

FORM ADV PART 2A -- INVESTMENT ADVISER BROCHURE

STONE ARCH CAPITAL, LLC

**800 Nicollet Mall
Suite 1150
Minneapolis, MN 55402
(612) 317-2980
<http://www.stonearchcapital.com>**

March 24, 2014

This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Stone Arch Capital, LLC (the “Management Company”). If you have any questions about the contents of this Brochure, please contact us at (612) 317-2980. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.

The 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.

MATERIAL CHANGES

This Brochure updates the initial Form ADV Part 2A filed in February 2012 and updated in March 2013. The changes to this Brochure are not material and are solely clarifying or updating changes.

TABLE OF CONTENTS

	<u>Page</u>
<u>Brochure</u>	
Material Changes	i
Advisory Business	1
Fees and Compensation	2
Performance-Based Fees and Side-By-Side Management	4
Types of Clients	4
Methods of Analysis, Investment Strategies and Risk of Loss.....	5
Disciplinary Information.....	10
Other Financial Industry Activities and Affiliations.....	10
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	10
Brokerage Practices	12
Review of Accounts	12
Client Referrals and Other Compensation.....	12
Custody	13
Investment Discretion	13
Voting Client Securities	13
Financial Information.....	14

ADVISORY BUSINESS

Stone Arch is a private investment management firm, including several investment advisory entities and other organizations affiliated with the Management Company (collectively, “**Stone Arch**”).

The Management Company, a Delaware limited liability company and a registered investment adviser, provides discretionary investment advisory services to private investment funds. The Management Company commenced operations in January 2005.

The following are the affiliated advisers of the Management Company (collectively with the Management Company, the “**Advisers**”):

- Stone Arch Capital Management, L.P. (“**GP I**”)
- Stone Arch Capital Management II, L.P. (“**GP II**,” and together with GP I, the “**General Partners**”).

The Advisers’ clients include the following (collectively the “**Partnerships**,” and together with any future private investment fund to which Stone Arch or its affiliates provide investment advisory services, “**Private Investment Funds**”):

- Stone Arch Capital, L.P.
- Stone Arch Capital II, L.P.
- Stone Arch Capital II-A, L.P.

The General Partners each serve as general partner to one or more Partnerships and have the authority to make the investment decisions for the Partnerships to which they provide advisory services. The Management Company provides the day to day advisory services for the Partnerships. Each General Partner is registered under the Advisers Act pursuant to the Management Company’s registration in accordance with SEC guidance. This Brochure describes the business practices of the Advisers which operate as a single advisory business and are under common control. References contained in this Brochure to the strategy and operations of a General Partner should be read to include the activities of the Management Company and other Stone Arch affiliates that collectively engage in the investment process and ongoing management of the Partnerships’ portfolio companies.

The Partnerships and any other Private Investment Funds that may be formed by a General Partner (or its affiliates) at a later date or that may otherwise become clients of an Adviser are expected to invest through negotiated transactions in operating entities. The Advisers’ investment advisory services to the Partnerships consist of identifying and evaluating investment opportunities, negotiating 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, subject to certain limitations in the limited partnership agreement of each Partnership (the “**Partnership Agreement**”). In most cases, the senior principals or other personnel of the Advisers or their

affiliates may serve on a portfolio company's board of directors or otherwise act to influence control or management of portfolio companies held by the Partnerships.

The Advisers' advisory services for Private Investment Funds are further described in the applicable private placement memoranda and limited partnership agreements, as well as below under "Methods of Analysis, Investment Strategies and Risk of Loss" and "Investment Discretion." Investors in Private Investment Funds participate in the overall investment program for the applicable Private Investment Fund, but may be excused from a particular investment due to legal, regulatory or other applicable constraints, pursuant to the terms of the applicable Partnership Agreement. The Private Investment Funds or the Advisers may enter into side letters or similar agreements with certain investors that have the effect of establishing rights under, or altering or supplementing a Private Investment Fund's Partnership Agreement.

As of December 31, 2013, the Management Company managed approximately \$238 million in client assets on a discretionary basis. The Management Company is principally owned by Charles B. Lannin and F. Clayton Miller.

FEES AND COMPENSATION

In general, the General Partners receive a Management Fee (as defined below) and a carried interest in connection with advisory services. The General Partners or other Stone Arch entities or affiliates receive additional compensation in connection with management and other services performed for portfolio companies (*e.g.*, monitoring and other fees) of Partnerships and a portion of such additional compensation will offset in part the management fees otherwise payable to the applicable General Partner. Investors in the Partnerships also bear certain fund expenses.

