

# **Ironwood Capital Advisors III LLC**

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**MARCH 31, 2019**

This brochure (“Brochure”) provides information about the qualifications and business practices of Ironwood Capital Advisors III LLC (“ICA III”). If you have any questions about the contents of this Brochure, please contact us at 860-409-2100 or by email at [stotler@ironwoodcap.com](mailto:stotler@ironwoodcap.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.

Additional information about ICA III also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (click on the link, select “investment adviser firm” and type in our firm name). Results will provide you with both Part 1 of our Form ADV as well as this Brochure, which is Part 2 of our Form ADV.

ICA III is a registered investment adviser. Registration with the SEC as an investment adviser does not imply that ICA III or any of the principals or employees of Ironwood Capital Holdings, LLC (“Ironwood Capital”), the parent of ICA III, possess a particular level of skill or training in the investment advisory business or any other business.

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## Item 2 – Material Changes

1. We are updating this Brochure as part of our annual updating amendment for the year ending December 31, 2018. It contains updates to our AUM as well as disclosures related to three new funds formed in 2018.
2. We may, at any time, update this Brochure if there is a material change. If we do, we will provide you a copy of this updated Brochure either by mail or access to a copy via our secure website.
3. If you would like an additional copy of this Brochure, please download it from the SEC's public disclosure website (IARD) [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or contact our Chief Compliance Officer, Ellen Stotler, at 860-409-2100 or [stotler@ironwoodcap.com](mailto:stotler@ironwoodcap.com).

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## Item 4 – Advisory Business

Ironwood Capital Advisors III LLC (“ICA III”), a Delaware limited liability company, is a registered investment adviser under the Advisors Act. ICA III provides investment advisory and management services to Ironwood Mezzanine Fund III LP and its general partner (the “Main Fund”) and Ironwood Mezzanine Fund III-A LP and its general partner (the “SBIC Fund” and together with the Main Fund, the “IMF III Funds”)<sup>1</sup>. The IMF III Funds are private mezzanine debt funds. ICA III advises the IMF III Funds on selection for a diversified portfolio of private investments made directly in later stage, cash generating, lower middle market companies (each, a “Portfolio Company”). Portfolio Companies include companies in business services, value-added manufacturing, distribution, consumer products and healthcare sectors, in broad geographic areas. In addition, ICA III provides all back- and middle-office management services to the ICA III Funds.

Ironwood Capital Advisors IV LLC (“ICA IV”), provides investment advisory and management services to Ironwood Capital’s newest affiliated private mezzanine debt funds Ironwood Mezzanine IV LP, Ironwood Mezzanine Fund IV-A LP, and Ironwood Mezzanine Fund IV-B LP. (the “IMF IV Funds”). We note that ICA IV is under common control with Ironwood Capital and is therefore a “Related Advisor.”<sup>2</sup> ICA IV is subject to the supervision and control of Ironwood Capital.

ICA III is 100% owned by Ironwood Capital. Ironwood Capital Connecticut I LLC (“ICC I”) is an adviser under common control with Ironwood Capital and is therefore also a “Related Advisor.” ICC I provides non- discretionary co-advisory services to the managing agents of several private debt funds (the “CT Funds” and together with the IMF III and IMF IV Funds, the “Funds”). The CT Funds are not affiliated with or under common control with Ironwood Capital.

The Funds are “qualified clients” as defined in the Advisors Act rule 205-3, and pursue investment objectives and strategies that are substantially similar. ICA III, ICA IV and ICC I,

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<sup>1</sup> In addition, Ironwood Mezzanine Management III LLC, the general partner of the Main Fund, and Ironwood Mezzanine Management III-A LLC, the general partner of the SBIC Fund, are affiliates of ICA III and may be deemed by the SEC to be investment advisers of the respective funds due to their common advisory personnel and the fact that the general partners will typically accept the recommendations of ICA III. Accordingly, these general partners will look to and are relying on the registration of ICA III in accordance with the American Bar Association Business Law Section No Action Letter dated December 8, 2005, and are not themselves registering as investment advisers.

<sup>2</sup> In addition, Ironwood Mezzanine Management IV LLC, and Ironwood Mezzanine Management IV-A LLC, the general partners of the IMF IV Funds, are affiliates of ICA III and may be deemed by the SEC to be investment advisers of the respective funds due to their common advisory personnel and the fact that the general partners will typically accept the recommendations of ICA IV. Accordingly, these general partners will look to and are relying on the registration of ICA III in accordance with the American Bar Association Business Law Section No Action Letter dated December 8, 2005, and are not themselves registering as investment advisers.

