

**INVESTMENT ADVISER BROCHURE**

**VESTAR CAPITAL PARTNERS LLC**

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**March 2017**

**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Vestar Capital Partners LLC (the “Management Company”). If you have any questions about the contents of this Brochure, please contact us at (212) 351-1600. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

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

Additional information regarding the Management Company is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### **MATERIAL CHANGES**

This annual amendment updates the description of the business practices of the Management Company and its affiliates and incorporates certain non-material changes. Capitalized terms used in this section are used as defined in this Form ADV Part 2A.

The Management Company filed its last Form ADV Part 2A on March 30, 2016.

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## ADVISORY BUSINESS

Vestar Capital Partners LLC (the “**Management Company**”), a registered investment adviser, is a New York general partnership. The Management Company and its affiliated investment advisers provide investment advisory services to investment funds privately offered to qualified investors in the United States and elsewhere. The Management Company commenced operations in 1993.

The Management Company’s clients include the following (each, a “**Fund**,” and collectively, the “**Funds**”):

- Vestar Capital Partners III, L.P.
- Vestar Capital Partners IV, L.P.
- Vestar Employees IV, LLC
- Vestar Executives IV, L.P.
- Vestar AIV Holdings A L.P.
- Vestar AIV Holdings B L.P.
- Vestar AIV Employees, Ltd.
- Vestar AIV Employees Wilton Re, Ltd.
- Vestar Capital Partners V, L.P.
- Vestar Capital Partners V-A, L.P.
- Vestar Capital Partners V-B, L.P.
- Vestar Co-Invest V, L.P.
- Vestar Investors V, L.P.
- Vestar Executives V, L.P.
- Vestar Capital Partners VI, L.P.
- Vestar Capital Partners VI-A, L.P.
- Vestar Co-Invest VI, L.P.
- Vestar Investors VI, L.P.
- Vestar Executives VI, L.P.

Vestar Employees IV, LLC, Vestar AIV Employees, Ltd., Vestar AIV Employees Wilton Re, Ltd., Vestar Co-Invest V, L.P., Vestar Investors V, L.P. Vestar Co-Invest VI, L.P. and Vestar Investors VI, L.P. are collectively hereinafter referred to as the “**Vestar Co-Invest Funds**.” Vestar Executives IV, L.P., Vestar AIV Holdings B L.P., Vestar Executives V, L.P., and Vestar Executives VI, L.P. are collectively hereinafter referred to as the “**Vestar Executive Funds**.” Vestar Capital Partners IV, L.P. and Vestar AIV Holdings A L.P. are collectively hereinafter referred to as the “**Vestar IV Funds**.” Vestar Capital Partners V, L.P., Vestar Capital Partners V-A, L.P., and Vestar Capital Partners V-B, L.P. are collectively hereinafter referred to as the “**Vestar V Funds**.” Vestar Capital Partners VI, L.P. and Vestar Capital Partners VI-A, L.P. are collectively hereinafter referred to as the “**Vestar VI Funds**.” The Funds, together with future private investment funds to which the Management Company or its affiliates provide investment advisory services, are collectively hereinafter referred to as “**Private Investment Funds**.” In addition, Vestar also manages vehicles that were formed to allow certain investors to invest in certain portfolio company investments made by the Funds (such vehicles are collectively

hereinafter referred to as the “**Vestar Co-Invest Vehicles**”). To the extent applicable, references herein to the Funds or the Private Investment Funds are deemed to include the Vestar Co-Invest Vehicles. The Management Company also may form special purpose vehicles and alternative investment vehicles not listed herein.

The following general partner entities are affiliated with the Management Company:

- Vestar Associates III, L.P.
- Vestar Associates V, L.P.
- Vestar Associates Corporation III
- Vestar Managers V Ltd.
- Vestar Associates IV, L.P.
- Vestar Associates VI, L.P.
- Vestar Associates Corporation IV
- Vestar Managers VI Ltd.
- Vestar AIV Associates, L.P.
- Vestar Managers VII LLC
- Vestar AIV Managers Ltd.
- Vestar Associates VII, L.P.

(each, a “**General Partner**” and, together with the Management Company and their affiliated entities, “**Vestar**”).

Each General Partner is subject to the Advisers Act pursuant to the Management Company’s registration in accordance with SEC guidance. This Brochure also describes the business practices of the General Partners, all of which, together with the Management Company, operate as a single advisory business. Additionally, Vestar/Colorado Impact, LLC (“**VCI**”), is registered under the Advisers Act pursuant to the Management Company’s registration in accordance with SEC guidance. VCI, an affiliate of the Management Company and part of the Management Company’s advisory business, is the investment adviser and general partner of Colorado Impact Fund I, L.P. The business practices of VCI are described in a separate brochure.

Interests in the Funds are privately offered to qualified investors in the United States and elsewhere. The Funds and any other Private Investment Funds that may be formed by Vestar at a later date are expected to invest through negotiated transactions in operating entities, generally referred to herein as “portfolio companies.” Vestar’s investment advisory services to Private Investment Funds consist of identifying and evaluating investment opportunities, negotiating the terms of and consummating investments, managing and monitoring investments, and achieving dispositions for such investments. Although investments are made predominantly in non-public companies, investments in public companies are permitted. Where such investments consist of portfolio companies, the senior principals or other personnel of Vestar may serve on such portfolio companies’ respective boards of directors, may serve as officers of or consultants to such portfolio companies, and may otherwise act to influence control over management of portfolio companies in which Private Investment Funds have invested. Under certain circumstances, such senior principals or other personnel of Vestar may be compensated directly by the portfolio company to whom they are providing services.

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

Additionally, from time to time, Vestar may provide (or agree to provide) certain investors or other persons, including Vestar's personnel and/or certain other persons associated with Vestar (to the extent not prohibited by the applicable Limited Partnership Agreement) co-investment opportunities (including the opportunity to participate in Vestar Co-Invest Vehicles) that will invest in certain portfolio companies alongside a Private Investment Fund. Such Vestar Co-Invest Vehicles' investments typically involve investment and disposal of interests in the applicable portfolio company at the same time and on substantially the same terms as the Private Investment Fund making the investment. However, from time to time, for strategic and other reasons, a Vestar Co-Invest Vehicle may purchase a portion of an investment from a Private Investment Fund. Any such purchase from a Private Investment Fund by a Vestar Co-Invest Vehicle generally occurs shortly after the Private Investment Fund's completion of the investment to avoid any changes in valuation of the investment, and in connection with such purchase, Vestar will follow the procedures set forth in its Compliance Manual relating to "Principal Transactions." Where appropriate, and in Vestar's sole discretion, Vestar is authorized to charge interest on the purchase to the co-investor or co-invest vehicle, and to seek reimbursement to the relevant Fund for related costs. However, to the extent such amounts are not so charged or reimbursed, they generally will be borne by the relevant Fund.

As of December 31, 2016, Vestar managed \$2,300,174,823 in client assets on a discretionary basis. The owner of the Management Company is Vestar Management Corporation II, a corporation whose sole stockholder is Daniel S. O'Connell.

## **FEES AND COMPENSATION**

As summarized below, in general, Vestar receives a management fee and a carried interest in connection with advisory services that it provides to the Funds. Investors in the Funds also bear certain fund-related expenses. The following is a general description of fees, compensation, and expenses of the Funds. Different Funds may charge different levels of fees and certain Funds may not charge certain fees, compensation, or expenses that other Funds charge. The Governing Documents relating to each of the Funds describe fees, compensation and expenses in greater detail. Each Fund's fee schedule has been omitted in this Brochure, because Vestar currently only charges fees to clients that are "qualified purchasers" as defined under the Investment Company Act of 1940, as amended. Vestar may receive additional compensation in connection with management and other services performed for portfolio companies of Private Investment Funds and such additional compensation will, as more fully

described below, offset in whole or in part the management fees otherwise payable to the Management Company.

### **Management Fees**

For the Vestar V Funds, the management fee paid to the Management Company (the “**Management Fee**”) generally will equal a specified percentage of (i) the aggregate amount of capital contributions to the Fund and waived Management Fees less (ii) the aggregate amount of distributions to partners in respect of commitments attributable to (a) realized investments plus write downs of unrealized investments at the time the Management Fee is paid and (b) fees and expenses paid and allocated to such investments specified in clause (a).

For the Vestar VI Funds, from the applicable effective date until the end of the applicable commitment period or upon the occurrence of certain other events as set forth in the applicable Limited Partnership Agreement, the Vestar VI Funds generally will pay the Management Company an annual management fee, payable partially in advance and partially in arrears, equal to a specified percentage of aggregate commitments. Upon the earlier of the expiration of the commitment period or upon the occurrence of certain other events as set forth in the applicable Limited Partnership Agreement, the Management Fee for the Vestar VI Funds generally will equal a specified percentage of (i) the aggregate investment contributions, less (ii) the aggregate amount of investment contributions with respect to the portion of each investment that has been disposed of or permanently written-down.

The Vestar III Funds and the Vestar IV Funds no longer pay Management Fees.

Installments of the Management Fee payable for any period other than a full six-month period (including the first Management Fee payment) will be adjusted on a pro rata basis according to the actual number of days of such period.

For the Vestar VI Funds and Vestar V Funds, the Management Fees also generally will be offset by a specified percentage of break-up fees received by Vestar and the monitoring, transaction, and other fees paid by a Fund’s portfolio companies to Vestar. The offsets for the Vestar VI Funds and the Vestar V Funds are 100% of the portion of the offset attributable to the Funds’ investment. Vestar may retain any remaining amount of such fees that are not offset. To the extent an offset credit would reduce the Management Fee for a given period below zero, the credit is generally carried forward for application against future Management Fees payable. To the extent any offset credit excess remains unapplied upon the dissolution of a Fund, in the Vestar VI Funds, Vestar V Funds and Vestar IV Funds, respectively; each investor will receive its share of such unapplied excess, unless such investor elects not to receive such share. For Vestar III Funds, Vestar generally retains all such break-up, monitoring, and transaction fees resulting in excess credits. Vestar does not typically receive fees of the type referred to in this paragraph from, or on behalf of or with respect to investments made by the Vestar Co-Invest Vehicles.

The Management Fee also may be reduced by an amount determined by the General Partner. A portion of the waived Management Fee is treated by the Limited Partnership Agreements as a deemed capital contribution by the relevant General Partner; this amount is in

addition to the amount of capital such General Partner is required to contribute to such Private Investment Fund. In the event of such a reduction, the limited partners of the relevant Fund then may be required to make a pro rata contribution according to their respective Commitments to fund any contribution that would otherwise be required of the General Partner in connection with any such reduction as described above and, as a result, the exercise of such reduction may result in an acceleration of investor capital contributions. Management Fees so reduced are not subject to the offsets described above, and the amount of such waived or reduced Management Fees may be significant.

The Vestar Co-Invest Funds, Vestar Executive Funds and Vestar Co-Invest Vehicles generally do not pay Management Fees. All limited partners or other beneficial owners of the Vestar Co-Invest Funds are current or former employees of Vestar.

It is expected that any future Private Investment Funds will have a similar management fee structure.

### **Carried Interest**

Generally, each General Partner will receive a carried interest with respect to the Funds it manages equal to a specified percentage of all realized profits, subject to satisfying a specified percentage preferred return (without compounding), as more fully described in the Governing Documents. The carried interest distributed to a General Partner is subject to a potential giveback at the end of life of a Fund if the respective General Partner has received excess cumulative distributions.

The Vestar Co-Invest Funds and Vestar Co-Invest Vehicles generally do not pay carried interest. All limited partners or other beneficial owners of the Vestar Co-Invest Funds are current or former employees of Vestar.

It is expected that any future Private Investment Funds will have a similar carried interest structure.

### **Other Information**

Vestar may, through side letters or otherwise, exempt certain investors in Private Investment Funds from payment of all or a portion of Management Fees and/or carried interest. Any such exemption from fees and/or carried interest may be made by a direct exemption, a rebate by Vestar and/or its affiliates, or through other Private Investment Funds that co-invest with the Funds. Vestar professionals invest in Vestar Co-Invest Funds, and these entities do not bear Management Fees or carried interest. Additionally, the Management Company may permit investors, affiliated with the Management Company or otherwise, to invest through Vestar Co-Invest Vehicles that may not bear Management Fees or carried interest.

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



Principals or other current or former employees of Vestar may receive a portion of the Management Fee, carried interest, or other compensation received by the General Partner.

In addition to any Management Fee or carried interest payable to the General Partners or the Management Company, each Fund bears certain expenses. As set forth more fully in the applicable Memorandum or Limited Partnership Agreement of each Fund, each Fund generally bears all expenses relating to the Fund's activities, investments, and business to the extent not reimbursed by portfolio companies or applied to reduce transaction fees. Although the specific list of expenses may vary to some extent in the Memoranda or Limited Partnership Agreements, these expenses generally include, but are not limited to, (i) all costs, expenses, liabilities and obligations attributable to acquiring, holding, and disposing of a Fund's investments (including interest on money borrowed by the Fund or Vestar on behalf of the Fund, registration expenses and brokerage, finders', custodial, travel and other fees), (ii) legal, accounting, auditing, insurance (including directors and officers and errors and omissions liability insurance), consulting, financing, appraisal, filing, and other fees and expenses (including expenses associated with the preparation of Fund financial statements, tax returns, and Schedule K-1s or any other limited partner reports), (iii) certain expenses of a Fund's advisory board, (iv) costs, expenses, and liabilities of a Fund (including litigation and indemnification costs and expenses, judgments, and settlements), (v) all out-of-pocket fees and expenses incurred by a Fund or Vestar (without duplication) in connection with any conference or meeting of the limited partners, (vi) all out-of-pocket fees and expenses incurred by a Fund or Vestar (without duplication) relating to investment and disposition opportunities for the Fund not consummated (including legal, accounting, auditing, insurance, consulting, finders', filing and other fees and expenses, financing commitment fees, real estate title and appraisal costs, printing and/or transaction break-up fees), (vii) the Management Fee, (viii) any taxes, fees, and other governmental charges levied against the Fund, (ix) any placement fees, (x) all costs and expenses incurred in connection with the organization, management, operation, winding-up, liquidation, and dissolution of any alternative investment vehicles, and (xi) certain organizational expenses. As noted above, each Fund will generally also bear expenses indirectly from the payment by portfolio companies of expenses similar to those outlined in the preceding sentence.

While, as noted above, each Fund typically is allocated and bears their respective pro rata share (based on invested capital) with respect to expenses of such Fund, with respect to VCP V and VCP VI, notwithstanding the Firm's expense allocation guidelines, it has been the Management Company's practice to allocate expenses relating to unconsummated investment opportunities (commonly referred to as "broken deals") only to the applicable main Fund and its ancillary Funds (*e.g.*, in the case of broken deals for VCP V, such expenses were allocated to VCP V, VCP V – A and VCP V – B, and in the case of broken deals for VCP VI, such expenses were allocated to VCP VI and VCP VI – A) on whose behalf such broken deal was pursued, and not to allocate any such broken deal expenses to any of the other parallel investment vehicles associated with such Funds. The Adviser adopted this practice concurrently with adopting a practice of offsetting transaction and monitoring fees that were collected by the management company as a result of various investing activities of the Fund only to the main Fund and related vehicles that paid broken deal expenses, and not to parallel investment vehicles that were not allocated such broken deal expenses. The Adviser's historical experience has been that the transaction and monitoring fees collected by each affected Fund exceeded the broken deal expenses paid by such Fund.

Brokerage fees may be incurred in accordance with the practices set forth in “Brokerage Practices.”

