

# Red Mountain Capital Partners LLC

## Item 1 – Cover Page

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This brochure provides information about the qualifications and business practices of Red Mountain Capital Partners LLC (“Red Mountain”, the “Firm”, “we” or “us”). If you have any questions about the contents of this brochure, please contact us at (310) 432-0200.

The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission or by any state securities authority. Red Mountain is a registered investment advisor with the U.S. Securities and Exchange Commission. However, any reference made in the following pages of being a “registered investment adviser” is not meant to imply a certain level of skill or training.

Additional information about Red Mountain also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and our website at [www.redmtncap.com](http://www.redmtncap.com).

## **Item 2 - Material Changes**

The following material changes have occurred since the Firm's previous filing of our prior brochure, dated March 28, 2013:

Red Mountain provides investment management services to the fund Red Mountain Partners, L.P. ("RMP"). Effective October 1, 2013, RMP amended its Limited Partnership Agreement ("LPA") whereby RMP became eligible to be deemed an ERISA plan asset fund once Limited Partner ERISA assets reached 25% of the fund's total Limited Partner AUM. On November 1, 2013, RMP became an ERISA plan asset fund.

As of January 1, 2014, John Hill, head of Business Development, (formerly a Principal) was promoted to Partner.

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## **Item 4 - Advisory Business**

### **A. Firm Overview**

Red Mountain is a Delaware Limited Liability Company founded in 2005 and became a registered investment advisor in February of 2012. Its managing member is Red Mountain Capital Management, Inc.; a Delaware corporation owned 100% by Willem Mesdag. The other members of the Firm are the Mesdag Family Limited Partnership (controlled by Willem Mesdag), Chris Teets Jack, Watkinson, and John Hill. Mr. Mesdag serves as Managing Partner and Chief Investment Officer (the “Managing Partner”); Mr. Teets serves as Partner and Portfolio Manager; Mr. Watkinson serves as Partner and Chief Operating Officer and Chief Compliance Officer and Mr. Hill serves as Partner and Head of Business Development. Mr. Mesdag, Mr. Teets, Mr. Watkinson, and Mr. Hill are referred to in this brochure as the “Partners of the Firm”. Red Mountain is comprised of (i) an investment team consisting of the Partners of the Firm and three Investment Associates, (ii) a business development team consisting of a Partner, who serves as the head of Business Development and an Business Development Associate, and (iii) an operations team consisting of a Partner, who also serves as the Chief Operating Officer and Chief Compliance Officer, a Chief Financial Officer, a Manager of Fund Accounting, a Senior Compliance Officer, a Compliance Associate, an Office Manager, and an Executive Assistant, all under the supervision of the Managing Partner.

### **B. Description of Advisory Services**

#### **B1. Fund Structure**

Currently, Red Mountain advises one private fund (i.e., RMP) and two special purpose co-investment vehicles RMCP PIV DPC, L.P. (“DPC PIV”) and RMCP PIV DPC II, L.P. (DPC PIV II) (collectively, the “Funds”). The Funds are the only clients of Red Mountain.

RMP is a Delaware limited partnership. Its general partner is RMCP GP LLC, a Delaware limited liability company. Red Mountain is the managing member of RMCP GP LLC. The other members of RMCP GP LLC are the members of the Firm, certain of their affiliates and a small number of individuals with whom we have personal and professional relationships. RMP is open for subscriptions by new investors.

DPC PIV and DPC PIV II are Delaware limited partnerships. RMCP DPC LLC is the general partner of DPC PIV and is wholly owned by RMCP GP LLC. RMCP DPC II LLC is the general partner of DPC PIV II. RMCP DPC II LLC, together with RMCP GP LLC and RMCP DPC LLC are collectively referred to in this brochure as the “General Partners” unless otherwise noted. These special purpose co-investment vehicles were

each organized to make a specific investment in a private company and are closed to new investors.

Outside investors in RMP are admitted as limited partners of RMP. Outside investors in DPC PIV and DPC PIV II, as applicable, were admitted as limited partners of DPC PIV and DPC PIV II, as applicable. Limited partners of RMP, DPC PIV and DPC PIV II are collectively referred to in this brochure as “Limited Partners” unless otherwise noted. Limited Partners are not clients of the Firm, and we do not provide any individualized advisory services to any Limited Partner.

## **B2. Investment Strategy**

As the managing member of the General Partner, Red Mountain provides investment management services to its Funds. We manage the Funds’ investments in accordance with their respective stated investment objectives, as set forth in their respective limited partnership agreements (as may be amended, modified or supplemented from time to time, the “Limited Partnership Agreements”). See Item 8 for further details on investment process.

The securities in which RMP invests are primarily issued by small cap public companies in the United States and Canada. The type of securities in which RMP invests can include common and preferred stocks, warrants, rights, options and debt securities that are senior or subordinated and secured or unsecured.

RMP’s investment strategy involves making concentrated investments in undervalued companies which we believe have a substantial margin of safety and by engaging with the management teams and boards of such companies in order to enhance value. RMP’s strategy may also include various investment techniques, including borrowing on margin and short selling.

