

**Item 1. Cover Page**

**Harbour Group Industries, Inc.**

7733 Forsyth Blvd  
St. Louis MO, 63105

[www.harbourgroup.com](http://www.harbourgroup.com)

Part 2A of Form ADV: Firm Brochure  
March 2022

**This brochure provides information about the qualifications and business practices of Harbour Group Industries, Inc. If you have any questions about the contents of this brochure, please contact us at (314) 727-5550 and/or [adviserinfo@harbourgroup.com](mailto:adviserinfo@harbourgroup.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.**

**Additional information about Harbour Group Industries, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). An investment adviser's registration with the SEC does not imply a certain level of skill or training.**

**Item 2. Material Changes**

This brochure updates the previous Harbour Group Industries, Inc. brochure dated March 2021. There have been no material changes since the filing of the previous brochure. This brochure contains minor clarifying changes.

### Item 3. Table of Contents

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

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

Harbour Group Industries, Inc. ("Harbour Group") provides investment advice to pooled investment vehicles that are exempt from registration under the Investment Company Act of 1940, as amended (the "1940 Act") and whose securities are not registered under the Securities Act of 1933, as amended (the "Securities Act") (collectively, the "Harbour Group Funds" "Funds" and individually, a "Harbour Group Fund" or "Fund").

Harbour Group provides investment advisory services to each of the Harbour Group Funds pursuant to separate investment advisory agreements (each, an "Advisory Agreement") with each Fund's General Partner, which is a related person to Harbour Group. Pursuant to the Advisory Agreements, Harbour Group identifies investment opportunities for, and participates in the acquisition, due diligence, operations and disposition of investments of, each Harbour Group Fund.

The primary focus of Harbour Group's investment advisory activity is researching and advising on private equity and related investments in a portfolio of middle market companies in a variety of industries. Our investments generally take the form of privately negotiated control transactions, including leveraged acquisitions and recapitalizations, investments in growth companies, turnarounds and traditional buyouts.

Any restrictions on investments in certain types of securities are set forth in the documentation received by each limited partner prior to investment in such Harbour Group Fund. Once invested in a Harbour Group Fund, investors cannot impose restrictions on the types of investments such Harbour Group Fund may make.

Harbour Group, a Missouri corporation wholly owned by Sam Fox, has been in business since 1982. As of December 31, 2021, Harbour Group manages a total of approximately \$676,709,000 of client assets which is managed on a discretionary basis.

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

### Management Fees

Each General Partner receives an annual management fee equal to 2.0% based on commitments of each Fund for a period of generally up to five or six years and thereafter ranging from 1.5% to 2.0% on the total capital contributions made to the applicable Fund less distributions to the limited partners constituting return of capital (the "Management Fee"). Such fees are payable quarterly in advance from the applicable Harbour Group Fund. Upon termination of an advisory agreement, appropriate treatment will be given to all Management Fees collected in advance. As compensation for investment advisory services rendered to the Harbour Group Funds, Harbour Group is compensated by the applicable General Partner from such Management Fees. As described below, the Management Fee may be reduced or waived in some circumstances in connection with the receipt by Harbour Group or its affiliates of various fees paid by actual or prospective portfolio companies. The Management Fee is generally subject to waiver or reduction by Harbour Group, in its sole discretion, including in connection with investments made by the General Partner or its affiliates, such waiver or reduction is typically in the form of reimbursement by the General Partner.

If any assets remain in a Fund following its term, the assets are managed in the dissolved Fund partnership for a time, and then any remaining assets are transferred to a liquidating trust for the benefit of the limited partners. Pending the final liquidation of the Fund and the liquidating trust, no management fees are charged; however, Harbour Group may be reimbursed for its expenses (including the cost of Harbour Group personnel) incurred in connection with the administration and liquidation of the trust.

### Transaction Fees and Break-up Fees

A fee of 1% of the total transaction value for each completed acquisition of a portfolio company and divestiture, subject to a minimum amount of \$250,000, will be payable (unless waived by the General Partner) to the General Partner or an affiliate thereof by the portfolio company. Such fees will offset and reduce the aggregate Management Fee payable by the Fund. The General Partner has routinely waived such transaction fees. Any break-up fee received on terminated transactions will be credited against unconsummated transaction expenses paid by the applicable Harbour Group Fund.

### Other Fees

Portfolio companies pay fees and expenses of third parties (e.g., accountants, attorneys, consultants or intermediaries) relating to the completion of a transaction. Out-of-pocket expenses incurred by Harbour Group on behalf of a portfolio company in connection with its acquisition and thereafter are also reimbursed by such portfolio company. No directors' fees are paid by portfolio companies to executives of Harbour Group or any of its affiliates.

Harbour Group and certain of its and its affiliates' employees are allowed to (and routinely do) purchase securities in companies in which a Harbour Group Fund has an investment. Subject to limitations set forth in the operative agreements of the Harbour Group Funds, the amounts and terms, which may include deferred payment arrangements or options (and such deferred payment arrangements or options have been routinely offered in pooled investment funds affiliated with Harbour Group), are determined by the General Partner in its sole and absolute discretion. The costs of such deferred payment arrangements may be (and routinely are) paid directly or indirectly by the Harbour Group Fund portfolio companies, the payment of which may occur at the time of divestiture of a portfolio company. Limitations on the terms and amounts are detailed in the agreement of limited partnership that each limited partner signs prior to investing in a Harbour Group Fund. Such arrangements create an incentive which may cause us to recommend strategies regarding the portfolio companies which are riskier or more speculative than those that would be recommended if such arrangements did not exist.

Certain supervised persons receive bonus compensation upon the acquisition or divestiture of a Harbour Group Fund investment. This practice could present a conflict of interest between the employee and the applicable Harbour Group Fund. All investments and divestitures must be approved by the investment committee, the majority of which is comprised of individuals who do not receive such compensation.