Management Fee

Each Partnership pays its General Partner a management fee (the "**Management Fee**") equal to 2% (2.5% for Stone Arch Capital, L.P.) on an annual basis of aggregate Partnership investor capital commitments ("**Commitments**"). Payment of the Management Fee is made semi-annually, 30 days in arrears and in advance with respect to the remainder of the period. Most of the Management Fees are ultimately received by the Management Company pursuant to a management agreement. Investors participating in a closing after the initial closing of a Partnership bear the Management Fee from the date of the initial closing of such Partnership plus interest. The Management Fee may be reduced where the term of a Partnership is extended pursuant to the Partnership's Partnership Agreement or where a particular subsequent Partnership is formed or upon the occurrence of certain other events as described in the applicable Partnership Agreement. The Management Fee is payable until all portfolio investments are realized and/or distributed. Installments of the Management Fee payable for any period other than a full six-month period are generally adjusted on a *pro rata* basis according to the actual number of days in such period.

The Management Fee is reduced by a portion of certain directors' fees, professional services fees, monitoring fees, breakup fees and other similar fees paid by portfolio companies to a General Partner, the Management Company or their affiliates, partners, members, officers or

employees (such fees, “**Supplemental Fees**”). The Management Fee will also be reduced by all placement fees and any organizational expenses paid by a Partnership in excess of the expense cap specified in the Partnership Agreement. To the extent that such an offset credit would reduce the Management Fee for a given six-month period below zero, the credit will be carried forward for future application against payable Management Fees. To the extent any such excess remains unapplied upon dissolution of a Partnership, each partner of such Partnership will receive its share of such unapplied excess, unless such partner elects not to receive its share. To the extent that any other Private Investment Fund or any other entity or individual co-invests alongside the Partnership in any portfolio company investment, any Supplemental Fees may be allocated *pro rata* among the Partnership and the co-investors in proportion to the cost of the investment in the portfolio company borne by each or in such manner as approved by (i) the General Partner and the governing body of such entity and (ii) the limited partners’ committee of the Partnership (the “**Limited Partner Committee**”).

As permitted under the Partnership Agreement for each Partnership, the General Partner may waive or agree to reduce the Management Fee. Any such waived or reduced portion of the Management Fee reduces the amount of capital the General Partner would otherwise be required to contribute to the Partnership. The limited partners of the Partnership 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 waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration of investor capital contributions.

Carried Interest

The General Partner of each Partnership will receive a carried interest with respect to such Partnership equal to 20% of all profits in excess of an 8% compound preferred return, subject to a General Partner catch-up provision, as more fully described in the Partnership Agreement of the applicable Partnership. The carried interest distributed to the General Partner is subject to a potential giveback at the end of the life of the Partnership if the General Partner has received excess cumulative distributions.

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

Other Information

The Partnerships 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 Partnership Agreement, over the term of the applicable Partnership, and investors generally are not permitted to withdraw or redeem interests in the Partnership.

Principals or other employees of Stone Arch may receive a portion of the Management Fee, carried interest or other compensation received by the General Partners or their affiliates.

In addition to the Management Fee and carried interest payable to the General Partner, each Partnership bears certain expenses. As set forth in the Partnership Agreement for the applicable Partnership, the Partnership bears all Partnership expenses to the extent not paid by

portfolio companies, including organizational expenses up to the expense cap specified in the Partnership Agreement, legal, auditing, consulting (excluding fees for consulting services associated with overall strategy that are not performed as part of an investment initiative), financing, accounting and custodian fees and expenses; expenses associated with the Partnership's financial statements, tax returns and Schedule K-1s; out of pocket expenses incurred in connection with transactions not consummated; expenses of any Limited Partners' Committee; expenses of the annual meetings of the Partnership's limited partners; insurance; other expenses associated with the acquisition, holding and disposition of its investments, including extraordinary expenses (such as litigation, if any); and any taxes, fees or other governmental charges levied against the Partnership, but not ordinary administrative and overhead expenses of the General Partner incurred in connection with managing, originating and monitoring investments, including employees' salaries, rent, utilities and other similar expenses specified in the Partnership Agreement. 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 General Partners may receive a carried interest allocation on certain profits in the Partnerships. The Advisers do not advise Private Investment Funds not subject to a carried interest.

