

**Part 2A of Form ADV: *Firm Brochure***

**VSS FUND MANAGEMENT LLC**

400 Park Avenue, 17th Floor  
New York, NY 10022  
(212)-935-4990  
[www.vss.com](http://www.vss.com)

March 29, 2024

**This brochure ("Brochure") provides information about the qualifications and business of VSS Fund Management LLC ("VSS" or "the Firm" or "we"). If you have any questions about the contents of this Brochure, please contact us at (212) 935-4990. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.**

**VSS is an investment adviser registered with the SEC under Investment Advisers Act of 1940 (the "Advisers Act"). Registration does not imply any particular level of skill or training.**

**Additional information about VSS is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2            MATERIAL CHANGES**

VSS filed its most recent update to Form ADV Part 2A on March 31, 2023. This annual amendment to the Brochure does not contain any material changes but includes routine annual updating changes, clarifying changes, enhanced disclosures throughout Form ADV Part 2, and updated regulatory assets under management.

**Item 3            TABLE OF CONTENTS**

ITEM 2	MATERIAL CHANGES .....	2
ITEM 3	TABLE OF CONTENTS .....	3
ITEM 4	ADVISORY BUSINESS .....	4
ITEM 5	FEES AND COMPENSATION .....	6
ITEM 6	PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....	15
ITEM 7	TYPES OF CLIENTS .....	16
ITEM 8	METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	16
ITEM 9	DISCIPLINARY INFORMATION .....	19
ITEM 10	OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	20
ITEM 11	CODE OF ETHICS, PARTICIPATION IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....	21
ITEM 12	BROKERAGE PRACTICES .....	23
ITEM 13	REVIEW OF ACCOUNTS .....	24
ITEM 14	CLIENT REFERRALS AND OTHER COMPENSATION .....	25
ITEM 15	CUSTODY .....	25
ITEM 16	INVESTMENT DISCRETION .....	26
ITEM 17	VOTING CLIENT SECURITIES .....	26
ITEM 18	FINANCIAL INFORMATION .....	26

#### **Item 4            ADVISORY BUSINESS**

VSS Fund Management LLC (“VSS”), a Delaware limited liability company and a registered investment adviser, provides investment advisory services to private investment funds (collectively, “VSS Funds” or the “Funds”). VSS has been in existence since 1987. VSS’s ultimate principal owner is Jeffrey T. Stevenson.

The VSS private equity and private structured capital funds receive unfunded capital commitments from investors during the fundraising stage. Then the Funds are generally closed to new investors. From time to time thereafter, each Fund's respective "General Partner," one of our affiliates, will notify investors to make capital contributions, in proportion to their respective commitments, to enable the Fund to make investments and pay Fund expenses. The investment will have been identified and thoroughly vetted before each capital call through an extensive due diligence and negotiation process. The VSS Funds’ investments in portfolio companies are generally, but not exclusively, in private, illiquid securities.

VSS Equity Funds:

- VSS IV SPV L.P., VSS IV SPV Parallel, L.P., VSS IV SPV Parallel II, L.P. (collectively “VSS IV SPV”).

VSS Structured Capital Funds:

- VSS Mezzanine Partners, L.P. (“SC I”)
- VSS Structured Capital II, L.P. and VSS Structured Capital Parallel II, L.P. (collectively “SC II”)
- VSS Structured Capital – Annex Fund, L.P. (“SC Annex”)
- VSS Structured Capital III, L.P. and VSS Structured Capital Parallel III, L.P. (collectively “SC III”)
- VSS Structured Capital IV, L.P. and VSS Structured Capital Parallel IV, L.P. (collectively “SC IV”)

The VSS Funds are not required to register under the Investment Company Act of 1940, or register their securities under the Securities Act of 1933, relying upon certain exemptions available to issuers whose securities are not publicly offered. VSS manages the Funds on a discretionary basis in accordance with the terms and conditions of each Fund's partnership agreement and organizational documents.

The Funds focus on the business services, healthcare, and education industries (“Targeted Industries”). The VSS team has extensive, industry-specific, strategic, and transaction structuring experience that provides a critical perspective on portfolio company operating potential and strategic direction. This experience enables VSS to play a significant role in portfolio company management and operations while maintaining perspective on valuations, financing parameters, and exit/liquidation potential.

Over its more than 30-year investment history, VSS has developed a formal structured investment process that it has utilized across its private capital Funds. This process includes in-depth due diligence on each proposed investment and identifying exit options. After an investment is made, VSS works closely with portfolio company management to provide strategic operating and financial advice.

**A. VSS Equity Funds.** The investment objective of each of the VSS Equity Funds is to seek long-term capital appreciation over the course of the Fund's term, generally ten years from the final closing (subject to extension at the General Partner's sole discretion). Parallel funds have been created for VSS IV SPV L.P. to accommodate non-US and certain pension plan investors' requirements.

The Equity Funds have sought control positions in companies operating in the smaller end of the middle market that satisfied the following investment criteria: (a) strong, stable, and predictable cash flows, primarily from recurring sources of revenue; (b) enduring and valuable franchise positions well respected in their market niches; (c) above-average growth characteristics; (d) primary business activities that have significant barriers to competitive entry; (e) strong management teams with demonstrated success in their served market; (f) substantial potential for acquisition-oriented growth through a large number of identifiable add-on acquisitions; and (g) at the time of the Fund's exit, of being attractive for sale to a number of strategic buyers.

The "Investment Period" (generally five years from the final closing of investment commitments to the Fund) and the period during which contributions for investments by investors who made a previous investment ("Follow-on Investments") may be called has expired with respect to VSS IV SPV.

**B. VSS Structured Capital Funds.** The VSS Structured Capital Funds' investment objective is to seek long-term capital appreciation and current income returns over the course of each Fund's term, generally ten years from the final closing, subject to extension at the sole discretion of the General Partner. The investment strategy of the Structured Capital Funds is focused primarily on privately negotiated non-control junior capital investments in established, profitable, lower middle-market companies in the Targeted Industries. Parallel funds are generally created to accommodate the requirements of non-US and certain pension investors. As set forth above, VSS leverages its extensive industry knowledge and contacts to identify investment opportunities for the Structured Capital Funds. VSS may also identify opportunities for a Fund to make investments in different types or levels of equity or debt in portfolio companies held by another VSS Fund.

