

INVESTMENT ADVISER BROCHURE

HILDRED CAPITAL MANAGEMENT, LLC

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This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Hildred Capital Management, LLC (the “Registrant”). If you have any questions about the contents of this Brochure, please contact us at 646-604-8633. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.

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

Additional information regarding the Registrant is also available on the SEC’s website at www.adviserinfo.sec.gov.

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MATERIAL CHANGES

The Registrant filed its most recent Form ADV Part 2 on April 15, 2019. This other-than-annual amendment updates the Registrant's assets under management and the description of the business practices of the Registrant and its affiliates.

ADVISORY BUSINESS

The Registrant, a Delaware limited liability company and a registered investment adviser, provides investment advisory services to investment funds privately offered to qualified investors in the United States and elsewhere. The Registrant commenced operations in April 2019.

The clients of the Adviser (defined below) include the following (each, a "**Fund**," and together with Acquisition I (defined below) any future private investment fund to which the Adviser provides investment advisory services, the "**Funds**"):

- HFM Acquisition I, LLC ("**Acquisition I**")
- Hildred Equity Associates II, LP (the "**Executive Fund**")
- Hildred Equity Partners II, LP
- Hildred Equity Partners II-A, LP (together with Hildred Equity Partners II, LP, "**Fund II**")

The following general partner entities are affiliated with the Adviser (defined below):

- HFM Managing Member I, LLC (the "**Managing Member**")
- Hildred Partners GP II, LP (the "**General Partner**").

Hildred Capital Management II, LP ("**HCM II**" and, together with the General Partner, "**HCM**") and Hildred Fund Management, LLC ("**HFM**" and, together with the Registrant and HCM II, the "**Adviser**") are affiliated with the Registrant and are listed as "relying advisers" on the Registrant's Form ADV, Part 1. HCM II's clients include Fund II and the Executive Fund. The General Partner is the general partner of Fund II and the Executive Fund and an affiliate of the Adviser. HCM II and the General Partner are subject to the Advisers Act pursuant to the Registrant's registration in accordance with SEC guidance. HFM's sole client is Acquisition I, a single-investment fund. The Managing Member is the managing member of Acquisition I and an affiliate of the Adviser. HFM and the Managing Member are subject to the Advisers Act pursuant to the Registrant's registration in accordance with SEC guidance. This Brochure also describes the business practices of HCM II, the General Partner, HFM and the Managing Member, which operate as a single advisory business together with the Registrant. The Advisers, the General Partner and the Managing Member are collectively referred to herein as the "**Firm**."

The Adviser is affiliated with Hildred Capital Partners, LLC ("**HCP**"), which manages certain family office vehicles and accounts. From time to time, HCP will direct the accounts it

manages to make investments in or alongside clients, investment funds or other vehicles advised or sponsored by the Adviser in which clients of the Adviser also invest.

The Firm intends to make primarily growth equity investments in lower middle market and middle market health-care oriented companies located in the United States or Canada. The Firm's overall investment philosophy is to seek to achieve long-term capital appreciation through a value-oriented approach, while mitigating operating and financial risk across both portfolio companies and the overall portfolio. The Funds are private equity funds and invest through negotiated transactions in operating entities, generally referred to herein as "portfolio companies." The Firm's investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating the terms of investments, managing and monitoring investments and achieving dispositions for such investments. Although investments are made predominantly in non-public companies, investments in public companies are permitted. From time to time, where such investments consist of portfolio companies, the senior principals or other personnel of the Firm or its affiliates serve on such portfolio companies' respective boards of directors or otherwise act to influence control over management of portfolio companies in which the Funds have invested.

The Firm's advisory services to the Funds are detailed in the applicable private placement memoranda or other offering documents (each, a "**Memorandum**"), investment management agreements, limited partnership or other operating agreements or governing documents (each, a "**Partnership Agreement**," and, as applicable, together with any relevant Memorandum, the "**Governing Documents**") and are further described below under "Methods of Analysis, Investment Strategies and Risk of Loss." Investors in the Funds participate in the overall investment program for the applicable Fund, but may be excused from a particular investment due to legal, regulatory or other agreed-upon circumstances pursuant to the relevant Governing Documents. The Funds or the Firm may enter into side letters or other similar agreements ("**Side Letters**") with certain investors that have the effect of establishing rights under, or altering or supplementing the terms (including economic or other terms) of, the relevant Governing Documents with respect to such investors.

Additionally, from time to time and as permitted by the relevant Governing Documents, the Firm expects to provide (or agree to provide) co-investment opportunities (including the opportunity to participate in co-invest vehicles) to certain investors or other persons, including other sponsors, market participants, finders, consultants and other service providers, the Firm's personnel and/or certain other persons associated with the Firm and/or its affiliates (*e.g.*, a vehicle formed by the Firm's principals to co-invest alongside a particular Fund's transactions). Such co-investments typically involve investment and disposal of interests in the applicable portfolio company at the same time and on the same terms as the Fund making the investment. However, from time to time, for strategic and other reasons, a co-investor or co-invest vehicle may purchase a portion of an investment from one or more Funds after such Funds have consummated their investment in the portfolio company (also known as a post-closing sell-down or transfer).

As of September 19, 2019, the Firm managed approximately \$147,592,958 in client assets on a discretionary basis. The Adviser is controlled by David Solomon and Andrew Goldman.

FEES AND COMPENSATION

In general, the Firm receives a management fee and carried interest in connection with advisory services. The Firm or other Firm entities or affiliates receive additional compensation in connection with management and other services performed for portfolio companies of Funds and, except as otherwise set forth in the applicable Governing Documents, such additional compensation generally will offset in whole or in part the management fees otherwise payable to the Firm in accordance with the relevant Governing Documents. In addition, in certain circumstances the Firm receives compensation for management and other services performed in connection with co-investments made in portfolio companies of the Funds. Investors in a Fund also bear certain expenses.

Management Fees

In general, Fund II initially is expected to pay HCM, quarterly in advance, a management fee (the “**Management Fee**”) equal to a percentage of aggregate Fund II investor capital commitments (“**Commitments**”) held by investors not designated as “affiliated partners” by the General Partner. Following the fifth anniversary of the initial closing date (or earlier upon the occurrence of certain events as set forth in the Governing Documents), the Management Fee rate will be reduced and generally will equal a percentage of (i) the aggregate investment contributions made (or payable to Fund II pursuant to capital call notices then issued or to be issued to repay indebtedness incurred by Fund II and used to fund an investment), less (ii) the aggregate amount of investment contributions with respect to the portion of each investment that has been disposed of or permanently written-down, in each case with respect to investors not designated as “affiliated partners.” Investors participating in a closing after the initial closing date bear the Management Fee retroactive to the initial closing date as if such investors were admitted for their full Commitment on the initial closing date and, in addition, will be charged an amount equal to the product of (a) the prime rate plus a percentage rate per annum multiplied by (b) the amount of such assessed Management Fees, calculated from the date such Management Fee payments would have been due if such investors were admitted for their full Commitment on the initial closing date. The Management Fee will be payable until all portfolio investments are distributed or until HCM’s relationship with Fund II is terminated for other reasons (as described in the relevant Governing Documents).

It is expected that future Funds generally will have a similar fee structure. However, the Executive Fund will not pay Management Fees to HCM.

The Management Fee will be reduced by an amount equal to 100% of transaction fees attributable to investors not designated as “affiliated partners” by the General Partner. Transaction fees include: (i) directors’ fees, financial consulting fees or advisory fees paid to the General Partner with respect to any Fund investment; (ii) transaction fees paid to the General Partner with respect to any Fund investment; and (iii) break-up fees with respect to Fund transactions not completed that are paid to the General Partner, in each case net of certain expenses (including those described below) as set forth in the Governing Documents; but not including, in any event, any amount received by the General Partner, any operations group established by the General Partner (the “**Operations Group**”) or a member thereof or other person from a portfolio company (a) as reimbursement for expenses directly related to such portfolio company, (b) as payment for

services provided to such portfolio company in the ordinary course of such portfolio company's business, (c) as compensation for services provided by the General Partner or other person as an employee of or in a similar capacity for such portfolio company or (d) as compensation (including fees, incentive equity or other stock awards) for services rendered by the Operations Group (or a member thereof) to a portfolio company or prospective portfolio company.

As a matter of practice, HCM is typically paid fees of the type referred to in the preceding paragraph from, on behalf of or with respect to co-investors in an investment. The receipt of such fees will not reduce the Management Fee payable by any Fund(s) that have also invested in such investment, and as a result a Fund will, in most cases, only benefit with respect to its allocable portion of any such fee and not the portion of any fee that relates to such co-investors, which have the potential to be significant. Similarly, in certain circumstances, HCM expects that co-investors or other parties will negotiate the right to share a portion of such fees from a particular investment, and the above-described offset percentage will be applied after excluding any amounts paid to such persons. Additionally, as further described below and in the Governing Documents of each Fund, it is HCM's practice to use or retain certain Operating Partners (defined below) to provide services to (or with respect to) certain portfolio companies in which one or more Funds invest. Such operating partners generally receive compensation and other amounts described herein from the relevant portfolio companies or Funds to which they provide services, but no such amounts will result in additional offsets to the Management Fee.

Certain Governing Documents permit HCM to waive or agree to reduce the Management Fee. Certain waived portions of the Management Fee are treated by the Governing Documents as a deemed capital contribution by the relevant General Partner, which is effectively invested in the relevant Fund on such General Partner's behalf, and operates to reduce the amount of capital such General Partner would otherwise be required to contribute to a Fund. The limited partners of a Fund may be required to make a *pro rata* contribution according to their respective Commitments to fund any contribution that would otherwise be required of HCM in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration (or delay) of investor capital contributions. Waived or reduced Management Fees are not subject to the Management Fee offsets described above, and the amount of such waived or reduced Management Fees has the potential to be significant. Due to waived or reduced Management Fees by HCM and/or timing of receipt of compensation subject to offsets (as described above), it is possible that Management Fee offsets will not be fully realized by investors in a Fund, resulting in a net additional benefit to HCM.

Carried Interest

HCM will receive a carried interest with respect to Fund II generally equal to a percentage of all realized profits, subject to a preferred return, as more fully described in the Governing Documents. The carried interest distributed to HCM is subject to a potential giveback at the end of the life of Fund II if HCM has received excess cumulative distributions.

The Firm also receives carried interest with respect to Acquisition I.

It is expected that future Funds generally will have a similar carried interest structure. However, the Executive Fund will not bear carried interest.

