

**Part 2A of Form ADV: Daybreak Fund Advisors LLC - *Brochure***

**Item 1 - Cover Page**

March 18, 2022

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This Brochure provides information about the qualifications and business practices of Daybreak Fund Advisors LLC. If you have any questions about the contents of this brochure, please contact us at (713) 559-7110. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Daybreak Fund Advisors LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information based on which you determine to hire or retain an investment adviser.

Additional information about Daybreak Fund Advisors LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 - Material Changes**

Pursuant to SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

Since the last annual update of this Brochure on March 25, 2021, there were no material changes to the firm's Brochure.

Currently, our Brochure may be requested by contacting Ms. Cara Garlow, the Adviser's Chief Compliance Officer at (713) 559-7117.

Additional information about the Adviser is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with the Adviser who are registered, or are required to be registered, as investment adviser representatives of the Adviser.

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#### **Item 4 - Advisory Business**

- A. The Adviser is a registered investment advisory firm registered with the U.S. Securities and Exchange Commission (the “SEC”) effective as of April 15, 2016. Our registration as an investment adviser does not imply any level of skill or training. The oral and written communications we provide you, including this brochure, include information you can use to evaluate us and other advisers, which are factors in your decision to hire us or to continue to maintain a mutually beneficial relationship. This brochure provides information about our qualifications and business practices.

The Adviser was formed as a Delaware limited liability company in 2011. The Adviser is located in Houston, Texas and specializes in making private equity investments in the energy service industry and related businesses in the energy industry. Mike Scott and William E. Chiles are the principals and equity owners of the Adviser (the “Principals”).

- B. The Adviser provides investment advisory services on a discretionary basis for multiple pooled investment vehicles (each a “Fund”, and collectively, the “Funds”) that the Adviser sponsors.

Typically, the Funds will be closed-end limited partnerships in which investors subscribe for limited partner interests. The Funds directly or indirectly invest in the securities of privately-held companies primarily but may also invest in publicly-traded companies. Each Fund may have different investment strategies and may have different investment restrictions. The purchase of the interests offered in each Fund is suitable for persons who can afford to hold the interests for an indefinite period and to assume the risks of and bear the possible loss of their entire investment in the interests.

The Adviser may also serve as the sponsor of entities that serve as feeder vehicles into the Funds. Additionally, in order to meet tax, regulatory or other requirements, certain investors may invest in substantially the same portfolio as the applicable Funds through specially formed investment vehicles, which also are advised by the Adviser.

From time to time, the Adviser may establish, on a transaction-by-transaction basis, investment vehicles and accounts through which certain persons may invest alongside one or more Funds (each such pooled investment vehicle and account, a “Co-Investment Vehicle”). Generally, when a Co-Investment Vehicle is established for a particular transaction, it is contractually required, as a condition of its investment, to exit its investment at the same time and on the same terms as the applicable Fund that also is invested in such transaction.

The Adviser’s only advisory clients are the Funds and certain feeder vehicles and Co-Investment Vehicles (collectively, the “Clients”).

- C. Investment advisory services include working with Clients to establish an investment objective and selecting portfolio investments utilizing the Adviser’s overall investment strategy, which focuses on making private equity investments in the energy service industry and related businesses in the energy industry.

While the Adviser’s services with respect to each of its Clients generally follow the broad strategy described above, the Adviser may tailor the specific advisory services with respect to each Client to the individual investment strategy of such Client.

The terms upon which the Adviser will provide investment advisory services to each Client are set up at the time such Client is established and are generally set out in a separate management agreement with such Client and in the limited partnership agreement, limited liability company agreement or other organizational document governing such Client. These terms, which vary among Clients, generally include restrictions on the types of securities and other assets in which the Client may invest, the amount of assets that may be invested in any portfolio company or industry, the industries in which the Client may invest, and borrowing, among others. The Adviser also may enter into side letter agreements with certain investors in the Clients, establishing rights under, or supplementing or altering the terms of, the applicable limited partnership agreement, limited liability company agreement or other organizational document and subscription agreement relating to such Clients with respect to such investors. Once invested in a Client, investors cannot impose additional investment guidelines or restrictions on such Client.

- D. The Adviser does not participate in wrap fee programs.
- E. As of December 31, 2021, the Adviser manages approximately \$375,522,157 in discretionary portfolios and \$0 in non-discretionary portfolios.

## Item 5 - Fees and Compensation

- A. Below is a discussion of how the Adviser is compensated in connection with providing advisory services to its Clients. The Adviser may enter into different fee arrangements on a Client by Client basis.

The Adviser will generally receive management fees and/or performance fees (also known as carried or profits interests) (assuming certain regulatory requirements are satisfied) in connection with the advisory management services that the Adviser provides to its Clients. Management fees, performance fees and any other compensation payable to the Adviser or its affiliates for such services by a Client and its investors are generally negotiated with each Client (or its underlying investors) and will depend on a number of factors as discussed below. The fees and other compensation payable by each Client (or its underlying investors) are described in each such Client's partnership agreement or other governing documents.

Management Fees. The management fees we receive will be based on committed or invested capital in accordance with the terms of the partnership agreement or other governing documents of the applicable Client and/or a separate investment management agreement. Our current management fees will typically be up to 2.5% of capital committed to the relevant Client during the investment period of such Client and up to 2.5% of unreturned invested capital remaining following the termination of the investment period of such Client, depending, in particular, on market terms, the strategy of the relevant Client, the amount of assets under management with the Client and the point in time in the life cycle of the relevant Client. Management fees paid by investors in the Clients generally impact the carried interest allocations received by the Adviser affiliate (special limited partner or carry partner) of the applicable Client. In addition, management fees payable to the Adviser by certain Clients may be reduced by certain other compensation received by the Adviser or its affiliates that relate to the relevant Client and its activities or by certain organizational, offering and other expenses borne by the Client.

Carried Interest. The general partners or special limited partners that are affiliates of the general partners, of each Client typically receive carried interest allocations from such Client of up to 20% of distributable cash, determined with respect to each Client on a whole fund basis. Carried interest allocations may be subject to preferred return hurdles and/or claw-back obligations, depending on, among other things, the strategy of the relevant Client and market terms at the time of the Client's formation.

As indicated above, the fees and other compensation payable to the Adviser by its Clients are established at the time of the formation of the relevant Client and negotiated with participating investors prior to their investment. Specific details of such compensation and expenses, and their method of calculation are set out in the offering materials, disclosure documents and governing documents of the relevant Client and, as indicated, may vary from Client to Client. Once the relevant Client has been established and commenced operations, such compensation and expenses are generally not negotiable, although we may, from time to time, enter into side letter agreements or other arrangements with specific investors in certain Clients whereby such investors receive reductions of management fees or other compensation otherwise payable with respect to their investment in such Clients.

