

**ITEM 1 - COVER PAGE**



**PART 2A OF FORM ADV:  
FIRM BROCHURE**

March 29, 2019

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**This brochure provides information about the qualifications and business practices of Solace Capital Partners, L.P. If you have any questions about the contents of this brochure, please contact us at (310) 919-5401. 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. Registration of an investment adviser does not imply any level of skill or training.**

**Additional information about Solace Capital Partners, L.P. is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Solace Capital Partners, L.P. and Solace General Partner, LLC are registered with the SEC as investment advisers; however, this registration does not imply a certain level of skill or training.**

## **ITEM 2 - MATERIAL CHANGES**

While we have made several clarifications in this brochure, we believe there are no material changes to this brochure, dated March 29, 2019, from our last annual updating amendment, dated March 29, 2018.

### ITEM 3 - TABLE OF CONTENTS

|  |    |
|--|----|
| ITEM 1 - COVER PAGE .....  | 1  |
| ITEM 2 - MATERIAL CHANGES .....  | 2  |
| ITEM 3 - TABLE OF CONTENTS.....  | 3  |
| ITEM 4 - ADVISORY BUSINESS .....   | 4  |
| ITEM 5 - FEES AND COMPENSATION .....   | 5  |
| ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT ..   | 10 |
| ITEM 7 - TYPES OF CLIENTS.....   | 11 |
| ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES<br>AND RISK OF LOSS.....                             | 12 |
| ITEM 9 - DISCIPLINARY INFORMATION.....   | 18 |
| ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS...  | 19 |
| ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT<br>TRANSACTIONS, AND PERSONAL TRADING..... | 20 |
| ITEM 12 - BROKERAGE PRACTICES .....  | 22 |
| ITEM 13 - REVIEW OF ACCOUNTS .....   | 23 |
| ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION .....  | 24 |
| ITEM 15 - CUSTODY.....   | 25 |
| ITEM 16 - INVESTMENT DISCRETION .....  | 26 |
| ITEM 17 - VOTING CLIENT SECURITIES .....   | 27 |
| ITEM 18 - FINANCIAL INFORMATION.....   | 28 |

#### **ITEM 4 - ADVISORY BUSINESS**

Solace Capital Partners, L.P. (“Solace” or the “Manager”) is an independent investment management firm headquartered in Los Angeles, California that was formed on July 14, 2014 and commenced operations as an investment adviser on April 10, 2015. Solace provides investment management services to Solace Capital Special Situations Fund, L.P. (the “Fund”), a private fund focused on control-oriented special situations and distressed-for-control investments in complex, distressed or capital-constrained, lower-middle market companies, located primarily in North America.

Solace General Partner, LLC, an affiliate of Solace, acts as the general partner of the Fund (the “General Partner”). The limited partners of the Fund are herein referred to as the “Limited Partners”.

Solace is owned primarily by family limited partnerships and trusts that are ultimately controlled by Christopher Brothers and Brett Wyard, (the “Managing Partners”), and Vincent Cebula, Partner and Chief Operating Officer (collectively with the Managing Partners, the “Partners”).

Solace provides discretionary investment services to the Fund. Solace provides investment advice directly to the Fund according to the Fund’s investment objectives and not individually to the Limited Partners.

As of December 31, 2018, Solace was managing approximately \$581.4 million of Fund assets (including commitments) on a discretionary basis.

## ITEM 5 - FEES AND COMPENSATION

Solace provides investment management services to the Fund pursuant to an investment management agreement which, along with the governing documents of the Fund, sets forth in detail the fee structure relevant to the Fund.

In general, Solace receives compensation in the form of management fees charged to the Fund based on a percentage of the total capital commitments to the Fund (the “Management Fee”). Solace also receives transaction fees, board fees and other payments from portfolio companies, and may receive monitoring fees, which offset all or a portion of Management Fees, subject to certain thresholds. In addition, an affiliate of the Manager, Solace Special Limited Partner, LLC (the “Special Limited Partner”), receives performance-based compensation in the form of a carried interest participation in the Fund (“Carried Interest”). These compensation arrangements, which are briefly described below, are described in detail in the governing documents applicable to the Fund. While compensation is generally not negotiable, under certain circumstances, Solace has, in its discretion, waived a portion of its Management Fees or Carried Interest with respect to a particular investor (*e.g.*, investors that offer strategic opportunities or benefits to the Fund, including but not limited to the timing and size of its capital commitment to the Fund). Moreover, Solace has waived or reduced all or part of the Management Fees and the Carried Interest with respect to certain investors, including, but not limited to, “friends and family” investors, affiliates and employees (and their families) of the Manager, (the “Solace Investors”).

