

## **INVESTMENT ADVISER BROCHURE**

**H.I.G. CAPITAL, L.L.C.**

**1450 Brickell Avenue, 31st Floor  
Miami, FL 33131**

**[www.higcapital.com](http://www.higcapital.com)**

**March 30, 2022**

**This Investment Adviser Brochure (this “Brochure”) provides information about the qualifications and business practices of H.I.G. Capital, L.L.C., a Delaware limited liability company (“H.I.G. Capital”). If you have any questions about the contents of this Brochure, please contact us at 305-379-2322 or [info@higcapital.com](mailto:info@higcapital.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 authority.**

H.I.G. Capital is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). However, such registration does not imply a certain level of skill or training.

Additional information regarding H.I.G. Capital is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## MATERIAL CHANGES

This Brochure contains material changes to the Form ADV Part 2 filed by H.I.G. Capital on March 30, 2021 (the “**Prior Brochure**”). Immediately below is a discussion of such material changes. Such discussion sets forth only material changes to the Prior Brochure.

This annual amendment reflects updates to the potential risks of investment and related potential conflicts of interest under “Methods of Analysis, Investment Strategies and Risk of Loss,” and supplements existing disclosures relating to the practices of H.I.G. Capital and its affiliates.

## ADVISORY BUSINESS

### **H.I.G. Capital**

H.I.G. Capital is a private investment management firm, including a registered investment advisory entity and other advisory organizations affiliated with H.I.G. Capital, L.L.C., a Delaware limited liability company (“**H.I.G. Capital**” and, together with such affiliated organizations, collectively, “**H.I.G.**”), that manages, on a discretionary basis, approximately \$46 billion in client assets, based on regulatory assets under management. As more fully described below, H.I.G., through such affiliated advisory organizations, focuses on private equity, venture capital, debt/credit, technology, infrastructure and real estate investments.

H.I.G. Capital is a registered investment adviser that commenced operations in 1993. H.I.G. Capital and its affiliated investment advisers (collectively, the “**Advisers**”) provide investment advisory services to private investment funds and separately managed accounts. Each Adviser is registered under the Advisers Act pursuant to H.I.G. Capital’s registration in accordance with SEC guidance. This Brochure also describes the business practices of each Adviser, which operates as a single advisory business together with H.I.G. Capital.

H.I.G. Capital is principally owned and controlled by its Co-Founders and Co-CEOs, Sami Mnamneh and Anthony Tamer (the “**Co-CEOs**”). In addition, investment funds affiliated with Dyal Capital Partners (“Dyal”), a division of Blue Owl Capital Inc. (NYSE: OWL), hold a passive non-voting minority interest in H.I.G. Capital. Dyal does not have any authority over the day-to-day operations or investment decisions of H.I.G. Capital as they relate to the Funds, but it has certain customary minority protection consent rights. Dyal does not have representation on the board of H.I.G. Capital or any of its affiliates.

H.I.G. Capital, through its shared control of the affiliated advisers, manages the business and affairs of its clients (each, a “**Fund**,” collectively, the “**Funds**”), which include private equity, venture capital, debt/credit, technology, infrastructure and real estate funds and separately managed accounts. The Funds invest pursuant to and in accordance with the investment criteria and limitations set forth in each Fund’s limited partnership agreement or other governing documents (each a “**Limited Partnership Agreement**”). From time to time, where such investments consist of portfolio companies, senior principals or other personnel of H.I.G. Capital or its affiliates serve on such portfolio companies’ respective boards of directors or otherwise act to influence control over the management of a Fund’s portfolio companies.

H.I.G. Capital's investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating the terms of investments, managing and monitoring investments and achieving dispositions for such investments. These advisory services are detailed in the applicable private placement memoranda and the supplements thereto (each, a "**Private Placement Memorandum**" and, collectively, the "**Private Placement Memoranda**") and the Limited Partnership Agreements of the Funds, and are further described below under "H.I.G. Capital Investment and Business Strategies."

The investors in the Funds (other than the general partner of each Fund (the "**General Partner**")), as applicable, are generally referred to herein as the "**Limited Partners**", and the Limited Partners together with the General Partners are referred to herein as the "**Partners.**" Investors should refer to the applicable Limited Partnership Agreement for specific terms with respect to such Fund.

### **H.I.G. Capital Investment and Business Strategies**

#### **U.S. LBO Funds Investment Strategy**

"**U.S. LBO Funds**" are Funds that primarily focus on leveraged buyouts, equity and other investments in lower mid-market companies that can benefit from H.I.G.'s in-house operating professionals and expertise. The U.S. LBO Funds' investments include: (i) acquisitions of privately-held companies and non-core subsidiaries of larger companies; (ii) investments in companies requiring recapitalization or growth capital; and (iii) restructurings. These investments are typically made through controlling or influential minority investments in companies with revenues between \$25 million and \$500 million in a variety of industries. The U.S. LBO Funds pursue transactions in this market niche because H.I.G. believes (i) the capital markets for companies of this size are inefficient, allowing the funds to invest on more favorable terms, and (ii) a large number of companies generally available in that size range are under-managed and can benefit from the operating expertise of the H.I.G. principals.

#### **U.S. Bayside Funds Investment Strategy**

"**U.S. Bayside Funds**" are Funds that focus on U.S. middle market companies and make investments across several segments of the primary and secondary debt capital markets including (i) debt financing to performing middle market companies, (ii) public and private credits in the secondary debt market, and (iii) special situations. U.S. Bayside Funds are active across a wide spectrum of industries, including business services, manufacturing, healthcare, retail, food, agriculture, and specialty finance.

#### **Growth Equity Funds Investment Strategy**

"**Growth Equity Funds**" are Funds that invest in growth-oriented businesses, including (i) acquisitions of rapidly growing, privately-held companies and non-core divisions of larger companies and (ii) control investments in companies requiring recapitalization and growth/expansion capital. Growth Equity Funds also make influential minority investments in a wide range of high-growth businesses which are used to fund growth capital and/or partial founder liquidity. Growth Equity Funds invest in a wide range of industries with a focus on certain growth

verticals in market sectors where H.I.G. has extensive experience and resources including business services, healthcare, tech-enabled businesses, internet, interactive media and industrial technology.

#### Middle Market Funds Investment Strategy

“**Middle Market Funds**” are Funds that invest in leveraged buyouts, equity, debt and other investments in middle-market companies, in the U.S. and Europe, that can benefit from H.I.G.’s in-house operating professionals and expertise. Middle Market Funds focus on under-managed, stressed and distressed companies and opportunities characterized by complex business models, operations and/or transaction dynamics including: (i) acquisitions of privately-held and publicly-traded companies and noncore subsidiaries of larger companies; (ii) investments in companies requiring recapitalization or growth capital; and (iii) restructurings and special situations. These investments will typically be made primarily through controlling equity investments and in some cases through influential minority equity investments typically in middle market companies in a variety of industries.

#### Advantage Fund Investment Strategy

“**Advantage Fund**” is a Fund whose objective is to primarily make control equity investments in stable middle-market companies with predictable business models, leading market shares, sustainable competitive advantages, capital efficient models and other high-quality characteristics.

#### Strategic Partners Funds Investment Strategy

“**Strategic Partners Funds**” are Funds whose objective is to primarily invest in underlying H.I.G. Funds.

#### BioHealth Funds Investment Strategy

“**BioHealth Funds**” are Funds that target investments in companies developing products with short development timelines, clinical trials that are quick and efficient to enroll, and measurable and definitive developmental endpoints. BioHealth Funds’ approach to healthcare venture investing involves mitigation of technical and clinical risk and also focuses on market inefficiencies to maximize investment returns, target underserved geographies that are commonly overlooked by large venture funds and invest in special situations (e.g., recapitalizations, restructurings, etc.) that typically allow for favorable valuations and return profiles.

#### VC Funds Investment Strategy

“**VC Funds**” are Funds that make venture capital investments in emerging high-growth companies in the information technology and life sciences industries. The VC Funds seek to build a balanced portfolio of investments in emerging high-growth companies across the information technology, healthcare and life sciences industries, and in a range of early-stage and mid-stage companies that have significant potential for growth and value appreciation.

### U.S. Realty Funds Investment Strategy

“**U.S. Realty Funds**” are Funds that make investments in small and mid-size real estate properties in the United States and focus on investing in repositioning/turnaround assets, underperforming opportunities, and sectors and markets with improving fundamentals.

### Europe LBO Funds Investment Strategy

“**Europe LBO Funds**” are Funds that principally make private equity, distressed debt, growth capital and other equity-related investments in lower middle-market companies, primarily in Europe. Target companies are generally ones that can benefit from the significant professional management, strategic focus, capital resources and operating skills that H.I.G. has accumulated over the years. The common characteristics of each portfolio company prior to its acquisition by the Europe LBO Funds typically include: (i) unrealized value; (ii) a need for operational and/or financial resources; (iii) high quality products or leading market positions; and (iv) compelling entry valuations. (Europe LBO Funds and U.S. LBO Funds, collectively hereinafter “**LBO Funds**”).

### Europe Realty Funds Investment Strategy

“**Europe Realty Funds**” are Funds whose objective is to principally make value-add investments in the lower mid-market real estate sector in Europe. (Europe Realty Funds and U.S. Realty Funds, collectively hereinafter “**Realty Funds**”).

### Brazil and Latin America Fund Investment Strategy

“**Brazil and Latin America Fund**” is a Fund that principally makes private equity, buyout, and other equity-related investments in lower middle-market companies, primarily in Brazil and to a lesser extent other countries in Latin America. Brazil and Latin America Fund’s investments will generally include: (i) acquisitions of privately-held companies and non-core subsidiaries of larger companies; (ii) investments in companies requiring recapitalization or growth capital; and (iii) restructurings and special situations. The Brazil and Latin America Fund targets high growth sectors and portfolio companies with leading market positions, financial and/or operational resource needs, and/or compelling entry valuations.

### Europe Bayside Funds Investment Strategy

“**Europe Bayside Funds**” are Funds whose objective is to invest primarily in European senior leveraged loans and newly originated loans to small and medium enterprises which may be cut off from their traditional source of bank debt financing. Target investments include stressed/distressed senior loans of mid-market companies, some of which may be the product of an LBO transaction or in some cases, recapitalizations, mergers, dividends and growth initiatives. (U.S. Bayside Funds and Europe Bayside Funds, collectively hereinafter “**Bayside Funds**”).

### Whitehorse Funds Investment Strategy

“**Whitehorse Funds**” are Funds whose objective is to provide senior secured financing solutions to sponsor and non-sponsor U.S. and European lower middle market companies. The Whitehorse Funds will target well established, performing companies with proven cash flow

generating capabilities and experienced management teams that lack access to traditional sources of financing.

#### CLO Funds Investment Strategy

“**CLO Funds**” are collateralized loan obligation Funds whose portfolios consist of senior secured floating rate notes comprised primarily of senior secured corporate loans rated below investment grade issued by U.S. and certain non-U.S. issuers.

#### Infrastructure Fund Investment Strategy

“**Infrastructure Fund**” is a Fund whose objective is to make equity and equity-related investments in value-add and core-plus infrastructure opportunities in the middle market segment.

#### Technology Fund Investment Strategy

“**Technology Fund**” is a Fund that principally makes private equity investments in established and growing mid-market technology businesses.

#### Managed Account Investment Strategies

H.I.G. Capital, directly or through one or more of its affiliates, also acts and may in the future act as investment adviser on a discretionary basis to one or more other private investment funds or separately managed accounts that invest pursuant to one or more of the investment strategies described herein, or other strategies, as agreed between H.I.G. Capital or such affiliates and the applicable investors or advisory clients and as provided in the Limited Partnership Agreements and/or other documentation governing such arrangements (“**Managed Accounts**”). Except to the extent expressly provided herein to the contrary, (i) references herein to “Funds” include any such Managed Accounts and (ii) references herein to “Limited Partnership Agreement” with respect to any Managed Account that is managed pursuant to another form of advisory contract include any such advisory contract. Managed Accounts may follow any one or more of the foregoing strategies, or other strategies, and may acquire some or all of the foregoing securities and instruments, or other securities and instruments, as agreed between H.I.G. Capital or its affiliates and the investors or advisory clients in such Managed Accounts, and as provided in the Limited Partnership Agreements and other documentation governing such arrangements.

#### Co-Investments

Additionally, from time to time and as permitted by the relevant Limited Partnership Agreement, the Advisers provide (and agree to provide) co-investment opportunities (including the opportunity to participate in co-invest vehicles) to certain investors or other persons, including other sponsors, market participants, finders, consultants and other service providers, H.I.G.’s personnel and/or certain other persons associated with H.I.G. Such co-investments typically involve investment and disposal of interests in the applicable portfolio company at the same time and on the same terms as the Fund making the investment. However, from time to time, for strategic and other reasons, a co-investor or co-invest vehicle (including a co-investing Fund) may purchase a portion of an investment from one or more Funds after such Funds have consummated

their investment in the portfolio company (also known as a post-closing sell-down or transfer), which generally will have been funded through Fund investor capital contributions and/or use of a Fund credit facility. H.I.G. expects that any such purchase from a Fund by a co-investor or co-invest vehicle generally would occur shortly after the Fund's completion of the investment. Where appropriate, and in H.I.G.'s sole discretion, H.I.G. reserves the right to charge interest on the purchase to the co-investor or co-invest vehicle (or otherwise equitably to adjust the purchase price under certain conditions), and to seek reimbursement to the relevant Fund for related costs. However, to the extent such amounts are not so charged or reimbursed, they generally will be borne by the relevant Fund.

### General

H.I.G. Capital's advisory services for the Funds are further detailed in the applicable Private Placement Memoranda and the Limited Partnership Agreements of the Funds. Investors in the Funds participate in the overall investment program for the applicable fund, but in certain circumstances are excused from a particular investment due to legal, regulatory or other agreed-upon circumstances pursuant to the relevant Limited Partnership Agreements and Side Letters (defined below); such arrangements generally do not and will not create an adviser-client relationship between the Advisers and any investor. The Funds or the Advisers have entered into side letters or other similar agreements ("**Side Letters**") with certain investors that have the effect of establishing rights under or altering or supplementing the terms (including economic or other terms) of the Funds' Limited Partnership Agreements. The advisory services of H.I.G. Capital are described herein.

## **FEES AND COMPENSATION**

In general, H.I.G. Capital receives management fees (the "**Management Fee**") from the Funds in connection with advisory services it provides. H.I.G. Capital or other H.I.G. entities or affiliates receive additional compensation in connection with management and other services performed for portfolio companies of the Funds and such additional compensation may offset in whole or in part the Management Fee otherwise payable to H.I.G. Capital. The Limited Partners in the Funds also bear certain fund expenses. As further described below, certain operating partners who provide services to (or with respect to) certain portfolio companies in which one or more Funds invest receive compensation for services and certain other costs in connection with their services and such amounts will not result in additional offsets to the Management Fee.

### **Management Fees and Expenses**

The Funds generally pay H.I.G. Capital an annual Management Fee, payable quarterly in advance, based on a percentage of aggregate capital commitments or on invested capital (except for the CLO Funds, as further described below). Installments of the Management Fee payable for any period other than a full three-month period are generally adjusted on a pro rata basis according to the actual number of days in such period. The Management Fee generally commences as of the effective date of the respective Fund, regardless of when a Limited Partner is actually admitted. The Limited Partners who participate in closings after the initial closing are typically assessed Management Fees retroactive to the respective Fund's effective date, and, in addition, are charged interest on such amounts where so provided under the applicable Limited Partnership Agreements. The Management Fee is usually paid out of current income and, to the extent necessary, from



drawdowns which will reduce unfunded commitments. As more fully set forth in the applicable Limited Partnership Agreements of the Funds, the Management Fee paid by the Limited Partners may be offset by a specified percentage of certain directors fees and other fees received by H.I.G. Capital or its affiliates. The Funds' General Partners and their affiliates are typically permitted to retain all corporate services fees and all investment banking fees, which fees are not applied to reduce the Management Fee.

The Funds pay (or reimburse respective Fund's General Partner or H.I.G. Capital) for reasonable expenses incurred in connection with the organization and startup of the Funds, including legal, accounting, filing, capital raising and other organizational expenses, in aggregate amounts not to exceed amounts referenced in such Funds' Limited Partnership Agreement. Organizational expenses in excess of these amounts, if any, will be borne by the Fund's General Partners. The Limited Partners will generally not bear any private placement fees.