(together the “Advisors”) are subject to the supervision and control of Ironwood Capital. The Advisors are governed by Ironwood Capital’s written policies and procedures and Code of Ethics, share the same Chief Compliance Officer, and share office space. As such, ICA IV and ICC I are each a “Relying Advisor” in this filing as that term is defined by the SEC in the American Bar Association Business Law Section No Action Letter dated January 18, 2012.

Ironwood Capital is wholly owned by five principals, Marc A. Reich, Carolyn C. Galiette and Roger J. Roche, Jr., each owning 26.67%, and Dickson Suit and James Barra, each owning 10%. Ironwood Capital is the successor to an investment firm founded in 1991 by Mr. Reich and Ms. Galiette. All five principals have significant private mezzanine debt fund management expertise and each has more than twenty years of experience in financial services and investment management.

The Advisors provide investment advice related to limited types of investments in accordance with the Funds’ specific investment objectives and restrictions, pursuant to the investment guidelines and restrictions set forth in each Fund’s confidential private placement memorandum, limited partnership agreement and other governing documents (collectively, the “Governing Documents”). Advisory services are provided to the Funds on a non-discretionary basis.

In accordance with common industry practice, the general partners of the Funds may enter into “side letters” with limited partners of the Funds (each, a “Limited Partner”).

The Advisors do not participate in any wrap fee programs.

The IMF III Funds’ assets under management (“AUM”) as of December 31, 2018 total \$186,437,569. The CT Funds’ AUM total \$60,516,219. The IMF IV Funds’ AUM total \$432,311,330. Total assets under management for all of ICA III and its related advisors total \$729,705,287.<sup>3</sup>

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<sup>3</sup> Ironwood Capital has two additional wholly-owned subsidiaries that are unregistered investment advisors: Ironwood Capital Advisors LLC and Ironwood Capital Advisors II LLC, both of which are advisors to SBIC funds. Reich and Galiette also hold ownership interests in Ironwood Capital Management LLC, which is also an advisor to an SBIC fund. The total AUM includes the assets managed by these related advisors.

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## Item 5 – Fees and Compensation

ICA III receives a management fee from the IMF III Funds during the commitment period equal to 2.0% of all commitments. After the commitment period ends, the management fee is equal to 2.0% of the cost of all investments in the Funds' portfolio calculated as of the first day of the fiscal quarter for which the management fee begins to accrue. Investments that are no longer ongoing concerns, have been written off or have a carrying value of less than 25% of cost will reduce the management fee payable.

ICC I receives a management fee from the CT Funds paid on a tiered scale ranging from 1.5% of AUM in the first year down to 0.75% in year 6 and ending with 0% after year 10.

ICA IV receives a management fee from the IMF IV Funds calculated as follows: during the period starting on the commencement date of the IMF IV Fund and ending at the end of the investment period, the management fee with respect to a Limited Partner (other than the Ironwood Limited Partner) will equal the sum of the Applicable Percentage multiplied by the Limited Partner's funded amounts and sixty percent (60%) of the Applicable Percentage multiplied by the excess of the Limited Partner's commitment over its funded amounts. Thereafter, the management fee with respect to a Limited Partner (other than the Ironwood Limited Partner) shall equal the Applicable Percentage multiplied by the cost of all investments held in the Partnership calculated as of the first day of the fiscal quarter for which the management fee begins to accrue. Investments that are no longer ongoing concerns or that have been fully reserved will reduce the management fee payable.

"Applicable Percentage" means, with respect to a Limited Partner: (a) whose Commitment is less than Seven and One-Half Million Dollars (\$7,500,000), two percent (2.0%); (b) whose Commitment is equal to or greater than Seven and One-Half Million Dollars (\$7,500,000) and less than Twenty Million Dollars (\$20,000,000), one and seven eighths percent (1.875%); (c) whose Commitment is equal to or greater than Twenty Million Dollars (\$20,000,000) and less than Thirty-Five Million Dollars (\$35,000,000), one and three-fourths percent (1.75%); and (d) whose Commitment is equal to or greater than Thirty-Five Million Dollars (\$35,000,000), one and five-eighths percent (1.625%).

The fees described above are paid to the Advisors on a quarterly basis and are paid out of the respective Funds' working capital on the first business day of each fiscal quarter.

