act. In some cases, a Castle Creek Fund or a Managed Account may be prohibited by contract from selling certain securities for a period of time. The market prices, if any, of such investments tend to be volatile and the Funds and the Managed Accounts may not be able to sell such investments when desired or, upon sale, to realize what is perceived to be their fair value. Even where a Fund or a Managed Account holds publicly traded securities, such Fund’s or such Managed Account’s position may represent a significant portion of the outstanding public float of a particular company, creating a degree of illiquidity in the event that such Fund or such Managed Account wished to, or was required to, dispose of or reduce its position in such company by selling shares into the market. In the event that a Castle Creek Fund or a Managed Account acquires control positions in certain companies as discussed above or acquires an interest in certain companies where officers or employees of its general partner or the Firm serve as directors, the filing of various forms required by the Securities Exchange Act of 1934, as amended, as part of the process of selling shares owned by such Fund or Managed Account may impact negatively the price of the shares that can be obtained by such Fund or Managed Account.



## HIGHLY COMPETITIVE MARKET FOR INVESTMENTS

The activity of identifying, completing and realizing on attractive investments that fall within the Castle Creek Funds' and the Managed Accounts' objectives is highly competitive and involves a high degree of uncertainty and will be subject to market conditions. It is expected that the Castle Creek Funds and the Managed Accounts will encounter competition from other entities that have similar investment objectives. Some of these competitors may have more relevant experience, greater financial resources, and more personnel than the Company, the General Partners, the Castle Creek Funds, the Managed Accounts, and their affiliates. It is possible that competition for appropriate investment opportunities may increase, which may also require the applicable Castle Creek Fund or Managed Account to participate in auctions, the outcome of which cannot be guaranteed, thus reducing the number of opportunities available to a Fund or a Managed Account and adversely affecting the terms upon which portfolio investments can be made. There can be no assurance that a Castle Creek Fund or a Managed Account will be able to locate or consummate suitable investment opportunities satisfying its investment criteria or that if such portfolio investments are made, that such portfolio investments will be realized upon favorable valuations or that the objectives of such Castle Creek Fund or Managed Account will be achieved. Likewise, there can be no assurance that the Castle Creek Fund or Managed Account will be able to realize upon the values of its portfolio investments or that it will be able to invest the subscriptions. To the extent that a Fund or a Managed Account encounters competition for investments, returns to investors or owners may decrease.

## RISK OF LIMITED NUMBER OF INVESTMENTS/INDUSTRY CONCENTRATION

The Castle Creek Funds and Managed Accounts intend only to participate in a limited number of portfolio investments and certain of these portfolio investments may require equity investments that are larger than were required in Castle Creek's historical transactions. As a consequence, the aggregate return of a Fund or a Managed Account may be substantially adversely affected by the unfavorable performance of even a single portfolio investment. Investors have no assurance as to the degree of diversification of a Fund's or a Managed Account's portfolio investments, either by geographic region, asset type, or sector. In addition, for Castle Creek Funds other than customized "fund of one" Castle Creek Funds, generally up to 25% of the aggregate amount of capital commitments may be invested in any one portfolio investment at any one time.

To the extent a Castle Creek Fund or a Managed Account concentrates investments in a particular issuer, industry, security or geographic region, its investments will become more susceptible to fluctuations in value resulting from adverse economic to business conditions with respect thereto. The aggregate return of such Funds or such Managed Accounts may be substantially adversely affected by the unfavorable performance of even a single geographic market. Investors have no assurance as to the degree of diversification in a Fund's or a Managed Account's investments by geographic region except as limited by such Fund's or Managed Account's governing documents. Furthermore, if a Fund or a Managed Account co-invests with other private equity funds or managed accounts, an investor that participates in both such Fund or such Managed Account and such other private equity funds or managed accounts may have exposure to portfolio investments through more than one fund and/or managed account. In circumstances where the Company or its affiliates intends to refinance all or a portion of the capital invested in a transaction, there will be a risk that such refinancing may not be completed, which could lead to increased risk as a result of a Fund or a Managed Account having an unintended long-term investment as to a portion of the amount invested and/or reduced diversification. Although it is the intention of the Company and its affiliates generally

to diversify a Fund's or a Managed Account's portfolio, the inability of the Company and/or its affiliates to satisfactorily achieve this objective could adversely affect the performance of such Fund or such Managed Account. In addition, the Company and its affiliates intend to concentrate Fund and Managed Account investments in the banking sector, and as such, a Castle Creek Fund or a Managed Account could be adversely affected if the business conditions underlying such sector were to deteriorate or the regulatory regime governing such sector were to change.

## RISKS IN EFFECTING OPERATING IMPROVEMENTS

In some cases, the success of a Castle Creek Fund's or a Managed Account's investment strategy will depend, in part, on the ability of such Fund or Managed Account to restructure and effect improvements in the operations of a portfolio company. The activity of identifying and implementing operating improvements at portfolio companies entails a high degree of uncertainty. There can be no assurance that a Fund or a Managed Account will be able to successfully identify and implement such improvements.

## RELIANCE ON MANAGEMENT

Each portfolio company's day-to-day operations will be the responsibility of that company's management team. Although the Company will be responsible for monitoring the performance of each investment and seeks 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 operate the portfolio company successfully. In addition, the Company will generally establish the capital structure of companies in which funds invest on the basis of financial projections for such companies. Projected operating results will normally be based primarily on the judgment of the management of the portfolio company. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic conditions, which are not predictable, can have a material adverse impact on the reliability of projections.

## NON-U.S. INVESTMENTS

Generally, a Castle Creek Fund or a Managed Account may invest a portion of such Fund's or such Managed Account's capital outside of the United States. Non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to: (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various foreign currencies in which a Fund's or a Managed Account's foreign investments are denominated, and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including potential price volatility in and relative liquidity of some foreign securities markets, the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (iii) certain economic, social and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital, the risks of political, economic or social instability and the possibility of expropriation or confiscatory taxation; (iv) foreign statutory and regulatory requirements; (v) the possible imposition of foreign taxes on income and gains recognized with respect to such securities; and (vi) less developed corporate laws regarding fiduciary duties and the protection of investors.

## MINORITY POSITIONS IN PORTFOLIO COMPANIES

As part of its overall investment strategy, a Castle Creek Fund or a Managed Account expects to hold a minority position in one or more portfolio companies, and as such it may not be able to exercise control over such companies. In such cases, a Castle Creek Fund or a Managed Account will be significantly reliant on the existing management and board of directors of such companies, which may include representatives of other investors with whom such Fund or such Managed Account is not affiliated and whose interests may conflict with the interests of such Fund or such Managed Account.

## PUBLIC COMPANY HOLDINGS

A Castle Creek Fund's or a Managed Account's investment portfolio may contain securities issued by publicly held companies. Such investments may subject such Fund or such Managed Account to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of a Fund or a Managed Account to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members, and increased costs associated with each of the aforementioned risks.