- B. Management fees typically will be calculated and paid semi-annually in advance in January and July, subject to the terms of the relevant governing documents applicable to each Client. The general partners of each Client may make capital calls on investors in such Client for the

amount of our management fees and remit the amounts received to the Adviser. The Adviser generally has the authority to deduct fees from its Clients' accounts.

- C. Each Client (and its underlying investors) will typically pay or otherwise bear all legal and other third party out-of-pocket organizational and offering expenses incurred in the formation of such Client and its related entities. Investors in the Funds will typically, and investors in other Clients may, receive a reduction in management fees in respect of offering and organizational expenses in excess of specific amounts as described in the offering materials, disclosure documents and governing documents of the relevant Client. In addition, investors in each Client are responsible for expenses related to the operation of such Client, which may include but are not limited to legal, accounting, transaction related travel, tax, audit, bank line interest, annual meeting, insurance, brokerage, investment banking, and dead deal costs, and are described in each Client's partnership agreement or other governing documents.

The Adviser does not typically collect transaction, monitoring, advisory, investment banking, directors', break-up and other similar fees with respect to the investments or investment activities of its Clients ("Fee Income"). However, the management fees paid by limited partners in the Funds are, and by investors in other Clients may be, reduced by specified percentages (up to 100%) of Fee Income (net of related expenses) that the Adviser or the general partner of such Client receive from or through portfolio investments or prospective acquisition targets. Investors are advised to review the private placement memorandum for each Client in which they are considering investing for specific descriptions of the management fees charged in connection with the management of such Client and the Fee Income that offsets such management fees.

On a limited basis, the Adviser may maintain trading accounts on behalf of its Clients. The Adviser does not use "soft" dollars.

Please refer to Item 12, Brokerage Practices, for more information.

***It is critical that investors and prospective investors refer to the respective Fund's disclosure documents (as applicable) and/or governing documents for a complete understanding of how the Adviser and the applicable general partner, special limited partner or carry partner are compensated for advisory services. The information contained herein is a summary only with respect to current Fund client(s) and is qualified in its entirety by the applicable Fund's disclosure documents and/or governing documents.***

- D. Subject to the terms of the applicable Client organizational documents and/or separate investment management agreements, (i) Client management fees are typically payable semi-annually in advance, (ii) the Adviser will refund any pre-paid management fees by a Client if the advisory contract with such Client is terminated before the end of the billing period, and (iii) management fee refunds are typically calculated on a pro-rata basis for partial periods.
- E. Other than as described above, neither the Adviser nor any of its supervised persons receive any compensation from the sale of securities or other investment products.

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

As stated in Item 5 above, the Adviser or its affiliates may receive performance-based fees (sometimes referred to as “carried interest”) or allocations from certain Clients. These payments are subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3.

Performance-based fees in general may create an incentive for an adviser or its supervised persons to make investments that are riskier and more speculative than would be the case in the absence of a performance-based fee. Such fee arrangements may also create an incentive to favor higher fee-paying clients over other clients in the allocation of investment opportunities. The terms of the performance-based fees may also give the general partners or managers of the Clients an incentive to make decisions regarding the timing and structure of realization transactions that may not be in the best interests of investors. Although certain of the Client governing documents contain “claw-back” provisions requiring the general partner or special limited partner or carry partner of such Clients to return excess distributions to investors in the event the carried interest recipient receives more than its carried interest percentage of profits on an aggregate basis over the life of the Client, the return of such distributions to the investors would generally be delayed until the end of the Client’s term.

To address these conflicts of interest, the Adviser has implemented policies and procedures to ensure that all Clients receive equitable and fair treatment over time with respect to the allocation of investment opportunities. Additionally, we manage each Fund in accordance with the investment strategy disclosed in such Fund’s private placement memorandum to help ensure that investors are aware of the investment strategy and the risks associated with the strategy. The private placement memorandum of each Fund contains further details regarding the carried interests of such Fund, and risks and strategy.

## **Item 7 - Types of Clients**

The Adviser provides investment advisory services to the Funds, which are pooled investment vehicles organized as private funds -- entities that are investment partnerships or other investment entities formed under domestic or foreign laws and are exempt from registration under the Investment Company Act of 1940, as amended (the "Investment Company Act"). In addition, the Adviser provides investment advisory services to the other non-Fund Clients described above in response to Item 4.

Generally, investors participating in the Clients are required to meet certain suitability and net worth qualifications, including qualifying (a) as an "accredited investor" as defined in Rule 501 of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"), (b) as a "qualified client," for purposes of the Advisers Act, or (c) as a "knowledgeable employee" within the meaning of Rule 3c-5 of the Investment Company Act, depending on the applicable eligibility requirements of the respective Client.

The Clients are or will be invested in by a broad range of U.S. and non-U.S. investors, including, among others:

1. Individual investors;
2. Private retirement and profit sharing plans;
3. Trusts;
4. Charitable foundations;
5. Educational endowments;
6. Corporations and investment partnerships;
7. Hedge funds;
8. Funds of funds; and/or
9. Other business entities.

The Funds generally have specified minimum investment amounts set forth in their respective offering materials, disclosure documents and/or governing documents. This amount is generally at least \$1 million, but lower capital commitments may be accepted in the discretion of the general partner of each Fund.

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

- A. The Adviser will offer advice to the Clients generally regarding investments in equity and equity-related securities (including limited partnership interests, limited liability company membership interests, preferred stock, debt and other securities relating to equity investments or that are expected to produce equity-like returns) in privately negotiated transactions. These investments are generally made in connection with acquisitions, dispositions, restructurings, workouts, management acquisitions and other similar situations and utilize some degree of leverage. Our investment analysis methods may include fundamental, primary and secondary research. Our investment team is responsible for evaluating securities (and other products) for investment, making asset and industry allocations, and security selections for the Clients. Our investment professionals also monitor portfolio investments for adherence to investment, performance, and valuation objectives, and the Client's stated investment strategies. Our professional personnel meets regularly to discuss potential and pending transactions, and review the performance of specified portfolio investments. At each meeting, the team reviews transactions currently under consideration and discusses those transactions being pursued actively (unless there are no new developments or activities to report). If our consideration of a transaction has advanced beyond the preliminary evaluation stage, a brief written overview is presented to the investment committee of the relevant Fund for its consideration. If the transaction reaches the stage where the transaction team proposes to make a definitive proposal to acquire or invest in the target company or business, it will prepare a detailed written presentation on the transaction for the relevant Fund's investment committee and convene a meeting of such investment committee at which such committee will discuss the transaction in depth with the transaction team and decide whether to authorize the transaction. In addition to an in-depth discussion of the relevant target investment or business, the investment thesis, management team, deal tactics and key risk factors will usually be discussed by the Fund's investment committee and the transaction team. Each Fund's investment committee will often conduct multiple meetings on a particular deal. Each Fund's investment committee decisions generally require unanimous or supermajority approval of its members with respect to all investments and dispositions by such Fund.