TYPES OF CLIENTS

The Advisers provide investment advice to Private Investment Funds, including the Partnerships. Private Investment Funds are 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 "**Investment Company Act**"). The investors participating in 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 the Advisers and their affiliates.

Each Partnership has a minimum investment of \$5 million for third-party investors, which may be waived by the General Partner. In most circumstances, investors in the Partnerships must meet certain suitability and net worth qualifications prior to making an investment. 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.

Certain affiliates and personnel of Stone Arch and other third party investors may be permitted to co-invest directly in a particular portfolio company or in a holdings company which holds the equity in the portfolio company directly. The Advisers will select which investors are permitted to participate in such co-invest opportunities based on various factors, including the sophistication of the investor, the ability of the investor to fund and complete the investment on a timely basis and for strategic or other reasons as may be more fully described in the applicable Partnership's Partnership Agreement. The Advisers are not obligated to make co-investment opportunities available to any particular investors or limited partners.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

General

The principal investment strategy of Stone Arch is to achieve long-term capital appreciation, primarily by acquiring equity and equity-related securities and certain debt instruments in private growth-oriented companies. Stone Arch generally targets lower middle market companies primarily located in the Midwest region of North America, although the Advisers may make investments outside of the Midwest if they locate an investment opportunity which they believe presents a high likelihood of closing. Stone Arch seeks to make investments of between \$10 million and \$25 million in family-owned companies that have \$5 million to \$25 million in EBITDA. Investments are predominantly of non-public companies although investments in public companies are permitted, subject to certain restrictions in the Partnership Agreement.

The following is a summary of the investment strategies and methods of analysis generally employed by the Advisers on behalf of the Partnerships. More detailed descriptions of the Partnerships' investment strategies and methods of analysis are included in the applicable private placement memorandum and Partnership Agreement for each Partnership. *There can be no assurance that the Advisers will achieve the investment objectives of the Partnerships, and a loss of investment may be possible.*

Investment and Operating Strategy

The Advisers seek to provide returns to investors by (i) using research and contacts to identify investments that the Advisers believe are attractive, (ii) performing rigorous analysis and due diligence to select and structure investments, and (iii) providing significant resources to portfolio companies.

Identification of Investment Opportunities. The Advisers origination strategy includes leveraging a network of relationships in the Midwest, including corporate executives, investment bankers, lawyers, accountants, brokers and other financial intermediaries that provide the Partnerships with consistent deal flow. Through this network, the Advisers seek to identify sound, profitable businesses that can be grown and improved to "institutional quality" companies that will be more attractive to future strategic and private equity buyers.

Rigorous Analysis and Diligence. With respect to the investment opportunities that the Advisers pursue actively, the Advisers engage in in-depth discussions with management and conduct initial due diligence, arriving at a limited number of investments that become portfolio companies of the Partnerships. As part of the due diligence process, the Advisers study potential areas of growth, profit optimization, and capital expenditures for a company.

Managing Investments. For each investment, the Advisers and portfolio company management formulate and agree on a strategy to enhance value at the beginning of their partnership. Once strategies have been established, the Advisers believe that it is management's responsibility to execute the plan and the Advisers' responsibility to actively review progress and determine effectiveness of the plan. The Advisers practice a model of "engaged ownership," by providing strategic planning and oversight, financial oversight, and Board of Director advice

(plan review, major capital expenditure approvals, member selection, audit and finance committees, compensation plans, etc.). The Advisers' activities on behalf of the portfolio companies, include (a) reviewing of product and geographic growth initiatives; (b) reviewing of international outsourcing and growth opportunities; (c) evaluating add-on acquisitions or divestitures; (d) assessing the performance of Chief Executive Officers; (e) assisting in the hiring or replacement of key members of senior management; (f) negotiating with debt partners; (g) assisting with upgrades to financial reporting packages, information technology systems, and facilities; and (h) overseeing company sale or liquidity events. The Advisers also undertake a review of weekly and monthly reports and seek to establish a channel of frequent, interactive communication with company management.

Realization of Liquidity. The Advisers believe that the timing and approach for each exit is unique and should be planned throughout the life of an investment. Several factors, including management team depth and commitment, financial performance, business cycle timing, capital expenditure plans, competitive positioning, growth opportunities, status of operating enhancements, strength and availability of logical buyers and general market and industry conditions all influence decisions as to the timing of exit.