The Structured Capital Funds generally make investments supporting the following types of transactions:

- Acquisition financing to assist companies with specific transactions
- Liquidity events for owners, diversifying net worth and facilitating estate planning
- Organic growth initiatives, such as new product launches, geographic expansion, or capital expenditures projects

- Management buyouts
- Debt recapitalization

VSS has targeted companies for the Structured Capital Funds that it believes generate strong and stable cash flows, have enduring and valuable franchise positions, exhibit above-average growth characteristics, maintain a commitment to prudent leverage levels, and are led by strong management teams, which enjoy barriers to competitive entry. Typically, investments will be structured as subordinated notes with warrants but also include other forms of debt/equity hybrid instruments and other fixed income and equity security investments, such as notes, preferred stock, warrants, and common stock or debt instruments with equity conversion features. VSS seeks to structure each portfolio company investment in a manner that will result in a fixed return combined with an equity component, capturing the attributes of fixed income investing with the potential growth attributes of equity investing.

The Investment Period has expired with respect to SC I, SC II, SC Annex, and SC III. The partnership term is active with respect to SC III in which follow-on investments to current portfolio companies can be made. The Investment Period is active with respect to SC IV.

**C. Sub adviser.** VSS does not have a sub-adviser.

**D. Assets under Management.** As of December 31, 2023, VSS managed approximately \$960.8 million of regulatory assets on a discretionary basis. VSS does not manage any assets on a non-discretionary basis. All assets managed by VSS are owned by the VSS Funds, and VSS does not currently manage any separate accounts.

**E. Important Additional Considerations.** The information provided herein merely summarizes certain aspects of the detailed information contained in each Fund's partnership agreement and organizational documents. Each of the Funds described above is closed and is not admitting new investors. Current Fund investors and prospective investors in any new Fund launched by VSS should be aware of the substantial risks associated with an investment as well as the terms applicable to such investment. The Fund offering, and organizational documents provide these risks and other detailed information.

## **Item 5 FEES AND COMPENSATION**

As described below, VSS earns management fees for its services to the Funds. In addition, each Fund's General Partner will be entitled to receive carried interest, a form of performance-based compensation, as described below.

Until termination of the Investment Period of each Fund or, if earlier, the final closing of investment commitments to a successor fund, the management fee is based upon a percentage of each investor in the Funds ("Limited Partner")'s capital commitment to the Fund; thereafter, the management fee is based upon the cost basis of remaining portfolio companies (less the amount of any permanent write-downs).

After the General Partner or any of its affiliates have recovered advanced costs and expenses not otherwise reimbursed, management fees are generally reduced by a percentage of the transaction, break-up, and similar fees paid to VSS or its affiliates by portfolio companies as outlined below. A break-up fee is a contingent fee in an acquisition agreement that requires a selling company to pay a percentage of the deal if the company backs out of the agreement to sell to the Fund.

Management fees are payable quarterly. Carried interest is calculated and allocated upon the receipt of proceeds from the sale of a portfolio company or the realization or recapitalization of an investment or dividend.

Below is a summary of the management fees and carried interest charged to the VSS Funds. Limited Partners should refer to the appropriate Fund partnership agreement for detailed fees and fee offsets. Any new Fund launched by VSS may or may not have similar or materially different terms than those summarized below.

#### **VSS IV SPV**

**A. Management Fee.** The partnership term has ended and no further management fees have been collected.

To the extent any fees remain after the management fee (e.g. transaction fees), these fees are retained by the management company or its affiliates.

**B. Carried Interest.** For Limited Partners that rolled their interest from VSS Communications Partners IV into VSS IV SPV ("VSS IV Rolled Partners"), distributions on each investment transaction are allocated as follows:

- a) Return of capital and costs: First, 100% to such VSS IV Rolled Partner until such VSS IV Rolled Partner shall have received an amount pursuant to this clause sufficient to provide for a return of the aggregate capital contributions (including deemed capital contributions) actually paid by such VSS IV Rolled Partner to date;
- b) Preferred return: Second, 100% to such VSS IV Rolled Partner until such VSS IV Rolled Partner shall have received an amount sufficient to provide for a cumulative compound annualized rate of return of 8% to such VSS IV Rolled Partner in respect of the amount set forth in the first clause;
- c) General Partner catchup: Third, 100% to the General Partner until the cumulative incentive distributions paid to the General Partner shall equal 20% of the cash profit distributed to such VSS IV Rolled Partner and the General Partner pursuant to this clause, the second clause and the fourth clause below; and
- d) 80/20 split: Fourth, 80% to the VSS IV Rolled Partner, and 20% to the General Partner.

For the Limited Partners that are not VSS IV Rolled Partners ("VSS IV Partners"), distributions will be made to each VSS IV Partner and the general partner (in respect of its carried interest) participating in such investment in the following amounts and order of priority:

- a) Return of capital and costs: First, 100% to such VSS IV Partner until such VSS IV Partner shall have received an amount pursuant to this first clause sufficient to provide for a return of the aggregate capital contributions actually paid by such VSS IV Partner to date;
- b) Preferred return: Second, 100% to such VSS IV Partner until such VSS IV Partner shall have received an amount sufficient to provide for a cumulative compound annualized rate of return of 8% to such VSS IV Partner in respect of the amount set forth in (a);
- c) General Partner catchup: Third, 100% to the General Partner until the cumulative amount distributed to the General Partner pursuant to this third clause equals 10% of the cumulative amounts distributed to such VSS IV Partner pursuant to (b) and to the General Partner pursuant to this third clause;
- d) 90/10 split: Fourth, 90% to such VSS IV Partner and 10% to the General Partner until such VSS IV Partner shall have received an amount sufficient to provide for (x) a cumulative compound annualized rate of return of 15% to such VSS IV Partner, and (y) a multiple of 1.5x on its aggregate capital contributions from distributions to such VSS IV Partner made with respect to any and all portfolio investments, including the current distribution under this fourth clause;
- e) General Partner catchup: Fifth, 100% to the General Partner until the cumulative amount distributed to the General Partner pursuant to this fifth clause equals 15% of the cumulative amounts distributed to such VSS IV Partner pursuant to the second and fourth clauses above and to the General Partner pursuant to (c) and (d) and this clause fifth;
- f) 85/15 split: Sixth, 85% to such VSS IV Partner and 15% to the General Partner until such VSS IV Partner shall have received an amount sufficient to provide for a multiple of 2.0x on its aggregate capital contributions from distributions to such VSS IV Partner made with respect to any and all portfolio investments, including the current distribution under this sixth clause;
- g) General Partner catchup: Seventh, 100% to the General Partner until the cumulative amount distributed to the General Partner pursuant to this seventh clause equals 20% of the cumulative amounts distributed to such VSS IV Partner pursuant to the second, fourth, and sixth clauses above and to the General Partner pursuant to the (c), (d) and (e) and this clause seventh; and
- h) 80/20 split: Eighth, 80% to such VSS IV Partner and 20% to the General Partner.

Investors should understand the proposed method of compensation and its risks prior to investing in any future VSS Fund. Prospective investors in any new Fund launched by VSS should refer to the Fund offering and organizational documents for information regarding the fees to which VSS and its affiliates will be entitled.

