

## Item 1 – Cover Page

### PALLADIUM EQUITY PARTNERS ADVISOR, L.L.C.

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*March 30, 2019*

This brochure (this “Brochure”) provides information about the qualifications and business practices of Palladium Equity Partners Advisor, L.L.C. If you have any questions about the contents of this brochure, please contact us at (212) 218-5150 or [InvestorRelations@palladiumequity.com](mailto:InvestorRelations@palladiumequity.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Palladium Equity Partners Advisor, L.L.C. is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

Additional information about Palladium Equity Partners Advisor, L.L.C. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

Palladium Equity Partners Advisor, L.L.C. is required to identify and discuss any material changes made to its Brochure since its last annual update, dated March 30, 2018.

In 2018, the term of three private funds<sup>1</sup> ended, and the assets and proceeds were fully distributed, the funds were wound down, and a final audit was completed and distributed to all investors in each fund.

As part of Palladium's ongoing assessment to ensure consistency with what we consider to be best practices levels, we regularly review our compliance program and disclosures and make updates as deemed necessary or advisable. Included among such updates, this Brochure reflects revised or expanded disclosures relating to Item 5 (Fees and Compensation), Item 8 (Methods of Analysis, Investment Strategies, and Risk of Loss), and Item 11 (Code of Ethics, Participation or Interest in Client Transactions and Personal Trading).

Investors and prospective investors should review this entire Brochure carefully. In this regard, investors and prospective investors may request a marked copy of this Brochure that identifies changes from the prior version on file with the SEC. If Palladium Equity Partners Advisor, L.L.C. makes any material changes to this Brochure, this section will be revised to include a summary of such change.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Currently, our Brochure can be requested by contacting Eugenie Cesar-Fabian at (212) 218-7755 or by emailing [InvestorRelations@palladiumequity.com](mailto:InvestorRelations@palladiumequity.com).

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<sup>1</sup> Palladium Equity Partners II, L.P.; Palladium Equity Investors II, L.P.; and Palladium Equity Partners II-A, L.P.

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## **Item 4 – Advisory Business**

### **A. General Description of Advisory Firm**

Palladium Equity Partners Advisor, L.L.C., located in New York, New York, is an investment advisor to multiple pooled investment vehicles commonly known as private equity funds (collectively, the “Funds”). For purposes of this brochure, “Palladium” or the “Firm” includes this entity, along with its affiliated Investment Managers and General Partners (as discussed below). Palladium was founded in 1997. Palladium Equity Partners Advisor, L.L.C. was organized in May 2011, and is principally owned by the most senior investment professionals of the Firm: Marcos A. Rodriguez (Chairman and Chief Executive Officer), David Perez (President and Chief Operating Officer), Kevin L. Reymond (Chief Financial Officer), Luis Zaldivar (Senior Managing Director), Erik A. Scott (Managing Director), Adam Shebitz (Managing Director), Daniel Ilundain (Managing Director), Justin R. Green (Managing Director) and Caleb Clark (Managing Director). There are no non-employee owners of Palladium

### **B. Description of Advisory Services**

#### **a. Advisory Services**

Palladium’s “Investment Managers” are Palladium Capital Management III, L.L.C., Palladium Capital Management IV, L.L.C., and Palladium Capital Management V, L.L.C. The Investment Managers are generally responsible for carrying out the day to day investment activities of the Funds, and each is under the common ownership of Palladium Equity Partners Advisor, L.L.C. The duties and obligations of each Investment Manager are described more specifically in the Advisory Agreement that each Investment Manager enters into with the applicable Fund.

Palladium’s “General Partners” are Palladium Equity Partners III, L.L.C.; Palladium Equity Partners IV, L.L.C.; PEP Fluid G.P., L.P.; and PEP V GP, L.L.C. Each General Partner is generally responsible for the management, operation and policy of its affiliated Fund, which includes making investments on behalf of its affiliated Fund, entering into contracts on behalf of its affiliated Fund, acquiring, holding, and selling investments on behalf of its affiliated Fund, and serving as the agent designated to carry out the investment objectives of each Fund on behalf of all partners. The duties and obligations of each General Partner are more specifically described in the Limited Partnership Agreement (“Partnership Agreement”) that all partners in the relevant Fund enter into in connection with their investment in each such Fund.

#### **b. Private Funds**

Palladium’s affiliated private Funds are Palladium Equity Partners III, L.P. (“Fund III”), Palladium Equity Partners IV, L.P. (“Fund IV”), and Palladium Equity Partners V, L.P. (“Fund V”). Each of these Funds is organized as a Delaware limited partnership. Investments in each Fund are governed by such Fund’s Partnership Agreement, which include written investment guidelines that must be followed by the applicable General Partner in the course of investing on behalf of

each Fund, as well as side letter agreements with particular Fund investors that require certain provisions relating to their investments in the relevant Fund. We collectively refer to the Partnership Agreement, side letter agreements and Advisory Agreement of the Fund as each Fund's "Governing Documents."

All Funds are exempt from registration as an "investment company" under Section 3(c)(7) of the Investment Company Act of 1940 (the "Company Act"), and investments in the Funds are only offered to qualified investors via private placements of securities that are exempt from registration with the SEC under the Securities Act of 1933 (the "Securities Act"). Investment advice is provided by the Investment Managers and General Partners directly to the Funds, and not individually to the investors in the Funds. Pursuant to the Governing Documents of each Fund, investors are not permitted to impose restrictions on a Fund's investments after such Governing Documents are finalized.

The Funds invest primarily in lower middle-market private companies, with a general aim to invest in companies with annual revenues of approximately \$25 million to \$500 million, although from time to time certain investments fall outside this range. The Funds focus on investing in sectors including consumer/food, business and financial services, industrial and healthcare. Fund III, Fund IV and Fund V also focus on partnering with company founders, and on companies which Palladium believes would benefit from the growth of the U.S. Hispanic population. The investment strategy of each Fund is set forth in greater detail in its applicable offering documents and Governing Documents. Palladium does not participate in wrap fee programs.

#### **c. Co-Investment Vehicles**

From time to time, Palladium offers equity co-investment opportunities to invest alongside a Fund in Fund investments. Typically, such opportunities arise where the Fund's General Partner determines that the aggregate amount to be invested would exceed the amount determined to be appropriate or applicable for the relevant Fund, pursuant to such Fund's Governing Documents and in the General Partner's good faith judgment. Each Fund's Governing Documents contain provisions addressing allocation of co-investment opportunities, and Palladium maintains written allocation policies in its Compliance Manual. The considerations relating to the allocation of co-investments are described in greater detail at Item 11 below. As of the date of this brochure, Palladium has one co-investment vehicle, PEP Fluid Co-Invest, L.P.

From time to time, in connection with obtaining funding for portfolio investments, lenders may request equity co-investment opportunities as part of a lending agreement. When such circumstances arise, the General Partner will review the Fund's opportunities to obtain funding in the market, and determine whether it is in the Fund's best interest to agree to such request or not.

#### **d. Employee Investment Vehicles**

Certain Palladium employees are permitted to participate in Fund investments via specific investment vehicles established for such purpose. These employment investment vehicles do not invest alongside the related Fund's investment, but rather participate by investing in or alongside

the related General Partner in the applicable Fund. Palladium interests in Fund investments are discussed in greater detail at Item 11 below.

**e. Assets Under Management**

Palladium's Regulatory Assets Under Management as of December 31, 2018 total \$3,196,548,810. If adjusted to deduct accrued liabilities related to borrowings from private fund credit facilities, Palladium's assets under management as of December 31, 2018 would total \$2,881,877,479, all of which is on a discretionary basis.

## **Item 5 – Fees and Compensation**

Palladium's compensation arrangements vary among the Funds. The specific compensation terms are set forth in each Fund's Governing Documents. All Fund investors are "qualified purchasers" (as defined in Section 2(a)(51) of the Company Act).

### **A. Management Fees**

Palladium typically receives a management fee (the "Management Fee," as defined and described in each Fund's Governing Documents) as compensation, which is generally paid quarterly in advance. Management Fees for the Funds are typically in the range of 1.6 - 2 percent per annum of third-party investors' committed capital during the relevant Fund's investment period. After the active investment period ends, Management Fees are based on a percentage of the Fund's capital, pursuant to the terms of each Fund's Governing Documents and typically range from 1.25 – 2 percent per annum.

From time to time, the Management Fee is further modified, reduced, waived or rebated at Palladium's discretion, both voluntarily and on a negotiated basis with selected investors via side letter and other arrangements, which will typically not be disclosed to all other investors in the same Fund. Fees differ from one Fund to another, as well as among investors in the same Fund. In certain cases, the rate of Management Fees payable by certain investors in a Fund will be lower than other investors if the size of their investment in the Fund is larger than such others, if such investor subscribed to a Fund prior to a designated date or for other reasons in Palladium's discretion. In the event that Palladium does not provide services for the full quarterly period, the Management Fee is typically required to be returned on a pro rata basis to the investors in the applicable Fund. In general, the amount of fees returned is calculated based on the number of days remaining in the applicable period.

The Management Fee is paid by either Fund investors making capital contributions, or by the Firm withholding the fee amount from investment proceeds that would otherwise be distributable to Fund investors. When such investment proceeds are withheld, Palladium provides written notice to affected Fund investors explaining the withholding. The notice provides information about the amount withheld for the Management Fee and also the aggregate amount of investment proceeds.

### **B. Carried Interest**

In addition to the Management Fee, Palladium receives certain performance-based distributions referred to as "Carried Interest." Carried Interest is discussed in detail at Item 6 below.

### **C. Other Fees**

In addition to the Management Fee and Carried Interest, as described in each Fund's Governing Documents, Palladium also receives advisory fees from portfolio companies for performing advisory services for portfolio companies, though such fees may be, and from time to time have been, waived in the Investment Manager's discretion. Such advisory fees are compensation for services provided by the Investment Manager to the portfolio company,

including: designing financing structures, the disposition of assets and/or potential business acquisitions, evaluating and analyzing significant business development opportunities, developing cash management and portfolio company-level treasury functions, risk management and related insurance coverage, developing financial reporting packages, budgeting, forecasting and other financial planning activities for the portfolio company. The fees Palladium is permitted to receive for these types of services are described in each Fund's Governing Documents, and in addition to advisory fees, such fees also from time to time include break-up and topping fees, monitoring and directors' fees, organization fees, set-up fees, consulting fees, closing and other similar fees (together, "Other Fees").

As described in each Fund's Governing Documents, the Management Fee is reduced by a portion of, or by the entire amount of, Other Fees (after deducting expenses incurred by Palladium in connection with providing these services). If a Fund does not pay Management Fees, any such reductions will not benefit it. Also, Management Fees will generally be reduced by the entire amount of fees paid by the Funds to persons acting as a placement agent in connection with the offer and sale of interests in the applicable Fund to certain potential investors, pursuant to applicable laws and regulations and in accordance with the Fund's Governing Documents. In Fund III, broken deal expenses were borne by the Investment Manager, and such expenses reduced the offset to the Management Fee. In Fund IV and Fund V, broken deal expenses are borne by the applicable Fund as a Partnership Expense.