Risks of Investment

A Partnership and its investors bear the risk of loss that the applicable Advisers' investment strategy entails. The risks involved with the Advisers' investment strategy and an investment in a Partnership are detailed in the Partnership's private placement memorandum. In general, the risks applicable to each Partnership include, but are not limited to:

Business Risks. The Partnership'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 losses.

Future and Past Performance. The performance of the Advisers' prior investments is not necessarily indicative of the Partnership's future results. While the General Partner intends for the Partnership to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that positive returns will be achieved. On any given investment, loss of principal is possible.

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

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

Lack of Sufficient Investment Opportunities. It is possible that the Partnership will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring private equity and related subordinated debt transactions is highly competitive and involves a high degree of uncertainty. However, limited partners will be required to pay annual management fees based on the entire amount of their Commitments.

Leveraged Investments. The Partnership may make use of leverage by having a portfolio company incur debt to finance a portion of its investment in such portfolio company. Leverage generally magnifies both the Partnership's opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which state is difficult to accurately forecast. During times when credit markets are tight, it may be difficult to obtain or maintain the desired degree of leverage. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to finance future operations and capital needs. The leveraged capital structure of portfolio companies will increase the exposure of the Partnership'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 the Partnership's investments in the leveraged portfolio companies in a down market. In the event any portfolio company cannot generate adequate cash flow to meet debt service, the Partnership may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of the Partnership. Furthermore, should the credit markets be tight at the time the Partnership determines that it is desirable to sell all or a part of a portfolio company, the Partnership may not achieve an exit multiple or enterprise valuation consistent with its forecasts. Moreover, the companies in which the Partnership will invest generally will not be rated by a credit rating agency.

Restricted Nature of Investment Positions. Generally, there will be no readily available market for Partnership investments and hence, most of the Partnership'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 Partnership 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 Partnership 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 Partnership will make follow-on investments or that the Partnership will have sufficient funds to make all or any of such investments. Any decision by the Partnership 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. Additionally, such failure to make such investment may result in a lost opportunity for the Partnership to increase its

participation in a successful portfolio company or the dilution of the Partnership's ownership in a portfolio company if a third party invests in such portfolio company.

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

The Partnership's investments may be made in currencies other than the currency in which the Partnership's accounts are maintained. The value of an investment may fall substantially as a result of fluctuations in the currency of the country in which the investment is made as against the value of the currency in which the Partnership's accounts are maintained. The General Partner may (but is not obligated to) endeavor to manage currency exposures using hedging techniques where available and appropriate. The Partnership may incur costs related to currency hedging arrangements. There can be no assurance that adequate hedging arrangements will be available on an economically viable basis, or that such hedging arrangement will achieve the desired effect.

Additional risks include: (a) economic dislocations in the host country; (b) less publicly available information; (c) less well-developed regulatory institutions and (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

Public Company Holdings. The Partnership's investment portfolio may contain securities issued by publicly held companies. Such investments may subject the Partnership 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 Partnership to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members, including the principals of Stone Arch and increased costs associated with each of the aforementioned risks.

Non-Controlling Investments. The Partnership may hold meaningful minority stakes in privately held companies. In addition, during the process of exiting investments, the Partnership at times may hold minority equity stakes of any size such as might occur if portfolio holdings are taken public. As is the case with minority holdings in general, such minority stakes which the fund may hold will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes.

Uncertain Economic and Political Environment. The current global economic and political climate is one of uncertainty. Prior acts of terrorism in the United States, the threat of

additional terrorist strikes and the fear of a prolonged global conflict have exacerbated volatility in the financial markets and can cause consumer, corporate and financial confidence to weaken, increasing the risk of a “self-reinforcing” economic downturn. The availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, continues to be restricted. This may have an adverse effect on the economy generally and on the ability of the Partnership and its portfolio companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of their businesses. A climate of uncertainty may reduce the availability of potential investment opportunities and increase the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections.

Conflicts of Interest

During the investment period of a given Partnership, all appropriate investment opportunities will be pursued by the Advisers through such Partnership, subject to certain limited exceptions. At any given time, the Management Company and its affiliates will typically manage several other Private Investment Funds in addition to a given Partnership, which may include investments similar to those in which it will be investing or have investments in portfolio companies in the form of securities or other investments that are not the principal focus of such Partnership, and may direct certain relevant investment opportunities to those Private Investment Funds and with respect to such investments. The Management Company’s principals and investment staff will continue to manage and monitor the investments of such Private Investment Funds until their realization. The portfolio company investments of such other Private Investment Funds may potentially compete with companies acquired by a given Partnership. Following the investment period of a given Partnership, the Management Company’s principals may focus their investment activities on other opportunities and areas unrelated to such Partnership’s investments while continuing to monitor such Partnership’s investments with an eye towards increasing value and seeking realization.