## SC I

**A. Management Fee.** The partnership term has ended, and no further management fees have been collected.



All transaction fees are retained by the management company or its affiliates.

**B. Carried Interest.** In general, proceeds from realized sales or dividends will be distributed as follows. The Limited Partners will receive first:

- a return of all investment costs of all realized investments plus permanent write-downs of unrealized investments;
- all expenses and fees allocated to the above investments; and
- a 7% preferred return on the capital contributions for investments and specified partnership expenses, compounded annually.

after which distributions will be made:

- 80% to the General Partner and 20% to Limited Partners until the General Partner has received its 20% on profits; and thereafter,
- 80% to all Limited Partners and 20% to the General Partner.

## SC II

**A. Management Fee.** The partnership term has ended, and no further management fees have been collected.

To the extent any fees remain after the management fee (e.g. transaction fees), these fees are returned to the Fund.

**B. Carried Interest.** In general, proceeds from realized sales or dividends will be distributed as follows. The Limited Partners will receive first:

- a return of all investment costs of all realized investments plus write-downs of unrealized investments; and
- all expenses and fees allocated to the above investments; and
- an 8% preferred return on the capital contributions for investments and specified partnership expenses, compounded annually;

after which distributions will be made:

- a) 80% to the General Partner and 20% to Limited Partners until the General Partner has received its 20% on profits; and thereafter,
- b) 80% to all Limited Partners and 20% to the General Partner.

## SC Annex

**A. Management Fee.** The partnership term has ended and no further management fees have been collected. To the extent any fees remain after the management fee (e.g. transaction fees), these fees are returned to the Fund.

**B. Carried Interest.** Distributions will be made to each limited partner and the general partner (in respect of its carried interest) participating in such investment in the following amounts and order of priority:

- a) Return of capital: First, 100% to the Limited Partners in proportion to their respective capital percentages in such investment until each has received distributions pursuant to this clause (a) equal to their respective aggregate capital contributions including those attributable to (i) all investments and (ii) SC Annex Fund expenses;
- b) 8% Preferred return: Second, 100% to the Limited Partners in proportion to their respective capital percentages until the cumulative distributions to the Limited Partners represents an 8% compounded annual rate of return on the amounts included in paragraph (a) (the "Base Preferred Return");
- c) General Partner base catch-up: Third, (i) 100% to the General Partner as a carried interest until the general partner has received under this clause (c) 15% of the sum of the amounts distributed pursuant to clause (b) above and this clause (c); and
- d) 1.25x Incremental Preferred Return: Fourth, 85% to the Limited Partners in proportion to their respective capital percentages and 15% to the general partner until the cumulative distributions to the Limited Partners represent a 1.25x return on the amounts included in paragraph (a) (the "Incremental Preferred Return");
- e) General Partner Incremental Catch-Up: Fifth, (i) 80% to the general partner as a carried interest and 20% to the Limited Partners until the general partner has received under this clause (e) a total of 20% of the sum of the amounts distributed pursuant to clause (b), (c), (d) above and this clause (e); and
- f) 80/20 Split: Thereafter, 80% to the Limited Partners in proportion to their respective capital percentages and 20% to the general partner. Appropriate adjustments will be made to subsequent distributions in the event that a hurdle that was satisfied subsequently ceases to be satisfied.

### SC III

**A. Management Fee.** During the investment period, the management fee for SC III has been calculated based on 1.75% of the total capital commitments of the Limited Partners. Upon termination of the Investment Period, the management fee for SC III was 1.75% of the Limited Partners' pro rata share of the aggregate acquisition costs of the remaining investments held by the partnership less permanent write-downs payable quarterly in advance. The investment period for SC III ended on December 31, 2022.

Break-up fees and transaction fees are credited 100% against the management fee.

**B. Carried Interest.** In general, proceeds from realized sales or dividends will be distributed as follows. The Limited Partners will receive first:

- a return of all investment costs of all realized investments plus write-downs of unrealized investments;
- all expenses and fees allocated to the above investments; and

- an 8% preferred return on the capital contributions for investments and specified partnership expenses, compounded annually;

after which distributions will be made:

- a) 80% to the General Partner and 20% to Limited Partners until the General Partner has received its 20% on profits; and thereafter,
- b) 80% to all Limited Partners and 20% to the General Partner.

#### SC IV

**A. Management Fee.** Until the end of the Investment Period, the management fee for SC IV is 1.75% annually (0.4375% quarterly) of the Limited Partners' capital commitment payable quarterly in advance. Thereafter, the management fee shall be 1.75% of the Limited Partners' pro rata share of the aggregate acquisition costs of the remaining investments held by the partnership, less permanent write-downs payable quarterly in advance. Per the Fund's partnership agreement terms, certain Limited Partners may receive management fee reductions.

Break-up fees and transaction fees are credited 100% against the management fee.

**B. Carried Interest.** In general, proceeds from realized sales or dividends will be distributed as follows. The Limited Partners will receive first:

- a return of all investment costs of all realized investments plus write-downs of unrealized investments;
- all expenses and fees allocated to the above investments; and
- an 8% preferred return on the capital contributions for investments and specified partnership expenses, compounded annually;

after which distributions will be made:

- a) 100% to the General Partner until the General Partner has received its 20% on profits; and thereafter,
- b) 80% to all Limited Partners and 20% to the General Partner.

Investors should understand the proposed method of compensation and its risks prior to investing in any VSS Fund. Prospective investors in any new Fund launched by VSS should refer to the Fund offering and organizational documents for information regarding the fees to which VSS and its affiliates will be entitled.

#### General Information

**A. Investments in Funds.** The General Partner of each Fund is affiliated with VSS through common ownership and control as well as shared executive officers. The General Partner of each Fund will generally participate in the Fund's investments by investing directly

in the Fund. With respect to existing VSS Funds, a portion of this participation will be effected by reducing the management fee otherwise payable to VSS. Partners and employees of VSS are the members of the General Partner of each Fund, make capital contributions to the General Partner to enable it to make its capital contributions to the Fund, and are entitled to share in the carried interest in the Fund (generally in proportion to their capital commitments to the General Partner).

**B. Co-Investments.** VSS or a Fund's General Partner is authorized to make a co-investment opportunity available to a third-party, including a Limited Partner or prospective investor as determined appropriate and in the best interest of the Funds. VSS applies its discretion when allocating such opportunities among potential co-investors, taking into account among other things, a co-investor's ability to execute and fund a transaction quickly, strategic benefits that may arise from being associated with a co-investor, the value that such co-investor or its representatives may add to a portfolio company such as through board representation, the amount of capital that such co-investor has or may commit to the funds and whether the co-investor has expressed an interest in co-investments. Certain co-investment opportunities will be allocated to third parties primarily when the third-party sourced or introduced the investment to VSS.

