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**This brochure provides information about the qualifications and business practices of AEA QP Advisers LLC, AEA Advisers LLC and AEA Investors SBF LLC. If you have any questions about the contents of this brochure, please contact us at (212) 644-5900. Registration as an investment adviser does not imply any level of skill or training. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about AEA QP Advisers LLC, AEA Advisers LLC and AEA Investors SBF LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**March 31, 2011**

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## **Item 2 - MATERIAL CHANGES**

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On July 28, 2010, the United States Securities and Exchange Commission (the “SEC”) published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC rules. We provide this brochure to our clients. This brochure dated March 31, 2011 is a new document prepared according to the SEC’s new requirements and rules. Accordingly, this brochure is materially different in structure and requires certain new information that our previous brochures did not require.

In the future, this Item will discuss only specific material changes that are made to the brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

### **Item 3 - TABLE OF CONTENTS**

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## **Item 4 - ADVISORY BUSINESS**

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### **Advisory Business and Principal Owners**

AEA Investors LP, collectively with its affiliates and predecessor companies, has been sponsoring and managing private investment funds and providing investment advice since 1968. AEA Investors LP is a privately held limited partnership controlled by AEA Management LLC, a limited liability company, the managing members of which are Vincent A. Mai and John L. Garcia.

AEA Investors LP currently carries out its investment advisory business through the following subsidiaries and/or affiliates: AEA QP Advisers LLC, AEA Advisers LLC and AEA Investors SBF LLC (each an “Adviser” and collectively the “Advisers”). This brochure serves as the brochure for all of the Advisers.

### **Advisory Services**

The Advisers sponsor and/or manage private investment programs and provide investment advisory services relating to the equity and debt investments made through these programs. The investments generally are not made in publicly traded securities and are commonly referred to as “private equity” or “private debt” investments. The Advisers’ private equity investments focus primarily, but not exclusively, on the following sectors: (1) value-added industrial products which includes manufacturing and, distribution; (2) specialty chemicals; (3) consumer products; and (4) services relating primarily to these and other business sectors. The Advisers’ private debt investments relate primarily, but not exclusively, to mezzanine debt investments and senior debt investments in non-public companies.

The Advisers currently sponsor or manage and provide investment advice for the following the three categories of investment programs:

#### **AEA Middle Market Private Equity Programs**

1. The AEA 2003 Investment Program (the “2003 Program”) is a \$1.2 billion program comprising four limited partnerships (the “2003 Institutional Funds”) and two commitment-based investment programs (the “2003 Participant Programs”). The 2003 Institutional Funds and the 2003 Participant Programs invest generally on a side-by-side basis on the same economic terms pro rata with the respective commitments made to them by investors. The investment period for the 2003 Program has now ended (except for additional investments relating to existing portfolio investments, commonly called “add-on” investments).
2. The AEA 2006 Investment Program (the “2006 Program”) is a \$1.7 billion program (including the Europe Fund referred to below) composed of one limited partnership (the “2006 Institutional Funds”) and two commitment-based investment programs (the “2006 Participant Programs”). The 2006 Institutional Funds and the 2006 Participant Programs invest generally on a side-by-side basis on the same economic terms pro rata with their respective commitments. The investment period for the 2006

Program is expected to end on July 26, 2012 (except for add-on investments relating to the then existing portfolio investments).

3. AEA Europe Fund LP (the “Europe Fund”) is a €500 million joint venture limited partnership among the 2006 Program and several distinguished international family groups. It is controlled and managed by the general partner and Adviser of the 2006 Program. The 2006 Program has committed to invest approximately €220 million in the Europe Fund. The investment period for the Europe Fund is expected to close on July 26, 2012.

The 2003 Institutional Funds and the 2006 Institutional Funds are collectively referred to in this brochure as the “Institutional Funds” and the 2003 Participant Programs and the 2006 Participant Programs are collectively referred to in this brochure as the “Participant Programs.”

#### AEA Small Business Private Equity Programs

1. AEA Investors Small Business Fund LP (“SBF I”) is a \$286 million limited partnership registered as a Small Business Investment Company. SBF I’s limited partners include the U.S. Small Business Administration (“SBA”) as a preferred limited partner, the 2003 Program and other individual and entity investors. The investment period for SBF I has now ended (except for add-on investments relating to existing portfolio investments).
2. AEA Investors Small Business Fund II LP (“SBF II”) is a \$350 million limited partnership, the limited partners of which are the 2006 Program and other individual and entity investors. The investment period for SBF II is expected to end on October 19, 2016 (except for add-on investments relating to the then existing portfolio investments).

#### AEA Debt Programs

1. The AEA Mezzanine Fund I Program (“Mezz Fund I”) is a \$600 million program comprising a leveraged limited partnership and an unleveraged limited partnership. The investment period for Mezz Fund I has now ended (except for certain add-on investments).
2. The AEA Mezzanine Fund II Program (“Mezz Fund II”) is a \$420 million unleveraged program comprising a limited partnership and a limited liability company. The investment period for Mezz Fund II is expected to end on September 30, 2013.
3. The AEA Middle Market Senior Debt I Program (“Senior Debt Fund I”) is a \$305 million leveraged program comprising two limited partnerships and a limited liability company. The investment period for Senior Debt Fund I is expected to end on July 23, 2013.

4. The AEA Middle Market Senior Debt II Program (“Senior Debt Fund II”) is a leveraged program currently being organized with targeted commitments and leverage of approximately \$325 million.

The investment vehicles and the investors that the Advisers advise pursuant to the investment programs described above are referred to in this brochure as “Clients;” Clients who are investors in the Participant Programs are referred to as “Participants;” and Clients that are limited partnerships or other types of investment vehicles are referred to as “Funds.”

### **Investment Restrictions**

Advisers do not tailor their advisory services to the individual needs of their Clients. Each investment program has specified investment objectives and restrictions, which are described in the offering materials of that program.

### **Wrap Fee Programs**

Not Applicable.

### **Assets Under Management**

As of December 31, 2010, the Advisers had total assets under management (including uncalled capital commitments) of approximately \$4.8 billion, all of which was managed on a discretionary basis.

## **Item 5 - FEES AND COMPENSATION**

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### **Fee Schedules**

The Advisers' fees are not negotiable. Advisers are compensated for their advisory services as follows:

#### **AEA Middle Market Private Equity Programs.**

Participant Programs. The Participants pay an annual management fee. During the commitment period, the management fee is 1.5% (in the case of the 2003 Program) or 1.75% (in the case of the 2006 Program) of each Participant's commitment. After the end of the commitment period, the management fee continues at the annual rate of 1.5% but is calculated based on funded capital, less capital returned to investors and as adjusted for any permanent write downs in the value of investments. In addition, the profits of the Participant Programs are allocated such that the general partner of the Participant Program is entitled, in addition to its investment interests, to a carried interest. The carried interest is approximately equal to 10% of the profits on each investment made under the Participant Program.

Institutional Funds. The Clients comprising the Institutional Funds pay an annual management fee. During the commitment period, the management fee ranges from 1% to 1.75% per annum of a Client's commitment, depending on the particular fund and the class of interest held. After the end of the commitment period, the annual management fee ranges from 1% to 1.5% (depending on the Fund and the class of interest held) and is calculated based on funded capital, less capital returned to investors and as adjusted for any permanent write downs in the value of investments. In addition, the profits of the Clients are allocated such that the general partner of the Client is entitled, in addition to its investment interest, to a carried interest. The carried interest ranges from 15% to 20% of the profits of the Fund, assuming that a specified return is achieved.

AEA Small Business Private Equity Programs. The fees payable by Clients in the AEA Small Business Programs consist of an annual 2% management fee and a carried interest equal to 20% of the profits of the relevant fund as described below (assuming that a specified return is achieved).

SBF I. During the first five years, the 2% management fee is calculated based on aggregate commitments, including the SBA's preferred securities. The carried interest takes into account the SBA's priority.

SBF II. During the commitment period, the 2% management fee is calculated based on aggregate commitments. After the end of the commitment period, the management fee is calculated based on funded capital, less capital returned to investors and as adjusted for permanent write downs in the value of investments.

AEA Debt Programs. The fees payable by Clients in the AEA Debt Programs consist of an annual management fee. In addition, the general partner is entitled to a carried interest based on profits if a specified return is achieved. During the commitment period, the management fee is

1% or 1.5% of aggregate commitments (depending on the particular Fund) plus, generally, in the case of the leveraged Funds, the total indebtedness of that Fund. In certain cases, the fee is reduced or waived. After the end of the commitment period, the management fee is 1% or 1.5% of funded capital depending on the Fund, including in the case of the leveraged Funds, 1% or 1.5% of the average outstanding principal amount of the borrowings of the Fund. In the case of Mezz Fund I and Mezz Fund II, the carried interest is equal to 20% of the profits of the Fund. In the case of the Senior Debt Fund I and Senior Debt Fund II, the carried interest is up to 10% of the profits of the Fund in all cases, after a specified return is realized.