Identifying and participating in attractive investment opportunities and assisting in the building of successful enterprises involves a certain amount of risk. There generally will be little or no publicly available information regarding the status and prospects of companies in which the Clients invest. Many of our investment decisions will be dependent upon the ability of our investment professionals and agents to obtain relevant information from non-public sources, and we and the general partners or managers of our Clients often will be required to make decisions without complete information or in reliance upon information provided by third parties that is impossible or impractical to verify.

The marketability and value of each investment will depend upon many factors beyond our control. Client portfolio companies may have substantial variations in operating results from period to period, face intense competition and experience failures or substantial declines in value at any stage. Client portfolio companies may need substantial additional equity or debt capital to support growth, or to achieve or maintain a competitive position. Such capital may not be available on attractive terms, or may not be available at all. The capital of each Client is limited and may not be adequate to protect such Client from dilution in multiple rounds of financing of its portfolio companies.

An otherwise successful investment in a business may yield poor investment returns if it is unable to consummate and execute a timely exit strategy. The receptiveness of potential acquirers of portfolio companies will vary over time and, even if an investment in a portfolio company is disposed of via a merger, consolidation or similar transaction, a Client's securities or other interests in the surviving entity may not be marketable. Generally, the investments made by each Client will be illiquid and difficult to value, and there will be little or no collateral to protect an investment once made. In most cases, a Client's investments will be long-term in nature and may require many years from the date of initial investment before disposition. Voluntary withdrawals of investors from the Clients are generally not permitted without the consent of the applicable Client's general partner.

- B. *Potential investors in each Client should be aware that an investment in such Client involves a high degree of risk. There can be no assurance that the Client's investment objective will be achieved, or that an investor will receive a return of its capital. In addition, there will be occasions when the Adviser or its affiliates may encounter potential conflicts of interest in connection with one or more Clients. The following considerations should be carefully evaluated before making an investment in a Client.*

*It is critical that investors and prospective investors refer to the respective Client's disclosure documents and/or governing documents for a complete overview of such Client's investment strategy and the Adviser's methods of analysis. The following risk factors are generally applicable to investors in the Clients. Additional risks that are specific to an investment in each Client are set forth in the private placement memorandum and other offering materials for such Client.*

#### ADVISER, CLIENT, AND UNDERLYING PORTFOLIO COMPANY RISK FACTORS

***No Assurance of Investment Return.*** The Adviser cannot provide assurance that its Clients will be able to choose, make and realize upon portfolio investments. There can be no assurance that the Adviser will be able to generate returns for its Client's investors or that the returns will be commensurate with the risks of investing in the type of portfolio companies and transactions pursued by its Clients. There can be no assurance that any Client investor will receive any distribution from the Client. Accordingly, an investment in any Client should only be considered by persons who can afford a loss of their entire investment. Past performance of investments made or managed by the Adviser or the Principals provides no assurance of future success.

***Nature of Client Investments.*** Most portfolio investments will be highly illiquid, and there can be no assurances that a Client will be able to realize a return on such investments in a timely manner or at attractive prices. As a result, investment in a Client requires a long-term commitment, with no certainty of return. It is unlikely that there will be near-term cash flow available to Client investors upon making an investment. In some circumstances, Client investors may receive distributions in kind, which may also be illiquid and difficult to value. The illiquidity of the Clients' investments results from several factors, including the following:

- Portfolio investments will involve the purchase of privately-issued securities that cannot be sold except pursuant to a registration statement filed under the Securities Act, or pursuant to an exemption from registration under the Securities Act. Registering securities under the Securities Act requires a substantial investment of the Adviser's and its representatives' time and attention and a substantial investment by the issuer of those securities. There can be no assurances that private purchasers will be found for the Clients' investments or that a market for the securities held by the Clients would exist even following registration.

- The cultivation of a Client's portfolio investment for disposition, together with the disposition itself, may involve a substantial amount of time. Even when a portfolio investment is successfully disposed, some of the consideration may be deferred through the use of earn-outs, promissory notes, escrows, holdbacks and other similar arrangements. A substantial portion of the Clients' portfolio investments will be in equity or equity-related securities that by their nature involve business, financial, market and/or legal risks. Such investments involve a high degree of risk and can result in substantial losses. There can be no assurance that the Adviser will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Prices of the investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Adviser's activities. As a result, a Client's performance over a particular period may not necessarily be indicative of the results that may be expected in future periods or with respect to other Clients.
- The Adviser expects that its Clients will invest primarily in securities of companies with smaller capitalizations. Investments in small capitalization companies involve greater risk than is customarily associated with larger, more established companies. These securities may have limited marketability and may be subject to more abrupt or erratic movements in price than securities of larger companies or the market averages in general.
- The Adviser may frequently be required to undertake investment analyses and decisions on an expedited basis to take advantage of investment opportunities on behalf of its Clients. In such cases, the information available to the Adviser at the time of making an investment analysis or recommendation may be limited, and the Adviser may not have access to detailed information regarding the dynamics of the relevant market, management performance, historical and projected financials, customer, supplier or partner references, or other company-specific analyses. Therefore, no assurance can be given that the Adviser will have knowledge of all circumstances that may adversely affect an investment.

***Relation of Previous Investment Experience.*** The prior investment results of the Adviser and the Principals provided to Client investors in offering materials are not indicative of the Adviser's future investment results. The nature of and risk associated with the Clients' portfolio investments, the investment and divestment decision making processes, and the financing and investment terms and targets may differ materially from those investments and strategies undertaken historically by the Adviser or the Principals. Past performance is no guarantee of future performance. There can be no assurance that the Clients' portfolio investments will perform as well as the past investments of the Adviser or the Principals or any other person or that the Clients will be able to avoid losses.

***Competition for Investments.*** In seeking investment opportunities on behalf of its Clients, the Adviser encounters competition from other investors and sponsors who may have significantly greater financial and other resources than those available to the Clients. There can be no assurance that the Adviser will be able to position its Clients to compete effectively against such competitors in obtaining investment opportunities.

