

## **Audax Management Company (NY), LLC**

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Part 2A of Form ADV: Firm Brochure  
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**This brochure provides information about the qualifications and business practices of Audax Management Company (NY), LLC. If you have any questions about the contents of this brochure, please contact us at [compliance@audaxgroup.com](mailto:compliance@audaxgroup.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.**

**Additional information about Audax Management Company (NY), LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). An investment adviser’s registration with the SEC does not imply a certain level of skill or training.**

**Item 2. Material Changes**

This brochure contains additional information on compensation, fees and expenses (including fees and expenses charged to the investment vehicles we advise and “broken deal” expenses), investment strategies, risk factors, and conflicts of interest (including conflicts related to the allocation of investment opportunities). This Form ADV Part 2A was last updated and filed with the SEC on March 30, 2018.

### **Item 3. Table of Contents**

<u>Item Number</u>	<u>Item</u>	<u>Page</u>
1	Cover Page	1
2	Material Changes	2
3	Table of Contents	3
4	Advisory Business	5
5	Fees and Compensation	6
6	Performance-Based Fees and Side-By-Side Management	10
7	Types of Clients	11
8	Methods of Analysis, Investment Strategies and Risk of Loss	12
9	Disciplinary Information	25
10	Other Financial Industry Activities and Affiliations	25
11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	26
12	Brokerage Practices	49
13	Review of Accounts	50
14	Client Referrals and Other Compensation	51
15	Custody	51
16	Investment Discretion	51
17	Voting Client Securities	52
18	Financial Information	53
19	Requirements for State-Registered Advisers	53

## IMPORTANT NOTE ABOUT THIS BROCHURE

**This brochure is not:**

- **an offer or agreement to provide advisory services to any person;**
- **an offer to sell interests (or a solicitation of an offer to purchase interests) in any fund or pooled investment vehicle; or**
- **a complete discussion of the features, risks or conflicts associated with any advisory relationship, fund or investment vehicle.**

To the extent required by the US Investment Advisers Act of 1940, as amended (the “Advisers Act”), the Adviser (as defined below) provides this brochure to current and prospective clients and may also, in its discretion, provide this brochure to current or prospective investors in a fund, managed account, or pooled investment vehicle, together with the fund’s offering documents, SEC filings (if applicable), organizational documents, or other related documents, prior to, or in connection with, such person’s investment in such fund or investment vehicle or engagement of the Adviser as an investment adviser. Additionally, this brochure is available through the SEC’s Investment Adviser Public Disclosure website.

Although this publicly available brochure describes investment advisory services and products, persons who receive this brochure should be aware that it is designed solely to provide information about the Adviser as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this brochure will differ from information provided in relevant governing or offering documents. More complete information about each client engagement, fund, or investment vehicle is included in the relevant governing and/or offering documents.

In no event should this brochure be relied upon in determining whether to invest in a fund or investment vehicle managed by the Adviser or to otherwise engage the Adviser as an investment adviser. To the extent that there is any conflict between discussions herein and similar or related discussions in any governing documents, the relevant governing documents will govern and control.

#### **Item 4. Advisory Business**

For purposes of this brochure, the “Adviser” means Audax Management Company (NY), LLC, a Delaware limited liability company, together (where applicable) with its affiliates that provide advisory services to and/or receive advisory fees from the Clients (as defined below). Such affiliates are under common control with Audax Management Company (NY), LLC and possess a substantial identity of personnel and/or equity owners with Audax Management Company (NY), LLC. Such affiliates are typically formed for tax, regulatory, or other purposes in connection with the organization of the Funds, the BDC, or the Separate Account Entities (each as defined below) or may serve as general partners or in a similar capacity in respect of the Funds, the BDC, or the Separate Account Entities.

The Adviser provides investment supervisory services to (i) pooled investment vehicles (each, a “Fund” and collectively, the “Funds”) that are exempt from registration under the Investment Company Act of 1940, as amended (the “1940 Act”), and whose securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”), (ii) a business development company regulated under the 1940 Act, whose securities are not registered under the Securities Act (the “BDC”), and (iii) other institutional clients in separately managed accounts (collectively, in such capacity, the “Separate Account Clients”), certain of which are organized as separate legal entities (collectively, the “Separate Account Entities”). The Funds, the BDC, and the Separate Account Clients are collectively referred to herein as the “Clients.”

The Clients make primarily long-term investments in (i) debt instruments and (ii) in more limited circumstances, equity securities. In accordance with the Clients’ respective investment objectives, guidelines, and restrictions, investments are generally made in a broad range of companies doing business globally. The Adviser’s advisory services consist of investigating, identifying and evaluating investment opportunities, structuring, negotiating and making investments on behalf of the Clients, managing and monitoring the performance of such investments, and disposing of such investments. The Adviser serves as the investment adviser to the Clients in order to provide such services.

The Adviser provides investment supervisory services to each Fund in accordance with the organizational and operational documents of such Fund (such as a limited partnership agreement) or a separate investment and advisory, investment management, or portfolio management agreement (each, an “Advisory Agreement”). The Adviser provides investment supervisory services to the BDC and each Separate Account Client in accordance with an Advisory Agreement negotiated with each such Client.

Investment advice is provided directly to the Funds and the BDC, subject to the discretion and control of the relevant general partner or the board of directors, respectively, and not individually to the investors in the Funds or shareholders of the BDC. The individual needs of the investors in the Funds are not the basis of investment decisions by the Adviser. Other services are provided to the Funds and the BDC in accordance with the Advisory Agreements with the Funds and the BDC and/or organizational documents of the applicable Fund or the BDC. Investment restrictions for the Funds and the BDC are generally established in the organizational or offering documents of the applicable Fund or the BDC. Investment objectives, strategies, guidelines and/or restrictions for a Separate Account Client are negotiated with such Separate Account

Client and typically memorialized in such Separate Account Client's Advisory Agreement or Separate Account Entity agreement.

The principal owners of Audax Management Company (NY), LLC are Geoffrey S. Rehnert and Marc B. Wolpow (each of whom holds interests indirectly through intermediate entities). The Adviser has been in business since March 2000. As of December 31, 2018, the Adviser's regulatory assets under management were \$8.9 billion, all of which is managed on a discretionary basis.

## **Item 5. Fees and Compensation**

The Adviser or its affiliates generally receive Advisory Fees and, in certain cases, Administrative Fees, and Carried Interest (each as defined below) or similar performance-based remuneration from each Client. Additionally, consistent with the organizational documents of each Client, the Client typically bears certain out-of-pocket expenses incurred by the Adviser in connection with the services provided to the Client. Further details about certain common fees and expenses are set forth below.

As compensation for investment supervisory services rendered to the Clients, the Adviser receives from each Client an advisory fee (each, an "Advisory Fee"). In certain cases, Advisory Fees paid by a Client are reduced by other fees or compensation received by the Adviser or its affiliates that relate to such Client's activities and investments. Advisory Fees paid by a Client are indirectly borne by investors in such Client. Co-Investment Vehicles (as defined below) do not pay an Advisory Fee.

The precise amount of, and the manner and calculation of, the Advisory Fees for each Fund are established by the Adviser, as modified by negotiations with investors in the Fund, and are set forth in the Fund's Advisory Agreement and/or organizational documents. Except as provided in the applicable Advisory Agreement or Fund organizational document, the Advisory Fees are generally subject to waiver or reduction by the Adviser only in its sole discretion, whether voluntarily or on a negotiated basis with selected investors. Fees differ from one Fund to another, and may differ among investors in the same Fund. For example, the Adviser may offer a discount for investors participating in a Fund's initial closing, or investors that make a certain minimum level of capital commitment. In addition, the Adviser often enters into economic and/or other fee sharing arrangements with respect to one or more Funds and/or certain investors thereof, the rights of which will generally not be made available to other investors. Advisory Fees are deducted from the assets of a Fund, or may be called as capital from Fund investors, generally on a monthly or quarterly basis (in advance or in arrears).

The Advisory Fee for the BDC consists of both an annual base management fee and an incentive fee. The base management fee is calculated annually and payable quarterly in arrears and is equal to 1.0% of the value of gross assets (a portion of which has been waived or reduced by the Adviser). The incentive fee consists of (i) an incentive fee on pre-incentive fee net investment income, payable quarterly in arrears and (ii) an incentive fee of 15% of realized capital gains, payable in arrears as of the end of each calendar year. The amount and the precise manner of calculation of the Advisory Fee for the BDC is established by the Adviser, as modified by

negotiations with a BDC investor, and is set forth in the BDC's Advisory Agreement. As described below, the BDC also reimburses Audax Management Company, LLC, an affiliate of the Adviser ("AMC") for certain expenses which AMC incurs in providing administrative services to the BDC.

Advisory Fees for each Separate Account Client are individually negotiated, and generally are deducted from account assets on a monthly or quarterly basis (in advance or in arrears).

Upon termination of an Advisory Agreement, Advisory Fees that have been prepaid are generally returned on a pro-rated basis, based on the time elapsed in the applicable fee period, except as otherwise set forth in the applicable Advisory Agreement.

As compensation for administrative services rendered to certain Clients, the Adviser or AMC, (as applicable, based on each such Client's governing agreements) receives from each such Client an administrative fee (each, an "Administrative Fee"). Administrative Fees paid by a Client are indirectly borne by investors in such Client. The precise amount of, and the manner and calculation of, the Administrative Fees for the applicable Client is established by the Adviser or AMC, as modified by negotiations with the Client, and are set forth in the Client's Advisory Agreement, administration agreement, and/or organizational documents. Except as provided in the applicable Advisory Agreement, administration agreement, or organizational document, Administrative Fees are generally subject to waiver or reduction by the Adviser or AMC, in their sole discretion, whether voluntarily or on a negotiated basis with selected investors. Administrative Fees may differ from one Client to another, as well as among investors in the same Fund. Administrative Fees are deducted from the assets of a Client, or may be called as capital from Fund investors, generally on a monthly or quarterly basis (in advance or in arrears).

In addition, an affiliate of the Adviser and/or their personnel receive other fees in connection with the investment activities of the Clients including, syndication fees, arranger fees, origination fees, loan agency fees and servicing fees, as well as fees from certain companies, that are both portfolio investments of the Adviser and portfolio companies managed by AMC, in connection with structuring investments in portfolio companies, as well as mergers, acquisitions, add-on acquisitions, refinancings, restructurings, public offerings, divestments, sales and similar transactions with respect to such portfolio companies (collectively, "Transaction Fees"). Generally, these Transaction Fees are in addition to reimbursements of out-of-pocket costs and expenses incurred by the Adviser in connection with generating any such fees. These Transaction Fees may be substantial and may be paid in cash, in securities of the portfolio companies (or rights thereto) or otherwise.

In addition, the Adviser may waive or reduce all or a portion of any Advisory Fee paid by a Fund in full or partial satisfaction of any obligation of the Adviser and/or certain employees and affiliates of the Adviser to invest in such Fund (i.e., via a "cashless capital contribution" mechanism), although the Adviser does not expect to do so.

To the extent provided in the Advisory Agreements, the administration agreements, and the partnership agreements and other organizational documents of the Funds, the Adviser or AMC, as applicable, will pay out of Advisory Fees and Administrative Fees (as applicable) certain

operating expenses and costs associated with the performance of its services, including expenses on account of rent, utilities, office supplies, office equipment, compensation and expenses of its officers, partners, directors, and employees (other than Carried Interest described in Item 6 below) and other normal and routine administrative expenses relating to the services and facilities provided by the Adviser to the Funds.

Each Fund will bear all other expenses relating to it and any other out of pocket expenses incurred in connection with each Fund's investment activities, (including follow on investments and refinancing), such as, but not limited to, (i) travel (including for corporate, chartered or first class commercial air travel, and private ground transportation, lodging and accommodations); (ii) preliminary deal sourcing (including in connection with pursuing investment opportunities and relationships that the Adviser believes may be beneficial to a Fund and marketing to, and maintaining business relationships with, private equity and similar sponsors, banks and similar activities) and general market research; (iii) consultations with industry experts and data and information service subscriptions; (iv) software (including compliance, portfolio monitoring, trading, reporting, administration, accounting and similar software); (v) fees paid to third-party valuation services for valuations, appraisals or pricing services; (vi) legal, auditing, investment banking, consulting, research, brokerage, finders', custody, regulatory, compliance, reporting (including securities filings related to a Fund), accounting (including any third-party or outsourced accounting or similar services at any level in a Fund's structure), transfer, registration, depository (including a depository appointed pursuant to applicable law), advisory board, and other similar fees and expenses; (vii) tax expenses and expenses related to a Fund's financial statements, tax returns, Schedule K-1s, tax estimates and filings (including, without limitation, expenses related to the foregoing incurred to allow a Fund, its general partner, or their affiliates to comply with non-U.S. and U.S. federal, local and state tax laws and regulations during the term of the Fund); (viii) administration and similar services (including any third-party or outsourced administrators at any level in a Fund's structure, whether undertaken now or in the future, providing services related to legal entity management, execution and recordkeeping, investor account maintenance, investor reporting, accounts payable and billing, investor diligence, and data collection and management); (ix) interest and extraordinary expenses; (x) expenses generated in the course of evaluating and making proposed investments for which the Adviser had selected any applicable Fund as a proposed investor but that are not consummated, including legal expenses incurred in connection with claims or disputes related to such unconsummated investments ("Broken Deal Expenses"); (xi) expenses of the Funds advisory boards and annual meetings of the limited partners (in each case including the costs related to set-up, speaker fees, honorarium, lodging, dining, entertainment, and travel expenses); (xii) insurance premiums (including director and officer or general partner liability insurance and insurance of which the Adviser and its affiliates are beneficiaries); (xiii) fees, costs and expenses related to the organization or maintenance of any intermediary entity used to acquire, hold or dispose of an investment or to otherwise facilitate a Fund's investment activities; (xiv) expenses associated with a Fund's compliance with applicable laws and regulations as they relate to a Fund's activities (including regulatory filings and expenses incurred to allow a Fund, its general partner, or their affiliates to comply with non-U.S. and U.S. federal, local and state laws and regulations during the term of such Fund (including the requirements of the Alternative Investment Fund Managers Directive (AIFMD), as implemented in any relevant jurisdiction (and including any secondary legislation, regulations, rules and/or associated guidance), and any



related requirements)); (xv) out-of-pocket costs and expenses, if any, associated with any third-party examination or audits (including similar services) of a Fund or the Adviser that are attributable to the operation of such Fund or requested by one or more investors in a Fund; (xvi) expenses incurred in connection with complying with provisions of investor side letter agreements, including “most favored nation” provisions; (xvii) the costs associated with any amendments, modifications, revisions or restatements to the governing documents of a Fund; (xviii) where permitted under a Fund’s governing documents, certain expenses incurred in connection with the syndication of such Fund’s investments and credit facilities and the ongoing oversight and administration of such credit facilities; (xix) where permitted in a Client’s governing documents or other agreements, an allocable portion of expenses incurred to employ in-house personnel of the Adviser and maintain facilities/systems of the Adviser in respect of services provided for the benefit of such Fund, as reasonably determined and documented by the Adviser, including related to overseeing Partnership leverage and credit facilities, ongoing loan administration, portfolio valuation and similar matters (such items referred to in this clause (xviii) being referred to herein as “Administration Services”); (xx) costs of leverage incurred by a Fund and other similar fees and expenses, all interest on borrowed funds (if any), and other expenses relating to the financing or refinancing of any indebtedness of, guarantees or other obligations of such Fund (including via common leverage facilities shared with other vehicles managed by the Adviser); and (xxi) other expenses associated with the identification, investigation, acquisition, holding, winding up, liquidation, and disposition of the Funds’ investments, including extraordinary expenses (such as litigation, if any), expenses related to transactions that may have been offered to co-investors, and taxes, fees or other governmental charges levied against the Funds. Each Fund also generally bears its organizational and offering expenses.