In general, management fees and carried interest are not payable by Advisers' or their affiliates' employees who invest in, or alongside, the Advisers' investment programs (except in the case of the Participant Programs in which cases such employees do pay a carried interest on their invested capital).

### **Calculation & Deduction of Advisory Fees**

Management fees are billed to Clients. In the case of the Private Equity Programs, management fees are billed semi-annually in advance, except in the case of the 2006 Program, where commencing June 30, 2011, fees will be billed quarterly in advance. In the case of the Debt Programs, management fees are billed semi-annually (or quarterly) in advance. In cases where a distribution is expected to be made concurrently with the payment of fees, such fees may be deducted from the funds expected to be distributed to the Client.

### **Other Fees & Expenses**

Each Client pays the organizational and startup expenses, including legal, travel, accounting, filing and other organizational expenses of the Fund up to an amount specified in the pertinent offering materials. The Adviser bears the cost (through an offset against its management fee or otherwise) of all organizational expenses in excess of the specified amount, if any, and of any placement fees payable to any placement agent in connection with the formation of the Fund.

Each Client pays other on-going costs and expenses, including legal, consulting, financing, accounting and custodian fees and expenses; expenses associated with the Client's financial statements, tax returns and Schedule K-1s; insurance; other expenses associated with the acquisition, holding and disposition of its investments, including extraordinary expenses (such as litigation, if any); and any taxes, fees or other governmental charges levied against the Fund.

In the case of the 2003 Institutional Funds and the Participant Programs, generally out of pocket expenses incurred in connection with transactions not consummated are borne by the Adviser. In the case of other Funds managed by the Advisers, these out of pocket expenses are generally borne by the Fund but an amount equal to a designated percentage (which can vary significantly) of transaction, portfolio management and certain other fees received by the Adviser are applied as an offset against management fees.

### **Prepaid Fees**

Clients are required to pay management fees quarterly or semi annually in advance. Clients do not receive a refund of fees paid and are generally not permitted to terminate their commitments



or withdraw from the Funds.

**Compensation for the Sale of Securities**

Not applicable.

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

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As described in Item 5.A., the general partner (or its partners) receive a percentage of the profits from the Funds it controls (in some cases assuming that investors receive a specified preferred return).

## **Item 7 - TYPES OF CLIENTS**

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Advisers' clients are (1) private investment funds (referred to in this brochure as "Funds") and (2) the participants in the 2003 Participant Programs (referred to in the brochure as "Participants"). The investors include high net worth individuals and family groups, corporations, charitable organizations, trusts, partnerships, pension funds and limited liability companies.

The 2003 Program had a stated minimum commitment of \$10 million for investors in the Institutional Funds and \$5 million for Participants in the Participant Programs. The 2006 Program had a stated minimum commitment of \$10 million for investors in the Institutional Funds and \$2 million for Participants in the Participant Programs. Each of the Funds within the AEA Small Business Programs and the AEA Debt Programs had minimum commitments of \$5 million. In each case, the Adviser was and is entitled to waive in its sole discretion the required minimum commitment amount.

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

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### **General Description**

The Advisers generally invest pursuant to three categories of investment programs: (1) AEA Middle Market Private Equity Programs; (2) AEA Small Business Private Equity Programs; and (3) AEA Debt Programs. An investment in each of these investment programs involves substantial risks, including the possibility of partial or total loss of capital. Prospective investors should not make an investment unless they can readily bear the consequences of a complete loss of their investment (see Item 8.B.). The following includes certain of the key investment strategies used by the Advisers in investing pursuant to these programs:

AEA Middle Market Private Equity Programs and AEA Small Business Private Equity Programs. In identifying and analyzing potential middle market and small business private equity investments, the Advisers perform a due diligence review of the business proposed to be acquired, including a study and analysis of the operations and management of the enterprise. Legal and accounting reviews are conducted with the assistance of outside lawyers and accountants, and research is done on the industry involved, including work performed by outside consulting firms. The sources of information vary depending upon the nature of the business and the amount of information publicly and privately available. The strategy is for the Advisers to monitor the acquired company and its operations, seek to provide the services of experienced business executives (who may be Participants or other investors and senior executive staff of Advisers or their affiliates) as members of the board of directors of the acquired company (either at the holding company or operating company level or both), in each case depending on the level of control of the operating company acquired in connection with the investment, and endeavor to cause the acquired company to grow through acquisitions or otherwise, enabling investors ultimately to realize a profit when the investment is harvested.

AEA Debt Programs. The AEA Debt Programs generally invest in mezzanine debt securities, senior debt securities and other debt/preferred securities and instruments including ancillary equity and equity related securities. Advisers identify potential investments through diversified deal sourcing channels, including targeted private equity relationships, the private equity activities of the other investment programs, selected public and private “unsponsored” companies, financial intermediaries and by partnering with other debt providers. The Adviser’s due diligence process leading up to making an investment is a staged approach, comprising financial, operational, strategic and legal analysis. After an investment has been made, the Adviser engages in ongoing monitoring by receiving and analyzing financial statements as often as monthly and, in certain circumstances, by participating on a company’s board of directors as either a director or an observer.

## **Material Risks for Significant Investment Strategies and Particular Types of Securities**

The following includes a description of certain material risks for the three categories of investment programs that the Advisers currently sponsor or manage and for which they provide investment advice. This description is not a complete explanation of the risks associated with these investment strategies or the risks involved in investments made by the Advisers for Clients. **PRIOR TO MAKING A COMMITMENT TO INVEST IN AN INVESTMENT PROGRAM, PROSPECTIVE INVESTORS SHOULD CAREFULLY READ THE PRIVATE PLACEMENT MEMORANDUM AND THE GOVERNING DOCUMENTS FOR THE APPLICABLE INVESTMENT PROGRAM AND CONSULT WITH THEIR OWN FINANCIAL AND LEGAL ADVISORS.**

### AEA Middle Market Private Equity Programs

Business Risks. The AEA Middle Market Private Equity Programs' investment portfolios will consist primarily of securities issued by privately held companies, and operating results in a specified period will be difficult to predict. Investments such as these involve a high degree of business and financial risk that can result in substantial losses.

Future and Past Performance. The performances of the Advisers' principals' (the "Principals") prior investments are not necessarily indicative of the AEA Middle Market Private Equity Programs' future results. While the Advisers intend for the AEA Middle Market Private Equity Programs to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that the targeted internal rate of return will be achieved. On any given investment, loss of principal is possible.

Investment in Junior Securities. The equity securities in which the AEA Middle Market Private Equity Programs 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 an investment once made.

Concentration of Investments. The AEA Middle Market Private Equity Programs will participate in a limited number of investments and may seek to make several investments in one industry or one industry segment. As a result, the AEA Middle Market Private Equity Programs' investment portfolios could become highly concentrated, and the performance of a few holdings may substantially affect their aggregate returns. Furthermore, to the extent that the capital raised is less than the targeted amount, the AEA Middle Market Private Equity Programs may invest in fewer portfolio companies and thus be less diversified.

Lack of Sufficient Investment Opportunities. It is possible that the AEA Middle Market Private Equity Programs will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring private equity transactions is highly competitive and involves a high degree of uncertainty. However, investors will be required to pay annual management fees during the applicable investment periods based on the entire amount of their capital commitments.

Illiquidity; Lack of Current Distributions. An investment in the AEA Middle Market Private Equity Programs should be viewed as illiquid. 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, may occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the initial investment. Before this time, there may be no current return on the investment. Furthermore, the expenses of operating the AEA Middle Market Private Equity Programs (including the annual management fee payable to the Advisers or their affiliates or Principals) may exceed their income, thereby requiring that the difference be paid from the AEA Middle Market Private Equity Programs' capital commitments.

Leveraged Investments. The AEA Middle Market Private Equity Programs may make use of leverage by having portfolio companies incur debt. Leverage generally magnifies both the AEA Middle Market Private Equity Programs' opportunities for gain and their risk of loss from a particular investment. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to finance future operations and capital needs. The leveraged capital structure of portfolio companies will increase the exposure of the AEA Middle Market Private Equity Programs' investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of the AEA Middle Market Private Equity Programs' investments in the leveraged portfolio companies in a down market.