In addition to these fees paid to the Advisors, the Funds also pay certain expenses relating to the formation and operation of the Funds, certain legal, reporting and travel expenses, and other expenses incurred in connection with providing investment advisory and management services to the Funds.

For IMF III, in lieu of a fee discount, each limited partner whose commitment is equal to or greater than \$15M and whose commitment enables the Fund to obtain additional leverage is paid an annual fee rebate equal to 0.25% of such limited partner's commitment. The rebate is paid by Advisor, not the Fund.

Further information about the management fees for ICA III and its Related Advisors can be found in the respective Governing Documents for each Fund.

Because the Advisors are SEC-registered investment advisers and this Brochure is delivered only to their clients, a fee schedule is not required to be provided.

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

Management fees are based on a percentage of assets under management. The general partners of the Funds, affiliates of ICA III, receive a portion of the returns of their respective Funds in the form of a carried interest in accordance with the applicable fund Governing Documents. Certain principals of ICA III as beneficial owners of ICC I receive a portion of the returns of the CT Funds.



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## **Item 7 – Types of Clients**

The Advisors provide investment advisory and management services to the Funds on a non-discretionary basis. The Funds are private debt pooled investment vehicles that make or will make direct investments in privately held businesses.

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

### *Methods of Analysis and Investment Strategies*

The IMF III Funds invest in a diversified portfolio of later stage, cash generating, lower-middle market Portfolio Companies. The IMF IV Funds implement substantially the same investment strategy as the IMF III Funds. The CT Funds invest in a diversified portfolio of companies across the spectrum of later stage, cash generating, lower middle market companies to early stage, cash flow negative companies. Each Portfolio Company undergoes a rigorous due diligence process by the Advisors prior to selection by the general partners of the respective Funds. The due diligence process seeks to identify and confirm key attributes of the Portfolio Companies' management teams, including the team cohesiveness, viability and consistency of their business strategy, their prior experience, and ability to deliver successful outcomes in addition to analysis and verification of company financial performance, customers, sales, inventories, internal processes and controls, and (as applicable) prospects, product and service development, product offerings, etc. After an investment is made, the Advisors will engage in active portfolio monitoring, including verifying adherence to business strategy, tracking performance and general oversight.

### *Risk of Loss*

The Advisors' investment strategy and method of analysis involves the risk of loss that the Funds and their limited partners should be prepared to bear, including, but not limited to, the following:

- 1) Dependence on Key Personnel. The Advisors' performance is dependent upon Ironwood Capital retaining its key personnel. In the event that any of the key personnel leave Ironwood Capital, there can be no assurance that Ironwood Capital will be able to replace them with individuals of equivalent caliber, experience and firm relationships. The loss of any of the key personnel could have a significant adverse impact on the performance of the Advisors.
- 2) Due Diligence. The Advisors' clients are reliant upon the Advisors' due diligence process and analysis. Failure of the Advisors to adequately conduct the due diligence process and analysis could have a negative impact on the performance of an investment.
- 3) Nature of Fund Investments. The Funds will concentrate on making investments in Portfolio Companies that have significant risks as a result of business, financial, market or legal uncertainties. There can be no assurance that the Advisors will correctly evaluate the nature and magnitude of the various factors that could affect the value of a return on investments of the Funds. Valuations of the Funds' investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, as well as fluctuations in public and private capital markets may significantly affect the

results of a Fund's activities and the value of its investments. The past performance of funds advised by the Advisors provides no assurance of future results.

An investment strategy such as that of the Funds involves a high degree of business and financial risk that can result in substantial losses. Among these are the following: (i) risks of investing in companies operating with substantial variation in operating results from period to period; (ii) risks of investing in companies with the need for substantial additional capital to support expansion or to achieve or maintain a competitive position; and (iii) risks of companies that themselves have leveraged capital structures. Portfolio Companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing, and service capabilities, superior intellectual property protection, stronger business partnerships and a larger number of qualified managerial and technical personnel; especially since the Funds target privately held Portfolio Companies in the lower middle market.

- 4) Leveraged Investments. The leveraged capital structure of Portfolio Companies will increase the exposure of the Funds to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates. The Funds' investments are likely to be subordinated debt or another form of debt capital in a Portfolio Company's capital structure. If a Portfolio Company is unable to generate sufficient cash flow to meet principal and interest payments on its senior indebtedness, a Fund may suffer a partial or total loss of capital invested in the issuer, which, given the size of each Fund's investments, could adversely affect its returns.