### **Management Fees**

With respect to any quarterly period commencing prior to the Management Fee Stepdown Date (as defined below), the Fund pays to the Manager a periodic Management Fee equal to 2.0% per annum (or 0.5% quarterly) of total Limited Partner capital commitments (not including the Solace commitment). With respect to any quarterly period commencing after the Management Fee Stepdown Date, the Management Fee payable by the Fund equals 1.75% per annum (or 0.4375% quarterly) of remaining invested capital (less, in the case of any such investment that has been written down, the amount of such write down net of any subsequent write up).

The term “Management Fee Stepdown Date” means the earlier of (i) the date immediately following the last day of the commitment period and (ii) the date on which the Manager, the General Partner, any key person then employed by Solace or any of their respective affiliates draws management fees from a successor fund.

The Management Fee is payable quarterly in advance, is deducted from the Fund’s assets and is paid from capital called from the Limited Partners or from amounts otherwise available for distribution to the Limited Partners. In the event of termination of the Manager, the Manager shall not be entitled to any compensation other than the portion of the Management Fee accrued through the date of such termination and will refund any unearned Management Fee, subject to reasonable expenses.

### **Carried Interest**

A portion of the Fund's net investment proceeds will be distributed, if earned, to the Special Limited Partner as Carried Interest distributions. Generally, the Special Limited Partner is entitled to receive 20% of the investment profits of the Fund, pursuant to a distribution waterfall described in the offering documents of the Fund.

### **Portfolio Company Fees**

100% of any Portfolio Company Fees received by a Solace Party (net of the portion thereof allocable to the capital commitments of the Solace Investors) are required to be shared with Limited Partners by reducing Management Fees otherwise payable by the Limited Partners to the Manager on a dollar-for-dollar basis. "Portfolio Company Fees" include advisory, monitoring, directors', transaction, break-up (net of broken deal expenses) and other fees received by a Solace Party from a portfolio company in which the Fund invests or in connection with unconsummated Fund investments. The term "Solace Parties" includes the General Partner, the Manager, their respective affiliates and each employee, member or partner of the Manager and its affiliates, but *specifically excludes* Operating Partners and Operating Advisors (both as described in more detail below), even if any such person is or becomes an employee, member or partner of the Manager or its affiliates. "OP Service Fees" (as described in more detail below), which may be paid by the Fund or a Fund portfolio company directly to an Operating Partner, or to Solace or one of its affiliates and then used by such entities to pay the salary and bonus of Operating Partners, are not treated as Portfolio Company Fees (nor are reimbursements of out-of-pocket expenses incurred by Operating Partners in connection with their service activities so long as such expenses constitute "Partnership Expenses" as described below). In situations where the Fund invests in a portfolio company alongside of other investors and such other investors agree to be responsible for any fees paid by a portfolio company to a Solace Party (it being understood that such other investors are not obligated to be so responsible), only the Fund's allocable share of such fees (based on the portion of its investment relative to other similarly situated investors) will be subject to the Management Fee offset described above.

### **Organizational and Partnership Expenses**

The Fund will bear up to \$2.0 million of legal and other expenses incurred by the General Partner, the Manager and their respective affiliates in connection with the organization of the Fund, any parallel or feeder funds and related entities, and the offering of interests therein ("Organizational Expenses"). Organizational Expenses in excess of the cap will be paid by the Fund but borne by the Manager and its affiliates through a 100% offset against Management Fees otherwise payable to the Manager.

The Fund is also responsible for the payment of all costs, expenses and liabilities relating to its operations, that are not otherwise reimbursed by portfolio companies, including, but not limited to: (i) Management Fees; (ii) expenses related to Fund investments (or proposed Fund investments which are not consummated) including, without limitation, the fees and expenses of outside counsel, accountants, consultants, experts and other third party service providers (including without limitation, third party valuation and pricing services), third party research expenses, due diligence expenses, investment banking and finders' fees, appraisal fees, clearing and settlement