As permitted by the limited partnership agreement ("LPA") of each Fund, certain executive officers and employees of VSS also have direct investments in one or more of the underlying portfolio companies through separate, affiliated entities formed for co-investment purposes.

The Funds' investments require extensive due diligence activities prior to an acquisition, and the related expenses may be quite substantial. In general, such co-investors do not bear expenses (such as management fees, administrative expenses, and expenses associated with proposed investments that are ultimately not made by the funds) that other investors in a fund may bear unless such expenses are attributable to an investment (or investment vehicle) in which such co-investors have invested. Should the investment not be consummated, such expenses will generally be borne solely by the Funds, even if co-investors were being sought and, in some cases, agreed to participate had the transaction been consummated.

**C. Write-Downs.** As disclosed above, following a Fund's investment period, management fees collected by us are calculated based on the pro rata share of the aggregate acquisition costs of the remaining investments held by the partnership less write-downs, which are defined as significant and permanent declines in value. Investments are reviewed quarterly by the Firm's "Investment Committee" for significant and permanent impairment. As a result of this fee calculation methodology, a conflict of interest is created whereby VSS has an incentive to not write-down valuations of portfolio companies as may or may not otherwise be dictated by available market data and prudent fair valuation techniques.

To address this conflict, we have adopted detailed Valuation Policies and Procedures, which are tested and documented on a periodic basis by the Chief Financial Officer and reviewed by the Firm's Investment Committee. Significant and permanent write-downs, if any, are reviewed and approved with the concurrence of the relevant Fund's Investor Advisory Committee. In addition, portfolio company valuations are reviewed on at least an annual basis

by an independent certified public accountant that is both registered with and subject to regular inspection by the Public Companies Accounting Oversight Board ("PCAOB"). A copy of the audited financials is sent to each investor within 120 days after each Fund's fiscal year end.

**D. Clawbacks.** In accordance with the terms of each Fund's LPA, upon termination of the Fund, carried interest distributions made to its General Partner are subject to clawback with respect to the amount by which they exceeded the amounts to which the General Partner was entitled as carried interest, determined on an aggregate basis covering all transactions.

**E. Lock-Up.** Except as set forth in a Fund's partnership agreement, an investor in a Fund may not rescind any part of its capital commitment or otherwise withdraw from the Fund. Private equity/private structured capital fund investing is only for those who can afford to have capital locked up for long periods of time and who are able to bear the risk of significant losses.

Investors in each Fund should refer to the Fund's LPA for complete information regarding lock-ups and penalties or other consequences for failure to comply with capital calls made by the Fund.

**F. Other Fees and Expenses.** Organizational expenses include but are not limited to legal, accounting, printing, consultation, travel, tax preparation and planning fees, secure online document sharing fees, administrative and filing fees and expenses. Any organizational fees in excess of the specified amount in the Fund documents will be offset to the management fee. No Fund is responsible for or otherwise incurs any of the organizational expenses of any other Funds.

Placement fees charged by any finder, broker-dealer, solicitor, or other persons engaged for the marketing and sale of limited partner interests in the Fund will be offset 100% to the management fee.

Other fees and expenses allocable to the Funds include, but are not limited to: expenses and liabilities relating to portfolio investments (whether or not consummated and including all payments made by the Fund in satisfaction of indemnity obligations incurred in connection with the disposition of a portfolio investment); temporary investments and indebtedness or guarantees (including interest); reasonable premiums for insurance protecting the Fund, the General Partner, any of their affiliates, and any of their employees and agents from liabilities to third-parties in connection with Fund affairs; legal and accounting expenses; expenses of any third-party administrator; auditing expenses; insurance premiums (including directors and officers insurance premiums); appraisal expenses; expenses related to organizing companies (including alternative investment vehicles) through or in which portfolio investments will be made (except to the extent such expenses are deemed by the General Partner, in its sole discretion, to constitute part of the acquisition cost of such portfolio investments); all taxes payable by the Fund; and all costs and expenses that are classified as extraordinary expenses under generally accepted accounting principles.

In addition to the expenses paid by a Fund, the portfolio company will also be charged directly for certain expenses listed above.

VSS investment professionals closely monitor the portfolio companies' business activities and frequently provide strategic advice and access to industry resources. VSS investment professionals review financial plans and budgets and frequently serve as directors or board observers of portfolio companies in which VSS has a controlling interest. VSS professionals will not receive direct compensation for these positions. However, VSS will charge annual monitoring fees to certain portfolio companies up to \$250,000 a year to provide strategic advice to the portfolio company. Annual monitoring fees are negotiated and agreed upon with the portfolio company at the time of investment. As indicated in the Fund governing documents, these monitoring fees will not offset the Fund's management fee. However, any monitoring fees above \$250,000 are offset against the management fee.

VSS will select its clients' service providers (including lenders, brokers, attorneys, and investment banking firms) and will determine the compensation of such providers without review by, or the consent of, an advisory board, the investors, or an independent party. VSS's Funds, regardless of their relationship to VSS, bear the fees, costs, and expenses related to such services as provided for in the Fund's respective LPA; this may create an incentive for VSS to select service providers based on the potential benefit to VSS, rather than to the Funds. VSS may also contract for services to be performed by portfolio companies owned by the Funds.

VSS will also use "independent sponsors" to source some of its portfolio investments. In instances where an independent sponsor is utilized, additional fees will be paid by the Funds and the portfolio company to the independent sponsor in addition to the fees paid to VSS, unless otherwise noted in the Fund's respective LPA.

VSS addresses these conflicts of interest by using reasonable diligence to ascertain whether each service provider (including law firms) provides its service on a "best execution" basis, taking into account factors such as expertise, operational and regulatory controls, availability, and quality of service and the competitiveness of compensation rates in comparison with other service providers satisfying VSS's criteria. All service provider agreements will be made at arms-length with unaffiliated, independent third-party service providers.

**G. Side Letters.** VSS or the General Partners of the respective Funds have entered into side letters with certain large or strategic investors, and may again in the future concerning new funds. These letters provide for various terms that differ from those described in the Private Funds' PPMs, which waive or modify certain terms, including but not limited to, management fee reduction, co-investment opportunities, increased transparency, and more frequent, varied formats, or modes of portfolio reporting.

**H. General.** Prospective investors in future VSS funds should refer to those funds' offering and organizational documents for additional important information, terms, conditions, and risks involved with investing in the Fund(s).

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

As discussed in Item 5 of this Brochure, each Fund's General Partner, an affiliate of VSS through common ownership and control, will receive carried interest, a form of performance-based profits interest. Such a performance-based profits interest is calculated based on a share of aggregate realized profits on assets of the Fund (subject to return on invested capital and a preferred return on invested capital as outlined in the applicable Fund's partnership agreement).

