

**ESD Management III Limited**

PO Box 255  
Trafalgar Court  
Les Banques  
St. Peter Port  
Guernsey GY1 3QL  
Channel Islands

+44-1481 745 001

---

This brochure provides information about the qualifications and business practices of ESD Management III Limited. If you have any questions about the contents of this brochure, please contact us at +44-1481 745 001. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

ESD Management III Limited is a registered investment adviser with the SEC. Registration does not imply a certain level of skill or training.

Additional information about ESD Management III Limited is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

March 29, 2012

US1 3081527.13

## **Material Changes**

### **Annual Update**

The Material Changes section of this brochure will be updated annually or when material changes occur since the previous release of the Firm Brochure.

### **Material Changes since the Last Update of April 5, 2011**

Please refer to Sections 8.(a) and 10.

## Table of Contents

1.	Advisory Business .....	4
(a)	Firm Description and Principal Owners.....	4
(b)	Types of Advisory Services.....	4
(c)	Asset Management.....	4
2.	Fees and Compensation.....	5
3.	Performance-Based Fees and Side-By-Side Management .....	5
4.	Types of Clients.....	5
5.	Methods of Analysis, Investment Strategies and Risk of Loss.....	6
(a)	Methods of Analysis and Investment Strategy .....	6
(b)	Material Risks .....	8
6.	Disciplinary Information .....	10
7.	Other Financial Industry Activities and Affiliations .....	10
(a)	Registration as Broker-Dealer.....	10
(b)	Relationship with Related Persons .....	10
8.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	10
(a)	Code of Ethics .....	10
(b)	Participation or Interest in Client Transactions and Personal Trading.....	12
9.	Brokerage Practices .....	12
10.	Review of Accounts and Reporting.....	12
11.	Client Referrals and Other Compensation.....	13
12.	Custody .....	13
13.	Investment Discretion .....	13
14.	Voting Client Securities .....	14
15.	Financial Information .....	14
16.	Requirements for State-Registered Advisers.....	15

# **1. Advisory Business**

## **(a) Firm Description and Principal Owners**

### **Firm Description**

ESD Management III Limited (the "Company" or "we") was incorporated in Guernsey on February 5, 2002 and has been registered with the SEC since that date. We act solely as the manager and general partner of two limited partnerships, European Secondary Development Fund III, L.P., a Guernsey limited partnership ("ESD Fund III") and European Secondary Development Fund III-B, L.P., a Delaware limited partnership ("ESD Fund III-B") (together the "Funds"), which primarily purchase interests in European private equity funds and European private equity-backed companies (together, the "Investments") from pre-existing investors in such interests (such purchase, a "Secondary" or such purchases, "Secondaries"). Both Funds are no longer accepting investors, have invested all of their committed capital, and currently are in the process of liquidating their investments. We are registered with the SEC because ESD Fund III-B has an investor which is an employee benefit plan subject to the United States Employee Retirement Income Security Act of 1974.

### **Principal Owners**

The owner of the Company is ARCIS Investment Management, Ltd. Arnaud Isnard is an Executive Director of the Company and an indirect owner of ARCIS Investment Management, Ltd.

## **(b) Types of Advisory Services**

We have discretionary management authority over the Funds to seek to maximize returns through the Funds' Investments. We do not offer any other types of advisory services or advise any other clients.

Our management agreements with the Funds authorize us to (i) make discretionary investment decisions for the Funds; (ii) conduct the day-to-day operations of the Funds; and (iii) make all investment and divestment decisions for the Funds, consistent with the Funds' investment guidelines found in the Private Placement Memorandum (the "PPM") and in the Funds' limited partnership agreements. We appointed an investment advisory committee made up certain members of our board of directors to make investment recommendations to us.

We are responsible for organizing capital calls and distributions and will organize the eventual liquidation of the Funds. In rendering our services, we are authorized to issue orders for the purchase or sale of securities for the Funds, directly or through a broker or dealer.

We have sub-advisory agreements with ARCIS Finance and ARCIS Capital Ltd. (together "ARCIS Group"), under which ARCIS Group is responsible for identifying, analyzing and recommending investment opportunities to us for the Funds.

