

Form ADV, Part 2A - Brochure

Item 1 - Cover Page

Southern Cross Management  
El Regidor 66, 16th Floor  
Santiago, Chile 755-0185  
+56 22 6665 600  
www.southerncrossgroup.com  
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**This Brochure provides information about the qualifications and business practices of Southern Cross Management ("SCM"). If you have any questions about the contents of this Brochure, please contact Gonzalo Alende Serra at +59 82 626 2310 or via email at [galendeserra@southerncrossgroup.com](mailto:galendeserra@southerncrossgroup.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.**

**SCM is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.**

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

## **Item 2 – Material Changes**

This amendment reflects changes made to update SCM's discretionary assets under management as of December 31, 2018, and to make other non-material changes to our last annual update, which was made on March 28, 2018.

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## Item 4 – Advisory Business

Our sole advisory business is providing investment advisory services to private equity funds that invest in operating companies. The private equity funds were originally formed by SCM and consist of closed-end partnerships that generally make value-oriented, control investments in Latin American companies which SCM believes have significant potential for improved performance and growth. The private equity funds are structured as limited partnership vehicles, in which investors are limited partners and an SCM-affiliate serves as the general partner.

SCM was formed in 2006 as an adviser, following the success of affiliate Southern Cross Capital Management (“SCCM”), which was formed in 1998, with the same purpose. SCM is owned in equal parts by Covent Garden Holdings LLC, Pinckney Capital Partners and South Bay Partners. SCM is controlled, through subsidiaries or other intermediate entities, none of which are publicly held, by Norberto Morita, Ricardo Rodriguez and Raúl Sotomayor (collectively, the “Directors”), who are also SCM’s three directors.

SCM has formed two funds: Southern Cross Latin America Private Equity Fund III, L.P. (“Fund III”) in December 2006; and Southern Cross Latin America Private Equity Fund IV, L.P. (“Fund IV”) in May 2010 (Fund III and Fund IV, each an Ontario, Canada limited partnership, collectively, the “Funds”). Fund III had a term of ten years, which was extended in 2016 and was again extended in December 2018 until December 2020 pursuant to an amendment to its limited partnership agreement. Fund IV has a term of ten years. Fund III raised \$751 million and Fund IV raised \$1,681 million. The general partners of the Funds – Southern Cross Capital Partners III, L.P. and Southern Cross Capital Partners IV, L.P. (each, a “General Partner” and collectively, the “Funds’ General Partners”) – are also Ontario, Canada limited partnerships and both of them are controlled by SCM’s directors. Fund III and Fund IV are SCM’s sole clients.

In addition to SCM, Messrs. Morita, Rodriguez and Sotomayor are affiliated with two related entities, SCCM and Southern Cross Group Management, L.P. (“SCGM”). SCCM formed two other funds preceding Fund III and Fund IV: Southern Cross Latin America Private Equity Fund, LP (“Fund I”) in 1998 and Southern Cross Latin America Private Equity Fund II, L.P. (“Fund II”) in 2003. SCGM has formed a successor fund to Fund IV: Southern Cross Latin America Private Equity Fund V, L.P. (“Fund V”) in 2015.

The strategy of Fund I, Fund II, Fund III, Fund IV and Fund V (collectively, the “Southern Cross Funds”) has remained relatively the same since 1998: to make private equity buyout investments in Latin America. The Southern Cross Funds were established based on the Directors’ shared history of value creation and fundamental belief that private equity investing in Latin America cannot succeed based solely on a financial engineering model. In Southern Cross’ view, the ability to consistently generate attractive investment returns requires (i) extensive local operating and transactional experience; (ii) the ability to create “genuine” long-term, sustainable value through improved operating performance and strategic direction; (iii) the ability to identify, recruit, and work closely with talented local managers; and (iv) a conservative, disciplined approach to pricing and leverage. In order to

achieve this, Southern Cross makes investments in concentrated portfolios that enable it to devote substantial time to each of its portfolio companies. Southern Cross also invests mostly in control investments as a way to accomplish the changes that it believes are required and as a means to manage reasonably the timing to exit.

Each of the Funds is governed by a limited partnership agreement ("LPA"). Pursuant to each LPA, the management, control and operation of the Funds and the formulation of investment policy is vested exclusively in each Fund's General Partner. Therefore, each Fund's General Partner has full authority to undertake the business purpose of the relevant Fund, which according to their LPAs, consist of (i) making directly or indirectly through affiliates or other entities equity and equity-related investments in Latin America (or to a limited extent outside of Latin America); and (ii) managing, owning, supervising, selling and disposing of the investments. The limited partners do not participate in the management or control of the Funds. The LPAs contain certain investment restrictions that are determined at the time the Funds are formed.

As provided for in the respective Fund LPA, (i) the General Partner, in respect of Fund III, and (ii) Fund IV, in respect of Fund IV, has entered into a Management and Advisory Agreement with SCM in order for SCM to provide advice to the General Partner relating to the Fund. As a consequence of this, SCM is the advisor to Fund III and Fund IV. In addition, under certain circumstances, including, without limitation, (i) where the Funds have decided to excuse certain limited partners from making capital contributions in respect of specific investments and have instead required them to contribute their otherwise due amounts in respect of specific investments outside of the Fund as co-investors, or (ii) to facilitate investments while simultaneously addressing certain legal, tax or regulatory considerations, a Fund's General Partner may establish certain alternative investment vehicles ("Alternative Investment Vehicles") or parallel funds ("Parallel Funds"). Governance of these Alternative Investment Vehicles or Parallel Funds will be entirely bestowed on the Fund's General Partner or on one or more affiliates of the General Partner, and the investment decisions for the Alternative Investment Vehicles or Parallel Funds will be identical to those for the Fund to which such Alternative Investment Vehicle or Parallel Fund relates. SCM or an affiliate thereof will manage the operations of these Alternative Investment Vehicles and Parallel Funds.

As of December 31, 2018, SCM had \$1.2 million in discretionary assets under management. SCM does not manage any client assets on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

In respect of Fund III, Fund III's General Partner receives an annual management fee to cover administrative, management, investment management, and supervisory services it provides to Fund III, and the General Partner in turn pays the management fee to SCM. In respect of Fund IV, SCM receives an annual management fee to cover administrative, management, investment management, and supervisory services it provides to Fund IV. Management fees are established in the LPA, pursuant to negotiations with the limited partners of each Fund. The annual management fees are generally 2.0% of committed

capital of the Fund, with a reduction at the end of the Fund's commitment period to an annual management fee of 1.5% of invested capital that has not been realized or written off, subject to certain caps and adjustments as set forth in each Fund's LPA. Currently, fees for Fund III have been waived.

Management fees are payable on an estimated basis by the Fund less than semi-annually in advance. The fees are funded by capital calls to the investors and deducted from the investor's capital account in the Fund. Under certain circumstances, the estimate of management fees payable may result in an overpayment in which case the overpayment would reduce management fees for future periods. SCM generally does not collect fees related to portfolio transactions or other services provided to portfolio companies, but to the extent any such fees were to be charged, all such fees (or, in the case of Fund III, specified percentages of such fees) are required to be offset against the applicable Fund's management fee.

SCM employs the compensation received as management fees to (i) compensate the members of SCM's Investment Committee (the "Investment Committee"), which, as of the date hereof, consists of the Directors, along with Sebastián Villa, Diego Acevedo and César Pérez Barnés; and (ii) to retain the services of consulting and other services firms for the identification of investment opportunities, market research, investment assessment, board representation, bookkeeping and investor relation support, solely in relation to the Funds. These business consulting firms (the "Affiliate Consultants") are controlled by certain members of the Funds' General Partners, including Marcos Mulcahy, Andrés Jacob and Diego Stark (collectively with the Investment Committee members and certain other executives, "SC's Members").

The Funds incur operating expenses, including legal, auditing and accounting expenses and transaction-related costs, and potentially could incur brokerage costs (see Item 12, Brokerage Practices). The Funds may also pay a performance-based fee which is described in Item 6, Performance-Based Fees and Side-By-Side Management.

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

The General Partner of each Fund may receive a performance fee from the Fund (which in the case of Fund III's General Partner will be in addition to the management fee described above), calculated as a share of the net profits of that Fund, based on a percentage of such profits, which may vary from Fund to Fund, and which was established in negotiations with the limited partners of each Fund. The performance fee is charged in compliance with Rule 205-3 of the Investment Advisers Act of 1940 (the "Advisers Act"). The performance fee is allocated to the capital account of the General Partner.

This performance fee is a typical feature of private equity funds and is commonly referred to as "carried interest." The payment of the carried interest is set forth in each Fund LPA and is generally 20% of net cash profits, but is only paid if cumulative distributions to the investors have exceeded the sum of the investor's contributed capital for the investment

plus a minimum defined investor return on that capital (known as a “preferred return”). Carried interest is calculated and payable based on individual investment transaction profits. In addition, each Fund LPA contains a provision whereby, if the General Partner receives distributions of net cash profits in excess of 20% of such profits, the General Partner is obligated to return such excess to the Fund for distribution to limited partners.