From time to time, Palladium engages and retains for various services senior advisors, advisors, consultants, and other similar professionals who are not employees or affiliates of Palladium and certain of whom receive payments from portfolio companies, either at the close of a Fund's investment in a company, or for services provided to the portfolio company after closing. Amounts paid to such consultants, advisors or professionals by portfolio companies will not be deemed paid to or received by Palladium, and such amounts will not offset the Management Fees paid by the Funds. The nature of the relationship with each of these professionals and the amount of time devoted or required to be devoted by them varies considerably. In certain cases, they provide Palladium with industry-specific insights, assist in transaction due diligence, make introductions to and provide reference checks on management teams. For certain Funds, fees for these services by such consultants, advisors or professionals are paid by the applicable Fund as "Partnership Expenses" pursuant to such Fund's Governing Documents. Such advisors or consultants may (i) further take on more extensive roles and contribute to the origination of new investment opportunities, for which their fees are paid by Palladium or the applicable Fund in accordance with the applicable Governing Documents, or (ii) serve as executives or directors on the boards of portfolio companies, for which their fees are paid by the applicable portfolio company.

In addition, from time to time Palladium engages independent industry executives and independent board members to serve on portfolio company boards or otherwise assist with portfolio company operations. Such industry executives and independent board members are paid for by Palladium or by the relevant portfolio company to which services are provided. Amounts paid to such industry executives and independent board members will not be deemed paid to or received by Palladium, and such amounts will not offset Management Fees paid by the Funds.



Moreover, Palladium and its employees can be expected to receive certain intangible and/or other benefits and/or perquisites arising or resulting from their activities on behalf of the Funds that will not be subject to any Management Fee offset or otherwise shared with the Funds, investors and/or portfolio companies. For example, airline travel or hotel stays incurred as Fund expenses typically result in “miles” or “points” or credit in loyalty/status programs, and such benefits or amounts will, whether or not de minimis or difficult to value, inure exclusively to Palladium and/or such personnel (and not the Funds, investors and/or portfolio companies) even though the cost of the underlying service is borne by the Funds, investors, and/or portfolio companies.

#### **D. Fund Expenses**

Over the life of a Fund, aggregate expenses to be borne by that Fund are usually substantial and will reduce returns to investors. As explained in their Governing Documents, the Funds are responsible for paying expenses related to their operations (such expenses, “Fund Expenses”). Fund Expenses vary from Fund to Fund, as described in each Fund’s Governing Documents.

Not all Funds bear all categories noted below; each Fund is governed by its Governing Documents, which identify Fund Expenses applicable to such Fund. Fund Expenses typically include, but are not limited to:

(i) fees, costs and expenses related to third party expenses, including but not limited to, tax advisors, accountants, administrators, legal counsel (including legal services provided in connection with complying with provisions in side letter agreements, including “most favored nations” provisions), investment bankers, consultants, depositaries or custodians, operating partners and other third-party professionals, advisors (including, but not limited to, consulting fees or other compensation (whether in the form of cash or equity) for senior or special advisors, and other similar professionals incurred by a Fund for the benefit of such Fund and/or portfolio companies but excluding any general retainer paid by Palladium to any senior or special advisor that is not specific to any particular portfolio company), brokers, agents, auditors, valuation firms and other advisors and professionals, the costs and expenses of any lenders, investment banks and other financing sources,

(ii) all fees, costs and expenses, if any, incurred by or on behalf of a Fund in developing, negotiating and structuring prospective or potential Investments which are not ultimately made, including without limitation any legal, tax, accounting, advisory, consulting, printing and other related costs and expenses in connection therewith and any liquidated damages, forfeited deposits, reverse termination fees and/or similar payments and commitment fees in respect of investments that are not ultimately consummated (“Broken Deal Expenses”),

(iii) all out-of-pocket fees, costs and expenses (excluding travel expenses except to the extent that they are paid by the relevant portfolio company), if any, incurred in developing, negotiating, structuring, purchasing, trading, settling, monitoring, holding, disposing and liquidating of actual and prospective investments, including without limitation, any financing, legal, tax, administrative, accounting, advisory and consulting and other similar costs and expenses in connection therewith (to the extent not subject to any reimbursement of such costs

and expenses reimbursed by a portfolio company or other third parties or capitalized as part of the acquisition price of the transaction) and any costs and expenses associated with vehicles through which a fund or its limited partners directly or indirectly participate in investments;

(iv) brokerage commissions, hedging costs, prime brokerage fees, custodial expenses, other bank service fees, underwriting commissions, clearing and settlement charges and other investment costs, fees and expenses actually incurred in connection with making, holding, settling, monitoring or disposing of actual portfolio investments (including, without limitation, any costs or expenses relating to currency conversion in the case of investments denominated in a currency other than U.S. dollars);

(v) market data and research-related expenses, including, without limitation, news and quotation equipment and services;

(vi) technology-related expenses, including, without limitation, costs and expenses of technology service providers and related software, hardware and subscription-based services utilized in connection with a Fund's investment and operational activities, including but not limited to, the sourcing, origination and monitoring of investments;

(vii) expenses relating to ongoing compliance-related matters and regulatory reporting obligations specifically relating to a Fund's activities (including, without limitation, expenses relating to the preparation and filing of Form PF, reports and notices to be filed with the U.S. Commodity Futures Trading Commission and/or reports, filings, disclosures and notices prepared in connection with the laws and/or regulations of jurisdictions in which a Fund engages in activities, including any notices, reports and/or filings required under the Alternative Investment Fund Managers Directive and any related regulations) and/or other regulatory filings, notices or disclosures of the Investment Manager and its affiliates relating to a Fund and its activities;

(viii) interest on and fees and expenses incurred in respect of a Fund's borrowings, guarantees and credit support obligations, including, but not limited to, the arranging thereof;

(ix) the costs of and expenses of any litigation involving a Fund or a portfolio company and the amount of any judgments, fines, remediation or settlements (whether involving alleged wrongdoing or otherwise) paid in connection therewith,

(x) the costs and expenses of insurance policies covering directors and officers, liability or other insurance and indemnification (including advancement of any fees, costs or expenses to persons entitled to indemnification) or extraordinary expense or liability relating to the affairs of a Fund, in each case, to the extent such costs, expenses and amounts relate to claims or matters that are otherwise entitled to indemnification pursuant to the Governing Documents, including the costs and expense of such insurance policies that cover the General Partners, Investment Managers, and/or employees thereof in connection with their asset management activities;

(xi) expenses of liquidating the Fund;

(xii) expenses associated with the preparation and distribution of a Fund's periodic reports and related statements (e.g., financial statements, tax returns and Schedules K-1) and other printing and reporting-related expenses (including the preparation and distribution of other notices and communications relating to a Fund) in respect of the Fund and its activities;

(xiii) subject to the Funds' Governing Documents, any taxes, fees or other governmental charges levied against a Fund and all expenses incurred in connection with any tax audit, investigation, settlement or review of a Fund; and

(xiv) to the extent permitted under the Fund's Governing Documents, the expenses and costs relating to the LP Advisory Committee and its members and observers, and meetings of partners as well as expenses of third-party advisory committees of the Funds.

Other than as described herein, and pursuant to each Fund's Governing Documents (as applicable to each), neither Palladium nor 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.

#### **E. Co-Investment Vehicle Expenses**

Subject to the Fund's Governing Documents, a co-investment vehicle, or other similar vehicle established to facilitate the investment by investors alongside the Fund may be formed in connection with the consummation of a transaction. In the event a co-investment vehicle is created, the related fund shall not bear expenses related to its organization and formation or other expenses incurred solely for the benefit of the co-investment vehicle. If a proposed transaction is not consummated (i.e., a "Broken Deal"), and no such co-investment vehicle has been finalized, the related fund shall not bear the co-investment vehicle's pro rata amount of any expenses relating to such Broken Deal.

#### **F. Allocation of Expenses**

From time to time, Palladium, the Funds and/or portfolio companies may receive products or services from third parties, the costs and expenses of which are allocable (in whole or in part) between or among Palladium, the Funds and / or the portfolio companies. Palladium allocates expenses among parties in the manner prescribed by the applicable Governing Documents for such Funds, and in cases where costs and expenses are properly allocable between or among multiple parties, the allocation would be done in a manner that Palladium considers to be fair and equitable, taking into account factors such as the actual or estimated relative benefits to each applicable party of the expense-generating item (which typically would include consideration of the Funds' relative position sizes in an expense-generating item or investment). A conflict of interest could arise in Palladium's determination whether certain costs or expenses that are incurred in connection with the operation of a Fund meet the definition of Fund Expenses for which such Fund is responsible, or whether such expenses should be borne by Palladium. The Funds will be reliant on the determinations of Palladium in this regard. From time to time, it is possible that subsequent review of allocations could result in an identification of expenses that should have been allocated in a different manner, in which case measures would be undertaken to correct such circumstance, which might include a reversal of the original expense allocations, if possible, or such other equitable adjustment believed by Palladium to be the most appropriate corrective measure. There can be no assurance that allocation errors will not arise or that corrective measures will be possible in all circumstances.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

The General Partner of each Fund typically receives a portion of the profits of the affiliated Fund if certain thresholds for Fund performance are met. This is referred to as “Carried Interest,” and is defined and described in detail in each Fund’s Governing Documents.

The performance thresholds necessary for Carried Interest to be paid are set forth in each Fund’s organizational documents, offering documents, and governing partnership agreements. If Carried Interest is paid to the General Partner, it is separate and distinct from the Management Fees charged for advisory services. If Carried Interest is paid, the fee amount is distributed to the General Partner from investment proceeds that would otherwise be distributable to Fund investors, and all investors are provided written notice of the fee payment. Certain General Partners from time to time in their discretion have elected to waive, defer, or reduce an investor’s obligation to pay Carried Interest in connection with their respective Fund(s), and other General Partners retain the right to do so, per each respective Fund’s Governing Documents. Carried Interest differs from one Fund to another, as well as (with respect to certain Funds) among investors in the same Fund. In certain cases, as explained in the Governing Documents of each relevant Fund, the rate of Carried Interest payable by investors in certain Funds will be lower the larger the size of the investment in the Fund made by the investor.

The provisions for Carried Interest may give rise to an incentive for the General Partner to make investments that are riskier or more speculative for the Funds than would be the case if it did not receive Carried Interest, though all Funds require performance standards to be met before Carried Interest may be paid. To the extent that the Funds have varying rates of Carried Interest or varying performance hurdles, an incentive may arise for the Firm to disproportionately allocate time, services, or functions to Funds paying an effective higher rate of Carried Interest or effective lower hurdle, or to allocate investment opportunities to such Funds.

To the extent that the Firm launches a new fund while a current Fund is being actively invested, all investments are made pursuant to Palladium’s allocation policy. Each Fund’s Governing Documents set forth specific requirements designed to ensure that all investors are treated fairly, and to prevent such potential conflict from unduly influencing the allocation of investment opportunities among Funds, including (but not limited to) provisions outlining the parameters of the Firm’s ability to launch new funds while current funds are being actively invested.