The General Partner of a Harbour Group Fund pays all ordinary administrative and overhead expenses incurred in managing the Fund and originating and making investments out of the Management Fee and carried interest paid to the General Partner (generally those expenses relate to compensation of employees and travel expenses, and an allocation of other expenses, including rent, utilities and office expenses, etc). Such expenses include reimbursing Harbour Group and its affiliates for corporate development personnel associated with identifying, evaluating, acquiring and divesting core companies. However, fees for services of Harbour Group and its affiliates' personnel engaged in line or staff functions (including management, advisory, corporate development/acquisitions, operations, production planning, systems implementation or modification, sourcing, transaction, financial advisory, refinancing, and other services) relating specifically to portfolio companies (including complementary acquisitions, refinancings and similar transactions) are paid by the portfolio companies at an hourly rate specific to the person performing the function. Fees for such line or staff functions are also charged at an hourly rate (specific to the person performing the function) performed for a portfolio company prior to its acquisition, but only after an exclusivity agreement has been reached between the parties. The hourly rate for a person is based on the direct cost of the person performing the function and an allocation of overhead. Direct costs incurred in performing the function (which include, for example, travel expenses) are also charged to the respective portfolio company. These fees create an incentive which may cause us to recommend that the Harbour Group Funds and their portfolio companies make more acquisitions, some of which may be riskier or more speculative than those we would recommend under a different reimbursement method.

The Harbour Group Funds pay all other expenses related to the Fund's operations, including any taxes, fees or other governmental charges levied against a Harbour Group Fund. Out of pocket costs associated with pursuing investment opportunities which are ultimately not completed and are not complementary acquisitions for an existing portfolio company are

charged to the appropriate Harbour Group Fund. Harbour Group and certain of its and its affiliates' employees who are allowed to purchase securities in companies in which a Harbour Group Fund has an investment are not charged for the unconsummated deal costs.

From time to time, Harbour Group may also provide investment advisory services to affiliated investment entities for which it is compensated at hourly rates.

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

The limited partnership agreements of the Funds provide a distribution waterfall in which income and losses of each Fund are allocated 80% to all partners in proportion to their commitment in such Fund and 20% to the General Partner of such Fund, after the partners have received the return of their contributed capital and subject to the partners having received at least an agreed upon return on their investment. Certain limited partners affiliated with the General Partner may (and routinely do) pay a reduced or no performance fee, which has the effect of reducing the General Partner's allocation of income and losses to less than 20%.

Each of the General Partners of the Funds is an affiliate of Harbour Group. Employees of Harbour Group and our affiliates may be equity holders of the General Partners that receive these performance distributions from the Funds. Performance based fee arrangements create an incentive which may cause us to recommend investments which are riskier or more speculative than those which would be recommended under a different fee arrangement.

In addition, from time to time, Harbour Group may also provide investment advisory services to affiliated investment entities for which it is compensated at hourly rates. As a result, we may have a conflict of interest in allocating investment opportunities among the Funds and these affiliated investment entities. However, the investment opportunities undertaken by these affiliated investment entities are generally opportunities that do not fit within a Fund's investment strategy or other criteria (such as minimum size).

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

Harbour Group currently provides investment advisory services to the applicable General Partner of each Harbour Group Fund, and not individually to the limited partner investors in such Harbour Group Fund. From time to time, Harbour Group may also provide investment advisory services to affiliated investment entities.

Interests in the Harbour Group Funds are offered pursuant to applicable exemptions from registration under the Securities Act and the 1940 Act. Investors in Harbour Group Funds include high net worth individuals, banks, thrift institutions, pension and profit-sharing plans, insurance companies, foreign investors, trusts, estates, charitable organizations, corporations, limited partnerships and limited liability companies or other business entities, including funds of funds.

Minimum investment commitments may be established for limited partners in Harbour Group Funds. The General Partner of each Harbour Group Fund, in its sole discretion, may permit

investments that are less than the required minimum investment commitment set forth in the applicable fund documents of such Harbour Group Fund.



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

### *Methods of Analysis and Investment Strategies*

The primary focus of Harbour Group's investment advisory activity is researching and advising on private equity and related investments in a portfolio of middle market companies in a variety of industries. Our investments generally take the form of privately negotiated control transactions, including leveraged acquisitions and recapitalizations, investments in growth companies, turnarounds and traditional buyouts.

Harbour Group employs a rigorous, yet efficient, screening process to identify investment opportunities that match our capabilities and objectives. When our acquisition sourcing effort identifies a new core opportunity, either through our own research or an intermediary, we assemble a multi-disciplined team to begin a thorough evaluation process. These teams include acquisitions, operations and finance professionals. The acquisitions group leads our team through the acquisition phase of the process, which includes due diligence and negotiations. During this phase, our senior operations professionals assigned to this project support the diligence efforts through their in-depth analysis of numerous operational issues including assessments of the company's products, people, processes, facilities, procedures, competitors, strategic plans, business model and strengths and weaknesses. The finance professionals work to ensure we understand all critical financial and accounting matters through an in-depth analysis of all parts of the business. These analyses include not only evaluating the integrity of the numbers, but also assessments of the business' reporting capabilities, systems, procedures, and financial staff. The above procedures are supplemented with an experienced team of outside advisors who typically perform a full examination of, among others, finance and accounting matters, tax, regulatory, legal, risk management, employee benefits and market size and growth.

### *Risks*

Investing in securities involves a significant degree of risk. A Harbour Group Fund may lose money on all or a substantial portion of its investments and, therefore, investors in Harbour Group Funds must be capable of evaluating the risks of the Fund and bearing the risk of loss of their investments in a Fund. The risks associated with respect to investments in a particular Harbour Group Fund may be different than other Funds. The following discussion of the material risks relating to the investment strategies and methods of analysis described above, and to the types of securities typically purchased by Harbour Group Funds in connection with those strategies and methods, is not exhaustive. An investor should carefully review the documentation that has or will be provided at the time of its investment for a more detailed discussion of the risks involved in investing in a Harbour Group Fund.