Limited Transferability of the AEA Middle Market Private Equity Programs Interests. There will be no public market for interests in Participant Program or Institutional Fund investments pursuant to the AEA Middle Market Private Equity Programs and none is expected to develop. There are substantial restrictions upon the transferability of interests in a Participant Program and Institutional Fund investments pursuant to the AEA Middle Market Private Equity Programs under the applicable operative agreements and applicable securities laws. In general, withdrawals of capital from the AEA Middle Market Private Equity Programs are not permitted and any related interests are not redeemable.

Restricted Nature of Investment Positions. Generally, there will be no readily available market for a substantial number of the AEA Middle Market Private Equity Programs' investments, and hence, most of the AEA Middle Market Private Equity Programs' investments will be difficult to value. Certain investments may be distributed in kind to the investors.

Reliance on the Advisers and Portfolio Company Management. Investment programs within the AEA Middle Market Private Equity Programs may have a limited operating history and will be entirely dependent on the Advisers and their Principals. Control over the operation of the AEA Middle Market Private Equity Programs will be vested entirely with the Advisers and their Principals, and the AEA Middle Market Private Equity Programs' future profitability will depend largely upon the business and investment acumen of the Principals. Neither the AEA Middle Market Private Equity Programs nor the Advisers have entered into any employment or

non-compete agreements with its senior management. The loss of service of one or more of the Principals could have an adverse effect on the AEA Middle Market Private Equity Programs' ability to realize its investment objectives. Investors generally have no right or power to take part in the management of the AEA Middle Market Private Equity Programs, and as a result, the investment performance of the AEA Middle Market Private Equity Programs will depend entirely on the actions of the Advisers and their Principals. Although the Advisers will monitor the performance of each AEA Middle Market Private Equity Program investment, it will primarily be the responsibility of each portfolio company's management team to operate the portfolio company on a day-to-day basis. Although the AEA Middle Market Private Equity Programs generally intend to invest in companies with, or with the ability to retain, strong management, there can be no assurance that the management of these companies will continue to operate a company successfully or remain with the company following the AEA Middle Market Private Equity Program's investment.

Projections. Projected operating results of a company in which the AEA Middle Market Private Equity Programs invest normally will be based primarily on financial projections prepared by each company's management. In all cases, projections are only estimates of future results that are based upon 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.

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

Non-U.S. Investments. The AEA Middle Market Private Equity Programs may (directly or through the Europe Fund) invest a significant portion of the aggregate commitments in portfolio companies that are organized or have substantial sales or operations outside of the United States, its territories, and possessions. Investments such as these may be subject to certain additional risk due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as these regulations may be given effect during the terms' of the AEA Middle Market Private Equity Programs), the application of complex U.S. and foreign tax rules to cross-border investments, possible imposition of foreign taxes on the AEA Middle Market Private Equity Programs and/or the investors with respect to the AEA Middle Market Private Equity Programs' income, and possible foreign tax return filing requirements for the AEA Middle Market Private Equity Programs and/or the investors.

Significant Default Penalties. The operative documents provide for significant penalties and other adverse consequences in the event an investor defaults on its commitment or other payment obligations. In addition to losing its right to potential distributions from the AEA Middle Market Private Equity Programs, a defaulting investor may be forced to transfer its interest in the AEA Middle Market Private Equity Programs for an amount that is less than the fair market value of this interest and that may be paid over a period of up to ten years, without interest.

Dilution. Investors admitted to the AEA Middle Market Private Equity Programs at subsequent closings will participate in then-existing investments of the AEA Middle Market Private Equity Programs, thereby diluting the interest of existing investors in these investments. Although any such new investor 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 the AEA Middle Market Private Equity Programs' existing investments at the time of these contributions.

Adviser's Carried Interest. The fact that the carried interest received by an Adviser's affiliate is based on a percentage of net profits may create an incentive for the Advisers to cause the AEA Middle Market Private Equity Programs to make riskier or more speculative investments than would otherwise be the case.

Public Company Holdings. The AEA Middle Market Private Equity Programs' investment portfolios may contain securities issued by publicly held companies. These investments may subject the AEA Middle Market Private Equity Programs to risks that differ in type or degree from those involved with investments in privately held companies. These risks include, without limitation, greater volatility in the valuation of these companies, increased obligations to disclose information regarding these companies, limitations on the ability of the AEA Middle Market Private Equity Programs to dispose of these securities at certain times, increased likelihood of shareholder litigation against the companies' board members, including the Principals, and increased costs associated with each of the aforementioned risks.

Director Liability. The AEA Middle Market Private Equity Programs expect to acquire control of many of the companies in which they invest and generally obtain the right to appoint a representative to the board of directors of the companies in which they invest. Serving on the board of directors of a portfolio company or otherwise controlling it exposes the AEA Middle Market Private Equity Programs' representatives, and ultimately the AEA Middle Market Private Equity Programs, to potential liability. Not all portfolio companies may obtain insurance with respect to this liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from this liability.

Minority Investments. Although the AEA Middle Market Private Equity Programs intend to invest primarily in entities that they control, they may invest in entities in which they are required to share control with others or in which they have only minority representation on the board of directors (or similar governing body) and/or limited rights to control the entity's business. The AEA Middle Market Private Equity Programs' investments in entities they do not control could materially affect their ability to influence the business and cause their exit from an investment.



Conflict of Interest. During the relevant investment periods, the Principals will pursue all appropriate investment opportunities they consider to be suitable for the Clients exclusively through the AEA Middle Market Private Equity Programs and other investment vehicles comprising, or associated with, the AEA Middle Market Private Equity Programs, subject to certain limited exceptions. However, the Principals currently manage several other investment funds and investments similar to those in which the AEA Middle Market Private Equity Programs will be investing, and may direct certain relevant investment opportunities to those investment funds and investments. The Principals and the investment staff of the Adviser or its affiliate will continue to manage and monitor these investment funds and investments. The significant investment of the Principals in the AEA Middle Market Private Equity Programs, as well as the Principals' interest in the carried interest, operate to align, to some extent, the interest of the Principals with the interest of the investors, although the Principals have economic interests in such other investment funds and investments as well and receive management fees and carried interests relating to these interests. Such other investment funds and investments that the Principals may control may compete with the AEA Middle Market Private Equity Programs or companies acquired by the AEA Middle Market Private Equity Programs. Following the investment period, the Principals may and likely will devote attention to opportunities and areas unrelated to the AEA Middle Market Private Equity Programs' investments.

In addition, the Advisers manage the AEA Debt Programs, which focus on providing debt to a variety of borrowers, including businesses in which the AEA Middle Market Private Equity Programs may have invested or may seek to invest. In these cases, conflicts may arise between the interest of the AEA Middle Market Private Equity Programs (as primarily equity investors) and those of the AEA Debt Programs in question or any successor Adviser-managed fund (as primarily a creditor) in structuring, negotiating and pricing the investment. Since the AEA Middle Market Private Equity Programs and such an AEA Debt Program will have different positions in the portfolio company's capital structure, there can be conflicts, especially if the borrower suffers financial difficulties (including conflicts over proposed waivers and amendments to debt instruments, whether or not to seek to reorganize the capital of the borrower, and the nature of restrictions to be imposed on the borrower).

The Advisers also manage the AEA Small Business Private Equity Programs and may in the future manage successor small business Funds. The general policy that the Advisers expect to follow with respect to the allocation of investment opportunities is that domestic transactions involving an equity investment to be made by affiliates of AEA Investors LP of less than \$50 million suitable for the AEA Small Business Private Equity Programs, and in which the AEA Small Business Private Equity Programs are able to invest, will be first presented to the AEA Small Business Private Equity Programs. The AEA Middle Market Private Equity Programs will not invest in these transactions except in special circumstances approved by an advisory board to be established by the applicable Adviser (the "Advisory Board") and, where required, under regulations applicable to the small business Funds. Transactions involving an equity investment to be made by affiliates of AEA Investors LP of \$50 million or more and non North American investments generally first will be presented to the AEA Middle Market Private Equity Programs, or (to the extent permitted by the operative agreements) other Funds managed by the Advisers.

Several of the Adviser's Clients have Advisory Boards. These Boards, when formed, will be composed of investor representatives selected by the Adviser (all of whom will be unaffiliated with the Adviser). The Advisory Board will provide advice and counsel as is requested by the Adviser in connection with AEA Middle Market Private Equity Programs' investments, potential conflicts of interest, and other of the AEA Middle Market Private Equity Programs' matters. The Adviser and its affiliates will retain ultimate responsibility for all decisions relating to the operation and management of the AEA Middle Market Private Equity Programs, including, but not limited to, investment decisions. Side-by-side investing such as this can give rise to conflicts of interest including allocations of investment interests, governance rights and the sharing of fees and expenses.