As more fully set forth in each Limited Partnership Agreement, H.I.G. Capital pays ordinary administrative and overhead expenses in managing and monitoring investments, including salaries, rent, equipment, certain travel and administrative expenses incurred by H.I.G. Capital (to the extent not reimbursed by a portfolio company) in respect of the Funds or an investment by the Funds. Subject to the applicable Limited Partnership Agreement, each Fund will generally pay for all other fees, costs, expenses, liabilities and obligations relating to its (and its subsidiaries' and intermediate entities') activities, investments and business (to the extent not borne or reimbursed by a portfolio company or applied to reduce the Management Fees), including the management fee, legal, accounting (including fees and expenses of any outsourced provider of accounting and related services), auditing, consulting, technology, administrative (including fund accounting, operations, tax compliance, and similar functions, internal or third party), custodial and other fees and expenses, expenses of the advisory board and meetings of the Limited Partners, insurance and other expenses associated with the acquisition, holding and disposition of its investments, due diligence fees and expenses and all other out-of-pocket fees and expenses incurred by the Fund, the General Partner, H.I.G. Capital or the General Partner's or H.I.G. Capital's partners, members, managers, officers and employees relating to identification and evaluation of opportunities that are not consummated (including, without limitation, legal, accounting, auditing, consulting, break-up or topping fees, financing commitment fees, real estate title and appraisal costs, printing and other fees and expenses), expenses paid to third parties in connection with the organization and funding of the Fund, commitment fees and other fees and expenses and principal and interest payable in connection with credit facilities, fees, costs and expenses incurred in connection with dissolving, liquidating, winding-up and terminating the Fund and extraordinary expenses (such as litigation, if any). Generally included in the expenses permitted to be borne by a Fund are the fees, costs, expenses, liabilities and obligations of legal counsel, consultants and/or other service providers to procure, develop, establish, review, revise, customize, upgrade and/or negotiate relationships relating to the foregoing items, which generally are expected to be significant. In certain cases, these or similar expenses (and/or aforementioned additional compensation received by H.I.G. Capital or other H.I.G. entities or affiliates in connection with management and other services performed for portfolio companies of the Funds) are expected to be charged to portfolio companies, capitalized into the cost basis of a transaction or, to the extent necessary or desirable for operational, administrative, tax or other reasons, charged at the level of an intermediate holding company between the relevant Fund and the portfolio company. Each Fund also generally will bear the costs of implementing, monitoring and complying with investment guidelines and directives relating to the Fund's strategy, including in Side Letters relating thereto, and (where

applicable) environmental, social, governance and other standards to which the relevant General Partner has committed in making investments on behalf of the Fund. Additionally, subject to the Governing Documents, a Fund typically will bear certain unreimbursed expenses of portfolio companies and intermediate holding vehicles through which the Fund invests.

### CLO Funds

As more fully set forth in the relevant governing documents, WhiteHorse Capital Management, LLC (“**WhiteHorse Capital Management**”), the collateral manager of the CLO Funds, receives, to the extent that funds are available, (i) a senior management fee, (ii) a subordinated management fee and (iii) an incentive management fee, each payable on each payment date or, in the case of the senior management fee and the subordinated management fee, to the extent there are not sufficient funds available therefor on such payment date, on a subsequent payment date. The incentive management fee, the senior management fee and the subordinated management fee (in each case as may be modified pursuant to the governing documents of each CLO Fund) are collectively referred to as the “**CLO Fund Management Fees**”.

WhiteHorse Capital Management, in its sole discretion, reserves the right to waive all or any portion of the CLO Fund Management Fees, and to defer all or any portion of the Management Fees subject to certain limitations as provided in the governing documents of each CLO Fund.

WhiteHorse Capital Management pays all expenses and costs incurred by it in connection with its services; *provided* that WhiteHorse Capital Management is not liable for, and the CLO Fund is responsible for, the payment of, (x) reasonable expenses and costs of legal advisers, consultants, rating agencies, accountants and other professionals retained by the respective CLO Fund, or by WhiteHorse Capital Management, on behalf of each CLO Fund, including the costs and expenses of approved pricing services, compliance, trade execution and booking services and software, portfolio management products and services, accounting, programming and data entry services and fees and other professionals and service providers; and (y) travel expenses (airfare, meals, lodging and other transportation) incurred by WhiteHorse Capital Management as is reasonably necessary in connection with the purchase or sale, monitoring, default or restructuring of any collateral obligations.

### Managed Accounts and Co-Investments

The arrangements relating to the Management Fees and expenses with respect to all current Managed Accounts and co-investments (including co-investment funds) are reflected in their respective Investment Management Agreements, Limited Partnership Agreements and/or other governing documents. The terms of such arrangements have been, and are expected to continue to be, negotiated on an individual basis between H.I.G. Capital and the investors in such Managed Accounts and co-investments.

### **Other Information**

H.I.G. Capital is permitted to exempt certain investors in certain Funds from payment of all or a portion of the Management Fees, Carried Interest and/or incentive fees, including H.I.G. Capital and any other person designated by H.I.G. Capital. General Partners reserve the right to make any such exemption from fees and/or carried interest by a direct exemption, a rebate by H.I.G.

Capital and/or its affiliates, or through other Funds which co-invest with a Fund. For example, in instances where an H.I.G. Capital professional or its affiliate invests in a Fund, such professional or its affiliate generally will be exempt from payment of the Management Fee, Carried Interest and incentive fees with respect to such Fund. Additionally, to the extent permitted by the relevant Limited Partnership Agreement, certain Advisers have the right to permit investors, affiliated with an Adviser or otherwise, to invest through the relevant General Partner or other vehicles that do not bear Management Fees, Carried Interest or incentive fees.

The Funds generally invest on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the Limited Partnership Agreements, over the term of the Funds and the Limited Partners generally are not permitted to withdraw or redeem interests in the Funds.

Principals (“**Principals**”) or other employees of H.I.G. generally receive salaries and other compensation derived from, and in certain cases including a portion of, the Management Fee, carried interest or other compensation received by H.I.G. Capital or its affiliates.

To the extent brokerage fees are incurred, they will be incurred in accordance with the general practices set forth in “Brokerage Practices.”

The relevant General Partner also generally is permitted from time to time to establish Funds that are alternative investment vehicles in order to permit certain investors to participate in one or more particular investment opportunities in a manner desirable for tax, regulatory or other reasons. Alternative investment vehicle sponsors generally have limited discretion to invest the assets of these vehicles independent of limitations or other procedures set forth in the organizational documents of such vehicles and the related Fund.

In certain circumstances, a Fund will pay an expense or obligation common to multiple Funds (including without limitation legal expenses for a transaction in which all such Funds participate, or other fees or expenses in connection with services the benefit of which are received by other Funds over time), and be reimbursed by the other Funds by their share of such expenses or obligations, without interest. While highly unlikely, it is possible that one of the other Funds could default on its obligation to reimburse the paying Fund. In certain circumstances, H.I.G., the relevant General Partner or an affiliate thereof will advance amounts related to the foregoing and receive reimbursement from the Funds to which such expenses relate.

Additionally, as further described herein and in the applicable Private Placement Memorandum and/or Limited Partnership Agreement of each Fund, the Advisers have historically retained and expect in the future to retain certain operating partners to provide services to (or with respect to) one or more portfolio companies in which one or more Funds invest. Such operating partners generally provide services in relation to the holding, improvement and disposition of portfolio companies, including operational aspects of such companies. To the extent that an operating partner provides services to H.I.G. Capital and/or its affiliates, on the one hand, and to one or more portfolio companies, on the other hand, such operating partner’s compensation-related expenses are generally allocated between H.I.G. Capital and/or its affiliates, on the one hand, and such portfolio companies, on the other hand. Such operating partners also generally will be reimbursed for certain travel and other costs in connection with their services and, as discussed above, no such amounts will offset or reduce the Management Fee. H.I.G. Capital and/or its

affiliates reserve the right to agree with operating partners, joint venture or similar partners, service providers, portfolio company management or other persons that all or a portion of certain expense reimbursements, payments or other amounts owed to such persons relating to one or more investments will be paid in the form of an equity or profits interest granted in the relevant investments or related intermediate entities. While such an arrangement could be more favorable to the relevant Fund if the investment does not increase in value, in the event of appreciation in the relevant investment any such profits interest generally would have a dilutive impact on the Fund's investment, as well as the potential to result in economic gains to the recipient greater than the original amount of compensation. The use of operating partners subjects the Advisers to potential conflicts of interest, as discussed under "Conflicts of Interest," below.

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

H.I.G. Capital does not receive a carried interest allocation ("**Carried Interest**") for its advisory services to the Funds. However, the General Partner of each Fund will receive a specified percentage of Carried Interest of all aggregate realized profits from the applicable Fund subject to satisfying a preferred return. The arrangements relating to Carried Interest or other incentive-based compensation with respect to all Funds and Managed Accounts are reflected in their respective Limited Partnership Agreements and other governing documents. The Advisers manage Funds which are subject to Carried Interest and other incentive fees, although the General Partners reserve the right to waive such Carried Interest and fees with respect to certain affiliated Limited Partners in the applicable Fund, as described under "Fees and Compensation." Additionally, to the extent that H.I.G. has Funds with varying carried interest and incentive fee terms (including amount, timing, waterfall conditions or other terms) and/or H.I.G. personnel are assigned varying percentages of carried interest and incentive fees from the Funds, H.I.G. and such personnel are subject to potential conflicts of interest in identifying investment opportunities as appropriate for Funds from which they are entitled to receive higher percentages.

Performance-based compensation has the potential to create an incentive for the General Partner to make more speculative investments on behalf of a Fund than it would otherwise make in the absence of such arrangement, although H.I.G. Capital generally considers performance-based compensation to better align its interests with those of its investors. H.I.G. Capital seeks to address the potential for conflicts of interest in these matters with allocation policies and/or practices that provide that transactions and investment opportunities will be allocated to the Funds in accordance with each Fund's investment guidelines and governing agreements, as well as other factors that do not include the amount of performance-based compensation received by H.I.G. Capital or any personnel.

## **TYPES OF CLIENTS**

H.I.G. Capital provides investment advice solely to its Fund and Managed Account clients, and references throughout this Brochure to "clients" and to H.I.G Capital's related duties to and practices on behalf of its clients and/or investors should be construed accordingly. The Funds generally include investment partnerships or other investment entities formed under U.S. or non-U.S. and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in Funds generally include individuals, banks or thrift institutions, other investment entities, university endowments, sovereign wealth funds, family offices, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and from time to time include, directly or indirectly, principals or

other employees of H.I.G. Capital and its affiliates and members of their families, operating partners or other service providers retained by H.I.G. Capital. Interests in the Funds are sold solely to qualified purchasers or accredited investors who are also qualified clients (or qualified knowledgeable H.I.G. personnel) within the meaning of the rules promulgated under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”). It is expected that any Managed Accounts will only be established for investors that are qualified purchasers.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **General**

H.I.G. is a global private investment firm with a family of funds which includes private equity, venture capital, debt/credit and real estate. With a team of over 400 investment professionals with substantial operating, consulting, technology and financial management experience, H.I.G. focuses its investments in the lower middle-market and in distressed and underperforming companies primarily throughout North America, South America, and Europe. Since inception, H.I.G. and its affiliates have completed more than 100 control platform investments, in addition to a significant number of add-on acquisitions.

As further described in the section above entitled “Advisory Business -- H.I.G. Capital Investment and Business Strategies”, H.I.G.’s principal investment strategies include private equity, venture capital, debt/credit, technology, infrastructure and real estate. The Funds will also consider other investments on an opportunistic basis which present a risk/reward profile consistent with the relevant Fund’s principal strategy. There can be no assurance that the Advisers will achieve the investment objectives of the Funds and a loss of investment is possible.

### **Risks of Investment**

- **Risks Applicable to All Funds.** The following risks of investments are generally applicable to investments in each of the Funds, including any Managed Accounts and co-investments:

*Portfolio Company Risk.* The Funds invest in a limited number of investments. Hence, the aggregate return of the Funds may be affected by the performance of a few holdings. To the extent that less capital is raised than targeted, the Funds may make fewer investments and thus be less diversified. It is possible that the Funds will never be fully invested if not enough quality investments are available or identified by the General Partners due to intense competition or the marketplace. However, the Limited Partners will be required to pay annual Management Fees based on the entire amount of their capital commitments (except for those Funds that are charged Management Fees based on invested capital).

*Concentration of Investments.* The Funds participate in a limited number of investments and may seek to make several investments in one industry or industry segment. As a result, the Funds’ investment portfolio could become highly concentrated, and the performance of a few holdings may substantially affect its aggregate return. Furthermore, to the extent that the capital raised is less than the targeted amount, the Funds may invest in fewer portfolio companies and thus be less diversified.

*Leverage.* Certain of the Funds are permitted to make use of leverage by incurring debt to finance all or a portion of its investment in a given portfolio company. Leverage generally magnifies both the Funds' opportunities for gain and its risk of loss from a particular investment. The use of leverage will also result in interest expense and other costs to the Funds that may not be covered by distributions made to the Funds or appreciation of its investments. Leverage often imposes restrictive financial and operating covenants on a Fund and/or portfolio company, in addition to the burden of debt service, and may impair its ability to finance future operations and capital needs. The leveraged capital structure of portfolio companies will increase the exposure of the Funds' investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of the Funds' investments in the leveraged portfolio companies in a down market. In the event any portfolio company cannot generate adequate cash flow to meet debt service, the Funds may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of the Funds. Furthermore, the companies in which the Funds will invest generally will not be rated by a credit rating agency.

The amount of such borrowings or other leverage is in the General Partners' discretion and the amount of such borrowings or other leverage in excess of such limit with respect to individual portfolio investments will not require consent of the advisory board or the Limited Partners. Such aggregate limit is generally measured at the time each investment in a portfolio company is consummated and to the extent that any portfolio companies decrease in value subsequent to their acquisition by the Funds, such limit may be exceeded. The General Partners may in their sole discretion at any time throughout the life of the Funds, in light of the then prevailing business and markets conditions and portfolio considerations, amend, modify, restructure or refinance any leverage facility or other investment leverage with the lender parties and on such terms as the General Partners determine appropriate for the Funds. In such circumstances, certain terms of any new or amended leverage facility may be less favorable than its predecessor facility.

The use of leverage involves a high degree of financial risk. For example, because amounts borrowed under a subscription line typically are secured by pledges of the relevant General Partner's right to call capital from the Limited Partners, the Limited Partners may be obligated to contribute capital on an accelerated basis if the Fund fails to repay the amounts borrowed under a subscription line or experiences an event of default thereunder. Moreover, any Limited Partner claim against the Fund would likely be subordinate to the Fund's obligations to a subscription line's creditors. Fund-level borrowing involves a number of additional risks. For example, drawing down on a subscription line allows the General Partner to fund investments and pay partnership expenses without calling capital, potentially for extended periods of time. Calling a large amount of capital at once to repay the then-current amount outstanding under a subscription line could cause short-term liquidity concerns for the Limited Partners that would not arise had the relevant General Partner called smaller amounts of capital incrementally over time as needed by a Fund. This risk would be heightened for a Limited Partner with commitments to other funds that employ similar borrowing strategies or with respect to other leveraged assets in its portfolio; a single market event could trigger simultaneous capital calls, requiring the Limited Partners to meet the accumulated, larger capital calls at the same time. The General Partner is authorized to use Fund-level borrowing to pay Management Fees and to reimburse H.I.G. Capital for expenses incurred on behalf of the Fund. A Fund is also permitted to utilize Fund-level borrowing when the General Partner expects to repay the amount outstanding through means other than Limited Partner capital,

including as a bridge for equity or debt capital with respect to an investment. If the Fund ultimately is unable to repay the borrowings through those other means, the Limited Partners would end up with increased exposure to the underlying investment, which could result in greater losses.

In addition, Fund-level borrowing will result in additional partnership expenses that will be borne by investors. These expenses typically include interest on the amounts borrowed, unused commitment fees on the committed but unfunded portion of a subscription line, an upfront fee for establishing a subscription line, and other one-time and recurring fees and/or expenses, as well as legal fees relating to the establishment, structuring and negotiation of the terms of the borrowing facility, as well as expenses relating to the maintenance, renegotiating or terminating the facility. Because a subscription line's interest rate is based in part on the creditworthiness of the relevant Fund's Limited Partners and the terms of the governing documents, it may be higher than the interest rate a Limited Partner could obtain individually. To the extent a particular Limited Partner's cost of capital is lower than the Fund's cost of borrowing, Fund-level borrowing can negatively impact a Limited Partner's overall individual financial returns even if it increases the Fund's reported net returns in certain methods of calculation. Conflicts of interest have the potential to arise in that the use of Fund-level borrowing typically delays the need for the Limited Partners to make contributions to a Fund, which in certain circumstances enhances the relevant Fund's internal rate of return calculations and would thereby benefit the marketing efforts of the Advisers. Conflicts of interest also have the potential to arise to the extent that a subscription line is used to make an investment that is later sold in part to co-investors (including one or more co-investing Funds), as to the extent co-investors are not required to act as guarantors under the relevant facility or pay related costs or expenses, co-investors nevertheless stand to receive the benefit of the use of the subscription line and neither the relevant Fund nor investors generally will be compensated for providing the relevant guarantee(s) or being subject to the related costs, expenses and/or liabilities.