#### *Illiquidity of Investments*

An investment in Harbour Group Funds requires a long-term commitment with no certainty of return. It is unlikely there will be near-term cash flow available to the limited partners. Many of Harbour Group Funds' investments will be highly illiquid,

and there can be no assurance that we will be able to realize such investments at attractive prices or otherwise be able to affect a successful realization or exit strategy. Consequently, dispositions of such investments may require a lengthy time period and/or may result in distributions in-kind to the partners.

#### *Portfolio Concentration*

Although there are limitations that apply with respect to the aggregate commitments of a particular Harbour Group Fund that will be invested in any one core company, diversification is not an objective of the Harbour Group Funds. Each Fund's portfolio may (and routinely does) include a small number of large positions. While this portfolio concentration may enhance total returns to the partners, if any large position has a material loss, then returns to the partners may be lower than if they had invested in a well-diversified portfolio.

#### *Nature of the Fund's Investments*

Substantially all of the Harbour Group Funds' investments will be in equity or equity-related investments which by their nature involve business, financial, market and/or legal risks. While such investments offer the opportunity for significant capital gains, they also involve a high degree of risk that can result in substantial losses. There can be no assurance that we will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Valuations of a Fund's investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of a Fund's portfolio companies and the value of its investments. As a result, a Fund's performance over a particular period may not necessarily be indicative of the results that may be expected in future periods.

The Harbour Group Funds' investments will involve leveraged acquisitions, which by their nature require companies to undertake a high ratio of fixed charges relative to available income. Such investments are inherently more sensitive to declines in revenues and to increases in expenses. Utilization of leverage is a speculative investment technique and involves risks to investors. The leverage provided will result in interest expenses and other costs incurred in connection with such borrowings, which may not be covered by available cash flow. While leverage may enhance total returns to the partners, if investment results fail to cover borrowing costs, returns to the partners will be lower than if there had been no borrowings. The ability of a Harbour Group Fund portfolio company to obtain the leverage necessary for its acquisition, growth and/or operations on attractive terms, if at all, will ultimately depend upon such company's ability to maintain financial ratios and other underwriting standards which will vary according to lenders' assessments of the value of the company and the terms of the borrowing. In addition, a Fund's portfolio companies may be totally unable to obtain leverage as a result of unfavorable market conditions. The failure to obtain leverage on attractive terms could have a material adverse effect on a Fund's returns. If a portfolio company defaults on its secured indebtedness, the lender may foreclose, and a Fund could lose its entire investment in the portfolio company.

A portion of a Harbour Group Fund's investments may involve under-performing companies or companies identified as needing additional capital. The financial condition of such companies may be weak or their balance sheets highly leveraged, and any investments in them involves a high degree of risk.

Most of the Harbour Group Funds' investments will involve private securities. In connection with the disposition of an investment in private securities, a Fund may be required to make representations about the business and financial affairs of the company typical of those made in connection with the sale of a business. The Fund also may be required to indemnify the purchasers of such investments to the extent that any such representations turn out to be inaccurate. These arrangements result in contingent liabilities that ultimately might yield funding obligations that must be satisfied by the partners to the extent provided in the applicable partnership agreement.

One of the key strategies of each Harbour Group Fund is to make complementary acquisitions for existing portfolio companies. There can be no assurance that a Fund will identify appropriate follow-on acquisitions or have sufficient resources to make any such acquisitions.

#### *Difficulty of Locating Suitable Investments*

There can be no assurance that there will be a sufficient number of suitable investment opportunities to enable the Harbour Group Funds to invest all of the committed capital in opportunities that satisfy their investment objectives or that such investment opportunities will lead to completed investments. Identification of attractive investment opportunities is difficult and involves a high degree of uncertainty. Furthermore, the availability of investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate.

#### *Competition*

The Harbour Group Funds will compete for investment opportunities with many other investors, some of which will have greater resources than the Funds.

While each Harbour Group Fund has attempted to distinguish itself from other businesses, a Fund may encounter competition from numerous other individuals, corporations, bank and insurance company investment accounts, foreign investors and other entities engaged in similar activities. Competition for investments may have the effect of increasing costs of investments, thereby reducing returns to a Fund.

#### *Economic Conditions*

Changes in economic conditions, including, for example, interest rates, inflation rates, industry conditions, pandemics, competition, technological developments, trade relationships, tariffs, political and diplomatic events and trends, tax laws and innumerable other factors, can substantially and adversely affect the business and prospects of a Harbour Group Fund and impact the ability of its portfolio companies to realize their operating goals. These conditions are not within the control of the Fund.

### *Dependence on Key Personnel*

The success of the Harbour Group Funds will be highly dependent on the expertise of Harbour Group's executives. The loss of one or more of these executives could have a material adverse effect on a Fund's performance. Though bound by non-compete, confidentiality and non-affiliation/non-hire agreements, our executives are under no contractual obligation to remain with Harbour Group.

### *Other Activities of Our Executives*

Although our executives may serve as officers of the General Partners of the Harbour Group Funds and intend to devote a significant portion of their time and attention to the management of the Harbour Group Funds, they are, in some cases, also responsible for advising or providing services to other entities from time to time with objectives similar to or different from those of the Harbour Group Funds.

### *Risks Associated with Foreign Investments*

Although the Funds intend to invest principally in companies headquartered in the United States, each may from time to time invest in non-U.S. portfolio companies. Investing outside the United States may involve substantially greater risks than investing in the United States. In particular, the value of a Fund's investments in foreign securities may be affected by changes in currency exchange rates, which may be volatile. Additional risks may include: (i) economic dislocations in the host country; (ii) less publicly available information; (iii) less developed regulatory institutions; and (iv) greater difficulty of enforcing legal rights in a foreign jurisdiction. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards comparable to those that apply to U.S. companies. Finally, in some foreign countries, there is the possibility of expropriation of value, including through confiscatory taxation, limitations on repatriation or sale of securities, property or other assets of the investment, political or social instability or diplomatic developments, each of which could have an adverse effect on a Fund's investments in such countries.