charges, brokerage fees, custodial fees, stamp and transfer taxes, hedging costs and travel expenses; (iii) fees, expenses and other amounts paid to its operating partners (the “Operating Partners”) (in their capacities as employees of the Manager or through SCO LLC) and its operating advisers (the “Operating Advisors”) (the fee payments are referred to herein as the “Operating Partner Fee” and the “Operating Advisor Fee,” respectively), as more fully described under “Operating Team Fees and Expenses” below); (iv) expenses associated with the operation and administration of the Fund including, without limitation, outside counsel, third party valuation, accounting, audit, tax preparation and other out-of-pocket expenses and the fees and expenses of any third party fund administrator; (v) expenses associated with reporting and providing information to Limited Partners; (vi) expenses associated with the General Partner’s role as the tax matters partner or as the partnership representative; (vii) expenses associated with meetings of the Limited Partners and of the Fund’s Limited Partner advisory committee (the “LP Advisory Committee”) and the reasonable out-of-pocket expenses of the members of the LP Advisory Committee in connection with their services; (viii) compliance expenses relating to the operation of the Fund or its investments, including, without limitation, expenses associated with regulatory investigations, inquiries and proceedings relating to the Fund, the Manager, the General Partner or their respective affiliates (but excluding routine or periodic compliance expenses such as expenses incurred in connection with Form PF, Form ADV and other periodic regulatory filings or updates); (ix) the costs of forming and operating any alternative investment vehicle (including, without limitation, administrative costs); (x) the costs of forming and operating any feeder fund (including, without limitation, administrative costs); (xi) commitment fees and other fees and amounts (including, without limitation, attorneys’ fees, interest payments and facility fees) incurred in connection with the negotiation, documentation, and performance of any credit facility or permitted guarantee; (xii) insurance premiums or similar expenses incurred by the Fund, the General Partner, the Manager or their affiliates in connection with the activities or operations of the Fund, its related vehicles and/or feeder funds (including without limitation, directors and officers, errors and omission, fidelity, general liability and workers compensation insurance costs); (xiii) indemnification costs; (xiv) certain taxes as described in the relevant governing documents; (xv) costs and expenses associated with litigation, threatened litigation or governmental or regulatory inquiry involving the Fund, its investments or Fund activities (including, without limitation, attorneys’ fees, any judgments, settlements or other amounts paid in connection therewith) and all other extraordinary expenses; (xvi) fees paid to any placement agent, subject to certain offsets; and (xvii) all other costs and expenses incurred in connection with the Fund, the alternative investment vehicles or the feeder funds or that otherwise may be authorized by the Fund’s partnership agreement (the “Partnership Agreement”) or approved by the General Partner and a majority in interest of the Limited Partners or the LP Advisory Committee.

Co-investors participating in a co-investment may be subject to any of the costs and expenses enumerated above. In general, however, the Fund will bear 100% of all out of pocket expenses (including, without limitation, legal and accounting costs and travel expenses) associated with any investment that is not consummated, including any portion thereof that may or would have been allocated to potential co-investors had such investment been consummated, subject to certain limited instances (set forth in the Solace co-investment policy) in which co-investors may be required to bear their pro rata share of such expenses. Solace and its affiliates could elect to reduce or waive any or all such fees, carried interest and other amounts for the benefit of one or more co-investors without offering such reduction or waiver to the other co-investors.

## **Operating Team Fees and Expenses**

**The Operating Partners.** The “Operating Partners” are employees of the Manager who provide certain portfolio support services (“OP Services”) to the Fund and/or a Fund portfolio company. OP Services are generally differentiated in nature from the types of services that the Manager’s other employees would typically provide as part of their investment management activities (for example, OP Services often involve operating advice and expertise of the type provided by third party consultants). The Fund or Fund portfolio companies will pay certain fees and other amounts (“OP Service Fees”) in respect of OP Services provided by the Operating Partners. OP Service Fees may be paid to Solace or its affiliates (including SCO LLC, as further described under Item 10 “Other Financial Industry Activities and Affiliations” below) or directly to the Operating Partners (generally, OP Service Fees are paid to Solace or SCO LLC, which then uses them to pay the salaries and bonuses of Operating Partners). In general, OP Service Fees are determined by reference to what a third-party consultant would be paid for similar services (although, in certain cases, OP Service Fees may exceed market rates and OP Service Fees are not necessarily negotiated on an arm’s length basis).

Subject to the following sentence, OP Service Fees paid or borne by the Fund (either directly or indirectly in respect of its interest in a Fund portfolio company) in excess of \$1 million per year are required to be offset on a dollar-for-dollar basis against Management Fees otherwise payable by Limited Partners to the Manager. In situations where the Fund invests in a portfolio company alongside of other investors and such other investors agree to be responsible for any OP Service Fees paid by a portfolio company (it being understood that such other investors are not obligated to be so responsible), only the Fund’s allocable share of such OP Service Fees (based on the portion of its investment relative to other similarly situated investors) will be subject to the \$1 million cap described in the preceding sentence. In addition, the Fund’s allocable share of any OP Service Fees received by the Manager or its affiliates (including SCO LLC) that are not used during any annual period to pay the salaries or bonuses of the Operating Partners will be treated as “Portfolio Company Fees” and, as such, will be subject to the Management Fee offset described above.

**The Operating Advisors.** The Operating Advisors are consultants, are not Solace employees, are not expected to provide recurring/ongoing consulting services to Solace and are not likely to participate in a portion of the Carried Interest distributions of the Fund along with Solace and its employees. The Operating Advisors provide operational advice or services to the Fund in respect of prospective or actual portfolio company investments and to the portfolio companies in which the Fund invests. Operating Advisors are compensated at an hourly or per diem rate that Solace believes to be at market. Their compensation is not subject to offsets (*i.e.*, Operating Advisor Payments are paid by the Fund or the portfolio companies and are not offset against the Management Fee). Also, Operating Advisors may, in connection with their services to the portfolio companies, receive incentive compensation from the portfolio companies similar to that provided to the portfolio company’s senior management, unaffiliated board directors or, if there are no unaffiliated board directors, incentive compensation customarily provided by similar companies to unaffiliated board directors, as determined in good faith by the Manager.