Other Information

HCM is permitted to exempt certain “affiliated partner” investors in the Funds from payment of all or a portion of Management Fees and/or carried interest, including HCM and any other person designated by HCM, such as “friends and family” of HCM or its personnel, or other investors meeting certain qualification requirements based on commitment size or other strategic or relationship factors. Any such exemption from fees and/or carried interest may be made by a direct exemption, a rebate by HCM and/or its affiliates, or through other Funds which co-invest with a Fund. For example, in instances where an HCM professional (or an affiliated entity thereof) invests in a Fund, such professional (or such affiliated entity) generally will be exempt from payment of the Management Fee and carried interest with respect to such Fund. Additionally, to the extent permitted by the relevant Governing Documents, HCM has the right to permit investors, affiliated with HCM or otherwise, to invest through the relevant General Partner or other vehicles that do not bear Management Fees or carried interest. In general, the Management Fee offsets described above apply only with respect to the Commitments of fee-paying investors.

Participation in the Executive Fund is reserved exclusively for professionals, operating partners, advisory partners and other investors associated with the Firm, and the Executive Fund is expected to invest alongside one or more investment entities formed by the Firm. As set forth above, the Executive Fund will not pay HCM Management Fees or carried interest.

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

Principals or other current or former employees of the Firm generally receive salaries and other compensation derived from, and in certain cases including a portion of, the Management Fee, carried interest or other compensation received by the Firm or its affiliates.

In addition to the Management Fee and carried interest payable to the Firm, each Fund bears certain expenses. As set forth more fully in the applicable Governing Documents, a Fund bears all expenses relating to such Fund’s activities, investments and business to the extent not reimbursed by a portfolio company or applied to reduce transaction fees, including (i) activities with respect to origination and sourcing of investment opportunities for a Fund, including meeting with broker-dealers, investment banks and other sources of investments and developing an investment pipeline; (ii) activities with respect to the structuring, organizing, negotiating, consummating, financing, refinancing, diligencing (including any subscriptions to periodicals or databases), acquiring, bidding on, owning, managing, monitoring, operating, holding, hedging, restructuring, trading, taking public or private, selling, valuing, winding up, liquidating, dissolving or otherwise disposing of, as applicable, portfolio companies and a Fund’s actual and potential investments (including follow-on investments) or seeking to do any of the foregoing (including any associated legal, financing, commitment, transaction or other fees and expenses payable to attorneys, accountants, tax professionals, investment bankers, lenders, third-party diligence software and service providers, consultants and similar professionals in connection therewith and any fees and expenses related to transactions that may have been offered to co-investors), including such fees and expenses, or other liabilities or obligations, incurred for transactions not

consummated (“**Broken Deal Expenses**”), including Broken Deal Expenses relating to transactions that have been offered to co-investors; (iii) indebtedness of, or guarantees made by, a Fund, the Firm or any partner on behalf of the applicable Fund (including any credit facility, letter of credit or similar credit support), including repayment of principal and interest with respect thereto, or seeking to put in place any such indebtedness or guarantee; (iv) financing, commitment, origination and similar fees and expenses; (v) broker, dealer, finder, underwriting (including both commissions and discounts), loan administration, private placement fees, sales commissions, investment banker, finder and similar services; (vi) brokerage, sale, custodial, depository (including any depository appointed pursuant to the European Union’s Alternative Investment Fund Managers Directive (the “**AIFMD**”)), Swiss representative and Swiss paying agent (appointed pursuant to the Swiss Collective Investment Schemes Act (as amended) and its implementing ordinance), trustee, record keeping, account and similar services; (vii) legal, accounting, research, auditing, administration (including fees and expenses associated with the applicable Fund’s third-party administrator and administration, tracking or reporting software, if any), information, appraisal, advisory, valuation (including third-party valuations, appraisals or pricing services), consulting (including consulting and retainer fees and other compensation paid to the Operations Group or any of its members, consultants performing investment initiatives and other similar consultants), tax and other professional services; (viii) expenses associated with the reporting, filings or other ongoing compliance requirements contemplated by the AIFMD (excluding, for the avoidance of doubt, the initial and/or preliminary registrations, filings and compliance obligations related thereto); (ix) reverse breakup, termination and other similar fees; (x) directors and officers liability, errors and omissions liability, crime coverage and general partnership liability premiums and other insurance and regulatory expenses, including any costs and expenses related to any retention or deductibles; (xi) filing, title, transfer, registration and other similar fees and expenses; (xii) printing, communications, marketing and publicity; (xiii) the preparation, distribution or filing of Fund-related or investment-related financial statements or other reports, tax returns, tax estimates, Schedule K-1s, other communications with Fund partners, or any other administrative, compliance or Fund-related or investment-related regulatory filings or reports (including Form PF), including fees and costs of any third-party service providers and professionals related to the foregoing; (xiv) developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software or other administrative or reporting tools (including subscription-based services) for the benefit of the applicable Fund or its limited partners; (xv) any activities with respect to protecting the confidential or non-public nature of any information or data; (xvi) to the extent provided in the applicable Governing Documents, or otherwise approved by the General Partner in its sole discretion, activities or proceedings of a Fund’s Advisory Board (including any reasonable out-of-pocket costs and expenses incurred by representatives of the General Partner, such as Advisory Board’s members, permitted observers and other persons in attending or otherwise participating in meetings of such Advisory Board); (xvii) indemnification (including any fees, costs and expenses incurred in connection with indemnifying any Fund partner or other person pursuant to the applicable Governing Documents or otherwise and advancing fees, costs and expenses incurred by any such person in defense or settlement of any claim that may be subject to a right of indemnification pursuant to the applicable Governing Documents); (xviii) actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including the costs and expenses of any discovery related thereto and any judgment, other award or settlement entered into in connection therewith; (xix) any annual limited partner meeting or other periodic, if any, meetings of a Fund’s limited partners and any

other conference or meeting with any limited partner(s), in each case to the extent incurred by the applicable Fund, the General Partner or any other affiliate of the General Partner; (xx) the Management Fee; (xxi) except as otherwise determined by the General Partner in its sole discretion, any fee, cost, expense, liability or obligation relating to any alternative investment vehicle or its activities, business, portfolio companies or actual or potential investments (to the extent not borne or reimbursed by a portfolio company of such alternative investment vehicle) that would be a Fund expense if it were incurred in connection with the Fund, and any expenses incurred in connection with the formation, management, operation, termination, winding up and dissolution of any feeder vehicles related to the applicable Fund to the extent not paid by the investors investing in such entities and any other costs and expenses related to any structuring or restructuring of a Fund and/or its affiliated entities; (xxii) the termination, liquidation, winding up or dissolution of a Fund; (xxiii) defaults by Fund partners in the payment of any capital contributions; (xxiv) amendments to, and waivers, consents or approvals pursuant to, the constituent documents of the Fund, any parallel fund, the General Partner, the general partner of any parallel fund, entities above the General Partner, the Adviser and any alternative investment vehicle of the applicable Fund or any parallel fund, including the preparation, distribution and implementation thereof; (xxv) (A) complying with any law, regulation or policy related to the activities of a Fund (including any legal fees and expenses related thereto and any regulatory expenses of the General Partner incurred in connection with the operation of the Fund) and/or (B) any litigation or governmental inquiry, investigation or proceeding involving the Fund, including any costs and expenses of discovery related thereto and the amount of any judgments, settlements or fines paid in connection therewith, except to the extent such expenses or amounts have been determined to be excluded from the indemnification pursuant to the applicable Governing Documents; (xxvii) unreimbursed costs and expenses incurred in connection with any transfer or proposed transfer of Fund interests contemplated by the applicable Governing Documents; (xxviii) any taxes, fees and other governmental charges levied against a Fund and all expenses incurred in connection with any tax audit, investigation settlement or review of such Fund (except to the extent that such Fund is reimbursed therefor by a reimbursing partner or such tax, fee or charge is treated as having been distributed to the partners pursuant to the applicable Governing Documents); (xix) distributions to Fund partners and other expenses associated with the acquisition, holding and disposition of a Fund's investments, including extraordinary expenses; (xxx) unreimbursed expenses and unpaid fees of the Operations Group or its members, employees or other persons engaged by the Operations Group; (xxxi) compliance or regulatory matters related to a Fund, except as otherwise set forth in the applicable Governing Documents; (xxxii) any travel (including, where appropriate as determined by the General Partner, the cost of using or chartering private aircraft or other private air travel at a cost not to exceed the cost of corresponding first class commercial airfare), lodging, meals or entertainment relating to any of the foregoing, including in connection with consummated and unconsummated investment and disposition opportunities; (xxxiii) any organizational expenses set forth in the applicable Governing Documents; (xxxiv) any private placement or finders' fees paid by a Fund to placement agents, finders or other third-parties performing similar services in connection with the organization or funding of such Fund and/or any related parallel funds; and (xxxv) any other fees, costs, expenses, liabilities or obligations approved by a Fund's Advisory Board; but not including (A) ordinary overhead and administrative expenses that are payable by the General Partner and/or the Adviser pursuant to the applicable Governing Documents and (B) any investment contributions as set forth in the applicable Governing Documents. As is typical for private equity funds, the Funds likely bear

additional and greater expenses, directly or indirectly, than many other pooled investment products, such as mutual funds. To the extent brokerage fees are incurred, they will be incurred in accordance with the general practices set forth in “Brokerage Practices.”

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

As described above, in certain circumstances, the Firm is expected to permit certain investors to co-invest in portfolio companies alongside one or more Funds, subject to the Firm’s related policies and the relevant Governing Documents and/or Side Letter(s). Where a co-invest vehicle is formed, such entity generally will bear expenses related to its formation and operation, many of which are similar in nature to those borne by the Funds. In the event that a transaction in which a co-investment was planned, including a transaction for which a co-investment was believed necessary in order to consummate such transaction or would otherwise be beneficial, in the judgment of the Firm, ultimately is not consummated, all Broken Deal Expenses relating to such proposed transaction will be borne by the Fund(s), and not by any potential co-investors, that were to have participated in such transaction. However, to the extent that such co-investors have already invested in a co-investment or other vehicle in connection with such transaction, such vehicle is expected to bear its share of such Broken Deal Expenses.

The Firm and/or its affiliates generally have discretion over whether to charge transaction fees, monitoring fees or other compensation to a portfolio company and, if so, the rate, timing and/or amount of such compensation. In most circumstances, such compensation is not reviewed or approved by an independent third party. The receipt of such compensation generally will give rise to potential conflicts of interest between the Funds, on the one hand, and the Firm and/or its affiliates on the other hand.