In the event a Fund has a Fund-level credit agreement or borrowing facility, such agreements frequently will contain other terms that restrict the activities of a Fund and the limited partners or impose additional obligations on them. For example, certain lenders or facilities are expected to impose restrictions on the relevant General Partner's ability to consent to the transfer of a limited partner's interest in the Fund or impose concentration or other limits on the Fund's investments and/or financial or other covenants that could affect the implementation of the Fund's investment strategy. In addition, in order to secure a subscription line, the relevant General Partner may request certain financial information and other documentation from limited partners to share with lenders. The General Partner will have significant discretion in negotiating the terms of any subscription line and may agree to terms that are not the most favorable to one or more limited partners.

The extent to which the Funds use leverage may have important consequences to investors, including, but not limited to, the following: (i) greater fluctuations in the net assets of the Funds, (ii) use of cash flow (including capital contributions) for debt service and related costs and expenses, rather than for additional investments, distributions, or other purposes, (iii) to the extent that Funds revenues are required to meet principal payments, investors may be allocated income (and therefore incur tax liability) in excess of cash available for distribution, (iv) in certain circumstances the Funds may be required to prematurely harvest investments to service its debt obligations, (v) limitations on the flexibility of the Funds to make distributions to investors or sell

assets that are pledged to secure the indebtedness, and (vi) increased interest expense if interest rate levels were to increase significantly. There can also be no assurance that the Funds will have sufficient cash flow to meet its debt service obligations. As a result, the Funds' exposure to losses may be increased due to the illiquidity of its investments generally. Prior or current Funds have utilized leverage in connection with such Funds' prior investment activities. However, there can be no assurance that the Funds will be able to obtain indebtedness on terms available to any predecessor or affiliated fund or to competitors, including terms that may be currently available in the market, or that indebtedness will be accessible by the Funds at any time, and to the extent that it is available there can be no assurance that such indebtedness will be on terms favorable to the Funds, including with respect to interest rates, or that such indebtedness will remain available throughout the terms of the Funds. The failure by the Funds to obtain indebtedness on favorable terms (or at all) could adversely affect the returns of the Funds.

*Illiquidity of Investments.* An investment in the Funds should be viewed as illiquid. It is uncertain when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. Furthermore, the expenses of operating the Funds (including the annual Management Fees payable to H.I.G. Capital and affiliates) may exceed its income, thereby requiring that the difference be paid from the Funds' capital.

*No Assurance of Investment Return.* The Funds' investment portfolios consist primarily of investments in privately-held companies, and operating results in a specified period are difficult to predict. Many organizations operated by persons of competence and integrity have been unable to make, manage and realize a return on such investments successfully. There is no assurance that the Funds will be able to invest their capital with attractive terms or generate returns for its investors. The past investment performance of the principals of the General Partners or any entities with which they have been or are associated is not necessarily indicative of the Funds' future results. While the General Partners intend for the Funds to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that the targeted IRR will be achieved.

*No Assurance of Projected Results.* Projected operating results are only estimates of future results based upon assumptions made at the time the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic conditions, which are not predictable, can have a material adverse impact on the accuracy of projections.

*Restricted Nature of Investment Positions.* Generally, there will be no readily available market for a substantial number of the Funds' investments, and hence, most of the Funds' investments will be difficult to value.

*Restrictions on Transfer and Withdrawal.* Interests in the funds are likely to not be registered under the Securities Act or any other applicable securities laws. There is generally no public market for interests in the Funds and none is expected to develop. Additionally, interests in the Funds are not transferable except with the consent of the Fund's respective General Partner, which generally may be withheld by the General Partner at its sole discretion and are subject to the terms and conditions of the respective Fund's governing documents. Investors generally may not withdraw from a Fund and the interests are not redeemable. Consequently, investors may not



be able to liquidate their investments prior to the end of the Fund's term. Investors who do not wish to remain as partners for the entire duration of a fund are advised against investment.

*Risks upon Disposition of Investments.* The success of a Fund's exit strategy may depend upon favorable market conditions at the time of the desired exit. There can be no guarantee that such conditions will exist during the term of such Fund. In connection with the disposition of an investment, a Fund may be required to make representations about the investment typical of those made in connection with the sale of any investment. Such Fund may also be required to compensate the purchasers of such investment to the extent that any such representations turn out to be incorrect, inaccurate or misleading. This arrangement may result in contingent liabilities, which might ultimately have to be funded by the Fund or its partners.

*Reliance on the General Partners, H.I.G. Capital and the Portfolio Company Management Team.* Control over the operation of the Funds will be vested entirely with the General Partners and the related management company, and the Funds' future profitability will depend largely upon the business and investment acumen of the H.I.G. Principals. The loss of service of one or more of the H.I.G. Principals could have an adverse impact on the Funds' ability to realize its investment objectives. Moreover, although the Funds expect to have access to all of the appropriate resources, relationships and expertise of H.I.G., there can be no assurance that such resources, relationships and expertise will be available for every transaction during the life of the Funds. The Limited Partners generally have no right or power to take part in the management of the Funds, and as a result, the investment performance of the Funds will depend entirely on the actions of the General Partners and the related management company. Although the General Partners and H.I.G. Capital will monitor the performance of each Fund's investment, it will primarily be the responsibility of each portfolio company's management team to operate the portfolio company on a day-to-day basis.

*Need for Follow-On Investments.* Following their initial investment in a given portfolio company, the Funds may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company. There is no assurance that the Funds will make follow-on investments or that the Funds will have sufficient funds to make all or any of such investments. Any decision by the Funds not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment or may result in a lost opportunity for the Funds to increase its participation in a successful operation.

*Distributions in Kind.* It is possible that a Fund may, upon the liquidation of such Fund or under certain other circumstances, make distributions in kind, which could consist of assets for which there is no readily available public market.

*Public Company Holdings.* The Funds' investment portfolio may contain securities issued by publicly held companies. Such investments may subject the Funds to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the Funds to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members, including the principals, and increased costs associated with each of the aforementioned risks.

*Lack of Unilateral Control.* Even if a Fund is the majority investor or controlling shareholder, as applicable, of a portfolio company, in certain circumstances it may not have unilateral control of the portfolio company. To the extent the Fund invests alongside third parties, such as institutional co-investors or private equity funds of other sponsors, or makes a minority investment, the relevant portfolio companies may be controlled or influenced by persons who have economic or business interests, investment or operational goals, tax strategies or other considerations that differ from or are inconsistent with those of the Funds or their Limited Partners. Such third parties may be in a position to take action contrary to the Fund's business, tax or other interests, and the Fund may not be in a position to limit such contrary actions or otherwise protect the value of its investment. When taking non-control positions, a Fund generally will seek to negotiate certain negative controls and veto rights on major decisions, but there can be no assurance that a Fund will be able to control the timing or occurrence of an exit strategy for such portfolio companies in a manner that maximizes or protects value.

*Limited Access to Information; Disclosure Requests.* The Limited Partners' rights to information regarding a Fund, the relevant General Partner or H.I.G. Capital generally will be specified, and in many cases strictly limited, by the relevant Limited Partnership Agreement. In particular, it is anticipated that the General Partner and its affiliates will obtain certain types of material information from or relating to a Fund's investments that will not be disclosed to the Limited Partners because such disclosure is prohibited, including as a result of contractual, legal or similar obligations outside of H.I.G. Capital's control. Decisions by H.I.G. Capital or its affiliates to withhold information may have adverse consequences for the Limited Partners in a variety of circumstances. For example, a Limited Partner that seeks to transfer its interest in a Fund may have difficulty in determining an appropriate price for such interest. Decisions to withhold information may also make it difficult for a Limited Partner to monitor H.I.G. Capital and its performance. Additionally, it is anticipated that the Limited Partners that designate representatives to participate on a Fund's advisory board generally may, by virtue of such participation, have more or earlier information about a Fund and its investments in certain circumstances than other Limited Partners. The Limited Partners generally will bear the expenses of responding to disclosure requests, including in connection with state public records, similar freedom of information and other laws, whether or not the relevant Fund succeeds in asserting confidentiality for requested documents and other materials, and H.I.G. Capital reserves the right to withhold certain information from investors subject to such laws for reasons relating to H.I.G. Capital's public reputation, business strategy or other reasons.

*Material Non-Public Information; Other Regulatory Restrictions.* As a result of the operations of H.I.G. Capital and its affiliates, as well as in connection with officerships or directorships of H.I.G. Capital personnel, H.I.G. Capital frequently comes into possession of confidential or material non-public information. Therefore, H.I.G. Capital and its affiliates may have access to material, non-public information that may be relevant to an investment decision to be made by a Fund. Consequently, a Fund may be restricted from initiating a transaction or selling an investment which, if such information had not been known to it, may have been undertaken on account of applicable securities laws or H.I.G. Capital's internal policies and practices. Similarly, anti-money laundering, anti-boycott and economic and trade sanction laws and regulations in the United States and other jurisdictions may prevent H.I.G. Capital or the funds from entering into transactions with certain individuals or jurisdictions. The United States Department of the

Treasury's Office of Foreign Assets Control ("OFAC") and other governmental bodies administer and enforce laws, regulations and other pronouncements that establish economic and trade sanctions on behalf of the United States. Among other things, these sanctions may prohibit transactions with or the provision of services to, certain individuals or portfolio companies owned or operated by such persons, or located in jurisdictions identified from time to time by OFAC. Additionally, antitrust laws in the United States and other jurisdictions give broad discretion to the U.S. Federal Trade Commission, the United States Department of Justice and other U.S. and non-U.S. regulators and governmental bodies to challenge, impose conditions on, or reject certain transactions. In certain circumstances, antitrust remedies relating to one Fund's acquisition of a portfolio company may require one or more other Funds to sell all or a portion of certain portfolio companies owned by them.

As a result of any of the foregoing, a Fund may be adversely affected because of H.I.G. Capital's inability or unwillingness to participate in transactions that may violate such laws or regulations, or by remedies imposed by any regulators or governmental bodies. Any such laws or regulations may make it difficult or may prevent a Fund from pursuing investment opportunities, require the sale of part or all of certain portfolio companies on a timeline or in a manner deemed undesirable by H.I.G. Capital or may limit the ability of one or more portfolio companies from conducting their intended business in whole or in part. Consequently, there can be no assurance that any Fund will be able to participate in all potential investment opportunities that fall within its investment objectives.

*Changes in Environment.* The Funds' investment programs extend over a period of years, during which the business, economic, political, regulatory, and technology environment within which the Funds operate may undergo substantial changes, some of which may be adverse to the Funds. The General Partners will have the exclusive right and authority (within limitations set forth in the Funds' Limited Partnership Agreements) to determine the manner in which the Funds will respond to such changes, and the Limited Partners generally will have no right to withdraw from the Funds or to demand specific modifications to the Funds' operations in consequence thereof. Prospective investors are particularly cautioned that the investment sourcing, selection, management and liquidation strategies and procedures exercised by members of the General Partners in the past may not be successful, or even practicable, during the Funds' terms. Within the limitations set forth in the Limited Partnership Agreements, the General Partners have the right and authority to cause the Funds' investment sourcing, selection, management and liquidation strategies and procedures to deviate from those described in the Funds' Private Placement Memoranda.

*Risks Related to Outbreaks of Infectious or Contagious Diseases; COVID-19.* Pandemics and other widespread public health emergencies, including outbreaks of infectious diseases such as SARS, H1N1/09 flu, avian flu, Ebola and COVID-19 have and are resulting in market volatility and disruption, and future such emergencies have the potential to materially and adversely impact economic production and activity, all of which may result in significant losses to a Fund. In an effort to contain COVID-19, national, regional and local governments, as well as private businesses and other organizations, have taken severely restrictive measures, including instituting local and regional quarantines, restricting travel (including closing certain international borders), prohibiting public activity (including "stay-at-home" and similar orders), and ordering the closure of large numbers of offices, businesses, schools, and other public venues. In many jurisdictions, restrictive measures have been re-imposed to address subsequent waves of infection. As a result,

COVID-19 significantly diminished global economic production and activity of all kinds and contributed to volatility in markets for financial assets as well as commodities and other assets. Among other things, these unprecedented developments resulted in material reductions in demand across some, many or all categories of consumers and businesses, volatility in the credit and capital markets, labor force and operational disruptions, slowing or complete idling of certain supply chains and manufacturing activity, and strain and uncertainty for businesses and households. Certain industries are likely to feel such impacts particularly acutely, for instance industries dependent on travel and public accessibility, such as transportation, hospitality, tourism, retail, sports and entertainment and industries related to natural resources production and development.

The COVID-19 crisis and any other public health emergency could result in significant adverse impacts on the Funds. The extent of the impact of any such emergency depends on many factors, all of which are highly uncertain and cannot be predicted, which may impact H.I.G. Capital's or the Funds' ability to source, diligence and execute new investments and to manage, finance and exit investments in the future, or cause significant changes or reductions in revenue and growth, unexpected operational losses and liabilities, impairments to credit quality and reductions in the availability of capital. Likewise, social or governmental mitigation actions may (among a wide variety of other potential effects) constrain or alter existing financial, legal and regulatory frameworks in ways that are adverse to the investment strategy Funds intend to pursue, all of which could adversely affect Funds' ability to fulfill their investment objectives. They may also impair the ability of Funds' investments or their counterparties to perform their respective obligations under debt instruments and other commercial agreements (including their ability to pay obligations as they become due), potentially leading to defaults with uncertain consequences. In addition, the operations of the Funds, their investments, the applicable General Partner, H.I.G. Capital and their respective affiliates may be significantly impacted, or even temporarily or permanently halted, as a result of government quarantine measures, restrictions on travel and movement, remote-working requirements and other social, political, financial, legal, regulatory and other factors related to an actual or threatened public health emergency (such as COVID-19), including its potential adverse impact on the health of any such entity's personnel. These measures may also hinder such entities' ability to conduct their affairs and activities as they normally would, including by impairing usual communication channels and methods, hampering the performance of administrative functions such as processing payments and invoices, and diminishing their ability to make accurate and timely projections of financial performance.

*Impact of Potential Regulatory Developments.* There continue to be discussions regarding enhanced governmental scrutiny and/or increased regulation of the private equity industry. There can be no assurance that any such scrutiny or regulation will not have an adverse impact on the Funds' activities, including the ability of the Funds to effectively and timely address such regulations, implement operating improvements or otherwise execute its investment strategy or achieve its investment objectives. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**") was enacted in July 2010. The Dodd-Frank Act has created a number of new regulatory, supervisory and advisory bodies and affected the regulation of virtually every aspect of United States financial markets.

Additionally, the SEC has indicated that it intends to seek to enact changes to numerous areas of law and regulations that would impact the business of H.I.G. Capital and the Funds. In particular, the SEC has signaled an increased emphasis on investment adviser and private fund

regulation and has proposed new rules that, if adopted, would impose significant changes on private fund advisers and their management of private funds, and the SEC is expected to propose additional changes in the future. Any such changes are expected to materially impact H.I.G. Capital and its affiliates, the Fund and/or its investments, as well as increasing their expenses. Significant time and resources may be required to comply with new regulations, which potentially will detract from the time and resources dedicated to the Fund.

*Developments Concerning Financial Markets.* In 2008, difficult market conditions and economic trends adversely affected the financial services industry and the securities markets, which were materially and adversely affected by significant declines in the values of nearly all asset classes and by a pronounced lack of liquidity. These trends caused the global markets to have increased volatility and had a negative impact on investor confidence in both financial institutions as well as a number of other industries and in the broader financial markets. Furthermore, general downward economic trends, reduced availability of commercial credit and increased unemployment negatively impacted the performance of commercial and consumer credit. Although concerns over the stability of the financial markets and the global economy have diminished over the last year, governments throughout the world, including the United States, continue to carry a significant amount of debt, partially, as a result of the financial crisis. There can be no certainty that another financial crisis, like the one that occurred in 2008, will not occur in the future. If such a crisis were to occur, the resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets may adversely affect the business, financial condition, and operating results of the Funds.