If a Portfolio Company enters bankruptcy, other lenders may control the method and manner of distribution or exert substantial power with respect to the bankruptcy proceeding. The original lending agreement may also limit the rights of the Funds during bankruptcy for the benefit of more senior lenders.

This may diminish a Fund's recovery or ability to claim an interest in the collateral of that Portfolio Company.

- 5) Challenging Debt Markets. An important factor in the Funds' strategy will be the ability of the Portfolio Companies to obtain senior debt financing on a timely basis and on competitive terms. If senior debt financing becomes unavailable or is excessively restrictive or costly, the proposed operations of the Portfolio Companies and thus the Funds could be adversely affected. Since late 2008, companies of the types in which the Funds seek to invest with outstanding credit have found it difficult to obtain senior debt. If available, the terms and conditions of senior debt may be on less favorable terms to borrowers.
- 6) Subordinated Debt and Equity Investments. The Funds' investments generally will

have implied or imputed ratings below investment grade. Such investments generally have greater credit and liquidity risk than is typically associated with investment grade obligations. The Funds also will be subject to fraudulent conveyance, subordination and preference laws.

- 7) Issues of Collateral. The investments by the Funds, when secured, may be subordinate in lien to more senior creditors and therefore may be subject to greater risks than first priority lenders. Fluctuations in the market, prices or the economy may decrease the value of collateral that secures the Funds' secured mezzanine loans. This may expose such loans to the risk of being under collateralized, as the available collateral may only be sufficient to cover more senior liens. Also, junior lien holders may have less ability to negotiate favorable collateral terms and repayment rights, and may be forced to give up rights or subordinate rights to more senior lenders. There is a risk that junior lien holders like the Funds will receive unfavorable treatment in the case of default with respect to distributions, rights to collateral and the ability to enforce their rights against the collateral, or during bankruptcy.
- 8) Difficulty of Locating Suitable Investments. There can be no assurance that there will be a sufficient number of suitable investment opportunities to enable the Funds to invest all of their committed capital in opportunities that satisfy their investment objectives. Identification of attractive investment opportunities is difficult and involves a high degree of uncertainty, and competition for such opportunities may become more intense.
- 9) Illiquidity of Investments. An investment in one of the Funds requires a long-term commitment with no certainty of return. Many of the Funds' investments will be highly illiquid, and there can be no assurance that the Funds will be able to realize such investments at attractive prices or otherwise be able to affect a successful realization or exit strategy. An aspect of the Funds' strategy is to invest in lower middle market companies, which have often been ignored by other private debt funds and the capital markets. Consequently, dispositions of such investments may require a lengthy time period or may result in distributions in-kind. Additionally, a Fund may acquire securities that cannot be sold except pursuant to a registration statement filed under the Securities Act, or in accordance with Rule 144 promulgated under the Securities Act. There can be no assurance that private purchasers can be found for a Fund's investments. Finally, in some cases, a Fund may be prohibited by contract from selling securities for a period of time.
- 10) Potential Limitations on Interest. Interest charged on loans the Funds make may be subject to state usury laws imposing maximum interest rates and penalties for violation, including restitution of excess interest and unenforceability of debt.

11) SBIC Risk Factors: In addition to the risk factors above, the SBIC Fund's strategy involves additional risk factors related to leverage and regulatory factors, including:

- a. Use of Debenture Leverage. The SBIC Fund generally expects to utilize debenture leverage provided under the SBIC program ("Debenture Leverage"). The use of Debenture Leverage by the SBIC Fund will increase both the potential for gain and the potential for loss of the SBIC Fund.
- b. Possible Limitations on Available Debenture Leverage. Although Congress has in recent years consistently increased its appropriation of funds for the SBA to invest in SBICs that obtain Debenture Leverage, there can be no assurance that the Debenture SBIC program will be maintained at current levels. Under the SBIC Act, an SBIC and its affiliates are also limited with respect to their aggregate amount of outstanding leverage.
- c. Possible Changes to Regulatory Scheme. Congress may amend or supplement the SBIC Act, and the SBA may amend or supplement its regulations, in a manner that imposes additional regulatory burdens upon or otherwise adversely affects the SBIC Fund's strategy.
- d. SBA Regulatory and Enforcement Powers. The SBA has significant ability to supervise and regulate the SBIC Fund. The SBA imposes greater restrictions on the portfolio of an SBIC than would generally be the case for an unregulated private mezzanine or private equity fund. Certain activities and decisions require SBA approval. In particular, it may be necessary for the SBA to approve an investment in a Portfolio Company made by the SBIC when the terms of such investment differ from those of the investment made by the Fund in the same Portfolio Company due to SBA regulations that limit the terms of such investment.

