

**Item 1 – Cover Page**

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**March 31, 2019**

This brochure (this “**Brochure**”) provides information about the qualifications and business practices of Cortec Group Management Services, LLC (“**Cortec**”), an investment adviser registered with the United States Securities and Exchange Commission (the “**SEC**”). Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

If you have any questions about the contents of this Brochure, please contact Cortec’s Chief Compliance Officer at the above phone number. The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

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

## **Item 2 – Material Changes and General Information**

One of our longstanding limited partners purchased an indirect interest in the Cortec Group management company and general partner entities. This indirect interest will allow the investor to share in less than 20% of management fee and carried interest distributions from such entities. This investor holds a completely passive interest, without any governance rights or any role in the investment process.

No other material changes were made to this Brochure from our last Brochure dated March 31, 2018.

Cortec will ensure that you receive a summary of any material changes to this Brochure and subsequent brochures within 120 days of the close of Cortec's fiscal year. You may request the most recent version of Cortec's Brochure by contacting Michael S. Neuberger, Cortec's Chief Compliance Officer, at (212) 370-5600.

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## Glossary

**“Advisers Act”** means the U.S. Investment Advisers Act of 1940, as amended.

**“Brochure”** has the meaning set forth on the cover page of this Brochure.

**“Compensation”** means, collectively, commissions, retainers, fees and any other form of compensation.

**“Cortec”** has the meaning set forth on the cover page of this Brochure.

**“Cortec Clients”** means the Cortec Funds, the Employee Co-Investment Vehicles and Cortec Fund V Parallel Fund.

**“Cortec Co-Investment IV”** means Cortec Co-Investment Fund (IV) L.L.C.

**“Cortec Co-Investment V”** means Cortec Co-Investment Fund V, LLC.

**“Cortec Co-Investment VI”** means Cortec Co-Investment Fund VI, LLC.

**“Cortec Fund IV”** means Cortec Group Fund IV, L.P.

**“Cortec Fund V”** means Cortec Group Fund V, L.P.

**“Cortec Fund V Parallel Fund”** means Cortec Group Fund V (Parallel), L.P.

**“Cortec Fund VI”** means Cortec Group Fund VI, L.P.

**“Cortec Fund VI-A”** means Cortec Group Fund VI-A, L.P.

**“Cortec Funds”** means Cortec Fund IV, Cortec Fund V, Cortec Fund VI and Cortec Fund VI-A.

**“Cortec Funds Documentation”** means, collectively, each Cortec Fund’s, Employee Co-Investment Vehicle’s and Cortec Fund V Parallel Fund’s respective confidential offering memorandum (if any) and governing documents.

**“Cortec General Partners”** means the Cortec Funds’ and the Cortec Fund V Parallel Fund’s general partners and/or the managing members of the Employee Co-Investment Vehicles, as applicable.

**“Employee Co-Investment Vehicles”** means Cortec Co-Investment IV, Cortec Co-Investment V and Cortec Co-Investment VI.

**“Investment Persons”** means Cortec and its partners, directors, members, officers and employees.

**“LP Advisory Committee”** is defined in Item 10.

**“Products and Services”** has the meaning set forth in Item 12.

**“SEC”** has the meaning set forth on the cover page of this Brochure.

**“Securities Act”** means the U.S. Securities Act of 1933, as amended.

**“1940 Act”** means the U.S. Investment Company Act of 1940, as amended.

## Item 4 – Advisory Business

### Cortec's Business

#### A. Cortec and its Principal Owners

Cortec is a New York limited liability company and has its principal place of business in New York, New York. R. Scott Schafler, Neal A. Kayes and Gerald Rosenberg established Cortec Group, Inc. (now "Cortec Group Management Services, LLC"), Cortec's predecessor, in 1984. Cortec was formed in 2008 by R. Scott Schafler, and R. Scott Schafler, Jeffrey A. Lipsitz, David L. Schnadig, and Michael E. Najjar currently serve as Cortec's Members and owners. In 2018, a less than 20% indirect passive interest was sold to a limited partner.

#### B. Advisory Services

*All descriptions of the Cortec Clients in this Brochure, including, but not limited to, their investments, the strategies used in managing those entities, the fees and other costs associated with an investment in those entities, and conflicts of interest faced by Cortec in connection with management of those entities are qualified in their entirety by reference to the Cortec Funds Documentation.*

Cortec provides discretionary advisory services to the Cortec Clients (based on the particular investment objectives and strategies described in the applicable Cortec Funds Documentation and side letters entered into between Cortec on behalf of the Cortec Funds and Cortec Fund investors). The Cortec Clients seek to make (and/or have made) controlling acquisitions of companies with purchase prices generally ranging from \$40 to \$300 million. Those funds focus on investing in established designers, marketers, manufacturers and distributors of medical, consumer, building and other value-added products, as well as specialty distribution and service businesses (as described further in Item 8 below). The Cortec Clients (and their respective general partners and managers) are as follows:

- Cortec Fund IV, a Delaware limited partnership (its managing general partner is Cortec Management IV, L.L.C. and its investment general partner is Cortec Investment IV, L.L.C.);
- Cortec Co-Investment IV, a Delaware limited partnership (its managing member is R. Scott Schafler);
- Cortec Fund V, a Delaware limited partnership (its managing general partner is Cortec Management V, L.L.C. and its investment general partner is Cortec Investment V, L.L.C.);
- Cortec Co-Investment V, a Delaware limited partnership (its managers are R. Scott Schafler, Jeffrey A. Lipsitz and David L. Schnadig);
- Cortec Fund V Parallel Fund, a Delaware limited partnership (its general partner is Cortec Management V (Co-Invest), LLC);
- Cortec Fund VI, a Delaware limited partnership (its managing general partner is Cortec Management VI, L.L.C. and its investment general partner is Cortec Investment VI, L.L.C.);

- Cortec Fund VI-A, a Delaware limited partnership (its managing general partner is Cortec Management VI, L.L.C. and its investment general partner is Cortec Investment VI, L.L.C.); and
- Cortec Co-Investment VI, a Delaware limited partnership (its managers are R. Scott Schafler, Jeffrey A. Lipsitz, David L. Schnadig and Michael E. Najjar).

The general partners of the Cortec Funds and Cortec Fund V Parallel Fund are wholly-owned affiliates of Cortec. The managing members of the Employee Co-Investment Vehicles are Cortec's Members. The Employee Co-Investment Vehicles were formed solely to co-invest in a fixed percentage of each portfolio investment alongside their respective Cortec Funds (at the same time, on the same terms and conditions and based on a pre-determined participation percentage), and the investors in these vehicles are generally Cortec personnel and former personnel, their family members and/or entities formed for the benefit of those persons. Cortec Fund V Parallel Fund was formed to allow an existing limited partner in Cortec Fund V to participate, in Cortec's discretion, in certain portfolio companies alongside Cortec Fund V and Cortec Co-Investment V. Cortec Fund VI-A was formed to allow tax sensitive investors to participate in each portfolio company alongside Cortec Fund VI and Cortec Co-Investment VI.