The allocation of carried interest to the General Partner may create an incentive for the General Partner to make investments that are more speculative than would be the case in the absence of performance-based compensation. However, this incentive may be tempered somewhat by the fact that losses will reduce the Fund’s performance and thus the General Partner’s carried interest. In addition, since carried interest is a distribution of net cash profits, the amount of carried interest distributed is not typically affected by any interim valuations made by the General Partner of the investment in respect of which a distribution is being made, although the amount of carried interest so distributed may be affected by a write-down or lack of a write-down of other investments. SCM is not paid any carried interest or performance-based fee.

SCM and the Funds’ General Partners only manage the Funds, which all have similar performance-based fees payable to the applicable General Partner, so that all clients are charged similar types of fees.

## **Item 7 – Types of Clients**

SCM provides investment advice and portfolio management services solely to the Funds. The following types of institutions may invest in the Funds: sophisticated institutional investors, primarily public employee retirement and deferred compensation plans, corporate pension and profit sharing plans, family offices, university endowments, insurance companies, other pooled investment vehicles, municipalities, private investment funds, sovereign funds, insurance companies, charitable organizations, foundations, and other U.S. and international institutions. In addition, certain brokers, high net worth individuals, banks, trust companies, and investment advisers may be Fund participants. Persons affiliated with SCM and its affiliates may also invest in the Funds.

Each Fund has a minimum investment requirement, which was \$5 million for Fund III and \$10 million for Fund IV, which amount may be waived by the Fund’s General Partner in its sole discretion. Investors in the Funds either must be “accredited investors” and “qualified clients” as defined under U.S. securities laws, or must be non-U.S. persons.

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

### **METHODS OF ANALYSIS & INVESTMENT STRATEGIES**

SCM leverages the four pillars of its investment model to generate attractive returns by employing a value-oriented and operationally focused investment strategy. The four pillars are: (i) operational value creation, (ii) active portfolio management, (iii) a regional approach to investing supported by strong local teams and (iv) the ability to establish Southern Cross as a preferred partner to target businesses.

#### ***Operational Value Creation***

SCM employs a bottom-up approach to identifying companies where significant value can be created through improved operations and strategic positioning. The investment team works closely with portfolio company management to implement key initiatives aimed at increasing EBITDA, improving the attractiveness of cash flows and achieving sustainable market-leading positions. As a result of this approach, many of Southern Cross' portfolio companies often become leaders in their respective markets, grow at above-market rates and achieve significant company-specific valuation expansion upon exit.

#### ***Active Portfolio Management***

SCM firmly believes that investment returns are maximized by active, hands-on involvement in the management and governance of each portfolio company. As part of SCM's active management approach, there is substantial Partner-level involvement in every portfolio company in order to leverage the investment team's private equity experience and operating expertise to help companies to reach their full potential.

#### ***A Regional Approach to Investing Supported by Strong Local Teams***

SCM employs a regional approach to investing in Latin America and benefits from the largest footprint of local offices in the region, each of which is staffed with local professionals and led by senior Partners. SCM capitalizes on its unique regional perspective by maintaining a highly collaborative culture that enables Southern Cross to draw upon the resources and expertise of team members from across Latin America. Southern Cross' collaborative culture and regional approach is further reinforced by the fact that investment professionals participate in a single carried interest pool, which aligns interests towards making the most attractive investments, regardless of geography and eliminates the incentive to invest in overvalued or excessively competitive markets.

#### ***Ability to Establish Southern Cross as a Preferred Partner to Target Businesses***

SCM has a long track record and strong reputation in Latin America as an excellent business partner and value creator. As a result, SCM is able to establish itself as a preferred partner to management teams and business owners, providing Southern Cross with access to attractive investment opportunities on advantageous terms.



SCM's investment process has four basic stages:

- origination and preliminary evaluation;
- due diligence and strategy development;
- strategy execution; and
- exit and value realization.

### ***Origination and Preliminary Evaluation***

SCM believes that its reputation has placed it on the list of potential buyers for any group or individual that is selling a significant asset in Latin America. SCM also benefits from substantial deal flow resulting from the principals' extensive networks developed over the past 25+ years in Latin America. Once identified, opportunities are subject to SCM's disciplined screening process that establishes which investments warrant substantial commitment of additional time and resources. SCM focuses exclusively on those opportunities where it believes it can leverage the principals' extensive transactional, operating, and turnaround experience to create or unlock significant value.

### ***Due Diligence and Strategy Development***

SCM has the capacity to complete comprehensive due diligence under tight time constraints due to its vast network of industry experts and extensive transactional experience in the region. SCM also has developed an ability to recognize opportunities to "unlock" value that may be obscured due to the complexities associated with a transaction or a company's poor operational and financial management. SCM's disciplined evaluation process follows two separate but critical paths. The first path includes confirming historical performance, evaluating potential risks and developing an appropriate transaction structure. During the due diligence process, the principals meet frequently to discuss the transaction and identify areas that require additional analysis or to modify the agreed upon due diligence approach. Certain principals will take the "lead" on any transaction with the remaining principals playing the role of "devil's advocate" or assisting in specific aspects of the transaction. The second path is a strategic review, which occurs simultaneously and includes a comprehensive analysis of the ways in which value can be created through improved operations and strategic direction.

Before closing a transaction, SCM, along with management, develops a detailed medium-term strategic plan as well as a short-term operational plan, designed to help each company reach its full potential in terms of profitability, growth and utilization of capital. Upon completion of due diligence and the development of a strategic plan, every transaction is formally presented to the Investment Committee, which seeks to make all investment decisions unanimously.

### ***Strategy Execution***

SCM believes that investment returns are maximized by intensive, hands-on management of portfolio companies and that strategic, financial and operating plans are only valuable if

they are implemented, monitored and frequently updated. Although, from time to time, certain personnel affiliated with SCM or one of the Funds' General Partners may take executive positions in portfolio companies for limited periods of time, SCM does not permanently manage the day-to-day operations of its portfolio companies; however, it is actively involved in the business decisions that it believes are critical to generating significant incremental value. SCM is particularly active with a Fund's portfolio companies in the pre-closing period and during the first six to twelve months after its initial investment. While specific strategies are developed on a case-by-case basis, SCM consistently seeks to:

- focus on managerial excellence;
- implement cost controls and operational improvements;
- identify opportunities to drive growth; and
- establish independent board of directors.

### ***Exit and Value Realization***

SCM aims to define a clear exit strategy prior to completing a transaction. SCM has demonstrated its keen understanding of the exit environment in Latin America by successfully repositioning its portfolio companies and realizing significant value for its investors through (i) trade sales to strategic or financial buyers; (ii) initial or subsequent public offerings; and (iii) cash dividends/recapitalizations.

### ***Temporary Investments***

Cash held by a Fund is usually temporarily invested in interest or non-interest bearing bank accounts, and on occasion is invested in high quality short-term money market instruments, including Treasury bills, commercial paper, and money market accounts.

## **RISKS**

***PRIVATE EQUITY INVESTING INVOLVES RISK OF LOSS, INCLUDING RISK OF LOSS OF THE ENTIRE INVESTMENT THAT INVESTORS IN THE FUNDS SHOULD BE PREPARED TO BEAR. NONE OF THE FUNDS' GENERAL PARTNERS OR SCM CAN PROVIDE ASSURANCE THAT THEY WILL BE ABLE TO CHOOSE, MAKE AND REALIZE INVESTMENTS IN ANY PARTICULAR COMPANY OR PORTFOLIO OF COMPANIES. THERE CAN BE NO ASSURANCE THAT THE FUNDS WILL BE ABLE TO GENERATE RETURNS FOR THEIR LIMITED PARTNERS OR THAT THE RETURNS WILL BE COMMENSURATE WITH THE RISKS OF INVESTING IN THE TYPES OF COMPANIES THAT THE FUNDS WILL BE TARGETING. THERE CAN BE NO ASSURANCE THAT ANY LIMITED PARTNER WILL RECEIVE ANY DISTRIBUTION FROM THE FUNDS. ACCORDINGLY, AN INVESTMENT IN THE FUNDS SHOULD ONLY BE CONSIDERED BY PERSONS THAT CAN AFFORD A LOSS OF THEIR ENTIRE INVESTMENT. PAST ACTIVITIES OF INVESTMENT ENTITIES ASSOCIATED WITH THE PRINCIPALS OR THEIR AFFILIATES PROVIDE NO ASSURANCE OF FUTURE SUCCESS.***

The following list of risk factors does not purport to be a complete enumeration of the risks involved in an investment in the Funds. In addition, as the Funds' investment program develops and changes over time, an investment in the Funds may be subject to additional and different risk factors. **Fund III and Fund IV are both closed to new investors.**

## **GENERAL RISKS**

### **No Assurance of Investment Return; Possible Loss of Entire Investment**

The Funds' General Partners cannot provide assurance that they will be able to choose, make and realize investments in any particular company or portfolio of companies. There can be no assurance that the Funds will be able to generate returns for their limited partners or that the returns will be commensurate with the risks of investing in the types of companies described herein that the Funds will be targeting. There can be no assurance that any limited partner will receive any distribution from the Funds. Accordingly, an investment in the Funds should only be considered by persons that can afford a loss of their entire investment. Past activities of investment entities associated with the principals of Southern Cross (the "Principals") or their affiliates provide no assurance of future success.