Operating Partners

Additionally, as further described herein and in the applicable Governing Documents, it is the Firm’s practice to retain operating groups and other consultants (“**Operating Partners**”), including Operations Group members, consultants and external executives, to provide services to (or with respect to) one or more Funds or certain current or prospective portfolio companies in which one or more Funds invest. Such Operating Partners generally provide services in relation to the identification, acquisition, holding, improvement and disposition of portfolio companies, including operational aspects of such companies. In certain circumstances, these services also include serving in management or policy-making positions for portfolio companies. Operating Partners receive compensation, including, but not limited to cash fees, retainers, transaction fees, a profits or equity interest in a portfolio company, profits or equity interests in one or more Funds or Firm entities, remuneration from the Firm and/or the Funds or affiliates or other compensation, which typically are determined according to one or more methods, including the value of the time

(including an allocation for overhead and other fixed costs) of such Operating Partners, a percentage of the value of the portfolio company, the invested capital exposed to such portfolio company, amounts charged by other providers for comparable services and/or a percentage of cash flows from such company. Operating Partners also generally will be reimbursed for certain travel and other costs in connection with their services. As described above, no such amounts will offset the Management Fee. The use of Operating Partners subjects the Firm to conflicts of interest as further discussed below.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As described under “Fees and Compensation,” the Firm receives a carried interest allocation on certain realized profits in Fund II and Acquisition I. The Firm also manages accounts that are not charged performance-based compensation. This practice could present a conflict of interest because the Firm has an incentive to favor accounts for which it receives the highest performance-based compensation.

The Firm seeks to address the potential for conflicts of interest in these matters with allocation practices that provide that transactions and investment opportunities will be allocated to the Funds in accordance with each Fund’s investment guidelines and Governing Documents, as well as other factors that do not include the amount of performance-based compensation received by the Firm or any personnel.

The existence of performance-based compensation has the potential to create an incentive for the Firm to make more speculative investments on behalf of a Fund than it would otherwise make in the absence of such arrangement, although the Firm generally considers performance-based compensation to better align its interests with those of its investors.

TYPES OF CLIENTS

The Firm provides investment advice to the Funds. The Funds may include investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in the Funds may include individuals, banks or thrift institutions, other investment entities, university endowments, sovereign wealth funds, family offices, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of the Firm and its affiliates and members of their families, Operating Partners or other service providers retained by the Firm.

The Funds may include alternative investment vehicles established from time to time in order to permit one or more investors to participate in one or more particular investment opportunities in a manner desirable for tax, regulatory or other reasons. Alternative investment vehicle sponsors generally have limited discretion to invest the assets of these vehicles independent of limitations or other procedures set forth in the organizational documents of such vehicles and the related Fund.

Fund II generally has a minimum investment amount of \$5 million for third-party investors, and Fund II interests are offered and sold solely to accredited investors that are also qualified

clients (or qualified knowledgeable HCM personal) and, unless waived in the discretion of HCM, qualified purchasers. Such minimum investment amount may be waived by HCM.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Investment Strategy

The Firm intends to make primarily growth equity investments in lower middle market and middle market healthcare-oriented companies generally located in the United States or Canada. The Firm's overall investment philosophy is to seek to achieve long-term capital appreciation through a value-oriented approach, while mitigating operating and financial risk across both portfolio companies and the overall portfolio. To achieve this overarching philosophy, the Firm intends to apply a robust set of investment criteria to drive deal sourcing and screening efforts in order focus the Funds on the most attractive risk-adjusted opportunities available. The Firm believes that this approach and overall strategy has the potential to result in the creation of larger and improved portfolio companies that interest of investors at attractive valuations, resulting in attractive risk-adjusted investment returns to limited partners. Each Fund's specific investment strategy is discussed in the applicable Memorandum.

There can be no assurance that the Firm will achieve the investment objectives of any Fund and a loss of investment is possible.

Risks of Investment

Each Fund and its investors bear the risk of loss that the Firm's investment strategy entails. The risks involved with the Firm's investment strategy and an investment in a Fund include, but are not limited to:

Business Risks. A Fund's investment portfolio is expected to consist primarily of securities issued by privately held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

Future and Past Performance. The performance of prior investments by the Firm's principals (the "**Principals**") is not necessarily indicative of a Fund's future results. While the Firm intends for a Fund to make investments that have estimated returns commensurate with the expected risks undertaken, there can be no assurances that any targeted internal rate of return will be achieved. On any given investment, loss of principal is possible.

Investment in Junior Securities. The securities in which a Fund will invest may be among the most junior in a portfolio company's capital structure and, thus, subject to the greatest risk of loss. Generally, there will be no collateral to protect a Fund's investment once made.

Concentration of Investments. Each Fund will participate in a limited number of investments and intends to make all of its investments in the healthcare industry and within a short period of time. As a result, a Fund's investment portfolio could become highly concentrated, and the performance of a few holdings or of the healthcare industry may substantially affect its

aggregate return. Furthermore, to the extent that the capital raised is less than the targeted amount, a Fund may invest in fewer portfolio companies and thus be less diversified.

A Fund may provide bridge financing to facilitate portfolio company investments. It is possible that all or a portion of a bridge financing will not be recouped within the time period specified in the applicable Governing Documents, in which case the investment would be treated as a permanent investment of a Fund. As a result, a Fund's portfolio could become more concentrated with respect to such investment than initially expected.

Lack of Sufficient Investment Opportunities. The business of identifying, structuring and completing private equity transactions is highly competitive and involves a high degree of uncertainty. It is possible that a Fund will never be fully invested if enough sufficiently attractive investments are not identified. However, investors will be required to bear the Management Fee through a Fund during its investment period based on the entire amount of the investors' Commitments and other expenses as set forth in the applicable Governing Documents.

Dynamic Investment Strategy. While the Firm generally intends to seek attractive returns for the Funds primarily through making private equity investments as described herein, the Firm may pursue additional investment strategies and may modify or depart from its initial investment strategy, investment process and investment techniques as it determines appropriate. The Firm may pursue investments outside of the industries and sectors in which the Principals have previously made investments or have internal operational experience.

Growth Equity Transactions. The Firm intends to make on behalf of the Funds some growth-equity investments. While growth-equity investments offer the opportunity for significant capital gains, such investments may involve a higher degree of business and financial risk that can result in substantial or total loss. Growth-equity portfolio companies may operate at a loss or with substantial variations in operating results from period to period, and many will need substantial additional capital to support additional research and development activities or expansion, to achieve or maintain a competitive position, and/or to expand or develop management resources. Growth-equity portfolio companies may face intense competition, including from companies with greater financial resources, better brand recognition, more extensive development, marketing and service capabilities and a larger number of qualified managerial and technical personnel.

General Risks of Investments in Healthcare Companies. Investments in healthcare companies involve a high degree of business and financial risk and can result in substantial or total losses. Healthcare companies may face intense competition, including competition from companies with greater financial resources, more extensive research and development, sales and marketing, customer services and support and other capabilities and a larger number of qualified managerial and technical personnel. Companies in which the Funds invest could deteriorate for a variety of reasons, including an adverse development in their business, a change in the competitive environment, changes in the regulatory environment, or an economic downturn.

Impact of Government Regulation, Reimbursement and Reform. The healthcare industry is (or may become) (i) highly regulated at both the federal and state levels in the United States and internationally and (ii) subject to frequent regulatory change. While the Firm intends to invest on behalf of the Funds in companies that seek to comply with applicable laws and regulations, the

laws and regulations relating to the healthcare industry are complex, may be ambiguous or may lack clear judicial or regulatory interpretive guidance. An adverse review or determination by any applicable judicial or regulatory authority of any such law or regulation, or an adverse change in applicable regulatory requirements or reimbursement programs, could have a material adverse effect on the operations and/or financial performance of the companies in which a Fund invests.

Governmental and Third-Party Payors. In both the U.S. and foreign markets, sales of a healthcare company's products and its success will depend in part on the availability of reimbursement from third-party payors such as government health administration authorities, private health insurers, and other organizations. The levels of revenues and profitability of healthcare companies may be affected by the continuing efforts of governmental and third-party payors to contain or reduce the costs of healthcare. Significant uncertainty exists as to the reimbursement status of newly approved healthcare products. There can be no assurance that a company's proposed products will be considered cost-effective or that adequate third-party reimbursement will be available to enable a company to maintain price levels sufficient to realize an appropriate return on its investment in product development.

Healthcare Research and Innovation. Changes in governmental policies may have a material effect on the demand for or costs of certain products and services. A healthcare or healthcare related company must receive government approval before introducing new drugs and medical devices or procedures. This process may delay the introduction of these products and services to the marketplace, resulting in increased development costs, delayed cost recovery and loss of competitive advantage to the extent that rival companies have developed competing products or procedures, adversely affecting the company's revenues and profitability. Failure to obtain governmental approval of a key drug or device or other regulatory action could have a material adverse effect on the business of a portfolio company. Additionally, expansion of facilities by healthcare related providers is subject to "determinations of need" by the appropriate government authorities. This process not only increases the time and cost involved in these expansions, but also makes expansion plans uncertain, limiting the revenue and profitability growth potential of healthcare related facilities operators.

Certain companies in which the Funds may invest may only have one product under development. There can be no assurance that the product will be approved for marketing by the U.S. Food and Drug Administration or any foreign regulatory agency. Further, competition to the product may develop from other new and existing products. In either case, if a company is dependent on that one product, the consequences of such failure could be devastating to the prospects of such company, which in turn could negatively affect the performance of a Fund. The healthcare industry spends heavily on research and development. Research findings (*e.g.*, regarding side effects or comparative benefits of one or more particular treatments, services or products) and technological innovation (together with patent expirations) may make any particular treatment, service or product less attractive if previously unknown or underappreciated risks are revealed, or if a more effective, less costly or less risky solution is or becomes available. Any such development could have a material adverse effect on the companies in which the Funds invest.

Patents. Certain healthcare and healthcare-related companies depend on the exclusive rights or patents for the products they develop and distribute. Patents have a limited duration and, upon expiration, other companies may market substantially similar "generic" products that are

typically sold at a lower price than the patented product, causing the original developer of the product to lose market share and/or reduce the price charged for the product, resulting in lower profits for the original developer. As a result, the expiration of patents may adversely affect the profitability of these companies.

Product Liability. The testing, manufacturing, marketing and sale of many of the products and technologies developed by healthcare companies inherently expose these companies to potential product liability risks. Many healthcare companies obtain limited product liability insurance and, furthermore, there can be no assurance that a health care company will be able to maintain its product liability insurance on reasonable terms or that any product liability insurance obtained will provide adequate coverage against potential liabilities.

Illiquidity; Lack of Current Distributions. An investment in a Fund should be viewed as an illiquid investment. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, generally will occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is generally expected that this will not occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating a Fund (including the Management Fee payable to the Firm) may exceed its income, thereby requiring that the difference be paid from a Fund's capital, including unfunded Commitments.

Leveraged Investments. A Fund may make use of leverage by having a portfolio company incur debt to finance a portion of its investment in such portfolio company, including in respect of companies not rated by credit agencies. Leverage generally magnifies both a Fund's opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets (and such credit markets may be impacted by regulatory restrictions and guidelines), which state is difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage. The use of leverage also imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to operate its business as desired and/or finance future operations and capital needs. The leveraged capital structure of portfolio companies will increase the exposure of a Fund's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates (which in recent years have been at or near historic lows) and could accelerate and magnify declines in the value of a Fund's investments in the leveraged portfolio companies in a down market. In the event any portfolio company cannot generate adequate cash flow to meet its debt service, a Fund may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of a Fund. Furthermore, should the credit markets be limited or costly at the time a Fund determines that it is desirable to sell all or a part of a portfolio company, such Fund may not achieve an exit multiple or enterprise valuation consistent with its forecasts. Moreover, the companies in which a Fund will invest generally will not be rated by a credit rating agency.