### *Provision of Managerial Assistance and Control*

Harbour Group Funds typically will designate directors to serve on the boards of directors of their portfolio companies. The designation of directors and other measures contemplated could expose the assets of the Funds to claims by a portfolio company, its security holders and its creditors. The exercise of control over a portfolio company imposes additional risks of liability for environmental damages, product defects, failure to supervise management, violation of governmental regulations and other types of liabilities which the limited liability characteristic of business operations usually ignores. If these liabilities were to occur, a Harbour Group Fund could suffer losses in its investments. While the Funds' General Partners intend to manage the Funds in a way that will minimize exposure to these risks, the possibility of successful claims or adverse

regulatory actions cannot be eliminated, and such events may have a significant adverse effect on the Funds.

#### *Restrictions on Transfer*

Interests in the Harbour Group Funds are not registered under the Securities Act or any state securities laws and may not be transferred unless registered under applicable federal and state securities laws or unless an exemption from such laws is available. We have no plans and are under no obligation to register the interests in the Harbour Group Funds under the Act. No market exists for the interests in the Harbour Group Funds and none is expected to develop. Further, approval by the General Partner of a transfer is typically required before any transfer may occur.

#### *Distributions*

There can be no assurance that the operations of a Harbour Group Fund will be profitable, that we will be able to avoid losses or that cash from our investments will be available for distribution to the Fund's partners. The Harbour Group Funds will have no source of funds from which to pay distributions to the Fund's partners other than income and gain received on the Fund's investments and the return of capital.

#### *Carried Interest*

The General Partner of a Harbour Group Fund, an affiliate of Harbour Group, could receive (and historically has received) substantial carried interest based upon the performance of the Fund. The carried interest may thus create an incentive for Harbour Group to recommend investments that are riskier or more speculative than would be the case in the absence of performance-based compensation.

#### *No Ability to Withdraw*

Investments in a Harbour Group Fund requires the financial ability and willingness to accept significant risk and illiquidity. Investors in the Harbour Group Funds may not begin to receive the complete return of their investment (if at all) until at least the tenth anniversary of the final closing of the Fund and the General Partner (upon consent of a 66.67% of the limited partnership interests) may continue the Fund for two additional two-year periods. Limited partner investors will not be able to voluntarily withdraw their investment in the Fund prior to the winding up and dissolution of the Fund.

#### *Limited Regulatory Oversight*

The Harbour Group Funds are not registered as "investment companies" under the 1940 Act, or any comparable regulatory requirements, and do not intend to do so. Accordingly, the provisions of such regulations, which among other things generally require investment companies to have a majority of disinterested directors and regulate the relationship between the investment company and its asset manager, are not applicable to an investment in the Harbour Group Funds. The General Partner is not registered as a broker-dealer under the U.S. Securities Exchange Act of 1934, as amended

(the “Exchange Act”) or with the National Association of Securities Dealers, Inc. (the “NASD”) and is consequently not subject to the record-keeping and specific business practice provisions of the Exchange Act and rules of the NASD.

#### *Conflicts of Interest*

The structure and operation of the Harbour Group Funds involve numerous actual and potential conflicts of interest. See discussion of conflicts of interest elsewhere in this brochure.

#### *Tax Considerations*

Investment in a Harbour Group Fund may involve complex Federal income tax considerations that will differ for each investor. Under certain circumstances, the limited partner investor in a Fund could be required to recognize taxable income in a taxable year for Federal income tax purposes, even if the Fund either has no net profits in such year or has an amount of net profits in such year that is less than such amount of taxable income.

#### *Limitations on Limited Liability of Limited Partners*

The Harbour Group Funds are organized as a limited partnerships. Accordingly, an investor investing as a limited partner will not be personally liable for the debts of a Fund partnership except that, in the event the Fund partnership is otherwise unable to meet its obligations, the Fund’s limited partners may, under applicable law, be obligated to repay amounts previously received by them to the extent such amounts are deemed to have been wrongfully distributed.

#### *Defaults by Limited Partners*

The consequences of defaulting on a capital call are material and adverse to the defaulting limited partner investor in a Fund. If a limited partner fails to contribute any portion of its commitment upon a call by the General Partner, such limited partner may be subject to a number of remedies available to the General Partner as provided in the Fund’s Partnership Agreement, including loss of the right to receive distributions and to vote, the incurrence of liability for all costs, expenses and/or damages resulting from its failure to contribute such capital and a reduction of its capital account.

Further, the failure of any limited partner to pay capital contributions in response to capital calls may have serious adverse consequences on the Fund’s ability to complete its investment program or otherwise to continue operations. A default by a substantial number of the Fund’s investors or by one or more investors who have made substantial commitments would limit opportunities for investment diversifications and likely would reduce returns to the Fund.

#### *State and Federal Securities Laws*

The Harbour Group Funds limited partnership interests have not been registered under the Securities Act or under the securities laws of any other applicable jurisdiction in

reliance on exemptions from registration under such laws. No assurance can be given that the interests currently qualify or will continue to qualify under one or more of such exemptive provisions due to, among other things, the accuracy of representations made by investors. If, and to the extent that, claims or suits for rescission are brought and successfully concluded for failure to register the partnership interest offerings or for acts or omissions constituting offenses under the Securities Act, the Exchange Act, or applicable state securities laws, the respective Harbour Group Fund could be materially and adversely affected, jeopardizing the ability of the Harbour Group Fund to operate successfully, even if the Fund is ultimately successful in their defense of such actions.