The Adviser or its affiliates may structure any co-investment opportunities so that the proposed co-investors do not bear any Broken Deal Expenses if the investment is not consummated, regardless of whether such proposed co-investors have committed to invest in the proposed investment opportunity. In such instances, all Broken Deal Expenses would be borne by the Client or Clients proposed to invest in the investment opportunity.

The fees and expenses, if any, associated with acquiring, holding or disposing of any securities acquired in a co-investment transaction where the BDC is a participant and that is subject to the Co-Investment Order (as defined below) (including, without limitation, the expenses of the distribution of any such securities registered for sale under the Securities Act) will, to the extent not payable by the Adviser under its respective Advisory Agreement, be shared by the participating Clients pro rata in proportion to the relative amounts of the securities held or to be acquired or disposed of, as the case may be.

Separate Account Clients and the BDC bear expenses similar to the expenses borne by the Funds, depending on the terms of their Advisory Agreements, offering documents, organizational documents, or Separate Account Entity agreements. In addition, the BDC reimburses AMC for its allocable portion of overhead and other expenses incurred by AMC in performing its obligations as the BDC’s administrator under the administration agreement between AMC and the BDC, including an allocable portion of (i) rent, (ii) fees and expenses associated with performing compliance functions, and (iii) costs, compensation and related

expenses of its chief financial officer, chief compliance officer, and their respective staffs. As noted above, certain expense allocations are mandated by the SEC pursuant to the Co-Investment Order.

The manner in which expenses will be allocated between a Fund, a Separate Account Client, the BDC, a Co-Investment Vehicle (as defined below), and the Adviser is summarized in the Advisory Agreement and/or in the organizational and offering documents of the applicable Client, as well as the Adviser's policies and procedures. To the extent not addressed in the organizational documents or Advisory Agreements of a Fund, a Separate Account Client, the BDC, or a Co-Investment Vehicle, the Adviser will make any such expense allocations in a fair and reasonable manner using its good faith judgment, notwithstanding its interest (if any) in the allocation. The Adviser will make any corrective allocations and take any mitigating steps if it determines such corrections are necessary or advisable. Notwithstanding the foregoing, the portion of an expense allocated to a Client for a particular service may not necessarily reflect the relative benefit derived by such Client from that service in any particular instance. The manner in which such expenses are allocated involves inherent matters of discretion (e.g., in determining whether to allocate pro rata based on number of Funds, Separate Account Clients or Co-Investment Vehicles receiving related benefits, proportionately in accordance with the amount of assets held, or some other manner). The Funds, Separate Account Clients, and the BDC have different expense reimbursement terms, including with respect to management fee offsets, which may result in such entities bearing different levels of expenses with respect to the same investment. For additional information regarding how conflicts of interest (such as those that arise with respect to the allocation of expenses) are generally addressed by the Adviser, please see Item 11 below.

Additionally, please see Item 6 below regarding "Carried Interest" and incentive fees that Clients may pay.

When a broker is used in connection with an investment by a Client, such Client will incur brokerage and other transaction costs. For additional information regarding brokerage practices, please see Item 12 below.

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

With respect to each Fund, a portion of the profits of the Fund is allocated to the capital account of its general partner as "carried interest" (the "Carried Interest"). Each general partner of a Fund is a related person of the Adviser.

Separate Account Clients also may pay incentive fees, depending on the terms of their Advisory Agreements, as does the BDC. The incentive fees for the BDC, as described in Item 5 above, are set forth in the BDC's Advisory Agreement.

Incentive fees may cause the Adviser to favor or recommend investments that are riskier than investments that would have been recommended without an incentive fee. In addition, the payment of Carried Interest and/or incentive fees at varying rates may create an incentive for the Adviser to disproportionately allocate time, services, or functions to Clients paying Carried

Interest or incentive fees at a higher rate, or to allocate investment opportunities to such Clients. With respect to certain Funds, and except as may be otherwise set forth in the organizational documents of the Funds, this conflict is mitigated by provisions restricting the Adviser and its principals from establishing a new investment fund with objectives substantially similar to those of the applicable Fund until the earlier of (i) the end of the Fund's investment period or (ii) such time as the applicable Fund is invested or committed beyond a percentage set forth in the organizational documents of such Fund (including amounts reserved for follow-on investments and reasonably anticipated expenses and liabilities or reserves of the applicable Fund). With respect to certain other Funds, the Separate Account Clients, and the BDC, this conflict is largely mitigated by the Adviser's allocation policy, which generally requires Clients to be allocated investment opportunities in a fair and equitable manner, over time. Additionally, the Adviser periodically considers the time and services being devoted to Clients to seek to ensure that the necessary resources are being allocated to each Client. The Adviser, or its affiliate, may waive Carried Interest and/or incentive fees with respect to one or more investors, in its sole discretion. Please also see Item 12 below (regarding trade aggregation), as well as Item 11 below, for additional information regarding how conflicts of interest are generally addressed by the Adviser.

## **Item 7. Types of Clients**

The Adviser currently provides investment supervisory services to the Funds and the BDC. Investment advice is provided directly to the Funds and the BDC (subject to the direction and control of the general partner of each Fund or directors of the BDC, if applicable) and not individually to investors in the Funds or shareholders of the BDC. The Adviser also provides advisory services to the Separate Account Clients (including via Separate Account Entities).

Interests in the Funds, the BDC, and the Separate Account Entities are offered pursuant to applicable exemptions from registration under the Securities Act and the 1940 Act. Investors in the Funds, the BDC, and the Separate Account Clients are generally "qualified purchasers" as defined in the 1940 Act, and may include, among others, pension and profit sharing plans, university endowments, corporations, high net worth individuals, banks, thrift institutions, trusts, estates, charitable organizations, limited partnerships, and limited liability companies or other entities.

The Adviser does not have a minimum size for a Fund, but minimum investment commitments may be established for investors in the Funds. The general partner of each Fund may in its sole discretion permit investments below the minimum amounts set forth in the offering documents of such Fund. While the Adviser does not impose a minimum amount for establishing a separate account, separate accounts generally are established with a \$50 million to \$100 million minimum, though the Adviser, in its sole discretion, may permit investments that are less than such minimum.

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

### Methods of Analysis and Investment Strategies

*Audax Senior Debt Funds, the BDC and the Separate Account Clients.* The Adviser seeks to generate attractive risk-adjusted returns by capitalizing on inefficiencies within the middle market senior loan asset class. The Adviser invests primarily in senior secured bank loans and, to a lesser extent, in unsecured loans and other instruments (including unitranche and stretch senior secured loans) that are attractively priced relative to the cash flows and underlying credit quality of the borrower. The majority of financing activity for the senior debt funds and separate accounts is from middle market leveraged buyouts, utilizing the primary or secondary markets along with refinancing or recapitalization activity. To minimize risk, the Adviser initially screens each potential investment, reviewing the borrower's industry, company information, planned financial structure, deal size, and expected pricing. The Adviser next performs an in-depth review of the transaction, generally including an analysis of the borrower's industry and company-specific dynamics along with an extensive financial analysis of the proposed investment. Once an investment has been made, the Adviser regularly monitors performance, evaluating the investment on both a stand-alone basis and on a portfolio basis.

*Audax Mezzanine Funds.* The Adviser invests in a diversified portfolio of privately negotiated debt and debt-like securities issued in connection with leveraged transactions. The investments generally have both debt and equity components, and may include subordinated debt, senior debt, mezzanine debt, second lien debt, convertible debt, preferred equity, common equity, or common equity warrants. With a focus on principal preservation, the Adviser seeks to maximize deal flow from multiple sources, performing thorough credit analysis and due diligence on investment opportunities. To reduce risk, the Adviser reviews potential investments with a focus on identifying common deficiencies and risks of potential investments. Factors considered typically include, among other things, fundamental business considerations, industry, management, financial performance, leverage, and the private equity sponsor.

*Audax Direct Lending Solutions Funds.* The Adviser will invest in loans to private middle market companies based primarily in the United States and Canada, including unitranche and stretch senior secured loans, first and second lien loans, and select investments in equity and other similar investments. With a focus on principal preservation, the Adviser performs due diligence and credit analysis, invests in a diversified portfolio of investments by size and industry, closely monitors portfolio investments, and maintains direct relationships with the controlling shareholder group and portfolio company management. The Adviser will seek to invest in businesses with leading market positions that are defensible against potential new entrants, have demonstrated strength through various economic cycles, and possess multiple sources of cash flow. The Adviser will also seek invest 5% to 10% of the applicable portfolios in equity securities of the companies to which it lends.

## Risks

Investing in securities involves a substantial degree of risk. A Client may lose all or a substantial portion of its investment, and Separate Account Clients, BDC shareholders, and Fund investors must be prepared to bear the risk of a complete loss of their investments.

In addition, material risks relating to one or more of the investment strategies and methods of analysis described above, and to the types of securities typically purchased by or for Clients, include the following, each of which is described in more detail in the applicable Fund's or the BDC's offering documents and Separate Account Client agreements:

*Business Risks.* A Client's investment portfolio is expected to consist primarily of securities issued by privately held companies; those companies may have significant risks as a result of business, financial, market or legal uncertainties. As a result, operating results in a specified period may be difficult to predict. Such investments involve a high degree of business and financial risk that may result in substantial losses.

*Key-Person Risk.* The Adviser is subject to the risk that it may lose the services of key personnel, and it may be difficult or disruptive to replace the experience of key personnel and the relationships developed by such personnel with other professionals and financial institutions.

*Future Performance.* While the Adviser intends to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurance that any targeted internal rate of return will be achieved. On any given investment, loss of principal is possible.

*Credit and Interest Rate Risks of Debt Securities.* Debt portfolios are subject to credit and interest rate risk. "Credit risk" refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, subordination, lack or inadequacy of collateral, or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument and securities which are rated by rating agencies are often reviewed and may be subject to downgrade. "Interest rate risk" refers to the risk associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

*Non-Controlling Investments.* The Adviser anticipates that each Client will principally hold debt obligations and other non-controlling interests in portfolio companies and, therefore, will have a limited ability to protect the Client's position in such companies. Although the Adviser will monitor the performance of each investment, it primarily will be the responsibility of a

portfolio company's management to operate the company on a day-to-day basis. In the case of the BDC, the 1940 Act requires the BDC to offer to provide certain portfolio companies with "significant managerial assistance" and to provide such assistance if requested, however, portfolio companies are under no obligation to accept such assistance. The Adviser will seek appropriate creditor and/or shareholder rights to help protect the Client's interest and will seek to have the right to participate in or influence the business of some portfolio companies.

*Leverage.* Certain Clients will utilize leverage, whether directly or indirectly through the use of one or more financing vehicles. Such Clients are not limited in the type of financing or borrowings that they may enter into, which could include bank credit facilities, term facilities, subscription facilities, revolving facilities, securitization vehicles (including CLOs), or other methods of borrowing or financing. In connection with such borrowings, a Client (or its financing vehicles) will be expected to pledge or otherwise collateralize its assets. The use of leverage will increase the volatility of the Client's investment portfolio. Leverage generally magnifies both the Client's opportunities for gain and its risk of loss from a particular investment. While the use of borrowed funds will increase returns if the Client earns a greater return on the incremental investments purchased with borrowed funds than it pays for such borrowed funds, the use of leverage will decrease returns if the Client fails to earn as much on such incremental investments as it pays for such borrowed funds. The effect of leverage may therefore result in a greater decrease in the net asset value of the Client's investment portfolio than if the Client were not leveraged. The use of leverage will also result in interest expense and other costs to the Client.

There can be no assurance that a Client will be able to obtain indebtedness on terms available to any predecessor fund or to competitors (including terms that may be currently available in the market), that indebtedness will be accessible by the Client at any time, or that the Client will be able to obtain appropriate amounts of leverage, and to the extent that it is available there can be no assurance that such indebtedness will be on terms favorable to the Client, including with respect to interest rates, or that such indebtedness will remain available throughout the term of the Client's investment activities. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which state is difficult to accurately forecast. During times when credit markets are tight, it may be difficult to obtain or maintain the desired degree of leverage. Moreover, the use of leverage may cause certain of a Client's income to be unrelated business taxable income to U.S. tax exempt investors. Should the target amount of leverage not be obtained or used by a Client, the total returns for the Client will likely be lower than they would have been had such target amount of leverage been used.

In addition, the companies in which a Client will invest are likely to be highly leveraged, thereby increasing the credit risk inherent in each investment. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to finance future operations and capital needs. In addition, this leverage is likely to accelerate and magnify declines in the value of a Client's investments in the leveraged portfolio companies in a down market. In the event any portfolio company cannot generate adequate cash flow to meet debt service, a Client may suffer a partial or total loss of capital invested in the portfolio company, which would adversely affect the returns of a Client.

Furthermore, the companies in which a Client may invest are generally not be rated by a credit rating agency.

*Market Conditions.* There can be no assurance that the market for a Client's investments will be liquid. For example, during certain periods, liquidity in the market for leveraged bank loans may constrict significantly, resulting in a decline in the market price for many of these assets. There can be no assurance that such a liquidity crisis will not occur. Illiquidity in the market may adversely affect a Client's ability to dispose of its assets.