Although RMP is expected to invest primarily in the equity and debt securities of U.S. and Canadian public companies with market capitalizations of \$100 million to \$2 billion, its Limited Partnership Agreement permits RMP to engage in a wide range of investment activities.

In contrast to RMP, each of DPC PIV and DPC PIV II were formed for purposes of making a specific investment in private company. Neither DPC PIV nor DPC PIV II are expected to make any other investments.

## **C. Availability to Tailor Advisory Services for Individual Clients**

In providing investment advisory services to the Funds, Red Mountain tailors its services to the particular needs of such Fund. The investment advisory services that Red Mountain provides to the Funds, however, are not tailored to the needs of any Limited

Partner. In the future, if the Firm provides investment advisory services to a new client, whether through the formation of a new fund, another co-investment vehicle, the management of a separate account, or otherwise, such services are expected to be tailored to the particular needs of such client.

**D. Wrap Fee Programs**

We do not participate in wrap fee programs.

**E. Client Assets under Management. (rounded to the nearest \$100,000)**

- (i)** Discretionary: \$462,095,879 million as of December 31, 2013.
- (ii)** Non-discretionary: \$0 as of December 31, 2013.

## **Item 5 - Fees and Compensation**

### **A. Method of Compensation and Fee Schedule**

We are compensated for our advisory services through management fees and performance-based fees (discussed in Item 6) paid by the Funds to the General Partners (which the General Partners, in turn, distribute or allocate to us in our capacity as their managing member). Please refer to Item 6 for a detailed description of our performance-based fees and the related conflicts of interest such performance-based fees may raise. For the purpose of Items 5 and 6, we treat fees paid by the Funds to the General Partners and distributed or allocated to us as fees payable to us.

Our management fee schedules for the Funds are as follows:

#### **RMP**

RMP will generally pay us an asset-based quarterly management fee equal to 0.3125% or 0.375% (1.25% or 1.5% per annum), depending on the Limited Partner's withdrawal conditions, of the beginning net asset value of each Limited Partner's interest in RMP, payable in advance at the beginning of each fiscal quarter. In the event capital contributions are made by new or existing Limited Partners in the RMP other than at the beginning of a fiscal quarter, a pro-rata portion of the management fee will be charged for the remainder of such fiscal quarter.

#### **DPC PIV**

As Limited Partners who invest in DPC PIV are also Limited Partners of RMP, the same quarterly management fee percentage under the RMP Limited Partnership Agreement will apply to DPC PIV and is payable in advance at the beginning of each fiscal quarter.

#### **DPC PIV II**

With respect to DPC PIV II, Limited Partners are charged an asset-based quarterly management fee equal to 0.25% (1.0% annum) of the beginning net asset value of each Limited Partner's interest in DPC PIV II.

In addition, an asset-based quarterly management fee equal to 0.3125% (1.25% per annum) is currently charged to the non-managing members of the General Partner with respect to their indirect interests in each of the respective Funds through their membership in the General Partners.

We may, in our sole discretion, at any time and from time to time, waive, reduce, defer, assign or otherwise share all or any portion of the management fee. For example, in

certain instances the renewal of a Limited Partner's subscription in a fund may lead to a lowering of their management fee to 1%.

Furthermore, the Partners of the Firm receive compensation, including annual retainers, options and restricted stock units, in connection with their service on the boards of directors of certain of the Fund's portfolio company investments which they assign to the Firm. Compensation received in connection with service on the board of directors is subject to ERISA requirements when applicable and therefore to the benefit of the Fund and its investors either directly or through off-set of management fees.

#### **B. Method of Collection**

The management fees payable by the Funds to us are deducted (or accrued for deduction) from the respective Fund's account quarterly in advance in accordance with its Limited Partnership Agreement. Each Limited Partner bears, through reductions in its capital account, the economic burden of the portion of such management fees that is attributable to its interests in the Funds. Additionally, any Limited Partner of DPC PIV who is also invested in RMP may make withdrawals from RMP to pay DPC PIV management fees and other fund related expenses. Limited Partners of DPC PIV II who are also invested in RMP have the option either to make withdrawals from RMP to pay DPC PIV II management fees and other fund related expenses or to pay for such fees through direct capital contributions.

#### **C. Additional Fees and Expenses**

In addition to management fees described above and the performance-based fees described in Item 6 below, each Fund bears all reasonable out-of-pocket costs and expenses (other than the Firm's general overhead expenses described below) incurred in connection with the operation or business of such Fund, including all brokerage costs, custodial fees, fund administration fees, transaction costs, professional fees (including legal and consulting fees) in connection with the activities of such Fund, all external accounting, audit and tax preparation expenses, all regulatory compliance and filing expenses, all interest expenses, all premiums and other costs and expenses relating to insurance (including directors' and officers' liability insurance and errors and omissions insurance), all costs and expenses relating to the offer and sale of interests in such Fund, all expenses incurred in connection with such Fund's investment activities, including research services, software, travel, correspondence and other expenses incurred in connection with the acquisition, monitoring or disposition of any portfolio investments of such Fund, all expenses relating to communications with the Limited Partners of such Fund, and all costs and expenses of dissolving such Fund, winding up its affairs and terminating its legal existence.