As supervised persons of Cortec, the Cortec General Partners listed above intend to conduct their activities in accordance with the Advisers Act and the rules thereunder. Any employees of the Cortec General Partners and any other persons acting on their behalf are and shall be subject to the supervision and control of Cortec. The Cortec General Partners are relying on Cortec's registration under the Advisers Act and are not registering themselves. Unless otherwise provided, references to "Cortec" in this Brochure will include Cortec and the Cortec General Partners collectively.

#### C. Tailoring of Advisory Services

Cortec's investment decisions and advice are subject to each Cortec Client's investment objectives and guidelines, as set forth in the relevant Cortec Funds Documentation. Guidelines include the amount of fund assets that may be invested in any single portfolio company, the amount of fund assets that may be invested in companies over which the fund does not have control and the geographies in which a fund may invest, among others.

In addition, subject to the terms of the Cortec Funds Documentation, as described below, Cortec has, and may in the future, enter into agreements, such as side letters, with certain Cortec Fund limited partners (without the approval of any other limited partners). Side letters may be granted to incentivize or permit limited partners to invest with Cortec, invest certain amounts or invest with Cortec in the future. The side letters or other similar agreements have the effect of establishing rights under, altering or supplementing the terms of the relevant Cortec Funds Documentation with respect to one or more such limited partners in a manner that could be more favorable to such limited partners than those applicable to other limited partners. For example, the side letters or other similar agreements may:

- impose restrictions on a Cortec Fund's investments;
- reduce carried interest incurred by a limited partner;
- provide additional information or reports to a limited partner;
- provide more favorable transfer rights.

Notwithstanding the above, the Cortec Funds Documentation generally requires that the relevant Cortec General Partner offer the same rights and benefits provided to one limited partner to each of the other limited partners (subject to certain carve-outs for Cortec Fund V, Cortec Fund VI and Cortec Fund VI-A).

D. Wrap Fee Programs

Cortec does not participate in wrap fee programs by providing portfolio management services.

E. Assets Under Management

As of December 31, 2018, Cortec managed \$2,697,359,824 on a discretionary basis.

## **Item 5 – Fees and Compensation**

A. Compensation for Advisory Services

Cortec receives asset- and performance-based fees and allocations from the Cortec Funds (as well as other compensation and reimbursements of expenses, as described further below).

The specific payment terms and other conditions of these fees and allocations are set forth in the relevant Cortec Funds Documentation. Cortec does not receive asset- or performance-based compensation from the Employee Co-Investment Vehicles, nor does Cortec receive asset- or performance-based compensation from Cortec Fund V Parallel Fund.

### **Management Fee**

The following is a summary of the method used to calculate the management fee paid by the Cortec Funds to their Cortec General Partners:

1. *during the commitment period (generally 5 years from the final closing date, except in the case of Cortec Fund VI and Cortec Fund VI-A, for which the commitment period is six years from the initial closing date), or a period terminating on an earlier date based on a specified percentage of capital commitments being drawn down or third party investors investing in a successor fund) - 2% of aggregate capital commitments; and*
2. *after the period set forth in (1) above- 1.5%<sup>1</sup> of (a) aggregate capital commitments less (b)(i) the amount of distributions made to the fund partners as a return of capital plus (ii) the cost basis of any portfolio investment that has been permanently and completely written off by the fund.*

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<sup>1</sup> With respect to Cortec Fund V, this percentage will be reduced to 1% on the tenth anniversary of that fund's final closing date, and with respect to each of Cortec Fund VI and Cortec Fund VI-A, this percentage will be determined by the relevant LP Advisory Committee on the eleventh anniversary of the relevant Cortec Fund's final closing date.



Because management fees are based on capital commitments, Cortec may be incentivized to oversize the Cortec Funds to increase the amount of its management fees. Cortec believes that, notwithstanding this potential conflict, it has sought and continues to seek capital commitments in amounts that allow it to, on behalf of its funds, effectively deploy capital towards investment opportunities which generate attractive rates of return for its funds' investors. This is also due to the fact that Cortec is incentivized by carried interest, which is calculated only after generating threshold rates of return to its investors, as described further below.

Any fees paid to a placement agent will be paid by the relevant Cortec Fund, but the amounts so paid will reduce the amount of the management fee otherwise payable by the relevant Cortec Fund to its general partner. While Cortec does not currently use placement agents and did not use any placement agent in the raising of any Cortec Fund V or any Cortec Fund VI entity, Cortec has in the past retained UBS Investment Bank on behalf of Cortec Fund IV.

The Cortec Funds may also indirectly incur other fees (or expenses) payable (or reimbursable) to Cortec and/or its personnel. For example, Cortec and/or its personnel may receive break-up fees, advisory fees, consulting fees and transaction fees. In Cortec Fund IV, these fees are 80% credited back to the Cortec Funds and their investors through reductions or off-sets against management fees that would otherwise be applicable. In Cortec Fund V, Cortec Fund VI and Cortec Fund VI-A, these fees are 100% credited back to the relevant Cortec Fund(s) and their investors through reductions or off-sets against management fees that would otherwise be applicable. These fee offsets are described in the relevant Cortec Funds Documentation.

Cortec does not currently have a fee schedule.

#### *Carried Interest*

The Cortec Funds allocate to their general partners on a deal-by-deal basis a carried interest distribution based on proceeds generated from the sale of fund investments, in an amount equal to 20% of the profits from the disposition of each portfolio investment made by the relevant Cortec Fund, after the return of invested capital and a preferred return to limited partners. All performance-based compensation payable to Cortec will be effected consistent with the requirements of Section 205 of the Advisers Act and Rule 205-3 thereunder.

The terms of the carried interest distribution could incentivize Cortec to make decisions regarding the timing and structure of realization transactions that may not be in the best interests of the Cortec Funds (and their investors). For example, Cortec would be in a position to receive carried interest distributions earlier if profitable investments were liquidated prior to investments that were not profitable because, at the time proceeds from those profitable investments were realized, the Cortec Funds would generally not be required to first distribute capital to limited partners to make up for prior losses associated with unprofitable investments. Although the Cortec Funds' documentation contains "general partner clawback" provisions to ensure proper alignment of carried interest payments against aggregate fund performance, the return of carried interest distributions to Cortec Fund limited partners could be delayed if not funded by the relevant general partner in a timely manner.

The carried interest distribution also creates a potential conflict of interest for Cortec in the context of valuing investments. For example, because distributions to the partners are generally calculated in a “deal-by-deal” waterfall, Cortec does not receive a carried interest distribution until the limited partners receive distributions equal to their share of any write downs that were not taken into account for prior distributions. This creates an incentive for Cortec to avoid writing down the value of assets that are not readily marketable or difficult to value because then Cortec would be in a position to receive a higher carried interest distribution. Cortec believes that this conflict is mitigated by the existence of, and Cortec’s adherence to, its valuation policies (and the fact that all valuation information is sent to the Cortec Clients’ auditor for review, quality control, and approval), as described below in this Item 5.