Conditions in the credit markets may have a significant impact on the business of a Client. The credit markets in the U.S. have experienced a variety of difficulties and economic conditions in recent years that have adversely affected the performance and market value of many securities and financial instruments. There can be no assurance that a Client will not suffer material adverse effects from broad and rapid changes in market conditions in the future. Among other things, the level of investment opportunities may decline from the Adviser's current expectations. As a result, fewer investment opportunities may be available to a Client; although if credit markets remain constrained, a Client may have the opportunity to take larger positions in potential transactions. One possible consequence is that a Client may take a larger than anticipated period to invest capital, as a result of which, at least for some period of time, a Client may be relatively concentrated in a limited number of investments. Consequently, during this period, the returns realized by investors may be substantially adversely affected by the unfavorable performance of a small number of these investments. A Client may seek to capitalize on opportunities created by future market dislocations, but such a strategy carries significant risk of substantial loss if such dislocations occur or if market conditions are adversely affected by other events, such as the failure of significant financial institutions or private equity or hedge funds, dislocations in other investment markets, or extrinsic events.

*Uncertain Economic and Political Environment.* Consumer, corporate and financial confidence may be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises or other sources of political, social or economic unrest. Such erosion of confidence may lead to or extend a localized or global economic downturn. In addition, limited availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, in an uncertain environment or economic downturn may have an adverse effect on the economy generally and on the ability of a Client and its portfolio companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of businesses. Economic uncertainty or a general economic downturn may have an adverse effect upon a Client's portfolio companies.

*Widening Risk.* The prices of the securities and other financial assets in which a Client invests may decline substantially and such decline may not always be attributable to any of the risks described herein. For example, the mere fact that the Client may be purchasing assets at what may appear to be "undervalued" levels is no guarantee that these assets will not be trading at even lower levels or have no value at a time of valuation or at the time of sale. It is not possible to predict, or to hedge against, such "spread widening" risk.

*Concentration of Investments.* A Client may participate in a limited number of investments and the Adviser may seek to make several Client investments in one industry or one industry segment. As a result, a Client's investment portfolio could become concentrated, and the performance of a few holdings may substantially affect its aggregate return. Due to such concentration, a Client's portfolio may be subject to larger and more rapid changes in value.

*Bank Loans.* Certain Clients generally will invest in loans originated by banks and other financial institutions, which may include term loans and revolving loans, may pay interest at a fixed or floating rate and may be senior or subordinated. Purchasers of middle market bank loans are predominantly commercial banks, investment funds, and investment banks. Middle market bank loans are generally illiquid investments, and there can be no assurance that future levels of supply and demand in bank loan trading will provide an adequate degree of liquidity or that the market will not experience periods of significant illiquidity in the future.

*Participation Investments.* A Client may acquire interests in investments either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a direct lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. Participation interests in a portion of a debt obligation typically result in a contractual relationship only with the institution participating out the interest, not with the borrower. In purchasing participations, a Client generally will have no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, and the Client may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Client will assume the credit risk of both the borrower and the institution selling the participation.

In addition, in the event of the insolvency of the selling institution, under the laws of certain jurisdictions a Client may be treated as a general unsecured creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the secured loan. Consequently, in such circumstances, a Client will be subject to the credit risk of the selling institution as well as that of the borrower. Certain of the secured loans or loan participations may be governed by the law of a foreign jurisdiction which may present additional risks as regards the characterization of such transaction as a participation under such laws of such participation in the event of the insolvency of the selling institution or the borrower.

*Risks Related to CLO Equity.* To the extent that a Client invests in collateralized loan obligations ("CLOs") or uses CLOs as part of its leverage program, that Client may make a significant investment in CLO equity (e.g., the most junior tranche of a CLO). CLO equity is contractually subordinated to the other liabilities of the applicable issuer. As a result of such subordination, to the extent that any losses are suffered with respect to the underlying assets for such investment securities, such losses will be borne in the first instance by holders of the equity tranche before any losses would be borne by the holders of the more senior classes of securities or loans issued by the applicable CLO.



*Below Investment Grade Debt.* A Client investing primarily in senior debt generally invests in floating rate instruments, including, without limitation, “higher yielding” (and, therefore, higher risk) debt securities. Unless otherwise specified by the Client, a portion of such investments will be unrated or rated below investment grade by one or more nationally recognized statistical rating organizations and may face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer’s inability to meet timely interest and principal payments. In certain periods, there may be little or no liquidity in markets for these loans. The lower rating of these debt instruments reflects a greater possibility that adverse changes in the financial condition of the obligor or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings, recession, or major financial crisis) or both may impair the ability of the obligor to make payment of principal and interest. Below investment-grade securities have historically experienced greater default rates than has been the case for investment-grade securities. The market values of certain of these lower-rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates. The markets for these debt instruments tend to be more volatile, less liquid and less active than those for higher-rated instruments, which can adversely affect the price at which these instruments can be sold and may make it impractical or impossible to sell such securities at times of market dislocation. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of these debt instruments.

The instruments in which a Client invests are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. A Client may also invest in equity securities issued by entities with unrated or below investment-grade debt.

*Smaller and Middle Market Companies.* The Clients will invest in the debt obligations or securities of small, middle market and/or less well-established companies. While small and middle market companies may have potential for rapid growth, they often involve higher risks. Small and middle market companies have more limited financial resources than larger companies and may be unable to meet their obligations under their debt securities that a Client holds, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of the Client realizing any guarantees it may have obtained in connection with its investment. Small and middle market companies also typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors’ actions and market conditions, as well as general economic downturns. Less publicly available information may be available about these companies and they may not be subject to the financial and other reporting requirements applicable to public companies. They are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on the company and, in turn, on the Client. Small and middle market companies may also have less predictable operating results and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. They may also have difficulty accessing the

capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

*Loan Origination.* Certain Clients will seek to make loans directly to a portfolio company or indirectly, through holding vehicles. In making such loans, those Clients will compete with a broad spectrum of lenders, some of which may have greater financial resources, and some of which may be willing to lend money on better terms (from a borrower's standpoint) than the Clients. Increased competition for, or a diminution in the available supply of, qualifying loans may result in lower yields on such loans, which could reduce returns to those Clients. The level of analytical sophistication, both financial and legal, necessary for successful financing to companies, particularly companies experiencing significant business and financial difficulties, is unusually high. There is no assurance that the Adviser will correctly evaluate the value of the assets collateralizing these loans or the prospects for successful repayment or a successful reorganization or similar action.

In addition, loan origination involves a number of particular risks that may not exist in the case of secondary debt purchases, including (i) when originating loans, the Adviser will generally have to rely more on its own resources to conduct due diligence of the borrower, which will likely be more limited than the diligence conducted for a broadly syndicated transaction involving an underwriter, and (ii) the borrowers may in some circumstances be higher credit risks who could not obtain debt financing in the syndicated markets.

In addition to the above, originating loans to private and middle-market companies involves risks that may not exist in the case of large, more established and/or publicly-traded companies, including:

- These companies often have limited financial resources and limited access to additional financing, which increases the risk of their defaulting on their obligations, leaving creditors, such as a Client, dependent on any guarantees or collateral that they may have obtained;
- These companies frequently have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which render such companies more vulnerable to competition and market conditions, as well as general economic downturns;
- These companies are more likely to depend on the management talents and efforts of a small group of persons; as a result, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on these companies' ability to meet their obligations; and
- These companies may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

Price movements of debt obligations and other instruments in which a Client's assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain

markets. Such intervention is often intended to influence prices directly and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The bank loan and debt markets can be volatile, and there can be no assurance as to when such volatility will occur.

There may be little or no liquidity in the markets for certain securities or instruments. In certain periods, illiquidity may rise significantly. Investments in illiquid securities may restrict the ability of the Adviser to dispose of investments in a timely manner, for a reasonable price, or at all. If the underlying issuer of debt experiences a default or other credit event, any illiquidity that results could make it more difficult for a Client to sell such debt and it may lead the Adviser to pursue alternatives to a sale, such as workouts or bankruptcy protection. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such entities. Troubled companies also may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate, or disenfranchise particular claims.

*Hedging.* Although it is generally not expected, a Client may utilize a variety of financial instruments, such as derivatives, options, interest rate swaps, currency hedging, caps and floors, futures, and forward contracts, both for investment purposes and for risk management purposes. While a Client may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance and increased (rather than reduced) risk for the Client than if it had not engaged in any such hedging transactions. Moreover, it should be noted that a Client's investment portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties). It is not possible to hedge fully or perfectly against any risk, and a hedged transaction might nevertheless produce a net loss. In addition, hedges entail their own costs and may be more difficult to implement than many other transactions, and possibilities for errors may be greater than for other transactions. The Adviser may choose for a Client not to enter into hedging transactions with respect to some or all of the Client's positions.

*Lender Liability Considerations and Equitable Subordination.* In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories ("lender liability"). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain Client investments, a Client could be subject to allegations of lender liability.

In addition, because of the nature of certain investments of a Client and its affiliates, the Client could be subject to claims from creditors of an obligor that the Client's investments issued by such obligor should be equitably subordinated. Under common law principles that in some cases form the basis for lender liability claims, a court may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy called "equitable subordination," if a lending institution (i) intentionally takes an action that

results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors, or (iv) uses its influence as a stockholder to dominate or control a borrower to the detriment of the other creditors of such borrower. A significant number of a Client's investments may involve investments in which the Client would not be the lead creditor. It is, accordingly, possible that lender liability or equitable subordination claims affecting a Client's investments could arise without the direct involvement of the Client.

*Risks Associated with Bankruptcy Cases.* There are a number of significant risks inherent in the bankruptcy process. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of a Client. Furthermore, there are instances where creditors and equity holders lose their ranking and priority such as when they take over management and functional operating control of a debtor. In those cases in which a Client, by virtue of such action, or by virtue of its investment in an issuer in which one or more other affiliated funds has a controlling equity interest is found to exercise "domination and control" of a debtor, a Client may lose its priority if the debtor can demonstrate that its business was adversely affected or other creditors and equity holders were harmed by the Client.

A bankruptcy filing may have an adverse effect on a company, as the company may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. If for this or any other reason the proceeding is converted to a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment. In addition, the duration of a bankruptcy proceeding is difficult to predict and the administrative costs in connection with a bankruptcy proceeding are frequently high. A creditor's return on investment can be adversely affected by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court and until it ultimately becomes effective. Administrative costs will be paid out of the debtor's estate prior to any return to creditors (other than out of assets or proceeds thereof, which are subject to valid and enforceable liens and other security interests) and equity holders. In addition, certain claims that have priority by law over the claims of certain creditors (*e.g.*, claims for taxes) may be quite high. U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that a Client's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in the class.

Troubled company and other asset-based investments require active monitoring and may, at times, require participation in business strategy, bankruptcy, or reorganization proceedings by the Adviser. To the extent that the Adviser becomes involved in such proceedings, a Client may have a more active participation in the affairs of the issuer than that assumed generally by an investor. The Adviser or an affiliate, on behalf of a Client, may elect to serve on creditors' committees or other groups to ensure preservation or enhancement of the Client's positions as a creditor. A member of any such committee or groups may owe certain obligations generally to

all parties similarly situated that the committee represents. If the Adviser or an affiliate concludes that its obligation owed to the other parties as a committee or group member conflict with its duties owed to a Client, it will resign from that committee or group, and the Client may not realize the benefits, if any, of participation on the committee or group. In addition, if a Client is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of its investments in such company while it continues to be represented on such committee or group.

*Fraudulent Conveyance and Preference Considerations.* There is a risk that a Client's purchase of its investments may be subject to various federal and state laws enacted for the protection of creditors, by virtue of the Client's role as a creditor with respect to the borrowers under such investments. Furthermore, there is a risk that payments on an investment may be determined to be avoidable, either as fraudulent conveyances or preferences, in which case such payments can be recaptured either by a Client, as the initial recipient of such payments, or from subsequent transferees of such payments, including investors.

If a court in a lawsuit brought by an unpaid creditor or representative of creditors of a borrower, such as a trustee in bankruptcy or the borrower as debtor-in-possession, were to find that the borrower did not receive fair consideration or reasonably equivalent value for incurring indebtedness evidenced by an investment and the grant of any security interest or other lien securing such investment, and, after giving effect to the incurring of such indebtedness, the borrower (i) was insolvent, (ii) was engaged in a business for which the assets remaining in such borrower constituted unreasonably small capital, or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could invalidate, in whole or in part, such indebtedness and such security interest or other lien as fraudulent conveyances, could subordinate such indebtedness to existing or future creditors of the borrower or could allow the borrower to recover amounts previously paid by the borrower to the creditor (including to a Client) in satisfaction of such indebtedness or proceeds of such security interest or other lien previously applied in satisfaction of such indebtedness. In addition, in the event of the insolvency of an issuer of an investment, payments made on a Client's investment could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year) before insolvency depending on a number of factors, including the amount of equity of the borrower owned by the Client and its affiliates and any contractual arrangement between the borrower, on the one hand, and a Client and its affiliates, on the other hand. The measure of insolvency for purposes of the foregoing will vary depending on the law of the jurisdiction which is being applied. Generally, however, a borrower would be considered insolvent at a particular time if the sum of its debts was greater than all of its assets at a fair valuation or if the then-present fair saleable value of its assets was less than the amount that would be required to pay its probable liabilities on its then-existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether a borrower was insolvent after giving effect to the incurrence of the loan or that, regardless of the method of evaluation, a court would not determine that the borrower was "insolvent" upon giving effect to such incurrence.

*Non-U.S. Investments.* A Client may invest in portfolio companies that are organized or have substantial sales or operations outside of the United States, its territories, and possessions. Such

investments may be subject to certain additional risk due to, among other things: (i) potentially unsettled points of applicable governing law; (ii) capital repatriation regulations (as such regulations may be given effect during the term of a Client); (iii) the application of complex U.S. and non-U.S. tax rules to cross-border investments; (iv) possible imposition of non-U.S. taxes on a Client (and/or investors, in the case of a Fund or the BDC) with respect to the Client's income; (v) possible non-U.S. tax return filing requirements for a Client (and/or investors, in the case of a Fund or the BDC); (vi) possible difficulty in obtaining and enforcing judgments against non-U.S. entities; (vii) varying levels of governmental regulation and supervision; (viii) fluctuations in currency exchange rates; (ix) the risk of nationalization or expropriation of assets or confiscatory taxation; (x) social, economic and political uncertainty, including war and revolution; (xi) dependence on exports and the corresponding importance of international trade; (xii) less extensive regulation of the securities markets; (xiii) longer settlement periods for securities transactions; and (xiv) less developed corporate laws regarding fiduciary duties and the protection of investors; and (xv) other factors beyond the control of the Adviser. Furthermore, issuers of non-U.S. securities are subject to different, often less comprehensive accounting reporting or disclosure requirements than U.S. issuers. The securities markets of some countries in which a Client may invest have substantially less volume than those in the United States, and securities of certain companies in these countries are less liquid and more volatile than securities of comparable U.S. companies. Accordingly, these markets may be subject to greater influence by adverse events generally affecting the market, and by large investors trading significant blocks of securities, than is usual in the United States.