## **Item 7 – Types of Clients**

Palladium provides investment advisory services to pooled investment vehicles that are exempt from registration under the Company Act and whose securities are exempt from registration under the Securities Act. Investment advice is provided directly to the Funds and not individually to investors in the Funds. In general, the minimum initial investment in a Fund is \$10 million, although lesser amounts are from time to time accepted at the discretion of the applicable Fund's General Partner.

All Fund investors are "qualified purchasers" as defined in the Company Act and include, among others, some or all of the following: public and private corporate pension plans, charitable organizations, endowments, high net worth individuals, banks, profit sharing plans, trusts, estates, corporations, limited partnerships, limited liability companies and other entities.

## **Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss**

The Funds invest primarily in middle-market private companies, with a general aim to invest in companies with revenues of approximately \$25 million to \$500 million, although certain investments may fall outside this range. The Funds focus on investing in companies in sectors including consumer/food, business and financial services, industrial and healthcare. Fund III, Fund IV, and Fund V also focus on partnering with company founders, and on companies which Palladium believes would benefit from the growth of the U.S. Hispanic population.

While each Fund's investment strategy may generally be characterized by its middle-market focus, operating strategy and industry expertise, Fund III, Fund IV, and Fund V focus especially on investing in founder-owned companies that are well-positioned to capitalize upon the U.S. Hispanic market. In Palladium's view, this market exhibits favorable characteristics for private equity investing, including a young, fast-growing population which fuels growth in consumption and business formation and a lack of focused attention by Wall Street and the established U.S. private equity community. Palladium believes the characteristics of this market make it particularly attractive for the Firm given the Funds' target industry sectors, value-added investment strategy, and the Firm's prior experience in the market and access to U.S. Hispanic business leaders and investment opportunities.

An investment in any Fund is a long-term, illiquid investment involving a high degree of risk and potential conflicts of interest. Such investment is suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in the Fund and for which the Fund does not represent a complete investment program. There can be no assurance that any Fund will meet its investment objectives or otherwise be able to carry out its investment program successfully or that an investor will receive a return of its capital.

In addition, there can be no assurance that any Fund will be able to avoid losses, generate returns for investors or that returns will be commensurate with the risks of the Fund's investments. A Fund investment should only be made by persons that can afford a loss of their entire investment. The possibility of partial or total loss of capital will exist, and an investor contemplating an investment in a Fund must be both prepared and able to bear capital losses that may result from such investment.

While certain risks and potential conflicts of interest are summarized below, investors should refer to each Fund's offering documents, which further describe relevant risks and potential conflicts relating to a potential investment in a Fund. Investors should carefully review and consider all of the risks related to investing in a Fund that are set forth in the offering documents for the applicable Fund.

**No Assurance of Investment Return.** Palladium and / or any of its affiliates cannot provide assurance that it will be able to choose, make and realize investment returns from any particular investment. There can be no assurance that the Funds will be able to generate returns for their Partners or that the returns will be commensurate with the risks of investing in the type of companies and transactions described herein. Actual realized returns on unrealized investments will depend on various factors, including future operating results, market conditions at the time of disposition, legal and contractual restrictions on transfer that may limit liquidity,

any related transaction costs and the timing and manner of disposition, all of which may differ from the assumptions and circumstances on which the current unrealized valuations are based. Accordingly, the actual realized returns on unrealized investments may differ materially from the returns indicated herein. There can be no assurance that any Partner will receive any distribution from the Funds. Partial or complete sales, transfers or other dispositions of investments which may result in a return of capital or the realization of gains, if any, are generally not expected to occur for a number of years after an investment is made. All investments involve the risk of partial or total loss of capital. Accordingly, an investment in the Funds should only be considered by persons who can afford a loss of their entire investment.

**Highly Competitive Market for Investment Opportunities.** The activity of identifying, completing and realizing attractive investments is highly competitive, and involves a high degree of uncertainty. There can be no assurance that a Fund will be able to locate and complete investments that satisfy its investment objectives or that it will be able to fully invest its committed capital. The Funds will be competing for investments with many other investment vehicles, as well as corporations or strategic investors, individuals, public equity markets, financial institutions, hedge funds, sovereign wealth funds and other institutional investors. Further, over the past several years, an ever-increasing number of private equity funds have been formed and others have been consolidated (and many such existing funds have grown substantially in size), resulting in an unprecedented amount of capital available for private equity interest. Additional funds and investment vehicles with similar investment objectives may be formed in the future by other unrelated parties and further consolidations may occur (resulting in larger funds and vehicles). Consequently, it is expected that competition for appropriate investment opportunities will increase, thus reducing the number of investment opportunities available to the Fund and adversely affecting the terms upon which investments can be made.

**Illiquid and Long-Term Investments.** Investment in a Fund requires a long-term commitment with no certainty of return. Many Fund investments will be highly illiquid, and there can be no assurance that such Fund will be able to realize such investments in a timely manner. Although investments may sometimes generate some current income, the return of capital and the realization of gains, if any, from an investment generally will occur only upon the partial or complete disposition of such investment. While an investment may be sold at any time, it is not generally expected that this would occur for a number of years after the investment is made. It is unlikely that there will be a public market for the securities held by the Funds at the time of their acquisition. Therefore, no assurance can be given that, if a general partner is determined to dispose of a particular investment held by a Fund, it could dispose of such investment at a prevailing market price, and there is a risk that disposition of such investments may require a lengthy time period or may result in distributions in kind to investors. The Funds will generally not be able to sell their securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. In addition, there can be no assurances that the Funds' investments can be sold on a private basis. Furthermore, in some cases the Funds may be prohibited by contract, legal or regulatory reasons from selling certain securities for a period of time.

**No Market for Limited Partnership Interests; Restrictions on Transfers.** Interests in the Funds have not been registered under the Securities Act, the securities laws of any U.S. state

thereof or the securities laws of any other jurisdiction, and, therefore, cannot be resold unless they are subsequently registered under the Securities Act and other applicable securities laws or an exemption from registration is available. It is not contemplated that registration of the interests under the Securities Act or other securities laws will ever be effected. Fund interests may only be offered, sold or transferred to individuals or entities who or which are qualified investors under applicable securities law. Furthermore, there is no public market for the Fund interests and one is not expected to develop. Accordingly, it may be difficult to obtain reliable information about the value of the Fund interests. Each limited partner will be required to represent that it is a qualified investor under applicable securities laws and that it is acquiring its interests for investment purposes and not with a view to resale or distribution and that it will only sell and transfer its Fund interest to a qualified investor under applicable securities laws or in a manner permitted by the partnership agreements and consistent with such laws. A limited partner will not be permitted to assign, sell, exchange, transfer (including any mortgage, hypothecation or pledge), securitize or otherwise dispose of any of its rights or obligations with respect to its interests, except by operation of law, without the prior written consent of the General Partners, which consent may be withheld in the sole discretion of the General Partners. Except in extremely limited circumstances, withdrawals from the Funds will not be permitted. Each limited partner must be prepared to bear the risks of owning interests for an extended period of time.

**Dependence on Key Personnel.** Palladium will be relying extensively on the experience, relationships and expertise of its investment professionals to successfully manage the respective Funds. There can be no assurance that these individuals will remain in the employ of Palladium, or otherwise continue to be able to carry on their current duties throughout the term of a Fund. In addition, members of the investment teams are not dedicated exclusively to any one Fund and will have other responsibilities for Palladium. Conflicts of interest may arise in allocating management time, services or functions, and the General Partners and their affiliates' ability to access other professionals and resources within Palladium for the benefit of the Funds as described in this Brochure may be limited. Such access may also be limited by the internal compliance policies of Palladium or other legal or business considerations, including those constraints generally discussed herein.

**Dependence on Industry Executives.** Though they are neither Palladium employees nor affiliates, Palladium coordinates and works with a network of independent operating executives, consultants, and directors, which it continually seeks to improve and enhance for the benefit of its Funds and Portfolio Companies. Operating executives may, and from time to time do, provide services to Portfolio Companies or potential Portfolio Investments across multiple Funds. Accordingly, a conflict of interest may arise with respect to how such industry executives allocate their time for Palladium-related services relating to Portfolio Companies. Palladium strives to align operating executive incentives to mitigate this risk by, among other things, providing industry executives an opportunity to invest in Portfolio Companies on the same economic basis as the related Fund.

**Reliance on Palladium.** The General Partners and the Investment Managers will have exclusive responsibility for the Funds' activities, and, other than as may be set forth in the applicable partnership agreements, limited partners will not be able to make investment or any



other decisions concerning the management of the Funds (although the advisory committees will have a role in reviewing and / or approving certain matters as more fully set forth in the applicable partnership agreements). Limited partners have no rights or powers to take part in the management of the Funds or make investment decisions and will not receive the amount of any portfolio company's financial information that is generally available to the General Partners and the Investment Manager. The General Partners will generally have sole and absolute discretion in structuring, negotiating and purchasing, financing and eventually divesting investments on behalf of the Funds (subject to specified exceptions).

**Broad Investment Mandate.** Within the investment strategy to be executed by the Funds, there are generally no material limitations on the instruments, markets or countries in which the Funds may invest or the specific investment strategies that may be employed on behalf of the Funds. It is expected that, in light of the Funds' broad investment mandates, the Funds may make equity and / or debt investments that do not involve control or influence over the underlying portfolio company. The Funds will be permitted to invest (and may actually invest) in any number of companies operating in a wide range of industries or activities. The Funds' portfolios may be concentrated at various points in time, including, for example, with respect to the number of investments included in the portfolio (which will be particularly limited when the Funds commence their investing activities), the nature of such investments and the geographies or industry sectors represented by the companies in which the Funds invest.

**Non-U.S. Investments.** From time to time, the Funds invest in securities of non-U.S. issuers. Investing in non-U.S. securities involves risks relating to (i) currency exchange matters, including fluctuations in the rates of exchange and costs associated with currency conversion; (ii) differences between the U.S. and non-U.S. securities markets, including potential price volatility in and relative illiquidity of some non-U.S. securities markets, absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and varying degrees of government supervision and regulation; (iii) certain economic and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital; and (iv) the possible imposition of non-U.S. taxes on income and gains recognized with respect to such securities.

**Risk of Limited Number of Investments.** The Funds may participate in a limited number of investments and as a consequence, the aggregate return of the Funds may be substantially adversely affected by the unfavorable performance of even a single investment. Investors have no assurance as to the degree of diversification of investments, either by geographic region, asset type or sector. To the extent the Funds concentrate their investments in a particular issuer, security or geographic region, its investments will become more susceptible to fluctuations in value resulting from adverse economic or business conditions with respect thereto. As a consequence, the aggregate returns of the Funds may be adversely affected by the unfavorable performance of one or a small number of investments. Moreover, since all investments cannot reasonably be expected to perform well or even return capital, for the Funds to achieve above-average returns one or a few of their investments must perform very well. There are no assurances that this will be the case.