From time to time, the Management Company will be presented with investment opportunities that would be suitable not only for a given Partnership, but also for other Private Investment Funds. In determining which investment vehicles should participate in such investment opportunities, the Management Company and its affiliates are subject to conflicts of interest among the investors in such investment vehicles. The Management Company attempts to resolve such conflicts of interest in light of its obligations to investors in its Private Investment Funds and the obligations owed by its advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among a Partnership, other Private Investment Funds and such investment vehicles in a fair and equitable manner. Where necessary, the Advisers consult and receive consent to conflicts from the Limited Partner Committee.

Because the General Partners’ carried interest is based on a percentage of net realized profits, it may create an incentive for the Advisers to cause the Partnerships to make riskier or more speculative investments than would otherwise be the case. Since the General Partners are permitted to retain certain Supplemental Fees (as described under “Fees and Compensation”) in connection with Partnership investments, the Advisers could have a conflict of interest in connection with approving transactions. The General Partners attempt to resolve such conflict by offsetting the Management Fee by a specified percentage of such Supplemental Fees.

In the course of conducting due diligence on a target company (either as part of an add-on acquisition or platform investment), the Advisers may utilize their in-house personnel to perform the accounting due diligence on such target company rather than engaging an independent accounting firm. The Advisers charge a fee for these services. The cost of such diligence is borne by the portfolio company or, if the target is a platform transaction and the acquisition is not consummated, by the Advisers. This could create a conflict of interest as it provides incentive to the Advisers to conduct such due diligence internally rather than engaging the services of an independent accounting firm. The Advisers attempt to resolve this conflict of interest by charging rates for their accounting diligence services that are on par or lower than the rates charged by third party accounting firms.

DISCIPLINARY INFORMATION

The Management Company 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

The Management Company is affiliated with each of the General Partners, which are registered with the SEC under the Advisers Act pursuant to the Management Company's registration in accordance with SEC guidance. The Management Company provides advisory services to the General Partners and other Stone Arch entities pursuant to management agreements. These affiliated investment advisers operate as a single advisory business together with the Management Company and serve as managers or general partners of private investment funds and other pooled vehicles and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

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

The Advisers have adopted the Stone Arch Code of Ethics and Securities Trading Policy (the "**Code**"), which sets forth standards of conduct that are expected of the Advisers' principals and employees and addresses conflicts that arise from personal trading. The Code requires the Advisers' personnel to

- report their personal securities transactions;
- pre-clear any proposed purchase of any initial public offering or limited offering; and
- comply with the 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 Stone Arch's Chief Compliance Officer at (612) 317-2980. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client's interests in client-eligible investments.

The Advisers and their 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, the Advisers and their affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the Advisers. Accordingly, should the Advisers or any of their affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, the Advisers would be prohibited from communicating such information to clients, and the Advisers will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of Stone Arch personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Partnerships.

Principals and employees of the Advisers and their affiliates may directly or indirectly own an interest in Private Investment Funds or certain co-investment vehicles. To the extent that co-investment vehicles exist, such vehicles may invest in one or more of the same portfolio companies as a Partnership. The Partnerships and other Private Investment Funds may invest together with other Private Investment Funds advised by an affiliated adviser of the General Partner in the manner set forth in the applicable Partnership Agreement. The Advisers will determine allocation of investment opportunities in a manner that they believe is fair and equitable to their clients consistent with the Advisers' fiduciary obligations and consistent with the applicable Private Investment Funds' underlying documents.

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

From time to time, the General Partners may borrow funds on behalf of the Partnerships or the Private Investment Funds and contribute such borrowed amounts to the Partnerships (or relevant Private Investment Fund, as applicable) as a special capital contribution for investment, to be redeemed at a later date. Interest in connection with such borrowing is borne by the Partnerships (or the relevant Private Investment Fund, as applicable) as a Partnership expense, consistent with the applicable Partnership Agreement (or other governing document) and the expense policy described under "Fees and Compensation." In borrowing on behalf of the Partnerships or a Private Investment Fund, the General Partners are subject to conflicts of interest between repaying their obligations and retaining such borrowed amounts for the benefit of the Partnerships or Private Investment Fund, as applicable. The General Partners will effect such borrowings in a manner that they believe to be fair and equitable to the Partnerships or Private Investment Fund, as applicable, and consistent with the General Partners' obligations to the Partnerships and the Partnership Agreement (or other governing document).