All expenses are deducted from the Funds as incurred. To the extent that we pay any of the Funds' expenses, the Funds will reimburse us, unless we expressly waive the right to such reimbursement. We are responsible for our own general operating and overhead costs, including office rent and utilities, payroll or other similar costs, including employee bonuses and benefit plans, telephone, general office supplies and third-party referral fees.

**D. Fees in Advance & Refunds**

We do not permit the Funds to pay any fees payable to us before the time such fees are due.

**E. Additional Compensation and Conflicts of Interest**

Neither the Firm nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

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

Red Mountain will be entitled to receive from RMP, with respect to each Limited Partner, an incentive allocation at the end of each fiscal year of RMP, unless a Limited Partner makes a withdrawal from RMP, in which case, the incentive allocation with respect to the withdrawn portion will be calculated as of the withdrawal date.

Each Limited Partner is required to elect at the time of investment whether to subject the incentive allocation to an annual hurdle.

If a Limited Partner does not elect to subject the incentive allocation to an annual hurdle, then we will be allocated either 12.5% or 15%, depending on the Limited Partner's withdrawal conditions, of the net profits attributable to the Limited Partner's interest in RMP after recovery of all amounts reflected in the Limited Partner's loss-carry-forward account.

If a Limited Partner elects to subject the incentive allocation to an annual hurdle, then, we will be allocated 25% of the net profits attributable to the Limited Partner's interest in RMP after achieving the hurdle of either 6.5% or 8%, depending on the Limited Partner's withdrawal conditions, and recovery of all amounts reflected in the Limited Partner's loss-carry-forward account. The hurdle for any allocation period applies only to that period, and no portion of such hurdle for any other allocation period will carry over or be added to the hurdle for any other allocation period.

The incentive allocation allocable to us that is attributable to DPC PIV is the same percentage applicable to the Limited Partner's investment in RMP and shall accrue (but be tentatively allocated to the Limited Partner instead of to us, subject to reversal and later reallocation to us) until the end of the allocation period in which DPC PIV disposes of its underlying investment.

Net gains and losses for Limited Partners who participate in DPC PIV are aggregated with net gains and losses from RMP for purposes of the incentive allocation.

For example, to the extent a Limited Partner is allocated net losses from one of the respective funds, such net loss will be offset against net gains in the other respective fund which will reduce or eliminate the Limited Partner's incentive allocation in such fund.

The incentive allocation percentage for DPC PIV II for all Limited Partners is 12.5% with no hurdle. As with DPC PIV, the incentive allocation will accrue, but will not be realized until the end of the allocation period in which DPC PIV II disposes of its underlying investment. Net gains and losses for Limited Partners who participate in

DPC PIV II are not aggregated with net gains and losses from any other Fund for purposes of the incentive allocation.

While incentive allocations are intended to align our interests with those of the Funds and the Limited Partners, performance-based fees may create potential conflicts of interest between us, on the one hand, and the Funds and the Limited Partners, on the other hand. For example, a performance-based fee arrangement may create an incentive for us to make investments on behalf of RMP that are riskier, more speculative or exhibit more volatility than would be the case in the absence of a performance-based fee.

Furthermore, because the incentive allocation may be based in part on unrealized gains, we may also have an incentive to seek a higher valuation of investments, especially of securities with no readily ascertainable market values.

We seek to mitigate these potential conflicts of interests in a number of ways. First, the Partners of the Firm and their affiliates have invested a significant percentage of their net worth in the Funds and, therefore, any gains or losses to the Funds will affect them directly and materially. Second, at least 50% of cumulative incentive allocations from RMP after October 1, 2009 are reinvested by the Firm in RMP, subject to the provisions of the Limited Partnership Agreement. Third, we have established valuation policies and procedures to help ensure that the Funds' investments are valued fairly and accurately. These policies and procedures require RMP's investments in publicly traded securities to be valued in accordance with publicly available market values and DPC PIV and DPC PIV II's private investment at fair value. Finally, in the case of DPC PIV and DPC PIV II, the incentive allocation is accrued until the end of any allocation period in which the disposition of the underlying investment occurs.

Although non-managing members of the General Partner have indirect interests in the Funds and pay a management fee, they are not charged an incentive allocation.

We do not represent that the incentive allocation or the manner of calculating it is consistent with the performance-based fees charged by other investment advisers under the same or similar circumstances. The incentive allocation charged by us may be higher or lower than the performance-based fees charged by other investment advisers for the same or similar services.

We do not currently provide advisory services on a side-by-side management basis.

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

RMP, DPC PIV and DPC PIV II are currently Red Mountain's only clients. We do not, but may in the future, provide investment management services to other clients, including by forming a new fund, forming another co-investment vehicle or managing a separate account. In the event we do provide such services, the services we provide to such client will be set forth in a corresponding limited partnership agreement, negotiated investment advisory agreement or other agreement that will reflect the objectives and needs of the client, and the account for such client will be managed in accordance with the terms and conditions of such agreement.