A Fund may also borrow money or guaranty indebtedness (such as a guaranty of a portfolio company's debt) or otherwise be liable therefor, and in such situations, it is not expected that a Fund would be compensated for providing such guarantee or exposure to such liability. The use of leverage by a Fund also will result in interest expense and other costs to such Fund that may not

be covered by distributions made to such Fund or appreciation of its investments. While Fund-level borrowings generally will be interim in nature, asset-level leverage generally will not be subject to any limitations regarding the amount of time such leverage may remain outstanding. A Fund may incur leverage on a joint and several basis with one or more other investment funds and entities managed by the Firm or any of its affiliates and may have a right of contribution, subrogation or reimbursement from or against such entities. In addition, to the extent a Fund incurs leverage (or provides such guaranties), such amounts may be secured by Commitments made by a Fund's investors and such investors' contributions may be required to be made directly to the lenders instead of a Fund.

To the extent a Fund provides bridge financing to facilitate portfolio company investments, it is possible that all or a portion of such bridge financing will not be recouped within the time period specified in the Governing Documents, in which case the investment would be treated as a permanent investment of the Fund. As a result, the Fund's portfolio could become more concentrated with respect to such investment than initially expected or otherwise provided for under the Fund's investment limitations, certain of which exclude bridge financing investments.

Subscription Lines. A Fund may enter into a subscription line with one or more lenders in order to finance its operations (including the acquisition of the Fund's investments). Fund-level borrowing subjects limited partners to certain risks and costs. For example, because amounts borrowed under a subscription line typically are secured by pledges of the relevant HCM's right to call capital from the limited partners, limited partners may be obligated to contribute capital on an accelerated basis if the Fund fails to repay the amounts borrowed under a subscription line or experiences an event of default thereunder. Moreover, any limited partner claim against the Fund would likely be subordinate to the Fund's obligations to a subscription line's creditors.

In addition, Fund-level borrowing will result in incremental partnership expenses that will be borne by investors. These expenses typically include interest on the amounts borrowed, unused commitment fees on the committed but unfunded portion of a subscription line, an upfront fee for establishing a subscription line, and other one-time and recurring fees and/or expenses, as well as legal fees relating to the establishment and negotiation of the terms of the borrowing facility. Because a subscription line's interest rate is based in part on the creditworthiness of the relevant Fund's limited partners and the terms of the Fund Agreement, it may be higher than the interest rate a limited partner could obtain individually. To the extent a particular limited partner's cost of capital is lower than the Fund's cost of borrowing, Fund-level borrowing can negatively impact a limited partner's overall individual financial returns even if it increases the Fund's reported net returns in certain methods of calculation.

A credit agreement may contain other terms that restrict the activities of a Fund and the limited partners or impose additional obligations on them. For example, a subscription line may impose restrictions on the General Partner's ability to consent to the transfer of a limited partner's interest in the Fund. In addition, in order to secure a subscription line, the General Partner may request certain financial information and other documentation from limited partners to share with lenders. The General Partner will have significant discretion in negotiating the terms of any subscription line and may agree to terms that are not the most favorable to one or more limited partners.

Fund-level borrowing involves a number of additional risks. For example, drawing down on a subscription line allows the General Partner to fund investments and pay partnership expenses without calling capital, potentially for extended periods of time. Calling a large amount of capital at once to repay the then current amount outstanding under a subscription line could cause short-term liquidity concerns for limited partners that would not arise had the General Partner called smaller amounts of capital incrementally over time as needed by a Fund. This risk would be heightened for a limited partner with commitments to other funds that employ similar borrowing strategies or with respect to other leveraged assets in its portfolio; a single market event could trigger simultaneous capital calls, requiring the limited partner to meet the accumulated, larger capital calls at the same time. A Fund may also utilize Fund-level borrowing when the General Partner expects to repay the amount outstanding through means other than Limited Partner capital, including as a bridge for equity or debt capital with respect to an investment. If the Fund ultimately is unable to repay the borrowings through those other means, limited partners would end up with increased exposure to the underlying investment, which could result in greater losses.

Investments Longer than Term. A Fund may invest in investments with maturity dates later than the date which such Fund will be dissolved, either by expiration of such Fund term or otherwise. Although the Firm expects that investments will either be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, a Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

Litigation at the Portfolio Company Level. The acquisition, ownership and disposition of investments in portfolio companies entail certain litigation risks. Litigation may be commenced with respect to an investment in a portfolio company acquired by a Fund or in relation to activities that took place prior to a Fund's acquisition of such investment. In addition, at the time of disposition, a potential buyer may claim that it should have been afforded the opportunity to purchase the portfolio company or alternatively that such buyer should be awarded due diligence expenses incurred or statutory damages for misrepresentation relating to disclosures made, if such buyer is passed over in favor of another as part of a Fund's efforts to maximize sale proceeds. Similarly, buyers may later sue a Fund or a portfolio company under various damage theories, including those sounding in tort, for losses associated with problems not uncovered in due diligence.

Focus on Early-Stage and Start-Up Investments. A Fund may make some investments in start-up and early-stage companies that have inherently greater risk than more established businesses. Accordingly, the growth of these companies may require significant time and effort resulting in a longer investment horizon than can be expected with lower risk investment alternatives. Such investments can experience failure or substantial declines in value at any stage. There is no assurance that such investments by a Fund will be successful.

Limited Transferability of Fund Interests. There will be no public market for a Fund interests, and none is expected to develop. There are substantial restrictions upon the transferability of Fund interests under the applicable Governing Documents and applicable securities laws. In general, withdrawals of Fund interests are not permitted. In addition, Fund interests are not redeemable.

Restricted Nature of Investment Positions. Generally, there will be no readily available market for Fund investments, and hence, most of a Fund's investments will be difficult to value. Certain investments may be distributed in kind to the investors and it may be difficult to liquidate the securities received at a price or within a time period that is determined to be ideal by such investors. After a distribution of securities is made to investors, many investors may decide to liquidate such securities within a short period of time, which could have an adverse impact on the price of such securities. The price at which such securities may be sold by such investors may be lower than the value of such securities determined pursuant to the applicable Governing Documents, including the value used to determine the amount of carried interest available to HCM with respect to such investment.

Reliance on the Firm and Portfolio Company Management. Control over the operation of a Fund will be vested with the Firm, and a Fund's future profitability will depend largely upon the business and investment acumen of the Principals. The loss or reduction of service of one or more of the Principals could have an adverse effect on a Fund's ability to realize its investment objectives. In addition, the Principals currently and may in the future manage or advise other investments and investment funds besides a Fund and the Principals may need to devote substantial amounts of their time to the investment activities of such other investments and funds, which may pose conflicts of interest in the allocation of the time of the Principals. Investors generally have no right or power to take part in the management of a Fund, and as a result, the investment performance of a Fund will depend on the actions of the Firm. In addition, certain changes in the Firm or circumstances relating to the Firm may have an adverse effect on a Fund or one or more of its portfolio companies including potential acceleration of debt facilities.

Although the Firm will monitor the performance of each Fund investment, it will primarily be the responsibility of each portfolio company's management team to operate such portfolio company on a day-to-day basis. Although the Firm generally intends to invest on behalf of a Fund in companies with strong management or recruit strong management to such companies, there can be no assurance that the management of such companies will be able or willing to successfully operate a company in accordance with a Fund's objectives.

Absence of Operating History. A Fund generally has no operating history and will be entirely dependent on the Firm. While the Principals have previous experience making and managing investments similar to those contemplated by a Fund, the Principals have no experience managing and investing a committed pool of funds. Furthermore, there can be no assurance that a Fund's investments will achieve results similar to those attained by previous investments of the Principals. In addition, a Fund's investments may differ from previous investments made by the Principals in a number of respects, including target return levels, level of risk associated with a particular investment, amount invested in a particular company, types of companies within a particular industry sector, amount of leverage used, structure, and holding period.

Projections. Projected operating results of a company in which a Fund invests normally will be based primarily on financial projections prepared by such company's management, with adjustments to such projections made by the Firm in its discretion. In all cases, projections are only estimates of future results that are based upon information received from the company and third parties and assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be

significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.

Conflicting Investor Interests. Fund investors may have conflicting investment, tax, and other interests with respect to their investments in a Fund, including conflicts relating to the structuring of investment acquisitions and dispositions. Conflicts may arise in connection with decisions made by the Firm regarding an investment that may be more beneficial to one Fund investor than another, especially with respect to tax matters. In structuring, acquiring and disposing of investments, the Firm generally will consider the investment and tax objectives of a Fund and its partners as a whole, not the investment, tax, or other objectives of any Fund investor individually.

Enhanced Scrutiny and Certain Effects of Potential Regulatory Changes. There continue to be discussions regarding enhanced governmental scrutiny and/or increased regulation of the private equity industry. There can be no assurance that any such scrutiny or regulation will not have an adverse impact on a Fund's activities, including the ability of a Fund to effectively and timely address such regulations, implement operating improvements or otherwise execute its investment strategy or achieve its investment objectives.

Such scrutiny of private equity firms (along with other alternative asset managers) may complicate or prevent a Fund's efforts to structure, consummate and/or exit investments, both in general and relative to competing bidders outside of the alternative asset space. As a result, a Fund may invest in fewer transactions or incur greater expenses or delays in completing or exiting investments than it otherwise would have.

Data Protection Compliance. Applicable laws and regulations related to privacy, data protection and information security could increase costs for a Fund and/or its portfolio companies, and a failure to comply with such laws and regulations could result in fines, sanctions or other penalties, which could materially and adversely affect the results of operations of a Fund and/or its portfolio companies.

Portfolio companies are generally subject to laws and regulations related to privacy, data protection and information security in the jurisdictions in which they do business. As privacy, data protection and information security laws and regulations are implemented, interpreted and applied, compliance costs may increase, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place.

EU data protection law previously in effect was derived from the Data Protection Directive (Directive 95/46/EC) and had been implemented by national legislation across all 28 European Union ("EU") member states. On May 25, 2018, the General Data Protection Regulation (EU 2016/679) (the "**GDPR**") replaced the pre-existing legislation. The GDPR seeks to harmonize national data protection laws across the EU, while at the same time modernizing the law to address new technological developments. As a regulation, the GDPR applies to data controllers and data processors in all EU member states, immediately upon coming into effect, without the need for implementation in each member state. The GDPR notably has a greater extra-territorial reach than the pre-existing legislation and will have a significant impact on data controllers and data processors (i) with an establishment in the EU, (ii) that offer goods or services to EU data subjects

or (iii) that monitor EU data subjects' behavior within the EU. The new regime imposes more stringent operational requirements on both data controllers and data processors and introduces significant penalties for non-compliance, with fines of up to 4% of total annual worldwide revenue or €20 million (whichever is higher), depending on the type and severity of the breach.