#### AEA Small Business Private Equity Programs

The risk factors listed above applicable to the AEA Middle Market Private Equity Programs also apply to the Adviser's investments in small businesses through the AEA Small Business Private Equity Programs. In addition, the AEA Small Business Private Equity Programs are subject to certain additional risks, including the following:

Reliance on the Adviser and Portfolio Company Management. Control over the operation of the AEA Small Business Private Equity Programs will be vested entirely with the Advisers and their Principals, and the AEA Small Business Private Equity Programs' future profitability will depend largely upon the business and investment acumen of the Principals. While the AEA Small Business Private Equity Programs will have access to the full resources, staff and expertise of Advisers, it is expected at this time to operate under the active supervision of Messrs. Damon H. Ball, John F. Cozzi, Alan W. Wilkinson and Baron Carlson. Messrs. Cozzi, Carlson and Ball primarily are engaged in the business of the AEA Small Business Private Equity Programs but they also may spend a portion of their time assisting the Advisers in connection with transactions unrelated to the AEA Small Business Private Equity Programs. Mr. Wilkinson spends a majority of his time on the AEA Small Business Private Equity Programs. He also is actively involved in leading investments in the AEA Middle Market Private Equity Programs and acts as an important additional conduit of resources and information flow between the AEA Small Business Private Equity Programs and the AEA Middle Market Private Equity Programs. The Funds will have an investment committee consisting of Messrs. Ball, Cozzi, Wilkinson, Carlson and, in certain cases, John L. Garcia, the CEO and President of AEA Investors LP. Mr. Garcia is not active in day-to-day operations of the AEA Small Business Private Equity Programs but as a member of certain of the investment committees is active in the review of investment transactions. Accordingly, there can be a conflict in the allocation of the time commitments to the AEA Small Business Private Equity Programs by members of the investment committee. Neither the AEA Small Business Private Equity Programs nor the Adviser has entered into any employment or non-compete agreements with its senior management. The loss of service of one or more of the Principals could have an adverse effect on the AEA Small Business Private Equity Programs' ability to realize its investment objectives. It should also be noted that neither the AEA Small Business Private Equity Programs, the Adviser nor its management company have entered into any long term employment contracts with any of the members of the investment committee and that the obligation of investors to contribute capital to the AEA Small Business Private Equity Programs may not be dependent on the continued service of one or more

member(s) of the investment committee.

Conflicts of Interest. Advisers manage the AEA Middle Market Private Equity Programs (including the 2003 Program and the 2006 Program) and several private debt funds. In the future, Advisers may manage other funds. The general policy that the Advisers expect to follow with respect to the allocation of initial investment opportunities in portfolio companies is that domestic transactions involving an equity investment to be made by affiliates of AEA Investors LP of \$50 million or less and which are deemed suitable by the Adviser for the AEA Small Business Private Equity Programs to invest will be presented first to the AEA Small Business Private Equity Programs. The AEA Middle Market Private Equity Programs will not invest in these transactions except in special circumstances.

Transactions involving an equity investment to be made by affiliates of AEA Investors LP in a portfolio company of more than \$50 million generally, and certain non domestic investments regardless of size, will be presented first to the other private equity funds managed by Advisers. It is contemplated that in certain circumstances, the AEA Small Business Private Equity Programs may be invited to co-invest in transactions being managed or led by other funds managed by the Advisers; and that the other Adviser funds may be invited to co-invest with the AEA Small Business Private Equity Programs. This side-by-side investing can give rise to conflicts of interest including allocations of investment interests, governance rights and the sharing of fees and expenses.

Advisers also sponsors private debt (mezzanine, senior and second lien) funds which focus on providing debt to a variety of borrowers, including businesses in which the AEA Small Business Private Equity Programs may seek to invest equity and entities formed by the AEA Small Business Private Equity Programs to make investments. In these cases, conflicts may arise between the interest of the AEA Small Business Private Equity Programs (as equity investors) and those of the private debt funds (as a creditor) in structuring, negotiating and pricing the investment. Since the AEA Small Business Private Equity Programs and the private debt funds can have different positions in the investee company's capital structure, there can be conflicts, especially if the borrower suffers financial difficulties (including conflicts over proposed waivers and amendments to debt instruments, whether or not to seek to reorganize the capital of the borrower, and the nature of restrictions to be imposed on the borrower).

The AEA Small Business Private Equity Programs will establish advisory boards, selected by the applicable Adviser, consisting of representatives of investors not affiliated with the Adviser with which it may consult as to potential conflicts of interest and other matters (the "Advisory Board"). On any issue involving actual conflicts of interest, the Adviser (directly and through the investment committee) will be guided by its good faith judgment as to the AEA Small Business Private Equity Programs' best interests, including, if deemed to be advisable by the Adviser, in consultation with the Advisory Board. In such an event, the Adviser may take whatever actions it deems necessary or appropriate to ameliorate the conflict, to the extent required, and upon the taking of these actions the Adviser and the members of the investment committee and Advisory Board will be relieved of any responsibility for the conflict.

The AEA Small Business Private Equity Programs and other Adviser funds may use common

counsel with respect to investments in entities in which they acquire an interest, if the Adviser believes that the time, cost and other savings and efficiencies outweigh any potential conflicts of interest. The Adviser expects to keep the Advisory Board regularly informed of its policies with respect to these matters, and the conflicts referred to above and when the Adviser or the investment committee believes it appropriate to do so, to consult with the Advisory Board before proceeding in a matter involving a potential conflict.

### Risks Related to the Operation of SBF I

The Adviser operates SBF I as a small business investment company (“SBIC”). The Small Business Administration (the “SBA”) rules and regulations are lengthy and complex. SBF I will provide a copy of the rules and regulations to any current or prospective investor upon request. Additional information about SBICs may also be found on the SBA’s website at <http://www.sba.gov/INV/>.

Use of Financial Leverage. SBF I has received a “Participating Securities Leverage” commitment from the SBA in the amount of \$98.6 million under the “Participating Securities” program. Under this program, the SBA provides capital to SBICs by purchasing a form of senior equity security called a “Participating Security.” The program was intended to encourage SBICs to make equity investments in earlier stage companies. SBA regulations govern when and how the Participating Securities Leverage may be drawn. SBF I’s use of Participating Securities Leverage increases both the potential for loss of an investor’s investment in SBF I, as well as the potential for gain. SBF I will be required to make payments on SBA leverage, which, in general, have a priority over payments to other investors. The ability of investors to realize a gain on their investment is, to a significant degree, a function of the ability of SBF I to meet priority payment obligations on drawn Participating Securities Leverage and to pay the remaining principal at the end of the ten-year life of each instrument. If SBF I cannot generate a sufficient return to meet priority payment obligations to the SBA, investor returns will be less than in an unleveraged Fund. If these priorities cannot be fully satisfied, investors may face a partial or complete loss of their investments.

In addition, if at the end of SBF I’s term, amounts to which the SBA is entitled have not been paid in full, the SBA will generally be able to require SBF I to call any remaining unfunded commitment of the investors for purposes of making these payments to the SBA.

Effect of Leverage on Adviser’s Investment Decisions. The greater volatility, due to the use of Participating Securities Leverage, of gain or loss realized by private investors on SBF I’s investments could have the impact of magnifying the incentive of the Adviser to pursue riskier investments with greater potential for gain than might otherwise be the case.

Regulatory Authority of the SBA. The SBA has significant ability to supervise many critical aspects of the affairs of SBF I. SBA regulations impose greater restrictions on the portfolio of an SBIC than would generally be the case for an unregulated private equity fund. Certain activities and decisions require SBA approval, and there are uncertain timeframes for these approvals. For example:

- SBA regulations impose various restrictions on the size and nature of a portfolio company in which SBF I may invest, including the size of any business that may be placed in an SBIC's portfolio, requirements to diversify investments, and restrictions on certain investment terms.
- The SBA may also restrict distributions if it does not agree with an SBIC's valuation of assets.
- The SBA may elect to restrict the activities of an SBIC that it deems to be in "capital impairment," as defined in the SBA Regulations.
- The SBA may also impose regulatory sanctions for a variety of regulatory violations, including non-substantive violations.
- There may also be penalties on investors for participating in an unapproved change in control of these interests.
- In the event of a transfer of the interest in SBF I by an investor, the SBA takes the position that the transferor is not released from its unfunded commitment without prior SBA approval of such transfer and release.

SBF II. The SBA's "Participating Securities" program has been discontinued. SBF II is not registered as an SBIC, has not received any funding from the SBA and is not a member of that program. Accordingly, it is not required to operate in accordance with the SBA rules discussed above.