12) Risks Associated with Controlling Interests and/or Provision of Managerial Assistance.

Although it is the intention of the Management Company and General Partner to structure investments to avoid liability for the Fund (alone, or together with other investors, including other investment vehicles sponsored by the General Partner, the Management Company or their respective affiliates), because of its equity ownership, representation on the board of directors and/or contractual rights to participate substantially in management of Portfolio Companies, the Fund may, in certain cases, be considered to control, participate in the management of or influence the conduct of Portfolio Companies. Although such positions in certain circumstances may be important to the Fund's investment strategy and may enhance the Management Company and General Partner's ability to manage the Fund's investments, they may also have the effect of impairing the Management Company's and General Partner's

ability to sell the related securities when, and upon the terms, it may otherwise desire. In addition, such positions could expose the Fund and the assets of the Fund to risk of liability for environmental damage, under-funded benefit plans, product defects, failure to supervise management, violation of governmental regulations, violations of fiduciary duties to minority owners and other types of liability, including without limitation, in the case of debt investments, lender liability. Such liabilities may exceed the value of the Fund's initial investment in such Portfolio Companies.

If these liabilities were to occur, the Fund could suffer losses in its investments and be required to indemnify out of the Fund's assets persons associated with the Fund for losses and damages that they incur. While the General Partner intends to manage the Fund in a way that will minimize exposure to these risks, the possibility of successful claims cannot be known or eliminated. In general, the Fund will indemnify the General Partner and its representatives from such claims.

- 13) Risks Associated with Reliance on the Management of Portfolio Companies. Although it is the intention of the Fund to invest in Portfolio Companies whose management has shown a successful track record and to continue to provide oversight to such management, there can be no assurance that any Portfolio Company's existing or future management team will be able to operate successfully. Each Portfolio Company's day-to-day operations will be the responsibility of such company's management team. Although the Management Company and General Partner will be responsible for monitoring the performance of each Portfolio Company investment, there can be no assurance that a Portfolio Company management team, or any successor thereto, will be able to manage and operate such Portfolio Company in accordance with the Fund's expectations or basis upon which the Fund's investment decision was made. Moreover, some Portfolio 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.
- 14) Risks Associated with Non-Controlling Investments. To the extent that it makes equity investments (including holding warrants), the Fund will generally hold less than 50% of the outstanding voting interests of any Portfolio Company and, therefore, may have a limited ability to protect its equity investment in any such Portfolio Company, although as a condition of investment, the Management Company may negotiate representation on the board of directors of each such Portfolio Company or appropriate minority shareholder and supervisory rights to protect the Fund's investment. There can be no assurance that such representation or rights, if sought, will be obtained. In addition, there is the possibility that the Portfolio Company in which the Fund makes an equity investment may have economic or business interests or goals that are inconsistent with those of the Fund. In such cases, the Fund may not be in a position to limit or otherwise protect the value of the Fund's investment in such Portfolio Company.

- 15) Risks in Effecting Operating Improvements. The Management Company will monitor the performance of each investment made by the Fund. However, it will primarily be the responsibility of the management team associated with each Portfolio Company to operate the company on a day-to-day basis and there can be no assurance that such management team, or any replacement management team, will be able to operate such Portfolio Company effectively. In many cases, the success of the Fund's investment strategy will depend, in part, on the ability of the Fund to restructure and effect improvements in the operations of a Portfolio Company. The activity of identifying and implementing any such potential operating improvements entails a high degree of uncertainty. There can be no assurance that the Fund will be able to successfully identify and implement such improvements.
- 16) Co-Investment Risk. The Fund may co-invest in a Portfolio Company with strategic, financial or other third party investors, including Limited Partners or persons or entities affiliated or associated with Ironwood Capital. Such investments may involve additional risks that are not present in investments in which a third party is not involved, including the possibility that the co-investor may have interests or objectives that are inconsistent with those of the Fund or may be in a position to take action contrary to the investment objectives of the Fund.

The General Partner will determine in its sole discretion the terms and conditions of allocations of investment opportunities among the Fund, on the one hand, and any strategic, financial, or other third party co-investor, or Limited Partner, or any person or entity affiliated or associated with Ironwood Capital, on the other hand.