While we manage the Funds in accordance with the investment objectives and guidelines found in the PPM and the Funds' limited partnership agreements (as fully described below in Section 13), we do not provide individualized advisory services to either of the Funds. That is, we pursue the same investment program for both of the Funds. Moreover, we do not tailor investments to the requirements of individual investors in the Funds, and Fund investors do not have authority over or participate in the management of the Funds.

## **(c) Asset Management**

As of December 31, 2011, we managed \$68,686,573 of the Funds' assets on a discretionary basis.

## **2. Fees and Compensation**

We deduct management fees from the Funds' assets, in advance, on a semi-annual basis, as disclosed in the Funds' limited partnership agreement. Our management fees are calculated based upon a percentage of capital committed to the Funds. The management fees accrue and are paid until liquidation of the Funds is complete. If the Funds are dissolved prior to the expiration of their specified term, accrual of the management fee will cease on the date of dissolution, and we will pay the Funds any amount of management fee that is more than what we were entitled to receive. Other fees and expenses that we incur on the Funds' behalf, such as for custodial and brokerage services, are deducted as they are incurred. We do not receive commissions or any other sales compensation from any person on the acquisition of Investments by the Funds.

The Funds also reimbursed us for all costs and expenses incurred in connection with the formation and organization of the Funds up to a certain capped amount (the "Organizational Fee"). The Organizational Fee covered all legal and professional expenses associated with the constitution of the Funds as well as all marketing expenses incurred by us or any placement agent related to the organization and sale of interests in the Funds. However, all placement agent fees were ultimately borne by us. In addition, the Funds reimburse us for any value added tax on legal and professional expenses.

Any fees we would earn in connection with any transaction that was not completed (i.e., break-up fees) also would be used first to pay unreimbursed transaction expenses and 80% of any excess remaining fees would be credited against the management fee payable by the Funds.

## **3. Performance-Based Fees and Side-By-Side Management**

At least once a year, at our discretion and if funds are available for distribution, the Funds distribute to their respective investors any dividend and interest income together with net proceeds received from their Investments after deduction of management fees and any other expenses of the Funds. After the Funds' respective investors receive a certain return on their investment, an affiliate of ours receives a percentage of each distribution.

The Funds, which are our sole clients, have identical compensation arrangements, so those arrangements do not present any conflicts of interest for us in exercising our investment discretion in making investment decisions on their behalf. We and our affiliates do not have fee arrangements with any client in which we or they do not receive a performance based fee. While the fee arrangements that our affiliates have with their clients may differ, the nature of our business and the private equity business is such that we do not believe that these differences provide incentives to favor certain clients in allocating or disposing of investments. In addition, since the Funds are fully invested, we no longer are acquiring new investments for the Funds. Accordingly, we and our affiliates are not faced with potential conflicts that might arise in the context of allocating investment opportunities as among the Funds and other investment pools advised or sub-advised by our affiliates. Moreover, if we were to seek to dispose of interests owned by the Funds and clients of our affiliates, we and our affiliates would treat all of the clients involved fairly, and, as a general matter, all clients selling at the same time would receive the same price on the sale of their respective interests.

Finally, the partnership agreements of the Funds provide that except as authorized by an advisory committee made up of certain investors in the Funds, we or any of our affiliates will not engage in transactions, including buying and selling investments, with each Fund and any of the private equity-backed companies in which each Fund invests directly. In addition, the Funds cannot enter into any transactions with other funds advised by us or our affiliates.

## **4. Types of Clients**

We provide investment advice solely to the Funds, which are pooled investment vehicles. The investors in each Fund have limited partnership interests in their respective Fund. Generally, the Funds required

that each investor commit to invest at least €5 million, unless such minimum commitment was waived. The Funds are not accepting new investors.