Investors in the Funds, and prospective investors in any new Fund launched by VSS, should note that performance-based profits interest, in some contexts, could create an incentive for an adviser such as VSS to recommend investments that may be riskier or more speculative than those which would be recommended under a different fee arrangement. However, the long-term nature of private equity/private debt fund investing mitigates such risk because carried interest is calculated based on realized—not unrealized—gains, leading VSS to focus on fundamentals when making investment and add-on investments for the Funds. In addition, the General Partner also puts its own funds at risk.

At this time, we do not offer advisory services to clients who do not pay performance-based compensation. Therefore, we do not have an incentive to favor performance-based fee accounts over non-performance-based fee accounts. However, in theory, we could have the incentive to favor a Fund in which officers and employees of the Firm and General Partner have more of their personal assets invested. Since we always endeavor to put the interest of the Funds first, we take the following steps to address these potential conflicts:

1. We collect, maintain, and document accurate, complete, and relevant investor background information to ensure that investment in a Fund is appropriate for the investor's financial goals, objectives, and risk tolerance and that the investor is qualified to invest;
2. Under the terms of each Fund's LPA, we will have substantially (though not necessarily entirely) completed the investment phase of one Fund before the launch of a new Fund with similar investment goals and objectives;
3. With respect to Funds managed in parallel and those other limited situations where an "add-on" or other investment may be appropriate for more than one of the Funds, we have implemented procedures for fair and consistent allocation of investment opportunities among the Funds in the case of co-investments, and the Limited Partners, subject to the Funds' maturity or stage of investment, availability of remaining capital commitments, availability of interests in the underlying portfolio companies, and other appropriate considerations;
4. With respect to cross-fund investments, where guidelines are not provided in a Fund's LPA, the General Partner will inform the Funds' Investor Advisory Committees of the transaction;

5. Compliance training sessions educate our employees on the responsibilities of a fiduciary, including the equitable treatment of all clients, regardless of the fee arrangement; and
6. We disclose to investors and prospective investors the potential for material conflicts of interest.

Performance-based compensation will only be charged in accordance with the provisions of Rule 205-3 of the Advisers Act and applicable state regulations.

## **Item 7            TYPES OF CLIENTS**

We provide investment management services to several private equity/private debt funds, as disclosed in Item 4 of this Brochure. The minimum required capital commitment to the Funds ranges from \$5 million to \$20 million. Capital commitments of lesser or higher amounts may be accepted at the sole discretion of the General Partner. Prospective investors in any new Fund launched by VSS should refer to the Fund offering documents for information regarding that Fund's minimum required capital commitment and any additional qualifications needed for investment.

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

VSS senior professionals' frequent interaction with owners and senior executives of companies helps us to identify investment opportunities for the Funds. From time to time, VSS also engages traditional investment banks or brokers to generate investment opportunities and/or sales of portfolio companies. Finally, due to our reputation as an investment firm focused on the Targeted Industries and a value-added partner to our portfolio companies, entrepreneurs and transaction sponsors often approach VSS as a resource for financing.

As adviser to the Funds, the Firm primarily invests in securities issued by private companies. As a result, traditional securities analysis is not possible when formulating investment recommendations. Instead, we rely on a robust due diligence process of prospective portfolio companies in determining which to invest in on behalf of the Funds as outlined below. Since VSS will invest in securities that are not traded in any market or exchange, many of these investments may be held by relatively few investors or have low trading volumes. Under adverse market or economic conditions or in the event of adverse changes in the issuer's financial condition, VSS may find it difficult to sell such instruments. Consequently, VSS may be forced to sell at prices lower than if the instruments were widely held or more actively traded. In addition, VSS may not be able to sell the investment, resulting in a total loss.

VSS employs a disciplined investment process in evaluating potential investments and performs a rigorous analysis of potential portfolio companies' historical and prospective



performance. Our due diligence investigation is comprehensive and includes: (a) detailed financial and operational analyses; (b) extensive management meetings; (c) primary industry, served market, technology, and competitive research; (d) customer calls and reference checks; and (e) other company and sector-specific analyses. The due diligence process is designed to verify our investment thesis by thoroughly understanding the company's strategy, market position, operations, and management expertise. In addition, during the due diligence process, which includes the identification of both acquisition candidates and potential strategic buyers, and exit options are identified prior to making any investment.

Our due diligence process is intended to ensure that each deal team benefits from our senior investment professionals' experience. They have devoted substantial portions of their careers to the particular business activity in which the prospective portfolio company is engaged. In addition, VSS has built a network of lawyers, accountants, information technology, and due diligence professionals and consultants with expertise in the Targeted Industries. They work with VSS to advise on certain Fund investments from time to time.

VSS professionals also provide guidance to portfolio companies based upon our team of investment professionals' collective experience. VSS believes its depth of industry expertise makes us a preferred partner for a lower middle-market company. Through their prior experiences and industry knowledge, VSS professionals are able to add insight and value through strategic, operating, and financial recommendations to maximize growth and profit potential. VSS often introduces add-on acquisition candidates, provides advice on the timing of asset/subsidiary divestitures, and exit strategies, consults on financial structuring issues, and generally provides a knowledgeable yet objective perspective to operating decisions. In addition, VSS may introduce board members with specific industry knowledge to a portfolio company. This knowledge and experience can be leveraged to assist a portfolio company in defining strategic direction, refining product line expansion, identifying add-on acquisitions, evaluating competitors, and facilitating strategic introductions and alliances.

VSS professionals have sought and obtained seats on portfolio companies' board of directors or board observation rights with most of its investments for the Funds. In their capacities as directors or officers of portfolio companies, they will be required to make decisions that consider the portfolio companies' best interests and their respective shareholders. For example, in certain circumstances involving bankruptcy or near-insolvency of a portfolio company, actions that may be in the best interests of the portfolio company may not be in the best interests of the respective Fund, and vice versa. Accordingly, in these situations, there will be conflicts of interest between such an individual's duties as an employee of VSS and duties as a director or officer of such portfolio company. VSS professionals will not receive direct compensation for these positions, but the Firm will receive monitoring fees for providing strategic advice to certain portfolio companies.

**A. Risks of Long-Term Investing through Private Equity/Private Structured Capital Funds.** One of the primary risks of a long-term investment strategy is that, if our predictions are incorrect, a company could decline sharply in value before we make the decision to sell. This risk is particularly pronounced due to the absence of an immediate and liquid market for these investments. In addition, any sale of such investment will typically take some time to

complete. The company, its competitors, or its industry may behave in ways that were not—and in some cases, could not have been—predicted, leading to significant losses and/or a lack of any attractive exit option.

In addition, as we do not control the management of all portfolio companies, the management of these companies may act in ways that are contrary to our advice and plans for their growth or profitability.