*Non-U.S. Currencies Risk.* While the vast majority of a Client's investments will be denominated in U.S. dollars, a Client may have investments that are denominated in currencies other than the U.S. dollar. Such investments are subject to the risk that the value of the particular currency will change in relation to one or more other currencies. As a result, a Client could realize a net loss on an investment even if there were a gain on the underlying investment before currency losses were taken into account. The Adviser, in its sole discretion, may seek to hedge currency risks by investing in currencies, currency futures contracts and options on currency futures contracts, forward currency contracts, swaps, swaptions, or any combination thereof (whether or not exchange traded), but there can be no assurance that such strategies will be implemented or effective.

*Private Company Holdings.* A portion (which in some cases may be significant) of a Client's investments may consist of securities that are subject to restrictions on resale by the Client because they were acquired in a "private placement" transaction or because the Client is deemed to be an affiliate of the issuer of such securities. Generally, a Client will be able to sell certain of such securities only under Rule 144 under the Securities Act, which permits limited sales under specified conditions, or pursuant to a registration statement under the Securities Act. When restricted securities are sold to the public, a Client may be deemed to be an underwriter or possibly a controlling person, with respect thereto for the purposes of the Securities Act and be subject to liability as such under the Securities Act. In addition, a Client may, from time to time, possess material, non-public information about a borrower or issuer or the Client may be an affiliate of a borrower or an issuer. Such information or affiliation may limit the ability of the Client to buy and sell investments. A Client's investments also may be subject to similar restrictions pursuant to contracts to which it is a party.

*Public Company Holdings.* A Client's investment portfolio may contain securities issued by publicly held companies. Such investments may subject a Client to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of a Client to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members, including the principal managers, and increased costs associated with each of the aforementioned risks. In some circumstances, a Client may be unable to obtain financial covenants or other contractual rights, including management rights that it might otherwise be able to obtain in making privately-negotiated debt investments. Moreover, a Client may not have the same access to information in connection with investments in public instruments, either when investigating a potential investment or after making an investment, as compared to a privately-negotiated debt investment.

*Co-Investments.* The Adviser or its affiliates expect to provide or commit to provide co-investment opportunities to one or more Clients (and/or investors, in the case of a Fund or the BDC) or to other persons, in each case on terms to be determined by the Adviser or such affiliates in their sole discretion. Conflicts of interest will arise in the allocation of such co-investment opportunities. The allocation of such co-investment opportunities, which may be made to one or more persons for any number of reasons, may not be in the best interests of a Client (or any individual investor, in the case of a Fund or the BDC). In exercising their sole discretion in connection with such co-investment opportunities, the Adviser and its affiliates may consider some or all of a wide range of factors, which may include the likelihood that an investor may invest in a future fund sponsored by the Adviser or its affiliates. A Client may co-invest with third-parties through partnerships, joint ventures or other entities or arrangements. Such investments may involve risks not present in investments where a third-party is not involved, including the possibility that a third-party co-venturer or partner may at any time have economic or business interests or goals that are inconsistent with those of the Client, or may be in a position to take action contrary to the investment objectives of the Client. In addition, the Client may in certain circumstances be liable for actions of its third-party co-venturer or partner, including on a joint and several basis.

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

*Valuation of Assets.* There is generally no actively traded market for most of the securities owned by the Clients. When estimating fair value, the Adviser will apply a methodology based on its best judgment that is appropriate in light of the nature, facts and circumstance of the investments. Valuations are subject to multiple levels of review for approval and ensuring that portfolio investments are fairly valued is a priority of the Adviser. However, the process of valuing securities for which reliable market quotations are not available is based on inherent

uncertainties and the resulting values may differ from values that would have been determined had an active market existed for such securities and may differ from the prices at which such securities may ultimately be sold. Third-party pricing information may at times not be available regarding certain of a Client's assets. The exercise of discretion in valuation by the Adviser will give rise to conflicts of interest, as valuations impact the Adviser's track record and the performance allocation in certain Clients is calculated based, in part, on these valuations and such valuations affect the amount and timing of performance calculations. As a result, there may be situations in which the Adviser is incentivized to influence or manipulate the valuation of investments. The Adviser may use the services of one or more third-party service providers to review valuations of illiquid investments.

*Cross-Transactions.* Subject to applicable law (including ERISA), certain Clients expect to enter into cross-transactions with other Clients and there is no guarantee that the price at which a Client seeks to purchase securities or other assets via a cross-transaction with another Client will represent the price at which an unaffiliated third party would sell such assets to the Client, or that the price at which the Client seeks to sell securities to another Client will represent the price at which an unaffiliated third party would purchase such assets from such other Client.

*Cybersecurity Risk.* The Adviser, the Clients' service providers and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the Clients (and/or investors, in the case of a Fund or the BDC), despite the efforts of the Adviser and the Clients' service providers to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to the Client (and/or investors, in the case of a Fund or the BDC). For example, unauthorized third parties may attempt to improperly access, modify, disrupt the operations of, or prevent access to these systems of the Adviser, the Clients' service providers, counterparties or data within these systems. Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of the Adviser's systems to disclose sensitive information in order to gain access to the Adviser's data or that of the Client (and/or investors, in the case of a Fund or the BDC). A successful penetration or circumvention of the security of the Adviser's systems could result in the loss or theft of a Client's (and/or investors', in the case of a Fund or the BDC) data or funds, the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. Such incidents could cause the Clients, the Adviser or their service providers to incur regulatory penalties, reputational damage, additional compliance costs or financial loss. In addition, the Adviser may incur substantial costs related to forensic analysis of the origin and scope of a cybersecurity breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, or adverse investor reaction or litigation.

Similar types of operational and technology risks are also present for the companies in which the Clients invests, which could have material adverse consequences for such companies, and may cause the Clients' investments to lose value.



*Tax Reform Risk.* President Trump signed into law a broad-based reform of the U.S. Internal Revenue Code of 1986, as amended (the “Code”) on December 22, 2017 (the “Tax Act”). There are significant uncertainties regarding the interpretation and application of the Tax Act. While additional guidance on the Tax Act is expected, the timing, scope and content of such guidance are not known. Changes to the Code made by the Tax Act and any further changes in tax laws or interpretation of such laws may be adverse to the Clients. In addition, although not free from doubt, the Tax Act subjects allocations of income and gain in respect of entitlements to carried interest and gain on the sales of profits interests in certain partnerships realized in taxable years beginning after December 31, 2017 to higher rates of U.S. federal income tax than under prior law in certain circumstances. As a result, uncertainties remain regarding the application of the provisions of the Tax Act that affect the taxation of carried interest. The Tax Act could cause the Adviser’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 the Adviser to incentivize, attract, and retain these professionals, which may have an adverse effect on the Adviser’s ability to achieve the investment objectives of the Clients. In addition, the Tax Act could create a conflict of interest, as the tax position of the Adviser may differ from the tax positions of the Clients (and/or the underlying investors, in the case of a Fund or the BDC) and therefore, these rules may have an additional impact on the investment decisions made by the Adviser in respect of the Clients, including decisions on the timing and structure of dispositions, and whether to pursue other realization events during the holding period of an investment, such as non-liquidating distributions. For example, the Tax Act gives the Adviser an incentive to cause a Fund to hold an investment for longer than 3 years (or less than 3 years) in order to obtain lower tax rates on carried interest gains, even if there are otherwise attractive realization opportunities that may come in the future.

## **Item 9. Disciplinary Information**

Item 9 is not applicable to the Adviser.

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

### Related General Partners

The Adviser is affiliated with other related investment advisers registered with the SEC under the Advisers Act, pursuant to the Adviser’s registration in accordance with SEC guidance. These advisers consist of the entities listed in Section 7.A of Schedule D of the Adviser’s Form ADV Part 1A. These affiliated investment advisers operate as a single advisory business together with the Adviser and serve as managers or general partners of Funds and other pooled vehicles and generally share common owners, officers, partners, employees, consultants or persons occupying similar positions.

### Affiliated Advisers

The Adviser currently has affiliated advisers, including AMC. AMC provides investment supervisory services to investment vehicles that are exempt from registration under the 1940 Act and whose securities are not registered under the Securities Act. AMC provides investment advice principally regarding private equity transactions.

The Funds and Separate Account Clients have historically participated in transactions alongside clients of AMC and may elect to do so again in the future. For a description of material conflicts of interest created by the relationship among the Adviser and AMC, as well as a description of how such conflicts are addressed, please see Item 11 below.

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

### Code of Ethics

The Adviser has adopted a written Code of Ethics that is applicable to all of its members, principals, officers, and employees, as well as to certain officers and employees of its affiliates and certain independent contractors (collectively, “Adviser Personnel”). The Code of Ethics, which is designed to comply with Rule 204A-1 under the Advisers Act and Rule 17j-1 under the 1940 Act, establishes guidelines for professional conduct and personal trading procedures, including certain pre-clearance and reporting obligations. Adviser Personnel and their families and households may purchase investments for their own accounts, including the same investments as may be purchased or sold for a Client, subject to the terms of the Code of Ethics. Under the Code of Ethics, Adviser Personnel are also required to file certain periodic reports with the Adviser’s Chief Compliance Officer as required by Rule 204A-1 under the Advisers Act and Rule 17j-1 under the 1940 Act. The Code of Ethics helps the Adviser detect and prevent potential conflicts of interest.

Adviser Personnel who violate the Code of Ethics may be subject to remedial actions, including, but not limited to, profit disgorgement, fines, censure, demotion, suspension, or dismissal. Adviser Personnel are also required to promptly report any violation of the Code of Ethics of which they become aware. Adviser Personnel are required to annually certify compliance with the Code of Ethics.

A copy of the Code of Ethics is available to any client or prospective client upon request to: [compliance@audaxgroup.com](mailto:compliance@audaxgroup.com).

### Participation or Interest in Client Transactions

Certain employees and affiliates of the Adviser invest in the Funds, either through the general partners, as direct investors in the Funds or otherwise. A Fund or its general partner, as applicable, typically reduces all of the Advisory Fee and/or Carried Interest related to investments held by such persons. For further details regarding these arrangements, as well as conflicts of interest presented by them, please see “Conflicts of Interest” immediately below.

Due in part to the fact that potential investors in a Fund (including purchasers of a limited partner’s interests in a secondary transaction) may ask different questions and request different information, the Adviser typically provides certain information to one or more prospective investors that it does not provide to all of the prospective investors or limited partners.

## Conflicts of Interest

The Adviser and its related entities engage in a broad range of activities, including investment activities for their own account and for the account of other investment funds, and providing transaction-related, investment advisory, management, and other services to funds and operating companies. In the ordinary course of conducting its activities, the interests of a Client conflict with the interests of the Adviser, other Clients, Co-Investment Vehicles (as defined below), or their respective affiliates. Certain of these conflicts of interest, as well as a description of how the Adviser addresses such conflicts of interest, can be found below.

The Adviser will, from time to time, establish certain investment vehicles through which certain employees of the Adviser or its affiliates, certain business associates, other “friends of the firm,” or other persons invest alongside one or more Funds in one or more investment opportunities. Such vehicles, referred to herein as “Co-Investment Vehicles,” may (or may not), in certain instances, be contractually required to purchase and to exit their investments in investment opportunities at substantially the same time and on substantially the same terms as the applicable Fund that is invested in that investment opportunity. Co-Investment Vehicles do not generally pay investment Advisory Fees or Carried Interest.

### *Resolution of Conflicts*

In the case of all conflicts of interest, the Adviser’s determination as to which factors are relevant, and the resolution of such conflicts, will be made using the Adviser’s best judgment, but in its sole discretion. In resolving conflicts, the Adviser may consider various factors, including the interests of the applicable Clients with respect to the immediate issue and/or with respect to their longer term courses of dealing. With respect to the BDC, the Adviser will work with the BDC’s board of directors to resolve conflicts of interest. Certain procedures for resolving specific conflicts of interest are set forth below. When conflicts arise, the following factors may mitigate, but will not eliminate, conflicts of interest:

- A Client will not make an investment unless the Adviser believes that such investment is an appropriate investment considered solely from the viewpoint of such Client;
- Many important conflicts of interest involving Funds, the BDC, and Clients will be resolved by set procedures or restrictions;
- Generally, each Fund has established an advisory committee mechanism, contemplating a committee of representatives of investors not affiliated with the Adviser; the advisory committees would meet as required to consult with the Adviser as to certain potential conflicts of interest; on any issue involving actual conflicts of interest, the Adviser will be guided by its good faith discretion;
- The Adviser has adopted and implemented policies and procedures designed to reduce certain conflicts of interest (such as, conflicts screening, ethical “walls,” and information barriers to mitigate conflicts of interest arising from the activities of business units and funds advised by AMC; policies and procedures governing the allocation of expenses,

and the fair allocation of investment opportunities; gifts, political contributions, and outside business activity disclosure policies; and policies and procedures addressing cross-trades and principal transactions);

- Where the Adviser deems appropriate, unaffiliated third parties may be used to help resolve conflicts, such as the use of an investment banker to opine as to the fairness of a purchase or sale price; and
- Prior to subscribing for interests in a Fund, purchasing shares in the BDC, or becoming a Client, each investor and potential client receives information relating to significant potential conflicts of interest arising from the proposed activities of the Fund, the BDC, or the Separate Account Client.

In certain instances, some of these conflicts of interest are expected to be resolved in a manner adverse to a Client and its ability to achieve its investment objectives.

### *Conflicts*

The material conflicts of interest encountered by a Client include those discussed below, although the discussion below does not describe all of the conflicts that may be faced by a Client. Other conflicts may be disclosed throughout this brochure and this brochure should be read in its entirety for such disclosures.

### *Allocation of Investment Opportunities Among Clients*

In connection with its investment activities, the Adviser encounters situations in which it must determine how to allocate investment opportunities among various Clients and other persons, which include, but are not limited to, the following:

- The Funds and funds advised by the Adviser's affiliates, which may include funds organized as parallel investment entities that have been formed to invest side-by-side with one or more of the Funds (either in all transactions entered into by such Funds or in a limited subset of such investments);
- Any Co-Investment Vehicles that have been formed to invest side-by-side with one or more other Funds or other Clients in all, or particular transactions entered into by such Funds or Clients (the investors in such Co-Investment Vehicles may include individuals and entities that are also investors in one or more Funds ("Adviser Investors") and/or individuals and entities that are not investors in any Funds ("Third Parties"));
- Adviser Investors and/or Third Parties that wish to make direct investments (i.e., not through an investment vehicle) side-by-side with one or more Funds or other Clients in particular transactions entered into by such Funds or Clients;
- Adviser Investors and/or Third Parties acting as "co-sponsors" with the Adviser with respect to a particular transaction;

- The BDC; and
- The Separate Account Clients.