- 17) Need for Follow-On Investments. The Fund may be called upon to provide follow-on funding for its Portfolio Companies or increase its investment in such Portfolio Companies. There can be no assurance that the Fund will wish to make follow-on investments or that the Fund will have sufficient funds to do so or that such additional investment would not exceed the Fund's diversification limit. Any decision by the Fund not to make follow-on investments or its inability to make them may have a substantial negative impact on a Portfolio Company in need of such an investment or may diminish the Fund's ability to influence the Portfolio Company's future development or significantly dilute or otherwise adversely affect the Fund's investment in such Portfolio Company.
- 18) Newly Formed Vehicle. The IMF IV Funds and the General Partner are recently formed entities and have no prior operating history or track record upon which prospective Limited Partners may base an evaluation of the likely performance of the Funds. To the extent that the Principals are responsible for the investment results of the IMF III Funds those results are, in any event, past results, and there is no guarantee that the IMF IV Funds will be able to achieve the same or similar results.

- 19) Funding Facility. The Fund itself intends to borrow money pursuant to a one-year credit facility (the “Funding Facility”), which will be used to fund closings of investments in Portfolio Companies and manage capital calls from the Limited Partners. The Funding Facility will have a floating interest rate and be renewable annually, and will be secured by capital commitments made by the Fund’s Limited Partners in accordance with the Partnership Agreement. There can be no assurance as to the final cost or ongoing availability of the Funding Facility, and therefore no assurance as to its impact on the Fund’s investment performance. Utilization of the Funding Facility could result in interest expense and other costs that may not be covered by distributions made to the Fund or appreciation of its investments.
- 20) Asset Valuations. Valuations of Fund investments will be determined by the General Partner or Management Company and will be final and conclusive for all Limited Partners, with certain limited exceptions. Any such valuation, however, is a subjective analysis of the fair market value of assets. Valuations may result in adjustment of the Fund’s aggregate fair market values or gross or net internal rate of return calculations. There can be no assurance that the aggregate fair market values or gross or net internal rates of return, as calculated based upon such valuations, will be accurate on any given date, nor can there be any assurance that the sale of any asset will be at a price equivalent to the last estimated value of such asset.
- 21) Nature of Fund Investments; High Degree of Risk. The Fund’s investment program will concentrate on making investments in companies that have significant risks as a result of business, financial, market or legal uncertainties. There can be no assurance that the Fund or its management will correctly evaluate the nature and magnitude of the various factors that could affect the value of a return on Fund investments. Valuations of Fund investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Fund’s activities and the value of Fund investments. For these and other reasons, there can be no assurance that the Fund will be able to invest its capital on attractive terms or generate returns for its Limited Partners. The past performance of the members of the Fund’s management team provides no assurance of future results.
- 22) Mezzanine Investments. Mezzanine investments of the type proposed to be made by the Fund involve a high degree of business and financial risk that can result in substantial losses. Among these are the following: (i) risks of investing in companies operating with substantial variation in operating results from period to period; (ii) risks of investing in companies with the need for substantial additional capital to support expansion or to achieve or maintain a competitive position; and (iii) risks of companies that themselves have leveraged capital structures. Portfolio Companies may face intense competition, including competition from companies with greater financial



resources, more extensive development, manufacturing, marketing, and service capabilities, and a larger number of qualified managerial and technical personnel; especially since the Fund targets privately held Portfolio Companies in the lower middle market.

- 23) Lower Middle Market Companies. Although investments in lower middle market companies may present greater opportunities for growth, such investments may also entail larger risks than are customarily associated with investments in larger companies. Smaller companies may have more limited product lines, market, and financial and other resources. As a result, such companies may be more vulnerable to general economic trends and to specific changes in markets and technology. In addition, future growth may be dependent on additional financing, which may not be available on acceptable terms when required, and which also may be senior to the Fund's debt position or dilutive of the Fund's equity position. Further, there is ordinarily a more limited marketplace for the sale of interests in smaller, private companies, which may make realizations of gains more difficult. In addition, the relative illiquidity of private equity investments generally, and the somewhat greater illiquidity of private investments in small and medium sized companies, could make it difficult for the Fund to react quickly to negative economic or political developments.

Risks of loss are addressed more fully in each Fund's Governing Documents.

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## **Item 9 – Disciplinary Information**

The Advisors do not have any legal or other disciplinary event to report to you. This statement applies to the Advisors and every management person of Ironwood Capital.

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## Item 10 – Other Financial Industry Activities and Affiliations

Neither the Advisors nor any of the employees of Ironwood Capital who perform services for the Advisors under the administrative services agreements are registered as a broker-dealer or a registered representative of a broker-dealer. In addition, the Advisors and Ironwood Capital employees are not affiliated with any broker-dealer.