**Regulatory Risks.** Financial services, healthcare, and other industries in which the Funds may invest operate in a highly regulated environment and are subject to both extensive legal and regulatory restrictions and limitations, and also to supervision, examination and enforcement by regulatory authorities. Failure to comply with any of these laws, rules or regulations, many of which are enacted at both the federal and state levels, and some of which are subject to interpretation and may be subject to change, could result in a variety of adverse consequences, which may have material, adverse effects on a Fund's investment in companies operating in such industries. In addition, recently enacted laws and regulations have changed, and will continue to change, the regulation of the financial services industry, the full impact of which may not be known for many months or years.

**Reliance on Portfolio Company Management.** The day-to-day operations of each portfolio company will be the responsibility of the portfolio company's management team. Although the General Partners will be responsible for monitoring the performance of each portfolio company and each Fund intends to invest in companies operated by strong management, there can be no assurance that a portfolio company's management team will be able to operate such portfolio company in accordance with a Fund's plans.

**Risks Relating to Due Diligence of and Conduct at Portfolio Companies.** Before making investments in any particular company, the Funds will typically conduct due diligence that they deem reasonable and appropriate based on the facts and circumstances applicable to each investment. Due diligence may entail evaluation of important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants, investment banks and other third parties may be involved in the due diligence process to varying degrees depending on the type of investment. Such involvement of third party advisors or consultants may present a number of risks primarily relating to the Funds' reduced control of the functions that are outsourced. In addition, if the Funds are unable to timely engage third-party providers, their ability to evaluate and acquire more complex targets could be adversely affected. When conducting due diligence and making an assessment regarding a potential investment, the Funds will rely on the resources available to it, including information provided by the target of the investment and, in some circumstances, third-party investigations and/or consumer surveys. The due diligence investigation that the Funds carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful. Conduct occurring at portfolio companies, even activities that occurred prior to a Fund's investment therein, could have an adverse impact on such Fund.

**Misconduct of Employees and Third-Party Service Providers.** Misconduct by employees of the Investment Managers or by third-party service providers could cause significant losses to the Funds. Employee misconduct may include binding the Funds to transactions that exceed authorized limits or present unacceptable risks. Losses could also result from actions by third-party service providers, including, without limitation, misappropriating assets or a failure of a custodian that holds securities of the Funds. In addition, employees and third-party service providers may improperly use or disclose confidential information, which could result in litigation or serious financial harm, including limiting the Funds' business prospects or future marketing

activities. No assurances can be given that the due diligence performed by the Investment Managers will identify or prevent any such misconduct.

**Uncertainty of Financial Projections.** Palladium will generally establish the pricing of transactions and the capital structure of portfolio companies on the basis of financial projections for such portfolio companies. There can be no assurance that the projected results will be obtained, and actual results could vary significantly from the projections.

**Use of Leverage.** Each Fund's portfolio investments typically include companies whose capital structures will generally have leverage. While investments in leveraged companies offer the opportunity for capital appreciation and the relevant Fund's General Partner will seek to use leverage in a manner it believes to be prudent, such investments also involve a higher degree of risk.

Each Fund's portfolio investments will generally involve varying degrees of leverage, which could magnify the impact of circumstances such as unfavorable market or economic conditions, operating problems and other changes that affect the relevant portfolio company or its industry, resulting in a more pronounced effect of such circumstances on the profitability or prospects of such companies. In using leverage, these companies will generally be subject to terms and conditions that include restrictive financial and operating covenants, which could impair their ability to finance or otherwise pursue their future operations or otherwise satisfy additional capital needs.

Moreover, rising interest rates will generally increase portfolio companies' interest expense, causing potential losses and / or the inability to service debt levels. If a portfolio company cannot generate adequate cash flow to meet its debt obligations, the relevant Fund could suffer a partial or total loss of capital invested in the portfolio company.

**Investments in Less Established Companies.** A Fund could invest a portion of its assets in the securities of less established companies, or early stage companies. Investments in such early stage companies will generally involve greater risks than generally are associated with investments in more established companies. To the extent there is any public market for the securities held by the relevant Fund, such securities could be subject to more abrupt and erratic market price movements than those of larger, more established companies. Less established companies tend to have lower capitalizations and fewer resources and, therefore, often are more vulnerable to financial failure. Oftentimes, such companies have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow. Start-up enterprises usually do not have significant or any operating revenues, and any such investment should be considered highly speculative and could result in the loss of the relevant Fund's entire investment therein. In addition, less mature companies could be deemed to be more susceptible to irregular accounting or other fraudulent practices. In the event of fraud by any company in which a Fund invests, the Fund could suffer a partial or total loss of capital invested in that company. There can be no assurance that any such losses will be offset by gains (if any) realized on such Fund's other investments.

**Investments Longer than Term.** The Funds may make investments which may not be advantageously disposed of prior to the date the Funds will be dissolved, either by expiration or

the Funds' terms or otherwise. Although the General Partners expect that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, the Funds may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. In addition, although upon the dissolution of the Funds, the General Partners (or the liquidating trustees) will be required to use their best efforts to reduce cash or cash equivalents of the Funds, subject to obtaining fair value for such assets and any tax or other legal considerations, there can be no assurances with respect to the time frame in which the winding up and final dissolution of the proceeds to the limited partners will occur.

**Risks of Litigation.** Executing the Funds' investment strategy can be a contentious and adversarial process. Different investor groups may have qualitatively different, and frequently conflicting, interests. The Funds' investment activities may include activities that are hostile in nature and will subject it to the risks of becoming involved in litigation by third parties. This risk may be greater where the Funds exercise control or significant influence over a company's direction. The expense of defending claims against the Funds by third parties and paying any amounts pursuant to settlements or judgments would be borne by the fund and would reduce net assets and could require the Partners to return distributed capital and earnings to the Funds. The General Partners will be indemnified by the Funds in connection with such litigation, subject to certain conditions.

**Currency Risk.** Although most of the Funds' investments will be U.S.-dollar denominated, investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to the U.S. dollar. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. The General Partners may try to hedge these risks by investing in non-U.S. currencies, forward foreign currency exchange contracts, or any combination thereof, but there can be no assurance that such strategies will be effective.

**Force Majeure Risk.** Portfolio companies may be affected by force majeure events (i.e., events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fire, flood, earthquakes, outbreaks of an infectious disease, pandemic or any other serious public health concern, war, terrorism and labor strikes). Some force majeure events may adversely affect the ability of a party (including a portfolio company or a counterparty to the Funds or a portfolio company) to perform its obligations until it is able to remedy the force majeure event. In addition, the cost to a portfolio company or the Funds of repairing or replacing damaged assets resulting from such force majeure event could be considerable. Certain force majeure events (such as war or an outbreak of an infectious disease) could have a broader negative impact on the world economy and international business activity generally, or in any of the countries in which the Funds may invest specifically. Additionally, a major governmental intervention into industry, including the nationalization of an industry or the assertion of control over one or more portfolio companies or its assets, could result in a loss to the Funds, including if its investment in such portfolio company is canceled, unwound or acquired (which could be without what the Fund considers to be adequate compensation). Any of the foregoing may therefore adversely affect the performance of the Funds and their investments.

**Counterparty Risk.** The Funds are exposed to the risk that third parties that may owe the Funds money, securities or other assets will not perform their obligations. These parties include trading counterparties, clearing agents, exchanges, clearing houses, custodians, prime brokers and other financial intermediaries. These parties may default on their obligations 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 us, 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 held by counterparties could result in the loss of such securities upon the bankruptcy, insolvency or failure of such counterparties.

**General Risks of Investment in Latin America.** Potential investors should be aware that capital invested by the Funds in companies with exposure to operations in Latin America will be subject to risks connected with the ownership and management of investments in Latin America. Investors should recognize that business operations and investment activities in Latin America involve a high degree of risk and special considerations not typically associated with investing in more developed and stable environments. Participation in investments in companies with exposure to operations in Latin America is thus suitable only for investors capable of understanding the specific risks involved and able to bear the potential economic loss. The overall value of the Funds' investments in companies with exposure to operations in Latin America will be affected by the distinctive economic, political and regulatory environment in Latin America, including interest rate levels, inflation, the availability of financing in the local markets, as well as changes of the legal environment on both the federal and local level in such markets.

**OFAC and FCPA Considerations.** Economic sanction laws in the U.S. and other jurisdictions may prohibit Palladium, Palladium's professionals and the Funds from transacting with or in certain countries and with certain individuals and companies. In the U.S., the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") administers and enforces laws, Executive Orders and regulations establishing U.S. economic and trade sanctions. Such sanctions prohibit, among other things, transactions with, and the provision of services to, certain foreign countries, territories, entities and individuals. These entities and individuals include specially designated nationals, specially designated narcotics traffickers and other parties subject to OFAC sanctions and embargo programs. The lists of OFAC prohibited countries, territories, persons and entities, including the List of Specially Designated Nationals and Blocked Persons, as such list may be amended from time to time, can be found on the OFAC website at <http://www.treas.gov/ofac>. In addition, certain programs administered by OFAC prohibit dealing with individuals or entities in certain countries regardless of whether such individuals or entities appear on the lists maintained by OFAC. These types of sanctions may significantly restrict the Funds' investment activities in emerging market countries.

In some countries, there is a greater acceptance than in the U.S. of government involvement in commercial activities, and of corruption. Palladium, Palladium's professionals and the Funds are committed to complying with the U.S. Foreign Corrupt Practices Act ("FCPA") and other anti-corruption laws, anti-bribery laws and regulations, as well as anti-boycott regulations, to which they are subject. As a result, the Funds may be adversely affected because of its

unwillingness to participate in transactions that violate such laws or regulations. Such laws and regulations may make it difficult in certain circumstances for the Funds to act successfully on investment opportunities and for investments to obtain or retain business.

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

**Eurozone Risks; Brexit.** The UK formally notified the European Council of its intention to leave the European Union ("EU") on March 29, 2017. Under the process for leaving the EU, the UK will remain a member state until a withdrawal agreement is entered into, or failing that, two years following the notification of its intention to leave – although that deadline can be extended by agreement.

Under guidelines published by the European Council, the negotiations for leaving are intended to produce an agreement that ensures an orderly withdrawal from the EU and a political declaration outlining a framework for a future relationship between the UK and the EU.

The government and the EU have agreed the text of a withdrawal agreement and a political declaration on a future relationship, but the withdrawal agreement has been rejected by the UK Parliament on two occasions and there is no guarantee that it can be rendered acceptable to Parliament in the time available, or at all. The UK has requested an extension of the deadline from EU. The EU Council is agreeable to a short extension for the purpose of (i) putting the withdrawal agreement back to Parliament for approval and (ii) considering further options if the withdrawal agreement is again rejected.

The UK will therefore remain a member state subject to EU law with privileges to provide services under the single market directives until at least 29 March 2019, but even though the EU is agreeable to an extension, any further privileges after 29 March 2019 will depend on some form of affirmative action taken by the UK, such as, adopting the proposed withdrawal agreement (which provides for a transition or implementation period), amending current UK law to provide for an extension to an (as yet) unspecified date, or (in theory) even revoking its notification to leave the EU.