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

As described under “Fees and Compensation,” each General Partner receives a carried interest allocation on certain realized profits of certain of the Funds. A carried interest allocation represents an investment adviser’s compensation based on a percentage of net profits of the Funds it manages. Vestar also manages the Vestar Co-Invest Funds and the Vestar Co-Invest Vehicles, which are not charged a performance-based fee. This practice could present a conflict of interest because Vestar has an incentive to favor accounts for which it receives a performance-based fee. Vestar addresses this potential conflict of interest generally by investing all active Funds in each portfolio company investment *pro rata* based on fund commitments at substantially the same time and on substantially the same terms and disposing of such investments in a similar manner. In addition, each Vestar Co-Invest Vehicle is formed to invest in only one portfolio company of a Fund and is generally only given the opportunity to invest when there is an excess investment opportunity over the amount first allocated to the applicable Fund. Such investment is made at substantially the same time and on substantially the same terms as the investment of the applicable Fund and is disposed of in a similar manner.

### **TYPES OF CLIENTS**

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

The Funds generally have a minimum investment amount of \$10 million for third-party investors. The Vestar Co-Invest Funds, Vestar Executive Funds, and Vestar Co-Invest Vehicles generally accept lower investment amounts. In most circumstances, investors in the Funds must meet certain suitability and net worth qualifications prior to making an investment in the Funds. Generally, investors must be (i) “accredited investors” as defined under Regulation D of the Securities Act of 1933, as amended, and (ii) either “qualified purchasers” or “knowledgeable employees” as defined under the Investment Company Act of 1940, as amended. To the extent legally permitted, Vestar retains the discretion to waive such minimum investment amounts and qualification requirements.

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

#### **General**

Vestar is a private equity investment firm that focuses on organizing and investing in management buyouts, recapitalizations, and growth equity investments. Vestar seeks the development of a diversified portfolio of private equity investments in middle-market companies

with enterprise values generally ranging from \$100 million to \$1.0 billion. Vestar may also participate in investment opportunities in companies with enterprise values greater than \$1.0 billion through co-investments with either other unaffiliated private equity funds or certain of a Funds' existing investors so long as such investments are consistent with Vestar's overall investment strategy.

The following is a summary of the investment strategies and methods of analysis generally employed by Vestar on behalf of the Funds and a summary of certain risks involved with Vestar's investment strategy and an investment in the Funds. More detailed descriptions of the Funds' investment strategies and methods of analysis and risks are included in the applicable Memorandum and other Governing Documents for each Fund. The investment strategies and methods of analysis and risks described in this section also generally apply to the Vestar Co-Invest Vehicles.

## **Investment and Operating Strategy**

Vestar's principals are investment-focused rather than transaction-driven. Vestar pursues investments where the Vestar principals identify potential value levers through the application of Vestar's industry expertise and operating and strategic capabilities.

### *Industry Focus Creates Differentiated Insights*

Vestar's investment team is organized into the following industry groups: consumer, healthcare, and business services and industrial products. Vestar believes this industry focus results in deeper, more informed knowledge of the opportunities in each of these sectors. Vestar's sector focused structure has led to improved coordination and interaction with leading industry experts and key deal sources, positioning Vestar as an early call for new investment opportunities. When meeting with management teams, Vestar's industry specialization allows it to engage in meaningful dialogue with these management teams, thereby potentially giving Vestar a competitive advantage in securing meaningful investment opportunities for the Funds.

### *Investment Process and Due Diligence*

The emphasis during the evaluation process for any investment is always on the maximization of value, the reduction of risk, and the preservation of capital. This involves not only a detailed study of each company's financial, operational, and competitive performance and prospects, but also in-depth business, accounting, tax, legal, and industry-specific due diligence. Vestar retains accountants, attorneys, consultants, and industry experts or executives to assist in analyzing investment prospects. Vestar's due diligence process takes place over an extended period, often more than six months. Decision making is an iterative process during this period, involving the entire investment team. Vestar has an investment committee which is comprised of Vestar's managing directors (the "**Investment Committee**"). The Investment Committee meets on regular basis. Significant issues or concerns that are raised by any of the Vestar principals during Investment Committee meetings typically are addressed to the satisfaction of the Investment Committee either through additional due diligence or by changing the investment terms and structure (or otherwise), or the transaction does not proceed.

The Vestar principals bring a creative and flexible approach to the structuring of investment transactions. Vestar focuses on investment merit and value creation and is not constrained by “cookie cutter” formulas or overly-restrictive investment guidelines. Vestar may make equity and equity-related investments and generally attempts to structure transactions that optimize the financial and operational benefits for the business and participants involved.

#### *Value Lever Identification*

Vestar believes there is significant opportunity to invest in companies in which it has developed or can develop a meaningful competitive edge through its industry focus and operating and strategic capabilities. Vestar believes its ability to identify value levers that are aligned with the domain expertise that Vestar has developed over time creates an investment edge that enables Vestar to capitalize on potential value that it believes cannot be readily discerned or realized by other investors.

Examples of such value levers include, among others:

- Revitalizing or extending strong brands or franchises;
- Professionalizing teams with a focus on talent recruitment and development;
- Developing strong boards of directors with experienced independent directors;
- Repositioning products or services to capture new and growing market opportunities;
- Expanding existing products or services into adjacent markets;
- Identifying platform companies that can benefit from attractive follow-on acquisitions;
- Utilizing growth equity to build businesses in fragmented industries with unmet demand;
- Discerning situations where value creation can be accelerated by making and implementing fundamental operational and business decisions such as prioritizing capital allocation decisions or by spinning off noncore divisions;
- Finding stable but under-developed companies that can be transformed through operational improvements; and
- Applying unique business intelligence tools to develop deeper understanding of key value drivers in support of portfolio company strategic initiatives.

*Relationship-Driven Sourcing.* Vestar is very supportive of management teams and able to close structurally-complex transactions in a streamlined fashion. The principals believe this has positioned Vestar as a preferred choice when a company’s management is looking for a constructive, supportive and value-added partner who can make a difference. Vestar’s transactions are often characterized by the Firm being chosen as management’s preferred partner, which improves information flow, reduces risk, deters competition, and often translates into investments at more attractive valuations.

*Proactive Thematic Approach.* The Firm’s investment and operating professionals create themes that synthesize investment ideas developed through their sector knowledge, substantial experience, and relationship networks. These themes are then reviewed and vetted by the Investment Committee, which analyzes the merits of the investment concept relative to the

potential opportunity set. The investment team then targets companies, often avoiding competitive auction processes. This approach also seeks to maximize Vestar's full potential by pursuing investments that are expected to benefit significantly from the Firm's intellectual capital and operational resources.

*Alignment with Management.* A strong alignment of interest is created when management teams are provided meaningful equity ownership in their companies. Vestar creates significant performance-based incentives for management, and seeks to have management invest their own capital whenever practicable, to align management with the interests of the shareholders. Vestar believes that the financial, strategic, and operating sophistication offered by Vestar principals combined with the operating expertise and enhanced motivation of company management, consistently serve to increase the value of Vestar's portfolio companies and are a key contributor to our success

*Creative and Flexible Investment Structures.* Vestar seeks to bring a creative and flexible approach to the structuring of investment transactions. We strive to focus on investment merit and value creation and are not constrained by rigid formulas or overly-restrictive investment guidelines. Vestar attempts to structure transactions that optimize the financial and operational benefits for the business and participants involved. Vestar believes this often results in enhanced rates of return or additional downside protection for Vestar's investments.

*Value Maximization and Risk Management.* After investing, Vestar's investment and Vestar Resources professionals work together to focus on the day-to-day monitoring of portfolio companies and to provide management with support and guidance on activities such as strategy, business models, operational improvements, organizational development, follow-on acquisitions, divestitures, systems implementations, and the structuring of compensation programs. In addition, the Vestar Resources professionals work to ensure that there is appropriate transparency and corporate governance in place at all Vestar portfolio companies. Vestar's Portfolio Review Committee periodically reviews the performance of each portfolio company with the goal of identifying and implementing operational improvements and sharing other value-enhancing or risk-mitigating practices. Vestar is especially proud of its experience in building what it believes are dynamic, engaged boards of directors with seasoned and value-adding independent directors. These directors bring domain expertise, strong customer access and governance experience, where appropriate, and Vestar believes they have enhanced value for Vestar portfolio companies.

*Focus on Realizations.* The Vestar principals' broad network of contacts enables them to monitor continuously various realization opportunities available to portfolio companies. Vestar pursues realizations by seeking the most attractive exit opportunities based on prevailing market conditions, a portfolio company's performance, and the potential for further value improvements. For example, from 2005 to 2007, Vestar capitalized on aggressive market valuations by being a net realizer of capital. Similarly, from 2012 to 2016, Vestar took advantage of a stable, growing economy characterized by low interest rates and high multiples to return \$4.5 billion in cash through over 30 realization events.

## Risks of Investment

The Funds and their investors bear the risk of loss that Vestar's investment strategy entails. The risks involved with Vestar's investment strategy and an investment in the Funds include, but are not limited to:

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

*Investment in Junior Securities.* The securities in which each Fund will invest are generally 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 investments made.

*Concentration of Investments; Lack of Diversification.* Each Fund will participate in a limited number of investments and may seek to make several investments in one industry or industry segment or within a short period of time. Given the Principals' experience in certain core industries and the structural requirements of operating the Funds, a Fund may seek to make investments in a single industry segment, in a limited geographic area, in a single asset type and/or within a short period of time, which could create the conditions for a portfolio of investments that exhibit, amongst themselves, a very high degree of correlated returns. As a result of the foregoing, a Fund's investment portfolio could become highly concentrated, and the performance of a few holdings or of a particular industry, or the timing of a Fund's investments, may substantially affect such Fund's aggregate return. In addition to the foregoing, because each Fund may only make a limited number of investments and such investments generally will involve a high degree of risk, poor performance by even a single investment could severely affect total returns. If certain investments perform unfavorably, then in order for a Fund to achieve above-average returns, one or a few of its investments must perform exceptionally well, and there can be no assurances that this will be the case.

*Lack of Sufficient Investment Opportunities.* The business of identifying, structuring and completing private equity transactions is highly competitive. The Funds will encounter competition from other entities having similar investment objectives. Potential competitors include other investment partnerships and corporations, strategic industry acquirers and other financial investors, including hedge funds, investing directly or through affiliates. Over the past several years, an ever-increasing number of private equity funds have been or are being formed, and many existing funds have grown in size. Additional funds with similar investment objectives may be formed in the future by other unrelated parties. Some of these competitors may have more relevant experience, greater financial resources, a greater willingness to take on risk, and/or more personnel than the Adviser, Funds and their affiliates.

In a highly competitive environment, valuations of potential target companies may rise to historically high levels as measured by multiples of EBITDA. The Adviser expects that competition for appropriate investment opportunities may increase, which may also require the Funds to participate in auctions, the outcome of which cannot be guaranteed, thus reducing the

number of investment opportunities available to Funds and/or adversely affecting the terms upon which portfolio investments can be made.

To the extent that a Fund encounters a highly competitive market while making investments, the acquisition cost of such investments may increase, and returns to such Fund's limited partners may decrease. In addition, it is possible that a particular Fund will never be fully invested if enough sufficiently attractive investments are not identified. Moreover, a Fund's limited partners will be required to bear Management Fees through life of such Fund based on the entire amount of such limited partners' capital commitments and other expenses as set forth in a Fund's relevant Governing Documents.

*Changes in Investment Focus.* None of the Funds are restricted in terms of the percentage of its capital that can be invested in a particular industry or in a particular target market. Many factors may contribute to changes in emphasis in the construction of the portfolio, including changes in market or economic conditions or regulation as they affect various industries and changes in the political or social situations in particular countries. There can be no assurance that the investment portfolio of any Fund will resemble the portfolio of any prior Fund or that the Funds will invest primarily in the specific sectors or target markets that are identified in the Governing Documents of any particular Fund.

*Healthcare Regulation and Reimbursement.* Various segments of the healthcare industry in which a Fund may invest are (or may become) (i) highly regulated at both the federal and state levels in the United States and internationally, (ii) subject to frequent regulatory change and (iii) dependent upon various government or private insurance reimbursement programs. While the Funds intend to make investments in companies that comply with relevant laws and regulations, certain aspects of their operations may not have been subject to judicial or regulatory interpretation. An adverse review or determination by any one of such authorities, or an adverse change in the regulatory requirements or reimbursement programs, could have a material adverse effect on the operations of companies in which a particular Fund invests.

Legislative reforms, including the U.S. Patient Protection and Affordable Care Act (the "Affordable Care Act"), have had, and will likely continue to have, a significant impact on the healthcare industry. The efforts to reform the healthcare delivery system in the United States and Europe have resulted in increased pressure on healthcare providers and other participants in the healthcare industry to reduce costs. These competitive forces place constraints on the levels of overall pricing, and thus could have a material adverse effect on profit margins for healthcare companies in which Funds have invested or may invest. Various legislative proposals related to the healthcare industry are introduced from time to time at the U.S. federal and state level, and any such proposals, if adopted, could have a significant impact on the healthcare industry. The scope of any such proposals, including the potential for modification or repeal of the Affordable Care Act, could be profound, and the regulatory environment for healthcare companies in which the Funds have invested or may invest could be highly volatile.

*Illiquidity; Lack of Current Distributions.* An investment in the Funds 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. Any Fund's ability to dispose of investments may be limited for several reasons. Illiquidity may result from

the absence of an established market for the investments, as well as legal, contractual or other restrictions on their resale by the applicable Fund. Dispositions of investments may be subject to contractual and other limitations on transfer or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms that could be obtained upon any disposition thereof. In addition, the ability to exit an investment through the public markets will depend upon favorable market conditions, including receptiveness to initial or secondary public offerings for the companies in which a Fund invests and an active mergers and acquisitions (or recapitalizations and reorganizations) market. Public offering, merger and acquisition and recapitalization and reorganization opportunities may be limited or non-existent for extended periods of time, whether due to economic, regulatory or other factors. In view of these limitations on liquidity, the Funds generally will not be able to realize an investment in a privately-held entity until the sale of such entity. While an investment may be sold at any time, it is generally expected that this will not occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating any particular Fund (including the Management Fee payable to the general partner of such Fund) may exceed its income, thereby requiring that the difference be paid from the Fund's capital, including unfunded capital commitments.

*Leveraged Investments; Borrowing.* The Funds may make use of leverage by having a portfolio company incur debt to finance a portion of its investment in such portfolio company, including in respect of companies not rated by credit agencies. Leverage generally magnifies both a Fund's opportunities for gain and its risk of loss from a particular investment, and the magnification of the risk of loss may be substantial. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which may be impacted by regulatory restrictions and guidelines and which are difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage. The use of leverage also imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to operate its business as desired and/or finance future operations and capital needs. The leveraged capital structure of portfolio companies will increase the exposure of a Fund's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of such Fund's investments in the leveraged portfolio companies in a down market. In the event any portfolio company cannot generate adequate cash flow to meet its debt service, a Fund may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of such Fund. Additionally, lenders would typically have a claim that has priority over any claim by the Fund to the assets of such portfolio company in an insolvency event or proceeding. Should the credit markets be limited or costly at the time a Fund determines that it is desirable to sell all or a part of a portfolio company, such Fund may not achieve an exit multiple or enterprise valuation consistent with its forecasts. If a portfolio company is unable to obtain favorable financing terms for its investments, refinance its indebtedness or maintain a desired or optimal amount of financial leverage, the Fund may hold a larger than expected equity investment in such portfolio company and may realize lower than expected returns from the portfolio company that would adversely affect such Fund's ability to generate attractive investment returns for such Fund as a whole. Any failure by lenders to provide previously committed financing could also expose a Fund to potential claims by sellers of businesses which such Fund may have been contracted to purchase.