***Board Participation.*** It is anticipated that the applicable Client will be represented on the board or management committees of many of the companies in which such Client makes an investment. While such representation may be important to the Adviser's investment philosophy and should enhance the Adviser's ability to manage such Client's investments, it may also have an effect of impairing the ability of the Adviser to sell the related securities when, and upon the terms, it might otherwise desire, including as a result of applicable securities laws.

**Third-Party Litigation.** The Clients' investment activities, particularly its exercise of control over certain portfolio companies, will subject it to the risk of becoming involved in litigation brought by portfolio companies, their stockholders, their creditors and others. Generally, the Client would bear the expense of defending against claims by such parties and paying amounts necessary to satisfy any settlements or judgments.

**Borrowing.** The Adviser may consider advising its Clients to borrow funds to finance a portion of their portfolio investments. Although the Adviser would seek to advise its Clients borrow funds in a manner it believes is prudent, the use of borrowed funds may involve a high degree of financial risk. In addition, borrowings by Clients will expose such Clients to interest rate risk, and such Clients may be less likely to be profitable or meet their goals if interest rates increase. If a Client does not receive sufficient cash flow from its investments to meet principal and interest payments on any of its borrowings, then the Client may need to dispose of its portfolio investments sooner or at a lower price than it otherwise would have in order to pay the debt. Borrowings by a Client have the potential to enhance overall returns that exceed such Client's cost of funds, however they will further diminish returns (or increase losses on capital) to the extent overall returns are less than such Client's cost of funds.

**Leverage.** Certain Client portfolio investments may be in portfolio companies with significant levels of debt. In addition, the Adviser may advise the Client to increase the leverage of a portfolio company by using promissory notes or other indebtedness issued by the portfolio company as part of the purchase consideration. Although the Adviser will seek to advise its Clients to use leverage in a manner the Adviser believes is prudent, the leveraged capital structure of portfolio companies will increase the exposure of those companies to adverse economic factors such as rising interest rates, downturns in the economy or deterioration in the condition of the portfolio company or its industry. Because the securities in which the Clients will invest will potentially be among the more junior in a portfolio company's capital structure, the inability of a portfolio company to service its debt obligations could result in a loss of the Client's investment.

**Portfolio Company Projections.** The Clients will establish the capital structure of portfolio companies based on financial projections prepared by the Adviser. These projections will be based upon certain assumptions and upon information provided by and judgments made by management of the relevant portfolio company. These projections will be only estimates of future results and, therefore, there can be no assurance that the projected results will be achieved. Actual results may vary significantly from the projections, and general economic conditions and other factors out of the control of the Adviser may negatively impact the reliability of the financial projections.

**Minority Investments.** Clients' investments may represent minority interests in their portfolio companies and a Client may hold minority voting positions on the boards of directors of certain portfolio companies. While the Adviser will make every effort to assist its Clients in structuring minority investments to maximize the ability of the Client to influence the management and direction of the portfolio company, in the case of minority investments, the Client may not be able to control or exercise substantial influence over such portfolio company.

**Reliance on Management of Portfolio Companies.** While it is the intent of the Adviser to pursue investment opportunities on behalf of its Clients in portfolio companies with proven operating management in place, there can be no assurance that such management personnel will continue with the respective portfolio companies or continue to operate successfully. Although the Adviser will monitor the performance of each investment on behalf of its Clients, the portfolio company management teams will operate the portfolio companies on a day-to-day basis.

**Investments with Third Parties.** Clients may co-invest with third parties. The Adviser and its affiliates may not have control over these investment opportunities or portfolio companies and, therefore, may have a limited ability to protect its Client's position therein. Such investments may

involve risks not present in investments where a third party is not involved, including the possibility that a third-party partner or co-investor may have financial difficulties resulting in a negative impact on such investment, may have economic or business interests or goals that are inconsistent with those of the Client, or may be in a position to take action contrary to the Client's investment objectives. In addition, the Client may in certain circumstances be liable for the actions of its third-party partners or co-investors.

***Lack of Diversification.*** Each Client, by its nature, will only make a limited number of portfolio investments and, as a consequence, the aggregate return of such Client may be substantially adversely affected by the unfavorable performance of even a single investment.

***Restrictions on Transfer and Withdrawal.*** Investment in the Adviser's Clients requires the financial ability and willingness to accept significant risk and illiquidity. An investment in a Client requires a long-term commitment, with no certainty of return. There most likely will be little or no near-term cash flow available to Client investors following an investment. Interests in the Clients are generally not transferable and are subject to the terms and conditions of the applicable Client partnership agreement. Client investors generally may not withdraw capital from the Client. Consequently, Client investors may not be able to liquidate their investments prior to the end of the Client's term.

***Difficulty of Locating Suitable Investments.*** The success of each Client will depend on the ability of the Adviser to identify suitable portfolio investments for such Client, to negotiate and arrange the closing of appropriate transactions and to arrange the timely disposition of portfolio investments on favorable terms. There can be no assurances that the Adviser will be able to identify a sufficient number of suitable investment opportunities to enable a Client to invest all of its capital commitments in opportunities that satisfy such Client's investment objectives, or that such investment opportunities will lead to completed investments by such Client. Identification of attractive investment opportunities generally will be subject to market conditions. Competition for such opportunities can be substantial.

***Reliance on Adviser and Principals.*** Client investors will be relying on the ability of the Adviser to select the investments to be made using the capital available to the Client. The success of the Client will depend in large part upon the skill and expertise of the Adviser, and the Principals and other key employees of the Adviser. There can be no assurance that any of those individuals will continue to be associated with or employed by the Adviser. The loss of key personnel could have a material adverse effect on a Client and its investments.

***Risk of Few Full-Time Employees.*** The relatively small size of the Adviser will limit the number of employees available to support the business development, due diligence and management attention to its Clients' investment activities. The Adviser or its affiliates may employ other professionals who may not be required to devote all or any specified portion of their time to managing Client affairs, but only to devote so much of their time to Client affairs as they determine to be necessary to accomplish the Client's purposes and to conduct properly the Client's operations. Conflicts may arise in the allocation of these professionals' time among one or more Clients and any of their other obligations. There can be no assurance that these professionals will continue to be associated with the Adviser or its affiliates.

***Dependence on the Principals.*** The Adviser's effectiveness with respect to its Clients' investment activities will depend to a large extent on the efforts, experience and expertise of the Principals. There can be no assurance that the Principals will remain in the employ of the Adviser. The loss of the Principals' services could harm the Adviser's ability to realize its Clients' investment objectives and have a material adverse effect on its Clients' operations.