#### *Regulatory Risk*

Increased regulation of the private equity industry has been enacted within the preceding several years which could adversely affect the Harbour Group Funds. Legal, tax and regulatory changes could occur during the term of the Funds that may adversely affect the Funds. New laws or revised regulations may be imposed by the SEC, other governmental regulatory authorities or self-regulatory organizations that supervise the financial markets that could adversely affect the Funds in the future. The Funds may also be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by these governmental authorities or self-regulatory organizations. The effect of any future regulatory change on the Funds could be substantial and adverse. There can be no assurance that any such regulation would not impair the ability of the Funds to realize its investment objectives in the manner currently contemplated.

#### *Possible Indemnification Obligations*

The Harbour Group Funds are generally obligated to indemnify the respective General Partner, Harbour Group, members of the Advisory Committee, third party service providers, and possibly other parties in connection with their providing certain services under the various agreements entered into with such persons or entities against any liability they or their respective affiliates may incur in connection with their relationship with the Harbour Group Fund.

#### *Lack of Independent Experts Representing Investors*

The General Partner and Harbour Group consulted with counsel, accountants and other experts regarding the formation and operation of the Harbour Group Funds. Such counsel, accountants and other experts did not and do not represent the investors in such Harbour Group Fund. Consequently, each prospective investor in the Harbour Group Funds is encouraged to consult their own legal, tax and financial advisors regarding the desirability of an investment in any Harbour Group Fund.

## **Item 9. Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. Harbour Group has nothing to disclose under this Item.

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

### **Related General Partners**

Various limited partnerships or limited liability companies serve as the General Partners of the Harbour Group Funds, each of which is a related person to Harbour Group.

### **Affiliated Service Entities**

Harbour Group has established other non-investment advisory related entities that are affiliates of Harbour Group. These entities do not provide investment advisory services and have been organized primarily to provide services incidental to the services of Harbour Group, such as servicing portfolio companies of the Harbour Group Funds.

### **Conflicts of Interest**

Harbour Group and its affiliates, and employees of Harbour Group and its affiliates, engage in a broad range of activities, including investment activities for their own account and providing transaction-related, consulting, management and other services to investment funds and operating companies, including portfolio companies of the Harbour Group Funds.

In the ordinary course of conducting its activities, the interests of a Harbour Group Fund or its limited partners may conflict with the interests of Harbour Group, or one or more other Harbour Group Funds or with their respective affiliates.

### **Resolution of Conflicts**

Harbour Group will deal with all conflicts of interest using its best judgment, but in its sole discretion. Some of these conflicts are easily mitigated while others are more difficult to address. The Advisory Committee (as defined below) of a Harbour Group Fund will be consulted for conflict of interest resolution if deemed appropriate by the General Partner of the Fund.

Harbour Group has established an advisory committee for each Harbour Group Fund that consists of representatives elected by the limited partners and approved by the General Partner ("Advisory Committee"). In addition, certain Funds have permanent standing limited partner representatives on the Advisory Committee. The Advisory Committee reviews asset valuations and in-kind distributions and, as requested by the applicable General Partner, conflicts of interest. The Advisory Committee also provides other advice and counsel on an as-requested basis by the General Partner in connection with the Fund's investments or other Fund matters. If any matters involving in-kind distributions, conflicts of interest, and certain other expressly



designated matters, are unresolved, the matter is referred to a third party for arbitration. The General Partner retains responsibility for all decisions relating to the operations and management of the Fund, including but not limited to investment decisions.

In connection with a Harbour Group Fund's investment in a portfolio company, co-investments may be made by third parties, including limited partners of Harbour Group Funds. The General Partner of the applicable Harbour Group Fund seeks to ensure that all participants in such co-investments participate on comparable terms. This may not be practicable or appropriate in all circumstances and subject to applicable law, the Harbour Group Fund may participate in such investments on different and potentially less favorable terms than other participants if the General Partner deems such participation as being otherwise in the best interest of the Harbour Group Fund.

#### Sources of Conflicts of Interest

The conflicts of interest that Harbour Group believes are most likely to occur during the course of providing advisory services to a Harbour Group Fund are described below, although the discussion below does not describe all of the conflicts that may be faced by the Harbour Group Funds. An investor should carefully review the documentation that has or will be provided at the time of its investment for a more detailed discussion of the conflicts of interest involved in investing in a Harbour Group Fund.

##### *Conflicts of Interest Relating to the General Partners and Affiliates*

The General Partner of a Harbour Group Fund has an apparent conflict of interest between its fiduciary duty to the Fund as General Partner and its selection of one of its affiliates (Harbour Group) as the Fund's investment adviser. Prospective investors must recognize that the Fund was formed specifically as an investment vehicle to be managed by Harbour Group, and that the General Partner will not appoint any other investment adviser for the Fund even if doing so might be in the Fund's best interests.

Subject to the limitations set forth in the governing instruments of each of the Harbour Funds, Harbour Group, the General Partners, other Harbour Group affiliates and employees may organize or become involved in other business ventures in the future and may have incentives to favor certain of these ventures over the Harbour Group Funds. The Harbour Group Funds will not share in the risks or rewards of such other ventures. However, to the extent undertaken, such other ventures would compete for the General Partners', other Harbour Group affiliates' and employees' time and attention which might create other conflicts of interest. Neither the agreement of limited partnership of the Harbour Group Funds nor the Advisory Agreements requires the General Partner or Harbour Group to devote a specified amount of time to the Funds.

The Management Fee is payable without regard to the overall success of or income earned by the Harbour Group Funds. Furthermore, each General Partner is entitled to receive carried interest distributions, based upon the performance of the Fund for which it serves as general partner. Because the General Partner, an affiliate of Harbour Group, is entitled to carried interest distributions, the General Partner has an incentive which

may cause the Fund to make riskier or more speculative investments than it otherwise would.