### **Economic Environment and Market Conditions**

Economic uncertainty and unfavorable market conditions, including extreme volatility and illiquidity of certain investments, could materially adversely affect the investments made by the Funds. These factors are outside of the Funds' control and as a result, the Funds may not be able to manage their exposure to these conditions. A downturn or contraction in the economy or in certain industries or geographic regions, including Latin America, may restrict the availability of suitable investment opportunities for the Funds or negatively impact their ability to liquidate any such investments, each of which could prevent the Funds from meeting their performance objectives.

Market conditions could negatively impact the ability of the Funds to exit their existing or future investments, or the terms on which any such investments are disposed of, which could materially, negatively impact the investment performance of those funds.

### **Financial Market Developments May Adversely Affect the Funds' Access to Capital and their Overall Performance**

A lack of available credit and lack of confidence in the financial markets could materially and adversely affect the Funds' investment returns or their access to capital. In connection with these events, the Funds' ability to borrow from financial institutions on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events.

## **Highly Competitive Market for Investment Opportunities Generally**

The activity of identifying, completing and realizing attractive investments is highly competitive and involves a significant degree of uncertainty. The Funds will be competing for investments with many other investment vehicles, as well as individuals, financial institutions, investment managers, industrial groups, merchant banks and other institutional investors. Additional funds and vehicles with similar investment objectives may be formed in the future by other unrelated parties and further consolidation may occur (resulting in larger funds and vehicles). There can be no assurance that the Funds will be able to locate, complete and exit investments that satisfy the Funds' objectives or realize the value of such investments.

## **Valuation of Fund Assets**

For certain assets owned by a Fund, there is no, or only a limited, liquid market and the fair value of such assets may not be readily determinable. In addition, the information about the Latin American business environment which is used as parameters for valuations is generally limited in nature and requires the General Partner to use its best judgment in considering whether the information available should or should not be adjusted. There is no assurance that the value assigned to an investment at a certain time will accurately reflect the value that will be realized upon the eventual disposition of the investment. Inaccurate valuations may, among other things, (i) affect a Fund's track record; (ii) increase or reduce losses from write downs that must be returned prior to one of the Funds' General Partners receiving a carried interest in accordance with such Fund's limited partnership agreement; or (iii) give rise to higher management fees, in such cases in which the management fee calculation is affected by a write-down of the value of such Fund's assets. The Funds' General Partners have adopted valuation policies aimed at reducing the potential inaccuracies and effects described above. Financial reporting that is compliant with GAAP is required to follow the requirements for valuation set forth in Accounting Standards Codification 820 ("ASC 820"), "Fair Value Measurements and Disclosures", which defines and establishes a framework for measuring fair value under GAAP and expands financial statement disclosure requirements relating to fair value measurements. The Funds' General Partners apply ASC 820 and other relevant Financial Accounting Standards Board ("FASB") statements and guidance to the valuation of a Fund's assets and liabilities. In particular, the Funds' General Partners apply the ASC 820 requirement that the fair value of an asset must reflect any restrictions on the sale, transfer or redemption of such asset—a requirement which may result in the imposition of a discount when determining the fair values of assets that are subject to such restrictions. ASC 820 and other accounting rules applicable to investment funds and their assets are evolving and additional FASB statements and guidance and additional provisions of GAAP that may be adopted in the future may impose additional, or different, specific requirements as to the valuation of assets and liabilities for purposes of GAAP-compliant financial reporting. Such changes may adversely affect the Funds. For example, to the extent that the rules governing the determination of the fair market value of assets change, such changes may increase the cost of fair market valuations.

## **Difficulty of Identifying Attractive Investments**

The availability of investment opportunities generally will be subject to the prevailing regulatory or political climate in any given country, as well as to market conditions. In addition, the business of identifying and structuring investments of the types contemplated by the Funds is highly competitive and involves a high degree of uncertainty. Accordingly, there can be no assurance that the Funds will be able to identify and complete attractive investments in the future, or that they will be able to invest fully their committed capital.

## **INVESTMENT RISKS**

### **Risk of Limited Number of Investments; Lack of Diversity**

Pursuant to the Funds' investment policies, the Funds currently plan to invest in companies headquartered primarily in South America, Mexico and Central America. In addition, the Funds may invest up to 20% of the limited partners' capital commitments in non-Latin American issuers. Despite the Funds' General Partners' intent to diversify the Funds by investing in a variety of companies, the Funds may ultimately participate in a limited number of investments and, as a consequence, the aggregate return of the Funds may be substantially adversely affected by the unfavorable performance of even a single investment. Additionally, the investors can have no assurance as to the degree of diversification in the Funds' investments, either by region or industry. As a result, the value of the Funds' investments and their capital and profitability may be materially affected by a single adverse political or economic event in Latin America.

### **Risk of Controlling Interests in Portfolio Companies**

Pursuant to the Funds' investment policies, the Funds are expected to have controlling interests in the majority of the portfolio companies in which they invest. Control over the Funds' portfolio companies may result in additional risks and potential liability for economic or other damages relating to the activities of the portfolio companies, including environmental liability, tax, labor, or pension liabilities, or liabilities to governmental regulators. Furthermore, unsupervised management of portfolio companies could take actions that could expose the Funds to potential liability and as a result the Funds could incur a significant loss.

### **Minority Investments**

The Funds may invest in minority positions of companies, or otherwise in companies with respect to which the Funds will have no right to appoint senior management or otherwise exert sufficient influence to protect their positions therein. In such cases, the Funds will be significantly reliant on the existing management and board of directors of such companies, which may include representatives of other investors with whom the Funds are not affiliated and whose interests may conflict with the interests of the Funds.

## **Risks from Greenfield Opportunities**

As part of SCM's investment strategy, the Funds may make investments in development projects or greenfield opportunities. Development projects and acquisitions require SCM to spend significant sums for engineering, permitting, legal, financial advisory and other expenses in preparation for competitive bids that it may not win or before it determines whether a development project is feasible, economically attractive or capable of being financed. These activities are anticipated to consume a portion of the Principals' focus and could increase the Funds' leverage or reduce their returns. In addition, the financing required to complete greenfield projects may not be available when needed, and if it is not, the Funds may have to abandon these projects or invest more of their own funds, which may not be in line with the Funds' investment objectives and would leave less funds for other investments and development projects.

## **Risks from Buy-and-Build Opportunities**

The Funds may make investments in start-up businesses or "buy-and-build" opportunities. Investments in less developed businesses may involve greater risks than generally are associated with investments in more established companies. Less established companies tend to have lower capitalizations and fewer resources and, therefore, often are more vulnerable to financial failure. Such companies also may have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow. Start-up enterprises may not have significant or any operating revenues and any such investment should be considered highly speculative and may result in the loss of the Funds' entire investment therein.

## **Investments in Restructurings**

The Funds may make investments in portfolio companies that are in the process of restructuring in order to address actual or anticipated financial difficulties, which may be severe and may never be overcome. The Funds' involvement in such investments and the operations and restructuring of such portfolio companies could subject the Funds to additional liabilities. Such liabilities could exceed the value of the original investment therein in certain circumstances.

## **Investments in the Technology Sector**

The Funds may invest in companies involved in the technology sector. Investments in the technology sector often have heightened risks due to rapidly changing market conditions, rapidly changing participants, frequent addition and turnover of and improvements to, competing products and services. If the technology sector as a whole declines, the returns on such investments may be adversely affected.

## **Investments in the Oil and Gas Sector**

The Funds may invest some of their capital into companies involved in the exploration or production of oil or gas and those companies that provide products and services to oil and/or gas companies, such as drilling products and services, pipeline or transportation services or exploration or seismic technologies or services. Investments in companies directly or indirectly involved in the oil or gas sector often have heightened risks due to their dependence on the market prices for oil and natural gas. Such prices are historically volatile and subject to a variety of factors beyond the Funds' control, including the amount of domestic production; the level of imports; the market demand on a regional, national and worldwide basis; weather; competition from other sources of energy and variations in and the imposition of, governmental regulations upon the industry. Any substantial or extended decline in the price of oil or gas may have an adverse effect on the value of the Funds' investments in companies involved, directly or indirectly, in the oil or gas sector. The revenues and operating results of companies involved, directly or indirectly, in the oil or gas sector are also dependent on and subject to, the demand for and supply of, oil and gas, the availability of alternative energy sources, the success of development and drilling activities, the availability of equipment and personnel and state and local laws and regulations relating to the exploration for and the development, production and transportation of, oil and gas, which may be changed from time to time in response to economic or political conditions. Any of these factors may limit the amounts of oil and gas that companies can produce and the locations at which these companies can drill, thus reducing the returns to the Funds from investments in companies involved in the exploration or production of oil or gas, as well as companies that generate revenues from the provision of products and services to companies involved in the business of exploring for or producing oil or gas.