The minimum subscription by a Limited Partner for interests in RMP is \$5,000,000, unless otherwise permitted by us in our sole discretion. Each Limited Partner is required to be an "accredited investor" within the meaning of Rule 501 promulgated under the Securities Act of 1933 (the "Securities Act") and a "qualified purchaser" within the meaning of Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended, or a "knowledgeable employee" within the meaning of Rule 3c-5 under the Investment Company Act of 1940, as amended.

The Limited Partners are primarily institutional investors, including one or more endowment funds, insurance companies, pension funds, family offices and commingled funds of funds.

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

### A. Analysis & Strategy

The following description of Red Mountain's investment strategy is generally applicable to the Funds and, in particular, RMP. Some items are Fund specific and have been indicated as such.

**Small Cap Public Companies.** We invest primarily in small cap public companies in the United States and Canada with sustainable business models, competent management teams, identifiable growth prospects, favorable long-term industry trends, and a demonstrated ability to generate returns on capital in excess of their cost of capital. While we invest primarily in common stock, we will opportunistically invest across a company's capital structure in preferred stock, senior and subordinated debt and convertible securities.

**Value and Event Driven.** Our investment strategy is grounded in classic value investing principles with an emphasis on asset values, earnings power and meaningful downside protection. We look for companies that are trading at a discount to their intrinsic values and have a demonstrated ability to generate returns on capital in excess of their cost of capital. We are also prepared to invest in companies that are in distress or subject to litigation or regulatory pressures that may mask the company's earnings power value.

**Active Ownership.** We engage with management teams and boards of directors on a collaborative basis to pursue value enhancing strategies, including (i) operational and financial optimization, (ii) organic growth, and (iii) corporate restructuring and strategic development. We believe that a constructive approach is the most effective way to influence a company to preserve and create long term value. However, we are prepared to exercise the Funds' full range of shareholder rights through regular corporate governance channels if circumstances warrant such action.

We engage with companies by: (i) maintaining an active dialogue and developing a value-added relationship with management; (ii) acting as an informal adviser with access to non-public information under a non-disclosure agreement; and (iii) serving on the board of directors and exerting direct influence on the company's operations, strategy and governance.

We focus on strategic, operational, financial and governance improvements, and have helped certain of the Funds' portfolio companies to:

- develop corporate growth strategies,
- establish performance metrics and objectives,

- improve operating margins,
- understand business segment profitability/contribution,
- implement cost reduction initiatives,
- divest underperforming businesses,
- optimize capital structures,
- establish return on capital discipline,
- raise new capital,
- renegotiate debt facilities,
- identify and analyze acquisition opportunities,
- upgrade management teams and boards,
- develop and improve management incentive arrangements,
- improve corporate governance, and
- improve investor communications.

**Concentrated Portfolio.** RMP's investments are highly concentrated, and typically consist of stakes in 10 to 15 companies, many of which are core investments in which we have a long-term investment horizon and may have insider status. We believe that RMP's concentrated exposure to those companies in which we have conviction, better information and potential influence contributes to excess net returns.

**Market Exposure.** RMP is long-biased. However, in order to hedge industry exposure, reduce company exposure or take advantage of relative value discrepancies, we will opportunistically initiate paired short sales based upon our insights into the industries and competitive environments in which RMP's portfolio companies operate.

**Exit Discipline.** We are prepared to exit an investment when its valuation no longer meets our investment criteria, the expected value has been realized, the investment thesis no longer applies, or an effective and engaged dialogue with management cannot be established or maintained. Subject to liquidity and legal constraints, we have exited through secondary sales in the public market, registered public offerings, strategic sales and private equity buyouts. We have explicit realization objectives and exit strategies for each investment, and seek to optimize each realization by selling to the right buyer at the right time.

**Idea Generation; Quantitative and Qualitative Screening.** We generate our investment ideas through rigorous quantitative screening, focusing on industries and business models with which we have substantial experience. We screen for companies based upon a proprietary scoring model and certain quantitative metrics, including:

- market capitalizations of up to \$2 billion;
- positive historic spreads between ROIC and WACC;
- low price/tangible net worth ratios;
- high free cash flow yields;

- high, sustainable returns on equity;
- robust EBITDA margins;
- consistent/steady revenue, EBITDA and free cash flow growth rates;
- low levels of net debt;
- a history of market share gains;
- acceptable trading liquidity levels; and
- management/insider ownership.

We also seek to evaluate qualitative characteristics, such as:

- industry trends and/or growth prospects;
- quality of management team;
- products or services that offer a clear and compelling value proposition;
- competitive position and barriers to entry;
- corporate governance structures; and
- value enhancement or realization opportunities.

**Research and Due Diligence.** In connection with any potential investment, we conduct our research and due diligence as though the Funds were buying the whole company, including, in-depth meetings with senior management, on-site facility visits, discussions with industry experts, competitors, suppliers and customers, and reviewing independent research reports. We develop comprehensive financial models to assist in the evaluation of specific value enhancing strategies and refine such models with input from management. We seek to understand the drivers of free cash flow (such as unit economics, product line profitability, switching costs, pricing power and capital expenditure requirements), any special risk factors such as leverage, customer concentrations and unfunded liabilities, and industry dynamics, competitive profile and opportunities for growth and consolidation. We consider a company's governance structure and how it could potentially facilitate a path to influence or present value enhancement opportunity. We also examine any litigation or regulatory issues, insider trading activity, and the potential for any fraudulent or aggressive accounting practices. Finally, we use our extensive network of relationships to obtain independent assessments of management, directors and a company's prospects.