Harbour Group and certain of Harbour Group's and its affiliates' employees are allowed to (and routinely do) purchase securities in companies in which a Harbour Group Fund has an investment. Subject to the limitations set forth in the governing instruments of each of the Harbour Funds, the amounts and terms, which may include deferred payment arrangements or options (and such deferred payment arrangements or options have been routinely offered in pooled investment funds affiliated with Harbour Group), are determined by the General Partner in its sole and absolute discretion. The costs of such deferred payment arrangements may (and routinely are) paid directly or indirectly by the Harbour Group Fund portfolio companies, the payment of which may occur at the time of divestiture of a portfolio company. In addition, certain supervised persons may receive bonus compensation upon the acquisition or divestiture of a Harbour Group Fund investment. These arrangements create an incentive which may cause us to recommend investments which are riskier or more speculative than those which would be recommended under a different fee arrangement. In addition, dilutive issuances of securities and payment of deferred payment arrangements are likely to reduce the returns to the Funds on its investment in those companies.

Harbour Group and its affiliates also receive fees directly from portfolio companies of Harbour Group Funds for services in connection with the operations of such portfolio company and complementary acquisitions relating to that particular portfolio company, including management, advisory, corporate development/acquisitions, operations, production planning, systems implementation or modification, sourcing, transaction, financial advisory, refinancing, and other services. Such fees are charged at cost and are paid on either a direct or allocated basis. These fees create an incentive which may cause Harbour Group to recommend that a Fund and its portfolio companies make more acquisitions, some of which may be riskier or more speculative than those which would be recommended under a different reimbursement model.

#### *Allocation of Investment Opportunities*

Harbour Group acts as the investment adviser to each of the Harbour Group Funds and, subject to the limitations set forth in the governing instruments of each of the Harbour Funds, Harbour Group or an affiliate may act as the investment adviser to investment entities or clients with investment strategies and policies that are, in many respects, similar to or very different from, those of the Harbour Group Funds. The existence of more than one Harbour Group Fund and such additional entities or clients will create conflicts of interest regarding the allocation of investment opportunities. Other than the General Partner of a Harbour Group Fund, neither Harbour Group nor its affiliates are under any obligation to present investment opportunities to a particular Harbour Group Fund. Consequently, additional conflicts of interest may be created in selecting which investments a Harbour Group Fund will make.

### *Harbour Group Funds Co-Investments*

Subject to the limitations set forth in the terms of the governing instruments of each Harbour Group Fund, the various Harbour Group Funds may invest, together with one or more third parties, including limited partners of the Harbour Group Funds, directly or indirectly (through a partnership, joint venture, corporation, association or other entity) in a portfolio company. The General Partner of the respective Harbour Group Fund has exclusive and complete discretion with respect to the extent of the respective Harbour Group Fund's participation with such third parties, including limited partners of the respective Harbour Group Fund, in such investments. The general partner of the respective Harbour Group Fund also has exclusive and complete discretion with respect to offering third parties, including limited partners of the respective Harbour Group Fund, co-investment opportunities in portfolio companies. Although limited partners in the Harbour Group Funds may express interest in such co-investment opportunities, there can be no assurance that any such opportunity will be offered to any particular limited partner even if such co-investment opportunities are made available to third parties, including other limited partners.

In addition, under the terms of the governing instruments of each Harbour Group Fund, the Harbour Group Funds are not permitted to acquire or invest in companies owned by another Harbour Group Fund. Notwithstanding the foregoing, a majority of the limited partners in Harbour Group Investments V, LP ("Fund V") and a majority in interest of the limited partners of Harbour Group Investments VI, LP ("Fund VI") as of September 17, 2012 (in each case excluding any limited partner which is an affiliate of Harbour Group), waived this provision to permit a co-investment by Fund V and Fund VI in Cleaver Brooks ("Portfolio Company CBE") which investment took place on December 19, 2012. Such approval also permits such Funds to co-invest in complementary acquisitions for Portfolio Company CBE (the foregoing, collectively the "Permitted Fund Co-Investments.")

Even though the investments in Portfolio Company CBE may create conflicts of interest, the relevant General Partners of Fund V and Fund VI nonetheless pursued and consummated such transactions.

Harbour Group will resolve any such conflicts using its best judgment considering all factors it deems relevant, but in its sole discretion. Some of the more significant conflicts are described below:

**Additional Management Fees.** The members of the General Partners of the Funds overlap and therefore the members of the General Partner of Fund VI also have an economic interest in the General Partner of Fund V. The consummation of one or more additional complementary acquisitions by Fund V relating to the Portfolio Company CBE will permit Fund V to invest more of its remaining commitments, which will entitle the General Partner of Fund V to receive

additional management fees from Fund V. This may create an incentive for the General Partner of Fund V to cause Fund V, and as a result of Fund VI's contemplated exercise of its preemptive rights, Fund VI, to make riskier or more speculative investments than it otherwise would.

**Fund Life Cycle.** The commitment period of Fund V has ended, while the commitment period of Fund VI is still in effect. Fund V has invested the majority of its equity commitments, while Fund VI has significant unused equity commitments remaining. As a result, the investment horizons for Fund V and Fund VI are different and this may cause a divergence in the way they evaluate complementary acquisitions and dispositions or other liquidity transactions with respect to Portfolio Company CBE in which they both have an investment. Despite these differences, because Fund V holds a controlling interest in Portfolio Company CBE, the General Partner of Fund V will control such decisions.

**Fee and Incentive Structure.** Fund V and Fund VI have different economic terms for calculation of priority returns, management fees and carried interest. As a result, the economic incentive of the respective General Partners of Fund V and Fund VI are not the same. This may create an incentive for the General Partner of Fund V to cause Fund V, and as a result and of the Fund's contemplated exercise of preemptive rights under the Cleaver Brooks Stockholder Agreement, Fund VI, to make riskier or more speculative investments than it otherwise would.