### AEA Debt Programs

No Assurance of Investment Return. The Advisers cannot provide assurance that they will be able to choose, make, and realize portfolio investments in any particular company or portfolio of companies. There can be no assurance that the AEA Debt Programs will be able to generate returns for their investors or that the returns will be commensurate with the risks of investing in the types of companies and transactions described herein. There can be no assurance that any investor will receive any distribution from the AEA Debt Programs. Accordingly, an investment in the AEA Debt Programs should only be considered by persons who can afford a loss of their entire investment. Past activities of investment entities associated with Advisers provide no assurance of future success.

Investments in Middle Market Companies. The AEA Debt Programs intend to invest in middle market companies. Portfolio investments in these companies may involve greater risks than generally are associated with investments in larger companies. Middle market companies tend to have lower capitalization and/or fewer resources and, therefore, often are more vulnerable to financial failure. These companies also may have shorter operating histories on which to judge future performance.

Operating and Financial Risks of Portfolio Companies. One of the fundamental risks associated with the AEA Debt Programs' investments is credit risk, which is the risk that an issuer will be unable to make principal and interest payments on its outstanding debt obligations when due. The AEA Debt Programs' return to investors would be adversely impacted if an issuer of debt securities in which the AEA Debt Programs invest becomes unable to make these payments when due. Companies in which the AEA Debt Programs invest could deteriorate as a result of, among other factors, adverse developments in their businesses, changes in the competitive environment, or an economic downturn. As a result, companies which the AEA Debt Programs expected to be stable may operate, or expect to operate, at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or to maintain their competitive position, or may otherwise have a weak financial condition or be experiencing financial distress.

Illiquid and Long-Term Investments. The AEA Debt Programs intend to invest their assets in long-term investments, which are likely to be illiquid. Illiquidity may result from the absence of an established market for investments as well as legal or contractual restrictions on their resale. Investors should expect that they will not receive a return of capital for several years even if the AEA Debt Programs' investments prove successful. In addition, there can be no assurance that the distributions, if any, from the AEA Debt Programs to its investors will be sufficient to cover any investor's tax obligations arising from taxable income of the AEA Debt Programs. Moreover, current income on securities acquired by certain of the AEA Debt Programs may be in the form of payable-in-kind ("PIK") interest, thereby delaying the receipt of cash proceeds from said investment.

Investments Longer Than Term. The AEA Debt Programs may make investments which may not be advantageously disposed of prior to the date the AEA Debt Programs will be dissolved, either by expiration of the AEA Debt Programs' term or otherwise. Although the Advisers expect that investments will either be disposed of prior to termination or be suitable for in-kind distribution at dissolution and the Advisers have a limited ability to extend the term of the AEA Debt Programs, the AEA Debt Programs may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

Follow-On Investments. The AEA Debt Programs may be called upon to provide additional funding for their portfolio companies or have the opportunity to increase their investments in these portfolio companies. There can be no assurance that the AEA Debt Programs will wish to make follow-on investments or that they will have sufficient funds to do so. Any decision by the AEA Debt Programs not to make follow-on investments or their inability to make them may have a substantial negative impact on a portfolio company in need of such an investment and may diminish the AEA Debt Programs' ability to influence the portfolio company's future development.

Investments in Publicly Traded Securities. The AEA Debt Programs may at any time invest a portion of capital commitments in securities that are publicly traded and are therefore subject to the risks inherent in investing in public securities. When investing in public securities, the AEA Debt Programs may be unable to obtain financial covenants or other contractual rights, including management rights, that they might otherwise be able to obtain in making privately negotiated investments. Moreover, the AEA Debt Programs may not have the same access to

information in connection with investments in public securities, either when investigating a potential investment or after making an investment, as compared to privately negotiated investments. Furthermore, the AEA Debt Programs may be limited in their ability to make investments, and to sell existing investments, in public securities because Advisers may be deemed to have material, nonpublic information regarding the issuers of those securities or as a result of other internal policies. The inability to sell public securities in these circumstances could materially adversely affect the investment results of the AEA Debt Programs.

Non-U.S. Investments. A portion of the capital commitments may at any time be invested in portfolio companies organized and operating principally outside of North America. These investments will involve risks not typically associated with investments in the securities of U.S. companies. For instance, investments in non-U.S. businesses (i) may require significant government approvals under corporate, securities, exchange control, non-U.S. investment, and other similar laws and regulations, (ii) may require financing and structuring alternatives and exit strategies that differ substantially from those commonly used in the United States, (iii) will expose the AEA Debt Programs to potential losses arising from changes in foreign currency exchange rates and (iv) may subject the AEA Debt Programs and/or the investors to additional or unforeseen taxation in the jurisdictions of the AEA Debt Programs' investments. The foregoing factors may increase transaction costs and adversely impact the value of the AEA Debt Programs' investments in non-U.S. portfolio companies.

Illiquidity. Investment in the AEA Debt Programs requires the financial ability and willingness to accept significant risk and illiquidity. The interests have not been registered under the Securities Act, or any other applicable securities laws. It is not contemplated that registration of the interests under the Securities Act or other securities laws will ever be affected. There is no public market for the interests and none is expected to develop. In addition, the interests are not transferable except with the consent of the Advisers, which may be withheld by the Advisers in their sole discretion, and are subject to the terms and conditions of the operative documents. The investors generally may not withdraw capital from the AEA Debt Programs. Investors must be prepared to bear the risks of owning interests and contributing capital for an extended period of time.

Competitive Nature of the AEA Debt Programs' Businesses. The businesses of the AEA Debt Programs are highly competitive and the Advisers will be competing for investment opportunities with other groups, including other mezzanine funds, middle market funds, financial institutions, CLOs, senior debt funds, private equity funds, direct investment firms, and merchant banks, and the Advisers may be unable to identify a sufficient number of attractive investment opportunities for the AEA Debt Programs to meet their investment objectives. Other investors may make competing offers for investment opportunities that are identified, and even after an agreement in principle has been reached with the board of directors or owners of an investment target, consummating the transaction is subject to a multitude of uncertainties, only some of which are foreseeable or within the control of the Advisers. The need to compete for investment opportunities may make it necessary for the AEA Debt Programs to offer borrowers, or companies in which they make portfolio investments, more attractive terms than otherwise might be the case.

Dependence on Key Personnel. The success of the AEA Debt Programs depends in substantial part on the skill and expertise of the investment professionals of the applicable Adviser. The AEA Debt Programs' success also depends on the Adviser's ability to identify suitable investment opportunities. Control over the operation of the AEA Debt Programs will be vested entirely with the Adviser and its affiliates, and the AEA Debt Programs' future profitability will depend largely upon the business and investment acumen of the investment professionals of the Adviser. The investment professionals and other employees of the Adviser and the members of the investment committee are not bound by long-term employment contracts and there can be no assurance they will continue to be employed by the Advisers or their affiliates, throughout the lives of the AEA Debt Programs. The loss of key personnel could have a material adverse effect on the AEA Debt Programs.

Future and Past Performance. The performance of the Advisers or their affiliate's prior investments is not necessarily indicative of the AEA Debt Programs' future results. While the Adviser intends for the AEA Debt Programs to make portfolio investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that the targeted internal rate of return will be achieved. On any given investment, loss of principle is possible.

AEA Debt Program Leverage. Certain of the AEA Debt Programs expect to incur indebtedness for borrowed money and may pledge portfolio investments and unfunded capital commitments as collateral against such indebtedness. Such indebtedness may be incurred on a portfolio-wide basis or against specific portfolio investments. The extent to which the AEA Debt Programs use leverage may have important consequences to the investors, including, but not limited to, the following: (i) greater fluctuations in the net assets of the AEA Debt Programs, (ii) use of cash flow for debt service, rather than for additional investments, distributions, or other purposes, (iii) to the extent that AEA Debt Programs revenues are required to meet principal payments, the investors may be allocated income (and therefore tax liability) in excess of cash available by distribution and (iv) in certain circumstances the AEA Debt Programs may be required to prematurely harvest investments to service its debt obligations. There can also be no assurance that the AEA Debt Programs will have sufficient cash flow to meet its debt service obligations. As a result, the AEA Debt Programs' exposure to losses may be increased due to the illiquidity of their investments generally.

Recycling; Reinvestment. During the investment period, the Advisers may have the right to recall capital contributions applied to an investment that has been disposed of by the AEA Debt Programs (as well as capital for management fees, organizational expenses, and used to repay indebtedness or interest thereon up to the amount of other proceeds from these dispositions). The scope and availability of that right will vary based on the specific AEA Debt Program. It may also be possible for capital contributions to be retained by an AEA Debt Program and be redeployed. Accordingly, to the extent these recalled or retained amounts are reinvested in portfolio investments, an investor will remain subject to investment and other risks associated with these portfolio investments.