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

### **(a) Methods of Analysis and Investment Strategy**

We have implemented the following disciplined investment strategy:

#### **Proprietary Sourcing of Assets**

ARCIS Group is in constant dialogue with financial institutions, corporate and individual investors, and fund managers throughout Europe in order to identify potential investment opportunities. In particular, ARCIS Group has focused its origination efforts in several European countries where investors in private equity include insurance companies, banks and corporations. These institutions have the potential to become sellers more rapidly if they experience changes in ownership, management or investment strategy. With this type of investor, the deal flow of Secondaries tends to be reduced at times when investing in private equity appears to be attractive, but tends to increase significantly when the industry is going through a more difficult period. In addition, the same corporate investors often have co-invested with private equity funds or built their own portfolios of direct investments. In those cases, the need for liquidity could be required for funds as well as for portfolios of direct investments. ARCIS Group maintains regular contact with many of these institutions to generate investment opportunities.

In addition, ARCIS Group has identified opportunities on a preferred basis due to the size of the transactions we targeted for the Funds. In Europe, secondary transactions tend to be originated differently based on transaction size. Transactions above €100 million tend to be organised by investment bankers whose role is to look for the highest prices among a wide range of potential bidders. Transactions above €25 million and below €100 million are generally organised by an independent intermediary through a more limited auction process, or directly on a one-to-one basis. Below €25 million, the transactions tend to be organised directly by the seller, preferably with a single potential buyer or with a limited number of potential buyers. We believe that the greatest opportunity lies in the last two categories, where there is more “imperfection” in the market due to the depth of the relationships, availability of information, cultural differences and the creativity in structuring transactions.

#### **Distinct Focus on Asset Value**

A key distinguishing characteristic of our investment strategy is to focus on the intrinsic value of the assets being purchased first, and then evaluate the appropriate discount to be applied. We believe in taking a bottom-up approach to purchasing portfolios and rely on a disciplined financial analysis of the funds and companies being assessed. All of the investment professionals are involved in this evaluation and due diligence process, although one or two professionals take the lead on the analysis and negotiation of each transaction. Investment decisions result from a team approach that is consensus driven.

#### **Selection Criteria of Secondary Purchases of Fund Interests**

The Funds acquired their interests in European private equity funds from existing investors in those funds. We selected those funds for investment because in our judgment, their portfolio companies offered significant liquidity potential. Those purchases were made one-by-one in certain funds and in other instances through the purchase of a portfolio of fund interests. The Funds' transactions primarily ranged from €1 million to €50 million.

Selection criteria of a secondary purchase in a private equity fund interest include:

1. *Existing underlying companies in the fund and their potential.* We evaluate a particular fund's underlying companies, including their maturity, the likelihood that such companies may be candidates for public offerings or acquisitions, and the expected timing of distributions from such fund. Also, the valuation of each underlying company is carefully analysed and reviewed, taking

into consideration the company's competitive position, cash flow characteristics, depth of management and updated valuation multiples used in difficult exit environments.

2. *Experience and past performance of funds and their management.* We consider the experience, capabilities, commitment and motivation of the general partners or officers of the target fund who make investment decisions, their ability to work effectively with co-investors and managers of underlying companies and their ability to provide managerial support to underlying companies.
3. *Price discount.* We seek to purchase an original investor's interest at a discount that it believes will generate an attractive rate of return. A price discount is the result of individual negotiations in each transaction and, therefore, will vary. The discount is calculated either on the seller's original cost of investment (net of interim distributions) or on its fair value, based on the most recently available valuation determined by the fund's management or some independent guidelines such as the European Venture Capital Association guidelines, whichever is most appropriate. A price discount may vary quite significantly depending on our valuation of the asset, the seller's perception of the value of the asset, the market environment and our expectation of the ultimate liquidity opportunity and timing.
4. *Time discount.* We evaluate the maturity of a fund in attempting to maximize its time discount. Most private equity funds have a ten-year life. Accordingly, if an original investor commits to invest in a fund at inception and pays such commitment in installments during the fund's first four years of operation (a typical arrangement), the original investor has an average investment date of two years and therefore would expect its contributions to be retained in the fund for an average of eight years. For example, if we purchase an original investor's interest four years after the fund's inception, we would ordinarily expect to hold such interest for a maximum of six years. This is a time savings, or time discount, of one-fourth on the holding period of the original investor. Our rate of return is then be compounded on six years against eight years for the original investor.
5. *Other factors.* The other factors considered include: (i) how much of a sellers' commitment is contributed at the time of purchase; (ii) fees paid to the management company of a private equity fund; (iii) allocation methods of profit-sharing and profit distribution for the general partners or officers; (iv) fund assets valuation methods; (v) decision-making processes employed by management and interpersonal relationships within the fund; and (vi) potential tax effects of the investment.