## TROUBLED COMPANIES

A Castle Creek Fund or a Managed Account may invest in portfolio companies that are in various stages of correcting previous operational or regulatory problems. Some or all of these companies may operate at a loss or with substantial variation in operating profits and losses from period to period, and may have a need for substantial additional capital to support expansion or to achieve or maintain a stable operating position. If turnarounds are not achieved, these portfolio companies could experience failures or substantial declines in value, and such Fund or such Managed Account may not be able to divest itself of such unprofitable investments in a timely fashion or at all. Additionally, turnarounds may not be achieved within the contemplated investment horizons.

## DEBT SECURITIES

A Castle Creek Fund or a Managed Account may invest in debt securities. Debt securities are subject to creditor risks, including the possible invalidation of an investment transaction as a "fraudulent conveyance" under relevant creditors' rights laws and so-called lender liability claims by the issuer of the obligations. Additionally, adverse credit events with respect to any portfolio company, such as missed or delayed payment of interest and/or principal, bankruptcy, receivership or distressed exchange, can significantly diminish the value of a Fund's or a Managed Account's investment in any such portfolio company. Debt investments may be subject to early redemption features, refinancing options, pre-payment options or similar provisions which, in each case, could result in the issuer repaying the principal on an obligation held by a Fund or a Managed Account earlier than expected. In addition, depending on fluctuations of the equity markets, warrants and other equity securities may become worthless. Accordingly, there can be no assurance that a Fund's or a Managed Account's rate of return objectives will be realized. Any secured debt is secured only to the extent of its lien and only to the extent of underlying assets or incremental proceeds on already secured assets. Moreover, underlying assets are subject to credit, liquidity, and interest rate risk. Although the amount and

characteristics of underlying assets selected as collateral may allow a Fund or a Managed Account to withstand certain assumed deficiencies in payments occasioned by an issuer's default, if any deficiencies exceed such assumed levels or if underlying assets are sold it is possible that the proceeds of such sale or disposition will not be equal to the amount of principal and interest owing to a Fund in respect to its investment. Any subordinated investments of a Fund or a Managed Account will be subordinated to the senior obligations of an issuer. In addition, many of the remedies available to subordinated holders are available only after satisfaction of claims of senior creditors. Any such subordinated investments may be characterized by greater credit risks than those associated with the senior obligations of the same issuer. Adverse changes in the financial condition of an issuer or in general economic conditions (or both) may impair the ability of such issuer to make payments on the subordinated securities and result in defaults on and declines in the value of such securities more quickly than in the case of the senior obligations of such issuer.

## GENERAL ECONOMIC AND MARKET CONDITIONS

The private equity industry generally and the success of a Castle Creek Fund's or a Managed Account's investment activities will be affected by general economic and market conditions, as well as by changes in laws, currency exchange controls, and national and international political and socioeconomic circumstances. There can be no assurance that the market will, in the future, remain as liquid as it is at present, and it may experience periods of volatility in the future. A Castle Creek Fund's or a Managed Account's financial condition may be adversely affected to the extent that it seeks to dispose of any of its portfolio investments into an illiquid or volatile market, and a Castle Creek Fund or a Managed Account may find itself unable to dispose of an investment at a price that the General Partner believes reflects the investment's fair value. A sustained downturn in the U.S. or global economy (or any particular segment thereof) or adverse development in prevailing market trends could adversely affect a Castle Creek Fund's or a Managed Account's profitability, impede the ability of a Castle Creek Fund's or a Managed Account's portfolio companies to perform under or refinance their existing obligations, and impair a Castle Creek Fund's or a Managed Account's ability to effectively consummate and exit portfolio investments on favorable terms. Any of the foregoing events could result in substantial or total losses to a Castle Creek Fund or a Managed Account in respect of certain portfolio investments, which losses will likely be exacerbated by the presence of leverage in a portfolio company's capital structure.

## FINANCIAL MARKET FLUCTUATIONS

General fluctuations in the market prices of securities and interest rates may affect the value of the portfolio investments held by a Castle Creek Fund or a Managed Account. Volatility and instability in the securities markets or in interest rates may also increase the risks inherent in a Castle Creek Fund or a Managed Account's portfolio investments and may reduce the availability of attractive investment opportunities for a Castle Creek Fund or a Managed Account. The ability of portfolio companies or businesses in which a Castle Creek Fund or a Managed Account may invest to refinance debt securities may depend on their ability to sell new securities in the high-yield debt market or banking financing markets, which historically have been cyclical with regard to the availability of financing. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a

similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Moreover, to the extent that marketplace events such as the deterioration of the global credit markets in the aftermath of the global financial crisis of 2007-2008 were to occur in the future, they may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the U.S. and global economies. Such an economic downturn could adversely affect the financial resources of corporate borrowers in which a Castle Creek Fund or a Managed Account has invested and result in the inability of such borrowers to make principal and interest payments on outstanding debt when due. In the event of such defaults, a Castle Creek Fund or a Managed Account may suffer a partial or total loss of capital invested in such companies, which could, in turn, have an adverse effect on such Fund's or such Managed Account's returns. Such marketplace events also may restrict the ability of a Castle Creek Fund or a Managed Account to sell or liquidate investments at favorable times or for favorable prices and may negatively impact potential buyers of a Castle Creek Fund's or a Managed Account's portfolio investments. Additionally, a Castle Creek Fund or a Managed Account may be required to pay break-up, termination or other fees or expenses even if such Fund or such Managed Account is willing to close on an investment if it is ultimately unable to close on such investment due to a lender's unwillingness to provide previously committed financing.

## INVESTMENTS WITH THIRD PARTIES

A Castle Creek Fund or a Managed Account may co-invest with third parties, thereby acquiring non-controlling interests in certain portfolio companies. A Fund or a Managed Account may not have control over these companies and, therefore, may have a limited ability to protect its position therein. Such portfolio investments may involve risks not present in portfolio investments where a third party is not involved, including the possibility that a third party partner or co-investor may have financial difficulties resulting in a negative impact on such portfolio investment, may have economic or business interests or goals which are inconsistent with those of a Fund or a Managed Account, or may be in a position to take action contrary to a Fund's or a Managed Account's investment objectives. In addition, a Fund or a Managed Account may in certain circumstances be liable for the actions of its third party partners or co-investors.

## CONTROL POSITION RISK

Although non-control investments may also be made, a Castle Creek Fund or a Managed Account may make investments to acquire control or exercise influence over management and the strategic direction of the portfolio company. Additionally, officers and employees of the Company or its affiliates may serve as directors of portfolio companies in which the Funds or the Managed Accounts invest. The exercise of control over a company through a control position, or the service of an officer or employee of the Company or its affiliates as a director of such company, could (i) expose the assets of the Funds or the Managed Accounts to claims by such company, its security holders and creditors or (ii) impose additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations may be ignored. If these liabilities were to occur, the applicable fund(s), directly, and the applicable investors, indirectly, would likely suffer losses in their investments. In general, the Funds and the Managed Accounts will indemnify the Company and its affiliates for such claims.