Please refer to Item 12 “Brokerage Practices” below for information about brokerage fees and co-investment allocation.

## **Side Letters**

The General Partner, on behalf of the Fund, has entered into letter agreements or other similar agreements (collectively, “Side Letters”) with one or more Limited Partners (without the approval of each other Limited Partner) that provide such Limited Partners with additional or different rights (including certain supplemental reporting and information rights, and special economic rights) than are generally available to the Limited Partners under the Partnership Agreement.

Absent any agreement to the contrary, the General Partner, on behalf of the Fund, is not required to notify any or all of the other Limited Partners of any such Side Letters or any of the rights or terms or provisions thereof, nor is the General Partner required to offer such additional or different rights or terms to any or all of the other Limited Partners. The other Limited Partners will have no recourse against the Fund, the General Partner, the Manager or any of their respective partners, members, employees or affiliates in the event that certain Limited Partners receive additional or different rights or terms as a result of such Side Letters.

## **ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Solace currently provides management services to one client, the Fund, and therefore believes that it does not have side-by-side management-related conflicts of interest. However, the fact that Solace and its affiliates are compensated based on a share of performance-based investment profits from the Fund could create an incentive for Solace to cause the Fund to make investments that are riskier or more speculative than would be the case in the absence of such compensation. Solace manages this potential conflict of interest by, among other things, ensuring that no single person makes material investment decisions for the Fund; instead, investment decisions are made by Solace's investment committee, comprised of the three Partners (the "Investment Committee").

## **ITEM 7 - TYPES OF CLIENTS**

Solace provides investment advisory services to the Fund.

Although Solace has the authority to accept subscriptions for lesser amounts, the minimum capital commitment for the Fund is typically \$5 million.

## **ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Investment Strategy and Analysis**

Solace's primary objective is to generate attractive risk-adjusted returns by making control-oriented special situations and distressed-for-control investments in complex, distressed or capital-constrained, lower-middle market companies located primarily in North America. In particular, Solace seeks to make investments of between \$10 million and \$75 million in mature companies with between \$50 million and \$500 million in enterprise value. Solace believes that the lower-middle market presents a healthy flow of attractive investment opportunities.

Special situations investments include direct financings, acquisitions and turnarounds originating from various types of non-traditional capital needs, divestitures, corporate asset sales (in and out of bankruptcy) and greenfield platform opportunities. These transactions can be structured in the form of common stock, LLC interests, preferred stock and debt with warrants.

With respect to the Fund, Solace seeks to purchase fulcrum securities of distressed companies in the secondary market with a view toward converting the investments into controlling equity positions. A fulcrum security is the debt instrument that controls the ultimate restructuring of the company in a bankruptcy or an out-of-court negotiated reorganization and is the debt most likely to be converted to equity. Generally, a fulcrum security is the most senior impaired tranche in the capital structure, and it typically trades at a discount to par value.

Solace seeks to generate returns by (i) refinancing the debt, typically at par value plus accrued and unpaid interest, or (ii) converting such claims into an influential or controlling stake in the underlying company to facilitate an exit from reorganization. If the company's financial performance does not materially improve, Solace will be positioned to equitize its investment and obtain control of the company.

The evaluation of investment opportunities begins with thorough due diligence to analyze whether an investment can be made at a discount to intrinsic value and generate returns consistent with the Fund's return objectives. Solace employs a rigorous approach to reviewing each investment opportunity, drawing on the investment and operations teams as well as consulting with Solace's Operating Advisors and other industry experts. While the process is customized for each potential investment, seven steps of due diligence are likely to be undertaken for each investment: Initial Review; Financial; Industry; Management; Financing/Restructuring; Operational Improvements; and Legal and Regulatory.

Upon completion of due diligence, a detailed investment memorandum (addressing a range of key issues, risks and other relevant matters associated with a proposed investment) is prepared and discussed by the Solace team. Thereafter, the proposed investment is submitted to the Investment Committee for final review and approval. Consensus approval of the Investment Committee is required for all investments on behalf of the Fund.

## **Risk of Loss**

*The following risk factors do not purport to be a complete list or explanation of the risks involved in investing with Solace. These risk factors include only those risks Solace believes to be material, significant or unusual and relate to specific significant investment strategies or methods of analysis employed by Solace.*

**General Investment Risk.** Investing in securities involves a risk of loss that investors should be prepared to bear. An investment in the Fund is speculative, entails a high degree of risk and is suitable only for investors who can afford to bear a loss of the entire amount invested.