In recognition of its fiduciary duties, it is the policy of the Adviser to treat Clients fairly and equitably in the allocation of investment opportunities over time and in transactions more generally. The Adviser has adopted written policies and procedures relating to the allocation of investment opportunities, and will make allocation determinations consistently therewith.

Clients are generally subject to investment allocation requirements (collectively, “Investment Allocation Requirements”), which will also apply directly or indirectly to certain Co-Investment Vehicles with investments contractually tied to other Funds. Investment Allocation Requirements are generally set forth in a Fund’s limited partnership agreement, the BDC’s governing documents, or in a Separate Account Client’s Advisory Agreement or Separate Account Entity agreement. To the extent the Investment Allocation Requirements of a Client do not include specific allocation procedures and/or allow the Adviser discretion in making allocation decisions among the Clients, the Adviser will follow the process set forth below.

The Adviser must first determine which Clients will participate in an investment opportunity. The Adviser assesses whether an investment opportunity is appropriate for a particular Client, based on the Client’s investment objectives, strategies, and restrictions. Prior to making any allocation to a Client of an investment opportunity, the Adviser determines what additional factors may restrict or limit the offering of an investment opportunity to the Client. Possible restrictions include, but are not limited to:

- **Obligation to Offer:** the Adviser may be required to offer an investment opportunity to one or more Clients; for example, certain Funds have a stated focus on certain types of investments (e.g., loans originated by the Adviser) – in those instances, the Adviser will typically offer the applicable investments first to Funds with the corresponding stated focus on those types of investments, resulting in excluding or limiting participation by other Clients that do not have the same stated focus.
- **Related Investments:** the Adviser may offer an investment opportunity related to an investment previously made by a Client to such Client, resulting in excluding or limiting participation by other Clients.
- **Legal and Regulatory Exclusions:** the Adviser may determine that certain Clients (or investors, in the case of Funds or the BDC) should be excluded from an allocation due to specific legal, regulatory, and contractual restrictions placed on the participation of such persons in certain types of investment opportunities.

Once the Clients that are able to participate in a particular investment have been identified, the Adviser will exercise its judgment in deciding how to allocate such investment opportunity among the identified Clients in a fair and equitable manner. In allocating such investment opportunity, the Adviser may consider some or all of a wide range of factors, which may include, but are not necessarily limited to, the following:

- Amount of capital available for investment by each Client as well as each Client's projected future capacity for investment, taking into account items such as investible cash on hand, available leverage (if applicable), projected capital contributions, expense obligations, delayed-draw or revolving credit funding obligations, and anticipated fundings, paydowns, and refinances;
- Each Client's investment objectives, strategy, and investment focus;
- Each Client's liquidity and reserves, taking into account possible redemptions/withdrawals and obligations under applicable leverage facilities, as well as other factors;
- Each Client's diversification (including the actual, relative or potential exposure of a Client to the type of investment opportunity in terms of its existing portfolio);
- Lender covenants and other limitations;
- The minimum denomination of an investment;
- The business unit of the Adviser sourcing the transaction;
- The centrality of an investment to a Client's strategy;
- The stage of development of the prospective portfolio company or other investment and anticipated holding period of the investment in the portfolio company;
- Each Client's targeted rate of return;
- Any "ramp-up" period of a newly established Client;
- Composition of each Client's portfolio;
- The suitability as a follow-on investment for a current portfolio company of a Client;
- The availability of other suitable investments for each Client;
- Risk considerations;
- Increased illiquidity that may arise with respect to positions below a minimum size threshold;
- Cash flow considerations;
- Supply or demand of an investment opportunity at a given price level;
- Asset class restrictions;
- The seniority of an investment and other capital structuring criteria;

- Industry and other allocation targets;
- Whether an investment opportunity requires additional consents or authorizations from the Clients, investors or Third Parties;
- Whether an investment opportunity would enable a Client to qualify for certain programmatic benefits or discounts that are not readily available to other Clients including, but not limited to, the ability to enter into credit arrangements with certain financial or governmental institutions;
- Minimum and maximum investment size requirements;
- Structural and operational differences between the funds or accounts;
- Tax implications and other applicable regulatory, compliance, operational, legal, contractual, or administrative factors; and
- Any other relevant limitations imposed by or conditions set forth in the applicable offering and organizational documents of each Client.

Accordingly, the allocation of any investment opportunity is unlikely to be pro rata, based on the account size of the participating Clients.

In exercising its discretion to allocate investment opportunities (and the fees and expenses related to such opportunity), the Adviser is likely to be faced with a variety of conflicts of interest. For example, in allocating an investment opportunity among Clients with differing fee, expense, and compensation structures, the Adviser would typically have an incentive to allocate investment opportunities to the Clients from which the Adviser or its related persons may derive, directly or indirectly, a higher fee, compensation or other benefit. However, the Adviser will seek to make all allocations of investment opportunities among the Clients in a fair and equitable manner over time and will not favor or disfavor, consistently or consciously, any Fund, Separate Account Client, or the BDC in relation to any other Client. Further, the Adviser will not allocate investment opportunities based, in whole or in part, on (i) the fee structure or amount of fees paid by any Client, except to the extent related to the underlying strategy or return of the Client, (ii) the profitability of any Client, or (iii) any person's interest in offering or participating in co-investment opportunities outside of any Client.

Subject to the foregoing, where one or more Clients co-invest in an investment opportunity, each may participate in the investment based in part on its relative available capital, subject to adjustments for legal, tax, regulatory, structuring and similar considerations and taking into account, among other things, overall capital commitments, diversification considerations, investment mandates applicable to each Client, and the other factors set forth above. The Adviser will also make independent decisions about when each Client should purchase and sell investments. A Client may invest in opportunities in which one or more other Clients (i) have invested, (ii) are contemplating an investment or (iii) have evaluated and decided not to invest. Furthermore, investment opportunities that are appropriate for a Client will be allocated to other Clients from time to time. Accordingly, the application of the Investment Allocation

Requirements and factors set forth above will often result in allocations on a non-pro rata basis and there can be no assurance that a Client will participate in all investment opportunities that fall within its investment objectives.

In addition, principal executive officers and other personnel of the Adviser invest indirectly in Funds and therefore participate indirectly in investments made by the Funds in which they invest. Such interests will vary Fund-by-Fund. The existence of these varying circumstances present conflicts of interest in determining how much, if any, of certain investment opportunities to offer to a Fund.

The 1940 Act generally prohibits the BDC from co-investing with other Clients where terms other than price are negotiated, unless an exception or exemption applies. On November 7, 2018, the BDC, the Adviser, certain Funds, and related entities received an exemptive order from the SEC (the “Co-Investment Order”) permitting the parties to enter into co-investments where the Adviser may negotiate terms other than price, subject to certain conditions set-out in the application to the Commission. The conditions seek to ensure that participation in a co-investment transaction by the BDC is not on a basis different from or less advantageous than that of other participants by, among other things, giving the BDC the opportunity to participate. Accordingly, if the BDC participates in co-investment, it will invest on equal footing, including identical terms, conditions, price, class of securities purchased, settlement date, and registration rights as other participating Clients. Further, the conditions of the Co-Investment Order require that investment opportunities with limited supply (as well as certain dispositions and follow-on investments) be allocated among participating Clients pro-rata based on each participant’s available capital. By permitting the BDC to co-invest where it previously could not under the 1940 Act, the Co-Investment Order will increase the amount of available capital allocable by the Adviser, which may reduce the overall level of investment opportunities previously allocable to non-BDC Clients. The conditions also include, among other things, a requirement that a “required majority” (as defined in Section 57(o) of the 1940 Act) of the BDC’s independent directors make certain conclusions in connection with a co-investment transaction, including that the terms of the transaction, including the consideration to be paid, are reasonable and fair to the BDC and its stockholders and do not involve overreaching of the BDC. Procedures and pre-approvals required by the Co-Investment Order may delay or impede execution of investments. No Client or investor can be assured that the Co-Investment Order will permit a co-investment with the BDC.

#### *Allocation of Co-Investment Opportunities*

Subject to any Investment Allocation Requirements, in general, (i) no investor in a Fund has a right to participate in any opportunity to invest directly in any current or prospective Fund portfolio company (a “Portfolio Co-Investment”), (ii) decisions regarding whether and to whom to offer Portfolio Co-Investment opportunities, as well as the applicable terms on which a Portfolio Co-Investment opportunity is made, are made in the sole discretion of the Adviser or its related persons or other participants in the applicable transactions, such as co-sponsors, (iii) Portfolio Co-Investment opportunities may, and typically will, be offered to some and not other investors in the Funds, in the sole discretion of the Adviser or its related persons, (iv) certain persons other than investors in the Funds (e.g., consultants, persons associated with a portfolio



company, Co-Investment Vehicles or Third Parties) will, from time to time, be offered Portfolio Co-Investment opportunities, in the sole discretion of the Adviser or its related persons, and (v) co-investors may purchase their interests in a Portfolio Co-Investment opportunity at the same time as the Funds or may purchase their interests from the applicable Funds after such Funds have consummated their investment in the portfolio company (also known as a post-closing “sell down” or transfer). Additionally, non-binding acknowledgements of interest in Portfolio Co-Investment opportunities are not Investment Allocation Requirements and do not require the Adviser to notify the recipients of such acknowledgements if there is a Portfolio Co-Investment opportunity.

The Adviser will determine if the amount of an investment opportunity exceeds the amount the Adviser determines would be appropriate for the Funds (after taking into account any portion of the opportunity allocated by contract to certain participants in the applicable deal, such as co-sponsors, consultants and advisers to the Adviser and/or the Funds or management teams of the applicable portfolio company, certain strategic investors and other investors whose allocation is determined by the Adviser to be in the best interest of the applicable Fund), and any such excess may be offered to one or more Portfolio Co-Investment investors pursuant to the procedures included in such Funds’ organizational documents/side letter agreements and as set forth in the following paragraphs.

In exercising its discretion to allocate Portfolio Co-investment opportunities with respect to a particular investment among the Clients and other persons, the Adviser may consider some or all of a wide range of factors, which may include, but are not limited to, the following:

- The Adviser’s evaluation of the size and financial resources of the potential co-investment party and the Adviser’s perception of the ability of that potential co-investment party (in terms of, for example, staffing, expertise, and other resources) to efficiently and expeditiously participate in the Portfolio Co-Investment opportunity with the relevant Funds without harming or otherwise prejudicing such Funds, in particular when the Portfolio Co-Investment opportunity is time-sensitive in nature, as is typically the case (including whether the potential co-investment party has a complicated tax structure that would require particular structuring implementation or covenants that would not otherwise be required);
- Any confidentiality concerns the Adviser has that may arise in connection with providing the other account or person with specific information relating to the Portfolio Co-Investment in order to permit such potential co-investment party to evaluate the Portfolio Co-Investment opportunity;
- The Adviser’s perception of its past experiences and relationships with the potential co-investment party, such as the willingness or ability of the potential co-investment party to respond promptly and/or affirmatively to potential Portfolio Co-Investment opportunities previously offered by the Adviser, and the expected amount of negotiations required in connection with a potential co-investment party’s commitment;
- The character and nature of the potential Portfolio Co-Investment opportunity (including the potential co-investment amount, structure, geographic location, tax characteristics and relevant industry);

- Level of demand for participation in such co-investment opportunity;
- The ability of a potential co-investment party to aid in operating or monitoring a potential Portfolio Co-Investment opportunity or the possession of certain expertise by a potential co-investment party and the potential co-investment party's chemistry with the management team of the potential Portfolio Co-Investment Opportunity and whether the potential co-investment party has any existing positions in the potential Portfolio Co-Investment Opportunity;
- Any interests a potential co-investment party has in any competitors of a potential Portfolio Co-Investment opportunity;
- The Adviser's awareness of whether the Portfolio Co-Investment opportunity may subject the potential co-investment party to legal, regulatory, competitive, confidentiality, reporting, public relations, media, or other burdens that make it less likely that the other account or person would act upon the Portfolio Co-Investment opportunity if offered;
- The Adviser's evaluation of whether the profile or characteristics of the potential co-investment party may have an impact on the viability or terms of the proposed Portfolio Co-Investment opportunity and the ability of the Funds to take advantage of such opportunity (for example, if the potential co-investment party is involved in the same industry as a target company in which a Fund wishes to invest, or if the identity of the potential co-investment party, or the jurisdiction in which the potential co-investment party is based, may affect the likelihood of a Fund being able to capitalize on a potential Portfolio Co-Investment opportunity); and
- Whether the Adviser believes, in its sole discretion, that allocating Portfolio Co-Investment opportunities to a potential co-investment party will help establish, recognize, strengthen and/or cultivate relationships that may provide indirectly longer-term benefits (including strategic, sourcing, or similar benefits) to current or future Funds or the Adviser and whether the potential co-investment party has demonstrated a long-term and/or continuing commitment to the potential success of current or future Funds and/or the Adviser.

The factors above are not listed in order of importance or priority and the Adviser is not required to, and does not, consider all of the factors described above in any particular investment and some factors may be more or less important depending upon the nature of the particular investment and attendant circumstances.

The Adviser's exercise of its discretion in allocating investment opportunities with respect to a particular investment among the persons, including Clients, Co-Investment Vehicles, Adviser Investors and Third Parties, and in the manner discussed above may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to other such persons. For example, the Adviser may be incentivized to offer a co-investment opportunity to certain persons over others based on its economic arrangement with such persons. While the Adviser will determine how to allocate investment opportunities using its judgment, there can be no assurance that a Client's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made will

be as favorable as they would be if the conflicts of interest to which the Adviser may be subject, discussed herein, did not exist.

In the event the Adviser determines to offer a Portfolio Co-Investment opportunity to co-investors, there can be no assurance that the closing of such Portfolio Co-Investment will be consummated in a timely manner, that the Portfolio Co-Investment will take place on the terms and conditions that will be preferable for the Fund, or that expenses incurred by the Fund with respect to the syndication of the Portfolio Co-Investment will not be substantial. Further, it is possible that a potential co-investment party may experience financial, legal or regulatory difficulties and may, from time to time, have economic, tax, regulatory, contractual or other business interests or goals that are inconsistent with those of a Client and as a result, may take a different view from the Adviser as to appropriate strategy for an investment or may be in a position to take a contrary action to a Client's investment objective.