**Idea Generation – Networking.** Our extensive network of relationships with investors, management teams, fellow directors, investment bankers and other industry professionals allows us to source proprietary investment ideas. In addition, we regularly identify broader macro trends through our research and attendance at industry conferences, strategic economic seminars, meetings with management teams and industry experts and participation on portfolio company boards. We identify attractive industry sectors and add companies in those sectors to our screening process in order to capitalize on macro trends.

**Management Assessment.** After establishing a toehold investment in the amount of one to two percent of a company's outstanding shares, we will meet several times with a company's management team to assess its competence, integrity and vision. During this process we seek to evaluate management's ability to allocate capital efficiently execute their business plan, and to understand their receptivity to potential value enhancing or realization strategies.

**Implementation of Investment Strategy; Board Participation.** Our investment strategy is premised upon our ability to work with and influence management teams and boards of directors. There can be no assurance that the management or board of directors of any company in which the Funds invest will agree to our proposed initiatives or that the strategy or strategies that we propose and help to implement will be effective. The success of our investment strategy will require, among other things, that (i) we are able to identify companies the market value of which can be improved through active ownership; (ii) the Funds are able to acquire sufficient ownership of such companies at our target price; (iii) we are able to engage with and influence the management teams or boards of directors of such companies; and (iv) there is a positive market response to any actions taken by such companies following our interaction with them. None of the foregoing elements can be guaranteed to succeed and, in addition, the management or boards of such companies may take defensive or other measures that may erode, rather than increase, shareholder value.

Moreover, successful implementation of our strategy will depend in large part on our ability to establish effective working relationships with the management teams and boards of directors of the Funds' portfolio companies and their ability to implement strategies that enhance value. There is no guarantee that we or the companies in which the Funds invest will be able to achieve these goals. In addition, the Partners of the Firm may seek to serve on the boards of directors of the Funds' portfolio companies, or we may seek to designate one or more directors to serve on such boards. Although such board representation may enhance our ability to influence the governance and management of the Funds' portfolio companies, it may also have the effect of impairing the Fund's ability to sell the related securities or give rise to liability claims against the directors and the Funds. Although portfolio companies typically have insurance to protect directors and officers from such liability, not all portfolio companies are guaranteed to obtain such insurance, and such insurance may be insufficient even if obtained.

**Minority Investments; Limited Control over Portfolio Companies.** The Funds' investments are likely to consist of minority positions in its portfolio companies. Although we may seek board representation, such a role may not be obtained and, even if obtained, we may not be in a position to exert significant influence on the governance or management of a portfolio company. The board of directors of a portfolio company



(including any director affiliated with us) has a fiduciary duty to all shareholders as well as other stakeholders in the company. Each portfolio company's day-to-day operations are the responsibility of such company's management team, and not the responsibility of the board of directors (including any director affiliated with us).

#### **B. Risk of Loss**

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in a Fund. These risk factors include only those risks Red Mountain believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by Red Mountain. Please refer to the Funds' offering documents, where available, for a more complete description of the risk factors.

- general investment and trading risks, including the risk of loss of capital;
- risks associated with investing in publicly traded securities, including securities law restrictions, suspension of trading on securities exchanges and other circumstances that can limit the ability to trade in such securities;
- concentration risks, including risks arising from disproportionate exposure to any particular issuer, security, industry sector or geographic region;
- volatility risks;
- risks associated with small cap public equities, which often involve higher risks than investment in larger, more stable companies;
- risks associated with fraudulent conduct by portfolio companies;
- risks associated with investments in undervalued securities or troubled assets;
- risks associated with large ownership positions in the securities of a public company;
- risks associated with investments in illiquid investments or thinly traded investments;
- risks associated with private investments in public entities;
- risks associated with our possession of material nonpublic information, including restrictions on the ability to trade in the securities of an issuer with respect to which we have such information;
- risks associated with any use of leverage, including the magnification of losses as a result of such use of leverage;
- risks associated with the use of leverage by portfolio companies, including any inability by a portfolio company to generate adequate cash flow to meet debt service;
- risks associated with short sales;
- risks associated with any investment in junior securities, debt securities and options;
- risks associated with any hedging activities;
- risks associated with changes in interest rates; and

- currency and sovereign risks associated with any investment in Canadian securities.

**Investing in securities involves a risk of loss that the Funds and the Limited Partners should be prepared to bear.**

### **Item 9 - Disciplinary Information**

Neither Red Mountain nor any supervised person has been involved in any legal or disciplinary event that is material to a client's or prospective client's evaluation of the Firm's advisory business or the integrity of its management.