**General Business and Management Risk.** Investments in portfolio companies subject the Fund to the general risks associated with the underlying businesses, including market conditions, changes in regulatory requirements, reliance on management at the portfolio company level, interest rate and currency fluctuations, general economic downturns, domestic and foreign political situations and other factors. With respect to management at the portfolio company level, many portfolio companies rely on the services of a limited number of key individuals, the loss of any one of whom could significantly adversely affect the portfolio company's performance. While in all cases Solace monitors portfolio company management, management of each portfolio company has day-to-day responsibility for the operations of such portfolio company.

**Illiquid Investments.** The Fund invests in investments that are thinly traded, investments for which no market exists or investments that are restricted as to their transferability under applicable securities laws or documents governing particular transactions of the Fund. For example, the Fund invests in post-reorganization securities which are often characterized by limited liquidity, wider bid/ask spreads and the absence of broker-dealers. Some securities or instruments that were liquid at the time they were acquired can, for a variety of reasons which may not be in the Solace's control, later become illiquid. This can have the effect of limiting the availability of these securities or instruments for purchase and can limit the ability to sell such investments at their fair market value prior to termination of the Fund or in response to changes in the economy or the financial markets. Due to securities regulations governing certain publicly traded equity securities, Solace's ability to sell securities on behalf of the Fund could also be diminished with respect to equity holdings that represent a significant portion of the issuer's securities (particularly if the Fund has designated one or more directors of the issuer). Thus, there can be no assurance as to the timing and amount of distributions from the Fund, and any distribution that would require either an in-kind distribution or a forced sale of illiquid assets at a price deemed unattractive by the Manager may occur at the end of the Fund's term. To the extent any investments of the Fund cannot be sold prior to the dissolution of the Fund, they could be distributed in kind to the Partners upon dissolution of the Fund. The securities and instruments so distributed may not be readily marketable.

**Investments in Privately Held Companies.** The Fund's investment portfolio will consist primarily of securities issued by privately held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

**Control Investments.** In the case of many of the Fund's investments, Solace will seek to have controlling interests in investee companies or the ability to significantly influence such companies. The exercise of control of, or significant influence over, a portfolio investment may impose additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations (including securities laws) or other types of liability in which the limited liability generally characteristic of business ownership may be ignored. If these liabilities were to arise, the Fund might suffer a significant loss.

**Minority Investments.** On behalf of the Fund, Solace invests in minority positions in companies over which the Fund has no right to exert significant influence. In such cases, the Fund will be heavily reliant on the existing management and board of directors, which could include representatives of other investors with whom the Solace is not affiliated and whose interests may conflict with the interests of the Fund.

**Investments Longer than Term.** Solace may recommend investments that may not be advantageously disposed of prior to the date the Fund is required to be dissolved, either by expiration of the Fund's term or otherwise. Although Solace expects that Fund investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, the Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

**Leverage.** Some of the portfolio companies in which Solace invests on the Fund's behalf are highly leveraged, thereby increasing the degree of credit risk inherent in each investment. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to finance future operations and capital needs or to pay principal and interest on the Fund's investments when due. The leveraged capital structure of portfolio companies will increase the exposure of the Fund's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates. There are also financing costs associated with leverage, and each leveraged investment will involve interest rate risk to the extent that financing charges for such leveraged investment are based on a predetermined interest rate. The Fund's investments can be unsecured and subordinated to substantial amounts of senior indebtedness, all or a significant portion of which could be secured and bear floating interest rates.

**Concentration of Investments.** Subject to the limitations set forth in the Partnership Agreement, the Fund's portfolio of investments may be concentrated in a few relatively large investments and any single loss could have a significant adverse impact on the Fund's overall returns. In addition, the Fund's investments are not required to be diversified by industry, geographical region or type of security.

**Contingent Liabilities Upon Disposition.** In connection with the disposition of a core portfolio investment of the Fund (a "Portfolio Company"), the Fund 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 or asset and may be responsible for the content of disclosure documents under applicable securities laws. It may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents turn out to be inaccurate. These arrangements may result in contingent

liabilities that will be borne by the Fund, and Limited Partners may be required to return amounts distributed to them to pay for the Fund's obligations, including indemnity obligations, subject to certain limitations set forth in the Partnership Agreement. Furthermore, under the Delaware Revised Uniform Limited Partnership Act (the "Partnership Act"), the law under which most of the Partnerships are formed, each Limited Partner that receives a distribution in violation of the Partnership Act will, under certain circumstances, be obligated to recontribute such distribution to the Partnership.

**Asset Valuations.** Generally, there will be no readily available markets for a substantial number of the Fund's portfolio investments; hence, many of the portfolio investments will be difficult to value. Valuations of the portfolio investments will be determined primarily by the General Partner, subject in some cases to review by the LP Advisory Committee, and generally will be final and conclusive. Valuations are only estimates of future results that are based upon assumptions made at the time that the valuations are developed. There can be no assurances that the projected results will be obtained, and actual results can vary significantly from the valuations. General economic, political, regulatory and market conditions and the actual operations of the Portfolio Companies, which are not predictable, can have a material impact on the reliability and accuracy of such valuations.