## **Limited Liquidity**

It is anticipated that there will be a significant period of time (approximately five years from inception) before the Funds will have completed their investments in portfolio companies. Such investments are expected by the General Partner to take from three to six years from the date of initial investment to reach a state of maturity when realization of the investment can be achieved. Therefore, the Funds' General Partners anticipate a long time period between the initial capitalization of the Funds and the time when the limited partners may receive distributions, if any.

It is currently expected that the Funds will invest primarily in the equity securities of private companies. As a result, there generally will be limited or no marketability of the Funds' investments and such investments may decline in value while the Funds are seeking to dispose of them. Furthermore, the Funds may find it necessary to sell investments at a discount or to sell over extended periods of time when disposing of their portfolio investments. Therefore, it is expected that the Funds' investments generally will not be sold for a number of years and will remain relatively illiquid and difficult to value. The marketability and value of any such investments will depend upon many factors beyond the control of the Funds' General Partners.

## **Investments Longer than Term**

The Funds may invest in investments that may not be advantageously disposed of prior to the date that the Funds will be dissolved, either by expiration of the Funds' term or otherwise. Although the Funds' General Partners expect that investments will either be disposed of prior to dissolution or be suitable for in kind distribution at dissolution, the Funds may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

## **RISKS OF INVESTING IN LATIN AMERICA**

### **Investments in Latin America**

The Funds' General Partners intend to make investments for the Funds primarily in a number of different countries in Latin America. The Funds' investments will be subject to the direct and indirect consequences of political, economic and social factors and other uncertainties, including the risks of expropriation, nationalization, renegotiation or nullification of existing contracts, changes in taxation policies, currency exchange restrictions and political instability in the countries in which it invests. Some of the countries in the region face varying degrees of social and political instability, have experienced high rates of inflation in recent years and have extensive external debt. Political changes or a deterioration of a country's domestic economy or balance of trade may indirectly affect the Funds' investment in a particular company in such country. It also may be difficult to obtain and enforce a judgment in a local court. Described herein are certain significant risks specific to these investments. In addition, in the case of investments in foreign assets, any fluctuation in currency exchange rates will affect the value of the investments. While the Funds' General Partners intend to manage the Funds' investments in a manner that will seek to minimize the exposure to such risks, there can be no assurance that adverse economic, political or social changes will not prevent the Funds from achieving their investment objectives.

The Funds' General Partners will analyze information with respect to political and economic environments and the particular legal and regulatory risks before making investments, but no assurance can be given that a given political or economic climate, or particular legal or regulatory risks, might not adversely affect an investment by the Funds.

### **Risks From the Economic Conditions in the Countries in which the Funds Invest**

The vast majority of the Funds' portfolio companies are located in emerging markets and as a result, the Funds' investment returns are largely impacted by economic conditions in the countries in which those portfolio companies operate. Many of these countries have a history of economic instability. The Funds' results may be to a large extent dependent upon the overall level of economic activity and political and social stability in these emerging markets. Should economic conditions deteriorate in these countries or in emerging markets generally, the Funds' investment returns may be adversely affected.



## **Inflation in the Countries in which the Funds Invest**

In the past, high levels of inflation have adversely affected the economies and financial markets of some of the countries in which the Funds invest and the ability of their governments to create conditions that stimulate or maintain economic growth. Moreover, governmental measures to curb inflation and speculation about possible future governmental measures have contributed to the negative economic impact of inflation and have created general economic uncertainty. Future governmental economic measures, including interest rate increases, intervention in foreign exchange markets and actions to adjust or fix currency values, may trigger or exacerbate increases in inflation and consequently have an adverse impact on the Funds' returns.

## **Political/Sovereign Risk**

Governments of some countries in Latin America have exercised and continue to exercise substantial influence over many aspects of the private sector. In some cases, the government owns or controls many companies, including some of the largest, such as energy and utility companies. The policies set by these companies could have a significant effect on economic and market conditions in some countries. Moreover, the economies of these countries generally are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be adversely affected by economic conditions in the countries with which they trade. There is the possibility of nationalization, expropriation or confiscatory taxation, political changes, changed or increased government regulation, economic or social instability or diplomatic developments (including war) which could affect adversely the economies of such countries or the value of the Funds' investments in those countries.

In addition, the interdependence of economies in some Latin American countries has deepened over the years, with the effect that economic difficulties in one country often spread throughout the region. No assurance can be given that the Funds' portfolio will not be adversely affected by effects in countries outside of where investments are located.

## **Investment and Repatriation Restrictions**

Some countries have laws and regulations that currently limit or preclude direct foreign investment or that may otherwise increase the costs and expenses of the Funds. Prior government approval for foreign investments may be required under certain circumstances and the process of obtaining these approvals may require a significant expenditure of time and resources. Repatriation of investment income, capital and the proceeds of sale by foreign investors may require governmental registration and approval in some countries.

Investments by the Funds may require significant government approvals under corporate, securities, exchange control, foreign investment and other similar laws and may require financing and structuring alternatives that differ significantly from those customarily used in the United States. In addition, foreign governments from time to time impose restrictions intended to prevent capital flight, which may, for example, involve punitive taxation (including high withholding taxes) on certain securities transfers or the imposition of exchange controls making it difficult or impossible to exchange or repatriate foreign currency. These and other restrictions may make it impracticable for the Funds to distribute the amounts realized from an investment or may force the Funds to distribute investment proceeds other than in U.S. dollars and therefore a portion of the distribution may be made in foreign securities or currency.

### **Legal Framework and Corporate Governance**

Laws and regulations of some countries may impose restrictions that would not exist in the United States, may lack certain protections provided by U.S. law or may not be fully or consistently enforced, particularly where the other party to a dispute with the Funds is a local resident or entity. In addition, many countries provide inadequate legal remedies for breaches of contract, including settling disputes with local partners with whom the Funds enter into joint ventures.

In addition, agreements affecting the Funds' investments may be governed by the laws of countries in which the portfolio companies are located and may be subject to the jurisdiction of local courts or arbitral bodies. The enforceability of various agreements that are commonly enforced in developed countries may be subject to uncertainty in certain Latin American jurisdictions as a result of a variety of factors, including the lesser degree of experience of local courts or arbitral bodies with such agreements, differences between civil code and common law jurisprudence and procedure and unpredictability in the local legal system.

### **Currency Risk**

The Funds' investments are likely to be denominated in local currency and income earned thereon will typically be paid in local currencies. Moreover, many of the portfolio companies in which the Funds invest will not generate U.S. dollar income but may have U.S. dollar obligations. While some countries and companies may benefit from a currency devaluation and inflation, in the event of a significant local currency devaluation or suspension of convertibility the financial condition and results of operations of some portfolio companies in which the Funds invest may be significantly impaired and this in turn could adversely affect the Funds' investment performance and the ultimate rate of return realized by the limited partners. The Funds will maintain their books and intend to pay distributions in U.S. dollars. Accordingly, fluctuations in exchange rates between the U.S. dollar and the relevant local currencies will directly affect the value of the Funds' investments and the ultimate rate of return realized by the limited partners. Several Latin American countries have had dramatic fluctuations in their currency exchange rates in the past, including large devaluations against the U.S. dollar. In addition, exchange controls have, from time to time,

been implemented. There can be no assurances that there will not be a recurrence of such fluctuations or exchange controls in the currency exchange rates of any of the countries in which the Funds intend to invest. In addition, the Funds may incur costs or delays in connection with conversions between various currencies. The Funds' General Partners will evaluate the use of currency hedging arrangements to mitigate the risk of currency fluctuations and may cause the Funds to enter into such arrangements. To the extent the Funds decide to enter into hedging arrangements to mitigate this risk, there can be no assurance that such arrangements will be available, effective or sufficient to cover such risk. See also "Hedging Policies/Risks."

### **Quality of Financial Reporting**

Financial reporting and financial information at the enterprise level is often not as reliable in the countries in which the Funds invest as can be expected in other more developed regions. Companies in various Latin American countries are subject to accounting, auditing and financial standards and requirements that differ, in some cases significantly, from those applicable under United States, European or international generally accepted accounting principles. While there is a trend toward improved financial reporting by companies and increased enforcement of statutes concerning financial and tax reporting, there can be no assurance that the financial information can be made as reliable as in other regions.