The current ePrivacy Directive will also be repealed by the EU Commission's Regulation on Privacy and Electronic Communications (the "**ePrivacy Regulation**"), which aims to reinforce trust and security in the digital single market by updating the legal framework on electronic privacy. The ePrivacy Regulation is in the process of being finalized and is expected to come into force in early 2019.

Compliance with current and future privacy, data protection and information security laws and regulations could significantly impact current and planned privacy and information security related practices, the collection, use, sharing, retention and safeguarding of personal data and some of a Fund's current or planned business activities. A failure to comply with such laws and regulations could result in fines, sanctions or other penalties, which could materially and adversely affect results of operations and the overall business of a Fund and/or its portfolio companies, as well as have an impact on reputation.

United Kingdom Exit from the European Union. On June 23, 2016, the people of the United Kingdom ("UK") voted in a referendum to leave the EU. As of the date of this Memorandum, there has been no change in the status of the UK as a member of the EU. Pursuant to the EU constitution, the only method of withdrawal is via Article 50 of the Treaty of the EU, which itself provides for a period of up to two years during which the terms of the UK's ongoing relationship with the EU will be negotiated. The Article 50 procedure was triggered by the UK government on March 29, 2017; accordingly, it is currently anticipated that the UK will cease to be a member of the EU by the end of March 2019 (subject to any transitional arrangements or extensions which may be agreed).

As a result of the UK ceasing to be a member of the EU, the manner in which a Fund invests in assets located within the EU, if any, may be impacted. The terms of the UK's exit from the EU are not clear, and the shape of the regulatory landscape following exit is not yet defined; the legal, political and economic uncertainty generally resulting from the UK referendum result and anticipated exit from the EU may adversely impact UK-based businesses, and may also result in an economic slowdown and/or a deteriorating business environment in one or more EU member states.

Need for Follow-On Investments. Following its initial investment in a given portfolio company, a Fund may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company (whether for opportunistic reasons, to fund the needs of the business, as an equity cure under applicable debt documents or for other reasons). There is no assurance that a Fund will make follow-on investments or that a Fund will have sufficient funds to make all or any of such investments. Any decision by a Fund not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment (including an event of default under applicable debt documents in the event an equity cure cannot be made). Additionally, such failure to make such investments may result in a lost opportunity for

a Fund to increase its participation in a successful portfolio company or the dilution of a Fund's ownership in a portfolio company if a third party invests in such portfolio company.

Non-U.S. Investments. A Fund may invest in portfolio companies that are organized or headquartered or have substantial sales or operations outside of the United States, its territories, and possessions. Such investments may be subject to certain additional risks due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be given effect during the term of a Fund), the application of complex U.S. and non-U.S. tax rules to cross-border investments, possible imposition of non-U.S. taxes on a Fund and/or Fund investors with respect to a Fund's income, and possible non-U.S. tax return filing requirements for a Fund and/or Fund investors.

Additional risks of non-U.S. investments include: (a) economic dislocations in the host country; (b) less publicly available information; (c) less well-developed and/or more restrictive laws, regulations, regulatory institutions and judicial systems; (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction; (e) civil disturbances; (f) government instability; and (g) nationalization and expropriation of private assets. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

Hedging Arrangements; Related Regulations. The Firm may (but is not obligated to) endeavor to manage a Fund's or any portfolio company's currency exposures, interest rate exposures or other exposures, using hedging techniques where available and appropriate. A Fund may incur costs related to such hedging arrangements, which may be undertaken in exchange-traded or over-the-counter ("OTC") contexts, including futures, forwards, swaps, options and other instruments. There can be no assurance that adequate hedging arrangements will be available on an economically viable basis or that such hedging arrangements will achieve the desired effect, and in some cases hedging arrangements may result in losses greater than if hedging had not been used.

In some cases, particularly in OTC contexts, hedging arrangements will subject a Fund to the risk of a counterparty's inability or refusal to perform under a hedging contract, or the potential loss of assets held by a counterparty, custodian or intermediary in connection with such hedging. OTC contracts may expose a Fund to additional liquidity risks if such contracts cannot be adequately settled.

Certain hedging arrangements may create for the Firm and/or one of its affiliates an obligation to register with the U.S. Commodity Futures Trading Commission ("CFTC") or other regulator or comply with an applicable exemption. Losses may result to the extent that the CFTC or other regulator imposes position limits or other regulatory requirements on such hedging arrangements, including under circumstances where the ability of a Fund or a portfolio company to hedge its exposures becomes limited by such requirements.

Significant Adverse Consequences for Default. The Governing Documents generally provide for significant adverse consequences in the event a Fund investor defaults on its Commitment or any other payment obligation. In addition to losing its right to potential

distributions from a Fund, a defaulting Fund investor may be forced to transfer its interest in a Fund for an amount that is less than the fair market value of such interest and that may be paid over a period of up to ten years, without interest.

Dilution. Fund investors admitted or that increase their respective Commitments to a Fund at subsequent closings generally will participate in then-existing investments of a Fund, thereby diluting the interest of existing Fund investors in such investments. Although any such new Fund investors will be required to contribute its *pro rata* share of previously made capital contributions, there can be no assurance that this contribution will reflect the fair value of a Fund's existing investments at the time of such contributions.

Transfer by the Firm. To the extent the Firm, its partners, the Principals and/or their respective affiliates commit to make a direct or indirect investment in or along-side a Fund, a material participation in or a portion of such investment may thereafter be transferred to others, subject to any express limitations thereon in the applicable Governing Documents.

Public Company Holdings. A Fund's investment portfolio may contain securities and debt issued by publicly held companies. Such investments may subject a Fund to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of a Fund to dispose of such securities and debt at certain times, increased likelihood of shareholder litigation and insider trading allegations against such companies' executives and board members, including the Principals, and increased costs associated with each of the aforementioned risks.

Non-Controlling Investments. A Fund may hold meaningful minority stakes in privately held companies and in some cases may have limited minority protection rights. In addition, during the process of exiting investments, a Fund at times may hold minority equity stakes of any size such as might occur if portfolio companies are taken public. As is the case with minority holdings in general, such minority stakes that a Fund may hold will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes. Where a Fund holds a minority stake, it may be more difficult for a Fund to liquidate its interests than it would be had a Fund owned a controlling interest in such company. Even if a Fund has contractual rights to seek liquidity of a Fund's minority interests in such companies, it may be very difficult to sell such interests or seek a sale of such company upon terms acceptable to a Fund, especially in cases where the interests of the other investors in such company have different business and investment objectives and goals.

Director Liability. A Fund will often seek to obtain the right to appoint one or more representatives to the board of directors (or similar governing body) of the companies in which it invests. Serving on the board of directors (or similar governing body) of a portfolio company exposes a Fund's representatives, and ultimately a Fund, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability. In addition, involvement in litigation can be time consuming for such persons and can divert the attention of such persons from a Fund's investment activities.

Limitation of Recourse and Indemnification. The applicable Governing Documents will limit the circumstances under which the Firm and its affiliates will be held liable to a Fund. As a result, Fund investors may have a more limited right of action in certain cases than they would have in the absence of such provision. In addition, the applicable Governing Documents will provide that a Fund will indemnify the Firm and its affiliates for certain claims, losses, damages and expenses arising out of their activities on behalf of a Fund. Such indemnification obligations could materially impact the returns to Fund investors.

Litigation. In the ordinary course of its business, a Fund may be subject to litigation from time to time. The outcome of such proceedings may materially adversely affect the value of a Fund and may continue without resolution for long periods of time. Any litigation may consume substantial amounts of the Firm's and the Principals' time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

Advisory Board. The Firm will appoint one or more investor representatives to a Fund's Advisory Board established by such Fund's Governing Documents. Such Governing Documents may provide that to the fullest extent permitted by applicable law, none of the Advisory Board members shall owe any fiduciary duties to a Fund or any other investor. In addition, representatives of the Advisory Board may have various business and other relationships with the Firm and its partners, employees and affiliates. These relationships may influence their decisions as members of the Advisory Board.

U.S. Taxation of Carried Interest. U.S. federal income tax law treats certain allocations of capital gains to service providers by partnerships such as a Fund as short-term capital gain (taxed at higher ordinary income rates) unless the partnership has held the asset which generated such gain for more than three years. This could reduce the after-tax returns of individuals associated with a Fund or the Firm who were or may in the future be granted direct or indirect interests in carried interest, which could make it more difficult for the Firm and its affiliates to incentivize, attract and retain individuals to perform services for a Fund. This could also create an incentive for the Principals to cause a Fund to hold investments for a longer period than would be the case if such three-year holding period requirement did not exist.

Uncertain Economic, Social and Political Environment. Consumer, corporate and financial confidence may be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises or other sources of political, social or economic unrest. Such erosion of confidence may lead to or extend a localized or global economic downturn. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. In addition, limited availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, in an uncertain environment or economic downturn may have an adverse effect on the economy generally and on the ability of a Fund and its portfolio companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of businesses. This may slow the rate of future investments by a Fund and result in longer holding periods for investments. Furthermore, such uncertainty or general economic downturn may have an adverse effect upon a Fund's portfolio companies.

Market Conditions. The capital markets have experienced great volatility and financial turmoil. Moreover, governmental measures undertaken in response to such turmoil (whether regulatory or financial in nature) may have a negative effect on market conditions. General fluctuations in the market prices of securities and economic conditions generally may reduce the availability of attractive investment opportunities for a Fund and may affect a Fund's ability to make investments. Instability in the securities markets and economic conditions generally (including a slow-down in economic growth and/or changes in interest rates or foreign exchange rates) may also increase the risks inherent in a Fund's investments and could have a negative impact on the performance and/or valuation of the portfolio companies. A Fund's performance can be affected by deterioration in the capital markets and by market events, such as the onset of the credit crisis in the summer of 2007 or the downgrading of the credit rating of the United States in 2011, which, among other things, can impact the public market comparable earnings multiples used to value privately held portfolio companies and investors' risk-free rate of return. Movements in foreign exchange rates may adversely affect the value of investments in portfolio companies and a Fund's performance. Volatility and illiquidity in the financial sector may have an adverse effect on the ability of a Fund to sell and/or partially dispose of its portfolio company investments. Such adverse effects may include the requirement of a Fund to pay break-up, termination or other fees and expenses in the event a Fund is not able to close a transaction (whether due to the lenders' unwillingness to provide previously committed financing or otherwise) and/or the inability of a Fund to dispose of investments at prices that the Firm believes reflect the fair value of such investments. The impact of market and other economic events may also affect a Fund's ability to raise funding to support its investment objective.