**Investment Due Diligence and Investment Research.** When conducting due diligence and investment research, Solace is required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks are involved in the due diligence and investment research process in varying degrees depending on the type of investment. When conducting due diligence and investment research and making an assessment regarding an investment, Solace relies on information provided by such persons, or by the management or shareholders of the target of the investment or their advisors. The due diligence investigation and investment research that Solace carries out with respect to any investment opportunity may not reveal or highlight all relevant facts that are necessary or helpful in evaluating such investment opportunity, can lead to inaccurate or incomplete conclusions, or may be manipulated by fraud. Moreover, such an investigation will not necessarily result in the investment being successful.

**Nature of Bankruptcy Proceedings.** There are a number of significant risks when investing in companies involved in bankruptcy proceedings, including the following:

- Many events in a bankruptcy are the product of contested matters and adversary proceedings that are beyond the control of the creditors.
- A bankruptcy filing can have adverse and permanent effects on an investee company. For instance, the company could lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. Further, if the proceeding is converted to a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment.
- The duration of a bankruptcy proceeding is difficult to predict. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the

Fund; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position can erode, key management can depart and the company may not be able to reorganize and could be required to liquidate assets. Certain claims, such as claims for taxes, wages and certain trade claims, may have priority by law over the claims of certain creditors.

- U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for purposes of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the Fund's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class.
- Creditors can lose their ranking and priority in a variety of circumstances, including if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by such actions.

**Distressed Securities.** The Manager invests in securities and other obligations of companies that are experiencing significant financial or business distress, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although such purchases can result in significant returns, they involve a substantial degree of business and financial risk and may not show any return for a considerable period of time or result in substantial losses. In fact, many of these securities and investments ordinarily remain unpaid unless and until the company reorganizes and/or emerges from bankruptcy proceedings, and as a result may have to be held for an extended period of time. In any reorganization or liquidation proceeding relating to the company in which the Fund invests, the Fund may lose its entire investment or be required to accept cash or securities with a value less than the Fund's original investment.

**Defaulted Securities.** The Manager invests on behalf of the Fund in the securities of, and trade claims against, companies involved in bankruptcy proceedings, reorganizations and financial restructurings and has a more active participation in the affairs of the issuer than is generally assumed by an investor. This could subject the Fund to litigation risks or prevent the Fund from disposing of securities. In a bankruptcy or other proceeding, the Fund as a creditor could be unable to enforce its rights in any collateral or have its security interest in any collateral challenged, disallowed or subordinated to the claims of other creditors. While the Fund will attempt to avoid taking the types of actions that would lead to equitable subordination or creditor liability, there can be no assurance that such claims will not be asserted or that the Fund will be able to successfully defend against them. Other investors may purchase the securities of these companies for the purpose of exercising control or management and the Fund may be at a disadvantage to the extent that the Fund's interests differ from the interests of these other investors.

**Other Risks.** Other risks with respect to the Manager's strategies include: lender liability and equitable subordination (unusual situations where judicial decisions have found a lender has violated a duty owed to the borrower and held the lender liable); third party involvement in investments that could expose the Fund to conflicts of interest and potentially liability for the actions of its co-venturers or partners; difficulties in replacing bridge financing that could lead to unexpectedly higher costs; regulatory issues with respect to companies that operate in highly regulated industries; risks with respect to hedging transactions and various financial instruments or transactions (including, interest rate hedges, put options, short sales, etc); and environmental

risks, particularly with respect to investments in certain industries such as the energy sector. Additional risks with respect to financial instruments include: risks associated with debt investments generally, such as credit and market risk; risks related to the investment in junior securities where there is no collateral to protect the investment; risks associated with bank loans and participations, including invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws and other risks that are described in more detail above; and risks associated with investments in "high yield" bonds and lower rated preferred securities which are generally considered more speculative.

## **ITEM 9 - DISCIPLINARY INFORMATION**

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

## **ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Neither Solace nor any of its Managing Partners is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer; or as a futures commission merchant, commodity pool operator, a commodity trading advisor or an associate person of the foregoing entities.

As noted under Item 4 above, the General Partner, an affiliate of Solace, acts as the general partner of the Fund. The relationship between Solace and the General Partner does not, in and of itself, create any material conflicts of interest affecting investors in the Fund. However, the General Partner is subject to the same conflicts of interest with investors as is Solace.