## HEDGING POLICIES/RISKS

A Castle Creek Fund or a Managed Account may employ hedging techniques designed to reduce the risks of adverse movements in interest rates, securities prices and currency exchange rates. While such transactions may reduce certain risks, such transactions themselves may entail certain other risks. Thus, while a Fund or a Managed Account may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates, securities prices, or currency exchange rates may result in a poorer overall performance for such Fund or such Managed Account than if it had not entered into such hedging transactions. For example, to complete a short sale, a Castle Creek Fund or a Managed Account generally must borrow the securities from a third party in order to make delivery to the buyer. A Castle Creek Fund or a Managed Account will be obligated to return securities equivalent to those borrowed at any time on demand of the lender of the securities borrowed by purchasing them at the market price at the time of replacement. Theoretically, short selling may be subject to unlimited risk of loss because there may be no limit on how much the price of a security may appreciate before the short position is closed. As a hedging technique, a Castle Creek Fund or a Managed Account may also purchase exchange-listed and over-the-counter put and call options on specific securities or write and sell covered or uncovered call and put option contracts. Use of put and call options may result in losses to a Castle Creek Fund or a Managed Account, force the sale or purchase of portfolio securities at inopportune times or for prices higher than (in the case of put options) or lower than (in the case of call options) current market values, limit the amount of appreciation a Castle Creek Fund or a Managed Account can realize on its investments or cause a Castle Creek Fund or a Managed Account to hold a security it might otherwise sell. For example, a decline in the market price of a particular security could result in a complete loss of the amount expended by a Castle Creek Fund or a Managed Account to purchase a call option (equal to the premium paid for the option and any associated transaction charges). An adverse price movement may result in unanticipated losses with respect to covered options sold by a Castle Creek Fund or a Managed Account. The use of uncovered option writing techniques may entail greater risks of potential loss to a Castle Creek Fund or a Managed Account than other forms of options transactions.

## INVESTMENTS LONGER THAN TERM

A Castle Creek Fund or a Managed Account may make investments which may not be advantageously disposed of prior to the date that such Fund will be dissolved or the investment advisory agreement for such Managed Account will be terminated, either by expiration of its term or otherwise. Although the Company expects that investments will be disposed of prior to dissolution or termination, as the case may be, or be suitable for in-kind distribution at dissolution or termination, such Fund or such Managed Account may have to sell, distribute, or otherwise dispose of investments or resolve litigation or other contingent liabilities at a disadvantageous time as a result of dissolution or termination.

## RISKS FROM THE PROVISION OF MANAGERIAL ASSISTANCE

The Company and its affiliates intends to use reasonable best efforts to avoid having the assets of a Castle Creek Fund or a Managed Account constitute “plan assets” of any plan subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), and may, in this regard, elect to operate a Castle Creek Fund as a “venture capital operating company” (“VCOC”) within the meaning of regulations promulgated under ERISA. Operating a Castle Creek Fund as a VCOC would require that such Fund obtain rights to substantially participate in

or influence the conduct of the management of a number of such Fund's portfolio companies. It is expected that a Castle Creek Fund will typically designate a director to serve on the board of directors of each portfolio company as to which it obtains such rights. The designation of directors and other measures contemplated could expose the assets of such Fund to claims by a portfolio company, its security holders and its creditors. While the Company and its affiliates intend to minimize exposure to these risks, the possibility of successful claims cannot be precluded.

## LEGAL, TAX AND REGULATORY CHANGES

Legal, tax and regulatory changes could occur during the term of a Fund or a Managed Account that may adversely affect such Fund or such Managed Account. For example, from time to time the market for private equity transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. A Castle Creek Fund or a Managed Account will invest in portfolio companies that operate in a highly regulated environment and are subject to extensive legal and regulatory restrictions and limitations and to supervision, examination and enforcement by regulatory authorities. New and existing regulations and burdens of regulatory compliance may directly impact the business and results of the operations of, or otherwise have a material adverse effect on, portfolio companies that are subject to regulation. Failure to comply with any of these laws, rules and regulations, some of which are subject to interpretation and may be subject to change, could result in a variety of adverse consequences, including civil penalties and fines, which may have material adverse effects.

## REGULATORY COMPLEXITY AND SCRUTINY

The global regulatory landscape is complex and evolving quickly. As the burden of compliance with global regulatory obligations increases, the risk of non-compliance also increases. In addition, regulators have recently shown increased scrutiny of private fund investment advisors such as the Company, and the risk of an enforcement action in the event of non-compliance is heightened.

## UNREGISTERED SECURITIES

Notwithstanding that the Company is registered as an investment adviser under the Advisers Act, and that the Castle Creek Funds may be considered similar in some ways to investment companies, the Castle Creek Funds are not required and do not intend to register as such under the Investment Company Act of 1940 and, accordingly, investors are not afforded the protections of such Act.

## INDEMNIFICATION

Each Fund generally will be required to indemnify its general partner, its investment adviser, their affiliates and each of their respective officers, directors, agents, stockholders, members, employees, partners and other persons who serve at the request of its general partner on behalf of the relevant Fund for liabilities incurred in connection with the affairs of such Fund. The Company typically engages placement agents and other similar finders and consultants in connection with the offering of interests in a Fund and, to the extent permitted by such Fund's governing agreements, causes such Fund to indemnify such agents, finder or consultants. Where applicable, members of an investment committee of investors unaffiliated with the investment

adviser of such Fund will also be entitled to the benefit of certain indemnification and exculpation provisions as set forth in the applicable Fund's governing documents. As a result of the provisions contained in the governing agreement of a Fund, investors in such Fund will in certain cases have a more limited right of action against the general partner than it would in the absence of such limitations.

Each owner of a Managed Account will be required to indemnify its investment adviser, its affiliates, officers, directors, employees, members, shareholders, employees, trustees, agents, administrators, members, beneficiaries, partners or any other person who serves at the request of its investment adviser incurred in connection with the affairs of such Managed Account. As a result of the provisions contained in the investment advisory agreement of a Managed Account, investors in such Fund will in certain cases have a more limited right of action against the investment adviser than it would in the absence of such limitations.

#### FAILURE TO MAKE CAPITAL CONTRIBUTIONS

If a limited partner fails to pay when due installments of its commitment to a Fund, and the capital contributions made by non-defaulting investors and borrowings by such Fund are inadequate to cover the defaulted capital contribution, such Fund may be unable to pay its obligations when due. As a result, such Fund may be subjected to significant penalties that could materially adversely affect the returns to the investors (including non-defaulting investors).