Deterioration of Credit Markets May Affect Ability to Finance and Consummate Investments. The recent deterioration of the global credit markets has made it more difficult for investment funds such as a Fund to obtain favorable financing for investments. A widening of credit spreads, coupled with the deterioration of the sub-prime and global debt markets and a rise in interest rates, has dramatically reduced investor demand for high yield debt and senior bank debt, which in turn has led some investment banks and other lenders to be unwilling to finance new private equity investments or to only offer committed financing for these investments on unattractive terms. A Fund's ability to generate attractive investment returns may be adversely affected to the extent a Fund is unable to obtain favorable financing terms for its investments. Moreover, to the extent that such marketplace events are not temporary and continue, they may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the U.S. and global economies. Such marketplace events also may restrict the ability of a Fund to realize its investments at favorable times or for favorable prices.

Material Non-Public Information; Other Regulatory Restrictions. As a result of the operations of the Firm and its affiliates, the Firm may come into possession of confidential or material, non-public information. Therefore, the Firm and its affiliates may have access to material, non-public information that may be relevant to an investment decision to be made by a Fund. Consequently, a Fund may be restricted from initiating a transaction or selling an investment which, if such information had not been known to it, may have been undertaken on account of applicable securities laws or the Firm's internal policies. Due to these restrictions, a Fund may not be able to make an investment that it otherwise might have made or sell an investment that it otherwise might have sold.

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

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

Unfunded Pension Liabilities of Portfolio Companies. Certain court decisions have found that, where an investment fund owns 80% or more (or under certain circumstances less than 80%) of a portfolio company, such fund (and any other 80%-owned portfolio companies of such fund) might be found liable for certain pension liabilities of such a portfolio company to the extent the portfolio company is unable to satisfy such liabilities. Although a Fund intends to manage its investments to minimize any such exposure, a Fund may, from time to time, invest in a portfolio company that has unfunded pension fund liabilities, including structuring the investment in a manner where a Fund may own an 80% or greater interest in such a portfolio company. If a Fund (or other 80%-owned portfolio companies of a Fund) were deemed to be liable for such pension liabilities, this could have a material adverse effect on the operations of a Fund and the companies in which a Fund invests. This discussion is based on current court decisions, statute and regulations regarding control group liability under the Employee Retirement Income Security Act of 1974, as amended, as in effect as of the date of this Memorandum, which may change in the future as the case law and guidance develops.

Valuations of Assets. There is not expected to be an actively traded market for most of the securities owned by a Fund. When estimating fair value, the Firm will apply a methodology it determines to be appropriate based on accounting guidelines and the applicable nature, facts and circumstances of the respective investments. However, the process of valuing securities for which reliable market quotations are not available is based on inherent uncertainties and the resulting values may differ from values that would have been determined had an active market existed for such securities and may differ from the prices at which such securities ultimately may be sold. The

exercise of discretion in valuation by the Firm may give rise to conflicts of interest, including in connection with determining the amount and timing of distributions of carried interest and the calculation of management fees.

Contingent Liabilities Upon Disposition. In connection with the disposition of an investment, a Fund and the Firm may be required to make (and/or be responsible for another person's or entity's breach of) representations and warranties, *e.g.*, about the business and financial affairs of the applicable portfolio company, the condition of its assets and the extent of its liabilities, in each case generally in the nature of representations and warranties typically made in connection with the sale of similar businesses, and may be responsible for the content of disclosure documents under applicable securities laws. They may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents are inaccurate. These arrangements may result in contingent liabilities, which would be borne by a Fund and, ultimately, its investors.

Cybersecurity Risks. Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject. To the extent that a portfolio company is subject to cyber-attack or other unauthorized access is gained to a portfolio company's systems, such portfolio company may be subject to substantial losses in the form of stolen, lost or corrupted (i) customer data or payment information; (ii) customer or portfolio company financial information; (iii) portfolio company software, contact lists or other databases; (iv) portfolio company proprietary information or trade secrets; or (v) other items. In certain events, a portfolio company's failure or deemed failure to address and mitigate cybersecurity risks may be the subject of civil litigation or regulatory or other action. Any of such circumstances could subject a portfolio company, or a Fund, to substantial losses. In addition, in the event that such a cyber-attack or other unauthorized access is directed at the Firm or one of its affiliates or service providers holding its financial or investor data, the Firm, its affiliates or a Fund may also be at risk of loss.

Certain Consultants. The Firm expects to retain, on behalf of a Fund and/or the portfolio companies, as applicable, Operating Partners, which may be affiliates of the Firm, employees of such affiliates, portfolio companies of other funds managed by the Firm or its affiliates, third party consultants (including individual Operations Group members, consultants and external executives), "strategic partners," "executive partners" or "senior advisors." The Operating Partners may regularly provide services to, or in connection with, a Fund in relation to its activities, or to one or more portfolio companies in relation to the identification, acquisition, holding, improvement and disposition of such portfolio companies, including operational aspects of such companies ("**Services**").

Pursuant to the applicable Governing Documents, fees and expenses associated with the Services (collectively "**Consulting Fees and Expenses**"), may be paid and/or reimbursed by applicable portfolio companies and/or a Fund, and Consulting Fees and Expenses do not offset the Management Fee. Consulting Fees and Expenses are expected to include cash fees, profits or equity interests in a portfolio company, a share of proceeds upon sale of a portfolio company and/or other incentive-based compensation to the Operating Partner, which may be determined according to one or more methods, including the value of the time (including an allocation for overhead and other fixed costs) of the Operating Partner, a percentage of the value of the portfolio company, the invested capital exposed to such portfolio company, amounts charged by other providers for

comparable services and/or a percentage of cash flows from such company. Additionally, portfolio companies may provide opportunities for Operating Partners to invest in such portfolio company and reimburse costs and expenses incurred by Operating Partners. Operating Partners also may receive remuneration from the Firm and/or a Fund or affiliates and/or be entitled to other forms of compensation, including equity grants in portfolio companies. Such investment opportunities, reimbursements and other compensation paid to an Operating Partner will not offset the Management Fee. Operating Partners may have a limited partnership or profit interest in a Fund, the General Partner, one or more other investment funds sponsored by the Firm or in an affiliate of the Firm. Although the Firm intends to retain Operating Partners with a view to reducing costs to portfolio companies (and, ultimately, a Fund) and/or improving portfolio company performance, a number of factors may result in limited or no cost savings from such retention. In addition, the Firm intends to retain only such Operating Partners which it believes provide a level of service at a value generally consistent with other relevant market alternatives. However, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

Conflicts of Interest

Investors should be aware that various actual and potential conflicts will arise from the overall investment activities of the Funds, the Firm and their respective affiliates. The following discussion identifies certain potential conflicts of interest that should be carefully considered before making an investment in a Fund. In addition, investors should be aware that the Firm and its personnel may in the future engage in further activities that may result in additional conflicts of interest not addressed below. There can be no assurance that the Firm will identify or resolve all conflicts of interest and, if resolved, that such conflicts will be resolved in a manner that is favorable to the Fund.

Until such time as the Firm is permitted under the applicable Governing Documents to raise a successor Fund to a Fund, the Principals generally will pursue substantially all appropriate investment opportunities that meet the investment criteria of the applicable Fund for the benefit of such Fund, subject to certain exceptions set forth in the applicable Governing Documents. However, the Principals currently manage certain family office vehicles, including vehicles in which one or more of the Principals have significant personal interests (such vehicles, “**Related Vehicles**”), and will be required to devote time and attention to such vehicles and their investments, subject to their obligations to the Funds under the Governing Documents. Additionally, the Principals may in the future manage other investment funds sponsored by the Firm or its affiliates (“**Other Accounts**”) and investments similar to those in which a Fund will be investing. Certain investment opportunities suitable for a Fund are likely also to be suitable for Other Accounts and the Principals may direct certain relevant investment opportunities to such Other Accounts. Except as required by the relevant Governing Documents, the Firm is not obligated to recommend any investment to any particular Fund or Other Account. In determining, subject to the Governing Documents, which Funds or Other Accounts should participate in such investment opportunities, the Firm, the Principals and their affiliates are subject to potential conflicts of interest because of the conflicting interests of the investors in a Fund and Other Accounts concerned. To determine whether a Fund or Other Account will participate in the relevant investment opportunity, the Firm generally assesses whether an investment opportunity is appropriate for each relevant Fund or Other Account based on the terms of such Fund or Other

Account's Governing Documents or investment management agreements, as applicable, as well as factors including but not limited to: each Fund or Other Account's investment restrictions and objectives, strategy, capital structure, risk profile, time horizon, investment size, tax sensitivity, tolerance for turnover, asset composition, cash level (if any), applicable regulatory restrictions, life cycle and structure. A Fund may invest together with Other Accounts in the manner set forth in the relevant Governing Documents or investment management agreements, as applicable. The Firm's allocation of investment opportunities among a Fund and Other Accounts may not always, and often will not, be proportional. Therefore, such allocations may be more advantageous to a Fund relative to one or all of the Other Accounts, or vice versa. While the Firm will allocate investment opportunities in a way that it believes in good faith is fair and equitable to the Fund, there can be no assurance that the Firm's actual allocation of an investment opportunity, if any, or terms on which the allocation is made, will be as favorable as they would be if the conflicts of interest to which the Firm may be subject did not exist.

The Firm will determine the allocation of investment opportunities among Funds in a manner that it believes is fair and equitable consistent with the Firm's obligations and may take into consideration factors such as those set forth above. The Firm must first determine which Fund(s) will, or are required to, participate in the relevant investment opportunity. The Firm generally assesses whether an investment opportunity is appropriate for a particular Fund based on the applicable Governing Documents, as well as factors including but not limited to: investment restrictions and objectives (including those set forth in the relevant client's Governing Documents, where applicable), strategy, risk profile, time horizon, tax sensitivity, tolerance for turnover, asset composition, diversification limitations, cash level (if any), applicable tax and regulatory considerations, life cycle, structure and other relevant factors. For example, a newly organized Fund generally will seek to purchase a disproportionate amount of investments until it is substantially invested. A Fund may invest together with other Funds advised by an affiliated adviser of the Firm in the manner set forth in the relevant Governing Documents. In the event that the available amount of an investment opportunity in which a Fund will invest exceeds an amount appropriate for such Fund, such excess may also be offered to one or more potential investors, including Related Vehicles.