Liability of Investors. Certain programs within the AEA Debt Programs have been organized as Delaware limited partnerships. An investor will not be personally liable for the debts of the AEA Debt Programs (i) except as provided in the operative documents and (ii) except that, in the event that the AEA Debt Programs are otherwise unable to meet its obligations, each



investor may, under Delaware law, be obligated to repay amounts previously received by that investor to the extent that these amounts are deemed to have been wrongfully distributed to that investor.

No Rights to Control the AEA Debt Program's Operations. Investors will have no opportunity to control the day-to-day operations, including investment and disposition decisions, of the AEA Debt Programs. In order to safeguard their limited liability for the liabilities and obligations of the AEA Debt Programs, investors must rely entirely on the Advisers and their affiliates to conduct and manage the affairs of the AEA Debt Programs.

Consequences of Default. In the event that an investor fails to fund any portion of its capital commitment when due, this investor will forfeit all or a portion of its interest and be subject to other default provisions under the operative documents. In the event that an investor fails to pay, when due, installments of its capital commitment to the AEA Debt Programs, and the contributions made by non-defaulting investors and borrowings by the AEA Debt Programs are inadequate to cover the defaulted capital contribution, the AEA Debt Programs may be unable to pay their obligations when due. As a result, the AEA Debt Programs may be subjected to significant penalties that could materially adversely affect the returns to the investors (including non-defaulting investors).

Unspecified Use of Proceeds. Purchasers of interests will not have an opportunity to evaluate for themselves the relevant economic, financial, and other information regarding the investments to be made by the AEA Debt Programs and, accordingly, will be dependent upon the judgment and ability of the Advisers in investing and managing the capital of the AEA Debt Programs. No assurance can be given that the AEA Debt Programs will be successful in obtaining suitable investments, or that if these investments are made, the objectives of the AEA Debt Programs will be achieved.

Market Dislocation. Recent events in the subprime mortgage market and other areas of the fixed income markets have caused significant dislocations, illiquidity and volatility in the mezzanine debt, structured credit, leveraged loan and high-yield bond markets, as well as in the wider global financial markets. To the extent that these marketplace events are not temporary and continue (or even worsen), this 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. The existing market dislocation and any further economic downturn could adversely affect the financial resources and credit quality of corporate borrowers in which the AEA Debt Programs have invested and result in the inability of these borrowers to make principal and interest payments on, or refinance, outstanding debt when due. In the event of these defaults, the AEA Debt Programs may suffer a partial or total loss of capital invested in these companies, which would, in turn, have an adverse effect on the AEA Debt Programs' returns. These marketplace events also may restrict the ability of the AEA Debt Programs to sell or liquidate investments at favorable times or for favorable prices (although such marketplace events may not foreclose the AEA Debt Programs' ability to hold these investments until maturity). There can be no assurance as to the duration of the current market dislocation.

Certain Regulatory Considerations. The AEA Debt Programs expect to make investments in a number of different industries, some of which are or may become subject to regulation by one

or more U.S. federal agencies and by various agencies of the states, localities, and counties in which they operate. New and existing regulations, changing regulatory schemes, and the burdens of regulatory compliance all may have a material negative impact on the performance of portfolio companies that operate in these industries. The Advisers cannot predict whether new legislation or regulation governing those industries will be enacted by legislative bodies or governmental agencies, nor can it predict what effect this legislation or regulation might have. There can be no assurance that new legislation or regulation, including changes to existing laws and regulations, will not have a material negative impact on the AEA Debt Programs' investment performance.

Reliance on Management of Portfolio Companies. While the Advisers intend to invest in companies with proven operating management in place, there can be no assurance that this management will continue to operate successfully. Although the Advisers will monitor the performance of each investment, the AEA Debt Programs will rely upon management to operate the portfolio companies on a day-to-day basis. In addition, certain of the AEA Debt Programs' investments may be in businesses with limited operating histories. Although the AEA Debt Programs generally intend to invest in companies, with, or with the ability to retain, strong management, there can be no assurance that the management of these companies will continue to operate a company successfully or remain with the company following the AEA Debt Programs' investment.

Bankruptcy of Portfolio Companies. The AEA Debt Programs may make investments in portfolio companies that may experience financial difficulties and become insolvent or file for bankruptcy protection. Various U.S. federal and state laws in connection with these bankruptcy proceedings could operate to the detriment of the AEA Debt Programs. There is also a risk that a court may subordinate the AEA Debt Programs' investment to other creditors or require the AEA Debt Programs to return amounts previously paid to them by a portfolio company that become insolvent or files for bankruptcy, a risk that could increase if the AEA Debt Programs have management rights or hold equity securities in these portfolio company.

Hedging Policies/Risks. The AEA Debt Programs expects to employ hedging techniques designated to reduce the risks of adverse movements in interest rates, currency exchange rates, and certain other risks. For example, the AEA Debt Programs may utilize currency or interest rate options or other instruments to seek to hedge against fluctuations in the relative values of their portfolio positions as a result of changes in currency exchange rates or interest rates.

Financial Market and Interest Rate Fluctuations. General fluctuations in the market prices of securities and interest rates may affect the AEA Debt Programs' investment opportunities and the value of the AEA Debt Programs' investments. The market value of debt instruments generally fluctuate with, among other things, the financial condition of the issuer. Prepayments of floating rate debt instruments are likely to be made during any period of declining interest rate spreads or by issuers whose credit standing improves significantly. Likewise, prepayments of fixed rate debt instruments are likely to be made in any period of declining interest rates, although premiums may be payable. Any such prepayments would force the AEA Debt Programs to replace the prepaid debt instruments with potentially lower-yielding investments. Instability in the securities market generally may also increase the risks inherent in the AEA Debt Programs' investments.

Indemnification. The AEA Debt Programs will be required to indemnify, among others, the Advisers, the members of an advisory committee (to be established by representatives of the AEA Debt Programs and to consist of at least three members not affiliated with the Advisers, selected by the Advisers from among the investors or their representatives) (the “Advisory Committee”), their respective affiliates, and each of their respective members, partners, directors, officers, agents or employees, and certain other persons who serve at the request of the Advisers on behalf of the AEA Debt Programs for liabilities incurred in connection with the affairs of the AEA Debt Programs. These liabilities may be material. The indemnification obligations of the AEA Debt Programs would be payable from the assets of the AEA Debt Programs, including the unused capital commitments of the investors. If the assets of the Partnership are insufficient, the Advisers may recall distributions previously made to the investors, subject to certain limitations.

Risk Arising from Provision of Managerial Assistance. The Advisers intend to use commercially reasonable efforts to avoid having the assets of the AEA Debt Programs constitute “plan assets” of any plan subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”) or Section 4975 of the Code and may, in this regard, elect to operate the AEA Debt Programs as “venture capital operating companies” (“VCOCs”) within the meaning of regulations promulgated under ERISA. Operating the AEA Debt Programs as VCOCs would require that the AEA Debt Programs obtain rights to participate substantially in and to influence substantially the conduct of the management of the majority (valued at cost) of the AEA Debt Programs’ portfolio companies.

ERISA Considerations. In the event the AEA Debt Programs are operated to qualify as VCOCs in order to avoid holding “plan assets” within the meaning of ERISA, the AEA Debt Programs may be restricted or precluded from making certain investments. In addition, it could be necessary for the Advisers to liquidate investments at a disadvantageous time in order to avoid holding ERISA “plan assets,” resulting in lower proceeds to the AEA Debt Programs than might have been the case without the need to qualify as a VCOC.

U.S. Tax Considerations for Non-U.S. Investors. Non-U.S. investors in the AEA Debt Programs (including, non-U.S. feeder funds treated as corporations for U.S. tax purposes, if any) will be subject to U.S. federal income tax on their net income if the AEA Debt Programs are treated as engaged in a trade or business within the U.S. No activity closely comparable to those of the AEA Debt Programs has been the subject of any Treasury regulation, revenue ruling or judicial decision, however, and there can be no assurance the activities of the AEA Debt Programs will not cause them to be treated as engaged in a trade or business within the United States. In addition, press reports indicate the Internal Revenue Service (the “IRS”) and Congress may be reviewing the tax treatment of loan investment activities similar to those of the AEA Debt Programs. It is possible that changes to the U.S. federal tax laws or interpretations thereof could cause the AEA Debt Programs to be treated as engaged in a U.S. trade or business or result in other adverse tax consequence to investors. Prospective investors should consult their own tax advisors with respect to the possibility that the AEA Debt Programs would be treated as engaged in a trade or business within the United States.