*Economic and Political Conditions.* The current global economic and political climate is one of uncertainty. The potential for increased regulation of the financial markets may increase costs and limit the Funds' ability to pursue business and investment opportunities. Any further material change in the economic environment, including a further slow-down in economic growth and/or changes in interest rates or foreign exchange rates, could have a negative impact on the performance and/or valuation of the Funds' investments in portfolio companies. The Funds' performance can be affected by deterioration in public markets and by market events, such as the onset of the credit crisis, which can impact the public market comparable or other valuation metrics used to value the Funds' investments in portfolio companies. Movements in foreign exchange rates may or may not adversely affect the value of investments in portfolio companies and the Funds' performance. The rate of future investment by private investment funds has slowed and may continue to slow as the pricing of new transactions adjusts to reflect the current economic uncertainty and the lack of credit in the markets. Holding periods are also likely to be longer as the rate of realizations slows in light of the deterioration in market conditions for investment realizations. The impact of the credit crisis may also affect the Funds' ability to raise funding to support the investment objective and also the level of profitability achieved on realizations of investments.

*Income Tax Risks.* Investment in the Funds may entail significant tax risks, including: (i) the possibility that certain deductions claimed by the Funds may be disallowed and that any audit of the Funds, tax return may result in an audit of any Partner's tax return; (ii) the possibility that the Funds may have taxable income allocable to Partners in an amount greater than the cash available for distribution; (iii) the possibility that the Funds may generate unrelated business taxable income for tax-exempt investors or ECI for non-U.S. investors; and (iv) the possibility that future legislative,

administrative or judicial interpretations of current law or future legislation will change the tax treatment of investors described herein.

*Litigation Risks.* The Funds may be subject to a variety of litigation risks, particularly in consequence of the likelihood that one or more portfolio companies will face financial or other difficulties during the term of the Funds' investments. The Funds may also participate in portfolio company financings at implicit portfolio company valuations lower than the valuations implicit in preceding rounds of financing. In the event of a dispute arising from any of the foregoing activities (or other activities relating to the operation of the Funds or the General Partners), it is possible that the Funds, the General Partners, the management companies, or their respective representatives may be named as defendants. Under most circumstances, the Funds will indemnify the General Partners, their management company and their respective affiliates and employees for any costs they may incur in connection with such disputes.

*Service on Boards of Directors or as Officers.* One or more of the principals or other persons affiliated with the Funds and the General Partners may serve as directors or officers of certain of the Funds' portfolio companies. Such service could expose the Funds and the General Partners and their partners and affiliates to claims by a portfolio company, its security holders and their creditors as well as various potential governmental or regulatory claims. While the General Partners manage the Funds in a manner that will minimize exposure to these risks, the possibility of successful claims cannot be eliminated and such events, if they occur, could lead to potential liability for the Funds and therefore could have an adverse effect on the Funds. Not all portfolio companies may obtain insurance with respect to potential director or officer liabilities, and the insurance that portfolio companies do obtain may be insufficient to adequately protect directors or officers from such liabilities.

*Misconduct of Investment Professionals, Employees, and Third-Party Service Providers.* Misconduct or misrepresentation by investment professionals and other employees of H.I.G. Capital or by third party service providers could cause significant losses to the Funds. Despite the due diligence efforts of the relevant General Partner and its affiliates, misconduct and intentional misrepresentations may be undetected or not fully comprehended, thereby potentially undermining such due diligence efforts. As a result, no assurances can be given that the due diligence performed by the General Partner and its affiliates will identify or prevent any such misconduct.

*Valuation of Investments.* Generally, the relevant General Partner will determine the value of all the related Fund's investments for which market quotations are available based on publicly available quotations. However, market quotations will not be available for virtually all of a Fund's investments because, among other things, the securities of portfolio companies held by such Fund generally will be illiquid and not quoted on any exchange. Each General Partner will determine the value of all the Fund's investments that are not readily marketable based on ASC 820 guidelines as promulgated by the Financial Accounting Standards Board and any subsequent valuation guidelines required of an investment fund reporting under generally accepted accounting principles as promulgated in the United States. There can be no assurance that the relevant General Partner will have all the information necessary to make valuation decisions in respect of these investments, or that any information provided by third parties on which such decisions are based will be correct. There can be no assurance that the valuation decision of a General Partner with respect to an investment will represent the value realized by the relevant Fund on the eventual

disposition of such investment or that would, in fact, be realized upon an immediate disposition of such investment on the date of its valuation. Accordingly, the valuation decisions made by such General Partner may cause it to ineffectively manage the relevant Fund's investment portfolios and risks, and may also affect the diversification and management of such Fund's portfolio of investments.

*Cybersecurity Risks.* Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject, particularly operating companies in historically vulnerable industries such as the food services and retail industries. To the extent that a portfolio company, Fund, General Partner, the Advisers or one or more of their respective service providers is subject to cyber attack or other unauthorized access is gained to their systems, substantial losses may occur in the form of stolen, lost or corrupted: (i) data or payment information; (ii) financial information; (iii) software, contact lists or other databases; (iv) proprietary information or trade secrets; or (v) other items. If technology systems are compromised, become inoperable for extended periods of time or cease to function properly, the Advisers, the Funds and/or portfolio companies may incur significant time or expense to fix or replace them and to seek to remedy the effects of such issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the Advisers', the Funds', portfolio companies' and/or service providers' operations, including the ability to make distributions to limited partners, and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). In certain events, a failure or deemed failure to address and mitigate cybersecurity risks may be the subject of civil litigation or regulatory or other action. The use of internet- or cloud-based programs, technologies and data storage applications generally heightens these risks. Any of such circumstances could subject a portfolio company, or the relevant Fund, to substantial losses, including losses relating to: misappropriation of assets, intellectual property or confidential information; corruption, deletion or destruction of data; physical damage and repairs to systems; reputational harm; financial losses from remedial actions; and/or disruption of operations. Third parties, including activist, criminal, nation-state or terrorist actors, may also attempt fraudulently to induce portfolio companies or their personnel to disclose sensitive information (including passwords) in order to gain access to data, accounts, funds or other assets, or otherwise to inflict harm. In addition, in the event that such a cyber- attack or other unauthorized access is directed at H.I.G. Capital or one of its service providers holding its financial or investor data, H.I.G. Capital, its affiliates or the Funds may also be at risk of loss, despite efforts to prevent and mitigate such risks under H.I.G. Capital's policies and practices.

*Environmental, Social and Governance ("ESG") Matters.* The Adviser maintains an ESG policy and seeks to integrate certain ESG factors into its investment process in accordance with its policy and subject to its fiduciary duty and any applicable legal, regulatory or contractual requirements. There is no guarantee that the Adviser will be able to successfully implement its ESG policy or make investments in companies that create a positive ESG impact while achieving its investment strategy. In addition, applying ESG factors to investment decisions is qualitative and subjective by nature, and there is no guarantee that the criteria utilized by the Adviser, or any judgment exercised by the Adviser, will reflect the beliefs or values of any particular investor. There are also significant differences in interpretations of what positive ESG characteristics mean by region, industry and topic. The Adviser's interpretations and decisions may differ from others' views and could also evolve over time. In addition, in evaluating an investment, the Adviser expects to depend upon information and data provided by a number of sources, including the

relevant investments and/or various reporting sources which could be incomplete, inaccurate or unavailable, and which could cause the Adviser to incorrectly assess a company's ESG practices and/or related risks and opportunities. The Adviser does not intend independently to verify all ESG information reported by investments or third parties. Further, considering ESG qualities when evaluating an investment could result in the selection or exclusion of certain investments based on the Adviser's view of certain ESG-related and other factors and could cause the relevant Funds not to make an investment that they would have made or to make a management decision with respect to an investment differently than they would have made in the absence of the ESG Policies, which could negatively impact the Adviser's performance.

Further, ESG practices are evolving rapidly and there are different principles, frameworks, methodologies, and tracking tools being implemented by other asset managers, and the Adviser's adoption and adherence to such is expected to vary over time. There is also a growing regulatory interest across jurisdictions in improving transparency regarding the definition, measurement and disclosure of ESG factors. The Adviser's ESG policies could become subject to additional regulation in the future, and the Adviser cannot guarantee that its current approach will meet future regulatory requirements.

*CFIUS and National Security Clearance Considerations.* Certain investments are expected to be subject to or require review and approval by the U.S. Committee on Foreign Investment in the United States ("CFIUS"), such as where CFIUS-related laws, regulations or guidance deem non-U.S. persons or entities under their control (such as a Fund, co-investors and/or rollover sellers) to be acquiring a U.S. business (including a business with assets, employees, facilities, and/or operations in the United States). CFIUS has the authority to review proposed or existing transactions or investments or to seek to impose limitations on or prohibit investments, and CFIUS filings and other considerations can materially impact transaction timing, feasibility, certainty and costs. In certain circumstances, CFIUS considerations have the potential to prevent a Fund from maintaining or pursuing investments, or limit the universe of available buyers for an existing investment. Any of these factors have the potential to adversely affect a Fund's performance, and the likelihood that CFIUS considerations will be implicated is expected to increase where non-U.S. limited partners comprise a substantial percentage of a Fund. Under the Governing Documents, the relevant General Partner generally is authorized, although not required, to excuse or otherwise limit non-U.S. limited partners' ability to invest in U.S. businesses (or to exercise voting or advisory board rights with respect thereto) in order to anticipate or comply with CFIUS considerations. However, there can be no assurance that invoking any such excuse provisions or other limitations will allow the Fund to proceed with or maintain any investment, or to avoid losses relating thereto. Similar considerations are expected to apply with respect to reviews by non-U.S. national security or investment clearance regulators.

- **Risks Applicable to Certain Funds.** As indicated below, the following risks of investment are applicable only to investments in certain Funds, including any Managed Accounts that follow similar strategies:

*Non-U.S. Investments.* Certain Funds may invest in a number of portfolio companies located outside of the United States. Such investments may be subject to certain additional risk due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such



regulations may be given effect during the term of the Funds), the application of complex U.S. and non-U.S. tax rules to cross-border investments, possible imposition of non-U.S. taxes on the Funds and/or the Partners with respect to the Funds' income, and possible non-U.S. tax return filing requirements for the Funds and/or the Partners.

Certain of these Funds' investments may be made in currencies other than U.S. dollars. The value of an investment may fall substantially as a result of fluctuations in the currency of the country in which the investment is made as against the value of the U.S. dollar. The General Partners is authorized (but not obligated) to endeavor to manage currency exposures, using appropriate hedging techniques where available and appropriate. The Funds may incur costs related to currency hedging arrangements. There can be no assurance that adequate hedging arrangements will be available on an economically viable basis.

Additional risks include: (i) risks of economic dislocations in the host country, (ii) less publicly available information, (iii) less well-developed regulatory institutions, and (iv) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

*Early-Stage Company Investments.* Certain Funds may invest in companies in early stages of growth, which have inherently greater risk than more established businesses. Early-stage companies may be more volatile due to their limited product lines, markets or financial resources, or their susceptibility to major setbacks or downturns. The Funds may make investments in companies engaged in the information technology, healthcare and life sciences business. Many companies in these industries are subject to federal and state laws and regulations governing, among other things, the operation, ownership and control of such companies. These regulations may restrict the manner in which the Funds make, monitor, divest and act to protect their investments in such companies and could, under some circumstances, attribute an ownership interest in some or all of such companies to some or all of the Funds' Limited Partners. While the Limited Partnership Agreements contain provisions intended to insulate the Limited Partners from such attributed ownership, no assurance can be given that regulatory authorities would not assert that some or all of the Limited Partners are deemed to have an ownership interest in some or all of such companies.

*Investments in Distressed Securities.* Certain Funds, particularly the Bayside Funds, intend to invest in the debt, obligations and other securities and related equity of companies experiencing significant financial difficulties and material operating issues, including, without limitation, companies that may have been, are or will become involved in bankruptcy proceedings or other restructuring, recapitalization or liquidation processes. Investments in such companies involve a substantial degree of risk which is generally higher than the risk involved in investing in companies that are not in financial or operational distress. Given the heightened difficulty of the financial analysis required to evaluate distressed companies, there can be no assurance that the General Partners and applicable management company will correctly evaluate the value of the assets of a company securing its debt and other obligations or correctly project the prospects for the successful restructuring, recapitalization or liquidation of such company. Therefore, in the event that a portfolio company does become involved in bankruptcy proceedings or a restructuring, recapitalization or liquidation is required, the Funds may lose some or all of its investment or may

be required to accept illiquid securities with rights that are materially different than the original securities in which the Bayside Funds invested.

*Non-Controlling Investments.* The Bayside Funds and Whitehorse Funds hold debt obligations and other non-controlling interests in portfolio companies and, therefore, will have a limited ability to protect the Bayside Funds' and Whitehorse Funds' position in such portfolio companies. However, the General Partners intend to seek appropriate creditor rights to help protect the Bayside Funds' and Whitehorse Funds' interests.

Other Funds may hold non- controlling interests in certain investments and, therefore, may have a limited ability to protect its position in such investments, although as a condition of investment, the General Partners generally expect that appropriate rights will be sought and procured to protect such Funds' interests and to influence the management of such investments. Such non-control investments may involve risks in connection with material third-party involvement, including the possibility that a third-party participant may have financial difficulties, resulting in a negative impact on such investment, may have economic or business interests or goals which are inconsistent with those of such Funds, or may be in a position to take (or block) action in a manner contrary to such Fund's investment objectives. Action taken by such persons might subject the investment to liabilities in excess of, or other than, those contemplated. In addition, such Funds may rely upon the abilities and management expertise of such third parties. To the extent necessary, it may also be more difficult for the Funds to sell their interest in non-control investments with other material third-party owners than to sell its interest in other types of control investments. In addition, the Funds may grant third-party participants veto powers with respect to major decisions concerning the management and disposition of the investment, which would increase the risk of deadlocks. A deadlock could adversely affect investment return or value by obstructing the outcome which may be desired by the Funds.

*Nature of Investment in Senior Loans -- Bayside Funds, Whitehorse Funds and CLO Funds.* With regards to the Bayside Funds, Whitehorse Funds and the CLO Funds, the assets of the portfolios are primarily first lien senior secured debt, but also include selected second lien senior secured debt, which involves a higher degree of risk of a loss of capital than first lien secured debt. The factors affecting an issuer's first and second lien loans, and its overall capital structure, are complex and may differ from the general structure outlined in the Funds' Private Placement Memorandum. Some first lien loans may not necessarily have priority over all other indebtedness of an issuer. For example, some first lien loans may permit other secured obligations (such as overdrafts, swaps or other derivatives made available by members of the syndicate to the company) or involve first liens only on specified assets of an issuer. Issuers of first lien loans may have two tranches of first lien debt outstanding each with first liens on separate collateral. Furthermore, the liens referred to herein generally only cover domestic assets and non-U.S. assets are not included (other than, for example, where a borrower pledges a portion of the stock of first-tier non-U.S. subsidiaries). In the event of chapter 11 filing by an issuer, title 11 of the United States Code (11 U.S.C. §§ 101 - 1532)(the "**Bankruptcy Code**") authorizes the issuer to use a creditor's collateral and to obtain additional credit by grant of a priority lien on the issuer's property, senior even to liens that were first in priority prior to the bankruptcy filing, as long as the issuer provides what the presiding bankruptcy judge considers to be "adequate protection," which may, but need not always, consist of the grant of replacement or additional liens or the making of cash payments to the affected secured creditor. The imposition of prior liens on the Fund's collateral would adversely affect the

priority of the liens and claims held by the Funds and could adversely affect the Funds' recovery on its loans.

Any secured debt is secured only to the extent of its lien and only to the extent of underlying assets or incremental proceeds on already secured assets. Moreover, underlying assets are subject to credit, liquidity, and interest rate risk. Although the amount and characteristics of the underlying assets selected as collateral may allow the Bayside Funds and the Whitehorse Funds to withstand certain assumed deficiencies in payments occasioned by the borrower's default, if any deficiencies exceed such assumed levels or if underlying assets are sold it is possible that the proceeds of such sale or disposition will not be equal to the amount of principal and interest owing to the Bayside Funds and the Whitehorse Funds in respect to outstanding loans.

Further, loans may become non-performing for a variety of reasons. Upon a bankruptcy filing by an issuer of debt, the Bankruptcy Code imposes an automatic stay on payments of its pre-petition debt. Non-performing debt obligations may require substantial workout negotiations, restructuring or bankruptcy filings that may entail a substantial reduction in the interest rate, deferral of payments and/or a substantial write-down of the principal of a loan or conversion of some or all of the debt to equity. If an issuer were to seek relief under chapter 11 of the Bankruptcy Code, the Bankruptcy Code authorizes the issuer to restructure the terms of repayment of a class of debt even if the class fails to accept the restructuring as long as the restructured terms are "fair and equitable" to the class and certain other conditions are met.