#### *Fee Waivers/Reductions*

Limited partners of the Cortec Funds have negotiated, and may in the future negotiate, different fee terms than those set forth in the Cortec Funds Documentation (through side letters). Further, as noted above, Cortec does not receive asset- or performance-based compensation from the Employee Co-Investment Vehicles, which were established for Cortec personnel, their family members and/or entities formed for the benefit of those persons to invest alongside the Cortec Funds, and does not receive asset- or performance-based compensation from the Cortec Fund V Parallel Fund, which was established to permit an existing limited partner in Cortec Fund V to (in Cortec’s discretion) co-invest alongside Cortec Fund V and Cortec Co-Investment V in certain portfolio companies.

#### *Indemnification*

The Cortec Funds are obligated to indemnify Cortec and its personnel under circumstances set forth in the relevant Cortec Funds Documentation (subject to restrictions on the amount for which each limited partner would be liable).

The Employee Co-Investment Vehicles also have indemnification obligations with respect to their members, as set forth in the relevant Cortec Funds Documentation (as does the Cortec Fund V Parallel Fund, in respect of its general partner).

#### *Investors participating in subsequent closings*

If any fees are called or investments are made between a Cortec Fund’s first and any subsequent closings, investors admitted at any closing after that Cortec Fund’s initial closing are required to contribute to that Cortec Fund an amount equal to the capital commitments that would have been drawn down had those persons been limited partners from the time of that Cortec Fund’s initial closing (plus interest). This amount will include each limited partner’s proportionate share of management fees, fund expenses and original costs of fund investments.

#### *Valuation*

The value of the Cortec Clients’ investments is relevant to numerous aspects of those entities, including any management fees borne by those entities. Cortec maintains valuation policies, which provide guidelines for valuing the Cortec Clients’ portfolio investments. Under its valuation policies,

for Cortec Fund IV<sup>2</sup> (at the end of each calendar year) and for Cortec Fund V, Cortec Fund VI and Cortec Fund VI-A (semi-annually for periods ending June 30 and December 31), certain Cortec professionals utilize numerous valuation methods to produce a fair market value estimate for each Cortec Client portfolio investment. These estimates are then carefully reviewed with appropriate Cortec personnel involved with each relevant Cortec Client portfolio investment. All final fair market value estimates are signed-off on by the relevant Cortec General Partner (which retains ultimate discretion with respect to the valuation of the Cortec Client's portfolio investments). Following review by the relevant Cortec General Partner, all valuation information is sent to such Cortec Client's auditor for additional review, quality control, and approval. Under the Cortec Funds Documentation, the LP Advisory Committee has the authority to consult with Cortec regarding the valuation of each portfolio investment.

There may exist a conflict of interest related to Cortec's valuation of the Cortec Funds' portfolio investments. Specifically, because, after a period in time (as described above), the management fee is calculated based upon, among other factors, the cost basis of any portfolio investment that has been permanently and completely written off by the relevant Cortec Fund, Cortec may be incentivized to refrain from writing off portfolio investments to increase the amount of the management fee paid to Cortec (which would conflict with its duty to act in the best interests of its clients). Cortec believes that this conflict is mitigated by the existence of, and Cortec's adherence to, its valuation policies.

B. Method of Fee Payments

Pursuant to the terms of the Cortec Funds Documentation, the Cortec Funds pay management fees on a semi-annual basis in advance, on or after the fifth business day of each semi-annual period. Cortec generally makes capital calls on Cortec Funds' limited partners in the amount of the Cortec Funds' management fees.

Any carried interest is generally allocated to the relevant Cortec General Partner's capital account solely based on cash generated from the sale of each Cortec Fund investment.

C. Other Fees/Expenses

*Fund Expenses*

Cortec is responsible for all usual overhead expenses of managing the Cortec Funds, including compensation for Cortec's employees, plus the cost of adequate office space and utilities.

Each Cortec Fund will bear its own organizational expenses (including the out-of-pocket expenses of Cortec and its agents including any placement agents) up to an amount specified in the relevant Cortec Funds Documentation. Organizational expenses in excess of that amount (as well as the fees of any placement agent, as described above in "Management Fee") will be paid by the relevant Cortec

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<sup>2</sup> Cortec Fund IV sold its last asset on May 11, 2017.

Fund but ultimately borne by Cortec through a reduction in the management fee otherwise payable by the fund to its general partner.

Each Cortec Fund will pay all expenses related to its operations, including:

- fees, costs and expenses related to the purchase and sale of investments, and not paid by a portfolio company;
- fees and expenses of custodians, counsel, accountants and consultants;
- annual meetings;
- any taxes, fees or other government charges levied against the fund;
- insurance;
- litigation costs; and
- any costs and expense incurred in connection with unconsummated transactions (such as “broken deal costs”).

Cortec Co-Investment IV and Cortec Co-Investment V do not pay any organizational or operating expenses. Therefore, each Cortec Fund bears the corresponding Employee Co-Investment Vehicle’s expenses (including those expenses that are specific to the Employee Co-Investment Vehicle, such as service provider fees, and expenses that are related to both the Cortec Fund and the Employee Co-Investment Vehicle, such as broken deal costs related to an unconsummated transaction). Cortec Co-Investment VI does not pay any organizational expenses<sup>3</sup>, but will bear its own operating expenses.

The Funds’ investments typically require extensive due diligence activities prior to acquisition, and the related expenses may be quite substantial. These expenses may include, among others, third-party market, accounting, legal and other due diligence costs. Such expenses will generally be borne solely by the Funds (except for amounts that are treated as manager expenses under the applicable fund partnership agreement), even if co-investors were being sought and, in some cases, agreed, to participate had the transaction been consummated or if co-investors have participated in other completed transactions.

The Cortec Fund V Parallel Fund bears its own organizational and operational expenses (including its pro rata share of fees, costs and expenses related to the purchase and sale of investments in which it participates).

From time to time, expenses are incurred that will be allocated among the Cortec Funds and the Cortec Fund V Parallel Fund (for example, service provider expenses). When Cortec seeks to allocate costs and expenses among those entities, Cortec will do so in accordance with its expense allocation procedures. Cortec believes that its expense allocation procedures provide an objective methodology for fairly and equitably allocating expenses among the Cortec Clients. Any questions regarding the

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<sup>3</sup> These organizational expenses are incurred by Cortec Fund VI.

allocation of a particular expense which are not addressed in Cortec's expense allocation procedures are resolved by Cortec's Chief Compliance Officer.

#### *Limited Partner Clawback*

For up to three years (in respect of Cortec Fund IV) or two years (in respect of Cortec Fund V, Cortec Fund VI and Cortec Fund VI-A) after the expiration of those Cortec Funds' terms, each limited partner will be required to contribute to the relevant fund its proportionate share of any liability or loss incurred by that fund. However, the amount of this "limited partner clawback" is subject to certain limitations, as set forth in the relevant Cortec Funds Documentation.

#### *Reserves*

Each Cortec General Partner may, in its discretion, retain on behalf of a Cortec Client any amount (which would otherwise be distributed to the partners in accordance with the Cortec Funds Documentation) which it deems prudent as reserves to meet future potential fund expenses or liabilities.