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

### **A. Broker Dealer or Registered Representative Status**

Neither Red Mountain nor any of its other employees are registered, or have an application pending to register, as a broker-dealer, principal or a registered representative of a broker-dealer. Mr. Mesdag was previously registered as a General Securities Representative (Series 7 Exam) with Goldman, Sachs & Co. from 1987 to 2002 and as a General Securities Principal (Series 24 Exam) with Goldman, Sachs & Co. from 1991 to 2002. Mr. Teets was previously registered as a General Securities Representative (Series 7 Exam) with Goldman, Sachs & Co. from 2001 to 2005. Mr. Watkinson was previously a Financial and Operations Principal (Series 27 Exam) with Bel Air Securities LLC from 2000 to 2013. Mr. Yung was previously registered with the following licenses: General Securities Representative (Series 7 Exam), General Securities Principal (Series 24), Options Principal (Series 4), Equity Trader (Series 55).

### **B. Futures Commission Merchant, Commodity Pool Operator, and Commodity Trading Adviser Status**

Neither Red Mountain nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

### **C. Material Relationships or Arrangements with Industry Participants**

RMCP GP LLC is the general partner of RMP. RMCP DPC LLC is the general partner of DPC PIV and is a wholly owned subsidiary of RMCP GP LLC. RMCP DPC II LLC is the general partner of DPC PIV II. Red Mountain is the managing member of each of the general partners and all members of the Firm are also members of the RMCP GP LLC. As of December 31, 2013, RMCP GP LLC, RMCP DPC LLC and RMCP DPC II LLC, owned approximately 22%, 23% and 43% of RMP, DPC PIV and DPC PIV II's net assets, respectively.

### **D. Other Investment Advisers**

We do not recommend or select other investment advisers for our clients or receive compensation from those advisers that creates a material conflict of interest or have other business relationships with those advisers that create a material conflict of interest.

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

### **A. Code of Ethics Overview**

Red Mountain has adopted a formal Code of Ethics which we believe adheres to Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). The Code of Ethics contains provisions designed to prevent and detect improper personal trading and insider trading on behalf of the Funds, identify conflicts of interest and provide a means to resolve any actual or potential conflicts of interest in favor of the Funds.

We do not permit a Covered Person (as defined below) to engage in a transaction in his or her Personal Account (as defined below) involving securities issued by a company in which the Funds has a long or short position, (ii) in which the Funds has previously owned (generally held on the Restricted List for a year thereafter), (iii) of which we are in the process of researching, analyzing or considering buying or selling securities for the Funds, (iv) about which we possess material nonpublic information, (v) the securities of which we have otherwise decided from time to time to prohibit trading, or (vi) for which a Covered Person serves as an officer or director. In addition, with respect to securities that are not covered by the immediately preceding sentence, a Covered Person who is a Red Mountain investment professional may not engage in any transaction in his or her Personal Account involving securities issued by a company with a market capitalization of less than \$2 billion. A Covered Person who is not a Red Mountain investment professional must seek preclearance from the Compliance Officer to engage in a transaction in his or her Personal Account involving securities issued by a company that has a market capitalization of less than \$2 billion. Covered Persons means any employees, partner, member, officer, director, or certain consultants of the Firm. “Personal Account” means any account in which a Covered Person has any beneficial ownership.

Covered Persons are also required to pre-clear transactions in various types of limited offerings and IPOs and may serve as directors on boards of for-profit companies only after the Compliance Officer has determined that such service would not be inconsistent with the interests of the Funds. Additionally, Covered Persons may not manage accounts for third parties other than the Funds or serve as trustees for third parties unless the Compliance Officer pre-clears the arrangement and finds that the arrangement will not harm the Funds.

Transactions in securities not requiring preclearance by the Compliance Officer include those in securities that are not on Red Mountain’s restricted list, purchases and sales that are non-volitional on the part of the Covered Person or made pursuant to an automatic investment plan, transactions effected in an account over which a Covered Person has

no direct or indirect influence or control, and transactions in securities issued by open-end mutual funds, money market funds, U.S. Treasury Bonds, commercial paper and certificates of deposit.

Red Mountain forbids any Partner of the Firm, officer, director, employee, consultant or affiliate from trading, either personally or on behalf of others, including the Funds, on the basis of material nonpublic information or communicating material nonpublic information to others in violation of the law. We have adopted policies and procedures on insider trading to prevent the misuse of material nonpublic information. For example, prior to the execution of any trade made by Red Mountain for the Funds, a Partner of the Firm must authorize the purchase or sale of a maximum number of securities on or before a specified date. Such trading will be authorized only if the Partner of the Firm believes that the Firm will not be in possession of material nonpublic information on or before the trading termination date. The Compliance Officer will review the documentation of such authorization to ensure that the decision complies with our policies. If any individual becomes aware that the Firm possesses material nonpublic information regarding the prospective investment, then he or she is required to report such awareness and stop trading, even if the trading termination date has not yet occurred.

Upon commencement of employment and annually thereafter, each Covered Person is required to submit to the Compliance Office a summary of holdings in which the Covered Person has a direct or indirect beneficial ownership, the names of any brokerage firms or banks where the Covered Person has an account in which any securities are held, and a description of any business activities in which the Covered Person has a significant role or financial interest. In addition, each Covered Person must submit to the Compliance Officer a quarterly securities transaction report containing information about all transactions in securities in which the Covered Person had any beneficial interest.