### **Selection Criteria of Secondary Purchase of Interests in Private-Equity Backed Companies**

The Funds acquired minority interests in European private equity-backed companies through purchases from existing investors in those companies. We selected those companies for investment because in our judgment, they offered growth potential and liquidity opportunities.

Selection criteria for a secondary purchase of a portfolio of companies include for each company:

1. Evaluation of the management team and a company's shareholders;
2. Strategic positioning, including a clear development plan with existing and future growth potential;
3. Economic and financial performance (analysis of sales, earnings, earnings before interest and taxes and cash flows) and level of capital and indebtedness (analysis of the balance sheet, debt ratios and potential additional funding needs);
4. Commitment of management to achieve liquidity for investors in a two to five year time frame, either through an initial public offering (either in Europe or in the United States) or a trade sale; and
5. Price and timing. In particular, the valuation of each portfolio company is carefully analysed and reviewed, taking into consideration updated valuation multiples used in difficult exit environments.

### **Monitoring and Investment Realisation**

We are actively involved in monitoring the Funds' portfolio of Investments, particularly their investments held directly in portfolio companies. In certain situations, we have obtained representation on the boards

March 29, 2012

of directors of certain of the Funds' portfolio companies. We continuously monitor each underlying portfolio company's performance and, in some instances, provide strategic and financial advice to management as needed. We also actively work with the other co-investors to seek liquidity within a two to five-year time frame. As to holding fund interests, we regularly attend annual meetings and monitor fund managers' performance until final liquidation.

### **Diversification**

The Funds' portfolios of Investments have been diversified in order to seek to balance the overall risks of private equity investment. The Funds' Investments are diversified as follows:

- **Maturity and Stage:** the primary investments targeted include venture capital, growth development capital and buyout;
- **Market Sector:** while all areas are considered, the European marketplace has a particular bias towards services, consumer products, industrial equipment and technology;
- **Vintage Year:** we favored the purchase of interests in funds or companies originally funded for at least three years because a better evaluation of asset value can be determined and there are less remaining unfunded commitments.

Investments also tend to be made over several years during the investment period of the Funds to take advantage of different market conditions at the time of purchase. In addition, the limited partnership agreement of the Funds provide for certain investment restrictions discussed in Section 13 below.

### **(b) Material Risks**

Equity and equity related investments carry a relatively high degree of risk owing to the business and financial uncertainties that investors should be prepared to bear. Such risk factors include without limitation:

#### **Investment Risks**

##### **Equity and Equity-linked Investments**

Equity and equity-related investments, particularly in private companies, carry a relatively high degree of risk owing to the business and financial uncertainties facing individual portfolio companies and restrictions on the disposition of such investments. There is no assurance that the use of the Funds' funding will be profitable to the Investments or the Funds. Past performance of ARCIS Group is not necessarily a guide to the future performance of the Funds. There can be no assurance that the Funds will be successful in the Investments made on their behalf by us. The Funds could experience little or no return and could lose some or all of their capital.

##### **Unquoted Minority Shareholdings**

We invest mainly in minority shareholdings in unquoted private equity funds which generally invest in unquoted portfolio companies as well as directly in minority shareholdings in unquoted companies. Investments in companies whose shares are not quoted can involve a greater risk than investments in quoted companies, and that the ability of a minority investor in an unquoted company to influence its affairs or to protect his position is limited. Moreover, the marketability of unquoted shares is restricted. There can be no guarantee that an exit can be found for any investment.