Further, SCO LLC, a wholly owned subsidiary of Solace, provides investment support services to Solace, the Fund and portfolio companies, including financial and operational due diligence, portfolio company oversight, operational improvement and, if required, crisis management. As previously noted, the Manager employs the Operating Partners who provide services to the Fund and the portfolio companies. Because Solace controls SCO LLC, retention of SCO LLC to provide services to the Fund or the portfolio companies creates a conflict of interest. Solace has an incentive to use SCO LLC rather than a third party. Solace believes, however, that the nature and quality of the services to be provided by SCO LLC to the Fund and its portfolio companies are at least as good as, and competitively priced with respect to, comparable services provided by unrelated third parties. Solace regularly reviews the market for these types of services to ensure that, in Solace's judgment, the Fund and the portfolio companies continue to receive services at competitive prices. In making this judgment, Solace takes into account (i) the special needs of the portfolio companies that require such services, (ii) the Management Fee offset (described under Item 5 Fees and Compensation above), which is not available with respect to third party providers and (iii) the Operating Partners' potential participation in the Carried Interest distributions as an added alignment of interests.

## **ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS, AND PERSONAL TRADING**

Solace has adopted a written Code of Ethics (the “Code”) designed to address and avoid potential conflicts of interest as required under Rule 204A-1 (the “Rule”) of the Advisers Act of 1940, as amended (the “Advisers Act”).

The Rule requires Solace to adopt a code of ethics that, among other things, (i) sets forth a standard of business conduct that we require of our employees and reflects our fiduciary obligations to our clients and (ii) requires compliance with federal securities laws by all of our employees. The Code contains policies and procedures that are designed to permit personal securities trading by employees in such a manner as to avoid conflicts of interest or abuse of an individual’s position of trust and responsibility. For example, Solace employees must receive written preclearance from Solace’s chief compliance officer (the “CCO”) to buy or sell “Reportable Securities” as defined in the Code. Due to the nature of the Fund’s investment strategies, it is unlikely a Solace employee will seek to purchase or sell securities in which the Fund invests, although it is permissible for them to do so if the trade has been precleared. The purpose of the preclearance requirement is to ensure that personal trading that could disadvantage the Fund is not permitted. A copy of the Code will be provided, at no cost, to any Limited Partner or prospective Limited Partner upon request.

Solace generally intends to avoid any transaction that constitutes a “principal transaction” within the meaning of Section 206(3) of the Advisers Act. In such a transaction, an adviser acts as principal for its own account with respect to the sale of a security to, or purchase of a security from, its client. If, however, Solace determines such a transaction is in the best interests of the Fund, Solace may enter into such transaction provided Solace has met the Advisers Act requirements with respect to such a transaction, including the relevant disclosure requirements and the requirement to obtain the informed consent of the Fund, which may be satisfied with the approval of the LP Advisory Committee.

Solace serves, directly or indirectly, as the Manager and General Partner to the Fund. Employees of Solace have investments in the Fund. Solace does not believe this arrangement presents any material conflicts of interest since its interests and the interests of its employees are thereby aligned with the interests of investors in the Fund.

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

Although Solace does not expect the Fund to generate a significant amount of co-investment opportunities, it is possible that certain of the Fund’s investments, particularly larger investments (in terms of capital invested), may create opportunities for certain persons or entities to co-invest in such investments alongside the Fund. Solace will allocate co-investment opportunities among Limited Partners and/or their affiliates and/or third-party investors in accordance with Solace’s co-investment policy, a copy of which is available to all Limited Partners.

In general, Solace expects that it will first offer available co-investment opportunities to Limited Partners (and/or their affiliates) and strategic co-investors before offering such opportunities to other persons. Solace will not be obligated to offer co-investment opportunities to all Limited Partners and it may offer such opportunities to certain Limited Partners, but not others (including

to a single Limited Partner or small group of Limited Partners), based on such factors as Solace, in its sole discretion, determines is relevant or appropriate under the circumstances, including but not limited to such factors as: (i) Solace's assessment that a co-investor will be able to consummate a co-investment within the time frame established by Solace (including completion of due diligence and obtaining all required internal approvals) as demonstrated by, among other things, Solace's prior co-investment experience with such co-investor, a co-investor's financial resources, size, staffing, expertise and industry reputation and/or representations made to Solace by such co-investor; (ii) Solace's assessment that a co-investor's participation in a co-investment may or will provide certain strategic benefits to the Fund; (iii) Solace's evaluation of whether the co-investment opportunity may subject the potential co-investor to legal, regulatory, reporting, public relations, media or other burdens that make it less likely the potential co-investor would act upon the potential co-investment if offered; and (v) such other factors set forth in Solace's co-investment policy. As part of its evaluation, Solace may decide to weight certain factors from its policy more than others, depending on the facts and circumstances of a particular co-investment opportunity. The amount of each co-investment opportunity allocated to participating Limited Partner co-investors will be determined by Solace, in its sole discretion, and is likely not to be proportional to the respective capital commitments of such participating Limited Partner co-investors.

A co-investor will not receive the benefit of any portfolio company or transaction fees received by Solace or its affiliates in connection with a co-investment unless such co-investor is also paying management fees to Solace or its affiliates in respect of such co-investment (with the allocation of any such portfolio company or transaction fees being made in accordance with the terms of the governing documents and the co-investment policy). In addition, a co-investor will not receive a share of any broken deal fees received in connection with an unconsummated co-investment unless such co-investor has agreed to pay its share of broken deal expenses associated with such unconsummated co-investment.