### **Non-U.S. Investments**

Investing in non-U.S. companies involves certain factors not typically associated with investing in U.S. companies, including risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various non-U.S. dollar currencies in which the Funds' non-U.S. investments are denominated and costs associated with conversion of investment principal and income from one currency into another; (ii) certain economic, social and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital, the risks of political, economic or social instability and the possibility of expropriation or confiscatory taxation; and (iii) the possible imposition of local taxes on income and gains recognized with respect to such investments.

### **Foreign Taxation**

With respect to certain countries in Latin America, there is a possibility of expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, limitations on the removal of funds or other assets of the Funds, political or social instability or diplomatic developments that could affect investments in those countries. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries and their associated risks are expected to change independently of each other.

## **PARTNERSHIP RISKS**

### **Targeted Returns**

The Funds' General Partners generally base a target IRR for any investment on the relevant Fund's anticipated cash flows from the investment, use of leverage, an assumed holding period for the relevant investment and other factors, many of which are outside the control of the Funds' General Partners or the Funds. Actual cash flows to the Funds will depend in part on factors outside the control of the Funds' General Partners or the Funds, including factors that cannot be predicted with certainty such as general economic conditions, poor performance in the relevant industry sector, borrowing costs and the availability of attractive exit options and may vary considerably from the assumptions made in connection with the relevant General Partner's investment decision. There can be no assurance that the relevant General Partner will correctly take into account all relevant factors in establishing the targeted returns for any investment, or that the assumptions will prove accurate over time. Past performance of the Funds' General Partners should not be viewed as indicative of future results.

### **Third-Party Litigation Costs**

The Funds' investment activities subject them to the risk of becoming involved in litigation by third parties with respect to a portfolio company. Such risks may be increased where a Fund exercises control of or significant influence on a portfolio company's business operations. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would, absent certain conduct by the officers or employees of the relevant General Partner or SCM, be borne by the Funds and could require investors to return to the Funds capital and earnings previously distributed by the Funds. SCM, the relevant General Partner and other related parties are entitled to indemnification by the relevant Fund in connection with such litigation, subject to limited exceptions in the relevant LPA.

### **Reliance on Management**

Although many of the Principals have been working in association for over fifteen years, Fund III was organized in 2006 and Fund IV was organized in 2010. The Funds are subject to many of the business risks and uncertainties associated with any new business, including the risk that the Funds will not achieve their investment objective. SCM was organized in 2006, the General Partner of Fund III was organized in 2006 and the General Partner of Fund IV was organized in 2010. While the individuals beneficially owning the Funds' General Partners and SCM have extensive experience in originating, structuring, monitoring and disposing of investments of the type the Funds propose to make, there can be no assurance of the success of such investments. The successful investment of the Funds' assets will depend upon the skills of the Funds' General Partners and SCM and in particular Messrs. Norberto Morita, Ricardo Rodriguez, Raúl Sotomayor, Sebastián Villa and César Pérez Barnés.

The loss of the services of any of these individuals could have a material adverse effect on the Funds, their ability to manage their investments and their prospects. The limited partners will not make decisions with respect to the acquisition, management, disposition or other realization of any investment or, except under certain limited circumstances, any other decisions regarding the Funds' business and affairs.

### **Portfolio Company Management Risks**

Although SCM will be responsible for monitoring the performance of each investment, each portfolio company's day-to-day operations will be the responsibility of such company's management team and the Funds may have limited or no control rights with respect to the day-to-day operations of the portfolio company. Some companies will depend for their success on the management talents and efforts of one person or a small group of persons whose death, disability or resignation would adversely affect their businesses.

### **The Funds' Leverage**

The Funds may utilize leverage to finance the Funds' investments. The use of leverage involves a high degree of financial risk and will increase the exposure of the investments to adverse economic factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the investments. In addition, borrowings by the Funds may be secured by the capital commitments of the limited partners as well as by the Funds' assets. The possibility exists that the Funds may be forced to liquidate an investment in order to make interest or other payments in fulfillment of the Funds' obligations with respect to any borrowings made by the Funds.

### **Use of Leverage**

Certain of the Funds' investments may be in companies that are highly leveraged. While investments in leveraged companies offer the opportunity for capital appreciation, such investments also involve a higher degree of risk. The Funds' investments may involve varying degrees of leverage, as a result of which recessions, operating problems and other general business and economic risks may have a more pronounced effect on the profitability or survival of such companies. Moreover, any rise in interest rates may significantly increase the portfolio company's interest expense, causing losses and/or the inability to service debt levels. If a portfolio company cannot generate adequate cash flow to meet debt obligations, the Funds may suffer a partial or total loss of capital invested in the portfolio company.

### **Hedging Policies/Risks**

In connection with the financing of certain investments, the Funds may employ hedging techniques designed to reduce the risks of adverse movements in interest rates, securities prices and currency exchange. While such transactions may reduce certain risks, such transactions themselves may entail certain other risks. Thus, while the Funds may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates,

securities prices or currency exchange rates may result in a poorer overall performance for the Funds than if they had not entered into such hedging transactions. See also “RISKS OF INVESTING IN LATIN AMERICA - Currency Risk.”

### **Bridge Financings**

From time to time, the Funds may lend to portfolio companies on a short-term, unsecured basis. Such bridge loans would typically be refinanced with a more permanent, long-term security; however, for reasons not always in the Funds’ control, such long-term securities may not be issued and such bridge loans may remain outstanding. In such event, the interest rate on such loans may not adequately reflect the risk associated with the unsecured position taken by the Funds.

### **No Market for Limited Partnership Interests**

Limited partners will not be permitted to transfer their interests without the prior written consent of the Funds’ General Partners, which consent may be permitted or withheld in the Funds’ General Partners’ sole discretion. There is not and will not be a public market for the interests. Limited partners therefore will generally be unable to liquidate their investment in the Funds during the term of the Funds. Fund III’s term was extended until December 2020. Fund IV’s term ends in May 2020. The term of each Fund may be extended as set forth in the LPAs. Even upon liquidation, limited partners may receive securities that may not be resold without registration under, or exemption from, applicable securities laws. In addition, all certificates representing interests will bear substantially the following legend:

“The Limited Partner Interests represented by this certificate have not been registered under the Securities Act of 1933 or applicable state and other securities laws and may not be sold, pledged, hypothecated, encumbered, disposed of or otherwise transferred without compliance with the Securities Act of 1933 or any exemption thereunder and applicable state and other securities laws. The Limited Partner Interests represented by this certificate are subject to, and are transferable only in compliance with, the Amended and Restated Limited Partnership Agreement of Southern Cross Latin America Private Equity Fund [III/IV], L.P. (the “Limited Partnership Agreement”), as the same may be amended from time to time and with the *Limited Partnerships Act* (Ontario), and, to the extent applicable to the Partnership, the *Partnerships Act* (Ontario), in each case as the same may be amended from time to time, and may not be sold, pledged, hypothecated, encumbered, disposed of or otherwise transferred except in compliance with the Limited Partnership Agreement and with the *Limited Partnerships Act* (Ontario), and, to the extent applicable to the Partnership, the *Partnerships Act* (Ontario), in each case as the same may be amended from time to time. A copy of the Limited Partnership Agreement is on file at the registered office of the Partnership.”

## **Failure to Make Capital Contributions**

If a limited partner fails to pay when due installments of its capital commitment, additional contributions may be required to be made by non-defaulting limited partners. In addition, if the contributions made by non-defaulting limited partners and borrowings by the Funds are inadequate to cover the defaulted capital contribution, the Funds may be unable to pay their obligations when due. As a result, the Funds may be subjected to significant penalties that could materially adversely affect the returns to the limited partners (including non-defaulting limited partners). If a limited partner defaults, it may be subject to various remedies as provided in the LPAs of the Funds including, without limitation, reductions in its capital account balance and any other legal remedy that the Funds may have in respect of such default.

## **Risks Arising from Provision of Managerial Assistance**

The Funds will seek the right to designate directors to serve on the boards of directors of portfolio companies. The designation of directors and other measures contemplated could expose the assets of the Funds to claims by a portfolio company, its security holders and its creditors. While each of the Funds' General Partners intends to manage the relevant Fund in a way that will minimize exposure to these risks, the possibility of successful claims cannot be precluded.

## **Risks in Making Operating Improvements**

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

## **Contingent Liabilities upon Disposition**

In connection with the disposition of an investment in a portfolio company, the Funds may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of any business and may be responsible for the content of disclosure documents under applicable securities laws. It may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents turn out to be inaccurate. These arrangements may result in contingent liabilities, which would be borne by the Funds.

## **Financial Market Fluctuations**

General fluctuations in the market prices of securities may affect the value of the investments held by the Funds. Instability in the securities markets may also increase the

risks inherent in the Funds' investments. The ability of portfolio companies to refinance debt securities may depend on their ability to sell new securities in the public high-yield debt market or otherwise, which can be volatile.