The Firm may, in its sole discretion, provide or commit to provide co-investment opportunities to one or more Fund investors and/or other persons, in each case on terms to be determined by the Firm in its sole discretion. Conflicts of interest may arise in the allocation of such co-investment opportunities. The allocation of co-investment opportunities, which may be made to one or more persons for any number of reasons as determined by the Firm in its sole discretion, may not be in the best interests of a Fund or any individual Fund investor. In addition, the Firm and the Principals will face conflicts of interest in allocating investment opportunities when potential co-investors include Related Vehicles. In exercising its sole discretion in connection with such co-investment opportunities, the Firm may consider some or all of a wide range of factors, including, without limitation, relevant industry knowledge, prior co-investing experience, expressed interest in co-investment opportunities, speed and certainty of closing, prior, current and potential future commitment levels, and tax, regulatory and securities laws and/or other legal considerations (*e.g.*, qualified purchaser or qualified institutional buyer status). Although a prospective co-investor's willingness to invest in future Funds may be considered by the Firm, it will not be the sole determining factor considered by the Firm in identifying co-investors. The Firm may grant certain third-party investors the opportunity to evaluate specified amounts of

prospective co-investments in Fund portfolio companies or otherwise to have priority in co-investment opportunities. The consideration of the factors set forth above may result in certain investors receiving multiple opportunities to co-invest while others expressing interest in co-investments may receive none.

A Fund may co-invest with third parties through partnerships, joint ventures or other entities or arrangements. Such investments may involve risks not present in investments where a third-party is not involved, including the possibility that a third-party co-venturer or partner may at any time have economic or business interests or goals that are inconsistent with those of a Fund, or may be in a position to take action contrary to the investment objectives of a Fund. In addition, a Fund may in certain circumstances be liable for actions of its third-party co-venturer or partner. There can be no assurance that a Fund's return from a transaction would be equal to and not less than the return of another party that was allocated a co-investment opportunity and that is participating in the same transaction.

Furthermore, decisions regarding whether and to whom to offer co-investment opportunities may be made by the Firm or its related persons in consultation with other participants in the relevant transactions, such as a co-sponsor. Co-investment opportunities may, and typically will, be offered to some and not to other Fund investors, and the consideration of the factors set forth above may result in certain investors receiving multiple opportunities to co-invest while others expressing interest in co-investments may receive none. When and to the extent that employees and related persons of the Firm make capital investments in or alongside a Fund, the Firm is subject to conflicting interests in connection with these investments. The Firm's allocation of co-investment opportunities among the persons and in the manner discussed herein may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others.

Additionally, conflicts of interest can arise if a Fund makes an investment in a portfolio company in conjunction with an investment made by an Other Account. For instance, a Fund may not invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as such Other Account. This may result in differences in price, investment terms, leverage and associated costs between a Fund and any Other Account. There can be no assurance that a Fund and the Other Accounts will exit the investment at the same time or on the same terms, and there can be no assurance that a Fund's return on such an investment will be the same as the returns achieved by any Other Account participating in the transactions. Given the nature of these conflicts, there can be no assurance that the resolution of these conflicts will be beneficial to any Fund.

In addition, because the interests of a Fund and an Other Account may vary, the Firm can face a conflict of interest in respect of the advice it gives to, and the actions it takes on behalf of, a Fund versus an Other Account with respect to an investment, especially controlled portfolio companies. Given the nature of such conflicts there can be no assurance that any such conflict can be resolved in a manner that is beneficial to both the applicable Fund and the Other Account, and the action taken for the Other Account may be adverse to such Fund. Additionally, it is possible that a Fund may be invested in an portfolio company or other investment in which an Other Account already has an interest in a different part of the capital structure, or vice versa. The Firm's ability to implement a Fund's strategies effectively may be limited to the extent that contractual

obligations entered into in respect of investments made by an Other Account impose restrictions on a Fund engaging in transactions that the Firm may otherwise be interested in pursuing. Investments by a Fund and an Other Account in a portfolio company or other investment may also raise the risk of using assets of a Fund to support positions taken by an Other Account, or that an Other Account may remain passive in a situation in which it is entitled to vote. Furthermore, actions may be taken for one or more Other Accounts (or not taken by a Fund) that adversely affect a Fund, and it is possible that such Other Account(s) may have financial difficulties or constraints resulting in an adverse impact on a Fund. As an example, if additional capital is necessary for a portfolio company as a result of financial or other difficulties, or to finance growth or other opportunities, one or more Other Accounts may or may not have or provide such additional capital alongside with, or in lieu of, a Fund, including because a Fund does not have available capital. The Firm or its affiliate will generally determine in its sole discretion whether any such Other Account will supply such additional capital and, if so, the amount of such capital. To the extent a Fund and an Other Account invest side-by-side in an investment, such Other Account will be free to make decisions regarding the investment based on its own interests. Such interests may include strategic goals as well as, or in lieu of, financial goals. The interests of a Fund and such Other Account may diverge because, among other reasons: such Other Account may have (i) investment goals, (ii) investment timelines, and/or (iii) resources available to effectuate investments that, in each case, differ from those of a Fund. These differences may affect the timing and amount of a Fund's gain or loss on its investment. Such Other Account may also have greater control or influence over an investment and therefore a greater ability to promote its interests. As an example, a Fund and such Other Account may enter into contractual obligations providing that a Fund and such Other Account will simultaneously take the same action with respect to a portfolio company on a pro rata basis, such that even if a potential action would be to the benefit of the Other Account and the detriment of a Fund, a Fund would be contractually obligated to take such action on the basis that such action is being taken by the Other Account.

The Firm may be faced with a variety of potential conflicts of interest when it determines allocations of various fees and expenses to a Fund. As a general matter, Fund expenses typically will be allocated among all relevant Funds or co-invest vehicles eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made by the Firm or its affiliates using their reasonable judgment, considering such factors as they deem relevant, but in their sole discretion. The allocations of such expenses may not be proportional, and any such determinations involve inherent matters of discretion, *e.g.*, in determining whether to allocate *pro rata* based on number of Funds or co-invest vehicles receiving related benefits or proportionately in accordance with asset size, or in certain circumstances determining whether a particular expense has greater benefit to a Fund or the Firm. The Funds are expected to have different expense reimbursement terms, including with respect to Management Fee offsets, which may result in the Funds bearing different levels of expenses with respect to the same investment.

The Firm intends to make controlling investments in portfolio companies on behalf of the Funds. As a result of these controlling interests, the Firm typically has the right to appoint portfolio company board members (including current or former Firm personnel or persons serving at their request), or to influence their appointment, and to determine or influence the determination of their compensation. Additionally, from time to time, portfolio company board members approve compensation and other amounts payable to the Firm in connection with services provided by the

Firm and its affiliates to such portfolio company, and, except to the extent such amounts are subject to the applicable Governing Documents' offset provision, are in addition to the Management Fee or carried interest payable by the applicable Fund. The Firm's authority to appoint or influence the appointment of portfolio company board members who may be involved in approving compensation payable to the Firm subjects the Firm and any such portfolio company board appointees to potential conflicts of interest.

Additionally, a portfolio company typically will reimburse the Firm or service providers retained at the Firm's discretion for expenses (including, without limitation, travel expenses) incurred by the Firm or such service providers in connection with the performance of services for such portfolio company. This subjects the Firm to conflicts of interest because a Fund generally does not have an interest or share in these reimbursements, and the amount of such reimbursements over time is expected to be substantial. Subject to the applicable Governing Documents and the Firm's internal reimbursement policies and practices, the Firm determines the amount of these reimbursements for such services in its own discretion.

The Firm may also, from time to time, employ personnel with pre-existing ownership interests in, or who were employed by portfolio companies owned by, a Fund or Other Account; conversely, former personnel or executives of the Firm may serve in significant management roles at portfolio companies or service providers recommended by the Firm. Similarly, the Firm and/or its personnel maintain relationships with (or may invest in) financial institutions, service providers and other market participants, including managers of private funds, banks, brokers, advisors, consultants, finders (including executive finders and portfolio company finders), executives, attorneys, accountants, institutional investors, family offices, lenders, current and former employees and current and former portfolio company executives, as well as certain family members or close contacts of these persons. Certain of these persons or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, the Firm and/or a Fund or Other Accounts. The Firm may have a conflict of interest with a Fund in recommending the retention or continuation of a third-party service provider to such Fund or a portfolio company owned by such Fund if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more funds the Firm advises, will provide the Firm information about markets and industries in which the Firm operates (or is contemplating operations) or will provide other services that are beneficial to the Firm. The Firm may have a conflict of interest in making such recommendations in that the Firm has an incentive to maintain goodwill between itself and the existing and prospective portfolio companies of a Fund and Other Accounts, while the products or services recommended may not necessarily be the best available to the portfolio companies held by a Fund.

Over the life of a Fund, the Firm generally expects to exercise its discretion to recommend to a Fund or to a portfolio company thereof that it contract for services with various service providers, potentially including, among others: (i) the Firm (or an affiliate, which may include other portfolio companies of a Fund or Other Accounts) and at rates determined or substantively influenced by the Firm; (ii) an entity with which the Firm or its affiliates or current or former members of their personnel has a relationship or from which such person derives a financial or other benefit; or (iii) a Fund limited partner (or a limited partner of another Fund) or its affiliates. This subjects the Firm to potential conflicts of interest, because although it intends to select service

providers that it believes are aligned with its operational strategies and that will enhance portfolio company performance, the Firm may have an incentive to recommend the related or other person because of its financial or business interest. Additionally, there is a possibility that the Firm, because of such incentive or for other reasons (including whether the use of such persons could establish, recognize, strengthen or cultivate relationships that have the potential to provide longer-term benefits to the Firm, a Fund or Other Accounts), may favor such retention or continuation even if a better price and/or quality of service provider could be obtained from another person. Whether or not the Firm has a relationship with or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

The fact that the Firm's carried interest is based on a percentage of net profits may create an incentive for the Firm to cause a Fund to make riskier or more speculative investments or to hold an investment longer than otherwise would be the case. In addition, because a Fund has a fixed investment period after which capital from investors generally may only be drawn down in limited circumstances, and because the Management Fee is, at certain times during the life of a Fund, calculated based upon the invested capital of such Fund, the Management Fee structure may create an incentive for the Firm to deploy capital when it might not otherwise have done so.

In certain cases, the Firm will have opportunity (but, subject to any applicable restrictions or procedures in the relevant Governing Documents, no obligation) to identify one or more secondary transferees of interests in a Fund. In such cases, the Firm will use its discretion to select such transferees based on eligibility and other factors, and unless required by the relevant Governing Documents, will determine in its sole discretion whether the opportunity to receive a transfer of Fund interests should be offered to one or more existing Fund investors.