In summary, it is expected that the UK will not leave the EU on 29 March 2019, but will have an extension either until 12 April 2019 or 22 May 2019, depending on whether the

withdrawal agreement is approved by Parliament. A short extension does not preclude a no-deal Brexit at the end of the extension period. Although it is probable that the adverse effects of a no-deal Brexit (if it were to occur) will principally affect the UK (and those having an economic interest in, or connected to, the UK), given the size and global significance of the UK's economy, unpredictability about the terms of its withdrawal and its future legal, political and/or economic relationships with Europe is likely to be an ongoing source of instability, produce significant currency fluctuations, and/or have other adverse effects on international markets, international trade agreements and/or other existing cross-border cooperation arrangements (whether economic, tax, fiscal, legal, regulatory or otherwise). The withdrawal of the UK from the EU could therefore adversely affect the Funds and fund portfolio companies. In addition, although it seems less likely now than at the time of Britain's referendum, the withdrawal of the UK from the EU could have a further destabilizing effect if any other member states were to consider withdrawing from the EU, presenting similar and/or additional potential risks and consequences for the Funds and fund portfolio companies.

**Alternative Investment Fund Managers Directive.** The European Union Alternative Investment Fund Managers Directive (the "Directive") imposes requirements on non-European Economic Area ("EEA") investment fund managers ("AIFMs") which market alternative investment funds ("AIFs") to professional investors within the EEA.

These requirements have the potential to adversely affect a Fund, including by (i) affecting the range of investment and realization strategies that the Fund is able to pursue, (ii) limiting the territories in which the Client may seek investors, and (iii) materially adding to the costs associated with compliance, monitoring and reporting. Restrictions on early distributions or reductions in capital in respect of EEA-based portfolio companies (so-called "anti-asset-stripping" rules) may limit the use of certain investment and realization strategies, such as dividend recapitalizations and reorganizations by the Fund. Some member states do not currently allow the marketing of AIFs by non-EEA AIFMs. Some member states impose additional requirements which make it disproportionately burdensome to market a non-EEA AIF in that member state. Certain competitors may not be subject to the Directive's requirements, with the result that the Fund may be at a relative disadvantage. Where Palladium has marketed an AIF in a member state in compliance with the national private placement regime and that marketing has resulted in investors in that member state investing in the AIF, Palladium's ongoing compliance with the reporting and other requirements of that member state will continue at least until all of such investors dispose of their interests in the AIF. Compliance with these requirements may therefore result in significant additional costs for the Funds. In the future, it may be possible for non-EEA AIFMs to market an AIF within the EEA 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. If the applicable non-EEA investment fund manager sought to comply with the requirements needed to use the passport, this could have other adverse effects including, among other things, increasing the regulatory burden and costs of operating and managing a Fund and its investments.

**General Economic and Market Conditions.** The success of the Funds' investment activities will be affected by general economic and market conditions, as well as by changes in applicable laws, trade barriers, currency exchange controls, rate of inflation, currency

depreciation, asset reinvestment, resource self-sufficiency and national and international political, environmental and socioeconomic circumstances in respect of the countries in which the Fund may invest (including wars, terrorist acts or security operations). These factors may affect the level and volatility of investment prices and the liquidity of the Funds' investments, which could impair the Funds' profitability or result in losses. In addition, general fluctuations in interest rates may affect the Funds' investment opportunities and the value of the Funds' investments. Furthermore, the general fluctuations in the market prices of securities and interest rates may affect the Funds' investment opportunities and the value of the Funds' investments. The Funds, the portfolio companies and Palladium's financial condition may be adversely affected by continued periods of lackluster economic growth in the U.S. and global economies or by a significant global economic downturn. Palladium may be subject to legal, regulatory, reputational and other unforeseen risks that could have a material adverse effect on its business and operations and thereby could impact the Funds. Moreover, a recession, slowdown and/or sustained downturn in the U.S., Latin American or global economy (or any particular segment thereof) could have a pronounced impact on the Funds and could adversely affect the Funds' profitability, impede the ability of the Funds' portfolio companies to perform under or refinance their existing obligations, and impair the Funds' ability to effectively deploy its capital or achieve attractive risk-adjusted returns. It is possible that a weakening of credit conditions could adversely affect the ability of the Funds to finance and consummate investments, which could adversely affect the business of the Funds and impede the Funds' ability to effectively achieve its investment objective. Any of the foregoing events could result in substantial or total losses to the Funds in respect of certain investments. The factors that could cause one of the investments to decline in value or otherwise perform poorly could affect other investments. The investment performance of one or more investments may not be uncorrelated or unrelated to the investment performance of other investments generally. In the event of a broad market downturn or developments within one or more portions of the global economy, a large portion of the Funds' investments may together be adversely affected. Prospective investors should not expect that any particular investment or the Funds' portfolios as a whole will be isolated from the potential negative effects of market events or general economic trends.

**Ongoing Turmoil in the U.S. and Global Financial Markets.** General fluctuations in the financial markets, market prices of securities and/or interest rates may adversely affect the value of the Funds' investments and/or increase the risks inherent in the Funds' investments. The ability of companies, businesses, projects or assets in which the Funds hold investments to refinance debt securities may depend on their ability to obtain financing, including by selling new securities in the high-yield debt or bank financing markets, which in recent months have been extraordinarily difficult to access at favorable rates. The precarious state of global credit and equity markets, coupled with the threat of a double-dip recession and the attendant uncertainty for financial services companies and in the global financial system generally, may make it significantly more difficult than it had been in the recent past for financial sponsors like Palladium to obtain favorable financing terms for its investments. Any deterioration of the global debt markets, any possible future failures of certain financial services companies and a significant rise in market perception of counterparty default risk will likely significantly reduce investor demand and liquidity for investment grade, high-yield and senior bank debt, which in turn is likely to lead



some investment banks and other lenders to be unwilling or significantly less willing to finance new investments or to only offer committed financing for investments on less favorable terms than had been prevailing in the recent past. The Funds' ability to generate attractive investment returns may be adversely affected to the extent the Funds are unable to obtain favorable financing terms for its investments.

**Financial Services Industry Regulatory Factors.** The Funds' ability to achieve their investment objectives, as well as the ability of the Funds to conduct their operations, is based on laws and regulations which are subject to change through legislative, judicial or administrative action. Future legislative, judicial or administrative action could adversely affect the Funds' ability to achieve their investment objectives, as well as the ability of the Funds to conduct their operations.

The alternative asset management and financial services industries are subject to enhanced governmental scrutiny and/or increased regulation, including provisions under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act imposes a number of restrictions on the relationship and activities of banking organizations with private equity funds and hedge funds and other provisions that will affect the private equity industry, either directly or indirectly. Included in the Dodd-Frank Act is the so-called "Volcker Rule," which takes the form of new Section 13 of the Bank Holding Company Act of 1956. Among other things, the Volcker Rule prohibits any "banking entity" (generally defined as any insured depository institution, any company that controls such an institution, a non-U.S. bank that is treated as a bank holding company for purposes of U.S. banking law, and any affiliate or subsidiary of the foregoing entities), as principal, from sponsoring or acquiring or retaining an ownership interest in a private equity fund or hedge fund that is not subject to the provisions of the Investment Company Act in reliance upon either Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

Although Palladium is currently registered and the managers are relying advisers under the U.S. Advisers Act, the enactment of these reforms and/or other similar legislation could nonetheless have an adverse effect on the private investment funds industry generally and on Palladium and/or the Funds specifically, and may impede the Funds' ability to effectively achieve their investment objectives. As registered investment advisers under the U.S. Advisers Act, the managers are required to comply with a variety of periodic reporting and compliance-related obligations under applicable federal and state securities laws (including, without limitation, the obligation of the managers and their affiliates to make regulatory filings with respect to the Funds and their activities under the U.S. Advisers Act (including, without limitation, Form PF)). In light of the heightened regulatory environment in which the Funds and the managers operate and the ever-increasing regulations applicable to private investment funds and their Investment Managers, it has become increasingly expensive and time-consuming for the Funds, the managers and their affiliates to comply with such regulatory reporting and compliance-related obligations. For example, Form PF requires that Palladium report the regulatory assets under management of the Funds, and because the Funds are required to bear the Funds' expenses relating to compliance-related matters and regulatory filings, the Funds' may bear the costs and expenses of initial and ongoing Form PF compliance applicable to the Funds, including costs and expenses of collecting and calculating data and the preparation of such reports and filings. Such

expenses are likely to be material, including on a cumulative basis over the life of the Funds. Any further increases in the regulations applicable to private investment funds generally or the Funds and/or the managers in particular may result in increased expenses associated with the Funds' activities and additional resources of the managers being devoted to such regulatory reporting and compliance-related obligations, which may reduce overall returns for the investors and/or have an adverse effect on the ability of the Funds to effectively achieve their investment objective.

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

The Dodd-Frank Act, as well as future related legislation, may have an adverse effect on the private equity industry generally and/or on Palladium or the Funds, specifically. Therefore, there can be no assurance that any continued regulatory scrutiny or initiatives will not have an adverse impact on Palladium or otherwise impede the Funds' activities. The current regulatory environment in the United States may be impacted by future legislative developments, such as amendments to key provisions of the Dodd-Frank Act. In this regard, the full scope of the current U.S. President's legislative agenda is not yet fully known, but may include certain deregulatory measures for the U.S. financial services industry, including changes to the Volcker Rule, capital and risk retention requirements, the Financial Stability Oversight Council's authority and other aspects of the Dodd-Frank Act.

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

In addition, as private fund firms and other alternative asset managers become more influential participants in the U.S. and global financial markets and economy generally, the private fund industry has been subject to criticism by some politicians, regulators and market commentators. The negative perception of the private fund industry in certain countries could make it harder for the Funds to successfully bid for and complete investments.

Each prospective investor is strongly urged to consult its own legal advisors 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 the Funds.

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

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

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

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

**U.S. Federal Income Tax Reform.** U.S. federal income tax reform legislation known as the Tax Cuts and Jobs Act, which was signed into law on December 22, 2017 (the “TCJA”) has resulted in fundamental changes to the Internal Revenue Code of 1986, as amended. Among the numerous changes included in the TCJA are (i) a permanent reduction to the corporate income tax rate, (ii) a partial limitation on the deductibility of business interest expense, (iii) a new maximum tax rate for individuals receiving certain business income from “pass-through” entities, (iv) a partial shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a territorial system (along with a transitional rule which taxes certain historic accumulated earnings and rules which prevent tax planning strategies which shift profits to low-tax jurisdictions), (v) a longer three-year holding period requirement for carried interest to be treated as capital gain, and (vi) a suspension of certain miscellaneous itemized deductions, including deductions for investment fees and expenses, until 2026. The impact of the TCJA on investors and the Funds’ investments is uncertain.

**Limitations on Deduction of Business Interest.** The TCJA imposes a disallowance of deductions for business interest expense (even if paid to third parties) in excess of the sum of a taxpayer’s business interest income and 30% of the adjusted taxable income of the business, which is its taxable income computed without regard to business interest income or expense, net operating losses, or the pass-through income deduction (and for taxable years before 2022, excludes depreciation and amortization). Business interest includes any interest on indebtedness related to a trade or business, but excludes investment interest to which separate limitations apply. These limitations may have an adverse impact on the Funds and/or portfolio company investments.