The Adviser or its affiliates may establish dedicated co-investment vehicles for specific investors in order to facilitate investments by the relevant investors as co-investment parties alongside a Fund. Any such vehicle will be established at the Adviser or its affiliates' sole discretion and the Adviser and its affiliates have no obligation to offer a similar opportunity to any other investor.

#### *Secondary Transactions*

If the Adviser or its affiliates have discretion over permitting a secondary transfer of interests in a Fund pursuant to such Fund's organizational documents, the Adviser or its affiliates may consider factors similar to the factors listed above in exercising such discretion. The Adviser or its affiliates may also evaluate the size and financial resources of potential transferees and the Adviser's perception of a potential transferee's capacity to participate in a secondary opportunity in an efficient manner (as evidenced by, for example, sufficient staffing, expertise, and other resources). Subject to any restrictions in the organizational documents of the applicable Fund, the Adviser or its affiliates may be asked to identify a limited number of Adviser Investors or Third Parties to potentially acquire the interest being transferred.

#### *Allocation of Expenses*

From time to time the Adviser will be required to decide whether certain fees, costs and expenses should be borne by a Client, on the one hand, or the Adviser on the other hand, and/or whether certain fees, costs and expenses should be allocated between or among Clients and/or other parties. Certain expenses may be the obligation of one particular Client and may be borne by such Client or expenses may be allocated among multiple Clients and entities. In addition, where a Client's governing documents permit the allocation of expenses related to Administration Services, the allocable portion of such expenses to borne by the Client will be determined by the Adviser. Such allocation determinations are inherently subjective and give rise to conflicts of interest due to the inherent biases in the process.

The appropriate allocation between Clients, Adviser Investors and Third Parties of Broken Deal Expenses and fees generated in the course of evaluating and making investments which are not consummated, such as out-of-pocket fees associated with due diligence, attorney fees and the

fees of other professionals, will be determined by the Adviser and its affiliates in their good faith discretion. Such Broken Deal Expenses and other fees may not be allocated to certain Clients, Adviser Investors, or Third Parties.

The Adviser will often pay expenses common to multiple Clients and, as applicable, Co-Investment vehicles (the “Allocated Funds”) (e.g., legal expenses for a transaction in which all such Funds participate). On such occasions, each Allocated Fund will reimburse the Adviser for its share of such expense, without interest. However, the Adviser may not require certain Co-Investment vehicles to provide such reimbursements.

### *Conflicts Related to Purchases and Sales*

Conflicts arise when a Client makes investments in conjunction with an investment being made by other Clients or a client of the Adviser’s affiliate, or in a transaction where another Client or client of such an affiliate has already made an investment. Investment opportunities are, from time to time, appropriate for Clients and/or clients of the Adviser’s affiliate at the same, different, or overlapping levels of a portfolio company’s capital structure. Conflicts arise in determining the terms of investments, particularly where these Clients may invest in different types of securities in a single portfolio company and particularly in the case of financial distress of the portfolio company. Conflicts may also arise with respect to the economics arrangements and fee earned by Clients based on the type of security they hold and their relative positions in the portfolio company’s capital structure. For example, a Client holding a security that entails additional risk or a different economic arrangement may receive certain fees or other compensation that another Client invested in the same portfolio company may not receive or receive a lesser portion. Questions may also arise as to whether payment obligations and covenants should be enforced, modified, or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring raise conflicts of interest, particularly if Clients have invested in different securities within the same portfolio company. In the event that one Client has a controlling or significantly influential position in a portfolio company, it will have the ability to elect some or all of the board of directors of such a portfolio company, thereby controlling the policies and operations, including the appointment of management, future issuances of securities, payment of dividends, incurrence of debt and entering into extraordinary transactions. In addition, a controlling Client is likely to have the ability to determine, or influence, the outcome of operational matters and to cause, or prevent, a change in control of such a company. Such management and operational decisions may, at times, be in direct conflict with other Clients that have invested in the same portfolio company that do not have the same level of control or influence over the portfolio company.

Certain Clients and clients of the Adviser’s affiliates are expected to invest in bank debt and securities of companies in which other clients hold securities, including equity securities. In the event that such investments are made by a Client, the interests of such Client will at times be in conflict with the interest of such other Client or client of the Adviser’s affiliate, particularly in circumstances where the underlying company is facing financial distress. The involvement of such persons at both the equity and debt levels could inhibit strategic information exchanges

among fellow creditors and in certain circumstances, Clients or clients of the Adviser's affiliate may be prohibited from exercising voting or other rights, and may be subject to claims by other creditors with respect to the subordination of their interest.

If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, Clients may or may not provide such additional capital, and if provided, each Client will supply such additional capital in such amounts, if any, as determined by the Adviser. In addition, a conflict may arise in allocating an investment opportunity if the potential investment target could be acquired by either a Client or a portfolio company of another Client. Investments by more than one client of the Adviser or its affiliates in a portfolio company also raises the risk of using assets of a client of the Adviser or its affiliates to support positions taken by other clients of the Adviser or its affiliates. In addition, there may be differences in timing of entry into, or exit from, a portfolio company for reasons such as differences in strategy, existing portfolio or liquidity needs. These variations in timing may be detrimental to a Client.

The applicable governing documents of a Client and the Adviser's policies and procedures are expected to vary based on the particular facts and circumstances surrounding each investment by two or more Clients in different classes of an issuer's capital structure (as well as across multiple issuers or borrowers within the same overall capital structure) and, as such, there may be a degree or variation and potential inconsistencies, in the manner in which potential or actual conflicts are addressed.

Employees and related persons of the Adviser and its affiliates have made or will make capital investments in or alongside certain Funds or clients of the Adviser's affiliates, and therefore will have additional conflicting interests in connection with these investments. There can be no assurance that the return of a Client participating in a transaction would be equal to and not less than another Client participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

A Client will invest (or may choose not to invest), directly or indirectly, in investments in which one or more other Clients or clients of the Adviser's affiliate (i) has an investment, (ii) is contemplating an investment, (iii) sourced or originated the investment, or (iv) has decided not to invest. A Client will have conflicting interests in negotiating the terms of an investment and investing in a company if one or more other Clients or clients of the Adviser's affiliate has originated the investment, proposes to make an investment, or has invested in the same issuer (particularly where such fund has a controlling interest in the issuer). Such negotiated terms may include, but are not limited to, the collateral, if any, pledged to secure the issuer's obligations, the interest rates to be paid on the issuer's debt securities, the characterization of the issuer's securities (whether as preferred stock or subordinated debt), the amount and nature of equity securities (if any) attached to debt, the fees and expenses to be charged to or by the Client, and the nature of the covenants running in favor of the Client.

Purchase and sale orders will be combined for accounts managed by the Adviser and its affiliates with each entity paying its pro rata share of the total commission and total cost, including without limitation transaction expenses, and receiving its pro rata share of the sales proceeds. The appropriate allocation among the participating Clients of expenses and fees generated in the

course of evaluating and making investments often will not be clear, especially where more than one vehicle participates. For instance, if a Fund and another Client are considering making an investment that is not consummated, allocation of the expenses generated for the account of the Fund and such other Client (such as expenses of common counsel and other professionals) will be made in good faith. When the Adviser incurs expenses that were related to a Fund and other Clients, such expenses will typically be allocated among all vehicles eligible to reimburse expenses of the applicable nature.

### *Cross-Transactions*

In certain cases, the Adviser expects to cause a Client to purchase investments from another Client, or cause a Client to sell investments to another Client (i.e., cross-transactions), subject to certain regulatory and tax restrictions and conditions. In a cross-transaction between Clients, the Adviser will have a conflicting division of loyalties and responsibilities regarding both parties to the transaction, which conflicts involve specific conflicts related to pricing and other matters. For example, such transactions create conflicts of interest because, by not exposing such buy and sell transactions to market forces, a Client may not receive the best price otherwise possible, or the Adviser might have an incentive to improve the performance of one Client by selling underperforming assets to another Client in order, for example, to earn fees.

Additionally, in connection with such transactions, the Adviser, its affiliates and/or their professionals (i) may have significant investments, or intentions to invest, in the 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). The Adviser and its affiliates receive management or other fees in connection with their management of the relevant Clients involved in such a transaction, and may also be entitled to share in the investment profits of the relevant Clients.

The Adviser believes that cross-transactions may in certain circumstances enable it to purchase or sell an investment for each Client and possibly avoid or minimize transaction costs or unfavorable price movements. To mitigate any such conflicts, the Adviser has implemented policies and procedures to ensure that cross-transactions between Clients are executed at a value that is no less than that which the Adviser, in good faith, believes would be negotiated on an arm's length basis with a third party. In addition, the Adviser will follow the Investment Allocation Requirements of the relevant Funds to address these conflicts of interest, in connection with effecting such transactions. To the extent such matters are not addressed in the Investment Allocation Requirements, the Adviser's Chief Compliance Officer, in consultation with the Adviser's General Counsel, will be responsible for confirming that the Adviser (i) considers its respective duties to each Client, (ii) determines whether the purchase or sale and price or other terms are comparable to what could be obtained through an arm's length transaction with a third party, and (iii) obtains any required approvals of the transaction's terms and conditions.

### *Principal Transactions*

Section 206 under the Advisers Act regulates principal transactions among an investment adviser and its affiliates, on the one hand, and the clients thereof, on the other hand. Very generally, if

an investment adviser or an affiliate thereof proposes to purchase a security from, or sell a security to, a client (what is commonly referred to as a “principal transaction”), the adviser must make certain disclosures to the client of the terms of the proposed transaction and obtain the client’s consent to the transaction. In connection with the Adviser’s management of Clients, the Adviser and its affiliates may engage in principal transactions. The Adviser has established policies and procedures to comply with the requirements of the Advisers Act as they relate to principal transactions, including that disclosures required by Section 206 of the Advisers Act be made to the applicable Clients regarding any proposed principal transactions and that any required prior consent to the transaction be received. In addition, the offering documents, limited partnership agreements or other organizational documents and related documents relating to the Funds, the BDC, and Separate Account Clients generally contain additional restrictions on the ability of the Funds, the BDC, the Separate Account Clients, or the Adviser to engage in principal transactions.

### *Management of Clients*

The Adviser manages a number of Client accounts that have investment objectives similar to each other. The Adviser expects that it or its personnel will in the future establish one or more additional investment funds or be engaged by one or more Separate Account Clients with investment objectives substantially similar to, or different from, those of current Clients. Allocation of available investment opportunities between current Clients and any such investment fund or Separate Account Client could give rise to conflicts of interest. See *“Allocation of Investment Opportunities Among Clients and Allocation of Co-Investment Opportunities and Secondary Transactions”* above. The Adviser will give advice or take actions with respect to the investments of one or more Clients that will not be given or taken with respect to other Clients with similar investment programs, objectives or strategies. As a result, Clients with similar strategies will not hold the same securities or achieve the same performance. In addition, a Client may not be able to invest through the same investment vehicles, or have access to similar credit, or utilize similar investment strategies as another Client. These differences will result in variations with respect to returns, price, leverage, and associated costs of a particular investment opportunity.

It is also expected that employees of the Adviser responsible for managing a particular Client will have responsibilities with respect to other Clients whose accounts are managed by the Adviser, including future Clients. Conflicts of interest may arise in allocating time, services, or functions of these officers and employees.

The Adviser also receives and generates various kinds of portfolio company data and other information, including related to financial, industry, market, business operations, trends, budgets, customers, suppliers, competitors and other metrics. This information may, in certain instances, include material non-public information received or generated in connection with efforts on behalf of one Client’s investment (or prospective investment) in a portfolio company. As a result, the Adviser is better able to anticipate macroeconomic and other trends, and otherwise develop investment strategies. The Adviser enters into information sharing and confidentiality arrangements with portfolio companies and other sources of information that limit the internal distribution and use of such data. The Adviser may use this information in a manner that

provides a material benefit to the Adviser, its affiliates, or to certain other Clients without compensating or otherwise benefitting the Client or Clients from which such information was obtained. In addition, the Adviser may have an incentive to pursue investments in portfolio companies based on the data and information expected to be received or generated. The Adviser may also utilize such information to benefit the Adviser, its Affiliates or certain Clients in a manner that otherwise presents a conflict of interest but does not intend to specifically disclose such conflicts to the relevant Clients.

The Funds may enter into borrowing or indemnification arrangements that require the Funds to be jointly and severally liable for, or to cross-guarantee or enter into cross-default provisions with respect to, the applicable obligations. If one Fund defaults on such arrangement, the other Funds may be held responsible for the defaulted amount.

#### *Follow-on Investments*

Investments to finance follow-on acquisitions present conflicts of interest, including determination of the equity component and other terms of the new financing as well as the allocation of the investment opportunities in the case of follow-on investments by one Fund in a portfolio company in which another Fund or a fund advised by an affiliate of the Adviser has previously invested. In addition, a Fund may participate in releveraging and recapitalization transactions involving portfolio companies in which another Fund or a fund advised by an affiliate of the Adviser has already invested or will invest. Conflicts of interest are expected to arise, including determinations of whether existing Clients are receiving a price that is higher or lower than market value and whether new Clients are paying too high or too low a price for the company or purchasing securities with terms that are more or less favorable than the prevailing market terms.

#### *Conflicts Relating to the General Partners and the Adviser*

The Adviser generally may, in its discretion, contract with any related person of the Adviser including but not limited to a Client portfolio company to perform services for the Adviser in connection with its provision of services to Clients. When engaging a related person to provide such services, the Adviser may have an incentive to recommend the related person even if another person may be more qualified to provide the applicable services and/or can provide such services at a lesser cost.

In certain circumstances (e.g., in the capacity of lending agent), the Adviser, in its discretion, expects to recommend to a Client or to a portfolio company thereof (in response to a solicitation for a recommendation or otherwise) that it contract for services with (i) a related person of the Adviser (including but not limited to a portfolio company of a Client) or (ii) an entity with which the Adviser or its affiliates or a member of their personnel has a relationship or from which the Adviser or its affiliates or their personnel otherwise derives financial or other benefit. When making such a recommendation, the Adviser may, because of its financial or other business interest, have an incentive to recommend the related or other person even if another person is more qualified to provide the applicable services and/or can provide such services at a lesser cost.