BROKERAGE PRACTICES

The Advisers focus on securities transactions of private companies and generally purchase and sell such companies through privately-negotiated transactions in which the services of a broker-dealer may be retained. However, the Advisers may also distribute securities to investors in a Private Investment Fund or sell such securities, including through using a broker-dealer, if a public trading market exists. The Advisers have not engaged, and do not intend to regularly engage, in public securities transactions on behalf of a Private Investment Fund, to the extent they do so, they will follow the brokerage practices described below.

If the Advisers purchase or sell publicly traded securities for a Private Investment Fund, they are responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the Advisers. In such event, the Advisers will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, the Advisers may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; and (iv) responsiveness to requests for trade data and other financial information. As a result, although the Advisers generally will seek competitive commission rates, they may not necessarily pay the lowest commission or commission equivalent.

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

To the extent that the Advisers allocate brokerage business on the basis of research services, they 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 the Private Investment Fund's interest in receiving most favorable execution.

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, the Advisers closely monitor companies in which the Private Investment Funds invest, and the Stone Arch Chief Compliance Officer periodically checks to confirm that each Private Investment Fund is maintained in accordance with its stated objectives.

The Partnerships will provide to their 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, and (iv) descriptive investment information for each portfolio company quarterly.

CLIENT REFERRALS AND OTHER COMPENSATION

The Advisers and/or affiliates may provide certain business or consulting services to companies in the Partnerships' portfolio and may receive compensation from these companies in

connection with such services. As described in the applicable Partnership's Partnership Agreement, this compensation may, in many cases, offset a portion of the Management Fees paid by the Partnerships. However, in other cases (e.g., reimbursements for out of pocket expenses directly related to a portfolio company or due diligence performed by the Advisers in lieu of engaging an independent accounting firm), these fees would be in addition to Management Fees. See "Fees and Compensation."

The Advisers or their affiliates may enter into solicitation arrangements pursuant to which they compensate third parties for referrals that result in a potential investor becoming a limited partner in a Private Investment Fund. Any fees and expenses payable to any such placement agents will be borne by the Advisers indirectly through an offset against the Management Fee.

CUSTODY

The Advisers maintain custody of the Partnerships' assets held in the Partnerships' names with U.S. Bank Institutional Trust and Custody, a qualified custodian, located at 60 Livingston Avenue, Saint Paul, MN 55107.

INVESTMENT DISCRETION

The Advisers have discretionary authority to manage investments on behalf of the applicable Partnership. As a general policy, the Advisers do not allow limited partners to place limitations on this authority, provided that the Partnership Agreement of a Partnership may impose certain restrictions on investing in certain types of securities. Pursuant to the terms of the Partnership Agreement, however, an Adviser may enter into "side letter" arrangements with certain limited partners whereby the terms applicable to such limited partner's investment in the Partnership may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. The Advisers assume this discretionary authority pursuant to the terms of (i) the Partnership Agreement, (ii) the investment management agreement between each Partnership, the applicable General Partner and the Management Company and (iii) powers of attorney executed by the limited partners of each Partnership.

VOTING CLIENT SECURITIES

The Advisers have adopted the Stone Arch Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how they will vote proxies, as applicable, for the Partnerships' portfolio investments. The majority of "proxies" received by the Advisers will be written shareholder consents (or similar instruments) for private companies, although the Advisers may also receive traditional proxies from public companies from time to time. The Proxy Policy seeks to ensure that the Advisers vote proxies (or similar instruments) in the best interest of the Partnerships, including where there may be material conflicts of interest in voting proxies. The Advisers generally believe their interests are aligned with those of the Partnerships' investors through the principals' beneficial ownership interests in the Partnerships and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that the Advisers may address the

conflict using several alternatives, including by seeking the approval or concurrence of the Limited Partner Committee, on the proposed proxy vote, or through other alternatives set forth in the Proxy Policy. The Advisers do not consider service on portfolio company boards by Stone Arch personnel or the Advisers' receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by the Advisers when voting proxies on behalf of the Partnerships. If you would like a copy of Stone Arch's complete Proxy Policy or information regarding how the Advisers voted proxies for particular portfolio companies, contact Stone Arch's Chief Compliance Officer at (612) 317-2980, and it will be provided to you at no charge.

FINANCIAL INFORMATION

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