***No Right to Control the Fund's Operations.*** Client investors will have no opportunity to control the day-to-day operations of the Client, including investment and disposition decisions. In order to safeguard their limited liability for the liabilities and obligations of the Fund, limited partners must rely entirely on the Adviser and its affiliates to conduct and manage the affairs of the Client.

***Risks Arising from Provision of Managerial Assistance.*** The Adviser typically will designate directors to serve on the boards of directors of its Clients' portfolio companies. The designation of representatives and other measures contemplated could expose Client assets to claims by a portfolio company, its security holders and its creditors, including claims that the Client is a controlling person and thus is liable for securities laws violations of a portfolio company. These measures also could result in (i) certain liabilities in the event of the bankruptcy or reorganization of a Client portfolio company, (ii) claims against the Client if the designated directors violate their fiduciary or other duties to a portfolio company or fail to exercise appropriate levels of care under applicable corporate or securities laws, environmental laws or other legal principles, and (iii) exposure of the Client to claims that it has interfered in management to the detriment of a portfolio company.

***Risks Upon Disposition of Portfolio Investments.*** In connection with the disposition of a Client portfolio investment, the Client may be required to make representations about the business and financial affairs of the portfolio investment typical of those made in connection with the sale of any business, or may be responsible for the contents of disclosure documents under applicable securities laws. The Client may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents turn out to be incorrect, inaccurate or misleading. These arrangements may result in contingent liabilities, which might ultimately have to be funded by the Client's investors. Client partnership agreements generally contain provisions to the effect that if there is any such claim in respect of a portfolio company, it will be funded by the Client's investors from unfunded capital commitments and, if necessary, to the extent that they have received distributions from the Fund, by recalling such distributions, subject to certain limitations set forth in the applicable partnership agreement.

***Recourse to Client Assets.*** Client assets, including investments, capital and unfunded capital commitments, are generally available to satisfy all Client liabilities and other obligations. Parties to which a Client is liable may have recourse to such Client's assets generally and may not be limited to any particular asset, such as the investment giving rise to the liability.

***Risks Relating to Carried Interest.*** The fact that, in many cases, an affiliate of the Adviser is entitled to distributions based on the performance of the applicable Client's investments may create an incentive for the Adviser to advise the Client to make investments that are more speculative than would be the case in the absence of performance-based distributions.

***Absence of Regulatory Oversight under the Investment Company Act.*** Clients will typically be exempt from the provisions of the Investment Company Act and, accordingly, Client investors will not have the benefit of the protections of the Investment Company Act. While the Adviser believes that the Clients will not be subject to the registration requirements of the Investment Company Act there can be no assurance that this belief is, or will continue to be, correct. If a Client were subject to such registration requirements, such Client's performance could be materially adversely affected.

***Bankruptcy of Portfolio Companies.*** The Adviser may advise a Client to make investments in portfolio companies that may experience financial difficulties and become insolvent or file for bankruptcy protection. Various U.S. federal and state laws in connection with such bankruptcy proceedings could operate to the detriment of the Client. There is also a risk that a court may subordinate the Client's investment to other creditors or require the Client to return amounts previously paid to it by a portfolio company that becomes insolvent or files for bankruptcy, a risk that could increase if the Adviser structures the investment such that the Client has management rights in such portfolio company.

***Certain Risks Related to U.S. Federal Income Taxation.*** The Adviser will usually establish Clients with the expectation that they be classified as partnerships for U.S. federal income tax purposes. As a consequence, a Client investor will generally be required to take into account its share of Client income, gain, deduction, loss and credit for each taxable year, regardless of whether the Client makes distributions to such Client investor for such year. Therefore, a Client investor's tax liability related to its interest in the Client may exceed the amount of cash distributions made by the Client to such investor in a given year, in which case such investor would be required to satisfy its tax liabilities using its own funds.

***General Economic Conditions.*** General economic conditions may affect the Adviser's effectiveness on behalf of its Clients. Interest rates, general levels of economic activity and participation by other investors in the financial markets may affect the value and number of portfolio investments made by a Client. The Adviser may advise its Clients to delay dispositions of investments as a result of general economic conditions, illiquidity of portfolio investments, contractual prohibitions or other reasons.

***Force Majeure.*** Clients' investments may be affected by force majeure events (*i.e.*, events beyond the control of the party claiming that the event has occurred, including without limitation, acts of God, fire, flood, earthquakes, outbreaks of an infectious disease, pandemic or any other serious public health concern, war, terrorism, labor strikes, major plant breakdowns, pipeline or electricity line ruptures, failure of technology, defective design or construction, accidents, demographic changes, government macroeconomic policies, social instability). Some force majeure events may adversely affect the ability of any such parties to perform their obligations until they are able to remedy the force majeure event. These risks could, among other effects, adversely impact the cash flows available from a portfolio company, cause personal injury or loss of life, damage property, or instigate disruptions of service. Force majeure events that are incapable of or are too costly to cure may have a permanent adverse effect on a portfolio company. Certain force majeure events (such as war or an outbreak of an infectious disease) could have a broader negative impact on the world economy and international business activity generally. The Adviser is not able to predict the extent, severity or duration of the effect of force majeure events or quantify the impact that these events may have on its Clients or their portfolio companies.

***Impact of Financial Reform Legislation.*** The recently enhanced governmental oversight and regulation of the private investment fund industry could have an adverse effect on private investment funds industry generally and on the Clients specifically, and may impede the Adviser's ability to effectively position its Clients to achieve their investment objectives.

***Hedging.*** The Adviser may advise its Clients or their portfolio companies to utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of their investments as a result of changes in currency exchange rates and market interest rates. Such hedging transactions may limit the opportunity for gain. The success of hedging transactions will be subject to the ability of the Adviser and its affiliates to correctly predict movements in and the direction of currencies, interest rates and commodity prices. Unanticipated changes in currency exchange rates, interest rates or commodity prices may negatively impact the overall performance of a Client. In the event of an imperfect correlation between a position in a hedging instrument and the investment that it is intended to hedge, the desired protection may not be obtained and the Client may be exposed to additional risk of loss. It is not possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of independent factors not related to currency fluctuations.

***Risks Associated with Foreign Investments.*** While the Adviser generally expects its Clients to invest in portfolio companies located in the United States and Canada, a Client may, subject to

certain limitations in its respective partnership agreement, invest in portfolio companies outside of the United States and Canada. There are additional risks associated with such foreign investments, including the following: the unpredictability of international trade patterns; the possibility of governmental actions adverse to business generally or to foreign investors in particular, changes in taxation, fiscal and monetary policies or imposition or modification of controls on foreign currency exchange, repatriation of proceeds, or foreign investment; the imposition or increase of withholding taxes on income and gains; price volatility; absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation that may result in lower quality information being available and less developed corporate laws regarding fiduciary duties and the protection of investors; governmental influence on the national and local economies; and fluctuations in currency exchange rates. In addition, collateral located outside of the United States and Canada may be subject to various laws enacted for the protection of creditors, depending on the country and the issuer, which laws may differ substantially from those applicable in the United States and Canada.