#### DIVERSE INVESTOR GROUP

Investors may have conflicting investment, tax and other interests with respect to their investments in a Fund. As a consequence, conflicts of interest may arise in connection with decisions made by the general partner or investment adviser of a Fund, 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 limited partners' individual tax situations.

#### NO MARKET FOR INTERESTS; RESTRICTIONS ON TRANSFERS

Interests in the Funds have not been registered under the Securities Act, or applicable securities laws of any U.S. state or the securities laws of any other jurisdiction and, therefore, cannot be resold unless they are subsequently registered under the Securities Act and any other applicable securities laws or an exemption from such registration is available. There is no public market for the interests in the Funds and one is not expected to develop. An investor will not be permitted to directly or indirectly assign, sell, pledge, exchange or transfer any of its interests or any of its rights or obligations with respect to its interests without the prior written consent of the general partner of the applicable Fund, which consent may be given or withheld in accordance with the governing documents of the applicable Fund. Withdrawals from the Funds are generally not permitted, and there most likely will be little or no near-term cash flow available to investors as a result of owning the interests. Investors must be prepared to bear the risks of owning interests in the Funds for an extended period of time.

#### CYBER SECURITY BREACHES AND IDENTITY THEFT

The Company's, the Castle Creek Funds' and the Managed Accounts and their portfolio companies', and their service providers' information and technology systems may be vulnerable to damage or interruption from computer viruses and other malicious code, network failures, computer and telecommunications failures, infiltration by unauthorized persons, other security



breaches and/or usage errors by their respective professionals or service providers. If unauthorized parties gain access to such information and technology systems, they may be able to steal, publish, delete, or modify private and sensitive information, including nonpublic personal information and material nonpublic information. Although the Company has implemented, and the portfolio companies and their service providers may implement, various measures to manage risks relating to these types of events, such systems could prove to be inadequate and, if compromised, could become inoperable for extended periods of time, cease to function properly or fail to adequately secure private information. The Company does not control the cyber security plans and systems put in place by third party service providers, and such third party service providers may have limited indemnification obligations to the Company, the Castle Creek Funds and the Managed Accounts and their portfolio companies, each of whom could be negatively impacted as a result. Breaches such as those involving covertly introduced malware, impersonation of authorized users and industrial or other espionage may not be identified even with sophisticated prevention and detection systems, potentially resulting in further harm and preventing it from being addressed appropriately. The Company, a Castle Creek Fund, a Managed Account and/or portfolio company may have to make a significant investment to fix or replace them. The failure of these systems for any reason could cause significant interruptions in the Company's, such Castle Creek Fund's, such Managed Account and/or such 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 their beneficial owners), material nonpublic information in possession of and the intellectual property and trade secrets and other sensitive information of the Company, the Castle Creek Funds and the Managed Accounts and their portfolio companies. Such a failure could harm the Company's, such Castle Creek Fund's, such Managed Account and/or such portfolio company's reputation, subject any such entity and their respective affiliates to legal claims, regulatory action or enforcement arising out of applicable privacy or other laws and adverse publicity and otherwise affect their business and financial performance.

## COMPLIANCE WITH THE AIFM DIRECTIVE

The deadline for the transposition of the European Union Alternative Investment Fund Managers Directive (the "Directive") into national law within the member states of the European Union (the "EU") was July 22, 2013. Subject to the availability of any applicable transitional relief, the Directive imposes new requirements on non-EU alternative investment fund managers ("AIFM") which market alternative investment funds ("AIF") to professional investors within the EU. In particular, the Directive requires suitable co-operation agreements to be in place as between the relevant regulators of the jurisdiction of a Fund and each EU member state in which interests in such Fund are being marketed, the absence of which will potentially restrict the ability of the Company to offer interests in such Fund to investors in such EU member states and may therefore limit the Company's ability to attract investors based in the EU and lead to a reduction in the overall amount of capital invested in such Fund. This may, in turn, have an adverse impact upon the operations of a Fund, including the range of investment strategies that such Fund is able to pursue. The Directive may also impose additional disclosure and reporting requirements in relation to a Fund and its investments, compliance with which may involve additional costs, as well as restrictions on early distributions or reductions in capital in respect of EU portfolio companies (the so-called "asset stripping" rules) which may result in additional costs and may limit the use of certain investment and realization strategies (such as dividend recapitalization and reorganizations) which do not apply to non-AIF/AIFM competitors not subject to the Directive, thereby potentially placing a Fund at a disadvantage to such competitors. In parallel, certain member states of the EU have changed or are

contemplating changing their domestic private placement rules, which may also restrict the ability of the Company in similar ways and/or impose additional disclosure and reporting requirements in relation to a Fund. In certain circumstances, non-EU AIFMs may be able to market an AIF within the EU pursuant to a pan-European marketing “passport” instead of under national private placement regimes, provided that the AIFM complies with all relevant provisions of the Directive including, among other things, rules relating to the remuneration of certain personnel, minimum regulatory capital requirements, restrictions on use of leverage, further disclosure and reporting requirements to both investors and EU home state regulators, the independent valuation of an AIF’s assets and the appointment of legal representatives and an independent depository to hold assets. As a result, the Directive could in the future have other adverse effects in relation to a Fund and the Company’s business by, among other things, increasing the regulatory burden and costs of operating and managing such Fund and its investments, and potentially requiring changes to compensation structures for key personnel, thereby affecting the Company’s ability to recruit and retain these personnel.

## COUNTERPARTY RISK

The Funds and the Managed Accounts are exposed to the risk that third parties that may owe the Funds, the Managed Accounts or their portfolio companies money, securities or other assets will not perform their obligations. These parties include trading counterparties, clearing agents, exchanges, clearing houses, custodians, prime brokers, administrators and other financial intermediaries. These parties may default on their obligations to the Funds, the Managed Accounts or their portfolio companies, due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swap or other derivative contracts under which counterparties have long-term obligations to make payments to the Funds or their portfolio companies, or executing securities, futures, currency or commodity trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Also, any practice of rehypothecation of securities of the Funds, the Managed Accounts or their portfolio companies held by counterparties could result in the loss of such securities upon the bankruptcy, insolvency or failure of such counterparties.

## PUBLIC DISCLOSURE

Some of the interests in the Funds or the Managed Accounts are held by investors, such as public pension plans and listed investment vehicles, which are subject to public disclosure requirements. 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 the Funds, the Managed Accounts or their portfolio companies results from interests being held by public investors, the Funds or the Managed Accounts may be adversely affected. The Company may, in order to prevent any such potential disclosure, withhold information otherwise to be provided to such public investors. Conversely, potential future regulatory changes applicable to investment advisors and/or the accounts they advise could result in the Company and/or the Funds or the Managed Accounts becoming subject to additional disclosure requirements the specific nature of which is as yet uncertain.