### **Trade and Other Clerical Errors**

Solace may on occasion experience trade, administration, operations and other human errors when conducting investment and administration activities on behalf of the Fund. Solace will endeavor to detect and correct the error as soon as practicable and to scrutinize carefully its policies and procedures with respect to the error with a view toward revising its procedures to prevent or reduce future errors, if necessary. Such trade and other clerical errors resulting in gains will be for the benefit of the Fund and will not be retained by Solace. Absent a breach of its standard of conduct, Solace and its affiliates are generally not liable to the Fund for any act or omission. In other words, absent gross negligence, fraud or willful misconduct or a material and uncured breach of the Partnership Agreement on the part of Solace or its affiliates, the Fund will bear losses that result from trade and other clerical errors. Solace, subject to its fiduciary obligations, will determine whether or not any loss resulting from a trade or other clerical error is required to be reimbursed in accordance with its standard of conduct.

## **ITEM 12 - BROKERAGE PRACTICES**

Solace does not expect to make regular use of broker-dealers for the purposes of purchasing or selling securities on behalf of the Fund because the securities that it typically purchases or sells are acquired and/or disposed of in privately negotiated purchase and sale transactions. However, Solace uses a broker-dealer to effect certain transactions in public securities, and in those instances, Solace will seek to obtain the best execution in its selection of a broker-dealer, taking into account the following factors: the range and quality of a broker-dealer's brokerage services, its execution capability, commission rate, financial responsibility and responsiveness to Solace, and the value of research provided, if any.

Broker-dealers through which Solace effects transactions provide Solace with investment research and other products and services that are generally made available to all institutional investors doing business with such broker-dealers. These bundled services are made available to Solace on any unsolicited basis and without regard to the rates of commissions charged or paid by Solace or the volume of business Solace directs to such broker-dealers. In other words, Solace does not "pay-up" for any such research of other products.

Solace does not currently have any soft dollar benefit or client referral arrangements with broker-dealers in connection with Fund transactions, although Solace receives investment research (or other products) as described above.

### **ITEM 13 - REVIEW OF ACCOUNTS**

Investments held by the Fund are reviewed by the Investment Committee, which meets regularly to discuss a variety of issues related to the Fund's current portfolio holdings and potential investment opportunities.

Solace provides written quarterly and annual reports to the Fund's investors in accordance with the terms of the Fund's governing documents. Annual audited financial statements for the Fund are provided to investors within 120 days of the end of each fiscal year, along with annual capital account statements and year-end tax information.

#### **ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

Solace does not engage third party agents for client referrals.

## **ITEM 15 - CUSTODY**

Although an independent qualified custodian holds and has physical custody of the Fund's cash and certificated securities, Solace is deemed to have custody of the Fund's assets since a Solace affiliate serves as the Fund's general partner and has the authority to dispose of the Fund's assets. To meet certain of its obligations under Advisers Act Rule 206(4)-2 (the "Custody Rule"), Solace arranges on an annual basis for the Fund's financial statements to be (i) prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), (ii) audited by an independent public accountant that meets the requirements of the Custody Rule and (iii) distributed to all Fund investors within 120 days of the Fund's fiscal year end.

## **ITEM 16 - INVESTMENT DISCRETION**

The governing documents of the Fund provide that Solace or an affiliate has exclusive and complete authority and discretion in managing the business and affairs of the Fund, subject only to specific and express limitations provided therein.

## **ITEM 17 - VOTING CLIENT SECURITIES**

Solace has authority for voting proxies on behalf of the Fund relating to the portfolio companies in which it invests. In addition to proxy solicitations in connection with equity securities of traditional operating companies, proxy voting is also deemed to include any consent requested in matters such as bankruptcy or insolvency, covenant waivers in connection with debt, approvals regarding the restructuring of debt and other rights and remedies with respect to securities.

Solace's policy is to vote proxies consistent with its fiduciary duty and vote client proxies in a way that Solace determines will cause the value of the issue to increase the most or decline the least. The Investment Committee is responsible for considering a proxy solicitation and determining whether and how to vote the proxy. In voting proxies, Solace will seek to avoid material conflicts of interest between its interests, on the one hand, and the interests of the Fund and its investors, on the other. If Solace detects a material conflict of interest in connection with a proxy solicitation, the Investment Committee will consider the vote, discuss the perceived conflict of interest with the CCO, and decide on how to vote the proxy. In limited circumstances, Solace may refrain from voting proxies where it believes that abstaining from voting would be in the Fund's best interest. In all instances, Solace will record the decision and then process the proxy accordingly.

Upon request, Solace will provide investors in the Fund with its proxy voting policy and information about how the proxies relevant to the Fund and investor are voted.

## **ITEM 18 - FINANCIAL INFORMATION**

Solace has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage the Fund.