### **ENERGY INDUSTRY RISK FACTORS**

***Energy Industry in General.*** The Adviser's Clients will invest primarily in the securities and instruments of companies in the energy service sector. Given this industry concentration, the Clients will be susceptible to adverse economic or regulatory occurrences affecting the energy industry. Energy companies develop and produce crude oil and natural gas and provide drilling and other energy resources production and distribution related services. The performance of companies in this sector is affected by supply and demand for both their specific product or service and for energy products in general. The price of oil and gas, exploration and production spending, government regulation, world events and economic conditions will likewise affect the performance of these companies. Weak demand for the products and services of portfolio companies of a Client, or for energy products and services in general, as well as negative developments in these other areas, would adversely impact such Client's performance.

***Volatility of Commodity Prices.*** The performance of certain of the Adviser's Clients and their investments will be substantially dependent upon prevailing prices of oil, natural gas, coal and other commodities (such as steel). Generally, commodity prices have been, and are likely to continue to be, volatile and subject to wide fluctuations in response to any of the following factors: (i) relatively minor changes in the supply of and demand for oil, gas or coal; (ii) market uncertainty; (iii) political conditions in international commodity producing regions; (iv) the extent of domestic production and importation of oil, gas or coal in certain relevant markets; (v) the foreign supply of oil and natural gas; (vi) the price of foreign imports; (vii) the price and availability of alternative fuels; (viii) the level of consumer demand; (ix) the price of steel and the outlook for steel production; (x) weather conditions; (xi) the competitive position of oil, gas or coal as a source of energy as compared with other energy sources; (xii) the industry-wide refining or processing capacity for oil, gas or coal; (xiii) the effect of U.S. and non-U.S. federal, state and local regulation on the production, transportation and sale of commodities; (xiv) with respect to the price of oil, actions of the Organization of Petroleum Exporting Countries; (xv) the expected consumption of coking coal in steel production; (xvi) the amount and character of excess electric generating capacity in a market area; (xvii) overall economic conditions; and (xviii) a variety of additional factors that are beyond the control of the Adviser and which may be difficult to predict.

***Catastrophic Event Risk.*** Companies operating in the energy sector are subject to many dangers inherent in the development, production, exploration, management, transportation, processing and distribution of natural gas, natural gas liquids, crude oil, refined petroleum and petroleum products and other hydrocarbons. These dangers include leaks, fires, explosions, damage to facilities and equipment resulting from natural disasters, inadvertent damage to facilities and equipment, and terrorist acts. Since the September 11th terrorist attacks, the U.S. government has issued warnings

that energy assets, specifically U.S. pipeline infrastructure and energy storage facilities, may be targeted in future terrorist attacks. These dangers give rise to risks of substantial losses as a result of loss or destruction of: commodity reserves; damage to or destruction of property, facilities, and equipment; pollution and environmental damage; and personal injury or loss of life. Any occurrence of such catastrophic events could bring about a limitation, suspension or discontinuation of the operations of companies operating in the energy sector. Companies operating in the energy sector may not be fully insured against all risks inherent in their business operations and therefore accidents and catastrophic events could materially adversely affect such companies' financial conditions and ability to pay service providers like the portfolio companies in which the Adviser's Clients intend to invest.

***Legal and Regulatory Matters.*** Power generation and transmission, as well as oil, natural gas and coal storage, handling, processing and transportation, are extensively regulated. Statutory and regulatory requirements may include those imposed by energy, zoning, environmental, safety, labor and other regulatory or political authorities. Failure to obtain or a delay in the receipt of relevant governmental permits or approvals, including regulatory approvals, could hinder operation of an investment and result in fines or additional costs. Obtaining permits and approvals or complying with ongoing regulatory requirements may be costly and/or time-consuming. Moreover, the adoption of new laws or regulations, or changes in the interpretation of existing laws or regulations or changes in the persons charged with political oversight of such laws or regulations, could have a material adverse effect upon a Client's portfolio investments and could necessitate the creation of new business models and the restructuring of investments in order to meet regulatory requirements, which may be costly and/or time-consuming.

#### **POTENTIAL CONFLICTS OF INTEREST**

***Multiple Clients.*** Investors should be aware that there will be situations where the Adviser and its affiliates may encounter potential conflicts of interest in connection with the Clients' investment activities. Conflicts of interest may result from the fact that the Adviser will provide investment management services to more than one Client and the Clients may have one or more overlapping investment objectives. The Clients have similar investment strategies, and participation in specific investment opportunities may be appropriate for more than one Client. The Adviser may be required to allocate investment opportunities among such Clients. The definitive agreements for each Client generally include procedures for making such allocations, which may allow the Adviser to allocate investments among Clients in good faith. Such procedures may result in allocations of certain investments among the Clients on other than a *pari passu* basis. To the extent conflicts of interest arise from the Adviser's investment activities on behalf of different Clients, the definitive agreements for each Client may require that we submit the transactions to limited partner advisory committee for such Client for approval.

***Management Fee.*** Subject to the terms of the applicable Client partnership agreement, regardless of the aggregate amount actually invested by a Client, management fees will be based upon aggregate capital commitments of the limited partners for the investment period, after which it will be based on invested capital.

***Diverse Investor Groups.*** The investors of a given Client may have conflicting investment, tax, regulatory and other interests and concerns with respect to their investments in such Client. These conflicting interests may relate to or arise from, among other things, the nature of the investor, the nature of investments, the nature of co-investments, the structuring of the acquisition of investments and the timing of disposition of investments. In selecting and structuring investments, the Adviser will consider the investment and tax objectives of the applicable Client and its investors as a whole, not the objectives or concerns of any investor individually. Co-investment opportunities may be made available to certain Client investors, as determined by the Adviser or its affiliates, and may

be on terms different (including more favorable) from those on which the Client invests, which could result in overall higher net returns for certain Client investors that participate in co-investments than those that do not.

- C. The Adviser will offer advice to the Clients generally regarding investments in equity and equity-related securities (including limited partnership interests, limited liability company membership interests, preferred stock, debt and other securities relating to equity investments or that are expected to produce equity-like returns) in privately negotiated transactions. Risks associated with investments in these types of securities are discussed in detail in Item 8.B above.

**Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the adviser's advisory business or the integrity of the adviser's management.

There are no legal or disciplinary events that are material to an evaluation of the Adviser's advisory business or the integrity of its management.

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

- A. Neither the Adviser nor any of its management persons is registered, or has an application pending to register, as a broker-dealer or registered representative of a broker-dealer.
- B. Neither the Adviser nor any of its management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.
- C. In connection with sponsoring any Fund, the Adviser will also form an affiliated general partner and special limited partner for such Fund, which special limited partner will receive a carried interest. Other than these affiliated general partner and special limited partner entities, the Adviser has no relationships or arrangements with any related person listed in the instructions to Item 10.C. that are material to its advisory business or to its clients.

Conflicts of interest may result from the fact that the Adviser provides investment management services to more than one Client, which conflicts of interest, and the procedures in place for resolving the same, are detailed in Item 8.B. above.

Additional conflicts of interest may arise because the Principals and other Adviser personnel may serve as directors of the companies in which the Clients invest. In addition to any fiduciary duties the Principals and other Adviser personnel may owe to the Clients, as directors of portfolio companies, these individuals may owe fiduciary duties to other investors in the portfolio companies and to persons other than the Clients. In general, such director positions are often important to the Clients' investment strategies and may have the effect of enhancing the ability of the Adviser and its affiliates to manage investments. However, such positions may have the effect of impairing the ability of the Client to sell the related securities when, and upon the terms, it may otherwise desire. In addition, such positions may place the Principals and other Adviser personnel in a position where they must make a decision that is either not in the best interests of the Client or not in the best interests of the other investors in the portfolio company. Should a Principal or other Adviser representative make a decision that is not in the best interest of the other investors in a portfolio company, such decision may subject the Adviser and the Clients to claims that they would not otherwise be subject to as an investor, including claims of breach of the duty of loyalty, securities claims and other director-related claims. In general, the Clients will indemnify the Adviser, the Principals and the other Adviser personnel from such claims. In addition, because of the potential conflicting fiduciary duties, the Adviser may be restricted in choosing investments for Clients, which could negatively impact returns received by the Clients.

From time to time, various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of the Adviser, its affiliates, and their personnel. The Adviser will endeavor to resolve conflicts with respect to investment opportunities in a manner it deems equitable to the extent possible under the prevailing facts and circumstances. The Adviser's affiliates and personnel may invest, on behalf of themselves, in securities and other instruments that would be appropriate for, held by, or may fall within the investment guidelines of a Client. The Adviser's affiliates and personnel may give advice or take action for their own accounts that may differ from, conflict with, or be adverse to, advice given or action taken on behalf of Clients. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for, one or more Clients. Potential conflicts also may arise due to the fact that the Adviser's affiliates and personnel may have

investments in some Clients but not in others or may have different levels of investments in the various Clients and their portfolio companies, and that each of the Clients may pay different levels of fees.

In addition, the Adviser may give advice or take action with respect to the investments of one or more Client that may not be given or taken with respect to other Clients with similar investment programs, objectives, and strategies. Accordingly, the Clients with similar strategies may not hold the same securities or instruments or achieve the same performance. The Adviser also may advise clients with conflicting investment objectives or strategies. These activities also may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more Clients.

Investors in each Client are advised to review the relevant Client's offering materials for more extensive descriptions of the risks of investing in the Client and the required procedures for resolving conflicts of interest.

- D. The Adviser does not recommend or select other investment advisers for its Clients.

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

- A. The Adviser has adopted a written Code of Ethics (the “Code”) designed to address and avoid potential conflicts of interest as required under Rule 204A-1 under the Advisers Act. The Code sets forth a standard of business conduct and compliance with federal securities laws by all of the Adviser’s employees. The Code contains policies and procedures that ensure that all personal securities trading by employees of the Adviser is conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an individual’s position of trust and responsibility. The Adviser prohibits personal trading on certain securities or instruments; requires pre-clearance of personal trades in certain circumstances, including purchases of an initial public offering or a new private placement; requires periodic reporting of employees’ personal securities transactions and holdings; and requires prompt internal reporting of Code violations.

As part of its Code, the Adviser has established procedures to prevent the abuse of material, non-public information, which includes procedures for, among other things, the use and maintenance of restricted trading lists. Because the structure of the Adviser would make information barriers impractical, the Adviser has not imposed information barriers to restrict the internal flow of possible material, non-public information. Thus, all professionals are deemed to be in receipt of material, non-public information, in all instances where any professional of the Adviser has received material, non-public information, and, therefore, may not trade on the basis of that information.

In addition to procedures to prevent the abuse of material, non-public information, the Code contains policies and procedures covering standards of conduct, political contributions, potential conflicts of interest (including but not limited to gifts, entertainment, and outside business activities of Adviser personnel), and Client and investor confidentiality. All employees of the Adviser must acknowledge the terms of the Code annually or as the Code is amended on an ongoing basis.

The Adviser will provide a copy of the Code to any investor or prospective investor upon request.

- B. Neither the Adviser nor any of its related persons recommend to Clients investments in which the Adviser or any related persons have a material financial interest.
- C. As managers or managing members of the general partners of each of the Clients and investors in the Clients, the Adviser and its related persons, including the Principals, have indirect beneficial interests in the securities owned by the Clients and will share in any profits and losses generated by the Clients’ investments. Subject to limitations set forth in the applicable Client partnership agreement, the Adviser and its related persons, including the Principals, may co-invest in the portfolio companies of its Clients, generally subject to a maximum percentage of the overall investment in such portfolio company by the Client and such co-investors. Co-investments by such related persons generally may not be on terms that are more favorable than those received by the applicable Client and those offered to the investors in the Client who are not related persons of the Adviser.
- D. See Item 11.C. above. Co-investments by the Adviser and its related persons are generally subject to limitations and restrictions set forth in the applicable Client partnership agreement,

including an overall cap on the relative size of such co-investments and requirements that such co-investments be made on terms no more favorable than those on which the Client invests and disposed of at the same time and on substantially the same terms as the Client disposes of its investment.

## **Item 12 - Brokerage Practices**

- A. The Adviser is responsible for implementing each Fund's investment objectives and strategies, as set forth in the applicable Fund's governing documents. On a limited basis, the Adviser may utilize broker-dealers to purchase investments for the Funds. When it does, the Adviser does so in accordance with its duty to seek best execution for the Funds. In selecting broker-dealers to effect securities transactions, the Adviser seeks to obtain best execution by considering factors including, but not limited to, execution quality, price, the level of service offered, reliability, and such other factors as the Adviser considers relevant and beneficial to its Funds. Furthermore, the Adviser does not use "soft" dollars received from broker-dealers from the purchase and sales of securities on behalf of its Clients.
  