#### **D. Prepayment of Fees**

The Cortec Funds pay management fees to their respective general partners on a semi-annual basis in advance (not earlier than the fifth business day of each semi-annual period). Prepaid management fees will not be returned to a Cortec Fund or its investors in the event of the termination of the advisory relationship before the end of a semi-annual period.

#### **E. Compensation for the Sale of Securities**

Neither Cortec nor its supervised persons accepts compensation for the sale of securities or other investment products.

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

#### **Generally**

As described in Item 5 above, the general partners of the Cortec Funds receive any performance-based compensation from the relevant Cortec Fund. The carried interest distribution will generally be an amount equal to 20% of the profits derived from the disposition of each portfolio investment, after the return of invested capital and a preferred return to limited partners, as described further below.

Performance-based compensation is initially calculated and allocated to a Cortec General Partner's capital account based on cash generated from the sale of each relevant fund investment; provided, however, that: (i) at the end of each fiscal year, the Cortec General Partner may be required to return to the fund excess carried interest distributions if the fund has incurred a taxable loss from the sale of securities for cash during that fiscal year; and (ii) during the fund's term, the Cortec General

Partner is required to return to the fund excess carried interest distributions, in the event that the Cortec General Partner received more than its carried interest percentage of fund profits on an aggregate basis over the fund's term to date.

### Conflicts

Performance-based compensation may incentivize Cortec to dedicate increased resources and to allocate more profitable investment opportunities to the Cortec Fund that is charged a higher rate of carried interest or a well-performing Cortec Fund (as opposed to a poor-performing Cortec Fund) (in order to increase Cortec's chances of receiving a greater carried interest distribution). Cortec believes that the facts that (i) the Cortec Funds have similar carried interest formulas and (ii) its funds rarely have overlapping primary investment periods, combined with Cortec's allocation procedures (as described in Item 10 below), serve to mitigate any such potential conflicts of interest.

Further, Cortec may be incentivized to allocate investment opportunities to the clients from which Cortec receives carried interest distributions (as discussed above, Cortec does not receive asset- or performance-based compensation from the Employee Co-Investment Vehicles or Cortec Fund V Parallel Fund). Cortec believes that this conflict is mitigated by the fact that, besides Cortec Fund V Parallel Fund, which is discussed in this Item 6 below: (i) the only clients that are not charged performance-based compensation are funds composed of Cortec personnel and former personnel, their family members and/or entities formed for the benefit of those persons, and (ii) the Employee Co-Investment Vehicles invest in each portfolio investment alongside the Cortec Funds at the same time, on the same terms and conditions and based on a pre-determined participation percentage.

Subject to Cortec's approval, Cortec Fund V Parallel Fund co-invests (at the same time and on the same terms and conditions) alongside Cortec Fund V and Cortec Co-Investment V in certain portfolio companies, in amounts as requested by Cortec Fund V Parallel Fund (and as accepted by Cortec). Cortec does not necessarily offer each co-investment opportunity to each potential co-investor and, if a co-investment opportunity is over-subscribed, Cortec will reduce each co-investor's commitment amount ratably (based on total amount committed to the co-investment opportunity). See Item 10 below for further information regarding Cortec's allocation policy.

### **Item 7 – Types of Clients**

As noted in Item 4 above, Cortec provides discretionary investment advisory services to the Cortec Clients (which may be organized as domestic or foreign partnerships, corporate or other incorporated or unincorporated entities). Cortec Fund investors include private and public pension funds, insurance companies, fund-of-funds, endowments and high net worth individuals.

Interests in the Cortec Clients and the Cortec Clients themselves are not registered under the Securities Act or the 1940 Act, respectively. Accordingly, interests in the Cortec Clients are offered exclusively to investors satisfying the applicable eligibility requirements either in private placement transactions within the United States or in offshore transactions, and the Cortec Clients are excepted from the definition of an "investment company" under Section 3(c)(1) and/or Section 3(c)(7) of the

1940 Act (with respect to the Cortec Funds) and Section 3(c)(1) of the 1940 Act (with respect to the Employee Co-Investment Vehicles).

Investors in the Cortec Funds are required to complete and submit a subscription agreement binding them to the terms of the relevant Cortec Funds Documentation. The minimum investment is generally \$5 million for the Cortec Funds. However, that minimum investment amount for Cortec Fund investors may be modified, depending on the investor relationship and in accordance with the relevant Cortec Funds Documentation.

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

### **A. Investment Strategies, Instruments and Certain Related Risks**

The following is a summary of (i) the strategies and methods of analysis that Cortec uses in formulating advice or managing assets (and their material risks) for the Cortec Clients and (ii) certain material risks associated with the types of securities that Cortec primarily recommends to the Cortec Clients.

*The information included in this Brochure does not include every potential risk associated with each investment strategy or security. Investors and prospective investors in the Cortec Clients are urged to ask questions regarding risk factors applicable to a particular investment strategy or security, read all product-specific risk disclosures (for example, the relevant Cortec Client's confidential private offering memorandum, if any) and determine whether a particular strategy or type of security is suitable for his/her/its own account in light of his/her/its circumstances, investment objectives and financial situation. Investing in securities involves risk of loss that investors should be prepared to bear.*

### **METHODS OF ANALYSIS AND INVESTMENT STRATEGIES**

The Cortec Clients focus on acquiring controlling investments in U.S.-based lower middle-market manufacturing, distribution and specialty service companies with sustainable competitive advantages and leverage the collective experience of the Cortec team to add value in areas such as management team building and enhancement, strategy change, sales growth, and operational improvement.

Cortec regularly reassesses and refines its acquisition criteria to reflect the lessons learned from its investment and management experience. The Cortec Clients target potential portfolio companies with:

- opportunities for Cortec to add value;
- proprietary products;
- direct relationships with their customers;
- global low-cost sourcing or manufacturing capabilities;
- high margins;

- strong free cash flow (i.e., limited capital expenditures and working capital requirements); and
- identified opportunities for growth.

Cortec's private equity professionals spend the majority of their time originating investment opportunities. Cortec segments and regularly updates its contact database (of commercial and investment banks, M&A boutiques, business intermediaries, and accounting firms) in order to focus its efforts on its most productive relationships. Cortec also identifies potential investments through: (i) third party finders, which Cortec retains to contact selected companies in targeted industries using their proprietary databases; (ii) managers of its clients' portfolio companies; (iii) relationships with industry executives; (iv) direct solicitation of business owners; and (v) personal relationships with prospective sellers.

If Cortec concludes that a business is worth pursuing, its deal team will proceed with its due diligence. This process typically includes initial and follow-up management meetings, facility visits, review of financial and operating data, and a preliminary market assessment, which always involves the retention of, and discussion with, third-party industry experts. As part of this phase, Cortec will also refine its acquisition model. Importantly, if the acquisition team believes that additional investments in people, programs or systems are necessary, Cortec will build those considerations into its financial model.