Although we do not currently advise a governmental entity, in order to prevent the Firm from becoming accidentally disqualified from accepting investments from public pension funds and other government-affiliated investors, we require Covered Persons to obtain the consent of the Compliance Officer prior to making any political contribution. In addition, Covered Persons are required, upon employment and annually, to report all political contributions to the Compliance Officer.

All Covered Persons are also required to comply with the Firm's gift and entertainment policy.

Covered Persons are required to certify their compliance with the Code of Ethics upon joining the Firm and, thereafter, on an annual basis.

Investors in the Funds or prospective investors may request a copy of our Code of Ethics by contacting us at the address or phone number listed on the cover page of this brochure.

**B. Securities in which the Adviser or Related Person Has a Material Financial Interest**

The Firm generally restricts Covered Persons from investing in the securities issued by a company in which the Fund has a position.

In connection with their service on the boards of directors of the Funds' portfolio companies, Covered Persons are sometimes granted restricted stock units, stock options or other interests in a portfolio company pursuant to the portfolio company's board compensation practices. The terms and conditions of such grants often include restrictions on the ability of the Covered Person to dispose of the securities while he or she remains on the portfolio company's board of directors. Accordingly, there may be situations where we make trading decisions on behalf of the Funds with respect to a portfolio company when the Firm or one or more Covered Persons owns securities in the portfolio company. We do not believe that the holdings of the Firm or any Covered Person from such grants will materially influence our investment decisions on behalf of the Funds. In addition, we prohibit a Covered Person from disposing of the securities granted to him in connection with any board service or any investment held by the Firm unless the Compliance Officer has determined that the disposition would not disadvantage the Funds.

As an ERISA plan asset fund and with respect respects to director compensation granted to General Partner related persons prior to the date of November 1, 2013, generally Red Mountain's policy is to dispose of vested equity related compensation at the time the Fund disposes of its investment in the applicable portfolio company. This timing may create a conflict of interest as Red Mountain's decision to dispose of such a portfolio company will result in the realization of such compensation by General Partner related persons. To alleviate the conflict, Red Mountain will seek Advisory Board consent to the timing of any disposition of portfolio company securities that will result in the vesting of restricted securities by a General Partner Related Person

Additionally, because representatives of Red Mountain may serve on the board of directors of a portfolio company in which the Funds invests, conflicts of interest may arise with respect to portfolio company proxy voting. The board of directors of a portfolio company (including any director affiliated with us) has a fiduciary duty to all shareholders as well as other stakeholders in the company. We will identify any conflicts that may exist between the duties of a Red Mountain director and the interests of the Funds. This examination will also include a review of our affiliation with the portfolio company and any of such company's affiliates to determine if the portfolio company or its affiliates have a conflicting relationship with the Funds or any of its

Limited Partners. We will generally vote in accordance with the voting guidelines described in Item 17; however, in each case, we will determine whether voting in accordance with those voting guidelines is in the best interests of the Funds and will act consistent with such best interests.

**C. Investing in the Same Securities as Clients**

Refer to answer B directly above.

**D. Trading Same Securities as Client**

Refer to answer B directly above.

**Item 12 - Brokerage Practices**

**A. Broker Dealer Selection**

Red Mountain selects broker-dealers to execute the Funds' security transactions on the basis of best execution in such a manner that the overall benefit to the Funds in each transaction is the most favorable under the circumstances. In deciding what constitutes best execution, the determinative factor is not the lowest possible commission cost, but whether the transaction represents the best overall execution, taking into consideration a number of factors. In seeking best execution, we consider the full range of the broker's services, including but not limited to, commission rate or discount, ability to locate liquidity and minimize market impact, confidentiality considerations and the broker's financial strength and responsiveness. We also take into account research, statistical and other information services provided by the broker. While valued, these services are considered supplemental to our own efforts in the performance of our duties towards the Funds.

1. We currently do not have any formal arrangements with broker-dealers to receive research and other services outside of transaction execution in exchange for commissions from client transactions ("soft dollar" arrangements). However, our executing and prime brokers often provide proprietary or third-party research as a benefit to clients utilizing their services. Research services may include information on market trends, the economy, industries, sectors and individual companies; such research may also relate to accounting and tax law interpretations, political analyses, technical market movements and statistical investment risk management. These research services are received primarily in the form of written reports and meetings with security analysts.
2. We do not consider investor referrals from broker-dealers as a factor in selecting prime brokers to execute client transactions.



3. Our only client who actively trades in public securities is RMP and, in this capacity, we direct RMP to execute transactions through specified broker-dealers, as outlined above. We do not request or permit RMP to direct brokerage assets.

**B. Trade Aggregation**

We currently do not manage other accounts that actively trade in public securities beyond RMP; therefore we do not aggregate orders between accounts.

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

### **A. Account Review**

Red Mountain's operations team reviews the Funds on a monthly basis (consisting of investment valuation, income and expenses, capital activity and performance review), under the supervision of the Chief Operating and Chief Compliance Officer and Chief Financial Officer, to confirm that it is being managed in a manner that is consistent with the Limited Partnership Agreements and all other applicable requirements, guidelines and restrictions. The Funds' investments are reviewed on a continuous basis by members of the investment team including the Partners of the Firm.