#### **Structural Risks**

##### **Lack of Liquidity and Long-Term Nature of Potential Return**

Equity and equity-related investments are usually illiquid until or unless a public listing or other exit opportunity arises. There can be no guarantee of when and on what terms exit events will be available for the Funds' investments.



### **Lack of Management Control by Investors**

All investments made by us on behalf of the Funds are identified, analysed, negotiated and monitored by ARCIS Group on our behalf; and we make the final investment and divestment decisions. Accordingly, the Funds rely exclusively on our ability to select and manage the Funds' Investments.

### **Dependence on Management**

We depend on the services of ARCIS Group and its team, as described above and elsewhere in this brochure. If the services of ARCIS Group and its professionals become unavailable, we would need to recruit qualified replacement personnel, which might prove difficult.

### **Risks Specific to Secondary Investments**

#### **Competition**

The activity of identifying and completing attractive investments in Secondaries is highly competitive and involves a high degree of uncertainty. We compete for investments in Secondaries with other secondaries investment vehicles, as well as financial institutions and other investors. Over the past several years, an increasing number of secondaries investment funds and other capital pools targeted at the secondaries sector have been formed, and additional capital will likely be directed at this sector in the future. Other investment funds currently in existence or organized in the future, may adopt, partially or totally, our strategy and compete with us. These funds may have greater resources than us and may seek to bid up the price of investments, which could adversely affect our proposed business plan. Some of these funds may have greater access to investment opportunities in Secondaries and greater ability to complete investments than we do, or may have different return criteria than we do, any of which would afford them a competitive advantage.

#### **Layering of Fees**

The return to the Funds will be affected not only by the fees and the carried interest payable us and our affiliates, but by any similar fees and allocations payable to the general partners and managers of the private equity funds in which we have purchased interests on behalf of the Funds.

#### **No Established Market for Secondaries Investments**

No established market exists for investments in Secondaries. Although the volume of sales of investments in Secondaries has been increasing, no liquid market is expected to develop for Secondaries. Moreover, the market for Secondaries has been evolving and is likely to continue to evolve. Our strategy involves acquiring interests in investment funds on an opportunistic basis from existing investors in such funds (and generally not from the issuers of such interests). The Funds may not be able to sell or otherwise dispose of an Investment at a time that we consider to be economically opportune or at all.

#### **Contingent Liabilities Associated With Private Equity Fund Interests Acquired In Secondary Transactions**

The Funds' private equity fund interests may include contingent liabilities of the seller of the interest that it acquires in a secondary transaction. More specifically, where the seller has received distributions from the relevant private equity fund and, subsequently, that private equity fund recalls one or more of these distributions, the Funds (as the purchaser of the interest to which such distributions are attributable and not the seller) may be obligated to return monies equivalent to such distributions to the private equity fund. While the Funds may, in turn, make a claim against the seller for any such monies so paid to the private equity fund, there can be no assurances that the Funds would prevail on such claim.

#### **Pooled Investments in Secondaries**

In some cases, we acquired a portfolio of interests in investment funds from a seller on an "all or nothing" basis. Certain of the investment funds in the portfolio may be less attractive than others, and some of the sponsors of those funds may be more familiar to us than others, or may be more experienced or highly regarded than others. In acquiring those portfolios, we may not be able to carve out those investments that we considered (for commercial, tax, legal or other reasons) less attractive. In addition, we may invest with other investors through the use of joint ventures and similar arrangements. Such arrangements may

March 29, 2012

involve the Funds taking on greater risk with an expected greater return or reducing its risk with a corresponding reduction in the expected rate of return.

### **Complex Nature of Due Diligence and Valuation Process for Direct Investments**

Unlike traditional Secondaries investments where secondaries investors provide liquidity to primary investors in private equity funds, many direct investments, which are direct investments in private equity-backed companies, lack the benefit of financial statements and periodic company updates originated by a common investment manager. Instead, direct investment portfolios may be collections of the private equity assets of a seller, often lacking consistent, updated and accurate operational and financial information, which may affect our ability to conduct fundamental due diligence on the portfolio companies comprising direct investments portfolios.

## **6. Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. We and our management personnel have no reportable legal or disciplinary events to disclose.