Once a letter of intent to acquire the target company is signed, the Cortec deal team will: (i) make repeated visits to the company to perform detailed business diligence and extensively interact with senior management, both in groups and individually; (ii) have meetings and calls with industry consultants and experts to assess market dynamics and how they may impact the company; (iii) complete accounting, legal, environmental, insurance and other third-party due diligence of the prospective investment; (iv) conduct calls with customers and vendors; and (v) structure shareholder, employment and long-term incentive compensation agreements with key management.

As part of its assessment process for each platform acquisition, Cortec performs an analysis of industry size, competition and market fragmentation. This not only helps clarify the relative position of the business Cortec is diligencing, but also provides insight into the number and size of potentially attractive add-on acquisition candidates. Cortec Clients have in the past, and may in the future, acquire add-on investments, in order to provide product line extensions, open new market opportunities, extend the portfolio company's geographic reach or do all of the foregoing.

After acquiring a controlling interest in a business, Cortec's principals provide direct assistance to that portfolio company on matters such as major sales proposals to existing or target customers, organization top-grading, compensation programs, development of key metrics to monitor the business, intellectual property development, protection and licensing, global vendor initiatives, capital purchasing planning, tax planning, legal and financial matters. As appropriate, Cortec will meet with customers and distributors and participate in contract negotiations.

During its investment period, Cortec personnel, in consultation with management, determine the timing and method of Cortec's exit. Cortec actively works with the managers of its clients' portfolio



companies to prepare and motivate them for the sale of the companies. While Cortec has never exited a portfolio company investment via an initial public offering of securities, it is possible that it could do so in the future.

## CERTAIN RELATED RISKS

**Illiquid Investments.** An investment in a Cortec Client requires a long-term commitment with no certainty of return. In the near term, cash flow available to the funds' limited partners is likely to be limited. Most of a Cortec Client's investments will be highly illiquid, and there can be no assurance that the fund will be able to realize on such investments in a timely manner. For example, illiquidity may result from the absence of an established market for the portfolio company investment, as well as legal, contractual or other restrictions on its resale. Investments in publicly-traded companies (including fund portfolio companies that have made initial public offerings) may also be subject to legal or contractual restrictions on resale (such as securities law restrictions on the sale of investments while in possession of material non-public information about the portfolio company). In addition, the ability to exit an investment through public markets will depend on market conditions, particularly the market for initial public offerings.

Dispositions of those investments may require a lengthy time period or may result in distributions in-kind to the funds' partners. Generally, a Cortec Client will not be able to sell its investments publicly, except pursuant to a registration statement filed under the Securities Act or in accordance with Rule 144 of the Securities Act or another exemption under that act.

**Risks Associated with Capital Structure.** The securities in which a Cortec Client invests will typically include equity and equity-related securities that will be among the most junior in what may be a complex capital structure, and thus subject to the greatest risk of loss.

**Risks Associated with Leverage.** The companies in which the Cortec Clients invest may be highly leveraged and, as such, involve a high degree of risk in that adverse fluctuations in such companies cash flow, or increased interest rates, may impair their ability to meet their debt obligations. Specifically, the leveraged capital structure of portfolio company investments will increase the exposure of the portfolio companies to adverse economic factors such as rising interest rates, downturns in the economy, or deteriorations in the condition of the portfolio company or its industry, which may impair such portfolio company's ability to finance its future operations and capital needs and result in restrictive financial and operating covenants. Under those circumstances, a portfolio company's flexibility to respond to changing business and economic conditions may be limited. If, for any of these reasons, a portfolio company is unable to generate sufficient cash flow to meet principal and/or interest payments on its indebtedness or make regular dividend payments, the value of the relevant Cortec Client's investment in such portfolio company could be significantly reduced or even eliminated.

**Risks Associated with Concentration of Investments.** As a Cortec Client may only make a limited number of investments, poor performance by a few of the investments could severely affect the total returns to the fund's limited partners. A Cortec Client's investments may be concentrated in one or more industries. Concentration of investments in an industry, type of security or geographic region

will make the Cortec Client more exposed to fluctuations in value resulting from adverse conditions in those sectors.

Difficulty of Locating Suitable Investments. The Cortec Clients may be unable to find a sufficient number of attractive opportunities to meet its investment objectives. It is possible that competition for investment opportunities may increase in the future, thus reducing the number of attractive investment opportunities available to the Cortec Clients and potentially adversely affecting the terms upon which investments can be made. The past investment performance of prior Cortec-sponsored entities or the Cortec principals cannot be relied on as an indicator of a Cortec Client's future performance or success.

Restrictions on Transfer and Withdrawal. There will be no public market for the Cortec Client interests. In addition, the interests are generally not transferable except with the consent of the relevant Cortec General Partner, which may be withheld in its sole discretion. Cortec Clients' investors generally may not withdraw capital from a Cortec Client. Consequently, investors may not be able to liquidate their interests prior to the end of a Cortec Client's term.

Reliance on Cortec General Partners. Limited partners (and members, in respect of the Employee Co-Investment Vehicles) will have no opportunity to control the day-to-day operations, including investment and disposition decisions, of the Cortec Clients. In order to safeguard their limited liability for the liabilities and obligations of the Cortec Clients, limited partners and members must rely entirely on the relevant Cortec General Partner(s) to conduct and manage the affairs of those entities.

Uncertainty Associated with Investment Strategy. Cortec's strategy for a portfolio company may involve an acquisition program, restructuring and/or operational improvements, all of which entail a high degree of uncertainty. The possibility of partial or total loss of capital will exist.

Bridge Financings. The Cortec Clients may provide interim debt or interim equity financing to a portfolio company or prospective portfolio company in anticipation of permanent financing (including an investment by a Cortec Client). These bridge loans will typically be convertible into a term loan or permanent equity investment in the portfolio company; however, for reasons not always in the relevant Cortec Client's control, the anticipated long term securities issuance or other refinancing or syndication may not occur and the bridge loan may remain outstanding. In such event, the interest rate on such bridge loan may not adequately reflect the risk associated with the unsecured position taken by the Cortec Client.

Follow-On Investments. A Cortec Client may be called upon to provide follow-on funding for a portfolio company or may have the opportunity to increase its investment in a portfolio company. There can be no assurance the a Cortec Client will wish to make such follow-on investment or have available capital to do so, and the inability to make that follow-on investment may have a significant negative impact on a portfolio company in need of additional capital or may diminish that Cortec Client's ability to influence the portfolio company's future development.

Reliance on Portfolio Company Management. The day-to-day operations of a Cortec Client portfolio company will be the responsibility of that company's management team. Although Cortec will be responsible for monitoring the performance of the Cortec Clients' portfolio companies and generally

will seek to invest in companies operated by capable management, there can be no assurance that an existing management team, or any successor team installed by Cortec, will be able to successfully operate a portfolio company in accordance with Cortec's investment strategy.