A Fund may also borrow money or guaranty indebtedness (such as a guaranty of a portfolio company's debt), which the Funds have done in the past. Although use of such borrowing facilities enhances the ability to close transactions quickly, such activity also increases risk and raises the possibility that additional capital will need to be called from the limited partners of such Fund to pay off such debt. Any use of leverage by a Fund may result in interest expense and other costs to such Fund that may not be covered by distributions made to such Fund or appreciation of its investments. A Fund may incur leverage on a joint and several basis with one or more other investment funds and entities managed by the general partner of such Fund or any of its affiliates and, in connection with incurring such indebtedness, such general partner may, in its sole discretion, cause a Fund to enter into one or more agreements to obtain a right of contribution, subrogation or reimbursement from or against such entities. However, it is possible that, if and when a Fund were to seek to enforce any such right, any such entity could default on its obligation and/or such right may otherwise be unenforceable. In addition, to the extent a Fund incurs leverage or provides any guaranty, such amounts may be secured by the capital commitments of a Fund's investors and Fund assets. The inability of a Fund to repay any leverage secured by the capital commitments of such Fund's investors could enable a lender to issue a capital call on behalf of the general partner of such Fund.

*No Market for Interests; Restrictions on Transfer; No Right of Withdrawal.* Limited partner interests in a particular Fund generally may not be transferred, sold, assigned, pledged or otherwise encumbered without the prior written consent of the general partner of such Fund, which may be withheld pursuant to the applicable Limited Partnership Agreement of such Fund, and the volume of transfers permitted in any calendar year may be restricted in order to comply with certain safe harbors under the tax regulations promulgated under the Internal Revenue Code. Voluntary withdrawals from a Fund will not be permitted except in very limited circumstances. In addition, interests in a Fund are not redeemable. There will be no public market for interests in any Fund, and none is expected to develop. Interests in the Funds have not been registered under the Securities Act of 1933, as amended (the "**Securities Act**") the securities laws of any state or the securities laws of any other jurisdiction and therefore cannot be resold unless they are subsequently registered under the Securities Act and other applicable securities laws, or unless an exemption from registration is available. It is not contemplated that registration of the interests in any Fund will ever be effected. Limited partners in any Fund may not be able to liquidate their investments prior to the end of such Fund's term and must be prepared to bear the risks of an investment in any such Fund for an extended period of time.

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

*Reliance on the General Partner.* Each Fund is be dependent on the general partner of such Fund. Limited partners generally have no right or power to take part in the management of the Fund in which such limited partners are invested, or control over the operation of such Fund, including decisions with respect to structuring, negotiating and purchasing, financing and eventually divesting investments on behalf of such Fund, as control over these decisions will be vested with the applicable general partner. Consequently, a Fund's future profitability and investment performance will depend largely upon the business and investment acumen of the principals of the applicable general partner. The loss or reduction of service of one or more of the principals could have an adverse effect on a Fund's ability to realize its investment objectives. In addition, the principals currently, and may in the future, manage other investment funds besides the Funds, and the principals may need to devote substantial amounts of their time to the investment activities of such other funds, which may pose conflicts of interest in the allocation of the time of the principals. In addition, certain changes in the general partner of a particular Fund may have an adverse effect on such Fund or one or more of its portfolio companies, including potential acceleration of debt facilities. Limited partners of a Fund are reminded that the composition of the professionals making up particular industry sector investment groups change over time, and the professionals included in such groups and who may have contributed to the past performance of any prior Funds may no longer be members of the particular group or serve in the same or similar roles thereon (or may no longer be with Vestar, or may leave such group or Vestar during the life of the Fund).

*Reliance on Portfolio Company Management.* The success of a portfolio company investment made by a Fund is typically heavily dependent on the management of such company. Each portfolio company's day-to-day operations will be the responsibility of such company's management team. Additionally, the general partner will generally establish the capital structure of companies in which the Fund invests on the basis of financial projections for such companies, which will contain significant judgment and input from the portfolio company management team. Although the general partner of each Fund will be responsible for monitoring the performance of each portfolio investment and the Fund generally intends to invest in companies with strong management or recruit strong management to such companies, there can be no assurance that the existing management team, or any successor team, will be able or willing to successfully operate a company in accordance with the Fund's objectives. Portfolio companies may need to attract, retain and develop executives and members of their management teams. The market for executive talent can be extremely competitive. There can be no assurance that the management team of a portfolio company on the date a portfolio investment is made will remain the same or continue to be affiliated with the company throughout the period the portfolio company is held by the Fund. Moreover, there can be no assurance that portfolio companies will be able to attract, develop, integrate and retain suitable members of its management team and, as a result, the Fund may be adversely affected thereby.

*Uncertainty of Projections.* A Fund may use financial projections to help analyze a potential investment, future capital raises and financing for portfolio companies, and/or other transactions. Projected operating results of a company in which a Fund invests normally will be based primarily on financial projections prepared by such company's management, with adjustments to such projections made by the general partner of a particular Fund in its discretion. In all cases, projections are only estimates of future results that are based upon information received from the company and third parties and assumptions made at the time the projections

are developed. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements, and the occurrence of other unforeseen events could impair the ability of a portfolio company to realize projected values. There can be no assurance that the results set forth in any projections will be attained, and actual results may be significantly different from projections.

*Tax Information Exchange Regimes; FATCA Withholding Tax on Certain Non-U.S. Entities.* The United States, pursuant to the “Foreign Account Tax Compliance Act” or “FATCA” has entered into numerous intergovernmental agreements with various jurisdictions concerning the exchange of information as a means to combat tax evasion. The United Kingdom has entered into similar agreements with various jurisdictions (including the Cayman Islands). Other countries are also considering such agreements, and the OECD has published a global Common Reporting Standard for multilateral exchange of information pursuant to which many countries have now signed multilateral agreements. A group of those countries have committed to a common implementation timetable which will see the first exchange of information in 2017, with further countries committed to implement the new global standard by 2018. One or more of these information exchange regimes are likely to apply to the Funds and/or alternative investment vehicles, and may require a general partner of a Fund to collect and share with applicable taxing authorities information concerning limited partners of such Fund (including identifying information and amounts of certain income allocable or distributable to them). A limited partner’s failure to provide the required information may result in expulsion from the Fund and/or alternative investment vehicles. In addition, FATCA generally imposes a withholding tax of 30% on a non-U.S. entity’s share of most payments attributable to investments in the United States, including dividends, interest, and, beginning on January 1, 2019, gross proceeds of a disposition of stock, unless an exception applies. This withholding tax could, under certain limited circumstances, apply to the affected Fund if it fails to comply with certain reporting obligations to the Cayman Islands and/or the Internal Revenue Service (“IRS”). A Fund may take such action as it considers necessary in relation to a limited partner as a result of relevant legislation and regulations, including but not limited to, FATCA.

*Conflicting Limited Partner Interests.* Limited partners may have conflicting investment, tax, and other interests with respect to their investments in a particular Fund, including conflicts relating to the structuring and timing of investment acquisitions and dispositions. As a consequence, conflicts may arise in connection with decisions made by the applicable general partner regarding an investment that may be more beneficial to one limited partner than another, especially with respect to tax matters. In structuring, acquiring and disposing of investments, the applicable general partner generally will consider the investment, tax and other relevant objectives of the Fund and its general and limited partners as a whole, not the investment, tax, or other objectives of any limited partner individually.

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

The combination of such scrutiny of private equity firms (along with other alternative asset managers) and their investments by various politicians, regulators, and market commentators, and the public perception that certain alternative asset managers, including private equity firms, contributed to the 2008 global financial crisis, may complicate or prevent a Fund's efforts to structure, consummate, and/or exit investments, both in general and relative to competing bidders outside of the alternative asset space. As a result, a Fund may invest in fewer transactions or incur greater expenses or delays in completing or exiting investments than it otherwise would have.

More recently, in connection with the outcome of the 2016 U.S. federal elections and the expected control by one political party of the U.S. federal legislative and executive branches, uncertainty has arisen regarding potential changes in law and regulation affecting the U.S. private equity industry, including the possibility of significant revision to U.S. financial law and regulation. The likelihood of occurrence and the effect of any such change is highly uncertain and could have an adverse impact on the Funds, their general partners, and/or their limited partners.

Additionally, the U.S. Congress has considered proposed legislation that would treat certain income allocations to service providers by partnerships such as Funds (including any carried interest) as ordinary income for U.S. federal income tax purposes that under current law is treated as an allocation of the partnership's income, which may be taxed at lower rates than ordinary income, a proposal in respect of which the U.S. President has previously indicated support. Enactment of any such legislation could adversely affect the ability of the principals, employees or other individuals associated with the Funds or the general partners who were or may in the future be granted direct or indirect interests in the general partners to benefit from carried interest taxed at lower rates. This may reduce such persons' after-tax returns from the applicable Fund and its general partner, which could make it more difficult for the applicable general partner and its affiliates to incentivize, attract, and retain individuals to perform services for the applicable Fund. These same issues may also apply to officers, directors, and employees of the Fund's portfolio companies if such persons receive a profits interest in such companies.

*Alternative Investment Fund Managers Directive.* The EU Alternative Investment Fund Managers Directive (the "AIFMD") regulates the activities of certain private fund managers undertaking fund management activities or marketing fund interests to investors within the European Economic Area ("EEA"). If a Fund is actively marketed to investors domiciled or having their registered office in the EEA in circumstances where no transitional relief is available: (i) a Fund may be subject to certain reporting, disclosure and other compliance obligations under the AIFMD, which may result in the Fund incurring additional costs and expenses; (ii) the Fund and/or the general partner may become subject to additional regulatory or compliance obligations arising under national law in certain EEA jurisdictions, which may result in a Fund incurring additional costs and expenses or otherwise affect the management and operation of such Fund; (iii) a Fund's general partner may be required to make detailed information relating to such Fund and its investments available to regulators and third parties; and (iv) the AIFMD may also restrict certain activities of a Fund in relation to EEA portfolio companies including, in some circumstances, such Fund's ability to recapitalize, refinance or potentially restructure an EEA portfolio company within the first two years of ownership.

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

*Non-U.S. Investments.* A Fund may invest a portion of its aggregate capital commitments in portfolio companies that are organized or headquartered or have substantial sales or operations outside of the United States, its territories, and possessions. Investments in non-U.S. securities or instruments involve certain factors not typically associated with investing in U.S. securities and instruments, including risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various non-U.S. currencies in which the Fund's non-U.S. investments may be denominated (including risks associated with potentially rapid inflation) and costs associated with conversion of investment principal and income from one currency into another; (ii) exposure to fluctuations in interest rates payable with respect to the instruments in which a Fund invests; (iii) differences in conventions relating to documentation, settlement, corporate actions, stakeholder rights, and other matters; (iv) differences between the U.S. and non-U.S. securities markets, including potential price volatility in and relative illiquidity of some non-U.S. securities markets; (v) the absence of uniform accounting, auditing, and financial reporting standards, practices, and disclosure requirements, and less (or more) government supervision and regulation; (vi) certain economic, social, and political risks, including potential exchange control regulations, restrictions on non-U.S. investment and repatriation of capital, the risks of political, economic, governmental, or social instability, including the risk of sovereign defaults, regulatory change, and the possibility of expropriation or confiscatory taxation; (vii) the possible imposition of non-U.S. taxes on income, gains, and gross sales or other proceeds recognized with respect to such securities or instruments; (viii) the application of complex U.S. and non-U.S. tax rules to cross-border investments; (ix) possible non-U.S. tax return filing requirements for the Fund and/or its general and limited partners; (x) differing and potentially less well-developed or well-tested corporate laws regarding stakeholder rights, creditors' rights (including the rights of secured parties), fiduciary duties, and the protection of investors; (xi) differences in the legal and regulatory environment or enhanced legal and regulatory compliance; (xii) political hostility to investments by foreign or private equity investors; and (xiii) less publicly available information.

*Non-U.S. Currency Risks.* Although most of each of the Funds' investments are expected to be U.S. dollar denominated, any Fund's investments that are denominated in non-U.S. currencies are subject to the risk that the value of the particular currency in which such investment is denominated will change in relation to the U.S. dollar, the currency in which the books of the Funds are kept and contributions and distributions generally will be made. Among

the factors that may affect currency values are trade balances between nations, the level of short-term interest rates, differences in relative value of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. A Fund may incur costs in converting investment proceeds from one currency to another. The Fund's general partner may, but it is under no obligation to, employ hedging techniques to manage exposure, although there can be no assurance that such strategies will be effective.

*Hedging Arrangements.* The Fund's general partner may (but is not obligated to) endeavor to manage a Fund's or any portfolio company's currency exposures, interest rate exposures, or other exposures using hedging techniques where available and appropriate. A Fund may incur costs related to such hedging arrangements, which may be undertaken in exchange-traded or over-the-counter ("OTC") contexts, including futures, forwards, swaps, options, and other instruments. There can be no assurance that adequate hedging arrangements will be available on an economically viable basis or that such hedging arrangements will achieve the desired effect, and in some cases hedging arrangements may result in losses greater than if hedging had not been used. In some cases, particularly in OTC contexts, hedging arrangements will subject a Fund to the risk of a counterparty's inability or refusal to perform under a hedging contract, or the potential loss of assets held by a counterparty, custodian, or intermediary in connection with such hedging. OTC contracts may expose a Fund to additional liquidity risks if such contracts cannot be adequately settled. Certain hedging arrangements may create for a Fund's general partner and/or one of its affiliates an obligation to register with the U.S. Commodity Futures Trading Commission or other regulator or comply with an applicable exemption.

*Significant Adverse Consequences for Default.* Each Fund's Limited Partnership Agreement provides for significant adverse consequences in the event such Fund's limited partner defaults on its capital commitment or any other payment obligation. In addition to losing its right to potential distributions from the applicable Fund, a defaulting limited partner may be forced to transfer its interest in the Fund for an amount that is less than the fair market value of such interest, which amount may be paid over a period of up to ten years, without interest. Whether and how to exercise a general partner's remedies against a defaulting limited partner will be in the discretion of the applicable Fund's general partner, and such general partner may require the non-defaulting limited partners of such Fund to contribute capital to make up for the shortfall created by such defaulting limited partner.

*General Partner's Carried Interest.* The fact that a general partner's carried interest in a particular Fund is based on a percentage of net profits of that Fund may create an incentive for the general partner to cause the Fund to make riskier or more speculative investments or to hold an investment longer than otherwise would be the case.

*Transfer by General Partner.* To the extent a Fund's general partner, its partners, the principals thereof and/or their respective affiliates commit to make a direct or indirect investment in or alongside the Fund, a participation in or a portion of such investment may thereafter be transferred to others, subject to any express limitations thereon in applicable Fund's Limited Partnership Agreement.

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

*Distressed Investments.* A Fund may invest in the securities and obligations, including debt obligations that are in covenant or payment default, of companies experiencing significant financial difficulties and material operating issues, including companies that may have been, are, or will become involved in bankruptcy proceedings or other restructuring, recapitalization, or liquidation processes. Investments in such companies involve a substantial degree of risk that is generally higher than the risk involved in investing in companies that are not in financial or operational distress. Given the heightened difficulty of the financial analysis required to evaluate distressed companies, there can be no assurance that a Fund will correctly evaluate the value of the assets of a distressed company securing its debt and other obligations or correctly project the prospects for the successful restructuring, recapitalization, or liquidation of such company. Therefore, in the event that a portfolio company does become involved in bankruptcy proceedings or a restructuring, recapitalization, or liquidation is required, a Fund may lose some or all of its investment or may be required to accept illiquid securities with rights that are materially different than the original securities in which such Fund invested.

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

*Director Liability.* A Fund will often seek to obtain the right to appoint one or more representatives to the board of directors (or similar governing body) of the companies in which it invests (each, a "**Board Representative**"). In those instances where the Fund is not the sole shareholder of the applicable portfolio company, a Board Representative may have duties to persons other than the Fund. Serving on the board of directors (or similar governing body) of a portfolio company exposes the Board Representative, and ultimately the applicable Fund, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect against such liability. In addition, involvement in litigation can be time consuming for such persons and can divert the attention of such persons from the Fund's investment activities.