## **7. Other Financial Industry Activities and Affiliations**

### **(a) Registration as Broker-Dealer**

None of our management or advisory personnel are registered as a broker dealer.

### **(b) Relationship with Related Persons**

As described above in Section 1, we have entered into sub-advisory agreements with ARCIS Group whereby ARCIS Group seeks, investigates and appraises suitable investment and divestment opportunities and proposes them to us. We, not the Funds, pay all fees and expenses charged by ARCIS Group for these services. Arnaud Isnard and Henri Isnard, our directors, are co-founders and managing partners of ARCIS Group.

ARCIS Group advises and its principals manage other funds which purchase Secondary investments in European private equity funds and in European private equity-backed companies. To the extent that these affiliated funds had uninvested commitments during the Funds' investment period, the Funds co-invested, in general, on a 50%-50% basis with them in secondaries transactions in European private equity funds and in European private equity-backed companies until the affiliated funds were fully invested. Thereafter, the Funds purchased 100% of direct investments and fund investments available for purchase.

Moreover, our affiliates did not establish any additional funds similar to the Funds before the Funds were 75% invested. Thereafter, we and our affiliates recommended investment opportunities to the Funds and to the new funds advised by our affiliates on a pro rata basis (based on capital still available for investment) and on the same terms.

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

### **(a) Code of Ethics**

We have adopted a code of ethics (the "Code of Ethics") which sets forth high ethical standards of business conduct. We and our personnel owe a duty of loyalty, fairness and good faith towards our

clients and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code of Ethics.

Our Code of Ethics covers all of our directors, officers and personnel, as well as personnel of ARCIS Group. We maintain a Restricted List of securities and funds in which the personnel are forbidden to invest. Entities may be placed on the Restricted List because we may possess Material Non-Public Information, because they may present conflicts of interest, or for other reasons that we deem appropriate to further the goals of our compliance program. Our procedures require that our personnel who participate in providing sub-advisory services to us for use in advising the Funds ("Access Persons"), pre-clear with the Chief Compliance Officer transactions in IPO and Private Placement investments of companies in which the Funds and other funds managed by our affiliates are directly invested. In addition, as a general matter, without prior authorization by the Chief Compliance Officer, Access Persons are prohibited from personally investing more than 5% ownership interest in a publicly held firm or more than a 10% ownership interest in a privately held firm. Access Persons are required to complete and execute the Code of Ethics and Compliance Manual Certification when they become an Access Person and subsequently at least once a year.

Our Code of Ethics includes other policies and procedures to address potential Conflicts of Interest including:

*Confidentiality:* We prohibit the use of material non-public information. While we may on occasion have access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity and are subject to our Insider Trading Policy.

*Gifts:* Typically gifts of a small nominal value may be offered or received. Gifts in excess of a small nominal value must be declined or returned.

*Outside Business Activities:* Any outside business activity involving a non-affiliated company must be pre-approved.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

We have established the following policies and procedures for implementing our firm's Code of Ethics, to ensure our firm complies with its regulatory obligations and provides our clients and potential clients with full and fair disclosure of such conflicts of interest:

- No covered person may put their own interest above the interest of an advisory client.
- No covered person may buy or sell securities for their personal portfolio(s) where their decision derives from information received as a result of his or her employment unless the information is also available to the investing public.
- We require prior approval for any initial public offering or private placement investments.
- We maintain a list of all reportable securities holdings for the Company and anyone associated with this advisory practice that has access to advisory recommendations. These holdings are reviewed on a regular basis by our firm's Chief Compliance Officer or her designee.
- We have established procedures for the maintenance of all required books and records.
- All of our personnel must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.

- We have established policies requiring that Code of Ethics violations be reported to our board of directors.
- Any individual who violates any of the above restrictions may be subject to penalties up to and including termination.

We will provide a copy of its Code of Ethics to the Funds, and to any prospective client upon request.