Although uncommon, from time to time the Firm may cause a Fund to enter into a transaction whereby a Fund purchases securities from, or sells securities to, an Other Account managed by the Firm, or co-investors or co-investment vehicles. Such transactions may arise in the context of re-balancing an investment among parallel investing entities or in contexts where a portfolio company owned by one Fund is acquired by a portfolio company acquired by another Fund. Any such transactions raise potential conflicts of interest, including where the investment of one Fund supports the value of portfolio companies owned by another Fund. These conflicts are heightened to the extent the relevant securities are illiquid or do not have a readily ascertainable value, and there generally can be no assurance that the price at which such transactions are entered into represent what would ultimately be the underlying investment's fair value. To the extent required by the relevant Funds' Governing Documents or otherwise in the sole discretion of the Firm, the Firm may seek to mitigate such conflicts by seeking the opinion of an unaffiliated third party (including the use of a consultant or investment banker to opine as to the fairness of a purchase or sale price) or by obtaining the consent of the relevant Fund(s) (including, where authorized, the consent of each Fund's Advisory Board) to such transactions. In certain circumstances, the Firm may determine that the willingness of a third party to make an investment on the same terms demonstrates the fairness of the relevant transaction to the applicable Fund under then-current market conditions. The Firm intends that any such transactions be conducted in a manner that it believes in good faith to be fair and equitable to each Fund under the

circumstances, including a consideration of the potential present and future benefits with respect to each Fund.

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

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

Because certain expenses are paid for by a Fund and/or its portfolio companies or, if incurred by the Firm, are reimbursed by a Fund and/or its portfolio companies, the Firm will not necessarily seek out the lowest cost options when incurring (or causing a Fund or its portfolio companies to incur) such expenses.

The Firm and/or its affiliates may enter into Side Letters with certain investors in a Fund providing such investors with different or preferential rights or terms, including but not limited to different fee structures, information rights, co-investment rights, and liquidity or transfer rights.

Any of these situations subjects the Firm and/or its affiliates to potential conflicts of interest. The Firm attempts to resolve such conflicts of interest in light of its obligations to investors in its Funds and the obligations owed by the Firm's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among a Fund, other Funds and such investment vehicles in a fair and equitable manner. To the extent that an investment or relationship raises particular conflicts of interest, the Firm will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict. Where necessary, the Firm consults and receives consent to conflicts from an advisory committee consisting of limited partners of the relevant Fund(s) and such other investment vehicles.

DISCIPLINARY INFORMATION

The Firm and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

As indicated above under the heading “Advisory Business,” the Adviser is affiliated with HFM is is affiliated with the Adviser and is listed as a “relying adviser” on the Adviser’s Form ADV, Part 1. HFM operates as a single advisory business together with the HCM

The Firm is affiliated with HCP, which manages certain family office vehicles and accounts. The Firm and HCP share certain common owners, officers, employees, consultants or persons occupying similar positions. From time to time, HCP will direct the family office vehicles and accounts it manages to make investments in or alongside clients, investment funds or other vehicles advised or sponsored by HCM or in which clients of HCM also invest.

Certain of the Firm’s personnel (including personnel shared with HCP) provide services to the Firm pursuant to a services agreement with Hildred Services, LLC, an affiliate of the Adviser.

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

The Firm has adopted the Code of Ethics and Securities Trading Policy and Procedures (the “**Code**”), which sets forth standards of conduct that are expected of Firm principals and employees and addresses conflicts that arise from personal trading. The Code requires certain the Firm personnel to report their personal securities transactions, prohibits or requires pre-clearance for the Firm personnel from directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits the Firm personnel from directly or indirectly acquiring beneficial ownership of securities with limited exceptions, without first obtaining approval from the Firm’s Chief Compliance Officer. In addition, the Code requires such personnel to comply with procedures designed to prevent the misuse of, or trading upon, material non-public information. A copy of the Code will be provided to any investor or prospective investor upon request to Benjamin Lichaa, the Firm’s Chief Compliance Officer, at (646) 604-8633. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client’s interests in client eligible investments.

The Firm and its affiliated persons may come into possession, from time to time, of material non-public or other confidential information about public companies which, if disclosed, might affect an investor’s decision to buy, sell or hold a security. Under applicable law, the Firm and its affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the Firm.

Accordingly, should the Firm or any of its affiliated persons come into possession of material non-public or other confidential information with respect to public and non-public company, the Firm generally would be prohibited from communicating such information to clients, and the Firm will have no responsibility or liability for failing to disclose such information to

clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of Firm personnel serving as directors of public companies and may restrict trading on behalf of clients, including a Fund.

Principals and employees of the Firm and its affiliates may directly or indirectly own an interest in one or more Funds, including certain co-invest vehicles. To the extent that co-invest vehicles exist, such vehicles may invest in one or more of the same portfolio companies as a Fund. Co-invest opportunities may also be presented to certain affiliates of the Firm, as well as third party investors and other persons, and such co-investments may be effected through co-invest vehicles or directly in a particular portfolio company. Such co-investment opportunities generally will be allocated in the manner described under “Methods of Analysis, Investment Strategies and Risk of Loss.”

The Firm and its affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in a Fund, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, any Fund, even though their investment objectives may be the same or similar. The operative documents and investment programs of certain Funds may restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such Funds or may give priority with respect to investments to such Funds. Some of these restrictions could be waived by investors (or their representatives) in such Funds.

In determining that a Fund should utilize a line of credit, HCM is subject to conflicts of interest between causing the Fund to repay its obligations and retaining such borrowed amounts for the benefit of the Fund, and in circumstances where interest accrues on any such outstanding borrowings at a rate lower than the relevant Fund’s preferred return, HCM is expected to have incentives to cause the Fund to borrow in this manner rather than drawing down capital commitments. Where a preferred return begins to accrue after capital contributions are due (regardless of when the Fund borrows, makes the relevant investment, or pays expenses) and ceases to accrue upon return of these capital contributions, the use of borrowing to shorten the period between calling and returning capital limits the amount of time the preferred return will accrue. In circumstances where there is not a preferred return on funds borrowed in advance or in lieu of calling capital, Fund-level borrowing typically will reduce the amount of preferred return to which the limited partners would otherwise be entitled had HCM called capital, and thus could result in HCM receiving carried interest sooner than it would without borrowing. In addition, when the Management Fee is calculated as a percentage of invested capital, a limited partner may pay Management Fees on borrowed amounts used to fund investments that have not yet been realized even though such amounts would not accrue preferred return as described above. It is expected that the costs relating to the establishment and/or maintenance of a subscription line of credit would be significant, and there can be no assurance that the benefits to limited partners will be commensurate with such costs.

BROKERAGE PRACTICES

The Firm focuses on securities transactions of private companies and generally purchases and sells such companies through privately-negotiated transactions in which the services of a

broker-dealer may be retained. However, the Firm may also distribute securities to investors in a Fund or sell such securities, including through using a broker-dealer, if a public trading market exists.

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

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

Consistent with the Firm seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although the Firm generally does not make use of such services at the current time and has not made use of such services since its inception.

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

REVIEW OF ACCOUNTS

The investments made by the Funds are generally private, illiquid and long-term in nature, although certain accounts invest in publicly traded securities. The Firm’s review process is not directed toward a short-term decision to dispose of securities. However, the Firm monitors companies in which the Funds invest, and the Firm’s Chief Compliance Officer periodically checks to confirm that each Fund’s portfolio is maintained in accordance with its stated objectives.

Each Fund generally will provide to its limited partners: (i) audited financial statements annually commencing with the first fiscal year in which it either is in operation for the full year or

makes an investment, (ii) unaudited financial statements for the first three quarters of each fiscal year commencing with the first fiscal quarter in which the applicable Fund delivers a capital call notice, (iii) annual tax information necessary for each investor's U.S. tax returns, and (iv) descriptive investment information for each portfolio company annually.

CLIENT REFERRALS AND OTHER COMPENSATION

The Firm and/or its affiliates may provide certain business or consulting services to companies in a Fund's portfolio and may receive compensation from these companies in connection with such services. As described in the applicable Governing Documents, this compensation may offset a portion of the Management Fees paid by such Fund. However, in other cases (*e.g.*, reimbursements for out of pocket expenses directly related to a portfolio company or compensation paid to Operating Partners), these fees may be in addition to Management Fees.

From time to time, the Firm may enter into solicitation arrangements pursuant to which it compensates third parties for referrals that result in a potential investor becoming a limited partner in a Fund. Any fees payable to any such placement agents will be borne by the Firm indirectly through an offset against the Management Fee, although related expenses incurred pursuant to the relevant placement agent or similar agreement, including but not limited to placement agent travel, meal and entertainment expenses, typically are borne by the relevant Fund(s).

The Firm currently has retained Monument Group, Inc., a placement agent, to solicit Commitments from investors in exchange for a non-refundable, flat retainer fee and a contingency fee equal to a percentage of certain Commitments solicited by Monument Group, Inc., in addition to the reimbursement of certain expenses. Monument Group, Inc. is a member of the Financial Industry Regulatory Authority and operates under the name Boston Monument Group, Inc. in Maryland. The following entities associated with Monument Group, Inc. also provide services under licenses granted by securities regulators in their respective jurisdictions: Monument Group, L.P. (Japan), Monument Group Europe LLP (United Kingdom) and Monument Group (HK) Limited (Hong Kong).

CUSTODY

Generally, the Firm relies on the audit exception to Rule 206(4)-2 under the Advisers Act (the "**Custody Rule**") with respect to each Fund. In accordance with the Custody Rule, investors in each Fund receive audited financial statements annually. If necessary, the Firm will rely on annual surprise examination by an independent public accountant to meet applicable Custody Rule requirements. In such circumstances, investors are urged to review account statements received directly from their custodian or trustee and to compare these statements to any statements received from the Firm or an affiliate.

INVESTMENT DISCRETION

The Firm has discretionary authority to manage investments on behalf of each Fund. As a general policy, the Firm does not allow clients to place limitations on this authority. Pursuant to the terms of the Governing Documents, however, the Firm and/or its affiliates may enter into Side Letters with certain limited partners whereby the terms applicable to such limited partner's investment in a Fund may be altered or varied, including, in some cases, the right to opt-out of

certain investments for legal, tax, regulatory or other similar reasons. The Firm assumes this discretionary authority pursuant to the terms of the Governing Documents and powers of attorney executed by the limited partners of such Fund.

VOTING CLIENT SECURITIES

The Firm has adopted the Proxy Voting Policies and Procedures (the “**Proxy Policy**”) to address how it will vote proxies, as applicable, for the Funds’ portfolio investments. The Proxy Policy seeks to ensure that the Firm votes proxies (or similar instruments) in the best interest of the Funds, including where there may be material conflicts of interest in voting proxies. The Firm generally believes its interests are aligned with those of each Fund’s investors, for example, through the principals’ beneficial ownership interests in such Fund and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that the Firm may address the conflict using several alternatives, including by seeking the approval or concurrence of a Fund’s advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, a Fund’s advisory board may approve the Firm’s vote in a particular solicitation. The Firm does not consider service on portfolio company boards by the Firm personnel or the Firm’s receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by the Firm when voting proxies on behalf of a Fund. Clients or investors that would like a copy of the Firm’s complete Proxy Policy or information regarding how the Firm voted proxies for particular portfolio companies may contact Benjamin Lichaa, the Firm’s Chief Compliance Officer, at (646) 604-8633, and it will be provided at no charge.

FINANCIAL INFORMATION

The Firm does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.