**B. Investment Risks in General.** Securities investments are not guaranteed, and investors in the Funds may lose money on their investments. Investors or prospective investors in the Funds should carefully review the detailed explanation of the many risks associated with investment as provided in the relevant Fund's offering memorandum.

**C. Cybersecurity and Business Continuity Risks.** VSS, its service providers, and portfolio companies are subject to risks associated with a cybersecurity breach. A cybersecurity breach could expose VSS, its Funds, and its portfolio companies to substantial costs, civil liability, as well as regulatory inquiry and/or action. While VSS has established a business continuity plan including risk management strategies, systems, policies, and procedures to seek to prevent cybersecurity breaches, there are inherent limitations in such plans, strategies, systems, policies, and procedures, including the possibility that certain risks have not been identified. Furthermore, VSS cannot control the cybersecurity plans, strategies, systems, policies, and procedures put in place by other service providers or portfolio companies in which the Funds invest.

**D. Force Majeure.** Portfolio 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 nature, fire, flood, earthquakes, outbreaks of 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 and construction, accidents, demographic changes, government macroeconomic policies, social instability, etc.). Some force majeure events may adversely affect the ability of a party (including a portfolio investment or other service provider) to perform its obligations until it is able to remedy the force majeure event. Force majeure events that are incapable of or too costly to cure may permanently adversely affect portfolio investments. 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 or in any of the countries in which VSS's private funds may invest specifically. Additionally, a major governmental intervention into industry, including the nationalization of an industry or the assertion of control over one or more portfolio companies or its assets, could result in a loss to VSS private funds, including if the investment is canceled, unwound, or acquired (which could be without adequate compensation). Prolonged changes in climatic conditions may significantly impact the revenues, expenses, and conditions of certain VSS private fund investments. While the precise future effects of climate change are unknown, it is possible that climate change could affect precipitation levels, droughts, wind levels, annual sunshine, sea levels, and the severity and frequency of storms and other severe weather events. These natural occurrences could cause certain portfolio investments and other service providers to

incur expenses to prevent damages. Therefore, any of the foregoing may adversely affect the performance of VSS private fund and their investments.

**E. Financial Institution Risk; Distress Events.** An investment in a Fund is subject to the risk that one of the Fund's banks, brokers, hedging counterparties, lenders or other custodians of some or all of the Fund's assets (each, a "Financial Institution") fails to perform its obligations or experiences insolvency, closure, receivership or other financial distress or difficulty (each, a "Distress Event"). Distress Events can be caused by factors including eroding market sentiment, significant withdrawals, fraud, malfeasance, poor performance or accounting irregularities. In the event a Financial Institution experiences a Distress Event, VSS, the Funds and/or their portfolio companies may not be able to access deposits, borrowing facilities or other services for an extended period of time or ever. Although assets held by regulated Financial Institutions in the United States frequently are insured up to stated balance amounts by organizations such as the Federal Deposit Insurance Corporation ("FDIC"), in the case of banks, or the Securities Investor Protection Corporation ("SIPC"), in the case of certain broker-dealers, amounts in excess of the relevant insurance are subject to risk of loss, and any non-U.S. Financial Institutions that are not subject to similar regimes pose increased risk of loss. Although in recent years governmental intervention has resulted in additional protections for depositors, there can be no assurance that governmental intervention will be successful or avoid the risk of loss, substantial delays or negative impact on banking or brokerage conditions or markets.

Any Distress Event has a potentially adverse effect on the ability of VSS to manage the Funds and their investments, and on the ability of VSS, any Fund and/or portfolio companies to maintain operations, which in each case could result in significant losses and unconsummated investment acquisitions and dispositions. Such losses have the potential to include a Fund to pay fees and expenses in the event the Fund is not able to close a transaction (whether due to the inability to draw capital on a credit line provided by a Financial Institution experiencing a Distress Event, the inability of investors to make capital contributions or otherwise), as well the inability of a Fund to acquire or dispose of investments at prices that the relevant General Partner believes reflect the fair value of such investments and/or the inability of portfolio companies to make payroll, fulfill obligations and maintain operations. Although VSS expects to exercise contractual remedies under the agreements with Financial Institutions in the event of a Distress Event, there can be no assurance that such remedies will be successful or avoid losses or delays.

## **Item 9            DISCIPLINARY INFORMATION**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

In September 2018, VSS and Jeffrey Stevenson, owner and managing partner of VSS, submitted, and the SEC accepted, an offer to settle an administrative proceeding relating to the alleged failure to provide Limited Partners in a private fund managed by VSS with

preliminary information relating to a potential change in the value of the fund's assets in connection with an offer by Mr. Stevenson to purchase limited partnership interests of a 1998 fund that had invested approximately \$900 million and distributed approximately \$1.36 billion in capital with \$6.8 million in remaining net asset value ("NAV"). Without admitting or denying the allegations, VSS and Mr. Stevenson consented to the SEC's entry of an administrative order ("Order"). According to the Order, after several Limited Partners expressed a desire for liquidity, the VSS Investment Committee decided, in late April 2015, to dissolve VS&A Communications Partners III, L.P. ("Fund III") in its seventeenth year, which held two remaining portfolio companies, through a distribution in-kind. A simultaneous cash offer was presented to the Limited Partners in which Mr. Stevenson proposed to purchase the interests in the Fund at its last audited NAV from December 2014. According to the Order, the majority of the Limited Partners promptly accepted the offer. In mid-May, in part in response to questions from some Limited Partners expressing a desire to remain invested in the Fund, VSS revised the offer presented to the Limited Partners to provide that the Limited Partners could remain in the fund or accept Mr. Stevenson's offer to purchase their limited partnership interests, at the same price offered in April. According to the Order, however, VSS and Mr. Stevenson neglected to disclose that on May 1, they had received information indicating that the Fund III NAV had potentially increased. The Order also finds that the omission of information regarding the potentially significant increase of Fund III's NAV in the first quarter of 2015 from the 2014 year-end NAV caused certain statements made to the Limited Partners by VSS and Mr. Stevenson to be materially misleading. Pursuant to the Order, VSS and Mr. Stevenson were censured, ordered to cease and desist from violations of Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder, and ordered to pay a \$200,000 fine. A copy of the Order can be found at: <https://www.sec.gov/litigation/admin/2018/ia-5001.pdf>

## **Item 10        OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

VSS's ultimate principal owner is Jeffrey T. Stevenson via an intermediate entity, VSS Capital Partners.

Each of the Funds has a separate General Partner, and each General Partner is related to VSS through common ownership and control. Each General Partner typically shares many of the same executive officers with each other and with VSS.

- VSS Equities IV SPV, LLC serves as General Partner of VSS IV SPV;
- VSS Mezzanine, LLC serves as General Partner of SC I;
- VSS Structured Capital II, LLC serves as General Partner of SC II;
- VSS Structured Capital – Annex, LLC serves as General Partner of SC Annex;
- VSS Structured Capital III, LLC serves as General Partner of SC III; and
- VSS Structured Capital IV, LLC serves as the General Partner of SC IV.