### **B. Factors That May Trigger Additional Reviews**

In addition to the periodic reviews described above, reviews may be triggered by, among other factors, changing market conditions, news concerning specific holdings, emerging trends and developments as well as market volatility.

### **C. Content and Frequency of Client Reports**

As required by its Limited Partnership Agreement, a written report showing the overall performance of RMP (including a description of the Fund's investment portfolio by industry, market capitalization and market value) is provided to Limited Partners on a monthly basis. In addition, we send to each Limited Partner: (i) monthly (quarterly for DPC PIV and DPC PIV II) individual investor statements, unaudited balance sheet, profit/(loss) statement and changes in the net asset value, (ii) a quarterly letter discussing the performance of the Funds and other significant developments, (iii) annual financial statements of the Funds, audited by an independent certified public accounting firm, (iv) a Schedule K-1 and other tax information, and (v) such other reports as are determined by us in our sole discretion.

Also, due to the legal or regulatory requirements of some Limited Partners or their specific needs and requests, we may, at our discretion, agree to provide such Limited Partners with certain reports in addition to those described above.

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

### **A. Economic Benefits from Non-Clients**

Red Mountain does not receive any economic benefit from anyone who is not an investor in the Funds for providing investment advice or other advisory services to the Funds.

### **B. Compensation to Non-Supervised Person for Referrals**

From time to time, we use independent third parties to refer investors to RMP and will pay a portion of our management fees and incentive allocations to such third parties, in accordance with the applicable requirements of the Advisers Act.

## **Item 15 – Custody**

The Funds' assets are held in accounts at Goldman, Sachs & Co., the Funds' Prime Broker and qualified custodian, who provides account statements to the Funds on a regular basis. RMP also retains an additional custody account with State Street Bank and Trust Co. However, Red Mountain has the authority to dispose of funds and securities in the Funds and, therefore, is deemed to have custody of client assets under Rule 206(4)-2 under the Advisers Act. We have procedures in place to maintain all assets of the Funds that are not exempt under Rule 206(4)-2 at Goldman, Sachs & Co. Additionally, the Funds are audited annually by an independent public accountant and distribute its audited financial statements prepared in accordance with generally accepted accounting principles to all Limited Partners of the applicable Fund within 120 days after the end of the Funds' fiscal year.

## **Item 16 - Investment Discretion**

Red Mountain, as the managing member of the General Partner, has full discretionary trading authority over the Funds. Our investment discretion is exercised in a manner consistent with the Funds' stated investment objectives in their respective Limited Partnership Agreements. Limited Partners generally may not place any limits on our authority beyond the limitations set forth in the applicable Limited Partnership Agreement. We do not currently perform advisory services for individual managed accounts.

## Item 17 - Voting Client Securities

Red Mountain has adopted and implemented written policies and procedures that are reasonably designed to ensure that it votes the Funds' securities in a manner consistent with the best interests of the Funds.

We believe that voting proxies in accordance with the following guidelines is in the best interests of the Funds:

- generally, we will vote in favor of routine corporate housekeeping proposals, including election of directors (where no corporate governance issues are implicated), selection of auditors, and increases in or reclassification of common stock; and
- generally, we will vote against proposals that make it more difficult to replace members of the company's board of directors, including proposals to stagger the board, cause management to be overrepresented on the board, introduce cumulative voting, introduce unequal voting rights, and create supermajority voting.

For other proposals, we determine whether they are in the best interests of the Funds and may take into account the following factors, among others:

- whether the proposal was recommended by management and our opinion of management;
- whether the proposal acts to entrench existing management; and
- whether the proposal fairly compensates management for past and future performance.

Additionally, because affiliates of the Firm may serve on the board of directors of a portfolio company in which the Funds invest, conflicts of interest may arise with respect to portfolio company proxy voting. The board of directors of a portfolio company (including any director affiliated with us) has a fiduciary duty to all shareholders as well as other stakeholders in the company. We will identify any conflicts that may exist between the duties of a Red Mountain director to the shareholders and other stakeholders in the portfolio company and the interests of the Funds. This examination will also include a review of Red Mountain's affiliation with the portfolio company and any of such company's affiliates to determine if the portfolio company or its affiliates have a conflicting relationship with the Funds or any of its Limited Partners. We will determine whether voting in accordance with the voting guidelines are in the best interests of the Funds, and will act consistent with such best interests.

Investors in the Funds may contact a Compliance associate at the address or phone number listed on the cover page of this brochure to request a copy of our proxy voting policies and procedures and information regarding how we voted a particular security.

When deciding to participate in a class action or not, we will make a determination of the costs involved, the potential gains involved, our relative voting power and other circumstances in making the decision. We will weigh the potential gains to the Funds against the respective costs involved.

### **Item 18 - Financial Information**

- A. We do not require or solicit prepayment of fees six months or more in advance.
- B. There is no financial condition that is reasonably likely to impair the Firm's ability to meet contractual commitments to clients.
- C. The Firm has not been the subject of any bankruptcy petition at any time during the past ten years.



## **Item 19 - Requirements for State-Registered Investment Advisors**

This Item is not applicable.