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*Standard of Care; Indemnification.* The Governing Documents for each Fund contains provisions that, subject to applicable law, reduce, modify or eliminate the duties that the applicable general partner would otherwise owe to the applicable Fund and the Fund's limited partners. Pursuant to the applicable Limited Partnership Agreement for each Fund, the general partner of such Fund, the principals, the Management Company and certain of their employees and affiliates will be indemnified and held harmless from losses sustained from any act or omission in connection with the Fund's activities, subject to certain exceptions set forth in the applicable Fund's Limited Partnership Agreement, and may receive advances for any fees, costs, and expenses incurred in the defense or settlement of any claim that may be subject to a right of indemnification. The application of the foregoing standards may result in the Fund's limited partners having a more limited right of action in certain cases than they would in the absence of such standards. As a result, a Fund may bear significant financial losses even where such losses were caused by the negligence of the applicable general partner and certain of its affiliates. Such financial losses may have an adverse effect on the returns to the applicable Fund's limited partners. The fees, costs, and expenses (whether or not advanced) and other liabilities resulting from the applicable Fund's indemnification obligations will generally be paid by or otherwise satisfied out of the assets of the applicable Fund, including the unpaid capital obligations of the Fund's limited partners. In addition, if the assets of any affected Fund are insufficient to satisfy such Fund's indemnification obligations, the general partner of such Fund may recall distributions previously made to the affected Fund's limited partners, subject to certain limitations set forth in the applicable Fund's Limited Partnership Agreement.

*Litigation.* The transactional nature of the business of Funds exposes the Funds, the applicable general partners, and their respective affiliates generally to this risk of third-party litigation. As such, in the ordinary course of its business, a Fund may be subject to litigation from time to time. Under the applicable Fund's Limited Partnership Agreement, a Fund will generally be responsible for indemnifying the Fund's general partner and certain of its affiliates for costs they may incur with respect to such litigation not covered by insurance. The outcome of litigation proceedings may materially adversely affect the value of the Fund and may continue without resolution for long periods of time. Additional regulation could also increase the risks of third-party litigation. Any litigation may consume substantial amounts of a Fund's general partner's and its principals' time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

*Advisory Board.* The general partner of each Fund appoints one or more limited partner representatives to an Advisory Board for each such Fund. Each Fund's Advisory Board has the ability to review and waive compliance with certain provisions of the applicable Fund's Limited Partnership Agreement, including resolving potential conflicts of interest situations, and whose approval is required or may be requested in certain circumstances under such Limited Partnership Agreement, including certain approvals or consents required by the Advisers Act. Pursuant to the terms of a Fund's Limited Partnership Agreement, all of such Fund's limited partners are bound by the determinations of the Advisory Board, regardless of whether a particular limited partner is represented by a member of the Advisory Board. A Fund's Limited Partnership Agreement may provide that, to the extent permitted by law, none of the Advisory Board members shall owe any fiduciary duties to the Fund or any other partner in the Fund. Members of a Fund's Advisory Board may have conflicts of interest that do not disqualify such members from voting or consenting to matters submitted to the Advisory Board for consideration.



or review. Members of a Fund's Advisory Board may have various business and other relationships with the Fund's general partner and its members, partners, managers, directors, officers, employees, and affiliates. These relationships may influence their decisions as members of such Fund's Advisory Board. To the extent that a limited partner of a Fund is not represented by a member of the Advisory Board, such limited partner will have no influence over matters submitted to the Advisory Board for review or approval.

*Delayed Tax Information.* A Fund may not be able to provide final annual tax information to such Fund's limited partners for any given fiscal year until after April 15 of the following year. Final annual tax information may not be available until the Fund has received tax-reporting information from its portfolio companies necessary to prepare final annual tax information. A Fund's limited partners may be required to obtain extensions of the filing dates for their U.S. federal, state and local income tax returns. Each prospective investor should consult with its own adviser as to the advisability and tax consequences of an investment in any Fund.

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

*General Economic and Market Conditions.* The private equity industry generally and the success of any Fund's investment activities specifically will be affected by general economic and market conditions, as well as by changes in laws, currency exchange controls, and national and international political and socioeconomic circumstances. Such factors are unpredictable and cannot be controlled by the general partner of the applicable Fund. General fluctuations in the market prices of securities and economic conditions generally may reduce the availability of attractive investment opportunities for a Fund and may affect such Fund's ability to make investments. Instability in the securities markets and economic conditions generally (including a slow-down in economic growth and/or changes in interest rates or foreign exchange rates) may also increase the risks inherent in a particular Fund's investments and could have a negative impact on the performance and/or valuation of a Fund's portfolio companies. The Fund's performance can be affected by deterioration in the capital markets and by market events, including events similar to the credit crisis in the summer of 2007 or the downgrading of the credit rating of the United States in 2011, which, among other things, can impact the public market comparable earnings multiples used to value privately held portfolio companies and investors' risk-free rate of return. Movements in foreign exchange rates may adversely affect the

value of investments in portfolio companies and a particular Fund's performance. Volatility and illiquidity in the financial sector may have an adverse effect on the ability of a Fund to sell and/or partially dispose of its portfolio company investments. Such adverse effects may include the requirement of a Fund to pay breakup, termination, or other fees and expenses in the event a Fund is not able to close a transaction (whether due to the lenders' unwillingness to provide previously committed financing or otherwise) and/or the inability of a Fund to dispose of investments at prices that the applicable Fund's general partner believes reflect the fair value of such investments. The impact of market and other economic events may also affect a Fund's ability to obtain funding to support its investment objective. Any of the foregoing events could result in substantial or total losses to a Fund in respect of certain portfolio investments, which losses will likely be exacerbated by the presence of leverage in a portfolio company's capital structure and may be magnified by the expected limited geographic diversity of a Fund's investments.

*Deterioration of Credit Markets May Affect Ability to Finance and Consummate Investments.* In the event that the global credit markets deteriorate and it becomes more difficult for investment funds such as a Fund to obtain favorable financing for investments, a Fund's ability to generate attractive investment returns may be adversely affected to the extent a Fund is unable to obtain favorable financing terms for its investments. Moreover, to the extent that such marketplace events are not temporary and continue, they may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the U.S. and global economies. Such marketplace events also may restrict the ability of a Fund to realize its investments at favorable times or for favorable prices.

*Material Non-Public Information.* From time to time, Vestar and its personnel or affiliates may come into possession of confidential or material, non-public information concerning specific companies, including as a result of certain Vestar personnel serving on the boards of directors of portfolio companies. Under applicable securities laws, this may limit a Fund's general partner's flexibility to buy or sell securities issued by such companies. A Fund's investment flexibility may be constrained as a consequence of such Fund's general partner's inability to use such information for investment purposes, and a Fund may be restricted from initiating a transaction or selling an investment which, if such information had not been known to it, may have been undertaken on account of applicable securities laws or Vestar's internal policies. Due to these restrictions, a Fund may not be able to make an investment that it otherwise might have made or sell an investment that it otherwise might have sold.

*Certain Consultants.* Funds and their portfolio companies may from time to time retain other companies and individuals ("**Special Consultants**"), which may be affiliates of the general partner of one or more of the Funds, employees of such affiliates, portfolio companies of other funds managed by such general partner or its affiliates, third party consultants (including individual senior advisors, consultants and external executives), "operating partners," "strategic partners," "executive partners," or "senior advisors." The Special Consultants may be engaged to provide services to, or in connection with, a particular Fund in relation to its activities or one or more portfolio companies in relation to the identification, acquisition, holding, improvement and disposition of such portfolio companies, including operational aspects of such companies ("**Services**").

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Pursuant to the applicable Fund's Governing Documents, fees and expenses associated with the Services (collectively "**Consulting Fees and Expenses**"), may be paid and/or reimbursed by applicable portfolio companies and/or the Fund. Consulting Fees and Expenses may, at the discretion of the applicable Fund's general partner taking into account the particular Services, include a profits or equity interest in a portfolio company or other incentive-based compensation to the Special Consultant, which may be determined according to one or more methods, including the value of the time (including an allocation for overhead and other fixed costs) of the Special Consultant, a percentage of the value of the portfolio company, the invested capital exposed to such portfolio company, amounts charged by other providers for comparable services and/or a percentage of cash flows from such company.

In addition, portfolio companies of a Fund may pay Special Consultants to perform Services that, directly or indirectly, benefit Vestar, its affiliates, and/or portfolio companies of other Funds. Consequently, Vestar, its affiliates, and/or portfolio companies of other Funds may receive Services without being charged or at below market rates. Conversely, portfolio companies of the Funds may also benefit from Services that are paid for by Vestar, its affiliates and/or portfolio companies of other Funds.

*Handling of Mail.* Mail addressed to a Fund and received at its registered office will be forwarded unopened to the applicable Fund to be dealt with at the forwarding address supplied by the applicable Fund to the entity providing registered office services in the Cayman Islands. None of the Fund or its general partner or any of their respective directors, officers, advisors, or service providers (including the organization that provides registered office services in the Cayman Islands) will bear any responsibility for any delay howsoever caused in mail reaching the forwarding address. In particular, it is possible that the partners, members, managers, directors, and officers of the applicable Fund's general partner will only receive, open, or deal directly with mail that is addressed to them personally (as opposed to mail which is addressed just to the applicable Fund) and that other personnel of the applicable Fund's general partner will handle such forwarded mail.

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

*Valuation of Assets.* There is not expected to be an actively traded market for most of the securities owned by any Fund. When estimating fair market value, the applicable Fund's general

partner will apply a methodology it determines to be appropriate based on accounting guidelines and the applicable nature, facts, and circumstances of the respective investments. However, the process of valuing securities for which reliable market quotations are not available is based on inherent uncertainties, and the resulting values may differ from values that would have been determined had an active market existed for such securities and may differ from the prices at which such securities ultimately may be sold. The exercise of discretion in valuation by the applicable Fund's general partner may give rise to conflicts of interest, including in connection with determining the amount and timing of distributions of carried interest and the calculation of management fees.

*Co-Investments.* A Fund's general partner may, in its sole discretion, provide or commit to provide co-investment opportunities to one or more of such Fund's limited partners and/or other persons (including senior advisors to Vestar), in each case on terms to be determined by the applicable Fund's general partner in its sole discretion. Conflicts of interest may arise in the allocation such co-investment opportunities. The allocation of co-investment opportunities, which may be made to one or more persons for any number of reasons as determined by the applicable Fund's general partner in its sole discretion, may not be in the best interests of the Fund or any individual limited partner of such Fund. In exercising its discretion to allocate co-investment opportunities with respect to a particular investment to and among potential co-investors and the terms thereof, the applicable Fund's general partner may consider some or all of a wide range of factors, which may include: the ability of a person to react promptly to co-invest opportunities; any strategic advantages that may result from a person's participation in a co-investment opportunity; a person's commitment to applicable Fund and/or one or more other funds managed by the Fund's general partner and its affiliates; and/or the likelihood that a person may invest in a future fund sponsored by the applicable Fund's general partner or its affiliates. A Fund's general partner may also, in its sole discretion, charge a management fee and obtain a "carried interest" in respect of any such co-investment. Since co-investments will not be made through the applicable Fund, any compensation received in connection with a co-investment does not arise out of the investment activities of such Fund or actions taken directly or indirectly by Vestar on behalf of such Fund, and therefore, none of such fees and other co-investor -related compensation reduces the Management Fee paid by such Fund. If a co-investment vehicle is formed, such entity will bear expenses related to its formation and operation, many of which are similar in nature to those borne by the applicable Fund.

Co-investments with third parties through partnerships, joint ventures or other entities or arrangements may involve risks not present in investments where a third-party is not involved, including the possibility that a third-party co-venturer or partner may at any time have economic or business interests or goals that are inconsistent with those of the Funds, may have financial difficulties (which may increase the possibility of default), or may be in a position to take (or block) action contrary to the investment objectives of a specific Fund. In addition, a Fund may in certain circumstances be liable for actions of its third-party co-venturer or partner. In those circumstances where such third parties involve a management group, such third parties may receive compensation arrangements relating to such co-investments, including incentive compensation arrangements.

*Contingent Liabilities Upon Disposition.* In connection with the disposition of an investment, a Fund and the Fund's general partner may be required to make (and/or be

responsible for another person's or entity's breach of) representations and warranties, e.g., about the business and financial affairs of the applicable portfolio company, the condition of its assets and the extent of its liabilities, in each case generally in the nature of representations and warranties typically made in connection with the sale of similar businesses, and may be responsible for the content of disclosure documents under applicable securities laws. They may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents are inaccurate. These arrangements may result in contingent liabilities, which would be borne by the applicable Fund and, ultimately, its investors. In such a situation, such Fund's limited partners may be required to return distributions received by them to pay such indemnification obligations, subject to certain limitations provided in the applicable Fund's Limited Partnership Agreement.

*General Risks of Investments in Healthcare Companies.* While investments in healthcare companies offer the opportunity for significant gains, such investments also involve a high degree of business and financial risk and can result in substantial losses. Healthcare companies may face intense competition, including competition from companies with greater financial resources, more extensive research and development, sales and marketing, customer services, and support and other capabilities, and a larger number of qualified managerial and technical personnel. Companies in the healthcare industry in which a Fund may invest could deteriorate as a result of, among other factors, an adverse development in their business, a change in the competitive environment, or an economic downturn.

*Healthcare Research and Innovation.* The healthcare industry spends heavily on research and development. Research findings (e.g., regarding side effects or comparative benefits of one or more particular treatments, services or products) and technological innovation (together with patent expirations) may make any particular treatment, service, or product less attractive if previously unknown or underappreciated risks are revealed, or if a more effective, less costly, or less risky solution is or becomes available. Any such development could have a material adverse effect on healthcare companies in which a Fund may be invested or in which it may invest in the future.

*Consumer Related Industries.* Consumer industries are typically highly competitive and are typically characterized by relatively low barriers to entry and a crowded field of competitors. The long-term market success of a consumer industries company is generally subject to a variety of factors, many of which are outside of the control of a Fund and its portfolio companies. For instance, consumer spending may be disproportionately affected by adverse economic conditions and, in respect of certain market segments, may be difficult to predict. In addition, consumer industries companies may face competition from a number of other, more established market participants, including global companies with significantly greater resources. It is not uncommon for a consumer industries company to ultimately be unsuccessful in gaining a significant market position, and anticipated market opportunities may not develop as expected. In either case, the consumer industries companies in which a Fund may be invested or in which such Fund may invest in the future may be affected in a materially adverse manner.

*Impacts of Excuse or Exclusion.* A particular Fund's limited partner's participation in the Fund's investments may be limited by virtue of such Fund's general partner's right to exclude a Fund's limited partner from, or a Fund's limited partner's right to be excused from, participating

in certain of the Fund's investments as set forth in the applicable Fund's Limited Partnership Agreement, thereby increasing the participation of other of such Fund's limited partners. As a consequence of one or more of a Fund's limited partners being excused or excluded or other factors limiting their participation in investments, the aggregate returns realized by the participating limited partners of such Fund could be adversely affected in a material manner by the unfavorable performance of even one investment by a particular Fund.

*Unspecified Investments.* A Fund's limited partners are relying on the ability of the applicable Fund's general partner to locate and evaluate the investments to be made by Fund using the capital committed to such Fund by such limited partners. The activity of identifying, completing and realizing private equity investments involves a high degree of uncertainty and is subject in some cases to the prevailing capital market, regulatory, or political environment. There can be no assurance that a particular Fund's general partner will be able to locate, or the Fund will be able to complete, portfolio investments that satisfy the Fund's rate of return objectives or, if completed, realize such investments for fair or attractive values or that a Fund will be able fully to invest its committed capital.