## LIMITED ACCESS TO INFORMATION

Investors’ rights to information regarding the Funds or Managed Accounts will be specified, and strictly limited, in the applicable partnership agreement. In particular, it is anticipated that the Company will obtain certain types of material information from portfolio investments that will

not be disclosed to investors because such disclosure is prohibited for contractual, legal or similar obligations outside of the Company's control. Decisions by the Company to withhold information may have adverse consequences for investors in a variety of circumstances. For example, an investor that seeks to transfer its interests may have difficulty in determining an appropriate price for such interests. Decisions to withhold information also may make it difficult for investors to monitor the Company and its performance. Additionally, it is expected that investors who designate representatives to participate on the limited partner advisory committee of a Fund may, by virtue of such participation, have more information about the Fund and portfolio investments in certain circumstances than other investors generally and may be disseminated information in advance of communication to other investors generally.

## MATERIAL NON-PUBLIC INFORMATION

By reason of their responsibilities in connection with the Funds and other investment activities, and notwithstanding procedural safeguards including, but not limited to information barriers, where applicable, and restricted securities lists, the Company, the Funds, its General Partners, their affiliates or their employees may acquire confidential or material, non-public information that would limit the ability of a Fund to buy and sell certain of its investments. Such Fund's investment flexibility may be constrained due to the inability of its investment adviser to use such information for investment purposes. Moreover, the Funds may not be able to initiate a transaction that they otherwise might have initiated and may not be able to sell an investment that they otherwise might have sold due to the acquisition of confidential or material, non-public information.

**C. If the firm recommends primarily a particular type of security, explain the material risks involved. If the type of security involves significant or unusual risks, discuss these risks in detail.**

## FINANCIAL SERVICES INDUSTRY RISK FACTORS

Financial services institutions have asset and liability structures that are essentially monetary in nature and are directly affected by many factors, including domestic and international economic and political conditions, broad trends in business and finance, legislation, and regulation affecting the national and international business and financial communities, monetary and fiscal policies, interest rates, inflation, currency values, market conditions, the availability and cost of short-term or long-term funding and capital, the credit capacity or perceived creditworthiness of customers and counterparties, and the level and volatility of trading markets. Such factors can impact customers and counterparties of financial services institutions and may impact the value of financial instruments held by financial services institutions. Fluctuations in interest rates, which affect the value of assets and the cost of funding liabilities, are not predictable or controllable, may vary from country to country and may impact economic activity in various regions.

The profitability of the financial services industry may be adversely affected by a worsening of general economic conditions in domestic and international markets and by monetary, fiscal, or other policies that are adopted by various governmental authorities and international bodies. Monetary policies have had, and will continue to have, significant effects on the operations and results of financial services institutions. There can be no assurance that a particular financial services institution will not experience a material adverse effect on its net interest income in a

changing interest rate environment. Factors such as the liquidity of the global financial markets, the level and volatility of prices of financial instruments, investor sentiment, and the availability and cost of credit may significantly affect the activity levels of customers with respect to size, number, and timing of transactions. A change in all or any of these factors would likely lead to a decline in the volume of transactions that financial services institutions execute for their customers and thus lead to a decline in revenues from fees, commissions, and spreads. See “Financial Market Fluctuations” in Item 8.B above.

The financial services industry is extremely competitive, and it is expected that competitive conditions in the industry will continue to intensify. Merger activity in the financial services industry has resulted in, and is expected to continue to result in, larger institutions with greater financial and other resources that are capable of offering a wider array of financial products and services. The financial services industry has become considerably more concentrated as numerous financial institutions have been acquired by or merged into other institutions. Technological advances and the growth of e-commerce have made it possible for non-financial institutions to offer products and services that have been traditionally offered by financial services institutions. It is expected that cross-industry competition will continue to intensify.

The financial services industry is highly dependent on communications and information systems and is exposed to many types of operating risk, including the risk of fraud by employees or other parties, record keeping error, errors resulting from faulty computer or telecommunications systems, computer failures, and damage to computer and telecommunications systems caused by internal or external events.

Each prospective investor and owner is strongly urged to consult its own legal advisers with respect to the consequences under applicable regulatory regimes regarding banks and other financial institutions and investors therein of the purchase and ownership of interests in a Fund or of participation in a Managed Account.

## CERTAIN BANK AND FINANCIAL SERVICES REGULATORY CONSIDERATIONS

The Castle Creek Funds and the Managed Accounts will invest in portfolio companies that are financial services companies. Financial services companies operate in a highly regulated environment and are subject to extensive legal and regulatory restrictions and limitations and to supervision, examination and enforcement by regulatory authorities. Various agencies and departments of the U.S. government and state governments regulate the banking and financial services sector in the United States. Outside of the United States, this sector may be regulated by various non-U.S. governmental bodies and institutions. New and existing regulations and burdens of regulatory compliance may directly impact the business and results of the operations of, or otherwise have a material adverse effect on, portfolio companies that are subject to regulation. Failure to comply with any of these laws, rules, or regulations, some of which are subject to interpretation and may be subject to change, could result in a variety of adverse consequences, including civil penalties, fines, suspension, or expulsion, and termination of deposit insurance, which may have material adverse effects. In order to comply with banking laws, rules, and regulations, a Fund or a Managed Account may be required to invest in a manner that may not be as advantageous as the manner of making investments that are not subject to such laws, rules, and regulations.

## INTEREST RATE RISK

It is anticipated that the Castle Creek Funds and the Managed Accounts will invest principally in the securities of depository banks. The income of such institutions is principally dependent upon net interest income, i.e., the difference between net income earned on loans and investments and the interest expense paid on deposits and other borrowings. The U.S. banking sector is affected by the monetary policies of the Federal Reserve Board, which regulates the national money supply in order to mitigate recessionary and inflationary pressures. Some of the techniques of monetary policy available to the Federal Reserve Board are engaging in open market operations in United States government securities, setting the discount rate on member bank borrowings, targeting the overnight federal funds rate, and determining reserve requirements. These techniques are used in varying combinations to influence overall growth and distribution of bank loans, investments, and deposits, and their use may also affect interest rates charged on loans or paid on deposits. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of depository banks in the past and are expected to continue to do so. The effect, if any, of such policies on the future business and earnings of a Castle Creek Fund's or a Managed Account's portfolio companies cannot be accurately predicted.

## **ITEM 9 - DISCIPLINARY INFORMATION**

**If there are legal or disciplinary events that are material to a client's or prospective client's evaluation of the firm's advisory business or the integrity of the firm's management, disclose all material facts regarding those events.**

In June 2014, certain former directors, officers and employees of First Chicago Bank & Trust ("First Chicago"), including J. Mikesell Thomas, a former managing principal of the Company, settled claims by the Federal Deposit Insurance Corporation (the "FDIC") against such individuals, without admission of any liability on the part of such individuals, arising from their duties as directors, officers and employees of First Chicago. The claims related to First Chicago's closure on July 8, 2011 by the Illinois Department of Financial and Professional Regulation, where the FDIC was named receiver.