The Adviser, its affiliates, and members, officers, principals, and employees of the Adviser and its affiliates may buy or sell securities or other instruments that the Adviser has recommended to Clients. In addition, officers, principals, and employees may buy securities in transactions offered to but rejected by Clients. A conflict of interest may arise because such investing Adviser personnel will, for some investments, benefit from the evaluation, investigation, and due diligence undertaken by the Adviser on behalf of the Client. In such circumstances, the investing Adviser personnel may not share or reimburse the relevant Client(s) and/or the Adviser for any expenses incurred in connection with the investment opportunity. Such transactions are subject to the policies and procedures set forth in the Adviser's Code of Ethics. The investment policies, fee arrangements and other circumstances of these investments may vary from those of Clients. If officers, principals, and employees of the Adviser have made large capital investments in or alongside Clients they may have conflicting interests with respect to these investments. While such capital investments of the officers and employees of the Adviser generally aligns the interest of such persons with the Clients, such persons may have differing interests from the Client with respect to such investments (for example, with respect to the availability and timing of liquidity).

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

#### *Fee Structure*

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

Additionally, as discussed above in Item 6, the general partners of the Funds are entitled to Carried Interest under the terms of the limited partnership agreements of the Funds, and certain Separate Account Clients and the BDC are entitled to incentive fees. Such general partners are affiliates of the Adviser. The existence of the general partners' Carried Interest or Separate Account Clients' or the BDC's incentive fees may create an incentive for the Adviser to cause such Clients to make more speculative investments than they would otherwise make in the absence of performance-based compensation.

#### *Fund-Level Borrowing*

The Funds from time-to-time borrow funds or enter into other financing arrangements for various reasons, including to pay fund expenses, to pay management fees, to make or facilitate new or follow-on investments, to fund the closing of an investment in advance of the receipt of capital contributions from investors, or to cover any shortfall resulting from an investor's default or exclusion. If a Fund borrows in lieu of calling capital to fund the acquisition of an investment,

the borrowing would generally be used for all limited partners in such Fund on a pro-rata basis, in proportion to their respective capital commitments, including the general partner, and may remain outstanding for an extended period before the Fund calls capital from its limited partners. In addition, credit facilities for certain Funds are available to provide borrowed funds directly to the portfolio companies of such Funds, in which case such borrowed funds would be guaranteed by such Funds.

Although borrowings by a Fund have the potential to enhance overall returns that exceed the Fund's cost of funds (including interest rate, lender fees and transaction costs), such borrowings increase the potential exposure of the Fund to a particular investment above the level that the Fund would typically have if the Fund invested only its own equity. Any such borrowings will further diminish returns (or increase losses on capital) to the extent overall returns are less than the Fund's cost of funds. In addition, borrowings by the Fund can be secured by capital commitments made by Fund investors to the Fund as well as by the Fund's assets and the documentation relating to such borrowings provides that during the continuance of a default under such borrowings, the interests of the investors may be subordinated to such Fund-level borrowing. Moreover, tax-exempt investors should note that the use of leverage by the Fund may cause the realization of "unrelated business taxable income."

To the extent a Fund uses borrowed funds in advance or in lieu of capital contributions, or a portfolio company borrows funds directly, or indirectly, through the Fund facility, such Fund's investors generally make correspondingly later capital contributions, but the Fund will typically bear the expense of interest on such borrowed funds. As a result, such Fund's use of borrowed funds will impact the calculation of net performance metrics (to the extent that they measure investor cash flows) and may make net IRR calculations higher than they otherwise would be without fund-level borrowing. Such calculations generally depend in part on the amount and timing of capital contributions. While a Fund will bear the expense of borrowed funds, such borrowings can also increase the carried interest received by such Fund's General Partner by decreasing the amount of distributions from the Fund that are required to be made to Fund investors in satisfaction of any preferred return. The General Partner therefore has a conflict of interest in deciding whether to borrow funds because the General Partner may receive disproportionate benefits from such borrowings. In addition, where a portfolio company borrows funds directly or indirectly through the Fund facility, the applicable Fund may charge the portfolio company borrower higher interest rates than the interest rate the Fund pays pursuant to such financing facility, among other things, to help offset origination and other facility costs.

Such borrowing is expected to be made through holding vehicles, including common holding or similar vehicles that are shared with other Clients. Such common holding or similar vehicles may be created for leverage, liability, capital diversification, available capital, tax and/or other reasons. Investments made indirectly through common holding or similar vehicles carry risks that direct investments do not carry. For example, indirect investments are structurally subordinate to direct investments in a bankruptcy or workout scenario. In addition, common holding or similar vehicles may have a duration, term or liquidity characteristics that differ from the Funds, which may affect the Funds' ability to receive capital or income distributions or in-kind distributions. For example, other Clients that share holding vehicles with the Funds may be "open-end" Funds or separately managed accounts. Those other Clients may have a desire for significant liquidity at a time when the Funds desires to retain assets, which would create a

conflict of interest as to whether assets should be sold or otherwise refinanced. Those conflicts will be resolved in an equitable manner, as determined over time and, as a result, the Funds may experience temporary decreases in performance, from time to time.

#### *Business with Portfolio Companies, Investors and Clients*

Given the collaborative nature of the Adviser's business and the portfolio companies in which the Funds and other Clients intend to, or have invested, there are often situations when the Adviser is in the position of recommending services of a portfolio company of a Client, which may involve fees, commissions, servicing payments and/or discounts, to the Adviser, an affiliate, or another portfolio company. The Adviser will generally have a conflict of interest in making such recommendations, in that the Adviser has an incentive to maintain goodwill between it and the existing and prospective portfolio companies of the Funds or any other Client, while the products or services recommended may not necessarily be the best available to the portfolio companies held by the Funds or other Clients. The benefits received by a portfolio company providing a service may be greater than those received by the Funds and their portfolio companies receiving the service.

The Adviser generally has an incentive to recommend the products or services of certain investors or prospective investors in the Funds or the BDC, certain Separate Account Clients, certain Third Parties, and/or their related businesses to Clients or their portfolio companies for use or purchase, even though the products or services recommended may not necessarily be the best available to Clients or the portfolio companies.

In certain instances, a portfolio company of the Funds may compete with, be a customer of, or be a service provider to, another portfolio company of the Funds or a portfolio company of another Audax Client. In providing advice to a portfolio company, the Adviser is not obligated to, and need not, take into consideration the interests of other relevant portfolio companies or the Funds. As a result, a conflict of interest may arise in these instances because advice and recommendations provided by the Adviser to a portfolio company of the Funds or an other Audax Client may have adverse consequences to a separate portfolio company owned by the Funds.

A Client's portfolio companies may be counterparties or participants in agreements, transactions or other arrangements with portfolio companies of other Clients or clients of the Adviser's affiliate that may not have otherwise been entered into but for the affiliation with the Adviser and which may provide economic or other benefits to the Adviser or its affiliates. For example, the Adviser may in the future cause portfolio companies held by other Clients or clients of the Adviser's affiliate, to enter into agreements regarding group procurement (which may depend on the volume of services purchased under these agreements and which may be pooled across multiple portfolio companies and discounted due to scale), benefits management, data management and/or mining, technology development, purchase or title and/or other insurance policy (which may be pooled across multiple portfolio companies and discounted to scale) and other similar operational initiatives that may result in fees, better pricing, rebates, commissions or similar payments and/or discounts being paid to the Adviser, its affiliates or a portfolio company, including related to a portion of the savings achieved by the portfolio company. While

the Adviser may have a conflict of interest because its economic benefit may incentivize the Adviser to maintain such arrangements, the Adviser believes that such agreements benefit the portfolio companies due to increased access to quality products and services at beneficial pricing and the Adviser's benefits from such arrangements are reduced because the Adviser only benefits on at the same rate as the portfolio companies. However, it should not be assumed that a company related to, or otherwise affiliated with the Adviser will only take actions that are beneficial to, or not opposed to, the interests of the Funds and their portfolio companies.

Employees of the Adviser may serve as directors of portfolio companies. While conflicts of interest may arise in the event that such employee's fiduciary duties as a director conflicts with those of the Funds, it is expected that the interests will generally be aligned.

The Adviser and its affiliates may, from time to time, hire part-time or full-time employees (including interns) who are relatives of, or are otherwise associated with an investor, portfolio company or service provider. Although the Adviser uses reasonable care to mitigate any potential conflicts of interest with respect to each particular situation, there is no guarantee the Adviser can control all such conflicts of interest and there may be a continuing appearance of a conflict of interest.

#### *Business with Portfolio Companies Related to Limited Partners*

In certain situations, a Fund may invest in a portfolio company in which a limited partner in a Fund, shareholder in the BDC, or investor in a Separate Account Client, directly or indirectly, holds an interest or otherwise derives a financial or other benefit. While not generally anticipated to occur, such transactions create a conflict of interest because the Adviser may have an incentive to cause the Clients to make an investment in such a portfolio company and/or to structure the terms of such investment in a manner that is believed to strengthen and/or cultivate relationships that may provide benefits to current or future Clients and/or the Adviser and as a result, such conflicts of interest could affect the negotiations of the terms of the investment. To the extent such a transaction arises, the Adviser believes that the economic arrangement of the Adviser and its affiliates (e.g., the carried interest that it would receive) and the requirement that the personnel of the Adviser have exposure to such portfolio companies through their commitment to invest in such portfolio companies, mitigate this conflict.

#### *Service Providers*

The Adviser and/or its affiliates may engage certain service providers to provide services to the Adviser, the Clients, and/or the portfolio companies, including services during the due diligence and acquisition process. Such service providers are, in certain circumstances, investors in a Client or affiliates or such investors and may include, for example, investment or commercial bankers, outside legal counsel, pension consultants, and/or other investors who provide services (including mezzanine and/or lending arrangements). The engagement of any such service provider may be concurrent with an investor's admission to a Fund, or during the term of such investor's investment in the Fund. This creates a conflict of interest, as the Adviser may give such investor preferred economics or other terms with respect to its investment in a Fund, or may

have an incentive to offer such investor co-investment opportunities that it would not otherwise offer to such investor.

Services required by a Client (including some services historically provided by the Adviser or its affiliates to the Clients) may, for certain reasons including efficiency and economic considerations, be outsourced in whole or in part to third parties in the discretion of the Adviser or its affiliates. The Adviser and its affiliates have an incentive to outsource such services at the expense of the Clients to, among other things, leverage the use of Adviser personnel. Such services may include, without limitation, deal sourcing, information technology, license software, depository, data processing, client relations, administration and accounting (at any level in a Fund's structure), custodial, accounting, legal and tax support and other similar services. Outsourcing may not occur universally for all Clients and accordingly, certain costs may be incurred by a Client for a third-party service provider that is not incurred for comparable services by other Clients. The decision by the Adviser to initially perform a service for a Client in-house does not preclude a later decision to outsource such services (or any additional services) in whole or in part to a third-party service provider in the future. The costs and expenses of any such third-party service providers will be borne by the Clients.

If a service provider provides services to a Client on the property of the Adviser, such Client may also be responsible for any overhead, rent or other fees, costs and expenses charged by the Adviser in connection with an on-site arrangement.

The Adviser has a conflict of interest with a Client in recommending the retention or continuation of a service provider to a Client or a portfolio company of such Client if the recommendation, for example, is motivated by a belief that the service provider will invest with the Adviser (or continue to invest with the Adviser), will provide the Adviser with information about markets and industries in which the Adviser operates or is interested, or will provide other services that are beneficial to the Adviser.

Additionally, employees of the Adviser or its affiliates, and/or their family members or relatives may have ownership, employment, or other interests in such service providers. These relationships that an Adviser may have with a service provider can influence the Adviser in determining whether to select, or recommend such service provider to perform services for a Client or a portfolio company. The Adviser will have a conflict of interest with the Clients in recommending the retention or continuation of a service provider to the Clients or a portfolio company if such recommendation, for example, is motivated by a belief that the service provider will continue to invest in Funds or will provide the Adviser information about markets and industries in which the Adviser operates or is interested or will provide other services that are beneficial to the Adviser. Although the Adviser selects service providers that it believes will enhance portfolio company performance (and, in turn, the performance of the relevant Client(s)), there is a possibility that the Adviser, because of financial, business interest, or for other reasons, may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. While the Adviser often does not have visibility or influence regarding advantageous service rates or arrangements, there will be situations in which the Adviser receives more favorable service rates or arrangements than the Clients or their portfolio companies.

Service providers often charge varying amounts or may have different fee arrangements for different types of services provided. For instance, fees for various types of work often depend on the complexity of the matter, the expertise required and the time demands of the service provider. As a result, to the extent the services required by the Adviser or its affiliates differ from those required by the Clients and/or its portfolio companies, the Adviser and its affiliates will pay different rates and fees than those paid by the Clients and/or its portfolio companies.

#### *Diverse Membership*

The Clients and their respective partners, shareholders, members or investors, as applicable, will have conflicting investment, tax and other interests with respect to the investments made directly or indirectly by the Clients. The conflicting interests among the investors may relate to or arise from, among other things, the nature of investments made by a Fund, the structuring of the acquisition of investments and the timing of the disposition of investments. As a consequence, conflicts of interest may arise in connection with decisions made by the Adviser or its affiliates, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for a Fund, the Adviser and its affiliates will consider the investment and tax objectives of the applicable Fund, not the investment, tax, or other objectives of any investor individually.

#### *Side Letter Agreements*

The Adviser will enter into certain side letter arrangements with certain investors in Funds providing such investors with different or preferential rights or terms, including but not limited to different fee structures, preferential economic rights, information and reporting rights, waiver of certain confidentiality obligations, co-investment rights, certain rights or terms necessary in light of particular legal, regulatory or policy requirements of a particular investor, additional obligations and restrictions with respect to structuring particular investments in light of the legal and regulatory considerations applicable to a particular investor, veto rights, and liquidity or transfer rights. Except as otherwise agreed with an investor, the Adviser (or applicable general partner) is not required to disclose the terms of side letter arrangements with other investors in the same Fund.

#### *Advisory Affiliates*

As described in Item 10 above, the Adviser's investment adviser affiliates have their own clients. Although these affiliates focus primarily on a different investment strategy than the Adviser, clients of the Adviser and these affiliates may invest in the same portfolio companies, including in the same security or in different securities of such a portfolio company. Interests of the Adviser's clients may therefore conflict with the interests of the clients of these affiliates. For instance, see "*Allocation of Investment Opportunities Among Clients and Allocation of Co-Investment Opportunities and Secondary Transactions*" and "*Conflicts Related to Purchases and Sales*" above for more information.

### *Other Potential Conflicts*

The organizational documents of each Client typically establish complex arrangements among such Client, the Adviser, investors, and other relevant parties. From time to time, questions may arise regarding certain parties' rights and obligations in certain situations, some of which may not have been contemplated upon the negotiation and execution of such documents. In some instances, the operative provisions of the organizational documents, if any, may be broad, unclear, general, conflicting, ambiguous, and vague and may allow for multiple reasonable interpretations. In other instances, there may not be a directly applicable provision. While the Adviser will construe the relevant provisions in good faith and in a manner consistent with its fiduciary duty and legal obligations, the interpretations used may not be the most favorable to a Client or its investors.