Senior secured credit facilities are generally syndicated to a number of different financial market participants. The documentation governing the facilities typically require either a majority consent or, in certain cases, unanimous approval for certain actions in respect of the credit, such as waivers, amendments, or the exercise of remedies. In addition, voting to accept or reject the terms of a restructuring of a credit facility pursuant to a chapter 11 plan of reorganization is done on a class basis. As a result of these voting regimes, the Funds may not have the ability to control any decision in respect of any amendment, waiver, exercise of remedies, restructuring or reorganization of the Funds' loan investments.

Senior secured loans are also subject to other risks, including (i) the possible invalidation of an debt or lien as a "fraudulent conveyance," (ii) the recovery as a "preference" of liens perfected or payments made on account of a debt in the 90 days before a bankruptcy filing, (iii) equitable subordination claims by other creditors, (iv) so-called "lender liability" claims by the issuer of the obligations and (v) environmental liabilities that may arise with respect to collateral securing the obligations. It is possible that a secondary loan market participant can be denied a recovery from the debtor in a bankruptcy if a prior holder of the loans either received and does not return a preference or fraudulent conveyance or engaged in conduct that would qualify for equitable subordination.

The Funds' investments may be subject to early redemption features, refinancing options, pre-payment options or similar provisions that, in each case, could result in the issuer repaying the principal on an obligation held by the Funds earlier than expected.

*Fraud – Bayside Funds, Whitehorse Funds, and CLO Funds.* With regards to the Bayside Funds, Whitehorse Funds and the CLO Funds, material misrepresentations or omissions on the part of the issuer in connection with debt securities and senior loans are of significant

consideration. Such inaccuracy or incompleteness may adversely affect the valuation of a Fund's investments. A Fund's General Partner will rely upon the accuracy and completeness of representations made by issuers to the extent believed to be reasonable, but cannot guarantee accuracy or completeness. Under certain circumstances, payments to the Funds may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

*Covenant-Lite Loans -- Bayside Funds, Whitehorse Funds and CLO Funds.* With regards to Bayside Funds, Whitehorse Funds and the CLO Funds, although the loan documentation of most of the Funds' investments in portfolio companies includes both incurrence and maintenance-based covenants, there may be instances in which the Funds invest in "covenant-lite loans." An investment in a covenant-lite loan may potentially hinder the ability to reprice credit risk associated with the portfolio company and reduce the ability to restructure a problematic loan and mitigate potential loss. As a result, exposure to losses may be increased, which could result in an adverse impact on the Bayside Funds and the Whitehorse Funds return to the Limited Partners.

*Non-Payment of Principal and Interest; Adequacy of Collateral -- Bayside Funds, Whitehorse Funds and CLO Funds.* With regards to Bayside Funds, Whitehorse Funds and the CLO Funds, the Funds' investments are subject to the risk of non-payment of scheduled interest or principal by the borrowers with respect to such investments. Such non-payment would likely result in a reduction of income to the Fund and a reduction in the value of the senior secured loans experiencing non- payment.

Although the Funds may invest in portfolio companies that the General Partners believes are secured by specific collateral the value of which typically exceeds the principal amount of the investment at the time of initial investment, there can be no assurance that the liquidation of any such collateral would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal payments with respect to such investment, or that such collateral could be readily liquidated. In addition, in the event of bankruptcy of a borrower, the Funds could experience delays or limitations with respect to its ability to realize the benefits of the collateral securing an investment a portfolio company. Under certain circumstances, collateral securing an investment in a portfolio company may be released without the consent of the Fund. Moreover, the Fund's first lien loans may be unperfected for a variety of reasons, including the failure to make required filings by lenders and, as a result, the Fund may not have priority over other creditors as anticipated.

*Investments in Lower Middle-Market Companies.* H.I.G. Funds make investments primarily in lower middle-market companies that may have inherently greater risk than more established businesses. Accordingly, investments in these companies may require significant time and effort, resulting in a longer investment horizon than can be expected with lower risk investment alternatives. Such investments can experience failure or substantial declines in value at any stage. There is no assurance that such investments by such Funds will be successful. Such Funds' 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.

The market for investing in loans of lower middle market companies is relatively complex given the unregulated nature of this market, the lack of publicly available information for most issuing companies, the varied types of owners of such debt, and the unique attributes of each loan agreement. These factors contribute to an inefficient marketplace and to the extent such marketplace is less favorable to the Funds than anticipated, those factors could reduce the Funds' returns.

*Investments in Bank Loans -- Bayside Funds, Whitehorse Funds, and CLO Funds.* With regards to Bayside Funds, Whitehorse Funds and the CLO Funds, the Funds may invest a portion of investments in loans originated by banks and other financial institutions. The loans invested in by the Funds may include term loans and revolving loans, may pay interest at a fixed or floating rate and may be senior or subordinated. Purchasers of bank loans are predominantly commercial banks, investment funds and investment banks. As secondary market trading volumes for bank loans increase, new bank loans are frequently adopting standardized documentation to facilitate loan trading which should improve market liquidity. There can be no assurance, however, that future levels of supply and demand in bank loan trading will provide an adequate degree of liquidity, that the current period of illiquidity will not persist or worsen and that the market will not experience periods of significant illiquidity in the future. In addition, the Funds may make investments in stressed or distressed bank loans which are often less liquid than performing bank loans.

The success of certain Funds will depend, in part, on the ability of H.I.G. Capital to purchase and, on an opportunistic basis, originate, loans on advantageous terms. In purchasing and originating loans, a Fund competes with a broad spectrum of lenders, some of which may have greater financial resources than a Fund. Increased competition for, or a diminishment in the available supply of, qualifying loans could result in lower yields on such investments which could reduce returns to Limited Partners. On an opportunistic basis, a Fund may originate certain investments and later syndicate a portion of one or more investments to other affiliated funds or third parties. Prior to such syndication, or if such syndication is not successful, the Fund's exposure to the originated investment may exceed the exposure that the Fund intends to have over the long term or would have had if it had purchased such investment in the secondary market rather than originating it. The level of analytical sophistication, both financial and legal, necessary for successful financing to companies, particularly companies experiencing significant business and financial difficulties is high. There is no assurance that H.I.G. Capital will correctly evaluate the value of the assets collateralizing a Fund's loans or the prospects for successful repayment or a successful reorganization or similar action.

The Funds may acquire interests in bank loans either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. Participation interests in a portion of a debt obligation typically result in a contractual relationship only with the institution participating out the interest, not with the borrower. In purchasing participations, the Funds generally will have no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, and the Funds may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Funds will assume the credit

risk of both the borrower and the institution selling the participation. The settlement process for the purchase of bank loans can take several days and, in certain instances, several weeks longer than a bond trade. The longer a trade is outstanding between the counterparties may increase the risk of additional operational and settlement issues and the potential for the Funds' counterparty to fail to perform.

*Investments in Public Debt Instruments -- Bayside Funds.* With regards to Bayside Funds, in the event that the Funds acquire fixed income securities and/or other instruments that are publicly traded, the Funds will be subject to certain inherent risks. In some circumstances, the Funds may be unable to obtain financial covenants or other contractual rights, including management rights, that they might otherwise be able to obtain in making privately-negotiated debt investments. Moreover, the Funds may not have the same access to information in connection with investments in public instruments, either when investigating a potential investment or after making an investment, as compared to a privately-negotiated debt investment.

*Investments in Second Lien, or Other Subordinated Loans or Debt -- Bayside Funds, Whitehorse Funds and CLO Funds.* With regards to Bayside Funds, Whitehorse Funds and CLO Funds, the Funds may acquire and/or originate second lien or other subordinated loans. In the event of a loss of value of the underlying assets that collateralize the loans, the subordinate portions of the loans may suffer a loss prior to the more senior portions suffering a loss. If a borrower defaults and lacks sufficient assets to satisfy the Funds' loan, the Funds may suffer a loss of principal or interest. If a borrower declares bankruptcy, the Funds may not have full recourse to the assets of the borrower, or the assets of the borrower may not be sufficient to satisfy the loan. In addition, certain of the Funds' loans may be subordinate to other debt of the borrower. As a result, if a borrower defaults on the Funds' loan or on debt senior to the Funds' loan, or in the event of the bankruptcy of a borrower, the Funds' loan will be satisfied only after all senior debt is paid in full. The General Partners' ability to amend the terms of the Funds' loans, assign the Funds' loans, accept prepayments, exercise the Funds' remedies (through "standstill periods") and control decisions made in bankruptcy proceedings relating to borrowers may be limited by intercreditor arrangements if debt senior to that Funds' loans exists.

*Investments in Unsecured Loans or Debt -- Bayside Funds, Whitehorse Funds and CLO Funds.* With regards to Bayside Funds, Whitehorse Funds and CLO Funds, the Funds may invest in unsecured loans which are not secured by collateral. In the event of default on an unsecured loan, the first priority lien holder has first claim to the underlying collateral of the loan. It is possible that no collateral value would remain for an unsecured holder and therefore result in a loss of investment to the Funds. Because unsecured loans are lower in priority of payment to secured loans, they are subject to the additional risk that the cash flow of the borrower may be insufficient to meet scheduled payments after giving effect to the secured obligations of the borrower. Unsecured loans generally have greater price volatility than secured loans and may be less liquid.

*Real Estate Risk -- Realty Funds.* With regards to the Realty Funds, real estate historically has experienced fluctuations and cycles in value, and specific market conditions may result in reductions in the value of real property interests. The marketability and value of the real property interests will depend on many factors beyond the control of the Realty Funds, including: (i) changes in general or local economic conditions; (ii) changes in supply of, or demand for,

competing properties in an area; (iii) changes in interest rates; (iv) the promulgation and enforcement of governmental regulations relating to land-use and zoning restrictions, environmental protection and occupational safety; (v) unavailability of mortgage funds that may render the sale of a property difficult; (vi) the financial condition of tenants, buyers and sellers of properties; (vii) changes in real estate tax rates and other operating expenses; (viii) the imposition of rent controls; (ix) energy and supply shortages; (x) various uninsured or uninsurable risks; and (xi) acts of God and natural disasters. In addition, general economic conditions in the United States, as well as conditions of domestic and international financial markets, may adversely affect operations of the Realty Funds.

*Risks of Development Activities -- Realty Funds.* With regards to the Realty Funds, although the Realty Funds intend to partner with companies that are experienced in handling development projects, development investments will be subject to various risks, including those set forth above in real estate risk and the risk that there may be unanticipated delays in the completion of such development projects due to factors beyond the control of the Realty Funds. These factors may include: (i) strikes; (ii) adverse weather; (iii) changes in building plans and specifications; (iv) material shortages; and (v) increases in the costs of labor and materials. Delays in completing any development project will cause corresponding delays in the receipt of operating income and, consequently, the distribution of any cash flow by the Fund with respect to such project. In addition, the estimated costs and schedules of developing and constructing buildings and related landscaping may be affected by changes in construction plans and specifications or by other unforeseen events, any of which may cause additional expenses to be incurred, which likely will be borne by the Realty Funds.

*Environmental Risks -- Realty Funds.* The Realty Funds' investment objectives target property types that may have exposure to environmental risks. If a property experiences an environmental problem, then, depending upon the severity of the problem, its operation and marketability could be materially and adversely affected, which in turn could adversely affect the operating income and sales proceeds from disposition and ultimately the investment returns from such property. In acquiring investments, the Realty Funds will face the risk of assuming obligations and liabilities associated with those investments under environmental statutes or regulations, which could include contingent or unforeseen liabilities from latent or undetected environmental problems or violations. Because such environmental obligations and liabilities are difficult to predict or estimate, an investment acquired by the Fund could have an environmental problem or violation that may result in unexpected expenses and in turn lower investment returns to the Realty Funds from such investment.

*Insurance May Not Cover All Losses -- Realty Funds.* The Realty Funds' General Partners cause the portfolio investments to obtain coverage of the type and in the amount customarily obtained by owners of similar properties, including comprehensive casualty insurance, liability and fire and extended coverage, in amounts sufficient to permit replacement in the event a property sustains a total loss, subject to applicable deductibles. There are certain types of losses, however, generally of a catastrophic nature, resulting from, for example, earthquakes, floods, hurricanes and terrorist acts, that may be uninsurable or that may not be economically insurable. Inflation, changes in building codes and ordinances, environmental considerations, provisions in loan documents encumbering the investment properties and other factors also might make it economically impractical to use insurance proceeds to replace improvements on an investment property if it is

damaged or destroyed. Under such circumstances, the insurance proceeds received, if any, might be inadequate to restore the investment with respect to the affected investment property.

*Limited Partners may incur UBTI -- Realty Funds.* With regards to the Realty Funds, the Funds' investments generate a significant amount of unrelated business taxable income ("UBTI") for tax-exempt Limited Partners, including "qualified organizations." Investment in the Realty Funds made by a Limited Partner through an individual retirement account will be subject to income tax on the amount of UBTI attributable to such investment. Each prospective Limited Partner should consult with its own tax advisor regarding the federal, state, local and foreign tax considerations applicable to an investment in the Realty Funds.

*Involvement of Co-Investment Partners -- Realty Funds.* Some of the Realty Funds' investments may be made as a co-venturer or partner with a property developer, property manager, the seller of a property, an affiliate of the seller, an investor unaffiliated with the Realty Funds' General Partners or the Fund, or other persons. Such investments may involve risks not inherent in other types of investment vehicles, including, for example, the possibility that such persons might become bankrupt, have economic or business interests or goals inconsistent with those of the Realty Funds or otherwise be in a position to take action inconsistent with the Realty Funds' desires, policies or objectives. Action taken by such persons might subject the property to liabilities in excess of, or other than, those contemplated. In addition, the Realty Funds may rely upon the abilities and management expertise of the co-venturer or partner. It may also be more difficult for the Fund to sell its interest in any joint venture, partnership or entity with other owners than to sell its interest in other types of investments. The Realty Funds may grant co-venturers or partners veto powers with respect to major decisions concerning the management and disposition of the investment, which would increase the risk of deadlocks. A deadlock could adversely affect investment return or value, or require the Fund to use its assets to purchase the interest of the co-venturer or partner under agreements providing for the forced sale of such interest.

*Focus on Lower Middle-Market Investments.* With regards to the Europe LBO Funds, Europe Bayside Funds, Brazil and Latin America Fund, and the Whitehorse Funds in particular, these Funds make investments primarily in lower middle-market companies that have inherently greater risk than more established businesses. Accordingly, the growth of these companies may require significant time and effort, resulting in a longer investment horizon than can be expected with lower risk investment alternatives. Such investments can experience failure or substantial declines in value at any stage. There is no assurance that such investments by these Funds will be successful. These Funds' 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.

*Risks of Certain European Investments.* The Funds may make investments in companies based in a number of different European countries. Investments in certain European capital markets and securities involve risks not typically associated with investing in the more developed and established European capital markets and securities, including risks relating to: (i) potential price volatility in, and relative illiquidity of, some European securities markets; (ii) the absence of uniform accounting and financial reporting standards and disclosure requirements in some countries; (iii) certain economic and political risks, including potential restrictions on foreign investment and repatriation of capital and the risks of political, economic, or social instability; and



(iv) the possible imposition of foreign taxes on income and gains recognized with respect to such securities. Furthermore, although the principals have experience with investing in many European jurisdictions, the Funds may make investments in European jurisdictions in which the principals do not have any prior direct investment experience. While the Funds' General Partners intend to manage the investment activities in a manner that will minimize exposure to the foregoing risks, there can be no assurance that adverse developments with respect to such risks will not adversely affect the value or realization of investments that are held by the Funds in certain countries.

*Break-Up of the Euro Zone.* The Euro Zone sovereign debt crisis could lead to a break-up of the Euro as a functional currency or to one or more sovereign countries leaving the Euro currency union. The consequences of any of the foregoing events are highly unpredictable but could lead to capital controls, conversion of debt obligations from Euro to new lower value currency and the likelihood that any Euro denominated assets of the Funds may become difficult to realize and severely impaired as to value. In addition, both the measures taken to prevent a break-up of the Euro and an actual break-up of either the Euro Zone or a dissolution of the Euro could lead to a prolonged recession potentially impacting the value of assets in Funds investing in Europe.