*Risks in Effecting Operating Improvements.* In some cases, the success of a Fund's investment strategy will depend, in part, on the ability of such Fund to effect improvements in the operations of a portfolio company. The activity of identifying and implementing operating improvements at portfolio companies entails a high degree of uncertainty. In addition, executing operational improvements may divert the attention of key personnel and disrupt normal business. There can be no assurance that any of the Funds will be able to successfully identify and implement such improvements.

*Risks Relating to Due Diligence of and Conduct at Portfolio Companies; Expedited Transactions.* Before making investments, a Fund's general partner will typically conduct such due diligence as it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. Due diligence may entail evaluation of important and complex business, financial, tax, accounting, technical, environmental, and legal issues. Outside consultants, legal advisors, accountants, investment banks, and other third parties may be involved in the due diligence process to varying degrees depending on the type of investment and the facts and circumstances related thereto, and a Fund's general partner may rely on the advice received from such third parties. Investment analyses and decisions by a Fund's general partner will often be undertaken on an expedited basis in order for such Fund to take advantage of investment opportunities. In such cases, the information available to a Fund's general partner at the time of an investment decision may be limited, and the Fund's general partner may not have access to the detailed information necessary for a full evaluation of the investment opportunity. The due diligence investigation carried out with respect to any investment opportunity will not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in an investment being successful or even ensure a return on invested capital.

*Adequacy and Availability of Insurance.* While a Fund may seek to make investments where insurance and other risk management products (to the extent available on commercially reasonable terms) are utilized to mitigate the potential loss resulting from catastrophic events and other risks customarily covered by insurance, this may not always be practicable or feasible.

Moreover, it will not be possible to insure against all such risks, and such insurance proceeds as may be derived in a timely manner from covered risks may be inadequate to completely or even partially cover a loss of revenues, an increase in operating and maintenance expenses, and/or a replacement or rehabilitation. Certain losses of a catastrophic nature, such as those caused by wars, earthquakes, terrorist attacks, or other similar events, may be either uninsurable or insurable at such high rates as to adversely impact such Fund's profitability.

*Control Person Liability.* Each Fund generally has controlling interests in a number of its portfolio companies. The exercise of control over a company may impose additional risks of liability for environmental damage, product defects, pension and other fringe benefits, failure to supervise management, violation of laws and governmental regulations (including securities laws), and other types of liability, for which the limited liability generally afforded to investors may be ignored. In particular, if determined to be a direct owner or operator of any of the portfolio company's facilities or operations, a Fund could face strict, joint and several liability under environmental laws for hazardous substance or contamination-related liabilities. If any such liabilities were to arise, the affected Funds might suffer significant losses. While each Fund's general partner intends to manage such Fund in a manner that will minimize the exposure of these risks, the possibility of successful claims against such Fund and/or its affiliates cannot be precluded.

*Liability of Limited Partners.* Each of the Funds and certain of their affiliated investment entities have been organized as Cayman Islands exempted limited partnerships. Generally, a Fund's limited partners should not be personally liable for the debts of Fund except that, in the event a Fund is otherwise unable to meet its obligations, such Fund's limited partners may, under applicable law, be obligated to repay amounts previously received by them to the extent such amounts are deemed to have been wrongfully distributed to them, subject to certain limitations set forth in the applicable Fund's Limited Partnership Agreement. In addition, any general or limited capital commitment is susceptible to risk of loss as a result of any liability of the Fund irrespective of whether such liability is attributable to an investment to which such general or limited partner, as the case may be, did not contribute any capital.

*Over-Commitment.* In order to facilitate the acquisition of a portfolio company, a Fund may make (or commit to make) an investment in such company with a view to selling a portion of such investment to co-investors or other persons prior to or within a brief period after the closing of the acquisition. In such event, such Fund will bear the risk that any or all of the excess portion of such investment may not be sold or may only be sold on unattractive terms and that, as a consequence, such Fund may bear the entire portion of any breakup fee or other fees, costs, and expenses related to such investment, hold a larger than expected investment in such portfolio company, or may realize lower than expected returns from such investment.

*Possibility of Fraud or Other Misconduct of Employees and Service Providers.* Misconduct by (i) Vestar employees, (ii) portfolio company directors, officers or employees, and (iii) service providers to the foregoing and/or their respective affiliates could undermine the due diligence efforts of any Fund and/or the general partner of such Fund and cause significant losses to any such affected Fund. Misconduct may include entering into transactions without authorization, the failure to comply with operational and risk procedures, including due diligence procedures, misrepresentations as to investments being considered by a Fund, the improper use

or disclosure of confidential or material nonpublic information, which could result in litigation or serious financial harm, including limiting a Fund's business prospects or future marketing activities, and non-compliance with applicable laws or regulations (and the concealing of any of the foregoing). Such activities may result in reputational damage, litigation, business disruption, market, or industry segment volatility and/or financial losses to one or more of the Funds. Vestar has controls and procedures through which it seeks to minimize the risk of such misconduct occurring; however, no assurances can be given that such misconduct will be able to be identified or prevented.

*Recycling; Reinvestment.* During a Fund's commitment period, the Fund's general partner generally has the right to recall certain capital returned or distributed to the its general and limited partners. Accordingly, during the term of the a Fund, a general or limited partner may be required to make capital contributions in excess of their respective capital commitments (with certain limitations), and to the extent such recalled or retained amounts are reinvested in investments, a general or limited partner will remain subject to investment and other risks associated with such investments.

*Fees and Expenses.* Each Fund will pay and bear all expenses related to its operations, including management fees and the costs of holding, monitoring, maintaining, and disposing of portfolio companies, including investment banking fees and consulting fees, whether or not such Fund makes any profits. While it is difficult to predict the future expenses of a Fund, such expenses may be substantial and may surpass such Fund's operating income. The amount of these partnership expenses will reduce the actual returns realized by a Fund's limited partners on their investment in the applicable Fund (and may, in certain circumstances, reduce the amount of capital available to be deployed by the Fund for investments). Fund expenses include recurring and regular items, as well as extraordinary expenses for which it may be hard to budget or forecast. As a result, the amount of a Fund's expenses ultimately called or called at any one time may exceed expectations.

*Early Termination of the Commitment Period; Early Termination of the Funds.* If, pursuant to and in accordance with the terms of a particular Fund's applicable Limited Partnership Agreement, the commitment period of such Fund is terminated earlier than anticipated, there can be no certainty regarding such Fund's ability to consummate investment opportunities thereafter. Moreover, it is possible that a Fund may be dissolved and terminated prematurely, and as a result, may not be able to accomplish its objectives and may be required to dispose of its investments at a disadvantageous time or make an in-kind distribution (resulting in such Fund's limited partners not having their capital invested and/or deployed in the manner originally contemplated).

*Investments Longer than Term.* A Fund may make investments that may not be advantageously disposed of prior to the date such Fund is terminated, either by expiration of such Fund's term or otherwise, or such Fund's term may be extended to facilitate the wind-down of such Fund. Although each Fund's general partner expects that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, each Fund's general partner has a limited ability to extend the term of such Fund, and each Fund may have to sell, distribute, or otherwise dispose of investments at a disadvantageous time as a result of termination. To the extent that such investments are held in trust, the trust may incur operating



and formation expenses. In addition, there can be no assurances with respect to the timeframe in which the winding-up and the final distribution of proceeds to any particular Fund's limited partners will occur.

*Distributions In-Kind.* Under normal circumstances, the Funds typically intend to make distributions in cash or marketable securities. Under certain circumstances (including the winding-up of a particular Fund), however, distributions of investments for which there is no readily available public market and/or which may be subject to substantial restrictions on sale or transfer may be made in-kind. It may be difficult for a Fund's limited partners to liquidate the investments received at a price or within a time period that is determined thereby to be ideal, and significant administrative burden may be involved. After a distribution of investments is made, the recipients may decide to liquidate such investments within a short period of time, which could have an adverse impact on the price of such investments. A Fund's limited partners in receipt of a distributed investment will have no guidance from such Fund or such Fund's general partner with respect to disposition of such investment (including timing of such disposition). The price at which such investments may be sold by a particular Fund's limited partners may be lower than the value of such investments determined pursuant to the applicable Fund's Limited Partnership Agreement, including the value used to determine the amount of carried interest accruing to the applicable Fund's general partner with respect to such investment. In addition, the direct holding of certain investments may subject the holder to suit or taxes in jurisdictions in which such investments are located.

*Agreements with Certain Investors.* A Fund's general partner may enter into a side letter or other similar agreement with particular limited partners of such Fund in connection with its admission to Fund without the approval of any other limited partner of such Fund, which would have the effect of establishing rights under, altering or supplementing the terms of, or confirming the interpretation of an applicable Fund's Governing Documents (including the applicable Fund's Limited Partnership Agreement and any related subscription agreement) with respect to such limited partner in a manner more favorable to such limited partner than those applicable to other limited partners of such Fund, and such rights may be significant. Such rights or terms in any such side letter or other similar agreement may include, without limitation, (i) excuse, exclusion or withdrawal rights applicable to particular investments or limited partners (which may increase the percentage interest of other Limited Partners in, and contribution obligations of other Limited Partners with respect to, certain investments); (ii) reporting obligations of the General Partner; (iii) waiver of certain confidentiality obligations; (iv) consent of the General Partner to certain transfers by such Limited Partner; or (v) rights or terms necessary in light of particular legal, regulatory, or public policy characteristics of such Limited Partner.

*Disclosure of Confidential Fund and Investor Information.* The limited partners of the Fund are expected to include entities that are subject to public disclosure requirements, including state public records or similar freedom of information laws which may compel public disclosure of confidential information regarding Fund in which such limited partners are invested, its investments and its investors. There has been a recent increase in the number of requests under such laws for contracts (including partnership agreements, subscription agreements, and side letters) that investors in private equity funds that are subject to such laws have in place with private equity funds. A Fund may incur expenses in connection with responding to any such disclosure requests, even if such Fund ultimately succeeds in asserting confidentiality for any

requested documentation. Moreover, notwithstanding the obligation that the limited partners of any Fund will have pursuant to the such Fund's Limited Partnership Agreement to maintain the confidentiality of the information for the partnership, there can be no assurance that such information will not be disclosed either publicly or to regulators, law enforcement, or otherwise. Each Fund's general partner may also in certain circumstances, in an effort to protect any such potential disclosure, withhold all or any part of the information otherwise to be provided to such a limited partner, as more fully described in such Fund's Limited Partnership Agreement. There can be no assurance that such information will not be disclosed by any Fund, the such Funds' general partners, Vestar, their affiliates and personnel, portfolio companies or services providers to any of them including, without limitation, to comply with laws, regulations or policies to which they are or may become subject. In addition, under the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act the SEC has authority to require private equity fund advisers, such as Vestar, to file additional reports with the SEC regarding their funds and investment activities. Any public disclosure of Fund-related information could have an adverse effect on a Fund and its investors, for example, by affecting such Fund's competitive advantage in finding attractive investment opportunities.

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*Cyber Security Breaches and Identity Theft.* The Funds and their portfolio companies' information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages, and catastrophic events such as fires, tornadoes, floods, hurricanes, and earthquakes. Although each Fund's general partner intends to implement various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time, or cease to function properly, such general partner, the Funds, and/or any affected portfolio company may incur specific time or expense to fix or replace them and to seek to remedy the effects of such issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in a Fund's general partner's, any Fund's and/or a portfolio company's operations and result in a failure to maintain the security, confidentiality, or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm such Fund's general partner, the Fund's, and/or a portfolio company's reputation, subject any such entity and its respective affiliates to legal claims or otherwise affect their business and financial performance.

*Electronic Delivery of Certain Documents.* Pursuant to the subscription agreement entered into by a Fund's limited partner in respect of an investment in the Funds, with respect to certain Funds, such limited partner may consent to electronic delivery (including email, facsimile or posting on the Fund's web-based investor reporting site or other Internet service in accordance with the applicable Limited Partnership Agreement) of (i) any notices or communications required or contemplated to be delivered to such limited partner by the Fund, the Fund's general partner, or any of their respective affiliates, pursuant to applicable law or regulation (including, without limitation, the Advisers Act), at the option of the person making such delivery, and (ii) capital call notices and other notices, requests, demands or consents, or other communications and any financial statements, reports, schedules, certificates, or opinions required to be provided to such limited partner under the applicable Limited Partnership Agreement or under any side letter or similar agreement with such limited partner. There are certain costs and possible risks (e.g., system outages) associated with electronic delivery. Moreover, none of the Fund's general

partners can provide any assurance that these communication methods are secure and will not be responsible for any computer viruses, problems, malfunctions, theft of information or related problems that may be associated with the use of an Internet-based system.

*Regulation and Enforcement.* The growth of the private equity industry, and the increasing size and reach of transactions, has prompted additional governmental and public attention to the industry and its practices. In recent years, there have been governmental investigations and lawsuits over whether certain club deals or consortium bids (*i.e.*, deals in which two or more unaffiliated entities either provide equity financing or divide the target business being acquired) constituted an illegal attempt to collude and drive down the prices of acquisitions. These transactions can range in size from the large private equity club deals in which the target remains intact to much smaller deals in which a target is broken up and sold to multiple strategic buyers. Private equity firms that engage in potentially anti-competitive practices in an otherwise permissible and lawful club deal could be liable for monetary damages to former shareholders of target companies and could be subject to U.S. Department of Justice (the “**DOJ**”) investigation and civil and criminal prosecution resulting in fines. The Antitrust Division of the DOJ has previously issued information requests relating to private equity transactions among multiple fund sponsors, and in 2014 several fund sponsors settled claims that they had conspired to not bid against each other on eight large “take-private” buyouts that occurred prior to the 2008 global financial crisis. There can be no assurance that the Funds will not be subject to third-party litigation and/or investigations involving consortium bids.

In addition, numerous regulatory initiatives have been launched and significant legislation has been enacted as a result of the severe global market volatility and dislocations, financial institution failures and defaults and large financial frauds that occurred during the 2008 global financial crisis. U.S. regulators, including the U.S. Federal Reserve System (the “**Federal Reserve**”), the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation have also recently warned banks against leveraged lending that load companies with large amounts of debt. Regulation generally, as well as regulation more specifically addressed to the private equity industry, including tax laws and regulation, whether in the United States or outside of it, could further increase the cost of acquiring, holding or divesting portfolio investments and the cost of operating the Funds, as well as harm the profitability of enterprises and interfere with the ability of the Funds to engage in certain transactions.

*Pay-to-Play Laws, Regulations and Policies.* A number of states and municipal pension plans have adopted so-called “pay-to-play” laws, regulations, or policies which prohibit, restrict or require disclosure of payments to (and/or certain contacts with) state officials by individuals and entities seeking to do business with state entities, including those seeking investments by public retirement funds. The SEC has adopted a rule that, among other things, prohibits an investment adviser from providing advisory services for compensation to a government client for two years after the adviser or certain of its executives or employees makes a contribution to certain elected officials or candidates. If any of the Fund’s general partners, any of their respective employees or affiliates or any service provider acting on their behalf, fails to comply with such laws, regulations, or policies, such non-compliance could have an adverse effect on one or more of the Funds. The Fund’s limited partners may also seek to pursue individual remedies, including withdrawal rights, which may be included in side letters or otherwise imposed by statute.

*Tax Liability Considerations.* A Fund may take positions with respect to certain tax issues that depend on legal and other interpretive conclusions. Should any such positions be successfully challenged by the IRS, a Fund's limited partner might be found to have a different tax liability for that year than that reported on its federal income tax return. In addition, an audit of any of the Funds may result in an audit of the returns of some or all of the limited partners of such Funds, which examination could result in adjustments to the tax consequences initially reported by the Fund and affect items not related to any or all of the limited partner's investments in the affected Fund(s). If such adjustments result in an increase in any limited partner's federal income tax liability for any year, such limited partner may also be liable for interest and penalties with respect to the amount of underpayment. The legal and accounting costs incurred in connection with any audit of the Fund's tax return will be borne by the Fund. The cost of any audit of any limited partner's tax return will be borne solely by such limited partner. The taxation of partnerships and partners is complex.