None of the Advisors nor any of Ironwood Capital employees is registered as a registered futures commission merchant, commodity pool operator or commodity trading advisor.

The Advisors are solely engaged in providing investment advice to the Funds and do not sell products or services other than investment advice to clients. The Advisors do not have any arrangements to receive additional compensation from non-clients nor does it directly or indirectly compensate any person for client referrals.

Ironwood Capital has two additional wholly-owned subsidiaries that are unregistered investment advisors: Ironwood Capital Advisors LLC and Ironwood Capital Advisors II LLC, both of which are advisors to SBIC funds<sup>4</sup> and which are exempt from registration as investment advisers on that basis. Reich and Galiette also hold ownership interests in Ironwood Capital Management LLC, which is also an advisor to an SBIC fund<sup>5</sup>.

When considered appropriate by the general partners of the Funds, Ironwood Capital's officers and employees may also serve as directors of the entities in which the Funds invest.

The Advisors have business relationships with other Ironwood Capital funds and Ironwood Capital entities that may create a material conflict of interest. In the event of a potential conflict of interest, the Funds' respective partnership agreements and/or management agreements have guidelines and policies as to the appropriate action to take with respect to such conflicts.

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<sup>4</sup> Ironwood Mezzanine Fund LP, one of the SBIC funds, has relinquished its SBIC license as of December 31, 2014.

<sup>5</sup> Ironwood Equity Fund, LP, one of the SBIC funds, is currently operating under the purview of the SBA's Office of liquidations.

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

### *Code of Ethics*

Ironwood Capital has adopted a Code of Ethics (the “Ironwood Code”) under Rule 204A-1 of the Advisers Act. The Ironwood Code applies to the Advisors and all of the Advisors’ access persons. The Ironwood Code was designed to ensure the Advisors meet their fiduciary obligations to their clients and the Advisors’ obligation with respect to the use of material non-public information. The Ironwood Code also reinforces a culture of compliance within the firm.

The Ironwood Code describes Ironwood Capital’s high standards of business conduct and fiduciary duty to the Funds to which they provide investment advisory and management services. It includes provisions relating to the prohibition on insider trading, personal securities trading procedures, trading restrictions, reporting requirements of holdings and transactions, record keeping, restrictions and reporting on gifts and business entertainment, among other items. The Ironwood Code emphasizes Ironwood Capital’s philosophy of honesty, integrity and professionalism, setting forth standards of conduct expected of the personnel, promoting honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, and promoting compliance with applicable government laws, rules and regulations.

Access persons are required to report their trading activities in accordance with the provisions in the Ironwood Code. Under the Ironwood Code, certain securities have been or may be designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of the Funds. In addition, Ironwood Capital has an Insider Trading Policy applicable to all its access persons which prohibits the use of material non-public information in connection with personal securities transactions and prohibits the tipping of material non-public information to other persons who may trade on the basis of the information. The Ironwood Code and investment policies are overseen by the Chief Compliance Officer, who is responsible for the review of such transactions to reasonably prevent conflicts of interest between and amongst the Advisors, their affiliated investment advisors and affiliated personnel, the Funds and their limited partners.

All of Ironwood Capital’s access persons must comply with and acknowledge compliance with the terms of the Ironwood Code annually, and as amended.

*Participation or Interest in Client Transactions*

The Advisors may recommend to a general partner the purchase or sale of a security in which the Advisors' affiliates directly or indirectly have a position of interest. Any such transaction would be subject to Ironwood Capital's conflict of interest guidelines, as discussed more fully above and in the Governing Documents of each Fund.

*Principal and Agency Cross Transactions*

It is the Advisors' policy not to engage in any principal or agency cross securities transactions for the Funds.

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## Item 12 – Brokerage Practices

The Advisors typically do not utilize broker-dealers to effect investments. However, the Funds do directly invest in certain equity securities of privately held companies and may receive shares of such companies as part of a general distribution. A Fund may sell the securities received in share distributions such that the proceeds can then be distributed to the Funds' limited partners. The Advisors, other than ICC I, will generally have discretionary authority to select the broker or dealer to be used to execute transactions on behalf of the Funds and to negotiate the commission cost to be paid by the Funds.