### **Dilution from Subsequent Closings**

Investors subscribing for interests after the initial closing will participate in existing investments of the Funds, diluting the interest of existing limited partners therein. Although each such investor will be required to pay its allocable portion of capital contributions for portfolio investments completed after the initial closing but prior to such investor's admission date (plus an additional amount to account for expenses) and interest thereon, there can be no assurance that this payment will reflect the fair value of the Funds' existing investments at the time such additional investors subscribe for interests.

### **Indemnification**

The Funds will be required to indemnify the Funds' General Partners and its affiliates, and their respective officers, directors, agents, stockholders, members and partners for liabilities incurred in connection with the affairs of the Funds. Such liabilities may be material and may have an adverse effect on the returns to the limited partners. For example, in their capacity as directors of portfolio companies, the members, managers or affiliates of the Funds' General Partners may be subject to derivative or other similar claims brought by shareholders of such companies. The indemnification obligation of the Funds would be payable from the assets of the Funds, including the unpaid capital commitments of the limited partners. If the assets of the Funds are insufficient, or if the indemnification obligation of the Funds arises after the term of the Funds, the Funds' General Partners under certain circumstances may recall a portion of the distributions previously made to the limited partners.

### **Loss of Limited Liability**

Although the LPAs provide that limited partners will have no right to participate in the management of the Funds or to make any decisions with respect to the investments to be made by the Funds, limited partners may lose their limited liability protections under the *Limited Partnerships Act* (Ontario), as amended, which is the statute under which the Funds have been formed, in certain circumstances. Such Act provides that a limited partner of a partnership may lose the protection of his, her or its limited liability and be liable as a general partner if (i) in addition to exercising rights and powers as a limited partner, the limited partner takes part in the control of the business of the partnership; or (ii) the surname or a distinctive part of the corporate name of the limited partner appears in the name of the partnership unless it is also the surname or distinctive part of the corporate name of one of the general partners of the partnership. In addition, if the record of limited partners of the partnership contains a false or misleading statement, any person suffering a loss as a result of relying upon the statement may hold liable, among other persons, every limited partner of the partnership who became aware that the statement was false or



misleading and failed within a reasonable time to take steps to cause the record of limited partners to be corrected.

Although the provisions of the LPAs state that no limited partner shall take part in the control of the business of the Funds, whether a limited partner, in exercising its rights under the LPAs or otherwise, is thereby taking part in the control of the business of the Funds (albeit not contemplated by the LPAs) will be a question in fact under the law of Ontario, Canada.

The estate of a deceased limited partner is liable for all of the liabilities of the limited partner as a limited partner.

### **Liability for Return of Distributions**

Generally, the limited partners do not have personal liability for the obligations of the Funds so long as they do not lose limited liability as discussed above in “Loss of Limited Liability”. A limited partner will, however, be liable to the Funds for the difference, if any, between the value of money and other property that such limited partner actually contributes to the Funds (being its capital contribution as described in the LPAs) and the value of money or other property as stated in the record of the limited partners of the Funds, required to be maintained under the *Limited Partnerships Act* (Ontario), as being contributed or to be contributed by the limited partner to the Funds (such amount to be shown being the capital commitment of the limited partner described in the LPAs).

In addition, where the limited partner has received the return of all or part of his, her or its capital contribution, the limited partner is nevertheless liable to the Funds or, where the Funds are dissolved, to its creditors, for any amount, not in excess of the amount returned with interest, necessary to discharge the liabilities of the Funds to all creditors who extended credit or whose claims otherwise arose before the return of the capital contribution. Under the *Limited Partnerships Act* (Ontario), a limited partner would also hold as trustee for the Funds (i) specific property, if any, stated in the LPAs as contributed by the limited partner, but which has not in fact been contributed or which has been returned contrary to such Act and (ii) money or other property paid or conveyed to the limited partner on account of the limited partner’s capital contribution contrary to such Act.

Potential investors should be aware that the relevant LPA requires investors in a Fund to return to the Fund distributions they previously received that represent a return to investors of their capital contributions and amounts necessary to satisfy claims against the Fund, subject to certain limitations.

### **TAX RISKS**

In judging whether to invest in the Funds, a prospective investor should consider the tax consequences thereof which include, among others, (a) the possibility that the Funds may generate taxable income to the partners in an amount greater than cash available for

distribution, (b) the possibility of adverse changes in the relevant tax laws and (c) passive foreign investment company considerations.

### **Taxation of Carried Interest**

At various points over the past few years, legislation has been introduced in the U.S. Congress that, if enacted, would increase the U.S. Federal income tax liability of individual recipients of the Funds' carried interest. Although never passed, such legislation is still debated from time to time. It is not certain whether such legislation, or any other legislation that negatively impacts the tax treatment afforded to recipients of carried interest, will be enacted. Any actions taken by the Funds' General Partners to address changes in legislation relating to the taxation of the income of the Funds' General Partners could be distracting to the Funds' General Partners and could require significant time and attention from the Principals and other individuals responsible for the investment activities of the Funds. In addition, any changes in legislation relating to the taxation of the income of the Funds' General Partners could make it more difficult for the Funds' General Partners to retain or attract individuals to manage the investment activities of the Funds.

### **Taxation in Certain Jurisdictions**

The Funds or the limited partners may be subject to income or other tax in the jurisdictions in which investments are made or in which vehicles are formed through which their investments are realized. Additionally, withholding tax or branch tax may be imposed on earnings of the Funds from investments in such jurisdictions. Local and other tax incurred in non-U.S. jurisdictions by the Funds or vehicles through which they invest may not be creditable to or deductible by a limited partner under the tax laws of the jurisdiction where such limited partner resides, including the United States.

PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AND COUNSEL WITH RESPECT TO ALL TAX ASPECTS OF THE PURCHASE AND OWNERSHIP OF INTERESTS.

### **ERISA RISKS**

There can be no assurance that the Funds' General Partners has structured, or can structure, the Funds to adequately address any issues that may arise for pension, profit-sharing or other employee benefit plans ("ERISA Plans") that may invest in the Funds. Fiduciaries of ERISA Plans considering investing in the Funds should make their own determinations as to the prudence of an investment in the Funds in light of the high risk investments that the Funds intend to make and the limitations on the marketability of interests. In considering an investment in the Funds, the fiduciaries of an ERISA Plan should carefully review the plan documents and other facts and circumstances applicable to that plan to make certain that they have the authority to make an investment in the Funds under the appropriate plan investment policies and governing instruments and under Title I of ERISA. An investment in the Funds by an ERISA Plan or arrangement subject to Section 4975 of the Code ("IRC Plans") could violate (i) ERISA requirements regarding control over or responsibility for

“plan assets”, (ii) prohibitions in ERISA and the Code relating to an ERISA Plan or an IRC Plan engaging in certain “prohibited transactions”, and (iii) other provisions in ERISA dealing with “plan assets”. Violation of these requirements could result in liability for breach of fiduciary duty, disqualification from future fiduciary service, excise taxes and other adverse consequences to the ERISA Plan fiduciaries.

## **REGULATORY RISKS**

### **Other Regulatory Concerns**

The Funds’ General Partners believe that the nature of the Funds will not subject them to the registration requirements of the U.S. Investment Company Act of 1940, as amended (the “Investment Company Act”). However, there can be no assurance that the Funds will not be subject to the registration requirements of the Investment Company Act in the future. The performance of the Funds’ investment portfolio could be materially adversely affected and risks involved in financing developing companies could substantially increase, if the Funds or the Funds’ General Partners become subject to the compliance requirements of the Investment Company Act. Neither the Funds nor their counsel can assure investors that, under certain conditions, changing circumstances or changes in the law, the Funds may not become subject to the Investment Company Act or similar law in the future.

SCM is registered as an investment adviser under the Advisers Act and accordingly is subject to the regulations promulgated thereunder. As a registered investment adviser under the Advisers Act, SCM is required to comply with a variety of periodic reporting and compliance-related obligations under applicable U.S. securities laws, including filing an annual Form ADV with the SEC. If SCM fails to comply with such regulations, then it could be subject to sanctions by the SEC.

### **Enhanced Scrutiny and Regulation of Private Investment Funds**

Both the Funds’ ability to achieve their investment objectives and conduct their operations are dependent upon laws and regulations that are subject to change through legislative, judicial or administrative action. As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act and regulations promulgated pursuant thereto, there has been an increase in governmental scrutiny and regulation of the private equity industry and it is possible that such scrutiny or regulation could adversely impact the Funds’ ability to achieve their objectives or operate their business. A combination of scrutiny of the companies operating in the asset management space and their investments by politicians, regulators and commentators along with a public perception that this industry contributed to the most recent downturn in the U.S. and global financial market may complicate the Funds’ efforts to consummate investments. Therefore, the Funds may invest in fewer transactions or incur greater expenses or delays in completion of investments than would otherwise be the case. Additionally, any further increases in the regulations applicable to private investment funds generally and/or registered investment advisers in particular may result in increased expenses associated with the Funds’ activities and may require additional resources of SCM to be directed to such regulatory reporting and compliance-

related obligations, which could adversely impact the Funds' ability to achieve their investment objectives.