*New Rules Regarding U.S. Federal Income Tax Liability Resulting from IRS Audits.* For taxable years of the Funds beginning on or after January 1, 2018 (or earlier, if the Partnership so elects), U.S. federal income taxes arising from an IRS audit will be paid by the applicable Fund absent an election to the contrary. In addition, a newly designated "partnership representative" will have the power to act on behalf of the Fund and its Partners in all IRS audits and other proceedings involving the Fund's U.S. federal income, loss, deductions and credits. These new rules may be less favorable than current partnership audit rules for certain partners in certain cases.

*Industry Relationships.* As with other private equity fund sponsors, as part of Vestar's business, Vestar and its principals and employees have developed many relationships with third parties which have the potential to raise conflicts of interest. Such third parties include investment bankers, lenders, consultants, professional advisors (such as attorneys and accountants), co-investors, current and former directors, officers and employees of current and former portfolio companies, and former employees and members of Vestar. Certain of these third parties may: (i) introduce investment opportunities to Vestar; (ii) arrange for, or facilitate the financing of, the purchase or recapitalization of current and potential portfolio companies; (iii) introduce portfolio companies to potential acquisition or merger candidates; (iv) facilitate the disposition of portfolio companies; or (v) provide investment banking, consulting, legal, or advisory services to Vestar, the Vestar Funds, or portfolio companies of the Funds. Such third parties may also provide goods or services to or have business, personal, political, financial, or other relationships with the Principals. In addition, such third parties may invest in one or more Funds; co-invest in one or more of their portfolio companies of the Funds, or provide other significant business or investment services to Vestar, the Funds, and/or their portfolio companies. These relationships may influence the Fund's general partners in deciding whether to select or recommend any such third-party to perform services for a particular Fund or a portfolio company. The cost of any services provided by such third parties will generally be borne directly or indirectly by a particular Fund or its portfolio companies, as applicable.

*Restricted Nature of Investment Positions.* Generally, there will be no readily available market for a substantial number of a Fund's investments, and therefore, each Fund's investments are generally difficult to value precisely. The absence of a public market or other readily available tools for valuing a Fund's investments may result in investments being over valued

relative to the amount of consideration that can actually be obtained for such investments in an arm's length transaction. In addition, Vestar has the option of distributing certain investments in kind to the investors in the Funds. If investors receive in kind distributions of investments for which there is no readily available liquid trading market the investors may suffer losses when seeking to liquidate such investments, as many investors may decide to liquidate within a short period of time, which could have an adverse impact on the price of such securities. The price at which such securities may be sold by the investors may be lower than the value of such securities as determined pursuant to the relevant Limited Partnership Agreement, including the value used to determine the amount of carried interest available to the General Partner with respect to such investment.

*Projections.* Projected operating results of a company in which a Fund invests normally will be based primarily on financial projections prepared by such company's management, with adjustments to such projections made by Vestar in its discretion. In all cases, projections are only estimates of future results that are based upon information received from the company and assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.

### **Conflicts of Interest**

Vestar and its related entities engage in a broad range of advisory and non-advisory activities, including providing transaction-related, investment advisory, legal, management and other services to Funds and portfolio companies. In the ordinary course of Vestar conducting its activities, the interests of a Fund may conflict with the interests of Vestar, one or more other Funds, portfolio companies or their respective affiliates. Certain of these conflicts of interest are discussed herein.

Vestar currently manages a number of Funds that are similar to each other, and each of the Funds has made investments that are similar to investments made by other Vestar Funds. Vestar's investment staff will continue to manage and monitor such investment funds and investments. However, until such time as Vestar is permitted to raise a successor family of Funds to a family of Funds, Vestar will pursue appropriate investment opportunities principally for the benefit of the most recent family of Funds (*e.g.*, until such time as Vestar is permitted by the Vestar VI Funds' Governing Documents to raise a Vestar VII family of funds, applicable investment opportunities will be pursued principally for the benefit of the Vestar VI Funds), subject to certain limited exceptions. In addition, Vestar believes the significant investment by Vestar in the Funds, as well as Vestar's interest in the carried interest, operate to align, to some extent, the interest of Vestar with the interest of the partners in any particular Fund. Investments that Vestar may control or manage through certain Funds may compete with companies acquired by other Funds. When Vestar is permitted to raise a successor family of Funds to a particular family of Funds, Vestar will continue to manage such Funds' investments but also likely will focus its investment activities on other opportunities and areas unrelated to such Funds' investments.

From time to time, Vestar may provide opportunities to other parties to co-invest with a Fund in a particular investment made by such Fund through a Vestar Co-Invest Vehicle. In determining which other parties should participate, and the extent of such participation, in such investment opportunities, Vestar and its affiliates may be subject to conflicts of interest. Vestar attempts to resolve such conflicts of interest in light of its obligations to investors in such investment vehicles it manages, and attempts to allocate investment opportunities among Vestar, the Funds, other Private Investment Funds, and such other parties in a fair and equitable manner and consistent with Vestar's fiduciary obligations, the Governing Documents and the Vestar investment allocation policy. Where necessary, Vestar consults and receives consent to conflicts from an advisory board consisting of limited partners of the Funds or the Private Investment Funds. When and to the extent that employees and related persons of Vestar and its affiliates make capital investments in or alongside certain Funds, Vestar and its affiliates are subject to conflicting interests in connection with these investments. There can be no assurance that any Fund's return from a transaction would be equal to and not less than another Fund participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

As a result of the Private Investment Funds' controlling interests in portfolio companies, a General Partner and/or its affiliates typically have the right to appoint portfolio company board members, or influence their appointment and to determine or influence the determination of their compensation. From time to time, portfolio company board members approve compensation and/or other amounts payable to Vestar such as transaction and/or advisory fees. Such amounts will be in addition to any Management Fees or carried interest paid by a Fund to the relevant General Partner or the Management Company. Additionally, the Management Company, its affiliates and/or personnel maintain relationships with (or may invest in) financial institutions, service providers, and other market participants, including managers of private funds, banks, and brokers. Certain of those persons will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, Vestar and/or the Private Investment Funds or other investment vehicles they advise. Vestar and/or its affiliates may also, from time to time, employ personnel with pre-existing ownership interests in portfolio companies owned by the Funds or other investment vehicles advised by Vestar and/or its affiliates; conversely, former personnel or executives of Vestar and/or its affiliates may serve in significant management roles at portfolio companies or service providers recommended by Vestar.

A portfolio company typically will reimburse Vestar or service providers retained at Vestar's discretion for expenses (including without limitation travel expenses) incurred by Vestar or such service providers in connection with their performance of services for such portfolio company, and the amount of such reimbursements may be substantial. This subjects Vestar and its affiliates to conflicts of interest because the Funds generally do not have an interest or share in these reimbursements. Vestar determines the amount of these reimbursements for such services in its own discretion, subject to its internal reimbursement policies and practices. Although the amount of individual reimbursements typically is not disclosed to investors in any Fund, their effect is reflected in each Fund's audited financial statements, and any fee paid or expense reimbursed to Vestar or such service providers generally is subject to: agreements with sellers, buyers and management teams; the review and supervision of the board

of directors of or lenders to portfolio companies; and/or third party co-investors in its transactions. These factors help to mitigate related conflicts of interest.

Vestar generally exercises its discretion to recommend to a Fund or to a portfolio company thereof that it contract for services with (i) Vestar or a related person of Vestar (which may include a portfolio company of such Fund) or (ii) an entity with which Vestar or its affiliates or current or former members of their personnel has a relationship or from which Vestar or its affiliates or their personnel otherwise derives financial or other benefit. This subjects Vestar to conflicts of interest, because although Vestar selects service providers that it believes are aligned with its operational strategies and will enhance portfolio company performance and, therefore, returns of the relevant Fund, Vestar may have an incentive to recommend the related or other person because of its financial or other business interest. There is a possibility that Vestar, because of such belief or for other reasons, may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. Whether Vestar has a relationship or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lower cost.

Vestar may have a conflict of interest with a Fund in recommending the retention or continuation of a third-party service provider to such Fund or a portfolio company if such recommendation is, among other things, motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more Funds, will provide Vestar information about markets and industries in which Vestar operates (or is contemplating operations) or will provide other services that are beneficial to Vestar. Vestar may also have a conflict of interest in making such recommendations in that Vestar has an incentive to maintain goodwill between it and the existing and prospective portfolio companies for a Fund, while the products or services recommended may not necessarily be the best available to the portfolio companies held by a Fund.

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

Because Vestar's carried interest is based on a percentage of net realized profits, it may create an incentive for Vestar to cause a Fund to make riskier or more speculative investments than would otherwise be the case. Also, because there is a fixed investment period after which capital from investors in a Fund may only be drawn down in limited circumstances and because Management Fees are, at certain times during the life of a Fund, based upon capital invested by such Fund, this fee structure may create an incentive to deploy capital when the Vestar may not otherwise have done so.

The Management Company owns 51% of Procurement Advisors LLC ("PA"). PA is a full-spectrum buying service for maintenance, repair and operating (MRO) supplies and direct material (OEM) products. PA offers deeply discounted pricing and, in certain cases, purchase rebates to its member companies, and does not charge fees to any of its member companies. The Management Company has introduced PA to several portfolio companies of the Vestar Funds it

advises. Each portfolio company chooses, in its sole discretion, whether to become a member of PA. To avoid any conflict of interest, each applicable Fund is credited with 100% of the net profit contribution that the Management Company receives because of such portfolio companies' purchases. In addition to PA, in the future, the Management Company may institute other programs under which portfolio companies owned by the Funds are given the option to participate in purchasing, vendor or similar arrangements with the Management Company, its affiliates and/or other portfolio companies. Program participants typically expect to receive discounts negotiated with various vendors and service providers on a groupwide basis. Depending on the program, participants may voluntarily participate in the program without cost or Vestar may allocate fees and third-party administration costs for program among the relevant Funds and/or portfolio companies. Vestar and its affiliates also may also participate in such programs in exchange for an allocable portion of such fees and costs, and receive similar benefits and discounts as the portfolio companies participating therein. These amounts are not expected to result in additional offsets to the Management Fee. Vestar believes the potential for conflicts relating to such arrangements is mitigated by the anticipated cost savings to portfolio companies (which is expected to be to the benefit of the applicable Fund(s)) that will result if the negotiated discounts rates for goods and services are discounted relative to those widely available in the market.

From time to time Vestar, and its affiliates and personnel and persons selected by them may receive the benefit of "friends and family" and similar discounts from portfolio companies owned by the Funds under which such portfolio companies make their goods and/or services available at reduced rates. Because its portfolio companies offer such discounts to customers other than Vestar and such persons as part of their standard commercial practices in an effort to expand their respective customer bases, Vestar believes that the potential for conflicts of interest relating to such discounts is mitigated.

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

#### **DISCIPLINARY INFORMATION**

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

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

As described under "Advisory Business" above, the Management Company is affiliated with other Vestar investment advisers registered with the SEC under the Advisers Act pursuant



to the Management Company's registration in accordance with SEC guidance. These affiliated investment advisers, together with the Management Company, operate as a single advisory business and serve as general partners of the Funds and other pooled vehicles and generally share common owners, officers, partners, employees, consultants or persons occupying similar positions.

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

Vestar has adopted the Vestar Code of Ethics and Securities Trading Policy and Procedures (the "**Code**"), which sets forth standards of conduct that are expected of Vestar principals and employees and addresses conflicts that arise from personal trading. The Code requires Vestar personnel to:

- report their personal securities transactions;
- pre-clear certain types of securities transactions; and
- comply with policies and procedures reasonably designed to prevent the misuse of, or trading upon, material non-public information.

A copy of the Code will be provided to any client or prospective client upon request to Steven Della Rocca, the Chief Compliance Officer, at (212) 351-1600. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client's interests in client eligible investments.

Vestar and its affiliated persons may come into possession, from time to time, of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, Vestar and its affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of Vestar. Accordingly, should Vestar or any of its affiliated persons come into possession of material nonpublic or other confidential information with respect to any public or non-public company, Vestar generally would be prohibited from communicating such information to clients, and Vestar will have no responsibility or liability for failing to disclose such information to clients as a result of complying with, and following their policies and procedures designed to comply with, applicable law. Similar restrictions may be applicable as a result of Vestar personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Funds.

Principals and employees of Vestar and its affiliates may directly or indirectly own an interest in Private Investment Funds, primarily through the Vestar Co-Invest Funds. Vestar believes that such interests do not create a conflict of interest and instead operate to align the interests of Vestar personnel with that of the Private Investment Funds.

The Funds and other Private Investment Funds, including the Vestar Co-Invest Vehicles, may invest together in the manner set forth in the Limited Partnership Agreements. Vestar will

allocate investment opportunities in a fair and equitable manner and consistent with its fiduciary obligations, the Governing Documents and Vestar's investment allocation policy, which is set forth in Vestar's Compliance Manual.

Vestar and its affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in the Funds, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, the Funds, even though their investment objectives may be the same or similar.

### **BROKERAGE PRACTICES**

Vestar does not regularly engage in public securities transactions through the Funds or otherwise, however, to the extent it does so, it follows the brokerage practices described herein.

Vestar focuses on securities transactions of private companies and generally purchases and sells such companies through privately negotiated transactions in which the advisory services of a broker-dealer may be retained. Vestar may also distribute securities to investors in the Funds or sell such securities, including through a broker-dealer, if a public trading market exists.

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

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

As a general matter, to the extent research is provided by brokers it is used to benefit Vestar's Private Investment Funds. However, each and every research service may not be used for the benefit of each and every Private Investment Fund managed by Vestar, and brokerage commissions paid by one Private Investment Fund may apply towards payment for research services that might not be used in the service of such Private Investment Fund. To the extent that Vestar allocates brokerage business on the basis of research services, it may have an incentive to select or recommend broker-dealers based on the interest in receiving such research or other products or services, rather than based on its Private Investment Funds' interest in receiving most

favorable execution. To the extent Vestar uses “soft dollars” on behalf of the Funds, it will seek to do so within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended.

Vestar does not anticipate engaging in significant public securities transactions; however, to the extent that Vestar engages in any such transactions, orders for purchase or sale of securities placed first will be executed first and within a reasonable amount of time of order receipt. To the extent that orders for Private Investment Funds are completed independently, Vestar may also purchase or sell the same securities or instruments for several Private Investment Funds simultaneously.

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

#### **REVIEW OF ACCOUNTS**

The investments made by the Private Investment Funds are generally private, illiquid, and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, Vestar closely monitors companies in which the Private Investment Funds invest, and the Chief Compliance Officer periodically checks to confirm that each Private Investment Fund is maintained in accordance with its stated objectives.

Vestar will generally provide to its limited partners: (i) audited financial statements annually; (ii) unaudited financial statements for the first three quarters of each fiscal year; (iii) annual tax information necessary for each partner’s U.S. tax returns; (iv) descriptive investment information for each portfolio company after each investment and (v) quarterly and annual reports on the performance of the Funds.

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

As discussed in the “Fees and Compensation” section, Vestar and/or its affiliates may receive certain fees from a Fund’s portfolio companies. As described in the Governing Documents and herein under “Management Fees,” a specified percentage of any such fees received are offset against the Management Fees paid by an applicable Private Investment Fund.

From time to time, Vestar may enter into solicitation arrangements pursuant to which it compensates third parties for referrals that result in a potential investor becoming a limited partner in an applicable Fund. Any fees payable to any such placement agents are borne by Vestar indirectly through an offset against the Management Fee.