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

**A. If the firm or any of its management person are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, disclose this fact.**

Neither the Company nor any of its management persons is registered or has an application pending to register as a broker-dealer or a registered representative of a broker-dealer.

**B. If the firm or any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities, disclose this fact.**

Neither the Company nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, or a commodity trading advisor, or as an associated person of the foregoing entities.

**C. Describe any relationship or arrangement that is material to the firm's advisory business or to your clients that the firm or any of its management persons have with any related person listed below. Identify the related person and if the relationship or arrangement creates a material conflict of interest with clients, describe the nature of the conflict and how you address it.**

The employees of the Company and its affiliates may serve on the boards of directors of portfolio companies of Castle Creek Funds or Managed Accounts. Serving in such capacity may give rise to conflicts to the extent that an employee's fiduciary duties to a portfolio company as a director may conflict with the interests of the applicable Castle Creek Fund or Managed Account.

Because the Company acts as an investment adviser to multiple Castle Creek Funds and Managed Accounts, it may face a number of potential conflicts of interest, including (i) allocation of investment opportunities among the Castle Creek Funds and/or the Managed Accounts, (ii) Castle Creek Funds or Managed Accounts making investments in portfolio companies in which other Castle Creek Funds or Managed Accounts have a different principal investment, and (iii) allocation of time of Company personnel among the business affairs of the Castle Creek Funds the Managed Accounts.

Investment opportunity allocation decisions are under the purview of the Principals, which are charged with allocating investment opportunities in compliance with the Company's fair allocation policies as further described in Item 11. In addition, the Company and/or its affiliates are bound by fiduciary duties with respect to the Castle Creek Funds and the Managed Accounts under Delaware law (as general partner of the Castle Creek Funds) and under the Advisers Act, which generally impose an obligation to act in the interest of clients, act in good faith and disclose conflicts of interest.

Because the Company's investment strategy is focused on the financial services industry, the Castle Creek Funds and/or Managed Accounts have portfolio investments in various types of financial institutions, including but not limited to retail, commercial and investment banks and

thrifths. Some of these investments may be deemed “control” investments. As a result, certain conflicts of interest with the Fund may arise; for example, as described in Item 11, investment opportunities that may be appropriate for the Castle Creek Funds and/or Managed Accounts may be allocated in whole or in part to such entities. However, the Company does not believe such conflicts of interest to be material.

**D. If firm recommends or selects other investment advisers for its clients and receives compensation directly or indirectly from those advisers that creates a material conflict of interest, or if the firm has other business relationships with those advisers that create a material conflict of interest, describe these practices and discuss the material conflicts of interest these practices create and how you address them.**

Castle Creek does not recommend or select other investment advisers for the Castle Creek Funds and the Managed Accounts.



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

**A. If the firm is an SEC-registered advisor, briefly describe your code of ethics adopted pursuant to SEC rule 204A-1 or similar state rules. Explain that you will provide a copy of your code of ethics to any client or prospective client upon request.**

As an investment adviser, the Company stands in a position of trust and confidence with respect to its Funds. The Company has a fiduciary duty to place the interests of its Funds before its own interests and the interests of its employees. All of the Company's personnel must put the interests of the Funds before their own personal interests and must act honestly and fairly in dealings with the Funds. All of the Company's personnel must also comply with all federal and other applicable securities laws. The Company has developed a compliance program to establish these rules of conduct for its personnel.

As part of its compliance program, the Company has adopted a Code of Ethics that sets forth the basic policies of ethical conduct for all managers, officers, and employees of the Company. In addition, the Code of Ethics governs personal trading by each employee of the Company and is intended to ensure that securities transactions effected by all employees of the Company are conducted in a manner that avoids any conflict of interest between such persons and clients of the Company or its affiliates. The Company collects, monitors, and maintains records of securities holdings and securities transactions effected by its employees. These records are regularly reviewed to ensure compliance and to resolve any potential conflicts of interest. The Company also maintains a "restricted list" of companies about which a determination has been made that it is prudent to restrict trading activity by the Company and/or its personnel. Generally, an employee may not trade securities of a company included on the restricted list; however, exceptions may be granted under certain circumstances if pre-clearance is granted. The Company may also require employees to pre-clear transactions in the securities of certain issuers that are not on the restricted list, as determined by the Company from time to time.

The Company has also adopted policies regarding the control of non-public information and political contributions. The Company's compliance program is designed to promote the ethical behavior of all of the Company's personnel and to ensure compliance with applicable regulation and best practices. The Company maintains a Code of Ethics and it is available to clients, investors, prospective clients, and prospective investors and owners upon request or by writing to Castle Creek Advisors IV LLC, PO Box 1329, Rancho Santa Fe, CA 92067.

**B. If firm or its related persons recommends to clients, or buys or sells for client accounts, securities in which the firm or a related person has a material financial interest, describe the firm's practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.**

The organizational documents of many Castle Creek Funds prohibit such Castle Creek Funds from buying or selling securities of issuers in which the Company or a related person has a material financial interest without limited partner advisory committee consent.

It is the Company's policy not to engage in any principal transactions without disclosing to a Fund before the completion of such transaction the capacity in which the Company is acting and obtaining the consent of such Fund's limited partner advisory committee or Managed

Account owner, as applicable, which is comprised of representatives of the investors in such Fund, to such transaction. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between any two Funds.

It is the Company's policy not to engage in cross trading transactions without consent of the limited partner advisory committees of the applicable Funds or the owner of the applicable Managed Account. A cross trading transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. A cross trading transaction may arise where an adviser is registered as a broker-dealer or has an affiliated broker-dealer.

Due in part to the fact that investors and potential investors in a Fund, including a co-investment vehicle, request different information, the Company provides certain information to one or more investors or prospective investors that it does not provide to all investors or prospective investors.

**C. If the firm or a related person invests in the same securities (or related securities, e.g., warrants, options or futures) that the firm or a related person recommends to clients, describe the firm's practice and discuss the conflicts of interest this presents and generally how the firm addresses the conflicts that arise in connection with personal trading.**

The Company maintains a restricted list that is disseminated to its employees on a weekly basis and monitors the employee brokerage statements to resolve conflicts of interest, which may include reversing a conflicting trade and returning any profits.

The organizational documents of many Castle Creek Funds prohibit Castle Creek personnel from investing directly in the same securities as a Castle Creek Fund. Generally, Castle Creek personnel invest in such securities through the applicable General Partner's investment as an investor of the applicable Fund.