Board Participation. Cortec personnel serve as directors of the Cortec Clients' portfolio companies and, as such, have duties to persons other than the investor Cortec Client. Although holding board positions will be important to the investor Cortec Client's investment strategy and may enhance the ability of the Cortec Client and its Cortec General Partner(s) to manage investments, director positions may also have the effect of impairing a Cortec General Partner's ability to sell the related securities when, and upon the terms, it may otherwise desire, and may subject the relevant investor Cortec Client and its Cortec General Partner(s) to claims they would not otherwise be subject to as an investor, including claims of breach of duty of loyalty, securities claims, and other director-related claims. In general, each Cortec Client will indemnify its Cortec General Partner(s) from those claims.

Control Person Liability. The Cortec Clients hold controlling interests in their respective portfolio companies. The exercise of control over a company may impose additional risks of liability for environmental damage, product defects, pension and other fringe benefits, failure to supervise management, violation of laws, and governmental regulation (including securities laws), and other types of liability for which the limited liability generally characteristic of business ownership may be ignored. If these liabilities were to arise, a Cortec Client might suffer a significant loss. The exercise of control over a portfolio company could expose the assets of the investor Cortec Client to claims by the portfolio company, its security holders, and its creditors. A Cortec Client could still incur significant costs in defending those claims, even in the case that the Cortec Client is the prevailing party.

Non-Controlling Investments. The Cortec Clients do not currently hold, but may in the future hold, non-controlling interests in certain portfolio companies and, therefore, may have a limited ability to protect their positions in those portfolio companies.

Risks Related to the Disposition of Investments. In connection with the disposition of an investment in a portfolio company, a Cortec Client 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. It may also be required to indemnify the purchasers of such portfolio company to the extent that any such representations turn out to be inaccurate. These arrangements may result in contingent liabilities, which might ultimately have to be funded by the Cortec Clients' limited partners or members (as applicable).

Regulatory Changes Related to Private Equity. The growth of the private equity industry and the increasing size and reach of transactions, as well as the increasing attention to hedge funds, has prompted additional governmental and public attention to the private equity industry and its practices. Specific and general regulations addressing the private equity industry, including tax laws and regulations, whether in the United States or abroad, could increase the cost of acquiring, holding, or divesting portfolio companies, the profitability of enterprises, and the costs of operating the Cortec Clients. Additional regulation could also increase the risk of third-party litigation.

Cybersecurity Risks. Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject. To the extent that a Portfolio Company is subject to cyber-attack or other unauthorized access is gained to a Portfolio Company's systems, such Portfolio Company may be subject to substantial losses in the form of stolen, lost or corrupted (i) customer data or payment information; (ii) customer or Portfolio Company financial information; (iii) Portfolio Company software, contact lists or other databases; (iv) Portfolio Company proprietary information or trade secrets; or (v) other items. In certain events, a Portfolio Company's failure or deemed failure to address and mitigate cybersecurity risks may be the subject of civil litigation or regulatory or other action. Any of such circumstances could subject a Portfolio Company, or the relevant Fund, to substantial losses. In addition, in the event that such a cyber-attack or other unauthorized access is directed at Cortec or one of its service providers holding its financial or investor data, Cortec, its affiliates or the Funds may also be at risk of loss, despite efforts to prevent and mitigate such risks under Cortec's policies.

## **Item 9 – Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of Cortec's advisory business or the integrity of its management.

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

### Affiliated Investment Advisers

As described in Item 4 above, Cortec Group Management Services, LLC has established wholly-owned affiliated entities to serve as general partners to the Cortec Funds and Cortec Fund V Parallel Fund. Further, R. Scott Schafler, Jeffrey A. Lipsitz, David L. Schnadig and Michael E. Najjar serve as managing members and/or managers of the Employee Co-Investment Vehicle(s).

### Pooled Investment Vehicles

As described in Item 4 above, Cortec provides investment advisory services to the Cortec Clients.

### Potential Conflicts of Interest

*The Cortec Clients have overlapping investment objectives, which may produce conflicts of interest*

Certain inherent conflicts arise from the fact that Cortec provides investment advisory services to more than one client, and its clients have (and may in the future have) overlapping investment objectives and strategies, which could affect the prices and availability of investment opportunities.

However, (i) the Cortec Funds rarely have overlapping primary investment periods (and if they do, such periods are only a few months), (ii) each Employee Co-Investment Vehicle invests alongside the relevant Cortec Fund in each portfolio investment at the same time, on the same terms and conditions

and based on a pre-determined participation percentage, and (iii) subject to legal, tax, regulatory, accounting or other similar conditions, Cortec will cause the Cortec Fund V Parallel Fund to acquire and dispose of interests in portfolio companies at the same price, time and upon the same terms as the other Cortec clients (that have invested in those portfolio companies). In the rare instance that an investment opportunity may otherwise be appropriate for more than one Cortec Fund, participation in that investment opportunity will be allocated pursuant to Cortec's allocation policy (as described below in this Item 10). In addition, the Cortec Funds Documentation contains numerous restrictions on Cortec's organization of additional investment funds having similar investment objectives to those of the existing Cortec Funds.

*Cortec and its personnel may engage in investment activities which could conflict with the interests of the Cortec Clients*

Cortec and its personnel may give advice or take action for their own accounts that may differ from, conflict with, or be adverse to, advice given to or action taken for the Cortec Client. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for, one or more of Cortec's clients. No Cortec Client or investor in any Cortec Client will have an interest in such investments or other investment funds organized or sponsored by Cortec by virtue of its status as a client or investor (notwithstanding the fact that those investments may be in competition with those of the Cortec Clients).

Cortec has provided (and will in the future provide) equity co-investment and debt financing opportunities in respect of portfolio investments to those investors in the Cortec Funds who have indicated an interest in considering such opportunities and to other third parties. While Cortec and its related persons do not receive any arrangement or management fees for providing these opportunities, Cortec and/or its related persons could derive other benefits from these activities.

The Cortec Funds Documentation contains restrictions on the principal business activities of Cortec and formation of successor funds by Cortec, although Cortec personnel are permitted to make passive personal investments in other investment funds having similar investment objectives as a Cortec Client.

*Cortec personnel may have conflicts in allocating their time and services*

Cortec personnel may have certain conflicts in allocating their time and services among the Cortec clients. Cortec personnel will work on multiple endeavors, including the Cortec Clients and Cortec's other existing and potential business activities (as well as any personal activities, within the parameters of any employment agreement and the Cortec Funds Documentation). For example, as discussed above in Item 6, Cortec personnel may be incentivized to devote more time and attention to the Cortec Client that appears to have the potential to generate the greatest carried interest distributions.

As described above in respect of the previous potential conflict, the Cortec Funds Documentation contains restrictions on the principal business activities of Cortec and formation of other funds by Cortec.

*The duties of Cortec personnel serving on the board of a portfolio company may conflict with Cortec's duties to the Cortec Clients*

Conflicts of interest may arise because Cortec personnel serve as directors of the Cortec Clients' portfolio companies. In addition to any fiduciary duties that Cortec and its personnel owe to the Cortec Client, as directors of a portfolio company, those Cortec personnel owe fiduciary duties to the portfolio company (and may owe duties to any minority shareholders). Those positions may place Cortec personnel in a position where they must make a decision that is either not in the best interests of the Cortec Client or not in the best interests of the portfolio company; however, as the Cortec Clients will generally be the controlling shareholders of such companies, it is expected that such interests will generally be aligned.