**Possible changes in Tax Law Affecting Palladium Employees and Other Service Providers.** Palladium’s ability to achieve the investment objectives of the Funds depends to a substantial degree on its ability to retain and motivate its investment professionals and other key personnel, and to recruit talented new personnel. Palladium’s ability to recruit, retain and motivate its professionals is dependent on its ability to offer highly attractive incentive compensation. For example, if legislation were to be enacted by the U.S. Congress or any state or local governments to treat carried interest as ordinary income rather than as capital gain for tax purposes, such legislation could cause Palladium’s investment professionals to incur a material increase in their tax liability with respect to their entitlement to carried interest. This might make it more difficult for Palladium to incentivize, attract and retain these professionals, which may have an adverse effect on Palladium’s ability to achieve the investment objectives of the Funds.

**Phantom Income.** Each U.S. limited partner will be, and non-U.S. limited partners may be, required to take into account its distributive share of all items of partnership income, gain, loss, deduction and credit, whether or not distributed. Because of the nature of the Funds’ investment activities, the Fund may generate taxable income in excess of cash distributions to limited partners and no assurance can be given that the Funds will be able to make cash distributions to cover such tax liabilities as they arise. Accordingly, each limited partner should ensure that it has sufficient cash flow from other sources to pay all tax liabilities resulting from such limited partner’s ownership of interests in the Funds.

**Partnership Audit Legislation.** Under legislation enacted in 2015, U.S. federal income tax audits of partnerships will be conducted at the partnership level and, unless a partnership qualifies for and affirmatively elects an alternative procedure, any adjustments to the amount of tax due (including interest and penalties) will be payable by the partnership. Under an elective alternative procedure, a partnership would issue information returns to persons who were partners in the audited year, who would then be required to take the adjustments into account in calculating their own tax liability, and the partnership would not be liable for the adjustments. There can be no assurance that the Funds will be eligible to make such an election or that it will, in fact, make such an election for any given adjustment. If the Funds do not or are not able to make such an election, then (1) the then current Partners of the Funds, in the aggregate, could indirectly bear income tax liabilities in excess of the aggregate amount of taxes that would have been due had the Funds elected the alternative procedure, and (2) a given Partner may indirectly bear taxes attributable to income allocable to other Partners or former Partners, including taxes (as well as interest and penalties) with respect to periods prior to such Partner's ownership of interests in the Funds. Amounts available for distribution to the Partners may be reduced as result of the Funds' obligations to pay any taxes associated with an adjustment. Partners should consult their own tax advisors regarding all aspects of this legislation as it affects their particular circumstances.

**FATCA.** The Foreign Account Tax Compliance Act ("FATCA") enacted in 2010 requires all entities in a broadly defined class of foreign financial institutions ("FFIs") to comply with a complicated and expansive reporting regime or be subject to a 30% U.S. withholding tax on certain U.S. payments (and beginning in 2019, a 30% U.S. withholding tax on gross proceeds from the sale of U.S. stocks and securities) and requires non-U.S. entities which are not FFIs to either certify they have no substantial U.S. beneficial ownership or to report certain information with respect to their substantial U.S. beneficial ownership or be subject to a 30% U.S. withholding tax on certain U.S. payments (and beginning in 2019, a 30% U.S. withholding tax on gross proceeds from the sale of U.S. stocks and securities). FATCA also contains complex provisions requiring participating FFIs to withhold on certain "foreign passthru payments" made to nonparticipating FFIs and to holders that fail to provide the required information. The definition of a "foreign passthru payment" is still reserved under current regulations, however the term generally refers to payments that are from non-U.S. sources but that are "attributable to" certain U.S. payments and gross proceeds described above. Withholding on these payments is not set to apply until 2019. In general, non-U.S. investment funds, such as certain underlying entities in which the Funds may invest or non-U.S. alternative investment vehicles, are expected to be considered FFIs. The reporting obligations imposed under FATCA require FFIs to enter into agreements with the IRS to obtain and disclose information about certain investors to the IRS or, if subject to an intergovernmental agreement ("IGA"), register with the IRS and comply with the reporting regime of the IGA and any implementing legislation enacted thereunder. IGAs are generally intended to result in the automatic exchange of tax information through reporting by an FFI to the government or tax authorities of the country in which such FFI is domiciled, followed by the automatic exchange of the reported information with the IRS. In the event FFIs are unable to comply with the applicable reporting requirements, certain payments made to FFIs may be subject to a U.S. withholding tax, which would reduce the cash available to investors in the Funds.

Further, these reporting requirements may apply to certain underlying entities in which the Funds invest and the Funds may not have control over whether such entities comply with the reporting regime. Such withheld amounts that are allocable to the limited partner may, in accordance with the Partnership Agreement, be deemed to have been distributed to the limited partner to the extent the taxes reduce the amount otherwise distributable to the limited partner. Prospective investors should consult their own tax advisors regarding all aspects of FATCA as it affects their particular circumstances.

**Limited Access to Information.** Limited partners' rights to information regarding the Funds will be specified, and strictly limited, in the partnership agreements. In particular, it is anticipated that the General Partners will obtain certain types of material information from investments that will not be disclosed to limited partners because such disclosure is prohibited for contractual, legal or similar obligations outside of the General Partners' control. Decisions by the General Partners to withhold information may have adverse consequences for limited partners in a variety of circumstances. For example, a limited partner 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 limited partner to monitor the General Partners and their performance. Additionally, it is expected that limited partners who designate representatives to participate on the advisory committee may, by virtue of such participation, have more information about the Funds and investments in certain circumstances than other limited partners generally and may be disseminated information in advance of communication to other limited partners generally.

**Indemnification.** The Funds will be required to indemnify the General Partners, their affiliates, and their respective officers, directors, agents, stockholders, members and partners, and any other person who serves at the request of the General Partners on behalf of the Funds as an officer, director, partner, employee or agent of any other entities for liabilities incurred in connection with the affairs of the Funds. Members of the advisory committee will also be entitled to the benefit of certain indemnification and exculpation provisions as set forth in the partnership agreements. Such liabilities may be material and may have an adverse effect on the returns to the limited partners. For example, in their capacity as directors of portfolio companies, the members, managers or affiliates of Palladium may be subject to derivative or other similar claims brought by shareholders of such companies. The indemnification obligation of the Funds would be payable from the assets of the Funds, including the unfunded commitments of the limited partners. If the assets of the Funds are insufficient, Palladium may recall distributions previously made to the limited partners. It should be noted that the General Partners may cause the Funds to purchase insurance for (or allocate a portion of the premium from the Palladium's insurance policy as it relates to) the Funds, the General Partners, the investment advisors and their employees, agents and representatives with respect to their Fund-related activities.

**Carried Interest.** The existence of the General Partners' carried interest may create an incentive for the General Partners to make riskier or more speculative investments on behalf of the Funds than they would otherwise make in the absence of such performance-based compensation, although the significant commitment by the General Partners to invest in investments and the General Partner clawback should tend to reduce this incentive. In addition, the manner in which the General Partners' entitlement to carried interest is determined may

result in a conflict between its interests and the interests of limited partners with respect to the sequence and timing of disposals of investments. For example, the ultimate beneficial owners of the General Partners are generally subject to U.S. federal and local income tax (unlike certain of the Limited Partners). The General Partners may be incentivized to operate the Funds, including to hold and/or sell investments, in a manner that takes into account the tax treatment of its carried interest. The TCJA provides for a lower capital gains tax rate in respect of investment held for at least three years. While the General Partners generally intend to seek to maximize pre-tax returns for the Funds, the General Partners may nonetheless be incentivized, for example, to hold investment longer to ensure long-term capital gains treatment and /or realize investments prior to any change in law that results in a higher effective income tax rate on its carried interest. Furthermore, the General Partners may, in certain circumstances, receive carried interest distributions with respect to a distribution in-kind of non-marketable securities. The valuation of such securities for such purposes will be determined by the General Partners as set forth in the partnership agreements.

**Pay-To-Play Laws, Regulations and Policies.** In light of controversies and highly publicized incidents involving money managers, a number of states and municipal pension plans have adopted so-called “pay-to-play” laws, regulations or policies which prohibit, restrict or require disclosure of payments to (and/or certain contacts with) state officials by individuals and entities seeking to do business with state entities, including investments by public retirement funds. The SEC also has adopted rules that, among other things, prohibit an Investment Manager from providing advisory services for compensation with respect to a government plan investor for two years after the advisor or certain of its executives or employees make a contribution to certain elected officials or candidates. If the Investment Managers, the General Partners, or their respective employees or affiliates fail to comply with such pay-to-play laws, regulations or policies, such non-compliance could have an adverse effect on the Funds by, for example, providing the basis for the withdrawal of the affected government plan investor.

**Diverse Limited Partner Group.** The investors in the Funds may include taxable and tax-exempt entities and may include persons or entities organized in multiple jurisdictions. The various types of investors may have conflicting investment, tax and other interests with respect to their investment in the Funds. When considering a potential investment, the General Partner of a Fund will generally consider the investment objectives of the Fund, as a whole, not the investment objectives of any investor, fund vehicle or parallel fund individually. Consequently, the General Partner of a Fund may make decisions from time to time that may be more beneficial to one type of investor or Fund vehicle than another.

**Cyber Security Breaches and Identity Theft.** Cyber security incidents and cyber-attacks have been occurring globally at a more frequent and severe level and will likely continue to increase in frequency in the future. Each Fund, its 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 telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals or service providers, power, communications, or other service outages and catastrophic events such as fires, tornadoes, floods, hurricanes, and earthquakes. 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 Palladium has implemented, and the Funds' 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. In addition, while it reviews them on a regular basis, Palladium 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 Palladium, the Fund and/or a portfolio company, 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. Palladium, the Fund, and/or a portfolio company may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in Palladium's, the Fund's, and/or a portfolio company's operations and result in a failure to maintain the security, confidentiality, or privacy of sensitive data, including personal information relating to limited partners (and their beneficial owners), material nonpublic information in possession of and the intellectual property and trade secrets and other sensitive information of Palladium and/or portfolio companies. Such a failure could harm Palladium's, the Fund's and/or a 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.

Again, this summary overview of certain risks relating to a potential investment in a Fund identifies some, but not all, risk factors that should be considered prior to investing. Investors should carefully and thoroughly review and consider all of the risks related to investing in a Fund that are set forth in the offering documents for the applicable Fund.



## **Item 9 – Disciplinary Information**

In the past ten years, there have been no legal or disciplinary events involving Palladium or any of its management persons that are material to Palladium’s advisory business.

## **Item 10 – Other Financial Industry Activities and Affiliations**

Neither Palladium nor any of its management persons are registered (or have an application pending to register) as a broker-dealer or as a registered representative of a broker-dealer.

Neither Palladium nor 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.

Certain affiliates of Palladium serve as General Partners or Investment Managers of the Funds. For a description of the conflicts related to such arrangements, please refer to Item 11, “Code of Ethics, Participation or interest in Client Transactions and Personal Trading.”