**Availability of Capital for Additional Investments.** Although it is contemplated that Fund V and Fund VI will have rights to make additional investments in and complementary acquisitions with respect to Portfolio Company CBE, (in proportion to the amounts of their respective investments in Portfolio Company CBE), at any point in time, Fund V or Fund VI may not have the ability to make such additional investments when required. As a consequence, Fund V may have its investment diluted if it is not able to invest when Fund VI does, and Fund VI may have to forego investment opportunities if Fund V is not able to invest when an investment is required. The inability of Fund V and/or Fund VI to make an investment may also cause Portfolio Company CBE to forego opportunities for complementary acquisitions.

The procedural guidelines and organizational guidelines described below will be established to alleviate some of these conflicts. These factors may alleviate, but will not eliminate, conflicts of interest.

- The Advisory Committee of each of Fund V and Fund VI is not affiliated with the General Partner of such Funds. Such independent bodies play an important role in resolving conflicts of interest by reviewing and, in certain

instances approving, the appropriateness of decisions that involve significant conflicts of interest referred to it by the appropriate Fund's General Partner.

- In the event of a dispute between Fund V and Fund VI with respect to a company in which such Funds have an investment, any settlement of the dispute will be subject to the approval of the Funds' respective Advisory Committees.

#### *Allocation of Personnel*

The General Partner, Harbour Group and their affiliates will devote such time as shall be necessary to conduct the business affairs of the Funds in an appropriate manner. However, personnel of Harbour Group and its affiliates may work on other projects, and, therefore, conflicts will arise in the allocation of personnel and management resources.

#### *Different Economic Terms for Certain Partners*

From time to time, the General Partner will permit certain partners (including, but not limited to, the General Partner, Harbour Group and their affiliates, employees and their families) to acquire interests in a Harbour Group Fund on different economic terms than other Partners.

#### *Other Management Compensation*

Harbour Group and certain of Harbour Group's and its affiliates' employees are allowed to (and routinely do) purchase securities in companies in which a Harbour Group Fund has an investment. The amounts and terms, which may include deferred payment arrangements or options (and such deferred payment arrangements or options have been routinely offered in pooled investment funds affiliated with Harbour Group), are determined by the General Partner in its sole and absolute discretion. The costs of such deferred payment arrangements may (and routinely are) paid directly or indirectly by the Harbour Group Fund portfolio companies, the payment of which may occur at the time of divestiture of the portfolio company. Limitations on the terms and amounts are detailed in the agreement of limited partnership that each limited partner signs prior to investing in a Harbour Group Fund. In addition, certain supervised persons may receive bonus compensation upon the acquisition or divestiture of a Harbour Group Fund investment. These arrangements create an incentive which may cause us to recommend investments which are riskier or more speculative than those which would be recommended under a different fee arrangement. In addition, dilutive issuances of securities and payment of deferred payment arrangements are likely to reduce the returns to the Funds on its investment in those companies.

#### *Diverse Limited Partner Group*

The limited partners are expected to have conflicting investment, tax and other interests with respect to their investments in a Harbour Group Fund. The conflicting interests of individual limited partners relate to or arise from, among other things, the nature of investments made by the Fund, the structuring or the acquisition of investments and the timing of disposition of investments. As a consequence, conflicts of interest may arise in

connection with decisions made by the General Partner or Harbour Group, including with respect to the nature or structuring of investments, which may be more beneficial for one limited partner than for another limited partner, especially with respect to limited partners' individual tax situations. In addition, a Harbour Group Fund may make investments that may have a negative impact on other investments unrelated to the Fund made by the limited partners. In selecting and structuring investments appropriate for a Harbour Group Fund, the General Partner and Harbour Group will consider the investment and tax objectives of the Fund and its partners as a whole, not the investment, tax or other objectives of any limited partner individually.

#### *Conflicts of Interest Relating to Limited Partners*

Limited partners of a Harbour Group Fund may from time to time provide goods or services to one or more portfolio companies of the Fund or one or more other Harbour Group Funds (and in the past certain limited partners or their affiliates have provided certain services such as financing to certain portfolio companies). Such relationships may result in actual, potential or perceived conflicts. For example, the General Partner could favor a limited partner of a Harbour Group Fund who is willing to provide financing to a portfolio company of the Fund or another Harbour Group Fund by agreeing to terms that are more favorable to the limited partner lender than might be available from a third party lender. In addition, in the event a portfolio company that has borrowed from a lender that is also a limited partner of a Harbour Group Fund, actions may be taken by the portfolio company that is adverse to the lender. A conflict of interest may also arise when a limited partner of a Harbour Group Fund invests alongside such Harbour Group Fund in a portfolio company. For example, to the extent that the Harbour Group Fund is a controlling shareholder of a portfolio company, such Harbour Group Fund will have the ability to control the board, and accordingly the management and operations of such portfolio company. The interests of such Harbour Group Fund, with respect to those management and operations decisions, may not be aligned with or may be in direct conflict with the interests of a limited partner co-investor (who does not have the same level of control or influence over the portfolio company).

#### *Conflicts of Interest Relating to Portfolio Company Interfund Transactions*

A portfolio company of a Harbour Group Fund may from time to time provide goods or services to one or more portfolio companies of another Harbour Group Fund. Such relationships may result in actual, potential or perceived conflicts. For example, if a portfolio company in one Fund provides services to a portfolio company in another Fund on a non-arms' length basis, one Fund may benefit to the detriment of the other.

#### *Other Conflicts of Interest*

Investors in the Harbour Group Funds include pension plans that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Although the Harbour Group Funds are structured and operated to avoid doing so by maintaining a status as a venture capital operating company ("VCOC"), a Harbour Group Fund may hold "plan assets" subject to ERISA. With respect to those plan assets, if any, a Harbour

Group Fund and certain affiliates may be classified as "fiduciaries" under ERISA. ERISA imposes certain general and specific responsibilities and restrictions on fiduciaries with respect to plan assets. As a result, a Harbour Group Fund may be restricted from entering into certain transactions if the investment would violate ERISA with respect to a Harbour Group Fund or may be obligated to take certain actions or refrain from taking certain actions in order to avoid a violation of ERISA with respect to such Harbour Group Fund.