Monument Group, Inc. (“**Monument**”) has been engaged by one or more of the General Partners as a placement agent with respect to the private placement of interests in Vestar Capital Partners VII, L.P. For these services, any fees payable to Monument are borne by Vestar directly or indirectly through an offset against the Management Fee, although related out-of-pocket expenses incurred pursuant to the agreement with Monument are borne by Vestar Capital Partners VII, L.P.

### **CUSTODY**

Vestar has established an account with the following qualified custodians to hold funds and securities on behalf of the Funds: First Republic Bank, Boston, Massachusetts; SGG S.A., Luxembourg; TMF Group (Luxembourg) S.A. (f/k/a Equity Trust Co.), Luxembourg; Société Générale Group, Luxembourg; Alter Domus, Luxembourg; Broadridge Corporate Issuer Solutions, Brentwood, New York; Silicon Valley Bank, New York, New York; US Bank, Hartford, Connecticut; Computershare Trust Company, N.A., College Station, Texas; Wells Fargo, San Francisco, California and CITI Private Bank, New York, New York.

### **INVESTMENT DISCRETION**

Vestar has discretionary authority to manage investments on behalf of the Funds. As a general policy, Vestar does not allow limited partners to place limitations on this authority. Pursuant to the terms of the Limited Partnership Agreements, however, Vestar may enter into “side letter” arrangements with certain limited partners whereby the terms applicable to such limited partner’s investment in a Fund may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. Vestar assumes this discretionary authority pursuant to the terms of the Governing Documents and powers of attorney executed by the limited partners of the Funds.

### **VOTING CLIENT SECURITIES**

Vestar has adopted the Proxy Voting Policies and Procedures (the “**Proxy Policy**”) to address how it will vote proxies, as applicable, for a Fund’s (and any Private Investment Fund’s) portfolio investments. The Proxy Policy seeks to ensure that Vestar votes proxies (or similar instruments) in the best interest of the Funds, including where there may be material conflicts of interest in voting proxies. Vestar generally believes its interests are aligned with those of a Fund’s investors through the principals’ beneficial ownership interests in the Funds and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that Vestar may address the conflict using several alternatives, including by seeking the approval or concurrence of a Fund’s advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Vestar does not consider service on portfolio company boards by Vestar personnel or Vestar’s receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by Vestar when voting proxies on behalf of a Fund. Clients or prospective clients should contact Steven Della Rocca, the Chief Compliance Officer, at (212) 351-1600, if they would like a copy of Vestar’s complete Proxy

Policy or information regarding how Vestar voted proxies for particular portfolio companies. Such information will be provided to such persons at no charge.

#### **FINANCIAL INFORMATION**

Vestar does not require or solicit prepayment of management fees more than six months in advance and is not otherwise required to make any disclosure under this item of the Brochure.

**INVESTMENT ADVISER BROCHURE**  
**VESTAR/COLORADO IMPACT, LLC**

Vestar/Colorado Impact, LLC  
1555 Blake Street  
Denver, Colorado 80202  
<http://www.coloradoimpactfund.com>

March 2017

**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Vestar/Colorado Impact, LLC (the “Management Company” or “VCI”). If you have any questions about the contents of this Brochure, please contact us at (303) 226-1717. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

VCI is a wholly owned subsidiary of Vestar Capital Partners (“VCP”), which is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). However, such registration does not imply a certain level of skill or training. VCI is a relying adviser to VCP’s registration in accordance with SEC guidance.

**Additional information regarding VCI is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **MATERIAL CHANGES**

This annual amendment describes the business practices of VCI and is provided separate from the Form ADV Part 2A of VCP and its other affiliates. Capitalized terms used in this section are used as defined in this Form ADV Part 2A.

VCP and its affiliates filed its most recent Form ADV Part 2A on March 31, 2017.

There are no material changes to this Brochure as compared to the Brochure filed by VCI last year.

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## ADVISORY BUSINESS

Vestar/Colorado Impact, LLC (“VCI”) is a Delaware limited liability company and a registered investment adviser. VCI generally provides investment supervisory services to its clients, which consist of private investment-related funds. VCI was formed and commenced operations in April 2014. This Brochure describes the business practices of VCI, which operates as part of VCP’s advisory business.

VCI is the investment adviser and general partner of the Colorado Impact Fund I, L.P. (the “Fund”). VCI is registered under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), pursuant to VCP’s registration in accordance with Securities and Exchange Commission (“SEC”) guidance. The Fund, together with future private investment funds to which VCI provides investment advisory services, are collectively referred to as “**VCI Private Investment Funds**.” Current and future private investment funds to which VCP and its affiliates other than VCI provide investment advisory services, are collectively referred to as “**VCP Private Investment Funds**,” and the VCI Private Investment Funds and the VCP Private Investment Funds are collectively referred to as the “**Vestar Private Investment Funds**.”

VCP is a New York general partnership and a registered investment adviser. VCP commenced operations in 1993. VCP and its affiliated entities other than VCI are collectively referred to as “**Vestar Capital**,” and Vestar Capital and VCI are collectively referred to as “**Vestar**.” The business practices of Vestar Capital are described in a separate brochure.

Interests in the Fund are privately offered to qualified investors in the United States and elsewhere. The Fund and any other VCI Private Investment Funds that may be formed by VCI at a later date are expected to invest through negotiated transactions in operating entities. VCI’s investment advisory services to VCI Private Investment Funds consist of identifying and evaluating investment opportunities, negotiating and consummating investments, managing and monitoring investments, and achieving dispositions for such investments. Investments are made predominantly in non-public companies, although investments in public companies are permitted. Where such investments consist of portfolio companies, the senior principals or other personnel of VCI may serve on such portfolio companies’ respective boards of directors, may serve as officers of or consultants to such portfolio companies, and may otherwise act to influence control over management of portfolio companies held by VCI Private Investment Funds.

VCI’s advisory services for VCI Private Investment Funds are detailed in the applicable limited partnership agreements or similar agreements (each a “**Limited Partnership Agreement**”) and/or term sheet, investor materials and list and description of certain risk factors (together with the Limited Partnership Agreement, the “**Governing Documents**”) and are further described below under “Methods of Analysis, Investment Strategies and Risk of Loss.” Investors in VCI Private Investment Funds participate in the overall investment program for the applicable fund, but such investors may be excused from a particular investment due to legal, regulatory, or other applicable constraints. The Fund or VCI may enter into side letters or similar agreements with certain investors that have the effect of establishing rights under, altering, or supplementing the Fund’s Limited Partnership Agreement.

Additionally, from time to time, VCI may provide (or agree to provide) certain investors or other persons the opportunity to participate in co-invest vehicles that will invest in certain portfolio companies alongside a VCI Private Investment Fund. Such co-invest vehicles typically invest and dispose of their investments in the applicable portfolio company at the same time and on the same terms as the VCI Private Investment Fund making the investment. However, from time to time, for strategic and other reasons, a co-invest vehicle may purchase a portion of an investment from a VCI Private Investment Fund and in connection with such purchase, VCI will follow the procedures set forth in the Compliance Manual relating to “Principal Transactions.” Any such purchase from a VCI Private Investment Fund by a co-invest vehicle generally occurs shortly after the VCI Private Investment Fund’s completion of the investment to avoid any changes in valuation of the investment, and the co-invest vehicle may be charged interest on the purchase to compensate the relevant VCI Private Investment Fund for the holding period.

As of December 31, 2016, VCI managed \$60,898,141 in client assets on a discretionary basis. VCI is a wholly-owned subsidiary of VCP. The principal owner of VCP is Vestar Management Corporation II, a corporation whose sole stockholder is Daniel S. O’Connell.

## **FEES AND COMPENSATION**

VCI does not charge the Fund a management fee in connection with advisory services. Investors in the Fund do bear certain fund expenses. The following is a general description of expenses of the Fund. The Limited Partnership Agreement of the Fund describes expenses in greater detail. VCI may make certain “Incentive Pool” payments to VCI’s employees and consultants as described below under “Carried Interest.” VCI or its affiliates may receive additional compensation in connection with management and other services performed for portfolio companies of VCI Private Investment Funds as described below under “Management Fees”.

### **Management Fees**

The Fund does not pay any management fee to VCI. However, the Fund will pay certain expenses (and will reimburse VCI for such expenses to the extent they are incurred by VCI) as provided under “Other Information” below. Certain of these reimbursements to VCI could be considered an advisory fee. The total amount of these reimbursements is capped on an annual basis, as more fully explained under “Other Information” below.

VCI and its affiliates may receive break-up, monitoring, transaction and other fees paid by the Fund’s portfolio companies to VCI and its affiliates. To the extent received by VCI, such fees will be used to pay (and will be applied to) past and future “VCI Expense Reimbursements”, as described under “Other Information” below. To the extent such fees are not used to pay or are not applied to VCI Expense Reimbursements, VCI will retain such fees.

Co-investment vehicles, if any, are not expected to pay management fees.

## Carried Interest

The Fund may make payments for a bonus incentive pool (the “**Incentive Pool**”) directly or indirectly to certain employees of, or consultants to, VCI (which payments could be considered a “carried interest”); *provided* that the Incentive Pool shall not exceed over the term of the Fund an aggregate of five percent (5%) of the Fund’s aggregate net profits; *provided, further*, that no payments may be made with respect to the Incentive Pool until the Fund’s partners at the time of any such Incentive Pool payment shall have earned at least a 7% annual internal rate of return (IRR) on their capital contributions (as reflected through aggregate distributions and their capital account balances). The Incentive Pool only will be paid to the employees of or consultants to the Fund or VCI, but will not be paid to James P. Kelley (a manager of VCI, principal of Vestar and investor in the Fund) or any employee of VCP.

Co-investment vehicles, if any, are not expected to make Incentive Pool payments or pay carried interest.

## Other Information

The Fund bears certain expenses. As set forth in the Limited Partnership Agreement, the Fund is required to pay all costs and expenses relating to the Fund, including all ordinary administrative and overhead expenses incurred in connection with managing, originating and monitoring investments; salaries, rent, equipment, travel, organization and administrative expenses (to the extent not reimbursed by a portfolio company of the Fund); legal, auditing, consulting and accounting expenses; expenses of the Fund’s advisory committee; annual meetings of the Fund’s limited partners; insurance expenses; taxes; all third-party expenses in connection with transactions consummated or not consummated; costs and expenses incurred in the holding, purchase, sale or exchange of securities acquired or considered for acquisition by the Fund (whether or not ultimately consummated), including, but not by way of limitation, private placement fees, finder's fees, interest on, fees and expenses related to borrowed money, real property or personal property taxes on investments, and brokerage fees; costs and expenses relating to the preparation and distribution of reports to the Fund’s partners; costs and expenses relating to partner meetings and advisory committee matters; all other amounts incurred or paid by VCI relating to the Fund; and the Incentive Pool. If VCI incurs any such expenses, the Fund is required to reimburse VCI for such expenses (the “**VCI Expense Reimbursements**”).

The total amounts payable by the Fund to VCI in any calendar year for VCI Expense Reimbursements shall not exceed 2.5% of the total capital commitments of the Fund. However, the following payments are excluded from and not subject to the 2.5% limit: the Incentive Pool; organizational expenses (not to exceed \$150,000); taxes, audit fees, expenses incurred in connection with the maintenance of bank or custodian accounts; all expenses incurred in connection with the registration of the securities held by the Fund; expenses incurred by VCI in serving as the Fund’s tax matters partner; the cost of liability and other insurance premiums; all costs and expenses arising out of the Fund’s indemnification obligations under the Limited Partnership Agreement; all non-transactional legal fees and expenses; and liabilities arising from litigation relating to the Fund. Also, the Fund generally will bear expenses indirectly from the payment by portfolio companies of expenses similar to those outlined in the preceding sentence.

In addition, brokerage fees may be incurred in accordance with the practices set forth in “Brokerage Practices.”

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

As described under “Fees and Compensation,” the Fund may make payments relating to the Incentive Pool, as described under the section above titled “Carried Interest.”

## **TYPES OF CLIENTS**

VCI provides investment advice to VCI Private Investment Funds, including the Fund. VCI Private Investment Funds may include investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in VCI Private Investment Funds may include individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of Vestar and its affiliates and members of their families.

The Fund generally has a minimum investment amount of \$2 million for third-party investors. Co-investment or similar investment vehicles for principals or other employees of VCI and/or Vestar or their affiliates may accept lower investment amounts. In most circumstances, investors in the Fund must meet certain suitability and net worth qualifications prior to making an investment in the Fund. Generally, investors must be (i) “accredited investors” as defined under Regulation D of the Securities Act of 1933, as amended, and (ii) either “qualified purchasers” or “knowledgeable employees” as defined under the Investment Company Act of 1940, as amended. To the extent legally permitted, VCI retains the discretion to waive such minimum investment amounts and qualification requirements.

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

### **General**

VCI is a private equity investment firm that focuses on organizing and investing in growth equity investments that VCI believes have the ability to have a positive impact on Colorado communities. VCI seeks the development of a diversified portfolio of private equity investments in emerging companies beyond proof of concept with revenues of at least \$0.5 million to \$2 million.

The following is a summary of the investment strategies and methods of analysis generally employed by VCI on behalf of the Fund and a summary of certain risks involved with VCI’s investment strategy and an investment in the Fund. More detailed descriptions of the Fund’s risks are included in the Governing Documents.

### ***Investment and Operating Strategy***

VCI may make equity, debt and equity-related investments and will invest only in companies that have material operations in or a nexus in or to Colorado and that VCI determines

have or will have a positive community impact. Positive community impact may include, but is not limited to, improving community health, conserving natural resources, developing clean technology and other environmentally positive businesses, or improving public education, workforce development, or economic development in targeted Colorado communities.

VCI's investment strategy is different from VCP Private Investment Funds in these material respects:

- VCI will invest only where it can ascertain a positive and measurable social impact in the Colorado community arising from the operations of the investee company;
- VCI will generally only invest capital for growth as opposed to shareholder liquidity or buyout; and
- the targeted size of VCI's investments is \$2-6 million per investment versus significantly larger targeted investment size in VCP Private Investment Funds.

Positive community impact will generally be ascertained by determining whether the products or services of the investee company contribute to improved outcomes in community health (including, among other things, accessibility to quality affordable healthcare), the conservation of natural resources, or public education, or, alternatively, economic development in targeted Colorado communities.

### ***Integrated and Proactive Approach***

VCI is committed to investing in Colorado companies that will provide a competitive economic return in addition to making a positive community impact. Using its vast relationship network, including that of its advisory council which is comprised of chief executive officers and other industry leaders in Colorado, VCI proactively targets such companies, thereby typically avoiding competitive auction processes. This approach seeks to maximize VCI's full potential by pursuing investments that are expected to benefit significantly from VCI's intellectual capital and operational resources.

In evaluating new investment opportunities, VCI places a strong emphasis on the quality and commitment of a company's management team. The VCI investment approach emphasizes careful and thorough due diligence. VCI's professionals are actively involved with investee companies post investment, particularly where VCI has identified the need for post-closing operational improvements or transition and integration activities. Once a transaction has been completed, VCI professionals work to manage risk and maximize value in all portfolio investments.

Investment decisions are made after extensive review and in-depth deliberation. All VCI professionals are expected to present their views, and contrarian opinions are encouraged. The VCI professionals meet regularly to discuss new investment opportunities.

All VCI professionals are highly focused on value maximizations and realizations, continuously monitoring portfolio company valuations and the health of the capital markets.

### ***Value Maximization and Risk Management***

VCI seeks to enhance its investment returns through active involvement in all aspects of the investment process. VCI's professionals work together to focus on the day-to-day monitoring of portfolio investments and to provide management with support and guidance on activities such as follow-on acquisitions, divestitures, operational improvements, organizational development, systems implementations, and the structuring of compensation programs. VCI believes that the interaction of VCI's professionals with multiple layers of portfolio company management – not just the CEO or CFO – has the added benefit of serving as an early warning system for potential issues.