*The interests of the Cortec Clients may conflict if those entities invest in securities of the same issuer having different levels of seniority*

While not currently anticipated, under certain circumstances, Cortec Clients may invest in securities or other instruments of the same issuer (or affiliated group of issuers) having a different seniority in the issuer's capital structure. If the issuer becomes insolvent, restructures or suffers financial distress, there may be a conflict between the interests of those Cortec Clients insofar as the issuer may be unable (or in the case of a restructuring prior to bankruptcy may be expected to be unable) to satisfy the claims of all classes of its creditors and security holders. Under these circumstances, it may not be feasible for Cortec to reconcile the conflicting interests of those Cortec Clients in a way that protects those Cortec Clients' interests.

*Investment Persons' ownership interest in certain clients may incentivize those persons to favor those clients (and therefore themselves) over other clients*

Investment Persons that have ownership interests in certain clients may have an incentive to favor those clients (and therefore themselves) over other clients. For example, the only investors in the Employee Co-Investment Vehicles are generally Cortec personnel and former personnel, their family members and/or entities formed for the benefit of those persons.

Cortec has in place various policies and procedures to ensure that its clients are treated fairly and that Cortec acts in the best interests of its clients (see, for example, Cortec's allocation procedures, as described below).

#### *Allocation Policy*

With the exception of Cortec Funds and their corresponding Employee Co-Investment Vehicles (which invest in the same portfolio companies as the Cortec Funds at the same time, on the same terms and conditions and based on a pre-determined participation percentage), Cortec Clients generally do not have overlapping primary investment periods.<sup>4</sup> However, Cortec has allocation

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<sup>4</sup> While the primary investment period of one Cortec Fund may overlap with the follow-on investment period of another Cortec Fund, it is highly unlikely that one Cortec Fund's primary investment would be suitable as another

policies and procedures in place to be utilized in those rare instances where it is allocating investments among multiple Cortec Funds, which generally require Cortec to allocate investment opportunities in a fair and equitable manner in the best interests of the Cortec Funds and based on the suitability of the opportunity and the available capital of the relevant Cortec Fund for such investment. Cortec believes that these practices are designed to reasonably ensure that its client accounts are treated in a fair and equitable manner over time.

Cortec may occasionally offer co-investment opportunities to limited partners. While the private funds may offer equity co-investment opportunities to its limited partners, there is no obligation to do so and Cortec retains sole discretion regarding which, if any, limited partners receive such opportunities.

See Item 6 above for Cortec's policy in respect of the allocation of co-investment opportunities.

#### *Letters of Understanding a/k/a "Side Letters"*

By entering into side letters, certain investors in the Cortec Funds may receive information that is not generally available to, or utilized by, other Cortec Fund investors (whether with respect to the relevant Cortec Fund, the financial markets generally or otherwise) and, as a result, may be able to act on such information when others cannot. Disclosure of this fact to potential and current Cortec Fund investors is intended to mitigate this potential conflict of interest.

#### *Limited Partner Advisory Committee*

Each Cortec Fund has an advisory committee (a "**LP Advisory Committee**"), whose members are designated by the relevant Cortec General Partner. These LP Advisory Committees generally review potential conflicts of interest, consult with the relevant Cortec General Partner concerning the valuation of portfolio company investments and consult with the relevant Cortec General Partner as to the progress of the relevant Cortec Fund in achieving its investment objectives.

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

### **Cortec Code of Ethics**

The Cortec Code of Ethics provides a standard of conduct for, among other things, the personal trading of Cortec employees. Under the Code of Ethics, certain Cortec personnel must provide Cortec with initial and annual holdings reports (excluding accounts holding certain securities or discretionary accounts) and quarterly transactions reports. Cortec personnel are also generally prohibited from executing transactions in issuers included on Cortec's Personal Securities Trading Restricted List, and must obtain pre-approval from Cortec's Chief Compliance Officer prior to

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Cortec Fund's follow-on investment (and vice versa), as the variations in capital required for primary investments as compared to follow-on investments are significant.

investing in any private placement or participating in any initial public offering. Cortec will review violations of its Code of Ethics to determine appropriate internal sanctions.

Cortec Clients, prospective Cortec clients and investors in the Cortec Funds may obtain a complete copy of Cortec's Code of Ethics free of charge by submitting a written request to Cortec's Chief Compliance Officer at 140 East 45<sup>th</sup> Street, 43<sup>rd</sup> Floor, New York, New York 10017, or by phone at (212) 370-5600.

### **General Conflicts**

Investment Persons may have multiple advisory, transactional, financial and other interests in securities, instruments, companies or investment vehicles that may be purchased or sold for the Cortec Clients (see Item 10 above). Cortec has established a variety of procedures and disclosures designed to address conflicts of interest arising between the Cortec Clients on the one hand and Cortec's business on the other.

### **Affiliated Investments, Cross Trades and Principal Trades**

*The Cortec Clients may engage in principal transactions*

In accordance with the anti-fraud provisions of the Advisers Act and Cortec's policies and procedures, neither Cortec nor its related persons will, as a principal, sell a security to, or buy a security from, any Cortec Client, without providing appropriate disclosure to and obtaining the prior consent of that Cortec Client prior to the settlement of that transaction.

*Investment Persons have financial interests in Cortec Client transactions*

As described in Item 4 above, Cortec and its related persons may receive advisory and consulting fees and other compensation for services provided to Cortec Clients' portfolio companies. Cortec and its related persons may also receive fees and other compensation with respect to a Cortec Client's portfolio companies (including fees based on consummated or unconsummated transactions). As described in Item 5 above, those fees are generally shared with the Cortec Funds and their investors through reductions or off-sets against management fees that would otherwise be applicable, as described in the relevant Cortec Funds Documentation.

Cortec personnel currently serve, and may in the future serve, on the boards of Cortec Clients' portfolio companies. (See Item 10 for a description of this potential conflict). In addition, Cortec Clients' portfolio companies and/or Cortec Clients' service providers may, from time to time, make discounts and other benefits available to Cortec personnel in connection with products or services offered by those companies (in respect to service providers, based upon the volume of services provided to Cortec).

*Cortec Purchases/Sales of Securities Recommended to the Cortec Clients*

As noted above in Item 4 and Item 10, Cortec sponsors and manages the Employee Co-Investment Vehicles, which are entities that invest in portfolio companies alongside the Cortec Funds.



## Item 12 – Brokerage Practices

### Selection of Brokers

Cortec has the authority to determine without client consultation or consent the investment banker or other intermediary through which the Cortec Clients purchase or sell portfolio investments, and the Compensation at which such transactions are effected.

In selecting brokers to provide services in connection with portfolio transactions, Cortec's policy is to seek the best execution, which means that it seeks to ensure that the client's total cost or proceeds is the most favorable under the circumstances. Accordingly, transactions will not always be effected at the best price or the lowest available Compensation.