**D. If the firm or related person recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that the firm or related person buys or sells the same securities for your own account, describe the firm's practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.**

The Company maintains a restricted list that is disseminated to its employees on a weekly basis and monitors the employee brokerage statements to resolve conflicts of interest, which may include reversing a conflicting trade and returning any profits.

### **Other Potential Conflicts of Interest**

**Allocation of Investment Opportunities.** The Company may, from time to time, be presented with investment opportunities that fall within the investment objectives of more than one Castle Creek Fund or Managed Account, and in such circumstances, subject to the terms of the

applicable governing documents, the Company will allocate such opportunities among such Castle Creek Funds and/or Managed Accounts on a basis that the Company reasonably determines in good faith to be fair and reasonable taking into account the sourcing of the transaction, the nature of the investment focus of each such Castle Creek Fund and/or Managed Account, the relative amounts of capital available for investment, the nature and extent of involvement in the transaction on the part of the respective teams of investment professionals for each such Castle Creek Fund and/or Managed Account, and other considerations deemed relevant by the Company in good faith.

**Allocation of Fees and Expenses.** In exercising its discretion to allocate fees and expenses, the Company is faced with a variety of potential conflicts of interest. Any such conflict will be resolved as required by the governing documents of the applicable Funds or Managed Accounts or otherwise in a fair and equitable manner as determined by the Company. In general, the Company will allocate fees and expenses incurred in connection with the management of a Fund or a Managed Account between the Company and the applicable Fund or a Managed Account in accordance with such Fund's or Managed Account's governing documents, or to the extent not addressed in such documents or agreements, in its sole discretion, in each case using good faith and its best judgment. The Company will allocate fees and expenses to be borne among applicable Funds or Managed Accounts in accordance with the governing documents of such Funds or Managed Accounts, or to the extent not addressed in such documents, in its sole discretion, in each case using good faith and its best judgment. The Company will make any corrective allocations and take any mitigating steps if it determines such corrections are necessary or advisable.

**Side Letters.** The General Partner of a Castle Creek Fund may enter into side letters or other similar agreements with certain investors in connection with their admission to such Castle Creek Fund without the approval of any other investor. Such side letters or other similar agreements may alter and/or supplement the terms of such Castle Creek Fund's governing documents in a manner that makes the terms applicable to such investors more favorable than those applicable to other investors. Such rights or terms in any such side letter may include, without limitation, (i) excuse rights applicable to particular investments; (ii) reporting obligations of the applicable General Partner; (iii) waiver of certain confidentiality obligations; (iv) consent of the applicable General Partner to certain transfers by such investor; (v) special rights with respect to co-investment; (vi) rights or terms necessary in light of particular legal, public policy or regulatory characteristics of an investor; (vii) additional obligations and restrictions of the General Partner and of such Castle Creek Fund with respect to the structuring of any particular Investment in light of the legal, tax and regulatory considerations of particular investors and (viii) agreements to assist with applicable tax filings.

**Resolution of Conflicts of Interest** In the case of all conflicts of interest which are not managed pursuant to a contractual obligation, policy or procedure, the Company's determination as to which factors are relevant, and the resolution of such conflicts, will be made using the Company's best judgment, but in its sole discretion. In resolving conflicts, the Company considers various factors, including the interests of the applicable Castle Creek Funds or Managed Accounts with respect to the immediate issue and/or with respect to their longer term courses of dealing. Certain procedures for resolving specific conflicts of interest are set forth in the governing documents of the Castle Creek Funds and Managed Accounts. When conflicts arise, the following factors may mitigate, but will not eliminate, conflicts of interest:

- A Castle Creek Fund or Managed Account will not make an investment unless the Company believes that such investment is an appropriate investment considered solely from the viewpoint of such Castle Creek Fund or Managed Account;
- Many important conflicts of interest will generally be resolved by set procedures, restrictions or other provisions contained in the relevant offering and/or governing documents for the Castle Creek Funds and Managed Accounts;
- Generally, each Castle Creek Fund has established an advisory committee, consisting of representatives of investors not affiliated with the Company. The advisory committees meet as required to consult with the Company as to certain material potential conflicts of interest. Where conflicts of interest are not presented to the advisory committee, the Adviser will be guided by its good faith discretion;
- Prior to subscribing for interests in a Castle Creek Fund or Managed Account, each investor receives information relating to significant potential conflicts of interest arising from the proposed activities of such Castle Creek Fund or Managed Account; and
- The Company will seek to treat its clients fairly and equitably.

## **ITEM 12 - BROKERAGE PRACTICES**

### **A. Describe the factors the firm considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g. commissions).**

The Company has discretion to select broker-dealers for the Castle Creek Funds and the Managed Accounts and must do so in accordance with the organization documents of the Castle Creek Funds and the investment advisory agreements of the Managed Accounts, respectively. The Company will seek to obtain best prices and executions for the Castle Creek Funds and the Managed Accounts and will choose broker-dealers based on criteria such as their experience, their ability to handle the orders to the best advantage of the applicable Castle Creek Fund or Managed Account, the nature of the investments to be bought or sold, and the overall price of the order. The Company is not compensated with respect to making such selections.

#### **1.a.-f. Research and Other Soft Dollar Benefits**

**If the firm receives research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions (“soft dollar benefits”), disclose the firm’s practices and discuss the conflicts of interest they create.**

Historically, the Company has used several major broker-dealers to effectuate securities transactions on behalf of the Castle Creek Funds and the Managed Accounts, and it intends to continue the practice with regards to future Funds and Managed Accounts. The Company may choose other broker-dealers for the purchase of bank securities when it is more advantageous for a Castle Creek Fund or a Managed Account to do so. The Company receives a broad array of research from several broker-dealers, a number of which may or may not provide other services or conduct securities transactions for a Fund or a Managed Account. The research the Company receives is that which a broker-dealer provides to any of its institutional clients and the Company does not “pay up” for such research. However, investments by a Castle Creek Fund or a Managed Account in a portfolio company are not dependent upon securities coverage, and often times, such portfolio company investments are negotiated directly with the issuer and dependent upon execution by a broker-dealer.

#### **2. Brokerage for Client Referrals.**

**If the firm considers, in selecting or recommending broker-dealers, whether the firm or a related person receives client referrals from a broker-dealer or third party, disclose this practice and discuss the conflicts of interest it creates.**

The Company does not receive client referrals from any broker-dealer or third party as a result of the Company selecting that broker-dealer for its Castle Creek Funds or Managed Accounts.

#### **3.a Directed Brokerage**

**If the firm routinely recommends, requests or requires that a client direct you to execute transactions through a specified broker-dealer, describe the firm’s practice or policy.**

The Company has discretion to select broker-dealers for its Castle Creek Funds and Managed Accounts and must do so in accordance with the organization documents of the Castle Creek Funds and the investment advisory agreements of the Managed Accounts. The Company does not permit clients to direct brokerage to a specific broker-dealer.