Potential Conflicts of Interest

Investors should be aware that there will be situations where the Advisers and their respective affiliates may encounter potential conflicts of interest in connection with the AEA Debt Programs' investment activities. The following discussion details certain potential conflicts of interest which should be carefully considered before making an investment in the AEA Debt Programs.

The fact that the Advisers' carried interests are based on the performance of the AEA Debt Programs may create an incentive for the Advisers to cause the AEA Debt Programs to make investments that are more speculative than would be the case in the absence of this performance-based compensation. However, this incentive may be tempered somewhat (i) by the Advisers' substantial commitment to the AEA Debt Programs and (ii) in that losses will reduce the AEA Debt Programs' performance and thus the Advisers' carried interest.

Advisers and their respective affiliates engage in other activities, including managing other Funds that are independent from and may from time to time conflict with the activities of the AEA Debt Programs. For example, it may be possible that other private equity sponsors that compete with Advisers for transactions may choose not to approach the AEA Debt Programs to provide mezzanine debt as a result of their affiliation with Advisers.

The officers and employees of the Advisers and their affiliates will devote such time as the Advisers, in their sole discretion, deem necessary to carry out the investment objectives and activities of the AEA Debt Programs. As a result, conflicts of interest may arise, including with respect to allocating management time, services, and functions, between the Advisers and their respective affiliates. Moreover, the same personnel of the Advisers manage multiple Funds within the AEA Debt Programs. This may create conflicts in the allocation of investment opportunities, particularly between the various debt Funds that may invest in more junior debt securities.

The Advisers manage Funds which invest primarily in debt and equity securities. Specifically, the Advisers manage the 2003 Program, the 2006 Program, the AEA Small Business Private Equity Programs and the AEA Debt Programs. The 2006 Program, with commitments of \$1.7 billion (including the Europe Fund) under management, focuses on control leveraged buyout investments of value-added industrial products (including manufacturing, service, and distribution), specialty chemicals, consumer products, and services companies. The AEA Small Business Private Equity Programs use an approach similar to that of the 2006 Program, except that the AEA Small Business Private Equity Programs target mainly domestic transactions that are of a smaller value. Certain of the AEA Debt Program Funds focus on providing senior debt to a variety of borrowers, including businesses in which other AEA Debt Program Funds may have already invested or may seek to invest. In addition the Advisers continue to oversee portfolio companies in which prior invested funds acquired an interest. In the future, the Advisers may manage successor funds to these funds or funds with other strategies.

The AEA Debt Programs will have the right to invest a substantial portion in portfolio companies in which another Adviser Fund has also invested, either concurrently with that Fund as a part of the same financing plan or subsequent or prior to the investment by that Fund. In these cases, the AEA Debt Programs and said Fund will hold different classes of securities and conflicts may arise between the interests of the AEA Debt Programs and those of the Fund in

the structuring, negotiation, and pricing of the investment. For example, conflicts may arise between certain Funds and the AEA Debt Programs in negotiating the price of the mezzanine securities, the characterization of these securities (secured or unsecured), the terms of inter-creditor agreements, the interest rate or stated dividend yield of these securities, the nature of the covenants running in favor of the AEA Debt Programs, the enforcement of covenants and the other terms and conditions of such investment, or in addressing any subsequent amendments or waivers. These conflicts may become particularly active in cases where one Fund invests in senior debt or equity and another in more junior debt.

A Fund may desire optimal flexibility to grow the portfolio company, while the AEA Debt Programs may want to place tighter restrictions on the type and the amounts of permitted investments and acquisitions. If a portfolio company of which the AEA Debt Programs and a Fund hold different classes of securities suffers financial difficulties, decisions over the terms of any workout will raise conflicts of interest (including conflicts over proposed waivers and amendments to debt covenants). For example, the AEA Debt Programs may be better served by a liquidation of the company in which they will be paid in full, whereas the Fund might desire a reorganization that could create value for the equity holders. It is also possible that in a bankruptcy proceeding, the AEA Debt Programs' interest may be subordinated or otherwise adversely affected as a result of Fund's involvement and actions relating to its investment. The Advisers will resolve these and other conflicts in its good faith judgment as to the AEA Debt Programs' best interests and as noted below, may refer the matter to the respective AEA Debt Program Advisory Committee. As noted above in "Management of the AEA Debt Programs" the same personnel of the Advisers manage multiple Funds within the AEA Debt Programs.

In addition, the Advisers are under no obligation to offer investment opportunities to the AEA Debt Programs of which they become aware or to allocate investments in accordance with any specific formula.

The appropriate allocation between the AEA Debt Programs and a Fund of expenses and fees generated in the course of evaluating and making investments which are not consummated, such as out-of-pocket fees associated with due diligence, attorney fees, and the fees of other professionals, will be determined by the Advisers in their good faith discretion.

The AEA Debt Programs and the Funds may use common counsel with respect to investments in entities in which they have or acquire an interest, at the same or at different levels of the capital structure, if the Advisers believe that the time, cost, and other savings and efficiencies outweigh any potential conflicts of interest. The Advisers expect to keep their Advisory Committee regularly informed of their policies with respect to these matters, and when the Adviser believes it is appropriate to do so, to consult with the Advisory Committee before retaining common counsel.

The Funds within the AEA Debt Programs will establish Advisory Committees consisting of representatives of investors not affiliated with the applicable Adviser. The Advisory Committee will meet as required to consult with the Adviser as to potential conflicts of interest. On any issue involving actual conflicts of interest, the Adviser will be guided by its good faith judgment as to the AEA Debt Programs' best interests. In the event that any matter arises that the Adviser and the Advisory Committee determine in their good faith judgment to constitute

an actual conflict of interest between the AEA Debt Programs, on the one hand, and the Adviser, or their affiliates, on the other hand, the Adviser may take whatever actions it deems necessary or appropriate to ameliorate the conflict (and upon taking these actions the Adviser will be relieved of any responsibility for the conflict of interest). These actions may include disposing of the security held by the AEA Debt Programs giving rise to the conflict of interest or appointing an independent fiduciary. The Adviser will retain ultimate responsibility for all decisions relating to the operation and management of the AEA Debt Programs, including but not limited to investment decisions.

The Advisers may establish a successor fund with investment objectives similar to those of the AEA Debt Programs. Allocation of available investment opportunities between the AEA Debt Programs and any successor investment fund will be made by the Advisers in their sole discretion.

The investors are expected to include U.S. taxable and tax-exempt entities, and institutions/persons from jurisdictions outside of the United States. These investors may have conflicting investment, tax, and other interests with respect to their investments in the AEA Debt Programs. The conflicting interests of individual investors may relate to or arise from, among other things, the nature of investments made by the AEA Debt Programs, the structuring of the acquisition of investments, and the timing of the disposition of investments. As a consequence, conflicts of interest may arise in connection with decisions made by the Advisers, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for the AEA Debt Programs, the Adviser will consider the investment and tax objectives of the AEA Debt Programs and the investors as a whole, not the investment, tax or other objectives of any investor individually.

By acquiring an interest in the AEA Debt Programs, each investor will be deemed to have acknowledged the existence of these actual and potential conflicts of any interest and to have waived any claim with respect to any liability arising from the existence of any such conflict of interest.

The Senior Debt Funds are not expected ordinarily to have representation as a director on the board of directors of an issuer in which they have made a debt investment.

Investments in Highly Leveraged Companies. The AEA Debt Programs' investments are expected to include investments in companies whose capital structures may have significant leverage (including, with respect to Mezz Fund I and Mezz Fund II, substantial leverage senior to the AEA Debt Programs' investments), a considerable portion of which may be at floating interest rates. The leveraged capital structure of these companies will increase their exposure to adverse economic factors such as rising interest rates, downturns in the economy or further deteriorations in the financial condition of the company or its industry. This leverage may result in more serious adverse consequences to these companies (including their overall profitability or solvency) in the event these factors or events occur than would be the case for less leveraged companies. For example, rising interest rates may significantly increase the portfolio company's interest expense, or a significant industry downturn may affect a

company's ability to generate positive cash flow, in either case causing an inability to service outstanding debt. Certain of the AEA Debt Programs' investments may be among the most junior financings in a company's capital structure. In the event such company cannot generate adequate cash flow to meet debt obligations, the company may default on its loan agreements or be forced into bankruptcy resulting in a restructuring or liquidation of the company, and subordinated and/or unsecured position may suffer a partial or total loss of capital invested in the company, which could adversely affect returns.