Each General Partner of a Fund will be entitled to any carried interest in that Fund pursuant to the terms and conditions set forth in the appropriate Fund partnership agreement. Any such carried interest will ultimately inure to the benefit of the owners and employees of VSS.

As disclosed above, related persons of the Firm will serve as directors and officers and provide advice to publicly traded companies and private companies. Investors should be aware that receipt of material non-public information by the Firm's related persons regarding these companies could preclude VSS from effecting transactions in the securities of such companies. As stated above, no direct compensation will be received by associated persons of the Firm for directorships with the Funds' portfolio companies. However, VSS will charge annual monitoring fees to certain portfolio companies up to \$250,000 a year to provide strategic advice to the portfolio company. Any monitoring fees above \$250,000 are offset against the management fee.

The Firm will engage the services of certain portfolio companies that are held by the Funds. VSS engages such portfolio companies as any other customer and is not aware of any discounts or other favorable treatment provided in exchange for such services.

In addition to the full-time investment professionals of the firm, the Firm engages the services of consultants to work actively with the firm on sourcing and evaluating new transactions, as well as providing strategic insights related to portfolio company matters. These advisors are not partners or employees of VSS or any of its affiliates. The compensation of such advisors is generally borne by VSS or the portfolio company. These advisors are paid a monthly retainer, offered co-investments opportunities, and may receive a portion of the profits generated by a liquidity event with respect to a portfolio company thereby reducing the amounts available for distribution to the Funds. On occasion, advisors may serve on the board of directors for certain portfolio companies and may be paid directly by such portfolio companies as a form of compensation. Any such compensation will be retained by such advisors and will not reduce the management fees with respect to the Fund owning such portfolio company.

#### **Item 11        CODE OF ETHICS, PARTICIPATION IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

The Firm has adopted a Code of Ethics that sets forth the ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. The Firm's Code of Ethics includes policies and procedures for the review of quarterly personal securities transactions reports and initial and annual securities holdings reports that must be submitted by the Firm's associated persons. The Code of Ethics also requires the prior approval of any employee's acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. The Code of Ethics provides for oversight, enforcement, and recordkeeping. A copy of the Code of Ethics is available upon request to the Chief Compliance Officer, at the Firm's principal office address.

As disclosed in Item 5 of this Brochure, certain executive officers and/or other employees of VSS have invested a portion of their personal assets in one or more of the Funds. In addition, certain investment professionals or advisors of VSS have, as provided in the Funds' respective partnership agreement, direct side by side co-investment in one or more of the portfolio

companies in which the Funds have invested.

No person employed by VSS or any of its affiliates may usurp an investment opportunity that may be appropriate for one or more of the Funds without first presenting the opportunity to the Investment Committee, particularly when there is limited availability for participation in the opportunity.

As these situations represent a conflict of interest, we have established the following restrictions in order to ensure its fiduciary responsibilities:

1. No officer or employee of the Firm may prefer their own interest to that of an advisory client. Co-investments are limited to and may not exceed the maximum aggregate percentage of the total investment made by the Fund as defined in the appropriate Fund's partnership agreement.
2. We maintain a list of all the securities holdings by each of our employees and anyone associated with our advisory practice with access to advisory recommendations. These holdings are reviewed on a quarterly basis by the Chief Compliance Officer.
3. All of our principals and employees must act in accordance with all applicable Federal and state regulations governing registered investment advisory practices.
4. Any individual not in observance of the above will be subject to disciplinary action up to and including termination.

The Advisers Act makes it unlawful for any investment adviser, directly or indirectly, acting as principal for its own account, to knowingly sell any security to, or purchase any security from, a client without disclosing to the client in writing the capacity in which the adviser is acting and obtaining the client's consent to the transaction. This rule can apply to certain transactions involving accounts in which investment advisers have interests, such as private fund investments by the Firm's owners, principals, or employees. The SEC has indicated that when an investment adviser and/or its controlling persons own more than 25% of a fund's outstanding securities, it would be effectively treated as a principal transaction if such an account were to engage in a trade with another client account or fund. Such levels of participation in any one of the Funds by our owners, principals, or employees are limited by the terms of each Fund's partnership agreements and/or offering documents though side-by-side investments are typically allowed.

Without obtaining the advisement of an Investor Advisory Committee established for each Fund, neither VSS nor any General Partner or other affiliated person shall engage in a principal trade with that Fund (i.e., purchase from or sell securities to a Fund from a proprietary or individual's account other than through side-by-side investments) as provided for in the respective LPA.

## **Item 12            BROKERAGE PRACTICES**

VSS—directly or in conjunction with each Fund's General Partner or other affiliates—is responsible for all parts of the investment cycle, including deal sourcing and origination, investment decision-making, deal negotiation, transaction structuring, portfolio management (the act of overseeing the investments that we have made), and exit strategies. VSS will typically make direct investments on behalf of the Funds in privately-held companies. Rarely will the Fund acquire securities of publicly traded companies, except in connection with a merger of a privately held portfolio company with a publicly-traded company.

To a limited extent, VSS transacts in public securities; it intends to select brokers based upon the broker's ability to provide best execution for the Funds. In making its decisions regarding the allocation of brokerage transactions for the Funds, the Firm will consider a variety of factors including but not limited to: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); (ii) the operational efficiency with which transactions are affected (such as prompt and accurate confirmation and delivery), taking into account the size of order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker-dealer or counterparty; and (iv) the competitiveness of commission rates in comparison with other broker-dealers. Although VSS generally seeks competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent. Transactions may involve specialized services on the part of a broker-dealer, which may justify higher commissions and equivalents than would be the case for more routine services.

Each direct investment is carefully structured through negotiations by VSS and various professionals engaged by us to facilitate a particular deal, as appropriate. These professionals include attorneys, accountants, consultants, information technology, due diligence professionals, and others. In addition, and as disclosed above, VSS or an affiliate of VSS will charge the portfolio companies of the Funds break up fees, transaction fees, and monitoring fees related to overseeing portfolio companies invested in the Funds. In accordance with the terms of each Fund's partnership agreement, VSS will, in certain instances, offset against its management fee a percentage of any such fees earned by the Firm or our affiliates.

Any particular transaction may or may not involve the participation of an investment bank or broker dealer. If an investment bank or broker dealer is involved in a Fund transaction, it is typically because the selling company engaged that firm to assist it in negotiating and structuring the terms of a particular deal on its behalf (including organization of an auction or otherwise).

Acquisitions and investments are generally funded with capital raised from the Funds' Limited Partners but can also be partially or substantially financed by debt obtained by VSS. Under these circumstances, the cash flow from the portfolio company generally will provide the source for repayment.