The Advisors shall seek best execution for the Funds' securities transactions and the respective general partners will have final approval. Brokers are selected according to various characteristics that support the Funds' interest in receiving the most favorable execution. Many criteria are considered, including but not limited to, the following: the integrity, ethics and trustworthiness of the broker regarding any relations and agreements with the Advisors and the applicable Fund, the speed and quality of trading execution to minimize market price impact and maximize value for the Fund, the broker's capability to provide services at the lowest possible cost, competent broker personnel and support staff, the efficient clearance and settlement of trades, commitment to technology and a preeminent trading system, the broker's overall ability to provide best execution for the Funds, and timely acknowledgement and correction of trade errors. The applicability of specific criteria will vary depending upon the nature of the transaction, the market in which it is executed, and the extent to which it is possible to select from among multiple brokers or dealers.

If any Advisor ever has occasion to select brokers and dealers, it will do so on the basis of its judgment of their professional capability to provide the service at reasonably competitive rates. If, in the Advisor's judgment, the commission is reasonable in relation to the brokerage services provided, such Advisor may recommend that its respective Fund pay a brokerage commission in excess of the commission another broker would have received for effecting the same transaction.

### *Research or Other Soft Dollar Benefits*

The Advisors do not engage in soft dollar arrangements with respect to securities transactions for the Funds.

### *Brokerage for Client Referrals*

The Advisors typically do not use broker-dealers. However, in the event one does, such Advisor will not consider, in selecting or recommending broker-dealers, whether it or a related person receives client referrals from a broker-dealer or a third party.

### *Directed Brokerage*

The Funds are not permitted to direct securities transactions to a specific broker. This policy allows us to achieve most favorable execution of client transactions.

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## **Item 13 – Review of Accounts**

The Advisors will review the Portfolio Companies of each Fund on an ongoing basis to ensure the investment guidelines and objectives of the Funds are being met. Financial reports are sent to limited partners on a quarterly basis and are audited by an independent accounting firm on an annual basis. Further information on the reports provided by the Funds is contained in the Governing Documents.



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

The Advisors have no arrangements for client referrals and, therefore, have not compensated any person regarding client referrals.

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## Item 15 – Custody

The Advisors advise private funds that invest in privately placed uncertificated securities. The Advisors maintains all documents for the privately offered securities held by the Funds in fireproof cabinets on site at 45 Nod Road, Avon, CT. Cash in the IMF III and IMF IV Funds is maintained with qualified custodians. Cash in the CT Funds is maintained and controlled by the managing agents of the CT Funds. ICA III and ICA IV deliver quarterly financial statements and annual GAAP compliant audited financial statement on behalf of the IMF III and IMF IV Funds to the Limited Partners via a secure investor portal on Ironwood Capital's website. Audited annual financial statements for the IMF III Funds and IMF IV Funds are prepared by an independent public accountant registered with and subject to regular inspection by the PCAOB. Audited financial statements are distributed to the Funds' investors within 120 days of the end of the Funds' fiscal year.

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## **Item 16 – Investment Discretion**

The Advisors do not have authority to determine, without the specific consent of their clients, the securities to be bought or sold, and the amount of securities to be bought or sold. The Funds through their respective general partners retain investment discretion as provided for in the Governing Documents of the respective Funds.

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## Item 17 – Voting Client Securities

When exercising voting authority over any Fund's securities, the general partners of such Fund retain full discretion. At the present time, the Advisors do not anticipate that any Fund will acquire any publicly traded securities where they would be required to vote proxies.

To the extent the Funds receive proxies or other solicitations, the general partners may contact the Advisors. An Advisor shall advise the general partner based on the performance, activities and events related to each investment, and the evaluation of other issues that could have an impact on the value of the security. An Advisor shall review each proposal submitted for a vote on a case-by-case basis and shall recommend the general partner vote all proxies in a prudent manner, considering the prevailing circumstances at the time and in a manner consistent with the Fund's proxy voting policies and procedures and general partner's fiduciary duties to the Fund and its limited partners.

Investors may obtain a copy of Ironwood Capital's proxy voting policy upon request by contacting Ellen Stotler, Chief Compliance Officer, at 860-409-2100 or [Stotler@ironwoodcap.com](mailto:Stotler@ironwoodcap.com).

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## **Item 18 – Financial Information**

The Advisors do not require or solicit prepayment of more than \$1,200 in fees from the Funds six months or more in advance. Therefore no financial information is provided.

The Advisors have no financial commitment or conditions that are reasonably likely to impair their ability to meet contractual and fiduciary commitments to the Funds, and have not been the subject of a bankruptcy proceeding.