Special Risks applicable to Mezz Fund I and Mezz Fund II:

Nature of AEA Debt Programs' Investments. The debt securities in which Mezz Fund I and Mezz Fund II will invest typically will be unsecured and subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured. The ability of these AEA Debt Programs to influence a company's affairs, especially during periods of financial distress or following an insolvency is likely to be substantially less than that of senior creditors. For example, under terms of subordination agreements, senior creditors are typically able to block the acceleration of the mezzanine debt or other exercises by these AEA Debt Programs of their rights as creditors. Accordingly, these AEA Debt Programs may not be able to take the steps necessary to protect their investments in a timely manner or at all. In addition, the debt securities in which said AEA Debt Programs will invest may not be protected by financial covenants or limitations upon additional indebtedness, may have limited liquidity and may not be rated by a credit rating agency. Debt securities are also subject to other creditor risks, including (i) the possible invalidation of an investment transaction as a "fraudulent conveyance" under relevant creditors' rights laws, (ii) so-called lender liability claims by the issuer of the obligations and (iii) environmental liabilities that may arise with respect to collateral securing the obligations. Additionally, adverse credit events with respect to any portfolio company, such as missed or delayed payment of interest and/or principal, bankruptcy, receivership, or distressed exchange, can significantly diminish the value of these AEA Debt Programs' investments in any such company. Their investments may be subject to early redemption features, refinancing options, pre-payment options or similar provisions which, in each case, could result in the issuer repaying the principal on an obligation held by these AEA Debt Programs earlier than expected. In addition, depending on fluctuations of the equity markets, warrants and other equity securities may become worthless. Accordingly, there can be no assurance that these AEA Debt Programs' rate of return objectives will be realized.

Subordinated Investments. The mezzanine and junior debt investments of the AEA Debt Programs typically will be subordinated to the senior obligations of an issuer, either contractually (in the case of debt securities) or because of the nature of the security (in the case of preferred stock or common stock). In addition, many of the remedies available to subordinated holders are available only after satisfaction of claims of senior creditors. Any such subordinated investments may be characterized by greater credit risks than those associated with the senior obligations of the same issuer. Adverse changes in the financial condition of an issuer or in general economic conditions (or both) may impair the ability of this issuer to make payments on the subordinated securities and result in defaults on and declines in the value of these securities more quickly than in the case of the senior obligations of said issuer.

Risk Arising from Provision of Managerial Assistance. Mezz Fund I and Mezz Fund II typically will designate one or more directors to serve on the boards of directors of portfolio companies or will receive observer rights on these boards. The designation of representatives and other measures contemplated could expose the assets of the AEA Debt Programs to claims by a portfolio company, its security holders and its creditors, including claims that the AEA Debt Programs are controlling persons and thus are liable for securities law violations of portfolio companies. These measures also could result in certain liabilities in the event of the bankruptcy or reorganization of a portfolio company; could result in claims against the AEA Debt Programs if the designated directors violate their fiduciary or other duties to a portfolio company or fail to exercise appropriate levels of care under applicable corporate or securities laws, environmental laws or other legal principles; and could expose the AEA Debt Programs to claims that they have interfered in management to the detriment of a portfolio company. While the Advisers intend to manage the AEA Debt Programs in a way that will minimize the exposure to these risks, the possibility of successful claims cannot be precluded.



**Item 9 - DISCIPLINARY INFORMATION**

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Not applicable.

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

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Related persons of the Advisers serve as general partners of each of the Funds.

**Item 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

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The Advisers have adopted a Code of Ethics (the “Code”) to help ensure that their personnel comply with all applicable federal securities laws and with the fiduciary duties and anti-fraud rules to which they are subject. The Code is based on the principle that the Advisers and their personnel owe a fiduciary duty to the Funds and the Participants in the investment programs. The Code requires Advisers’ personnel to act in good faith and in the best interest of Clients, to conduct themselves ethically so as to avoid any actual or potential conflict of interest and to promptly report violations of the Code. The Advisers will provide a copy of the Code to Clients and prospective clients upon request.

The Advisers do not invest for their own account in securities. In addition, each Adviser requires all employees to obtain the prior approval of the Adviser for all personal securities transactions in covered securities. Advisers do not generally permit employees to purchase or sell securities in which Advisers have made an investment on behalf of Clients, or which are under active consideration for investment or divestiture by Advisers on behalf of Clients, except at the same time and on the same terms as the Clients. Employees of the Advisers and employees of Advisers’ affiliated companies invest in the Funds and invest alongside the Participants but generally without paying management and or carried interest fees (except in the case of the Participant Programs which require employees to pay carried interest on their invested amounts).

## **Item 12 - BROKERAGE PRACTICES**

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If Advisers sell publicly traded securities for Clients, they are responsible for directing orders to broker-dealers to effect those transactions. Each Adviser selects brokers on the basis of best price, costs and execution capability. In selecting a broker to execute client transactions, each Adviser may consider a variety of factors, including (i) the price and prompt execution of orders, and (ii) the reliability integrity, financial condition and execution capability of the firm being considered for effecting transactions in light of the size and difficulty of executing the order.

When Advisers place orders for purchases or sales of publicly traded securities on behalf of multiple Clients, the orders are aggregated, and partially filled orders are allocated pro-rata in accordance with the number of securities intended to be purchased or sold by each Client.

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

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The Advisers periodically review all investments. The investment professionals responsible for each investment program prepare quarterly reviews of the portfolio of such investment program that are reviewed by AEA Investors LP's senior staff. Each quarterly review includes a review of the operating performance, capital structure, prospects and material developments of each portfolio company. The Advisers also conduct semi-annual valuations of each investment that are reviewed and approved by the Adviser's senior personnel.

Participants and investors in Funds receive quarterly, semi-annual and annual written reports.

The quarterly reports of a Fund (for the quarters ended March 31, June 30 and September 30) include a summary of the status of each portfolio company, unaudited financial statements prepared on the basis of GAAP and an individual statement of partners' capital. In the case of SBF I, financial statements are based on the SBA's basis of accounting and are provided on SBA forms.

The semi-annual reports of a Fund include, in the case of the 2003 and 2006 Programs, an individual statement listing an investor's original cost and the current gross value of each investment. The Participant Programs also provide each Participant a commitment summary which includes commitment amount, amount invested in each series of units of an investment, the number of units issued and remaining commitment.

In the case of the Funds and, commencing for the year ended December 31, 2010, the 2006 Participant Program, the annual reports include audited annual financial statements of a Fund and Form K-1s. Annual reports for SBF I also include GAAP based financial statements in addition to financial statements based on the SBA basis of accounting.

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

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Advisers have agreed to pay certain unaffiliated persons (placement advisers) a cash fee for referring potential clients to the advisers. These arrangements generally provide for the reimbursement of expenses incurred by placement advisers, a monthly fee, and a success fee, based on the commitment made by the client referred by the placement adviser.

**Item 15 - CUSTODY**

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Not applicable.

**Item 16 - INVESTMENT DISCRETION**

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Advisers generally have discretionary authority to manage the assets of their Clients, subject to the investment objectives and restrictions of each Fund and each investment program. That authority is set forth in the constituent documents of the Funds and in the commitment agreements for the investment programs. The authority of Advisers to determine the securities to be purchased by the Funds is subject to the prior approval of the appropriate investment committee of the Fund.



## **Item 17 - VOTING CLIENT SECURITIES**

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Each Adviser has adopted proxy voting policies and procedures (the “Policies”). Due to the nature of the investments they make, the Advisers anticipate that they will be presented with proxy voting opportunities only in rare circumstances. The general policy of the Adviser is to vote proxy proposals (and any amendments, consents or resolutions relating to client securities), in a manner that serves the best interests of Clients, as determined by the Adviser in its discretion, taking into account the following factors: (i) the impact on the value of the investments; (ii) the anticipated associated costs and benefits; (iii) the continued or increased availability of portfolio information; and (iv) industry and business practices. Where the Adviser’s affiliated personnel serve as director(s) of a company, the Adviser will generally vote proxies in the same manner as such director(s), and where no such personnel serve as directors of a company, the determination of how to vote proxies will be made by the investment professionals responsible for the investment in consultation with the Adviser’s senior executive staff. In limited circumstances, the Adviser may refrain from voting proxies where the Adviser believes that voting would be inappropriate taking into consideration the cost of voting the proxy and the anticipated benefit to Clients. A copy of the Policies and the proxy voting record applicable to any Fund, investor or Participant may be obtained by contacting the Adviser.

**Item 18 - FINANCIAL INFORMATION**

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Not applicable.