## **(b) Participation or Interest in Client Transactions and Personal Trading**

We sometimes have opportunities to buy or sell securities for a Fund in which a related person or another client also has a material financial interest. For example, we may take a position in a fund for one client, and then take another position in the same fund for another client, resulting in a co-investment. As explained above in section 7.B., to avoid conflicts of interest, we generally co-invest equally in Investments with other investment vehicles advised by ARCIS Group. Moreover, our affiliates did not establish any additional investment pools similar to the Funds before the Funds were 75% invested. Thereafter, we and our affiliates recommended investment opportunities to the Funds and to the new funds advised by our affiliates on a pro rata basis and on the same terms.

As discussed in section 8(a) above, our Code of Ethics requires that our personnel pre clear certain transactions and report to us their public securities holdings of investments in which the Funds also holds a direct investment interest. In addition, as a general matter, without prior authorization by the Chief Compliance Officer, our personnel are prohibited from personally investing in the funds or in private equity-backed companies in which the Funds and other funds managed by our affiliates are directly invested.

As described above in Section 3, there is an advisory committee that may be consulted in the event of a conflict of interest. Except as authorized by the advisory committee, we or any of our affiliates will not engage in transactions, including buying and selling investments, with each Fund and any of the private equity-backed companies in which each Fund invests. In addition, the Funds cannot enter into any transactions with other funds advised by us or our affiliates.

## **9. Brokerage Practices**

We have discretion to select which broker to use in acquiring or disposing of Investments for the Funds. We do not receive any incentive to select or recommend a broker-dealer and are prohibited from selecting an affiliate to act as broker. The Funds reimburse us for any brokerage fees or expenses incurred in acquiring investments for the Funds. Moreover, we are obliged to use reasonable best efforts to obtain a favorable price and execution of our purchase and sale transactions in light of the overall quality of brokerage services available to us. Best execution is not limited to obtaining the lowest commissions possible exclusively but instead also considers other factors, including a broker's execution capability, trading expertise, accuracy of execution, commission rates, research, reputation and integrity, fairness in dispute resolution, financial responsibility, and responsiveness.

## **10. Review of Accounts and Reporting**

The Funds' investment portfolios are reviewed each quarter by our board of directors and our Chief Compliance Officer. Between quarterly board meetings, our directors may review a Fund's portfolio or a particular investment where warranted by significant developments specific to a particular investor or significant market or economic developments. We provide the Funds with documents and information pertaining to their assets, including information needed to prepare reports to a governmental authority.

Moreover, each quarter we distribute reports to investors in the Funds, including information about the Funds' Investments and unaudited financial statements. In addition, once a year we send investors in the Funds an annual report including an investment report detailing each investment made by the Funds and

each investment's performance and the Funds' financial statements audited by PricewaterhouseCoopers CI LLP ("PwC"), an independent auditing firm. In addition, a second set of financial statements is distributed to the US investors of the US client. This second set is audited by PwC under United States Generally Accepted Auditing Standards and includes a reconciliation between accounting policies adopted in the audited financial statements and Accounting Principles Generally Accepted in the United States of America. PwC is also our auditor.

## **11. Client Referrals and Other Compensation**

We have no written arrangements to provide compensation for client or investor referrals. In any case, the Funds are no longer accepting new investors and are fully invested.

## **12. Custody**

As the general partner of the Funds, we are deemed to have custody of all of the Funds' assets. As to ESD Fund III-B, we have physical custody of the non-certificated limited partnership interests it owns, and its cash and other securities are held by Northern Trust (Guernsey) Limited and Wells Fargo Bank N.A. as qualified custodians, all in accordance with the applicable SEC custody rules. Account statements are not sent to Fund investors, because the Funds are subject to annual audit by an independent public accountant.

As to ESD Fund III, since it is not a U.S. fund, it is not subject to the SEC's custody rule. Notwithstanding this, we have physical custody of the non-certificated interests it owns, and its cash and other securities are held by Northern Trust (Guernsey) Limited.