*Potential Implications of Brexit.* On March 29, 2017, the United Kingdom formally notified the European Council of its intention to leave the EU (“**Brexit**”). The UK formally left the EU on January 31, 2020, and entered a transition period that ended on December 31, 2020. On December 24, 2020, the UK government and the EU Commission provisionally agreed a trade and cooperation agreement governing their future relationship, which, following a ratification process, is expected to apply on a provisional basis through an additional transition period.

Although provisionally agreed, the terms of UK's ongoing and future relationship with the EU are still uncertain, including the extent to which UK businesses will have access to the EU single market and the extent to which EU businesses have access to the UK market. There is also risk of significant disruption to trade between the UK and the EU, particularly as new trade arrangements are intended to be ratified and implemented.

There can be no assurance that any renegotiated laws or regulations will not have an adverse impact on a Fund and its investments, including the ability of a Fund to achieve its investment objectives.

The legal, political and economic uncertainty generally resulting from the UK's exit from the EU may adversely affect both EU and UK-based businesses, including H.I.G. Capital and Fund portfolio companies. This uncertainty may also result in an economic slowdown and/or a deteriorating business environment in the UK and in one or more EU Member States.

*Investment Performance of Euro Denominated Funds and US\$ Denominated Funds May Vary Significantly.* Although investment opportunities of Funds multiple currencies are generally expected to be allocated on a pro rata basis based upon their respective relative currency adjusted capital commitments as of the date of each fund's final closing, Funds structured with multiple currencies may not invest the same proportion of their respective commitments in each investment as a result of the fluctuations in exchange rates between the Euro and the U.S. Dollar between the final closing date and the date of a capital call for an investment. In addition, because of exchange rate fluctuations between the date of an investment and the date of the distributions of proceeds with respect to such investment, the ultimate net returns of the Funds with respect to each

investment will be different, in each case based upon the applicable relative exchange rate fluctuations during the period of such investment among the Euro, the U.S. Dollar and the currency in which such investment was made. Further, currency hedging costs may be disparate for Funds denominated in different currencies.

*Devaluation of the Real – Brazil and Latin America Fund.* The exchange rate between the Brazilian real and the U.S. Dollar has varied significantly in recent years. The return of the Brazil and Latin America Fund on any investment, measured on a U.S. dollar basis, will be affected by fluctuations in currency exchange rates and exchange control regulations as well as by the success of the investment itself. To the extent that the currency of Brazil weakens in comparison to the dollar, the value of an investment in the Brazil and Latin America Fund may be impacted. Furthermore, the Fund may incur costs in connection with conversions between various currencies.

*Risks of Doing Business in Brazil.* The Brazil and Latin America Fund intends to invest a majority of its capital in Brazil, and other Funds may make investments in Brazil and Latin America. The Brazilian federal government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian economic and political conditions could have a material and adverse effect on the Fund's business, financial condition and operating results. The Brazilian economy has been characterized by frequent, and occasionally material, intervention by the Brazilian federal government, which has often modified monetary, credit and other policies intended to influence Brazil's economy. The Brazilian government's actions to control inflation and effect other policy changes have involved wage and price controls, changes in existing, or the implementation of new, taxes and fluctuations of base interest rates. Actions taken by the Brazilian federal government concerning the economy may have important effects on companies with large operations in Brazil, including us, and on market conditions in Brazil. In addition, actions taken by Brazilian state and local governments with respect to labor, tax and other laws may affect the Fund's operations. The Fund's financial condition and results of operations may also be materially and adversely affected by any of the following and the Brazilian federal government's actions in response to them: (i) monetary policies; (ii) economic and social instability; (iii) energy shortages, or other changes in energy prices; (iv) interest rates; (v) exchange controls and restrictions on remittances abroad; (vi) liquidity of the domestic capital and lending markets; (vii) tax policy, including international tax treaties; and (viii) other political, diplomatic, social and economic policies or developments in or affecting Brazil. These and other future developments in the Brazilian economy and governmental policies could have a material and adverse effect on the Fund's investments, business, financial condition and operating results. The Fund cannot predict whether any future policies to be adopted by the Brazilian government will result in adverse consequences to the Brazilian economy, the Fund's business, results of operations or financial condition or prospects.

*Risks of Doing Business in Latin America.* In addition to Brazil, the Brazil and Latin America Fund intends to make investments in other countries in Latin America. Other Funds may also make investments in companies located in Latin America or with substantial Latin American operations. Economic and political developments in Latin America, including future economic changes or crises (such as inflation, currency devaluation or recession), government deadlock, social and political instability, terrorism, civil strife, changes in laws and regulations, restrictions on the repatriation of dividends or profits, expropriation or nationalization of property, imposition of foreign taxes on income and gains, restrictions on currency convertibility, price volatility,

absence of uniform accounting and financial reporting, volatility of the foreign exchange market and exchange controls could impact the Fund's investments and have a material adverse effect the Fund's business, financial condition and profitability. Furthermore, although the principals have experience with investing in many Latin American jurisdictions, the Fund may make investments in Latin American jurisdictions in which the principals do not have any prior direct investment experience. While each Fund's General Partner intends to manage the Fund in a manner that will minimize exposure to the foregoing risks, there can be no assurance that adverse developments with respect to such risks will not adversely affect the value or realization of investments that are held by the Funds in certain countries.

*Russia-Ukraine Conflict.* The ongoing military conflict between Russia and the Ukraine has rapidly disrupted global financial systems, trade and transport, and the economy generally. In response, many countries, including the United States, have put in place global sanctions and other severe restrictions or prohibitions on the activities of individuals and businesses connected to Russia. The ultimate impact of the Russia-Ukraine conflict and its effect on global economic and commercial activity and conditions, and on the operations, financial condition and performance of the Funds or any particular industry, business or investee country and the duration and severity of those effects, is impossible to predict.

The Russia-Ukraine conflict may have a significant adverse impact and result in significant losses to the Funds. This impact may include reductions in revenue and growth, unexpected operational losses and liabilities and reductions in the availability of capital. It may also limit the ability of a Fund to source, diligence and execute new investments and to manage, finance and exit investments in the future. Developing and further governmental actions (military or otherwise) may cause additional disruption and constrain or alter existing financial, legal and regulatory frameworks and systems in ways that are adverse to the investment strategy which any Fund intends to pursue, all of which could adversely affect the Fund's ability to fulfill its investment objectives.

## **Conflicts of Interest**

H.I.G. Capital and its related entities engage in a broad range of advisory and non-advisory activities, including investment activities for their own account and for the account of other Funds, and providing transaction-related, investment advisory, legal, management and other services to Funds, special purpose acquisition companies ("SPACs") and portfolio companies. H.I.G. Capital will devote such time, personnel and internal resources necessary to conduct the business affairs of the Funds in an appropriate manner, as required by the relevant Limited Partnership Agreement, although the Funds and their respective investments will place varying levels of demand on these over time. In the ordinary course of H.I.G. Capital conducting its activities, the interests of a Fund likely will conflict with the interests of H.I.G. Capital, one or more other Funds, portfolio companies or their respective affiliates in certain circumstances. Certain of these conflicts of interest are discussed herein. As a general matter, H.I.G. Capital will determine all matters relating to structuring transactions and Fund operations using its best judgment considering all factors it deems relevant, but in its sole discretion, subject in certain cases to the required approvals by the advisory boards of the participating Funds.

During the commitment period of each Fund, H.I.G. and the principals will pursue all appropriate investment opportunities through the applicable Fund, subject to certain limited exceptions. However, as described above, H.I.G. and its principals currently manage, and expect in the future to manage, several investment funds, and expect to direct certain relevant investment opportunities or resources to those investment funds. H.I.G. personnel reserve the right to manage their own personal investments, whether or not through a formal family office or estate planning structure, and to pay or receive compensation relating to these arrangements. The H.I.G. principals and the General Partners' investment staff will continue to manage and monitor such investments until their realization. Such other investments that the H.I.G. principals expect from time to time to control or manage generally have the potential to compete with companies acquired by the Funds. The significant investment of the H.I.G. principals in the Funds, as well as the principals' interest in Carried Interest, are intended to align, to some extent, the interest of the principals with the interest of the Partners, although the principals have economic interests in such other investment funds as well and receive the Management Fees and Carried Interests relating to these interests. Following the commitment period of a Fund, H.I.G. Capital principals reserve the right to, and likely will, focus their investment activities on other opportunities and areas unrelated to such Fund's investments. Unless restricted by the governing documents, H.I.G. personnel are permitted to serve on boards or act in other roles unaffiliated with H.I.G., the Funds or their portfolio companies, including boards of charitable and educational institutions, public companies and former portfolio companies, and receive compensation in connection with such services and roles, provided in each case that such activities are in compliance with H.I.G.'s internal policies regarding outside business activities.

From time to time, H.I.G. Capital will be presented with investment opportunities that would be suitable not only for the Funds, but also for other Funds and other investment vehicles operated by advisory affiliates of H.I.G. Capital. In determining which investment vehicles should participate in such investment opportunities, H.I.G. Capital and its affiliates are subject to conflicts of interest among the investors in such investment vehicles. Investments by more than one client of H.I.G. Capital in a portfolio company also have the potential to raise the risk of using assets of a client of H.I.G. Capital to support positions taken by other clients of H.I.G. Capital.

H.I.G. Capital must first determine which Fund(s) will, or are required to, participate in the relevant investment opportunity. H.I.G. Capital generally assesses whether an investment opportunity is appropriate for a particular Fund based on the Fund's Limited Partnership Agreement, as well as factors that can include, but are not limited to: (A) the size, nature and type of investment; (B) the investment guidelines and limitations governing the applicable Funds or Managed Accounts, including diversification considerations, the investment focus of the applicable funds or accounts (including the target return profile or targeted hold period of such Funds or Managed Accounts) and applicable risk profiles; (C) a determination by H.I.G. that the investment is appropriate in whole or in part for one or more Funds or Managed Accounts; (D) the management of any actual or potential conflicts of interest; (E) applicable tax, regulatory, contractual or legal considerations or obligations; (F) the H.I.G. investment team responsible for sourcing of the transaction; (G) the amount of leverage, if any, appropriate for such investment and any co-investments alongside another fund or account; and/or (H) such other factors as H.I.G. believes relevant. For example, a newly organized Fund generally will seek to purchase a disproportionate amount of investments until it is substantially invested. H.I.G. Capital will determine if the amount of an investment opportunity in which a Fund will invest exceeds the

amount that would be appropriate for such Fund and expects to offer any such excess to one or more Funds, Managed Accounts, or potential co- investors, as determined by the Funds' Limited Partnership Agreements, Side Letters and H.I.G. Capital's procedures regarding allocation.

H.I.G. Capital's allocation of investment opportunities among the persons and in the manner discussed herein often will not result in proportional allocations among such persons, and such allocations likely will be more or less advantageous to some such persons relative to others. While H.I.G. Capital will allocate investment opportunities in a manner that it believes is fair and equitable to its clients under the circumstances and considering relevant factors, there can be no assurance that a Fund's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made, will be as favorable as they would be if the potential conflicts of interest to which H.I.G. Capital expects to be subject, discussed herein, did not exist.

Furthermore, H.I.G. Capital expects to make decisions regarding whether and to whom to offer co-investment opportunities in consultation with other participants in the relevant transactions, such as a lender or co-sponsor. Co-investment opportunities typically will be offered to some and not to other Fund investors, and the consideration of the factors set forth above likely will result in certain investors receiving multiple opportunities to co-invest while others expressing interest in co-investments have the potential to receive none. Allowing any co-investment generally reduces the amount of the relevant investment opportunity that theoretically could have been taken by the relevant Fund, and because co-invest opportunities generally appeal to Fund investors and third parties, H.I.G. Capital expects to be subject to potential conflicts of interest in determining the amount of investment opportunity that should be allocated to the relevant Fund. When and to the extent that employees and related persons of H.I.G. Capital and its affiliates make capital investments in or alongside certain Funds, H.I.G. Capital and its affiliates are subject to potentially conflicting interests in connection with these investments. There can be no assurance that any Fund's return from a transaction would be equal to and not less than another Fund participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

As described above, in certain circumstances, the relevant General Partner is expected to permit certain investors to co-invest in portfolio companies alongside one or more Funds, subject to H.I.G. Capital's related policies and practices and the Governing Documents and/or Side Letter(s). Where a co-invest vehicle is formed, such entity generally will bear expenses related to its formation and operation, many of which are similar in nature to those borne by the Funds. In the event that a transaction in which a co-investment was planned, including a transaction for which a co-investment was believed necessary in order to consummate such transaction or would otherwise be beneficial, in the judgment of the General Partner, ultimately is not consummated, subject to the relevant Fund(s) governing documents, expenses relating to the evaluation of such proposed transaction will be borne by the Fund(s), and not by any potential co-investors, that were to have participated in such transaction. However, to the extent that such co-investors have already invested in a co-investment or other vehicle in connection with such transaction, such vehicle is expected to bear its share of such broken deal expenses. To the extent the Fund makes use of a credit facility to invest in a portfolio company or pay related expenses, it generally will not be reimbursed separately by co-investors for use of the facility.

In certain cases, H.I.G. Capital will have an opportunity (but, subject to any applicable restrictions or procedures in the relevant Partnership Agreement, no obligation) to identify one or more secondary transferees of interests in a Fund. In such cases, H.I.G. Capital will not receive compensation for identifying such transferees, and will use its discretion to select such transferees based on suitability and other factors, and unless required by the relevant Partnership Agreement, will determine in its sole discretion whether the opportunity to receive a transfer of Fund interests should be offered to one or more existing Fund investors.

Where multiple Funds invest at the same, different or overlapping levels of a portfolio company's capital structure, there is a potential for conflicts of interest in determining the terms of each such investment. In such cases, questions can arise subsequently as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced or restructured. In troubled situations, decisions including whether to enforce claims, or whether to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any workout or restructuring are likely to raise conflicts of interest, particularly with respect to Funds that have invested in different securities within the same portfolio company. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, Funds may or may not provide such additional capital, and if provided, each Fund generally will supply such additional capital in such amounts, if any, as determined by H.I.G. Capital in its sole discretion. Because of the different legal rights associated with debt and equity of the same portfolio company, H.I.G. Capital expects to face a potential conflict of interest in respect of the advice it gives to, and the actions it takes on behalf of one Fund versus another Fund (e.g., the terms of debt instruments, the enforcement of covenants, the terms of recapitalizations and the resolution of workouts or bankruptcies). Where multiple Funds invest in the same company at different times, the first Fund to invest typically will bear a higher level of diligence and transaction fees, costs and expenses than later Funds; similarly, to the extent a transaction does not proceed, the first Fund to consider investing typically will bear the full amount of broken deal expenses relating to the transaction, regardless of whether other Funds could or would have invested in the company in potential future transactions.

Subject to any relevant restrictions or other limitations contained in the Limited Partnership Agreements of the Funds, H.I.G. Capital will allocate fees and expenses in a manner that it believes is fair and equitable to its clients under the circumstances over time and considering such factors as it deems relevant, but in any case in its sole discretion. In exercising such discretion, H.I.G. Capital expects to be faced with a variety of potential conflicts of interest.

As a general matter, Fund expenses typically will be allocated among all relevant Funds or investment vehicles eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made by H.I.G. Capital or its affiliates using their best judgment, considering such factors as they deem relevant, but in their sole discretion. The allocations of such expenses will not always be proportional, and any such determinations involve inherent matters of discretion, e.g., in determining whether to allocate *pro rata* based on number of Funds or co-invest vehicles receiving related benefits or proportionately in accordance with asset size, or in certain circumstances determining whether a particular expense has greater benefit to a Fund or H.I.G. Capital.