**3.b If the firm permits a client to direct brokerage, describe your practice.**

The Company does not permit clients to direct brokerage.

**B. Discuss whether and under what conditions the firm aggregates the purchase or sale of securities for various client accounts. If the firm does not aggregate orders when it has the opportunity to do so, explain your practice and describe the costs to clients of not aggregating.**

The Company does not aggregate the purchase or sale of securities for various client accounts.

### **ITEM 13 - REVIEW OF ACCOUNTS**

**A. Indicate whether your firm periodically reviews client accounts or financial plans. If you do, describe the frequency and nature of the review and the titles of the supervised persons who conduct the review.**

The portfolio investments of the Castle Creek Funds and the Managed Accounts are regularly reviewed by the Principals. They monitor operations, overall performance, financial performance, and strategic direction of each portfolio company owned by the Castle Creek Funds and the Managed Accounts.

**B. If the firm reviews client accounts on other than a periodic basis, describe the factors that trigger a review.**

See Item 13A above.

**C. Describe the content and indicate the frequency of regular reports the firm provides to clients regarding their accounts. State whether these reports are written.**

Investors in Castle Creek Funds receive quarterly financial reports and audited annual financial statements. The reports contain financial information related to the Funds themselves as well as updates on the financial and regulatory condition of the investments. Investors have the ability to access these reports via a password-protected website.

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

**A. If someone who is not a client provides an economic benefit to the firm for providing investment advice or other advisory services to your clients, generally describe the arrangement, explain the conflicts of interest, and describe how the firm addresses the conflicts of interest. For purposes of this Item, economic benefits include any sales awards or other prizes.**

Employees of the Company may serve as directors of the portfolio companies and receive directors' fees as compensation for such service. For certain Castle Creek Funds, 100% of directors' fees so earned are netted against the management fee owed by such Castle Creek Funds.

**B. If the firm or a related person directly or indirectly compensates any person who is not a supervised person for client referrals, describe the arrangement and the compensation.**

The Company and its affiliates may enter into cash compensation arrangements with unaffiliated placement agents or third parties for introducing investors to Castle Creek with respect to investing in a Fund or participating in a Managed Account. Any sales charge associated therewith will ultimately be payable by the Company or its affiliates, either directly or through an offset of the management fee payable by the relevant Fund or Managed Account.



## **ITEM 15 - CUSTODY**

**If the firm has custody of client funds or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to clients, explain that clients will receive account statements from the broker-dealer, bank or other qualified custodian and that clients should carefully review those statements.**

The Company uses unaffiliated, qualified, third-party custodians to hold the assets of its Castle Creek Funds in a manner that it believes complies with current SEC standards and guidance. For example, these qualified custodians maintain the client assets in a manner that segregates them from assets for other clients of the custodian.

The Company is deemed to have custody of the underlying assets of all of its Castle Creek Funds. The Company relies on an exception available to “pooled investment vehicles” from the reporting and surprise audit obligations imposed by the SEC’s custody rule. In addition to holding client assets with an unaffiliated, qualified, third-party custodian, these client assets are also subject to a year-end audit by a major accounting firm that is a member of, and examined by, the Public Company Accounting Oversight Board (“PCAOB”). The audited financial statements are then provided to the underlying investors of these Castle Creek Funds within 120 days of the end of the fiscal year.

## **ITEM 16 - INVESTMENT DISCRETION**

**If the firm accepts discretionary authority to manage securities accounts on behalf of clients, disclose this fact and describe any limitations clients may (or customarily do) place on this authority. Describe the procedures you follow before you assume this authority (e.g., execution of a power of attorney).**

The Company provides investment advice to its Castle Creek Funds on a discretionary basis and the Managed Accounts on a discretionary or non-discretionary basis. For Castle Creek Funds, an affiliate of the Company, typically the General Partner of the applicable Castle Creek Fund, accepts discretionary investment authority for such Castle Creek Fund. Generally this discretion is subject only to the investment guidelines set forth in the organizational agreements of a Castle Creek Fund. Such organizational agreements generally expressly provide that the applicable General Partner has the authority to make all decisions concerning the investigation, selection, negotiation, structuring, commitment to, monitoring of, and disposition of investments.

## **ITEM 17 - VOTING CLIENT SECURITIES**

**A. If the firm has, or will accept authority to vote client securities, briefly describe the voting policies and procedures, including those adopted pursuant to SEC rule 206(4)-6 and the applicable state securities rules.**

Because the Company has, or will accept, authority to vote company securities held by a Castle Creek Fund, it has adopted policies and procedures (the "Proxy Voting Policies and Procedures") that it believes are reasonably designed to comply with the requirements of the Advisers Act. The Proxy Voting Policies and Procedures reflect the Company's commitment to vote such instruments in a manner consistent with the best interests of the Castle Creek Funds and the investors in such Funds. Subject to the foregoing, the Company will vote the securities held by a Castle Creek Fund in accordance with its fiduciary duty to such Castle Creek Fund and in a manner that maximizes the value of such Castle Creek Fund's assets. Conflicts may arise between the interest of a Castle Creek Fund, on the one hand, and the interest of the Company, on the other hand. The Chief Financial Officer of the Company will oversee the voting process, including evaluating whether the Company is subject to any material conflict of interest in connection with any vote and developing a course of action to address such conflict of interest.

Proxy voting reports identifying how proxies were voted where the Company has been delegated proxy voting authority and the Company's Proxy Voting Policies and Procedures are available upon written request to Castle Creek Advisors IV LLC, PO Box 1329, Rancho Santa Fe, CA 92067.

**B. If the firm does not have authority to vote client securities, disclose this fact. Explain whether clients will receive their proxies or other solicitations directly from their custodian or a transfer agent or from you and discuss whether (and, if so, how) clients can contact you with questions about a particular solicitation.**

The Company has authority to vote all Castle Creek Fund securities but does not have authority to vote Managed Account securities.

## **ITEM 18 - FINANCIAL INFORMATION**

**A. If the firm requires or solicits prepayment of more than \$1,200 in fees per client, six months or more in advance, include a balance sheet for your most recent fiscal year.**

The Company does not require or solicit prepayment of any client fees, six months or more in advance.

**B. If firm has discretionary authority or custody of client funds or securities, or firm requires or solicits prepayment of more than \$1,200 in fees per client, six months or more in advance, disclose any financial condition that is reasonably likely to impair your ability to meet contractual commitments to clients.**

At this time, the Company is not aware of any financial condition that could impair its ability to meet its contractual obligations to its Castle Creek Funds or Managed Accounts.

**C. If firm has been the subject of a bankruptcy petition at any time during the past ten years, disclose this fact, the date the petition was first brought and the current status.**

The Company has not been the subject of any bankruptcy petitions.