- B. The Adviser does not aggregate the purchase or sale of securities for various client accounts.

### **Item 13 - Review of Accounts**

- A. The Adviser maintains comprehensive review procedures for the ongoing monitoring of the portfolio investments of its Clients and their financial plans. In terms of the investment process, the Adviser's investment professionals conduct an initial opportunity screening and detailed due diligence prior to pursuing an investment to ensure a reasonable basis for investment decisions. Pursuing an investment generally requires unanimous consent of the Client's investment committee. Following an investment, investment team members will be responsible for managing the asset and actively monitoring the value of investments and potential risks. In connection therewith, the Adviser conducts periodic reviews of all portfolio company investments held in each Client portfolio. The Adviser's investment and operational staff, including principals, vice presidents, senior associates, associates, operating partners and industry advisors, participate in the ongoing monitoring of Client portfolios, although responsibilities vary by individual.

Additionally, the Adviser will typically require board representation for certain portfolio company investments, providing greater opportunity to monitor Client investments.

- B. See Item 13.A. above.
- C. The Adviser provides written periodic reports to all Clients at a frequency determined by the partnership agreement or similar governing document of such Client, but at least annually. With respect to each Client, investors are generally provided with annual financial statements, an annual statement of aggregate realized gains, income, expenses and losses for the year and an annual overview of the applicable Client's portfolio. All Client investors will be provided with annual tax information necessary for the completion of U.S. federal, state and local income tax returns.

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

- A. The Adviser does not receive any economic benefit, including sales awards or prizes, from any third party for providing advisory services to its Clients.
- B. The Adviser may, from time to time, enter into an agreement with third-party placement agents. Such agreements provide for compensation to be paid to the placement agent for referring investors to the Adviser's Clients. Under this agreement, the placement agent will typically receive a percentage of the capital commitments attributable to each investor referred depending upon the specific circumstances. In such cases, details of the arrangement will be provided to the investor. Such arrangements will be in accordance with all applicable laws and regulations, including Rule 206(4)-3 of the Advisers Act. Compensation of placement agents will be as determined in a written agreement between the Adviser or its affiliate and the placement agent. Subject to the provisions of the applicable Client partnership agreement, placement agent compensation may be borne by the Adviser, typically as an offset against future management fees.

Representatives and employees of the Adviser and its affiliates may receive directors' fees for serving on the boards of Client portfolio companies. Serving on such boards may give rise to conflicts to the extent that an employee's fiduciary duties to a portfolio company as a director may conflict with the interests of one or more Clients, however, as the Clients will generally be significant shareholders of such companies, it is expected that such interests will generally be aligned.

## **Item 15 - Custody**

While it is the Adviser's practice not to accept or maintain physical possession of any Client assets, the Adviser is deemed to have custody of the Funds' assets under Rule 206(4)-2 of the Advisers Act, because the Adviser has the authority to deduct fees from the Funds' accounts and its affiliates act as the general partners and special limited partners of the Funds.

In order to comply with Rule 206(4)-2 of the Advisers Act, the Adviser utilizes the services of a bank or qualified custodian (as defined under Rule 206(4)-2 of the Advisers Act) to hold all of its Clients' assets. In accordance with Rule 206(4)-2, the Adviser also (a) engages an outside auditor to audit its Clients at the end of each fiscal year and (b) distributes the results of the audit in audited financial statements that are prepared in accordance with United States generally accepted accounting principles to all investors in its Clients within 120 days after the end of the relevant fiscal year.

## **Item 16 - Investment Discretion**

The Adviser has full discretionary authority with respect to investment decisions, and its advice with respect to its Clients is provided in accordance with the investment objectives and guidelines as set forth in their respective offering memoranda and governing documents. The offering documents of the Funds generally place various limitations on the general partners of the Funds regarding their management of the Funds, including: (i) the percentage of portfolio investments that the Fund may invest in any one portfolio company; (ii) the investment in pooled investment vehicles that require the Fund to pay management fees or performance-based fees to parties other than the Adviser and its affiliates; (iii) investments in derivatives for speculative purposes; (iv) the percentage of portfolio investments acquired by the Fund that are principally located outside of the United States; and (v) the percentage of portfolio investments acquired by the Fund that are public securities. Fund investors may also negotiate with the general partners in side letter agreements for more specific limitations applicable to such Fund investor, such as prohibited investments in specified countries. The Adviser is generally delegated the authority to consummate investments on behalf of the Clients by the terms of the limited partnership agreements of the Clients and the investment management agreements entered into between the Clients and the relevant general partners of the Funds.

Similarly, the Adviser's investment decisions and advice with respect to a managed account (if any) will be in accordance with the investment objectives and guidelines in such managed account's investment management agreement, as well as any other instructions provided by the Clients to the Adviser.

## **Item 17 - Voting Client Securities**

The Adviser votes its Clients securities on an extremely limited basis. The general partners or managers of the Clients have the authority to vote proxies regarding the Clients' accounts. The general partners of the Clients may have conflicts of interest where they have a substantial business relationship with a Client portfolio company and the failure to vote in favor of portfolio company management could harm the relationship of the general partners of the Client with portfolio company management. Conflicts may also arise in the event a senior executive of a Client portfolio company and a Principal or other Adviser representative have a significant personal relationship that could affect how the Adviser would vote on a matter relating to the Client portfolio company.

In the event that a material conflict of interest is identified in connection with the Adviser's or its affiliate's voting of Client securities, the Adviser's chief compliance officer or designee will take such steps as he or she deems necessary in order to determine how to vote the proxy in the best interests of the Client, including, but not limited to, consulting with the legal department, outside counsel, a proxy consultant or the investment professionals responsible for the relevant portfolio company. In each instance, when exercising their voting discretion, the general partners of the Clients seek to avoid any direct or indirect conflicts of interest between the respective Clients and their voting decision.

The Adviser may vote proxies on behalf of the Clients' holdings, but the Adviser does not vote proxies on a normal basis. Contact our office at 713-559-7110 for any questions about a particular solicitation.

**Item 18 - Financial Information**

- A. The Adviser does not require or solicit prepayment of any fees 6 months or more in advance.
- B. To the knowledge of the Adviser, there is no financial condition that is reasonably likely to impair the Adviser's ability to meet its contractual commitments to its Clients.
- C. The Adviser has not been the subject of a bankruptcy petition at any time during the past ten years.

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

The Adviser is an SEC-registered investment adviser. This Item 19 is not applicable.