Each Fund's ultimate goal when investing is to sell or "exit" its investments in portfolio companies for a return in excess of the price paid. Exit scenarios have historically included

selling a portfolio company to a strategic acquirer or financial buyer through a sale of stock or assets, a merger, or an initial public offering.

As disclosed in Item 5 of this Brochure, VSS or the General Partner of each Fund is authorized to make co-investment opportunities available to third-parties, Limited Partners, or prospective investors as determined appropriate and in the best interest of the Funds. Certain co-investment opportunities will be allocated to third parties primarily when the third-party sourced or introduced the investment to VSS. Allocation of such opportunities would create a conflict of interest as they are, by nature, limited, and participation is not possible for all or even most investors in the Funds; as a result, VSS must determine which third-parties or investors will be given the opportunity to co-invest and which will not. To address this conflict, we have adopted written Allocation Policies and Procedures.

Certain executive officers and employees of VSS also have direct investments in one or more of a Funds' underlying portfolio companies. With respect to the existing VSS Funds, employees of VSS and its subsidiaries can also be offered additional opportunities, on a case-by-case basis, to co-invest in portfolio companies with the Funds. These co-investments are limited to and do not exceed a predefined total aggregate percentage of any such investment in accordance with the respective Fund's LPA.

As disclosed in Item 5 of this Brochure, concerning cross-fund investments: where guidelines are not provided in a Fund's LPA, the General Partner seeks the Funds' Investor Advisory Committees' counsel for the transaction.

VSS does not have any formal or informal soft-dollar arrangements, nor do we receive any soft-dollar benefits from any broker, dealer, or other counterparties.

### **Item 13        REVIEW OF ACCOUNTS**

VSS monitors the portfolio companies of each Fund on an ongoing basis. As part of the terms of investment, VSS has also arranged for the Funds to have one or more VSS representative serving on or otherwise monitoring the Board of Directors of many portfolio companies.

The Firm's Investment Committee must approve all portfolio investments and dispositions and is actively involved in analyzing each investment and reviewing those investments on an ongoing basis.

The Investment Committee typically meets weekly to review ongoing monitoring activities and evaluate potential new platform investments, add-on acquisitions, and divestitures. The Investment Committee also meets once per quarter to review and approve the Funds' respective investments' quarterly carrying values. The Firm's Investment Committee includes Jeffrey T. Stevenson, R. Trent Hickman, and Patrick N.W. Turner. Other investment professionals, who review investment materials, due diligence materials and provide valuable industry insight, are included in the Investment Committee meetings, as needed.



The Funds are audited annually by an independent, certified public accountant that is both registered with and subject to regular inspection by the PCAOB. Audited financials are sent to each investor on a timely basis.

In addition to annual audited financials, investors in each Fund receive quarterly Operations Summary Reports, capital account statements, and unaudited combined Financial Statements containing valuation and performance information for the applicable Fund.

#### **Item 14            CLIENT REFERRALS AND OTHER COMPENSATION**

Currently, the Funds are the Firm's only clients. As disclosed in Item 4 of this Brochure, the Funds receive unfunded capital commitments from investors during one or more initial fundraising stages. Afterward, the Funds are generally closed to new investors. As part of our marketing efforts when launching a Fund, we or our affiliates have entered into arrangements to compensate certain persons, including third-party solicitors and others, to assist in the offer and sale of the Fund's partnership interests. In general, these arrangements involve the payment of a retainer fee and/or a percentage of either the referred investor's subscribed amount to the VSS Fund or the management fee collected by VSS and attributable to the referred investor's capital account. Depending on the terms of these arrangements, payments can continue for several years following the final close of the VSS Fund. As disclosed in Item 5 above, these placement fees are offset 100% to the Fund's management fee.

VSS can enter into additional, similar arrangements in the future. Although common, such referral arrangements can create a potential conflict of interest because, in theory, the referrer may be motivated, at least partially, by financial gain and not because the VSS Funds are the most suitable to the prospective investor's needs.

Other than as disclosed in Items 5, 10, and 12 of this Brochure, neither VSS nor any officer, director, or employee of VSS, receive compensation from third parties in connection with providing investment advice to the Funds.

#### **Item 15            CUSTODY**

Because VSS acts as an investment adviser to the Funds and is affiliated with each Fund's General Partner through common ownership and control, VSS is deemed to have custody of client assets under current applicable regulatory interpretations. As an adviser with custody, each of the Funds is audited annually by an independent public accountant registered with and subject to regular inspection by the PCAOB. VSS sends, directly or through a third-party, the audited financials to each Fund investor within 120 days of the applicable Fund's fiscal year end.

**Item 16 INVESTMENT DISCRETION**

As investment adviser to the Funds, VSS is granted the discretionary authority in the relevant Fund documents to determine the investments (and the amounts paid for the investments) to be bought or sold on behalf of the Funds.

**Item 17 VOTING CLIENT SECURITIES**

Because the Funds generally, but not exclusively, invest in privately issued securities, VSS rarely is required to vote proxies. Under certain limited circumstances, however, VSS may be required to vote proxies solicited by portfolio companies. Under these circumstances, VSS will vote proxies in the best interest of the Funds, typically to maximize value for the Funds and the investors in the Funds. To that end, VSS endeavors to vote proxies in good faith, and the manner it determines will be the most likely to cause the Funds' investments to increase the most or decline the least in value. Consideration is given to both the short and long-term implications of the proposal to be voted on when considering the optimal vote. Furthermore, if any class actions are received, the Investment Committee will determine whether the Funds will (a) participate in a recovery achieved through a class action, or (b) opt out of the class action and separately pursue their own remedy, depending on what is in the best interest of the Funds. VSS's complete proxy voting policy and procedures have been memorialized. They are available for review upon request to the Chief Compliance Officer, at the Firm's principal office address.

VSS or our affiliates closely monitor private portfolio companies whose securities are held by the Funds by appointing an affiliated person to serve on or oversee these companies' boards of directors. Any such person may, in this capacity, cast votes or otherwise seek to influence company policies concerning specific matters. In general, VSS uses its influence or vote solely in the Funds' best economic interests and discloses conflicts or potential conflicts of interest that arise to the Fund Investor Advisory Committee. It is important to note that company directors have a fiduciary duty to act in the best interests of the company. In general, VSS believes that the best interests of portfolio companies will parallel those of the Funds. However, should those interests ever conflict, VSS's policy is that our affiliated person abstains from casting a vote.

**Item 18 FINANCIAL INFORMATION**

Under no circumstances will VSS require or solicit the prepayment of fees in excess of \$1,200 more than six months in advance of services rendered; therefore, we are not required to include a financial statement with this Brochure.

VSS has not been the subject of a bankruptcy petition at any time during the past ten years.