### ***Focus on Realizations***

VCI believes that the broad network of contacts that the VCI professionals have enables it to monitor continuously various realization opportunities available to its portfolio companies. The VCI professionals seek to proactively pursue realizations where consistent with its relationship with co-investors and the best interests of the investee company by seeking the most attractive exit opportunities based on prevailing market conditions, a portfolio company's performance, and the potential for further value improvements.

### **Risks of Investment**

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

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

*Investment in Junior Securities.* The securities in which the Fund will invest are generally 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 Fund will participate in a limited number of investments and may seek to make several investments in one industry or industry segment or within a short period of time. As a result, the Fund's investment portfolio could become highly concentrated, and the performance of a few holdings may substantially affect its aggregate return. Furthermore, to the extent that the capital raised is less than the targeted amount, the Fund may invest in fewer portfolio companies and thus be less diversified.

*Lack of Sufficient Investment Opportunities.* It is possible that the Fund will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring investments in privately held companies such as those targeted by the Fund can be highly competitive and involves a high degree of uncertainty.

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

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

*Dependence on Key Personnel.* The success of the Fund will be highly dependent on the financial and managerial expertise of VCI's management team, as well as the team's network of relationships. There can be no assurance that members of the management team will continue to be associated with VCI or the Fund, as none of these persons is under any contractual obligation to remain with VCI or the Fund. Furthermore, these individuals are not required to devote all or substantially all of their business time to the Fund's affairs. These individuals will continue to be involved with other activities, including, possibly, newly created partnerships or funds.

*Nature of Fund Investments; High Degree of Risk.* The Fund intends to make privately negotiated equity, equity-related and debt investments in businesses with material operations in or a nexus to Colorado, which will subject the Fund to the fluctuations and risks of the economy of Colorado to a large extent. In addition, the Fund currently expects to focus in certain business sectors (including health care, healthy foods, education, clean tech and other environmentally positive businesses and other sectors consistent with its mission to invest for positive social impact) and/or businesses located in urban or rural areas targeted for particular need for economic development and growth of quality jobs for their residents. Although VCI's management team have significant experience in middle market private equity, especially acquisitions of control positions, they do not have prior experience in making smaller investments of the size that the Fund will make. In addition, they have no experience making investments on behalf of social impact funds, such as the Fund.

*Non-controlling Investments.* The Fund may hold meaningful minority stakes in portfolio companies. In addition, during the process of exiting investments (as might occur if portfolio holdings are taken public), the Fund at times may hold minority equity stakes of varying sizes.

As is the case with minority holdings in general, such minority stakes that the Fund may hold generally will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes.

*Restricted Nature of Investment Positions.* Generally, there will be no readily available market for a substantial number of the Fund's investments, and hence, most of the Fund's investments will be difficult to value. Certain investments may be distributed in kind to the partners.

*Projections.* Projected operating results of a company in which the Fund invests 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 information received from the company and assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.

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

*Public Company Holdings.* The Fund's investment portfolio may contain securities issued by publicly held companies. Such investments may subject the Fund to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the Fund to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members, including VCI principals, and increased costs associated with each of the aforementioned risks.

*Director Liability.* The Fund will often seek to obtain the right to appoint a representative to the board of directors (or similar governing body) of the companies in which it invests. Serving on the board of directors (or similar governing body) of a portfolio company exposes the Fund's representatives, and ultimately the Fund, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability. However, this potential liability is mitigated to some degree because VCP maintains an separate insurance policy that covers the potential liability of its investment professionals when they provide services to board of directors (or similar governing bodies) to the extent the applicable company's either does not have a policy or that such policy does not provide adequate coverage.



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

*Healthcare Regulation, Reimbursement and Reform.* Various segments of the healthcare industry are (or may become) (i) highly regulated at both the federal and state levels in the United States and internationally, (ii) subject to frequent regulatory change and (iii) dependent upon various government or private insurance reimbursement programs. While the Fund intends to make investments in companies that comply with relevant laws and regulations, certain aspects of their operations may not have been subject to judicial or regulatory interpretation. An adverse review or determination by any one of such authorities, or an adverse change in the regulatory requirements or reimbursement programs, could have a material adverse effect on the operations of the companies in which the Fund invests. Recent legislative changes have had, and will likely continue to have, a significant impact on the healthcare industry. In addition, various legislative proposals related to the healthcare industry are introduced from time to time at the United States federal and state level, and any such proposals, if adopted, could have a significant impact on the healthcare industry.

*Legal and Regulatory Risks.* The Fund is subject to regulation by laws at local and national levels and in multiple jurisdictions, including foreign countries. Specific and general regulations addressing capital markets, including tax laws and regulations, whether in the United States or abroad, could increase the cost of acquiring, holding, or divesting portfolio investments, the profitability of investments, and the costs of operating the Fund. Additional regulation could also increase the risk of third-party litigation.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") has resulted in extensive rulemaking and regulatory changes that will affect private fund managers, the funds that they manage and the financial industry as a whole. Those changes include new recordkeeping and reporting requirements that will add costs to the legal, operations and compliance obligations of VCI and increase the amount of time that VCI spends on non-investment related activities. The Dodd-Frank Act affects a broad range of market participants with whom the Fund interacts or may interact, including banks, non-bank financial institutions, rating agencies, mortgage brokers, credit unions, insurance companies, payday lenders and broker-dealers. Regulatory changes that affect other market participants are likely to change the way in which VCI conducts business with counterparties. It is difficult to anticipate the effect of

these and other regulatory changes on VCI and the Fund. It may take years to understand the effect of the Dodd-Frank Act on the financial industry as a whole, and therefore, the continued uncertainty may make markets more volatile, and it may be more difficult for VCI to execute the investment strategy of the Fund.

*Pay-to-Play Laws, Regulations and Policies.* A number of U.S. states and municipal pension plans have adopted so-called “pay-to-play” laws, regulations or policies which prohibit, restrict or require disclosure of payments to (and/or certain contacts with) state officials by individuals and entities seeking to do business with state entities, including those seeking investments by public retirement funds. The SEC has adopted rules that, among other things, prohibit an investment adviser from providing advisory services for compensation to a government client for two years after the adviser or its covered associates, including certain of its executives, employees or agents makes a contribution to certain elected officials or candidates or otherwise coordinates or solicits any person or political action committee to make a contribution to a government entity or to a political party of a state in which VCI provides or is seeking to provide investment advisory services to a government entity. Currently, VCI does not provide investment advisory services to any governmental entities, but if in the future it does, if VCI or any of its employees or affiliates or any service provider acting on their behalf fails to comply with such laws, regulations or policies, such non-compliance could have an adverse effect on the Fund.

## **Conflicts of Interest**

VCI expects to manage the Fund differently from VCP Private Investment Funds because of the Fund's focus on investments having a positive community impact with a nexus to Colorado and the projected smaller dollar amount of investment by the Fund in portfolio companies compared to the dollar amount of investments typically made by VCP Private Investment Funds. VCI will have employees that will be dedicated solely to VCI and the Fund; however, James P. Kelley will continue to work for a portion of his time on behalf of Vestar and other VCP Private Investment Funds. In addition, VCI expects to utilize certain of VCP's resources, which will be shared among the Fund and the VCP Private Investment Funds. The VCP Private Investment Funds generally charge management fees and carried interest, which could cause a conflict of interest in the allocation of such shared resources. VCI believes the significant investment by James P. Kelley, the managing member of VCI, in the Fund, as well as the interests of certain of the other VCI investment professionals in the Fund (as well as the different investment focus of the Fund), operate to align the interest of VCI with the interest of the partners in the Fund. Investments that Vestar may control through certain Vestar Private Investment Funds may compete with companies acquired by other Vestar Private Investment Funds, including possibly the Fund (despite the Fund's focus on investments having a positive community impact with a nexus to Colorado and the expected smaller dollar amount of investment in Fund portfolio companies compared to VCP Private Investment Funds).

From time to time, VCI may provide opportunities to other parties to co-invest with the Fund in a particular investment made by the Fund. In determining which other parties should participate, and the extent of such participation, in such investment opportunities, VCI and its affiliates may be subject to conflicts of interest. VCI attempts to resolve such conflicts of interest in light of its obligations to investors in such investment vehicles it manages, and attempts to allocate investment opportunities among VCI, the Fund, other VCI Private Investment Funds, and such other parties in a fair and equitable manner and consistent with VCI's fiduciary obligations, the Governing Documents and the investment allocation policy. Where necessary, VCI will consult and receive consent to conflicts from an advisory board consisting of limited partners of the Fund or the future VCI Private Investment Funds (if any).

As a result of the VCI Private Investment Funds' expected significant interests in portfolio companies, VCI and/or its affiliates typically are expected to have the right to appoint, or influence the appointment of, board members to such portfolio companies and to determine or influence the determination of their compensation. From time to time, portfolio company board members approve reimbursements, compensation and/or other amounts payable to VCI, which could create certain conflicts of interest. In addition, since (a) VCI is permitted to retain certain fees from portfolio companies (as described under "Fees and Compensation") in connection with the Fund's investments after they are applied to past and future VCI Expense Reimbursements, and (b) these fees are not subject to forfeiture to the Fund to the extent that such fees are not used to pay or are not applied to past and future VCI Expense Reimbursements, VCI and its principals could have a conflict of interest in connection with approving transactions that generate such fees. In addition, portfolio companies may from time to time pay certain fees to third party consultants (including consultants introduced or arranged by the VCI and/or its affiliates that

may regularly provide services to one or more Private Investment Fund portfolio companies). Any of these situations subjects VCI and/or its affiliates to potential conflicts of interest.

### **DISCIPLINARY INFORMATION**

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

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

As described under “Advisory Business” above, VCI is affiliated with other Vestar Capital investment advisers registered with the SEC under the Advisers Act pursuant to VCP’s registration in accordance with SEC guidance.

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

VCI has adopted the Vestar Code of Ethics and Securities Trading Policy and Procedures (the “Code”), which sets forth standards of conduct that are expected of principals and employees and addresses conflicts that arise from personal trading. The Code requires Vestar personnel to:

- report their personal securities transactions;
- pre-clear certain types of securities transactions; and
- comply with policies and procedures reasonably designed to prevent the misuse of, or trading upon, material non-public information.

A copy of the Code will be provided to any client or prospective client upon request to Steven Della Rocca, the Chief Compliance Officer, at (212) 351-1600. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client’s interests in client eligible investments.

Vestar and its affiliated persons, including VCI, may come into possession, from time to time, of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor’s decision to buy, sell or hold a security. Under applicable law, Vestar and its affiliated persons, including VCI, will be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of Vestar, including VCI. Accordingly, should Vestar or any of its affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, Vestar, including VCI, will be prohibited from communicating such information to clients, and Vestar, including VCI, will have no responsibility or liability for failing to disclose such information to clients as a result of complying with, and following their policies and procedures designed to comply with, applicable law. Similar restrictions may be applicable as a result of Vestar personnel, including VCI

personnel, serving as directors of public companies and may restrict trading on behalf of clients, including the Fund.

Principals and employees of Vestar, including VCI, and its affiliates may directly or indirectly own an interest in Vestar Private Investment Funds, primarily through co-invest funds. Vestar believes that such interests do not create a conflict of interest and instead operate to align the interests of Vestar personnel with that of the Vestar Private Investment Funds.

The Fund and other VCI Private Investment Funds, including co-invest funds, may invest together in the manner set forth in the Limited Partnership Agreement. VCI will allocate investment opportunities in a fair and equitable manner and consistent with its fiduciary obligations, the Limited Partnership Agreement and the Vestar investment allocation policy, which is set forth in Vestar's Compliance Manual.

Vestar, including VCI, and its affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in the Fund, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, the Fund, even though their investment objectives may be the same or similar.

### **BROKERAGE PRACTICES**

VCI focuses on securities transactions of private companies and generally purchases and sells such companies through privately negotiated transactions in which the services of a broker-dealer may be retained. However, VCI may also distribute securities to investors in the Fund or sell such securities, including through a broker-dealer, if a public trading market exists. Although VCI does not intend to regularly engage in public securities transactions, to the extent it does so, it follows the brokerage practices described below.

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

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

As a general matter, to the extent research is provided by brokers it is used to benefit the VCI Private Investment Funds. To the extent that VCI allocates brokerage business on the basis of research services, it may have an incentive to select or recommend broker-dealers based on the interest in receiving such research or other products or services, rather than based on VCI Private Investment Funds' interest in receiving most favorable execution. To the extent VCI uses "soft dollars" on behalf of the Funds, it will seek to do so within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended.

VCI does not anticipate engaging in significant public securities transactions; however, to the extent that VCI engages in any such transactions, orders for purchase or sale of securities placed first will be executed first and within a reasonable amount of time of order receipt. To the extent that orders for VCI Private Investment Funds are completed independently, Vestar may also purchase or sell the same securities or instruments for several Vestar Private Investment Funds simultaneously. From time to time, Vestar, including VCI, may, but is not obligated to, purchase or sell securities for several client accounts at approximately the same time.

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

## **REVIEW OF ACCOUNTS**

The investments made by the VCI Private Investment Funds are generally private, illiquid, and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, VCI closely monitors companies in which the VCI Private Investment Funds invest, and the Chief Compliance Officer or his designee periodically checks to confirm that each VCI Private Investment Fund is maintained in accordance with its stated objectives.

VCI will generally provide to the limited partners of the VCI Private Investment Funds: (i) audited financial statements annually; (ii) for each of the first three quarters of each fiscal year, a summary of acquisitions and dispositions of investments made by and significant events of the Fund during such quarter; (iii) annual tax information necessary for each partner's U.S. tax returns; and (iv) descriptive investment information for each portfolio company after each investment.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

As discussed in the “Fees and Compensation” section, VCI and/or its affiliates may receive certain fees from the Fund’s portfolio companies.

## **CUSTODY**

VCI, through Vestar, has established an account with Vectra Bank, Denver, Colorado, to hold funds and securities on behalf of the Fund.

## **INVESTMENT DISCRETION**

VCI has discretionary authority to manage investments on behalf of the Fund. As a general policy, VCI does not allow limited partners to place limitations on this authority. Pursuant to the terms of the Limited Partnership Agreement, however, VCI may enter into “side letter” arrangements with certain limited partners whereby the terms applicable to such limited partner’s investment in the Fund may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. VCI assumes this discretionary authority pursuant to the terms of the Governing Documents and powers of attorney executed by the limited partners of the Fund.

## **VOTING CLIENT SECURITIES**

VCI has adopted the Vestar Proxy Voting Policies and Procedures (the “**Proxy Policy**”) to address how it will vote proxies, as applicable, for the Fund’s (and any Vestar Private Investment Fund’s) portfolio investments. The Proxy Policy seeks to ensure that VCI votes proxies (or similar instruments) in the best interest of the Fund, including where there may be material conflicts of interest in voting proxies. VCI generally believes its interests are aligned with those of the Fund’s investors through the principals’ beneficial ownership interests in the Fund and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that VCI may address the conflict using several alternatives, including by seeking the approval or concurrence of the Fund’s advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. VCI does not consider service on portfolio company boards by VCI personnel or VCI’s receipt of fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by VCI when voting proxies on behalf of the Fund. Clients or prospective clients should contact Steven Della Rocca, the Chief Compliance Officer, at (212) 351-1600, if they would like a copy of the complete Proxy Policy or information regarding how VCI voted proxies for particular portfolio companies. Such information will be provided to such persons at no charge.

## **FINANCIAL INFORMATION**

VCI does not require or solicit prepayment of management fees more than six months in advance and is not otherwise required to make any disclosure under this item of the Brochure.