H.I.G. Capital and/or its affiliates reserve the right to enter into Side Letters with certain investors in a Fund providing such investors with different or preferential rights or terms,

including, but not limited to, different fee structures or arrangements, information rights, specialized reporting, priority co-investment rights, and rights to serve on the Fund's advisory committee, liquidity or transfer rights, confidentiality protections and disclosure rights, as well as economic procedural and other terms. H.I.G. Capital is likely to have its own economic and/or other business incentives to provide certain terms to certain limited partners (e.g., based on commitment amount to a Fund or the timing thereof, the ability of a limited partner to provide sourcing or other services to H.I.G. Capital, its affiliates and personnel or the Funds, or the potential to establish, recognize, strengthen or cultivate relationships that have the potential to provide longer-term benefits to H.I.G. Capital, its affiliates and personnel, or the Funds. To the extent an investor is subject to statutory or other limitations on indemnification, or otherwise negotiates rights relating thereto, other investors may be subject to increased losses, or be required to bear an increased portion of indemnification amounts. As a consequence of one or more limited partners being excused or excluded, or from regulatory, tax or other factors altering or limiting their participation in investments, the aggregate returns realized by participating or non-participating limited partners could be adversely affected in a material manner by the unfavorable performance of particular investments. Although H.I.G. Capital believes it to be unlikely, excuse rights requested or received by one or more limited partners (or such regulatory, tax or other factors applicable to such limited partners) representing a substantial percentage of a Fund have the potential to create significant variations in limited partner investment returns, or to influence or affect the investment strategy and pursuit of investment opportunities by the General Partner on behalf of the relevant Fund as a whole. A limited partner's voting rights for regulatory or other reasons can be limited in circumstances specified in the Governing Documents; conversely, a limitation on one or more limited partners' voting rights generally will increase the voting rights percentage of other limited partners in the relevant Fund. Further, limited partners with different domiciles or tax categorizations could receive different investment returns or amounts of tax basis and/or pay different levels of expenses, e.g., based on tax savings or ownership of alternative investment vehicle, "blocker" or other structures used to facilitate their investments in, through or below a Fund.

As a result of the Funds' controlling interests in portfolio companies, H.I.G. Capital and/or its affiliates typically have the right to appoint portfolio company board members, or to influence their appointment, and to determine or influence a determination of their compensation. From time to time, portfolio company board members approve compensation and/or other amounts payable to H.I.G. Capital and/or its affiliates. Such amounts will be in addition to any Management Fees or Carried Interest paid by a Fund to the applicable General Partner.

Additionally, a portfolio company typically will reimburse H.I.G. Capital or service providers retained at H.I.G. Capital's discretion for expenses (including without limitation travel expenses) incurred by H.I.G. Capital or such service providers in connection with its performance of services for such portfolio company. This subjects H.I.G. Capital and its affiliates to conflicts of interest because the Funds generally do not have an interest or share in these reimbursements. H.I.G. Capital determines the amount of these reimbursements for such services in its own discretion, subject to its internal reimbursement policies and practices. Although the amount of individual reimbursements typically is not disclosed to investors in any Fund, their effect is reflected in each Fund's audited financial statements, and any fee paid or expense reimbursed to H.I.G. Capital or such service providers generally is subject to: agreements with sellers, buyers and management teams; the review and supervision of the board of directors of or lenders to

portfolio companies; and/or third-party co-investors in its transactions. These factors help to mitigate related conflicts of interest.

In certain circumstances where H.I.G. Capital commits or has committed to seek “market” or “arms-length” or “reasonable” rates or terms, H.I.G. Capital will do so in its sole discretion, seeking rates that it has determined in its sole discretion to be reflective of the range of rates in the applicable or related markets. H.I.G. Capital reserves the right to deem third-party investments or transactions to be verification that the transaction was entered into at a value that is “arms-length.” Consequently, H.I.G. Capital undertakes no minimum amount of benchmarking, and does not represent that any such benchmarking ultimately will be accurate, comparable or relate specifically to the assets, services or comparable markets to which such rates or terms relate. Where such rates or terms include hourly, weekly, or monthly components, H.I.G. Capital reserves the right to rely on approximations or estimates of time spent for purposes of allocating or charging for services. Any methodology, or choice among methodologies, involves potential conflicts of interest. Whether or not H.I.G. Capital has a relationship or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

In connection with its services to the Funds and their investments, H.I.G. Capital, its affiliates and personnel expect to receive the benefit of certain tangible and intangible benefits. For example, in the course of H.I.G. Capital’s operations, including research, due diligence, investment monitoring, operational improvements and investment activities, H.I.G. Capital and its personnel expect to receive and benefit from information, “know-how,” experience, analysis and data relating to Fund or portfolio company (as applicable) operations, terms, trends, market demands, customers, vendors and other metrics (collectively, “**H.I.G. Information**”). In many cases, H.I.G. Information will include tools, procedures and resources developed by H.I.G. Capital to organize or systematize H.I.G. Information for ongoing or future use. Although H.I.G. Capital expects its Funds and their portfolio companies generally to benefit from H.I.G. Capital’s possession of H.I.G. Information, it is possible that any benefits will be experienced solely by other or future Funds or portfolio companies and not by the Fund or portfolio company from which H.I.G. Information was originally received. H.I.G. Information will be the sole intellectual property of H.I.G. Capital and solely for the use of H.I.G. Capital. H.I.G. Capital reserves the right to use, share, license, sell or monetize H.I.G. Information, without offset to Management Fees, and the relevant Fund or portfolio company will not receive any financial or other benefit of such use, sharing, licensure, sale or monetization. Additionally, expenses relating to the Funds or portfolio companies are expected to be charged using credit cards or other widely available third-party rewards programs that provide airline miles, hotel stays, travel rewards, traveler loyalty or status programs, “points,” “cash back,” rebates, discounts and other arrangements, perquisites and benefits under the available terms of such reward programs. Such terms are expected to vary from time to time, and any such rewards (whether or not *de minimis* or difficult to value) generally will inure to the benefit of the personnel participating in the rewards program, rather than the portfolio companies, the Funds or their respective investors; no such rewards will offset Management Fees.

Although uncommon, H.I.G. Capital reserves the right from time to time to cause a Fund to enter into a transaction whereby the Fund purchases securities from, or sells securities to, other Funds managed by H.I.G. Capital, or co-investors or co-investment vehicles. Such transactions



raise potential conflicts of interest, including where the investment of one Fund supports the value of portfolio companies owned by another Fund. These conflicts are heightened to the extent the relevant securities are illiquid or do not have a readily ascertainable value, and there generally can be no assurance that the price at which such transactions are entered into represent what would ultimately be the underlying investment's fair value. To the extent required by the relevant Funds' Partnership Agreements or otherwise in the sole discretion of H.I.G. Capital, H.I.G. Capital reserves the right to seek to mitigate such conflicts by seeking the opinion of an unaffiliated third party (including the use of a consultant or investment banker to opine as to the fairness of a purchase or sale price) or by obtaining the consent of the relevant Fund(s) (including, where authorized, the consent of each Fund's advisory board) to such transactions. In certain circumstances, H.I.G. Capital reserves the right to determine that the willingness of a third party to make an investment on the same terms demonstrates the fairness of the relevant transaction to the Fund under then-current market conditions. H.I.G. Capital intends that any such transactions be conducted in a manner that it believes to be fair and equitable to each Fund under the circumstances, including a consideration of the potential present and future benefits with respect to each Fund.

Although H.I.G. Capital generally structures Funds to avoid cross-guarantees and other circumstances in which one Fund ultimately bears liability for all or part of the obligations of another Fund, in certain circumstances lenders and other market parties negotiate for the right to face only select Fund entities, which would result in a single Fund or select Funds being solely liable for other Funds' share of the relevant obligation and/or joint and several liability among Funds. In such case, H.I.G. Capital intends to cause the relevant other Funds to enter into a back-to-back guarantee, indemnification or similar reimbursement arrangement, although the Fund undertaking the obligation in the first instance generally will not receive compensation for being primarily liable under these arrangements.

H.I.G. Capital, its affiliates, and equity holders, officers, principals and employees of H.I.G. Capital and its affiliates reserve the right to buy or sell securities or other instruments that H.I.G. Capital has recommended to a Fund. In addition, officers, principals and employees reserve the right to buy securities in transactions deemed unsuitable for a Fund. Such transactions are subject to any restrictions in the Fund's Partnership Agreement and any policies and procedures set forth in H.I.G. Capital's Code of Ethics. The investment policies, fee arrangements and other circumstances of these investments generally vary from those of any Fund. Employees and related persons of H.I.G. Capital have, and are expected to continue to have, capital investments in or alongside certain Funds, or in prospective portfolio companies directly or indirectly, as well as in investment vehicles (including private funds) sponsored by potential competitors, and therefore expect to have additional potential conflicting interests in connection with these investments.

In addition, as described above, portfolio companies (and, to a lesser extent, the Funds) typically pay certain fees to, and reimburse expenses of, operating partners and other consultants (including consultants introduced or arranged by H.I.G. Capital and/or its affiliates that regularly provide services to one or more portfolio companies), and such fees do not offset or reduce the Management Fee as described herein. Operating partners generally make use of H.I.G. Capital resources or otherwise are associated with H.I.G. Capital. H.I.G. Capital and/or its affiliates reserve the right to agree to compensate certain of such persons to the extent portfolio company-related compensation falls below certain specified levels on an aggregate annualized basis, or provide other

compensation. Operating partners may from time to time include former employees of H.I.G. Capital or certain portfolio companies, and in some circumstances former operating partners are expected to become H.I.G. Capital employees or employees of portfolio companies. Consequently, the determination of whether individuals are operating partners is expected to vary and/or be revisited from time to time, which poses potential conflicts of interest where certain changes in status or categorization would reduce costs that H.I.G. Capital otherwise would be required to bear. Operating partners generally receive investment opportunities, reimbursements and other compensation that do not offset or reduce the Management Fee of any Fund, as described herein.

Except to the extent prohibited by the governing documents, H.I.G. Capital and its personnel are permitted to market, organize, sponsor or act in other capacities (including as director, founder or manager) for other pooled investment vehicles, accounts or SPACs the investment or business strategy of which does not overlap with the Fund(s) and to receive compensation (including in the form of management fees, performance-based compensation, founders' equity or similar interests) relating thereto. Subject to any limitations imposed by the governing documents and anti-“assignment” provisions of the Advisers Act, H.I.G. Capital and its personnel are also permitted to offer, restructure and monetize interests in H.I.G. Capital.

In October 2020, H.I.G. Capital consummated the initial public offering of H.I.G. Acquisition Corp. (“HIGA”), a special purpose acquisition vehicle formed for the sole purpose of making an investment in a portfolio company in a transaction that may not overlap with the Funds. Certain owners and employees of H.I.G. and their respective affiliates invested in HIGA. As of March 30, 2022, HIGA is in the process of seeking to acquire a qualified portfolio company.

Because Carried Interest is based on a percentage of net realized profits, it creates an incentive for the General Partner to cause a Fund to make riskier or more speculative investments (or hold investments for longer periods) than would otherwise be the case. Also, because there is a fixed investment period after which capital from investors in a Fund is only permitted to be drawn down in limited circumstances and because the Management Fees are, at certain times during the life of a Fund, based upon capital invested by such Fund, this fee structure creates an incentive to deploy capital when the H.I.G. Capital might not otherwise have done so. Since H.I.G. Capital is permitted to retain certain supplemental fees (as described under “Fees and Compensation”) in connection with Fund investments, it expects to be subject to a potential conflict of interest in connection with approving transactions and setting such compensation. In many cases, supplemental fees are based on enterprise value or other metrics relating to a portfolio company, and there can be no assurance that the amount of supplemental fees charged will be proportional to the amount of hours of work performed on behalf of the portfolio company. H.I.G. Capital reserves the right to accrue, defer or forego payments of supplemental fees, and reserves the right to charge interest at then-available rates with respect to such amounts. In such cases, in accordance with the governing documents, investors will not receive the benefit of Management Fee offsets with respect to such amounts until they are actually received. H.I.G. Capital and/or its affiliates generally have discretion over whether to charge transaction fees to a portfolio company and, if so, the fee rate or amount. The receipt of transaction fees may give rise to conflicts of interest between the Funds, on the one hand, and H.I.G. Capital and/or its affiliates on the other hand.

Additionally, the Limited Partners likely will have conflicting investment, tax and other interests with respect to their investments in the Funds, including conflicts relating to the

structuring of investment acquisitions and dispositions. Conflicts have also arisen in the past, and may arise in the future in connection with decisions made by the General Partners regarding an investment that is more beneficial to one Limited Partner than another, especially with respect to tax matters. In structuring, acquiring and disposing of investments, the General Partners will consider the investment and tax objectives of the Funds and its partners as a whole, not the investment, tax or other objectives of any Limited Partner individually.

H.I.G. Capital has instituted a program under which portfolio companies owned by the Funds are given the option to participate in purchasing, vendor or similar arrangements with H.I.G. Capital, its affiliates and other portfolio companies. Program participants expect to receive discounts negotiated with various vendors and service providers on a group wide basis. In certain cases, such arrangements will involve the sharing of risk, such as under group insurance arrangements where deductibles are shared or calculated with regard to the group rather than individual insured parties. Participants voluntarily participate in the program without cost. H.I.G. Capital and its affiliates also participate in the program, and receive similar benefits and discounts as the portfolio companies participating therein. No such amounts will offset or reduce the Management Fee. H.I.G. Capital believes the potential for conflicts relating to such arrangements is mitigated by the anticipated cost savings to portfolio companies (which is expected to be to the benefit of the applicable Funds) that will result if the rates for goods and services are discounted due to scale or relative to those widely available in the market.

The relevant liability standards under insurance coverage procured by H.I.G. Capital are expected to vary by carrier, and such standards are expected to vary from time to time depending on, for example, coverage features or limitations then-available from the carrier at the time of insurance contract renewal. As a result, insurance coverages from time to time are expected to vary from relevant liability and/or indemnity standards in the Governing Documents. Investors generally will be responsible for insurance premiums, as set forth in the Governing Documents, regardless of whether the liability and/or indemnity standards in H.I.G. Capital's insurance coverage are higher or lower than that set forth in the Governing Documents.

H.I.G. Capital has incentives to use or to recommend products or services of one portfolio company to another, which would involve fees, commissions, servicing payments or other compensation. Potential conflicts of interest arise in making such recommendations, as H.I.G. Capital has incentives to maintain goodwill between it and its former, existing and prospective portfolio companies, and as a result the products or services recommended will not always necessarily be the best or lowest cost option. In most cases, the relevant Fund(s) will not consent, participate in negotiations or be directly involved in such arrangements. From time to time H.I.G. Capital, its affiliates and personnel expect to receive the benefit of "friends and family" and similar discounts from portfolio companies owned by the Funds under which such portfolio companies make their goods and/or services available at reduced rates. Because its portfolio companies offer such discounts to customers other than H.I.G. Capital and such persons as part of their standard commercial practices in an effort to expand their respective customer bases, H.I.G. Capital believes that the potential for conflicts of interest relating to such discounts is mitigated. H.I.G. Capital, its affiliates and personnel generally refrain from requesting or negotiating for such discounts in the ordinary course.

Any of these situations subjects H.I.G. Capital and/or its affiliates to potential conflicts of interest. H.I.G. Capital attempts to resolve such conflicts of interest in light of its obligations to

investors in its Funds and the obligations owed by H.I.G. Capital's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among a Fund, other Funds and such investment vehicles in a manner it believes to be fair and equitable to the Funds under the circumstances over time. To the extent that an investment or relationship raises particular conflicts of interest, H.I.G. Capital will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict. Where necessary, H.I.G. Capital consults and receives consent to conflicts from an advisory board consisting of the Limited Partners of the relevant Fund(s) and such other investment vehicles.

### **DISCIPLINARY INFORMATION**

H.I.G. Capital and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

H.I.G. Capital is affiliated with the affiliated advisers, including General Partners and equivalent entities formed from time to time and subject to the Advisers Act pursuant to H.I.G. Capital's registration in accordance with SEC guidance. These affiliated advisers operate as a single advisory business together with H.I.G. Capital and serve as managers or general partners of Funds and other pooled vehicles and share common owners, officers, partners, employees, consultants or persons occupying similar positions. H.I.G. Capital is also affiliated with H.I.G. WhiteHorse Advisers, LLC (SEC File No. 801-76984), which is separately registered with the SEC under the Advisers Act, as well as with the advisory entities affiliated with them. For more information relating to these advisers, including a list of their advisory and other financial industry affiliates, their beneficial owners and a list of funds managed by them, please refer to their respective Form ADVs.

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

The Advisers have adopted the H.I.G. Code of Ethics and Securities Trading Policy and Procedures (the "**Code**"), which sets forth standards of conduct that are expected of H.I.G. employees and addresses conflicts that arise from personal trading. The Code requires certain H.I.G. personnel to report their personal securities transactions, prohibits or requires pre-clearance for H.I.G. personnel from directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits H.I.G. personnel from directly or indirectly acquiring beneficial ownership of securities with certain exceptions, without first obtaining approval from the H.I.G.'s Chief Compliance Officer. In addition, the Code requires such personnel to comply with procedures designed to prevent the misuse of, or trading upon, material nonpublic information. A copy of the Code will be provided to any Limited Partner or prospective Limited Partner upon request to Richard Siegel, H.I.G.'s Chief Compliance Officer, at 305-379-2322. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client's interests in client eligible investments.