Palladium does not recommend or select other investment advisers for its Funds.

## **Item 11- Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading**

### **A. Code of Ethics**

Palladium has adopted a Code of Ethics (the “Code”), reasonably designed to detect or prevent violations of securities laws, to prevent or address conflicts of interests between Palladium and its Funds, and to comply with SEC Rule 204A-1. The Code requires that Firm employees and certain associated persons act in the best interests of the Funds, as opposed to acting in their own best interest. Employees are also required to comply with applicable provisions of all applicable securities laws and to promptly report any actual or suspected violations of such laws, or of the Code, to the Firm’s Chief Compliance Officer.

### **B. Personal Trading**

In addition, the Code sets forth formal policies and procedures with respect to any securities trading activities over which employees have direct or indirect influence or control. Such policies apply to Palladium employees, as well as members of such employees’ households or others whose trading activities may be directly or indirectly influenced or controlled by such employee. Palladium’s personal trading policies permit employees and their family and household members to purchase investments for their own accounts subject to the terms of the Code, which restricts or prohibits certain types of personal trades. For example, personnel and certain of their family and household members may not trade in individual public securities, except for exchange-traded funds, mutual funds, or securities issued by the United States Treasury Department, unless such trading is effected in a brokerage account over which such employees (or their family/household members, as applicable) do not have direct or indirect influence or control over trading. Employees and certain of their family and household members must also pre-clear personal securities transactions in any private placements. Employees and their family/household members are not permitted to directly invest in any Fund investment, unless such investment is made through an employee investment vehicle established by Palladium for such purpose. Please refer to Item 4 above for more specific information regarding employee investment vehicles.

The Firm monitors all personal trading that is subject to its policies (including both employees and those over whose trading employees can exert direct or indirect influence or control) via its compliance program, which is managed and monitored via a web-based compliance platform. Any trading that violates the Code will result in further inquiry by Palladium’s Chief Compliance Officer, and may lead to sanctions by the Firm, up to and including possible termination of employment.

Palladium employees must acknowledge that they have received, reviewed, understand and will abide by the terms of the Code on an annual basis, or as the Code is amended. Employees are also required to provide certain initial, annual, and quarterly reports regarding the personal securities holdings and transactions subject to the Firm’s Code, as required by SEC Rule 204A-1. Please note that this summary is qualified in its entirety by the Code, copies of which will be provided to any existing or prospective investor upon request to the Firm’s Chief Compliance Officer or [InvestorRelations@palladiumequity.com](mailto:InvestorRelations@palladiumequity.com).

### **C. Interest in Client Transactions**

Palladium and certain employees and affiliates of Palladium invest in the Funds through each relevant Fund's affiliated General Partner. The conflicts of interest encountered by the Firm and the Funds include those described in this Item 11, although this discussion is not exhaustive and does not necessarily describe all of the conflicts that may be faced by the Firm and the Funds. Other conflicts are disclosed throughout this brochure and in the offering documents of each Fund, and these materials should be read carefully and in their entirety. If a Fund participates in a transaction in which a conflict exists, its return on the transaction may not be equal to another Fund participating in the same transaction, or may not be as favorable as it would have been had such conflicts not existed.

In general, the Firm does not, and does not anticipate that it will, engage in either principal transactions or cross trades. Pursuant to each Fund's Governing Documents, any proposed Fund transaction that involves a conflict of interest, including for example a transaction between one Fund and another Fund (a cross trade), or one Fund and its General Partner or an affiliate of the General Partner (a principal transaction), will be brought to the relevant Fund's Limited Partner Advisory Committee ("LPAC") for review and approval. Generally, each Fund's LPAC meets at least annually and is comprised of a certain number of Fund investors who generally have a capital commitment above a certain threshold. Any such transactions could create conflicts of interest because, by not exposing such buy and sell transactions to market forces, a Fund may not receive the best price otherwise possible, or the Firm might have an incentive to improve the performance of one Fund by selling underperforming assets to another Fund in order, for example, to earn fees. Additionally, in connection with such transactions, the Firm, its affiliates and/or their professionals (i) may have significant investments, or intentions to invest, in a Fund that is selling and/or purchasing such an investment or (ii) otherwise have a direct or indirect interest in the investment (such as through certain other participations in the investment).

Depending upon the relevant Fund's Governing Documents, certain other conflicts of interest may need to be brought to the attention of the applicable Fund's LPAC.

Pursuant to Palladium's Code of Ethics, officers, principals and employees are prohibited from buying securities in transactions offered to but rejected by the Funds.

As described above in Item 5, "Fees and Compensation," Palladium receives certain fees relating to evaluating, monitoring, acquiring, and selling potential Fund investments, as well as Other Fees. Certain Other Fees are paid by portfolio companies or their respective affiliates. Please see Item 5 for a more detailed description of such fees and compensation. In many cases with respect to the implementation of such arrangements, there is not an independent third-party involved on behalf of the relevant portfolio company. Therefore, a conflict of interest may exist in the determination of any such fees and other related terms in the applicable agreement with the portfolio company.

From time to time, Palladium advises or encourages portfolio companies of one Fund to do business with the portfolio companies of another Fund where doing so may be mutually beneficial to both portfolio companies and effected via arms' length transactions. Certain

portfolio companies of one Fund do business with a portfolio company of another Fund. Conflicts of interest may arise in this scenario because Palladium has an incentive to maintain goodwill between the portfolio companies of each respective Fund, although the products or services recommended may not necessarily be the best or lowest cost option available to the portfolio companies, and could result in higher expenses for the portfolio company (and a disadvantage to the Fund holding such portfolio company); a conflict may also arise if such circumstances create a financial advantage for the Fund holding the service-providing portfolio company.

#### **D. Allocation of Personnel**

Palladium personnel will devote such time as shall be reasonably necessary to conduct the business affairs of the Funds in an appropriate manner. However, Palladium personnel will work on other projects, including Palladium's other investment funds and other vehicles permitted by the Partnership Agreement and, therefore, conflicts may arise in the allocation of management resources.

Additionally, members of the Funds' investment teams and other investment professionals of Palladium may serve as members of the boards of directors of various companies and may participate in other activities outside of Palladium. Conflicts may arise as a result of such activities. The possibility exists that the companies with which one or more of the members of the Funds' investment teams and / or other investment professionals of Palladium is involved could engage in transactions that would be suitable for the Funds, but in which the Funds might be unable to invest.

#### **E. Allocation of Investments**

In circumstances where more than one Fund is in the active investment stage, Palladium is faced with a variety of potential conflicts of interest in exercising its discretion to allocate investment opportunities. For example, in allocating an investment opportunity among Funds with differing fee, expense, or compensation structures, Palladium may have an incentive to allocate investment opportunities to the Funds from which the Investment Manager or its related persons may derive, directly or indirectly, a higher fee, compensation, Carried Interest, or other benefits.

The Firm's policy is to allocate investment opportunities in a manner that is consistent with both its fiduciary obligations as an investment adviser to, and also the Governing Documents of, each Fund. If more than one Fund will participate in an investment opportunity, the Firm allocates the investment opportunity among the Funds based on relevant factors, determined in the Firm's sole discretion with appropriate consideration of its fiduciary duties to each Fund, which may include but are not limited to: each Fund's investment objectives and investment focus; each Fund's liquidity and reserves; each Fund's investment diversification; applicable lender covenants and other limitations; the amount of capital available for investment by each Fund as well as each Fund's projected future capacity for investment; each Fund's targeted rate of return; the stage of development of the prospective portfolio company or other investment; the composition of each Fund's portfolio; the suitability as a follow-on investment for a current portfolio company of a Fund (if applicable); the availability of other suitable investments for each Fund; risk considerations; cash flow considerations; asset class restrictions for each Fund;

industry and other allocation targets for each Fund; minimum and maximum investment size requirements for each Fund; tax implications for each Fund; legal, contractual or regulatory constraints for each Fund; and any other relevant limitations imposed by or conditions set forth in the applicable offering and organizational documents of each Fund.

In analyzing allocation considerations, Palladium's allocation policies provide that the Firm must not favor or disfavor any Fund or class of Funds in relation to any other Funds. The Firm also cannot allocate investment opportunities based, in whole or in part, on (i) the relative fee structure or amount of fees paid by any Fund, (ii) the profitability of any Fund or (iii) any person's interest in offering or participating in co-investment opportunities outside of any Fund.

#### **F. Co-Investments**

Pursuant to the applicable Fund's Governing Documents, and the Firm's internal policies on the allocation of investment opportunities, Palladium will determine whether the amount of an investment opportunity exceeds the amount Palladium determines would be appropriate or applicable to the Fund, and any such excess may be offered to one or more co-investors or strategic investors.

Subject to Palladium's allocation policies and the applicable Fund Governing Documents, in general, (i) certain investors in a Fund have a right to participate in any co-investment opportunity pursuant to the terms of their side letter agreement, (ii) decisions regarding whether and to whom else to offer co-investment opportunities are made at the sole discretion of Palladium, (iii) co-investment opportunities will from time to time be offered to some and not other investors in the relevant Fund, and (iv) certain persons other than investors in the relevant Fund will from time to time be offered co-investment opportunities, at the sole discretion of Palladium and in compliance with the relevant Fund's Governing Documents and Palladium's internal allocation policies.

Palladium's exercise of its discretion in allocating co-investment opportunities with respect to a particular investment among various potential investors may not, and often will not, result in proportional allocations among such persons. Also, such allocations may be more or less advantageous to some relative to others. Palladium will determine how to allocate co-investment opportunities using its best judgment, considering factors it deems relevant in its sole discretion, such as the character or nature of the co-investment opportunity, the size and financial resources of the potential co-investor, whether the potential co-investor has expressed interest in evaluating co-investment opportunities, Palladium's evaluation of past experiences and relationships with the potential co-investor, whether Palladium believes a potential co-investor will help establish, recognize, strengthen and/or cultivate relationships that may provide indirectly longer term benefits to the Funds or future funds sponsored by Palladium, including with respect to the relevant portfolio company. However, there can be no assurance that a Fund's actual allocation of a co-investment opportunity, if any, or the terms on which that allocation is made will be as favorable as they would be if the conflicts of interest to which Palladium may be subject with respect to allocations of co-investment opportunities did not exist.

In the event Palladium offers an investment opportunity to potential co-investors, there can be no assurance that such investment will be actually made by that or any potential co-

investor, that the closing of such co-investment will be consummated in either a timely manner or on the terms and conditions that will be preferable for the Fund.