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

Harbour Group has adopted a code of ethics that sets forth standards of ethical conduct and requires compliance with federal securities laws. The code of ethics requires that designated personnel report personal securities holdings and transactions and obtain preapproval of certain investments. Harbour Group has also adopted an insider trading policy that restricts the use and communication of material nonpublic information. Harbour Group will provide a copy of the code of ethics and insider trading policy to clients and prospective clients upon request. The fundamental position of Harbour Group is that, in effecting personal securities transactions, personnel of Harbour Group must place the interests of clients ahead of their own interests at all times. Key elements of Harbour Group's Code of Ethics include the following:

- Officers, directors and employees are prohibited from trading, either personally or on behalf of others, in securities while in possession of material non-public information regarding these securities or communicating material non-public information to others. Access Persons, who are the standing members of the investment committee and the directors of Harbour Group, have their personal holdings monitored.
- Employees are required to place the interest of clients above the interests of Harbour Group or themselves whenever a conflict may be present.
- Certain employees are required to submit annual and quarterly reports of security transactions for their own accounts or any account in which they have a direct or indirect beneficial interest. However, reports are not submitted for accounts that are not directly or indirectly controlled by Harbour Group or the reporting individual. Transactions in money market instruments, direct obligations of the United States government, and shares of U.S. registered open-ended mutual funds are also excluded.
- Employees are required to certify annually that they have complied with Harbour Group's Code of Ethics.
- An employee may not give or accept gifts or entertainment that are inappropriate or could be seen as overly generous or which could influence his or her decision-making.
- Certain employees are required to obtain advance approval to serve as a director of a publicly traded company.
- Certain employees are required to pre-clear any transactions in privately offered securities and initial public offerings.
- Employees that become aware of any violation of the Code of Ethics are required to report such violation to the Chief Compliance Officer.

You may request a copy of our Code of Ethics by contacting Harbour Group at [adviserinfo@harbourgroup.com](mailto:adviserinfo@harbourgroup.com) or (314) 727-5550.

## **Item 12. Brokerage Practices**

Harbour Group does not utilize the services of broker-dealers for transaction related services.

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

### *Oversight and Monitoring*

The portfolio investments of each Harbour Group Fund are continuously reviewed by a team of investment professionals retained by Harbour Group or its affiliates. The team generally includes Group Presidents, Managing Directors, Senior Vice Presidents, Vice Presidents or Managers of Finance and other investment professionals of Harbour Group or its affiliates.

### *Reporting*

Investors in the Harbour Group Funds receive, among other things:

- A summary description of each investment.
- Annual audited financial statements for the Fund.
- A progress and update report quarterly.
- Unaudited quarterly financial statements for the Fund.
- Tax information.
- Limited partners that are employee benefit plans also receive VCOC certificates.

A partnership meeting for each Fund is held annually, and a detailed report on each investment and other related matters is presented at this meeting.

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

Neither Harbour Group nor any of its related persons has any arrangements, oral or in writing, where it is paid cash by or receives some economic benefit (including commissions, equipment or non-research services) from a non-client in connection with giving advice to clients. Harbour Group's Code of Ethics generally prohibits employees from accepting gifts, favors, and other inducements from counterparties or service providers, excepting certain common business courtesies. In addition, neither Harbour Group nor any of its related persons directly or indirectly compensates any person who is not a supervised person of Harbour Group for client referrals. Harbour Group or a related person may from time to time enter into agreements that provide for cash compensation to solicitors who secure investors for the Harbour Group Funds. In connection with the formation of Fund VI, Harbour Group VI Management Co., LLC, the general partner of Fund VI and a related person of Harbour Group, entered into an agreement with Forum Capital Securities, L.L.C ("Forum") pursuant to which Forum received



compensation equal to a specified percentage of the commitments of the investors referred by Forum.

#### **Item 15. Custody**

The cash and securities of the Harbour Group Funds are held by qualified custodians. The Funds we manage are privately offered limited partnerships that are annually audited by a Public Company Accounting Oversight Board registered independent accounting firm in accordance with Rule 206(4)-2 under the 1940 Act. The audited financial statements are subsequently distributed to all investors within 90 days of year end.

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

Investment advice is provided by Harbour Group pursuant to an Advisory Agreement with the applicable General Partner of the Harbour Group Fund, which General Partner is a related person to Harbour Group. Subject to any restrictions on investments in the types of securities which are set forth in the documentation received by each limited partner prior to investment in such Harbour Group Fund, the General Partner has investment discretion with respect to the assets of the Harbour Group Fund for which it serves as general partner.

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

None of the Harbour Group Funds currently has an investment in any publicly traded securities; however, the Funds are not prohibited from holding such securities and may do so in the future. The General Partners intend to vote proxies or similar corporate actions in the best interests of the applicable Fund, taking into account such factors as it deems relevant in its sole discretion.

Harbour Group's proxy voting policy is designed to ensure that if a material conflict of interest is identified in connection with a particular proxy vote, that the vote is not improperly influenced by the conflict.

A detailed summary of Harbour Group's proxy voting policies and procedures are available to limited partners and prospective limited partners during the investment due diligence process. A copy of the proxy voting policies and procedures, and copies of relevant proxy logs, identifying how proxies were voted in connection with a Harbour Group Fund, may be obtained upon written request to: Harbour Group Industries, Inc., 7733 Forsyth Blvd, 23<sup>rd</sup> Floor, St. Louis MO 63105, Attn: Compliance Department.

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

Information required by this Item is not applicable to Harbour Group.

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

Information required by this Item is not applicable to Harbour Group as we have no state registrations.