The Adviser and its Clients will often engage common legal counsel and other advisers in a particular transaction, including a transaction in which there may be conflicts of interest. Members of the law firms engaged to represent the Funds may be investors in a Fund, and may also represent one or more Client portfolio companies or investors in a Fund. In the event of a significant dispute or divergence of interest between Clients, the Adviser and/or its affiliates, the parties may engage separate counsel in the sole discretion of the Adviser and its affiliates, and in litigation and other circumstances separate representation may be required.

The Adviser and its personnel have in the past and may, from time to time in the future, receive certain intangible and/or other benefits and/or perquisites arising or resulting from their activities on behalf of a Client, including benefits and other discounts provided from service providers. For example, airline travel or hotel stays incurred as Client expenses may result in "miles" or "points" or credit in loyalty/status programs to the Adviser and/or its personnel, and such rewards and/or amounts will exclusively benefit the Adviser and/or such personnel and will not be subject to the offset arrangements described above or otherwise shared with such Client, its investors and/or the portfolio companies.

The Adviser may, in its discretion, have, and may, in its discretion, cause Clients and/or their portfolio companies to have, ongoing business dealings, arrangements, or agreements with persons who are former employees or executives of the Adviser. Clients and/or their portfolio companies may bear, directly or indirectly, the costs of such dealings, arrangements, or agreements. In such circumstances, there may be a conflict of interest between the Adviser and its Clients (or their portfolio companies) in determining whether to engage in or to continue such dealings, arrangements, or agreements, including the possibility that the Adviser may favor the engagement or continued engagement of such persons even if a better price and/or quality of service could be obtained from another person.

The Adviser has in the past, and will in the future, cause one or more Clients to bear such Client's allocable share of premiums, fees, costs and expenses (including any expenses or fees of insurance brokers) for insurance to insure the applicable Clients, the applicable general partner of a Fund, the Adviser and/or their respective directors, officers, employees, agents, representatives, members of the advisory committee and other indemnified parties, against liability in connection with the activities of the Clients. This may include a portion of any premiums, fees, costs and

expenses for one or more “umbrella” or other insurance policies maintained by the Adviser that cover one or more Clients and/or the Adviser (including their respective directors, officers, employees, agents, representatives, members of the advisory committee and other indemnified parties). The Adviser will make judgments about the allocation of premiums, fees, costs and expenses for such “umbrella” or other insurance policies among one or more Clients, and/or the Adviser on a fair and reasonable basis in accordance with the Adviser’s policies and procedures. The Adviser may also make corrective allocations should it determine subsequently that such corrections are necessary or advisable. There can be no assurance that a different allocation would not result in a Client bearing less (or more) premiums, fees, costs and expenses for insurance policies.

Certain employees of the Adviser provide research, administrative, reporting and similar services to the Co-CEOs of the Adviser and certain of their family members and investment research and analysis to the Co-CEOs, in each case with respect to personal investment activities. Such services could potentially present a conflict of interest between the Adviser and the Clients. However, the Adviser believes any potential conflicts of interest are substantially mitigated because (i) the investments are not investments that would be suitable for a Client, (ii) the investments are subject to an internal restricted list, (iii) the investments are reportable by the Co-CEOs and subject to preclearance pursuant to the Code of Ethics, (iv) such employees are not involved in the provision of investment advice to the Clients and (v) such employees do not have investment discretion with respect to such personal investment activities.

The Adviser may represent creditors or debtors in proceedings under Chapter 11 of the Bankruptcy Code or prior to such filings. From time to time, the Adviser may serve as adviser to creditor or equity committees. This involvement, for which the Adviser may be compensated, may limit or preclude the flexibility that Clients may otherwise have to make investments.

If a Client purchases in the secondary market at a discount debt securities of a company in which a Client has, for example, a substantial equity interest, (a) a court might require a Client to disgorge profit it realizes if the opportunity to purchase such securities at a discount should have been made available to the issuer of such securities or (b) a Client might be prevented from enforcing such securities at their full face value if the issuer of such securities becomes bankrupt. The effect of these transactions will vary from jurisdiction to jurisdiction.

Although the Adviser expects that such activity would occur rarely, if ever, partnership agreements (or analogous organizational documents) of certain Funds permit the general partner of each such Fund to cause such Fund to distribute such general partner’s share of securities resulting from an investment disposition by such Fund to such general partner or its affiliates in kind, while disposing of limited partners’ share of such securities and distributing the net cash proceeds of such sale of securities to the limited partners. This ability creates conflicts of interest between the general partners and the limited partners of the applicable Fund, because the general partner may have an incentive to cause the Fund to exit an investment at a time that may result in limited partners receiving a lesser return on such investment than would be the case if the general partner was prohibited from receiving its proceeds from investments in kind (or was otherwise required to receive its share of investment proceeds in the same form as limited partners).



The partnership agreements (or analogous organizational documents) of certain Funds permit each such Fund's general partner, or its affiliates, to lend money to the applicable Fund. Such lending arrangements, if employed, create conflicts of interest between the applicable general partner or affiliate and the Fund acting as borrower.

The partnership agreements (or analogous organizational documents) of certain Funds permit each such Fund's general partner to withhold certain information from certain limited partners or investors in such Fund in certain circumstances. For instance, information may be withheld from limited partners that are subject to Freedom of Information Act or similar requirements. The general partner may elect to withhold certain information to such limited partners for reasons relating to the general partner's public reputation or overall business strategy, despite the potential benefits to such limited partners of receiving such information.

Please see the discussion above under the sub-heading "Resolution of Conflicts" for a description of the means by which the Adviser and its related persons may seek to alleviate conflicts of interest among the Funds or other persons.

## **Item 12. Brokerage Practices**

As Clients invest primarily in private transactions, the Adviser anticipates that investments in publicly traded securities will be infrequent occurrences (e.g., money market instruments pending investment in a portfolio company, securities held as a result of initial public offerings of portfolio companies, etc.). However, to meet its fiduciary duties to the Clients, the Adviser has adopted written policies to address issues that might arise with respect to purchasing, holding, and selling publicly traded securities.

### Selection of Brokers and Dealers

For each Client, the Adviser has (subject to the direction and control of a general partner, in the case of a Fund) sole discretion over the purchase and sale of investments (including the size of such transactions) and the broker or dealer, if any, to be used to effect transactions. In placing each transaction for a Client involving a broker-dealer, the Adviser will seek "best execution" of the transaction except to the extent it may be permitted to pay higher brokerage commissions in exchange for brokerage and research services (as discussed below). "Best execution" means obtaining for a Client account the lowest total cost (in purchasing a security) or highest total proceeds (in selling a security), taking into account the circumstances of the transaction and the reputability and reliability of the executing broker or dealer.

In determining whether a particular broker or dealer is likely to provide best execution in a particular transaction, the Adviser's Finance team takes into account all factors that it deems relevant to the broker's or dealer's execution capability, including, by way of illustration, price, the size of the transaction, the nature of the market for the security, the amount of the commission, the timing of the transaction taking into account market prices and trends, the reputation, experience, and financial stability of the broker or dealer, and the quality of service rendered by the broker or dealer in other transactions. In addition, the Adviser may consider the

use of Electronic Communications Networks when placing trades on behalf of Clients. When purchasing or selling over-the-counter securities with market makers, the Adviser generally seeks to select market makers it believes to be actively and effectively trading the security being purchased or sold.

In order to monitor best execution, the Adviser's Finance team, in consultation with the Adviser's Compliance Group, will periodically monitor broker-dealers to assess the quality of execution of brokerage transactions effected on behalf of the Adviser and each Client.

A Separate Account Client may request or direct that the Adviser place transactions for its separate account with one or more specified broker-dealers ("Directed Brokerage"). The Adviser will accept Directed Brokerage arrangements only if certain conditions are satisfied, including that the Separate Account Client's directions are furnished in writing and that the Adviser has informed the Separate Account Client in writing that the use of directed brokerage arrangements may deprive the Separate Account Client of benefits that might otherwise be obtained by aggregating the Separate Account Client's order with orders for other Clients and may cause the Separate Account Client to pay a higher commission rate or to receive less favorable execution than if the Adviser had discretion to select the broker or to negotiate the commission rate.

#### Aggregation of Trades

The Adviser and its affiliates may aggregate (or bunch) the orders of more than one Client for the purchase or sale of the same publicly traded security. Portfolio managers and traders often employ this practice because larger transactions can enable them to obtain better overall prices, including lower commission costs or mark-ups or mark-downs. The Adviser and its affiliates may combine orders on behalf of Clients with orders for other Clients for which it or its affiliates have trading authority, or in which it or its affiliates have an economic interest. In such cases, the Adviser and its affiliates generally aggregate trade orders for publicly traded securities so that each participating Client will receive the average price for each execution of a transaction.

If an order for more than one Client for a publicly traded security cannot be fully executed, allocation will be made based upon the Adviser's procedures for allocation of investment opportunities, as described in Item 11 above.

### **Item 13. Review of Accounts**

#### Oversight and Monitoring

The investment portfolios of the Clients are generally private, illiquid and long-term in nature, and accordingly the Adviser's review of them is not directed toward a short-term decision to dispose of securities. However, the Adviser actively monitors the investment portfolios of the Clients. The portfolios are reviewed regularly by teams of investment professionals (which include Managing Directors) to evaluate whether each investment is delivering the expected results.

## Reporting

Investors in the Funds typically receive, among other things, a copy of audited financial statements of the relevant Fund within 90 days after the fiscal year end of such Fund, as well as unaudited quarterly performance reports within 45 days after the end of the first three fiscal quarters of each year. The Adviser and the applicable general partner, if any, will from time to time, in their sole discretion, provide additional information relating to such Fund to one or more investors in such Fund as they deem appropriate.

Separate Account Clients may negotiate reporting requirements specific to their accounts. In the event of individually negotiated terms for Separate Account Clients, the Adviser will provide the reporting mutually agreed to by the parties as evidenced in their Advisory Agreement or Separate Account Entity agreement.

As a business development company registered under the 1940 Act, the BDC files annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K.

### **Item 14. Client Referrals and Other Compensation**

For details regarding economic benefits provided to the Adviser by non-clients, including a description of related material conflicts of interest and how they are addressed, please see Item 11 above.

### **Item 15. Custody**

Item 15 is not applicable to the Adviser.

### **Item 16. Investment Discretion**

Investment advice is provided directly to the Funds or the BDC, subject to the direction and control of the general partner of each Fund or the directors of the BDC, and not individually to the investors in the Funds or shareholders of the BDC. Services are provided to the Funds and the BDC in accordance with their Advisory Agreements and/or their organizational documents. Investment restrictions for the Funds and the BDC, if any, are generally established in their organizational or offering documents.

The Adviser provides investment advice to each Separate Account Client in accordance with the terms and conditions of its Advisory Agreement or Separate Account Entity agreement. The terms of such agreements typically are established at the time of initiation of the applicable separate account and are the result of negotiations with the applicable Separate Account Client.

Authority to trade securities for the BDC may be limited by certain federal securities and tax laws that require diversification of investments, limit leverage, prohibit certain joint transactions and favor the holding of investments once made.

## **Item 17. Voting Client Securities**

The Adviser has established written policies and procedures setting forth the principles and procedures by which the Adviser votes or gives consent with respect to securities owned by Clients (“Votes”). The guiding principle by which the Adviser votes all Votes is to vote in the best interests of each Client by maximizing the economic value of the relevant Client’s holdings, taking into account the relevant Client investment horizon, the contractual obligations under the relevant Advisory Agreements or comparable documents, and all other relevant facts and circumstances at the time of the vote. The Adviser does not permit Voting decisions to be influenced in any manner that is contrary to, or dilutive of, this guiding principle.

It is the Adviser’s general policy to vote or give consent on all matters presented to security holders in any Vote. However, the Adviser reserves the right to abstain on any particular Vote or otherwise withhold its vote or consent on any matter if, in the judgment of the Adviser’s General Counsel or the relevant Adviser investment professional, the costs associated with voting such Vote outweigh the benefits to the relevant Client or if the circumstances make such an abstention or withholding otherwise advisable and in the best interests of the relevant Client.

Clients may be required, as a condition of their investment, to give up certain voting rights in connection with investments in debt obligations of companies controlled by an affiliate of the Adviser.

Funds generally cannot direct the Adviser’s Vote. Separate Account Clients may negotiate with the Adviser regarding voting discretion.

All Voting decisions initially are referred to the Adviser’s General Counsel or appropriate investment professional for a voting decision. In most cases, the Adviser’s General Counsel or investment professional will make the decision as to the appropriate vote for any particular Vote. In making such decision, he or she may rely on any of the information and/or research available to him or her. If the investment professional is making the Voting decision, the investment professional will inform internal counsel of any such Voting decision, and if internal counsel does not object to such decision as a result of his or her conflict of interest review, the Vote will be voted in such manner. If the investment professional and internal counsel are unable to arrive at an agreement as to how to vote, then internal counsel may consult with the Adviser’s Chief Operating Officer as to the appropriate vote, who will then review the issues and arrive at a decision based on the overriding principle of seeking the maximization of the economic value of the relevant Client’s holdings.

Internal counsel has the responsibility to monitor Votes for any conflicts of interest, regardless of whether they are actual or perceived. All Voting decisions will require a mandatory conflicts of interest review by internal counsel in accordance with these policies and procedures, which will include consideration of whether the Adviser or any investment professional or other person recommending how to vote has an interest in how the Vote is voted that may present a conflict of interest. In addition, all Adviser investment professionals are expected to perform their tasks relating to the voting of Votes in accordance with the principles set forth above, according the first priority to the best interest of the relevant Clients. The Adviser’s Chief Compliance Officer

or internal counsel will use his or her judgment to address any such conflict of interest and ensure that it is resolved in accordance with his or her independent assessment of the best interests of the Clients.

Where the Adviser's General Counsel deems appropriate in his or her sole discretion, unaffiliated third parties may be used to help resolve conflicts. In this regard, the Adviser's General Counsel will have the power to retain independent fiduciaries, consultants, or professionals to assist with Voting decisions and/or to delegate voting or consent powers to such fiduciaries, consultants, or professionals.

Copies of relevant proxy logs, identifying how proxies were voted in connection with a Client and copies of proxy voting policies and procedures are available to any Client or prospective Client upon written request to: [compliance@audaxgroup.com](mailto:compliance@audaxgroup.com).

#### **Item 18. Financial Information**

Item 18 is not applicable to the Adviser.

#### **Item 19. Requirements for State-Registered Advisers**

Item 19 is not applicable to the Adviser.