The Advisers and their affiliated persons expect, from time to time, to come into possession of material nonpublic or other confidential information about public companies which, if disclosed,

might affect an investor's decision to buy, sell or hold a security. Under applicable law, the Advisers and their affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the Advisers.

Accordingly, should the Advisers or any of their affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, the Advisers would be prohibited from communicating such information to clients, and the Advisers will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions would be applicable as a result of the Advisers' personnel serving as directors of public companies and would, in such cases, restrict trading on behalf of clients, including the Funds.

Principals and employees of the Advisers and their affiliates generally are expected to directly or indirectly own an interest in one or more Funds and underlying investments. To the extent that co-investment vehicles exist, such vehicles are expected to invest in one or more of the same portfolio companies as a Fund. Co-invest opportunities generally are also expected to be presented to certain affiliates of the Advisers, as well as third party investors and other persons, and such co-investments can be effected through co-investment vehicles, directly in a particular portfolio company or through an intermediate entity in a portfolio company's structure. Additionally, a Fund generally reserves the right to invest together with other Funds advised by an affiliated adviser of H.I.G. Capital in accordance with their Limited Partnership Agreements. An Adviser will determine the allocation of investment opportunity in a manner that it believes is fair and equitable to its clients under the circumstances over time consistent with such Adviser's obligations and reserves the right to take into consideration factors such as the following: the client's investment restrictions and objectives (including those set forth in the relevant client's Limited Partnership Agreements, where applicable), strategy, risk profile, time horizon, tax sensitivity, tolerance for turnover, asset composition and cash level and applicable regulatory restrictions. Following a determination of allocation among Funds, H.I.G. Capital reserves the right to offer co-investment opportunities to one or more potential co-investors, including operating partners, vendors, service providers and/or other third parties, in accordance with the Funds' Limited Partnership Agreements, side letters and H.I.G. Capital's procedures regarding allocation. H.I.G. Capital typically takes into consideration a variety of factors in making such determinations, including but not limited to: expressed interest in co-investment opportunities; expertise of the prospective co-investor in the industry to which the investment opportunity relates; perceived ability to quickly execute on transactions; tax, regulatory, securities laws and/or other legal considerations; confidentiality concerns that have the potential to arise in connection with providing the prospective co-investor with specific information relating to the investment opportunity; perceived ease of process in coordinating or completing the investment with the prospective co-investor or co-investors similar thereto; H.I.G. Capital's perception of whether the investment opportunity is likely to subject the prospective co-investor to legal, regulatory, reporting, or other burdens that make it less likely that the prospective co-investor would act upon the investment opportunity if offered or would impair H.I.G. Capital's ability to execute the relevant transaction in the desired time or on desired terms; size of the investment allocation and practicality of dividing it up among multiple co-investors; lender requirements; existence of a formal or informal strategic relationship with the prospective co-investor; and whether H.I.G. Capital believes that allocating investment opportunities to an investor or person will help establish, recognize, strengthen and/or cultivate relationships that have the potential to provide

longer-term benefits to the relevant Funds or H.I.G. Capital portfolio company, other portfolio companies, or the Funds or H.I.G. Capital. Although H.I.G. Capital reserves the right to consider a prospective co-investor's willingness to invest in future Funds, such willingness generally will not be the sole determining factor considered by H.I.G. Capital in identifying co-investors. In the case of co-investments, the Advisers reserve the right to grant certain third-party investors the opportunity to evaluate specified amounts of prospective co-investments in Fund portfolio companies or otherwise to have priority in co-investment opportunities.

The Advisers and their affiliates, principals and employees expect from time to time to carry on investment activities for their own account, for personal or employee investment vehicles and, potentially, for family members, friends or others who do not invest in the Funds, as well as give advice and recommend securities to vehicles which differs from advice given to, or securities recommended or bought for the Funds even though their investment objectives are the same or similar.

### **BROKERAGE PRACTICES**

The Advisers focus on securities transactions of private companies and generally purchase and sell such companies through privately-negotiated transactions in which the services of a broker-dealer may be retained. However, the Advisers reserve the right to also distribute securities to investors in a Fund or sell such securities, including through using a broker-dealer, such as where a public trading market exists. To the extent the Advisers engage in public securities transactions, they intend to follow the brokerage practices described below.

If the Advisers sell publicly traded securities for a Fund, the Fund is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the Advisers. In such event, the Advisers will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, the Advisers reserve the right to consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; and (iv) responsiveness to requests for trade data and other financial information.

The Advisers have no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or "posted" commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although the Advisers generally seek competitive commission rates, they will not necessarily pay the lowest commission or commission equivalent. Transactions that involve specialized services on the part of the broker involved are likely to entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with the Advisers seeking to obtain best execution, brokerage commissions on client transactions are permitted to be directed to brokers in recognition of research furnished by them, although the Advisers generally do not make use of such services at the current time and have not made use of such services since its inception. Such research services could include economic research, market strategy research, industry research, company research, fixed income data services, computer-based quotation equipment and research services and portfolio

performance analysis. As a general matter, research provided by these brokers would be used to service all of the Advisers' Funds. However, each and every research service will not necessarily be used for the benefit of each and every Fund managed by the Advisers, and brokerage commissions paid by one Fund will in some cases be applied towards payment for research services that might not be used in the service of such Fund. Research services will be shared among the Advisers and their affiliates.

The Advisers do not employ any agreement or formula for the allocation of brokerage business on the basis of research services; however, the Advisers in their discretion reserve the right to cause the Funds to pay such brokers a commission for effecting portfolio transactions in excess of the amount of commission another broker adequately qualified to effect such transactions would have charged for effecting such transactions. This generally arises where the Advisers have determined that such commission is reasonable in relation to the value of brokerage and research services received. In reaching such a determination, the Advisers would not be required to place or attempt to place a specified dollar value on the brokerage or research services provided by such broker.

The Advisers will periodically determine which brokers have provided research that has been helpful in the management of Funds. To the extent consistent with the Advisers' goal to obtain best execution for the Funds, the Advisers reserve the right to seek to place a portion of the trades that they direct with the brokers who are identified through this process.

To the extent that an Adviser allocates brokerage business on the basis of research services, it expects to a potential incentive to select or recommend broker-dealers based on the interest in receiving such research or other products or services, rather than based on its Funds' interest in receiving most favorable execution.

To the extent that the Advisers engage in any public securities transactions, orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for Funds are completed independently, the Advisers also reserve the right to purchase or sell the same securities or instruments for several Funds simultaneously. From time to time, the Advisers expect, but are not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders will be combined or "batched" in certain cases to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Fund of the Advisers is favored over any other Fund. When an aggregated order is filled in its entirety, each participating Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. To the extent such orders are not batched, they will likely have the effect of increasing brokerage commissions or other costs.

When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata* basis to each Fund participating in such buy or sell order in accordance with the amount of securities originally requested for such Funds.

Each Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. Exceptions to *pro rata* allocations are permissible provided the Advisers believe they are fair and equitable to their clients under the circumstances over time.

In H.I.G. Capital's private company securities transactions on behalf of the Funds, H.I.G. Capital reserves the right to retain one or more broker-dealers or investment banks, the costs of which will be borne by the relevant Fund and/or its portfolio companies. In determining to retain such parties, H.I.G. Capital reserves the right to consider a variety of factors, including: (i) capabilities with respect to the type of transaction being contemplated; (ii) commissions or fees charged; (iii) reputation of the firm being considered; and (iv) responsiveness to requests for information. As a result, although H.I.G. Capital generally will seek reasonable rates for such services, the market for such services involves more subjective evaluations than public securities brokerage transactions, and the Funds will not always pay the lowest commission or fee for such services.

## **REVIEW OF ACCOUNTS**

The investments made by the Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, H.I.G. Capital closely monitors companies in which the Funds invest, and the H.I.G. Funds' investment committees periodically review the Funds' portfolios to confirm that each Fund is maintained in accordance with its stated objectives.

Each Fund (other than any Managed Accounts, as applicable) will provide to each of its Limited Partners (i) annual GAAP audited and quarterly unaudited financial statements, (ii) annual tax information necessary for each Limited Partner's tax return and (iii) at the time of delivery of the financial statements, reports providing a description of all investments held by the Funds and a narrative summary of the status of each such investment. Managed Accounts may provide some or all of the foregoing types of reporting, as agreed between H.I.G. Capital or its affiliates and the investors or clients in such Managed Accounts, and as provided in the Limited Partnership Agreements and other documentation governing such arrangements.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

H.I.G. Capital and/or its affiliates intend to provide certain business or consulting services to companies in each Fund's portfolio and expect to receive compensation from these companies in connection with such services. As described in the Funds' Limited Partnership Agreements, this compensation offsets a portion of the Management Fees paid by Funds in certain cases. However, in other cases (*e.g.*, reimbursements for out of pocket expenses directly related to a portfolio company), these fees are in addition to the Management Fees. H.I.G. Capital maintains relationships with senior operating and consulting professionals who, from time to time, provide certain key value-added services to portfolio companies of the Funds. These professionals are independent contractors or employees of companies affiliated with H.I.G. Capital and receive compensation, directly or indirectly, from H.I.G. Capital portfolio companies that will not result in offsets to the Management Fee. See "Fees and Compensation."

H.I.G. Capital reserves the right from time to time to enter into solicitation arrangements pursuant to which they compensate third parties for referrals that result in a potential Limited Partner becoming a Limited Partner in a Fund or other Fund. Any fees and expenses payable to any such placement agents generally will be borne by H.I.G. Capital.



## **CUSTODY**

H.I.G. Capital maintains custody of the Funds' assets held in each Fund's name with the following qualified custodians: Bank of New York Mellon, Citibank, JPMorgan Chase Bank, N.A., Merrill Lynch & Co., Signature Bank, U.S. Bank National Association and ING Bank.

## **INVESTMENT DISCRETION**

H.I.G. Capital has discretionary authority to manage the investments on behalf of each Fund pursuant to the Limited Partnership Agreements described under "Advisory Business." As a general policy, the Advisers do not allow clients to place limitations on this authority. Pursuant to the terms of the Limited Partnership Agreements, however, the Advisers have entered, and expect to enter, into Side Letter arrangements with certain Limited Partners whereby the terms applicable to such Limited Partners' investment in the Funds are altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. H.I.G. Capital assumes this authority pursuant to the terms of the Limited Partnership Agreements and powers of attorney executed by the Limited Partners of the Funds.

## **VOTING CLIENT SECURITIES**

The Advisers have adopted Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how they will vote proxies, as applicable, for each Fund's portfolio investments. The Proxy Policy seeks to ensure that the Advisers vote proxies (or similar instruments) in the best interest of the Funds, including where there may be material conflicts of interest in voting proxies. Each of the Advisers generally believes its interests are aligned with those of Funds' Limited Partners, for example, through the principals' beneficial ownership interests in the Funds and therefore will not seek Limited Partner approval or direction when voting proxies. In the event that there is an actual or potential conflict of interest in voting proxies, the Proxy Policy provides that the Advisers are permitted to address the conflict using several alternatives, including by seeking the approval or concurrence of the Funds' advisory boards on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, the Funds' advisory boards are authorized to approve the Advisers' vote in a particular solicitation. The Advisers do not consider service on portfolio company boards by H.I.G. personnel or their receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by the Advisers when voting proxies on behalf of the Funds. If you would like a copy of the Advisers' complete Proxy Policy or information regarding how the Advisers voted proxies for particular portfolio companies, please contact Richard Siegel, H.I.G. Capital's Chief Compliance Officer, at 305-379-2322 and it will be provided to you at no charge.

## **FINANCIAL INFORMATION**

H.I.G. Capital does not require prepayment of the Management Fees six months or more in advance or have any other events requiring disclosure under this item of the Brochure.

## **SUPPLEMENTAL INFORMATION ABOUT CERTAIN PRINCIPALS OF H.I.G. CAPITAL**

### ***Sami Mnaymneh***

#### **Educational Background and Business Experience**

Mr. Mnaymneh, born 1961, is a Founder and Co-CEO of H.I.G. and has directed H.I.G.'s development since its inception and, alongside Mr. Tamer and the Firm's Co-Presidents, is responsible for the day-to-day management of H.I.G. Mr. Mnaymneh approves all capital commitments made by H.I.G. Prior to co-founding H.I.G., Mr. Mnaymneh was a Managing Director at The Blackstone Group where he specialized in providing financial advisory services to Fortune 100 companies. Prior to that time, he was a Vice President in the Mergers & Acquisitions department at Morgan Stanley & Co. Mr. Mnaymneh received a BA degree from Columbia University, a JD degree from Harvard Law School and an MBA from Harvard Business School.

#### **Disciplinary History**

There are no legal or disciplinary events to disclose with respect to Mr. Mnaymneh.

#### **Other Business Activities**

Mr. Mnaymneh is not engaged in any investment-related business outside of his roles with H.I.G. Capital and its affiliates.

#### **Additional Compensation**

Mr. Mnaymneh does not receive any additional compensation that is required to be disclosed.

#### **Supervision**

As Co-CEO of H.I.G., Mr. Mnaymneh is responsible for implementing and overseeing the investment strategy of its clients. Mr. Mnaymneh is not subject to the supervision of any other individual.

## ***Anthony Tamer***

### **Educational Background and Business Experience**

Anthony Tamer, born 1957, is a Founder and Co-CEO of H.I.G. and has directed H.I.G.'s development since its inception and, alongside Mr. Mnaymneh and the Firm's Co-Presidents, is responsible for the day-to-day management of the firm. Prior to founding H.I.G., Mr. Tamer was a Partner at Bain & Company, one of the world's leading management consulting firms. Mr. Tamer holds a BS degree from Rutgers University, an MS degree in Electrical Engineering from Stanford University and an MBA degree from Harvard Business School.

### **Disciplinary History**

There are no legal or disciplinary events to disclose with respect to Mr. Tamer.

### **Other Business Activities**

Mr. Tamer is not engaged in any investment-related business outside of his roles with H.I.G. Capital and its affiliates.

### **Additional Compensation**

Mr. Tamer does not receive any additional compensation that is required to be disclosed.

### **Supervision**

As Co-CEO of H.I.G., Mr. Tamer is responsible for implementing and overseeing the investment strategy of its clients. Mr. Tamer is not subject to the supervision of any other individual.

## ***Rick Rosen***

### **Educational Background and Business Experience**

Rick Rosen, born 1969, is a Co-President of H.I.G. In his current position, along with Co-President Brian Schwartz, he helps run the day-to-day operations of the firm and sits on the investment committees for H.I.G. funds. Since joining H.I.G. in 1998, he has been involved in all aspects of the investment process; and has held leadership positions in several of the firm's funds. Prior to joining H.I.G., Mr. Rosen worked at General Electric Company and GE Capital, where he helped design and implement improved business strategies and operating processes. Mr. Rosen received his undergraduate degree with honors from Stanford University and earned his MBA from Harvard Business School.

### **Disciplinary History**

There are no legal or disciplinary events to disclose with respect to Mr. Rosen.

### **Other Business Activities**

Mr. Rosen is not engaged in any investment-related business outside of his roles with H.I.G. Capital and its affiliates.

### **Additional Compensation**

Mr. Rosen does not receive any additional compensation that is required to be disclosed.

### **Supervision**

As Co-President of H.I.G., Mr. Rosen is responsible for implementing and overseeing the investment strategy of its clients. Mr. Rosen is subject to the supervision of the firm's Co-CEOs.

## ***Brian Schwartz***

### **Educational Background and Business Experience**

Brian Schwartz, born 1967, is a Co-President of H.I.G. In his current position, along with Co-President Rick Rosen, he helps run the day-to-day operations of the firm and sits on the investment committees for H.I.G. funds. Mr. Schwartz has held a number of leadership positions at the firm, as well as having led the acquisition of over 25 platform investments in a variety of industries. Prior to joining H.I.G. in 1994, Mr. Schwartz worked in PepsiCo's strategic planning group. Mr. Schwartz began his career with the investment banking firm of Dillon, Read and Co. Mr. Schwartz received his BS with honors from the University of Pennsylvania and earned his MBA from Harvard Business School.

### **Disciplinary History**

There are no legal or disciplinary events to disclose with respect to Mr. Schwartz.

### **Other Business Activities**

Mr. Schwartz is not engaged in any investment-related business outside of his roles with H.I.G. Capital and its affiliates.

### **Additional Compensation**

Mr. Schwartz does not receive any additional compensation that is required to be disclosed.

### **Supervision**

As Co-President of H.I.G., Mr. Schwartz is responsible for implementing and overseeing the investment strategy of its clients. Mr. Schwartz is subject to the supervision of the firm's Co-CEOs.