### **FCPA Considerations**

SCM and its affiliates are committed to complying with the U.S. Foreign Corrupt Practices Act ("FCPA") and other anti-corruption laws, antibribery laws and regulations, as well as anti-boycott regulations, to which they are subject. As a result, the Funds may be adversely affected because of their unwillingness to participate in transactions that violate such laws or regulations. Such laws and regulations may make it difficult in certain circumstances for the Funds to act successfully on investment opportunities and for portfolio companies to obtain or retain business. In recent years, the U.S. Department of Justice and the SEC have devoted greater resources to enforcement of the FCPA. In addition, the United Kingdom has significantly expanded the reach of its anti-bribery laws. While SCM has developed and implemented policies and procedures designed to ensure compliance with the FCPA, such policies and procedures may not be effective in all instances to prevent violations. In addition, in spite of such policies and procedures, affiliates of portfolio companies, particularly in cases where the Funds or another affiliated fund or vehicle do not control such portfolio company, may engage in activities that could result in FCPA violations. Any determination that the Funds or their affiliates have violated the FCPA or other applicable anticorruption laws or anti-bribery laws could subject them to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect the Funds' ability to achieve their investment objective and/or conduct their operations.

The foregoing list of risk factors does not purport to be a complete enumeration of the risks involved in an investment in the Funds. In addition, as the Funds' investment program develops and changes over time, an investment in the Funds may be subject to additional and different risk factors.

### **POTENTIAL CONFLICTS OF INTEREST**

***CERTAIN FACTORS MAY GIVE RISE TO CONFLICTS OF INTEREST BETWEEN THE FUNDS' GENERAL PARTNERS AND THEIR AFFILIATES, ON THE ONE HAND, AND THE LIMITED PARTNERS, ON THE OTHER HAND.***

The discussion below enumerates certain actual and potential conflicts of interest. By acquiring an interest in either of the Funds, each limited partner will be deemed to have acknowledged the existence of such actual and potential conflicts of interest and to have consented thereto.

## **The Funds**

The Funds may be subject to certain conflicts of interest arising out of their relationship with their respective General Partner and its affiliates, including Fund I, Fund II, Fund V and other investment funds controlled by affiliates of the Funds' General Partners. Certain provisions of the LPAs are designed to protect the interests of the limited partners in situations where conflicts may exist and the advisory committee of each Fund will be consulted on transactions involving conflicts of interest, although these provisions do not eliminate such conflicts of interest. The agreements and arrangements among the Funds, the Funds' General Partners, SCM and their respective affiliates, including those related to compensation, have been established by the Funds' General Partners and are not the result of arm's-length negotiations. Although the Funds have adopted no formal policy for resolving conflicts of interest, the Funds' General Partners will attempt to resolve any conflicts of interest by exercising the good faith required of a fiduciary. The Funds believe that they generally will be able to resolve any conflicts on an equitable basis, although it is possible that potential conflicts may not be resolved in favor of the Funds.

## **Funds' General Partners' Carried Interest**

Instances may arise where the interests of the Funds' General Partners may potentially or actually conflict with the interests of the Funds and the limited partners. For example, the existence of the Funds' General Partners' 20% carried interest may create an incentive for the Funds' General Partners to make more speculative investments on behalf of the Funds than it would otherwise make in the absence of such performance-based arrangement.

## **Activities of the Principals**

The Principals devote a majority of their business time and attention to the affairs of the Funds and the business of the Funds' General Partners and their affiliates. However, the Principals will have other business interests, including serving as directors of other public or private companies and as managing members or directors of the general partners or managing companies of Fund I, Fund II and Fund V. Conflicts may arise as a result of these activities. The possibility exists that such companies could engage in transactions that would be suitable for the Funds, but in which the Funds are not offered the opportunity to invest. The Funds may also co-invest in one or more future opportunities. Although the Principals are committed to the success of the Funds, there can be no assurance that the affairs of the Funds will receive the undivided attention of the Principals at all times.

## **Material, Non-Public Information**

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

## **Diverse Limited Partner Group**

The limited partners may have conflicting investment, tax and other interests with respect to their investments in the Funds. The conflicting interests of individual limited partners may relate to or arise from, among other things, the nature of investments made by the Funds, the structuring or the acquisition of investments and the timing of disposition of investments. As a consequence, conflicts of interest may arise in connection with the decisions made by the Funds' General Partners, 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 the Funds, the Funds' General Partners will consider the investment and tax objectives of the Funds and their limited partners as a whole, not the investment, tax or other objectives of any limited partner individually.

## **Co-Investment Policy**

The Funds may co-invest with third parties through joint ventures or otherwise. Such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party co-investor may have financial difficulties, resulting in a negative impact on such investment or resulting in additional capital to be invested by the Funds, may have economic or business interests or goals that are inconsistent with those of the Funds, or may be in a position to take (or block) action in a manner contrary to the Funds' investment objectives. In addition, the Funds may in certain circumstances be liable for the actions of their third-party co-investors. In those circumstances where such third parties involve a management group, such third parties may receive compensation arrangements relating to such investments, including incentive compensation arrangements.

While the Funds intend to seek management participation in target portfolio companies, the Funds may make minority equity investments in portfolio companies where the Funds may not be able to control or influence effectively the business, management, strategy or affairs of such entities. Although the Funds may co-invest in a portfolio company with financial, strategic or other third parties (including local partners) and in doing so will seek to protect their interests, such investments will involve additional risks not present in investments where a third party is not involved, including the possibility that the co-investor may have interests which are inconsistent with those of the Funds.

## **Retention of Executives by Portfolio Companies**

Under certain circumstances, including during a period when a portfolio company is in need of a temporary or interim chief executive officer, chief operating officer or chief financial officer, an individual associated with the Funds' General Partners or SCM may serve in an executive capacity at any such portfolio company for a period of time and receive a salary or other compensation from such portfolio company. The relevant Fund will indirectly bear a portion of such compensation to the extent of its ownership interest in such portfolio companies.

## **Legal Representation**

Winston & Strawn LLP (“Winston”) represents the Funds’ General Partners, SCM and their affiliates, including the Funds, from time to time in a variety of different matters. Winston does not represent the limited partners in connection with matters relating to the Funds or their investments. Winston represents the Funds’ General Partners and SCM, including with respect to their role in relation to the Funds. It is not anticipated that, in connection with the organization or operation of the Funds, the Funds’ General Partners or SCM will have the Funds engage counsel separate from counsel to the Funds’ General Partners or SCM. Furthermore, in the event a conflict of interest or dispute arises between the Funds’ General Partners and SCM, on the one hand, and the Funds and the limited partners, on the other hand, it will be accepted that counsel to the Funds’ General Partners and SCM is not counsel to the Funds or the limited partners, notwithstanding the fact that, in certain cases, such counsel’s fees are paid through or by the Funds (and therefore in effect by the limited partners).

Documents relating to the Funds, including this document, will be detailed and often technical in nature. Winston has represented the interests of the Funds, the Funds’ General Partners and SCM (and not the limited partners) in connection with the formation of the Funds and the offering of interests therein and will not represent the interests of the limited partners in the organization and operation of the Funds.

## **CERTAIN REGULATORY CONSIDERATIONS**

### **U.S. Securities Laws**

The offer and sale of the interests have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any U.S. state, and the interests have not been and are not expected to be registered under the securities laws of any other country or any other jurisdiction. The interests will be offered and sold outside of the United States to non-U.S. persons in offshore transactions pursuant to Regulation S under the Securities Act, and in the United States in a private placement to a limited number of investors in reliance on an exemption provided by Section 4(a)(2) of the Securities Act and/or Regulation D, promulgated thereunder. Unless approved by the Funds’ General Partners, each potential investor must be an “accredited investor” (as defined in Regulation D promulgated under the Securities Act) and a “qualified client” (as defined under the Investment Advisers Act of 1940, as amended). In order to establish compliance with such exemptions, each investor must furnish certain information to the Funds and represent, among other customary private placement representations, that it is acquiring interests for investment purposes and not with a view towards resale or distribution.

### **U.S. Investment Company Act of 1940**

The Funds are expected to be exempt from registration under the Investment Company Act in reliance upon Section 3(c)(1) thereof. Section 3(c)(1) of the Investment Company Act

generally exempts from registration any non-U.S. issuer whose outstanding securities are beneficially owned by non-U.S. residents and not more than one hundred persons (as defined in Section 3(c)(1)) who are U.S. residents meeting certain conditions. Investors' subscription agreements and the LPAs will contain representations and restrictions on transfer designed to ensure that these conditions will be met.