## **13. Investment Discretion**

We are responsible for the day-to-day operations of the Funds and for making discretionary investment and divestment decisions. We organize capital calls, distributions and will organize the eventual liquidation of the Funds. We are responsible for preparing financial statements as well as reports containing a list of the Funds' investments and their values. In rendering our services, we are authorized to buy or sell securities for the Funds, directly or through a broker or dealer. We also are authorized to exercise or abstain from exercising any option, privilege or right, including voting rights, acquired in connection with an investment, and to do with anything that we deem appropriate to further these activities. While we have entered into agreements with ARCIS Group to provide certain sub-advisory services, ARCIS Group does not have any discretionary authority with respect to the Funds.

Our discretion in investing Fund assets is subject to the investment guidelines adopted by the Funds and set forth in their PPM and limited partnership agreement. These guidelines prohibit us from, among other things:

- (i) investing in any single Investment that is not at least 50% funded;
- (ii) investing in any portfolio of Investments if the portfolio as a whole is not at least 50% funded;
- (iii) investing more than ten percent (10%) of the total capital commitments of a Fund in any one private equity fund provided, however, that up to an additional five percent (5%) may be purchased in that fund from a different vendor of an interest of that fund;
- (iv) investing more than five percent (5%) of total capital commitments of a Fund in any one private-equity backed company, provided, however, that up to an additional two percent (2%) may be purchased in that company from a different vendor of an interest in that company;
- (v) subject to (iii) above, investing more than ten percent (10%) of total capital commitments of a Fund in follow-on investments; provided that part or all of this ten percent (10%) may be held in reserve;

- (vi) investing in European companies or in European funds other than through secondary transactions except for follow-on investments, as per (iv) above and for unpaid capital contributions in European funds;
- (vii) investing outside Europe (i.e., the Funds shall invest in European companies; in portfolios of companies if such portfolios have or intend to have at least 50% of their assets in Europe; in European funds; and in portfolios of private equity funds if more than 50% are European funds);
- (viii) making an investment in any one or more investment funds managed by the same investment manager or its affiliated entities if the amount of such investment, when aggregated with all other investments in investment funds managed by such manager or its affiliated entities exceeds twenty-five percent (25%) of the aggregate capital commitments of a Fund;
- (ix) investing more than 30% of total capital commitments (subject to an increase to 40% with the approval of a majority of the members of the advisory committee) in portfolio entities that are primarily invested at the time of the Funds' investment therein in seed capital, early stage or start-up ventures;
- (x) investing more than 10% of total capital commitments of a Fund in one or more funds that are fund of funds vehicles;
- (xi) purchasing or issuing derivatives of any type, except those utilized for hedging foreign currency or interest rate exposure, or engage in "short sales" that would violate Section 16(c) of the Securities Exchange Act of 1934, as amended, if such act were applicable to the Funds and the Company; and
- (xii) making direct investment in real estate or investing more than 10% of total capital commitments in funds whose primary investments are in real estate.

These investment guidelines may only be amended with our consent together with the consent of investors in each Fund whose capital commitments amount to over two-thirds (2/3) of the total capital commitments.

## **14. Voting Client Securities**

We are authorized to exercise, on behalf of the Funds, any voting rights the Funds may have with respect to their Investments. Voting rights may derive from holding a limited partnership interest in a private equity fund, or holding securities in a private-equity backed company.

Our policy is to exercise voting rights relating to the Funds' Investments in the best interests of the Funds. Clients may contact us to obtain additional information about voting matters.

We believe it to be unlikely that a conflict would arise in voting securities held by a Fund. Most of the investments held by the Funds are limited partnership interests, which do not have voting rights per se, although they may have limited rights to consent to certain transactions. Moreover, under the partnership agreement, neither we nor our affiliates may engage in any transaction with the Funds or any portfolio fund or company without the consent of the advisory committee, which consists of investors unaffiliated with us. If the exercise of voting rights raised a conflict that could not be resolved in any other way, we can seek the approval of the advisory committee, and would abide by their decision.

## **15. Financial Information**

We have no additional financial circumstances to report. We do not require or solicit payment of management fees from the Funds more than six months in advance of services rendered. Therefore, we are not required to include a financial statement with this brochure. We have not been the subject of any bankruptcy petition.

## **16. Requirements for State-Registered Advisers**

We are not required to be registered with any State.