Cortec does not adhere to any rigid formulas in making its selection of investment bankers or other intermediaries to assist with portfolio transactions on behalf of its clients, but weighs a combination of factors or criteria. For example, the determination of what is expected to result in best execution on an overall basis involves a number of factors, including:

- reliability;
- reputation;
- industry knowledge and expertise;
- ability to provide access to potential purchasers of portfolio companies;
- financial stability;
- efficiency;
- ability to keep brokerage activities confidential;
- provision of Products and Services;
- idea generation;
- competitive Compensation; and
- general responsiveness.

Cortec receives or may receive Products and Services from investment bankers and other intermediaries. "Products and Services" includes, but is not limited to:

- proprietary and third party research and analyses regarding potential portfolio companies;
- oral and written reports on market statistics or market trends;
- introduction of potential investment opportunities;
- reports on underwriting activity, bank rates, loan defaults, loan new issuance volumes and other capital markets statistics;
- opportunities to confer with company management;
- assistance with closing portfolio transactions;
- tickets to attend sporting and other recreational events;
- conferences and networking events (including fees, accommodations and meals).

Research services are received in the form of written reports, telephone contacts, and personal meetings with investment bankers and other intermediaries. In addition, research services may be provided in the form of access to various computer-generated data, and meetings arranged with corporate and industry spokespersons, economists, academics, and government representatives.

Cortec's receipt of Products and Services may cause clients to effectively pay Compensation higher than otherwise would be paid. To the extent Cortec receives Products and Services, it is saving money of its own that it would otherwise have to spend (unless those expenses would otherwise be paid for or reimbursed by a Cortec Client).

Products and Services may be used by Cortec for itself and/or in servicing some or all of its clients. Some Products and Services may not necessarily be used for the Cortec Clients even though their Compensation dollars (transaction-related fees) provided for those Products and Services. The Cortec Clients, therefore, may not, in any particular instance, be the direct or indirect beneficiaries of the Products and Services provided. Further, the relationships with brokers that provide Products and Services to Cortec may influence its judgment in allocating brokerage business and create a conflict of interest in using the services of those brokers to execute the relevant Cortec Client's portfolio transactions. Cortec will attempt to mitigate the foregoing conflicts of interest through the application of its best execution policies and procedures (which include monitoring whether it is obtaining best execution on an overall basis).

Cortec does not consider, in selecting or recommending brokers, whether it or a related person receives limited partner referrals from such brokers. Cortec does not enter into directed brokerage arrangements.

## **Item 13 – Review of Accounts**

### **A. Review- Risk Management**

During the early years of a portfolio investment, Cortec personnel typically hold operations review meetings with portfolio company management one to two days each month at the company's headquarters. These meetings involve discussions regarding, among other topics, the company's financials, key initiatives, future priorities and evaluation of progress against established objectives. In addition to these operations review meetings, Cortec personnel interact with portfolio company managers on at least a weekly basis, receive weekly flash reports on the performance of the business and provide direct assistance to portfolio companies on matters such as major sales proposals to existing or target customers.

## B. Reports to Clients

Cortec Client investors receive:

- audited annual financial reports of the relevant Cortec Client within 90 days of the conclusion of the Cortec Client's fiscal year (audited by the Fund's independent public accountant) and
- quarterly reports providing narrative and summary financial reports of the relevant Cortec Client's investments.

Certain Cortec Client investors may receive additional reports, in written and/or oral format, based on the terms of the side letters entered into between Cortec, on behalf of the relevant Cortec Client, and those Cortec Client's investors (subject to the terms of the Cortec Funds Documentation, as discussed above in Item 4).

The reports provided to Cortec Client investors are written.

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

Cortec has and may in the future enter into arrangements with third parties whereby such third parties receive fees for referring investors to the Cortec Funds. Any such compensation is only paid if the investor is aware of the fee arrangement (through disclosures or acknowledgments included in a Cortec Fund's subscription documents) and the arrangement otherwise complies with applicable rules and regulations (for example, a form of general disclosure with respect to the Cortec Funds). Any such compensation will be paid by the relevant Cortec Fund but borne by Cortec through a reduction in the management fee otherwise payable by the fund to its general partner.

## **Item 15 – Custody**

To the extent required by applicable law, the Cortec Clients' securities and funds are held by qualified custodians. As noted in Item 13 above, Cortec Client investors receive annual financial statements audited by an independent public accounting firm for the Cortec Client(s) in which they have invested. Cortec Client investors are urged to carefully review such statements.

## **Item 16 – Investment Discretion**

Cortec exercises discretion in managing each Cortec Client, based on the relevant Cortec Client's investment objectives, policies and strategies disclosed in the relevant Cortec Funds Documentation and the terms of any side letters between Cortec and Cortec Fund limited partners. Cortec typically assumes this authority through the Cortec Funds Documentation.

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

### **Summary of Proxy Voting Policies and Procedures**

Generally, Cortec does not acquire investments that require it to vote proxies on behalf of the Cortec Clients. However, pursuant to Rule 206(4)-6 under the Advisers Act, Cortec is providing this summary of its proxy voting process if it were to vote proxies on behalf of the Cortec Clients, as well as information as to how investors in the Cortec Clients may obtain Cortec’s complete proxy voting policy and procedures and information as to how proxies were voted for securities held by the Cortec Clients if Cortec were to vote such proxies.

To the extent proxy voting is part of a particular investment strategy, Cortec has adopted proxy voting policies and procedures designed to ensure that where its clients have delegated proxy voting authority to Cortec, all proxies are voted in the best interest of its clients without regard to the interests of Cortec or related parties. Clients may not direct Cortec’s vote in a particular solicitation. Cortec’s proxy voting policies provide that, in the case of any potential material conflict of interest related to a proxy vote, (i) Cortec’s Chief Compliance Officer will determine the manner in which the proxy will be voted (and may involve client consent) or (ii) the proxy will be voted through a third party proxy service. Cortec believes that either of these alternatives would serve to address any potential conflict of interest related to the proxy vote between Cortec and its clients.

Investors in the Cortec Clients may obtain a complete copy of Cortec’s Proxy Voting Policy and Procedures or information on how Cortec voted proxies for the relevant Cortec Client free of charge by submitting a written request to Cortec’s Chief Compliance Officer at 140 East 45<sup>th</sup> Street, 43<sup>rd</sup> Floor, New York, New York 10017, or by phone at (212) 370-5600.

## **Item 18 – Financial Information**

Form ADV Part 2 requires investment advisers such as Cortec to disclose any financial condition reasonably likely to impair their ability to meet contractual commitments to clients. At this time, Cortec has no information to report that is applicable to this Item 18.

### **Other Information**

The inclusion of R. Scott Schafler, Jeffrey A. Lipsitz, David L. Schnadig and Michael E. Najjar (managing members and/or managers of the Employee Co-Investment Vehicles) in Item 10 (under “Affiliated Investment Advisers”) and in Item 4 (in the disclosure regarding relying advisers) is not intended to imply that those persons would be deemed to be “investment advisers” within the meaning of the Advisers Act.