## **U.S. Commodity Exchange Act**

The General Partner of Fund IV is not registered as a commodity pool operator under the U.S. Commodity Exchange Act (the "CEA") based upon an exemption available under Regulation 4.13(a)(3) thereunder. Additionally, the General Partner of Fund III is not registered and believes that it is not otherwise regulated as a commodity pool operator. Accordingly, limited partners in the Funds are not entitled to certain protections afforded by the CEA and the regulations promulgated thereunder, including certain disclosure requirements and other obligations applicable to registered commodity pool operators.

## **Item 9 – Disciplinary Information**

On July 13, 2011, the Superintendencia de Valores y Seguros of the Republic of Chile (the "SVS") filed administrative charges against members of La Polar's former management; La Polar's former external auditors, PricewaterhouseCoopers; and all individuals who sat on La Polar's board between 2007 and 2011, including Raúl Sotomayor and Norberto Morita.

The SVS imposed fines against such parties on March 9, 2012, including a fine of 2,000 UF (approximately \$73,000) on Mr. Sotomayor and a fine of 1,500 UF (approximately \$55,000) on Mr. Morita. While the SVS made clear that no member of the board (other than former La Polar management) had any knowledge or involvement in the alleged wrongdoings, it based its decision to fine all 10 non-management board members on an alleged failure to exercise a duty of care. The SVS made a finding that Mr. Sotomayor did not comply with the duty of care that articles 39 and 41 of the Chilean Corporations Law impose on directors of stock corporations, and did not comply with the duties imposed by article 50 bis of the Chilean Corporations Law on the members of the directors committee. The SVS made a finding that Mr. Morita did not comply with the duty of care that articles 39 and 41 of the Chilean Corporations Law impose on directors of stock corporations.

On March 27, 2012, Mr. Sotomayor and Mr. Morita each filed a review motion of the SVS decision to the Civil Tribunals of Santiago, Republic of Chile. In order to file the motion, Mr. Sotomayor and Mr. Morita were required to pay 25% of the respective fines imposed against them, which they did on March 27, 2012.

With respect to Mr. Sotomayor, the Civil Tribunals issued its final award on June 12, 2014, confirming the decision of the SVS. Mr. Sotomayor filed an appeal motion against the above-mentioned award, on July 27, 2014. The appeal motion was rejected on May 25, 2015 by the Court of Appeals. Accordingly, Mr. Sotomayor filed a nullity motion before the Supreme Court of Chile.



In September 2015, Mr. Sotomayor abandoned the nullity motion and paid the remaining 75% of the fine imposed against him. Final determination of any interest due in respect of the fine by the Civil Tribunals is pending. The award of the Civil Tribunals is final and there are no further proceedings.

With respect to Mr. Morita, the Civil Tribunals issued its final award on September 5, 2014, confirming the decision of the SVS. Mr. Morita filed an appeal motion against the above-mentioned award, on September 26, 2014. The appeal motion was rejected on April 17, 2015 by the Court of Appeals. Accordingly, on May 6, 2015, Mr. Morita filed a nullity motion before the Supreme Court of Chile.

In September 2015, Mr. Morita abandoned the nullity motion and paid the remaining 75% of the fine imposed against him. Final determination of any interest due in respect of the fine by the Civil Tribunals is pending. The award of the Civil Tribunals is final and there are no further proceedings.

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

An affiliate of SCM is a general partner of each of the Funds in which investors are solicited to invest.

As described in Item 4 above, SCM's directors form limited partnerships to serve as General Partner of the Funds formed.

As described in Item 5 above, SC's Members control the Affiliate Consultants, which are retained by SCM for the identification of investment opportunities, market research, investment assessment, board representation, bookkeeping and investor relation support, solely in relation to the Funds and the portfolio companies in which the Funds invest.

As described in Item 4 above, SCCM is the adviser to Funds I and II, and SCGM is the adviser to Fund V. SCM, SCCM and SCGM are under common control. The investment periods for Funds I, II, III and IV have expired, so that Funds I, II, III and IV are not seeking new investments, and Funds I, II, III and IV have a limited number of outstanding investments.

## **Item 11 – Code of Ethics**

### **Employee Conflicts:**

In accordance with Rule 204A-1 of the Advisers Act, SCM maintains a Code of Ethics. The Code of Ethics sets forth a standard of conduct expected of all SCM directors and SC's Members, as well as the employees of the Affiliate Consultants, and addresses certain other matters including the misuse of nonpublic information, insider trading, personal trading activity and political contributions. Certain employees are also required to provide information concerning their personal securities investment activities. This information is reviewed by SCM to determine if an employee's personal trading activity is inconsistent with the employee's duties to SCM, or the interests of a Fund or Fund investors. The Code

of Ethics reminds employees of their obligations to clients and their obligations to comply with federal securities laws. Each employee is required to acknowledge receipt of the Code of Ethics and certify compliance on an annual basis. A copy of the Code of Ethics is available to Fund investors upon request.

SC's Members invest in the Funds as limited partners individually or through investment vehicles affiliated to them. The individuals and the investment vehicles affiliated to SC's Members have the exact same treatment in their capacity as limited partners as their peer limited partners (i.e., they are charged Management Fees and Carried Interest); notwithstanding this, they are excluded for the purposes of voting certain matters.

### **Advisory Conflicts:**

SCM may consider the same investment opportunity for more than one fund as part of a single transaction or otherwise. Any such investment is allocated among funds in a fair and equitable basis, taking into account, among other things, the make-up of the investment portfolio of each fund, the amount of cash available to each fund for investment and anticipated needs for cash by each fund.

### **Item 12 – Brokerage Practices**

SCM provides investment advice to the Funds on a discretionary basis. Investments that SCM makes are generally investments in private companies or purchases in private placements, as opposed to publicly traded securities, and therefore do not involve brokers of publicly traded securities. SCM generally does not use brokers of publicly traded securities for any transaction, but if such a broker is used, it is selected on a number of factors including price and quality of execution services. Soft dollars arrangements are not utilized.

### **Item 13 – Review of Accounts**

SCM's directors or members of the Investment Committee review the investment portfolio with Fund investors on an annual basis. Additionally, certain of SCM's directors or members of the Investment Committee (i) offer to participate on conference calls with investors following the end of the first three fiscal quarters of each calendar year and (ii) meet twice a year with each Fund's advisory committee. It is the intent of SCM to meet with investors in a Fund at least once a year. SCM's directors and SC's Members are available to meet with investors more frequently if desired.

Reviews do not take place in accordance with any particular sequence unless requested by investors. Matters reviewed include investment commitments and the investment environment. The performance of the Funds in which the limited partner is invested and the Fund's investment portfolio are also discussed. Emphasis is placed on new investments, deal flow, investment pace, the development of a Fund's portfolio, cash flow activity, and the state of the private equity industry. Performance metrics, including internal rates of return, are also reviewed.

On an annual basis, the investors in each Fund are provided a detailed review of the portfolio, including valuations of investments, a description of investment performance, and an accounting of limited partnership interests. In addition, financial statements for each fiscal year are audited by an independent certified public accounting firm of nationally recognized standing. On a quarterly basis, the investors in each Fund are provided a summary review of the portfolio and statement of accounts.

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

The Funds are no longer in an active marketing period and consequently no placement agents for the Funds are being paid at this time.

#### **Item 15 – Custody**

SCM or the General Partner of each Fund may be deemed to have custody of the Funds' assets.

The Funds have operating cash balances deposited with qualified custodians, which, are CIBC FirstCaribbean International Bank and Quilvest Switzerland Ltd. To the extent the Funds have certificated securities of portfolio companies, the securities are maintained with the same qualified custodians. Most of the Funds' securities are uncertificated and are not required to be maintained with a custodian. Custodians for alternative investment vehicles also include Scotiabank Azul Chile.

#### **Item 16 – Investment Discretion**

As described in Item 5, SCM provides advice to the Funds on a discretionary basis. The LPA for each Fund sets forth any investment restrictions on the discretion of the General Partner, which restrictions apply to SCM.

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

In accordance with Rule 206(4)-6 of the Advisers Act, SCM has adopted Proxy Voting Policies and Procedures to address how SCM will vote proxies on behalf of the Funds, on the rare occasions when a Fund portfolio company holds a proxy vote. The policy is designed to ensure that proxies are voted in the best interest of the Funds, including when there may be material conflicts of interest in voting proxies. A Fund investor upon request may obtain from SCM a copy of SCM's Proxy Voting Policies and Procedures and information about how SCM voted proxies.

In substantially all of each Fund's investments, the Fund appoints the majority of the board members and the management team.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about SCM's financial condition. SCM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding. SCM does not require or solicit prepayment of fees six months or more in advance.