**Advisors and Industry Executives.** Palladium may engage and retain strategic advisors, consultants, senior advisors and other similar professionals who are not employees or affiliates of Palladium and who may, from time to time, receive payments from, or allocations with respect to, portfolio companies (as well as from Palladium or the Funds). In such circumstances, such payments from, or allocations with respect to, portfolio companies and/or the Funds will not, even if they have the effect of reducing any retainers or minimum amounts otherwise payable by Palladium, be deemed paid to or received by Palladium and such amounts will not be subject to the offset provisions as described in the partnership agreements. These consultants and/or other professionals may be offered the ability to co-invest alongside the Fund, including in those investments in which they are involved, or otherwise participate in equity plans for management of any such portfolio entity, or invest directly in the Funds subject to reduced or waived management fees and/or carried interest. The nature of the relationship with each of the consultants and/or other professionals and the amount of time devoted or required to be devoted by them may vary considerably. In certain cases, they may provide the General Partners and/or the Investment Managers with industry-specific insights and feedback on investment themes, assist in transaction due diligence, make introductions to and provide reference checks on management teams. In other cases, they may take on more extensive roles and serve as executives or directors on the boards of portfolio companies or contribute to the origination of new investment opportunities. In certain instances Palladium may enter into formal arrangements with these consultants, management teams for operating platforms and/or other professionals (which may or may not be terminable upon notice by any party), and in other cases the relationships may be more informal. They may be either compensated (including pursuant to retainers and expense reimbursement) from Palladium, the Funds and / or portfolio companies or otherwise uncompensated unless and until an engagement with a portfolio company develops.

**Material, Non-Public Information.** By reason of their activities in connection with predecessor funds and other activities, personnel of the General Partners and their affiliates may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. The Funds will not be free to act upon any such information. Due to these restrictions, the Funds may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

**Service Providers.** Certain advisors and other service providers, or their affiliates (including accountants, appraisers, valuation experts, tax advisors, fund administrators, lenders, servicers, asset managers, bankers, brokers, attorneys, consultants, and investment or commercial banking firms), to the Funds and their portfolio companies may also provide goods or services to or have business, personal, political, financial or other relationships with Palladium, the General Partners, the Investment Managers or their affiliates. Such advisors and service providers may be investors in the Funds, affiliates of the General Partners, sources of investment opportunities or co-investors or counterparties therewith. These relationships may influence the General Partners in deciding whether to select or recommend such a service provider to perform services for the Funds or a portfolio company (the cost of which will generally be borne directly

or indirectly by the Funds or such portfolio company, as applicable). Notwithstanding the foregoing, investment transactions for the Funds that require the use of a service provider will generally be allocated to service providers on the basis of best execution.

**Subscription Facility and Capital Calls.** In accordance with applicable partnership agreements, a General Partner of a Fund may fund the making of investments with proceeds from drawdowns under one or more revolving credit facilities (the collateral for which can be, for example, the undrawn capital commitments of investors) prior to calling commitments. The interest expense and other costs of any such borrowings will be expenses of the applicable Fund and, accordingly, may decrease net returns of such Fund, which shall be disclosed in quarterly and annual reporting. It is expected that interest will accrue on any such outstanding borrowings at a rate lower than the preferred return, which will begin accruing when capital contributions to fund such investments, or repay borrowings used to fund such investments, are actually made. In light of the foregoing, the General Partners have an incentive to cause Funds to borrow in this manner in lieu of drawing down commitments. As a general matter, use of leverage in lieu of drawing down commitments amplifies returns (either negative or positive) to investors in the Fund.

**Side Letters.** The General Partners have entered into and may in the future enter into side letters or other similar agreements with investors in connection with their admission to a Fund without the approval of any other investor. The side letters or other similar agreements have the effect of establishing rights under, altering or supplementing the terms of the Governing Documents of such Fund with respect to one or more such investors in a manner more favorable to such investors than those applicable to other investors. Any rights established, or any terms of the Governing Documents of such Fund altered or supplemented in a side letter or other similar agreement with an investor will govern solely with respect to such investor notwithstanding any other provision of the Governing Documents of such Fund. Such rights or terms in any such side letter may include, without limitation, (i) fee and other economic arrangements with respect to such investor; (ii) excuse or exclusion rights applicable to particular investments or terms relating to withdrawal rights from the investment vehicle, including without limitation, as a result of an investor's specific policies or certain violations of federal, state or non-U.S. laws, rules or regulations, such as so-called "pay-to-play" rules with respect to public pension plan investors, (which may materially increase the percentage interest of other investors in, and their contribution obligations, for future investments and expenses, and reduce the overall size of a Fund); (iii) additional or modified reporting obligations of the applicable General Partner; (iv) waiver of certain confidentiality obligations; (v) prior consent of the General Partner to certain transfers by such investor; (vi) special rights with respect to co-investment allocation and participation; (vii) rights or terms necessary in light of particular legal, regulatory or policy characteristics of an investor; (viii) potential mandatory waivers of compensation as a result of certain violations of law with regard to public pension plan investors; (ix) additional obligations and restrictions of the applicable General Partner with respect to the structuring of any particular investment in light of the legal, tax and regulatory considerations of particular investors; (x) agreements to assist with the taking or defending of tax positions and (xi) certain obligations and restrictions on the applicable General Partner with respect to the exercise of its



discretion on certain matters, including amendments, exercising default remedies and waiving confidentiality or terms.

## **Item 12 – Brokerage Practices**

Palladium primarily invests in private securities, and does not have an internal trading function. However, in determining whether an engaged broker-dealer is likely to provide best execution when effecting a securities transaction for a Fund, the Firm will generally consider qualitative factors including, but not limited to, the broker's reliability and execution capabilities for the transaction, the commissions charged by the broker, and the broker's reputation and responsiveness to requests for trade data and other financial information.

Palladium does not have any soft dollar arrangements in connection with brokerage transactions, and does not engage in directed brokerage arrangements.

In the private equity context, client referrals are not relevant to Palladium's selection or recommendation of broker-dealers. Similarly, aggregation of the purchase or sale of securities for multiple client accounts is generally not relevant in the private equity context. However, in the event that the Firm trades in public securities, Palladium may aggregate orders if it determines it advisable to do so, but is not obligated to do so.

## **Item 13 – Review of Accounts**

### **A. General Ongoing Review Process**

Palladium's investment professionals and senior management monitor and review the Funds' portfolio investments on an ongoing basis, including, for example, by actively engaging in board oversight (for example, by obtaining representation at the board level, with at least one senior Palladium professional serving as a member of certain portfolio company boards), actively monitoring financial tracking (for example, by developing a weekly cash flow forecasting system for each portfolio company, designed to provide cash flow visibility), actively reviewing each portfolio company in detail approximately six to eight times per year in senior management meetings dedicated to each company, participating in portfolio company management calls and strategy sessions, reviewing annual and interim financial statements, and making ad hoc on-site visits. The Firm's Finance Department monitors each Fund's financial accounts. Outside vendors provide technical, analytical and systems support. In addition, each Fund's financial statements are audited on an annual basis by an independent accounting firm that is registered with, and subject to oversight by, the PCAOB.

### **B. Weekly Meetings**

Currently, Palladium utilizes a process of sharing investment ideas, implementing investment decisions and reviewing current investments through a series of ongoing meetings held among members of the Firm's investment personnel (the "Weekly Meetings"). The Weekly Meetings generally focus on new deal generation, portfolio monitoring, and decision-making, and are attended by investment professionals holding the position of Analyst and up, including the Firm's Finance personnel, Associates, Vice Presidents, Principals, Managing Directors, General Counsel and Chief Compliance Officer, Chief Financial Officer, President and Chief Operating Officer, as well as the Chairman and Chief Executive Officer.

In addition, the Firm's Managing Directors, Principals, General Counsel and Chief Compliance Officer, Chief Financial Officer, President and Chief Operating Officer, and Chairman and Chief Executive Officer meet weekly to discuss important issues of the firm ("Partners Meetings"). During such Partners Meetings, a number of important matters are reviewed and discussed, including matters related to new deals activity, a review of the portfolio, compliance, investor relations matters, and other important general management matters.

### **C. Investor Reporting**

On an annual basis, audited financial statements are provided to investors in each Fund generally within 90 days of the end of the Fund's fiscal year. For more detailed information about these reports, please refer to Item 15 below. On a quarterly basis, unaudited financial statements and a Supplemental Schedule of Changes in Partners' Capital are provided to investors in each Fund in the form of quarterly reports to limited partners. In addition, each Fund's investors are invited to participate in an annual investor meeting, at which Palladium reports on the Fund's portfolio investments and performance. The Firm may also hold investor update calls or meetings from time to time on an as-needed basis.

## **Item 14 – Client Referrals and Compensation**

Neither Palladium nor any of its related persons compensates any person who is not a supervised person for client referrals. However, from time to time, in the context of organizing a Fund, the Firm compensates one or more placement agents, finders or other third parties for referrals of Fund investors. Pursuant to its internal policies, Palladium does not enter into any placement agent or solicitation agreements (for any Fund), or agree to compensate any person for such services, without a prior review of such proposed arrangement for compliance with applicable laws.

If a prospective investor is solicited by a placement agent or other third party, such prospective investor will be advised of the arrangement, including the payment of fees. Each Fund's Governing Documents describe specific terms regarding applicable fees, though placement agent fees are generally borne by the Investment Manager as an offset of the Management Fee.

## **Item 15 – Custody**

Palladium invests Fund assets on a discretionary basis, and has “custody” of such assets for purposes of applicable securities laws. It is Palladium’s policy to cause each Fund to be audited annually by an independent accounting firm that is registered with, and subject to oversight by, the PCAOB, and to distribute audited financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) to Fund investors no later than 120 days after the end of each fiscal year. In addition, upon the final liquidation of any such Fund, Palladium will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such Fund to all investors promptly after completion of the audit.

## **Item 16 – Investment Discretion**

Palladium provides investment advice to the Funds on a discretionary basis. Generally this discretion is subject only to the terms and guidelines set forth in each Fund's Governing Documents.

## **Item 17 – Voting Client Securities**

As noted above, Palladium invests primarily in private securities and therefore is usually not in a position to vote public company proxies. However, the Firm has established written policies and procedures setting forth the principles and procedures by which Palladium votes or gives consent with respect to securities owned by the Funds (“Votes”).

The guiding principle by which the Firm Votes is to vote in the best interests of each Fund by maximizing the economic value of the relevant Fund’s holdings, taking into account the relevant Fund’s investment horizon and guidelines, any contractual obligations under the Fund’s Governing Documents, and all other relevant facts and circumstances at the time of the vote. The Firm does not permit Votes to be influenced in any manner that is contrary to, or dilutive of, this guiding principle. A copy of Palladium’s policies and procedures with respect to Votes and the Funds’ voting records will be maintained and available for review by clients upon written request to the Chief Compliance Officer, whose contact information can be found on the cover page of this brochure, or [InvestorRelations@palladiumequity.com](mailto:InvestorRelations@palladiumequity.com).

When a conflict arises between the Firm and a Fund with respect to a Vote, such conflicts must be promptly brought to the attention of the Firm’s Chief Compliance Officer by the employee or employees who are or become aware of such situation. Identified conflicts of interest are submitted to the Firm’s Risk Management Committee for consultation. In addition, conflicts of interest may need to be brought to the attention of a Fund’s advisory committee, depending upon such Fund’s Governing Documents.

## **Item 18 – Financial Information**

Palladium does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Therefore, the Firm has not included a balance sheet and does not have any disclosure applicable to this Item.

Palladium does not believe that there are any conditions that are reasonably likely to impair the Firm's ability to meet contractual commitments to clients, and has never been the subject of a bankruptcy petition.