

ITEM 1 COVER PAGE

INVESTMENT ADVISER BROCHURE

ARSENAL CAPITAL MANAGEMENT LP

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March 31, 2017

This Brochure (“Brochure”) provides information about the qualifications and business practices of Arsenal Capital Management LP (“Arsenal Capital Management” or “ACM”). If you have any questions about the contents of this Brochure, please contact us at (212) 771-1717. 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 authority.

Arsenal Capital Management 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 Arsenal Capital Management is also available on the SEC’s website at www.adviserinfo.sec.gov.

ITEM 2 MATERIAL CHANGES

This Item of the Brochure will discuss only specific material changes that have been made to the Brochure since our last annual update and provide clients with a summary of such changes. The last annual update of our brochure was March 30, 2016.

Revisions were made to the following Item of the brochure:

Item 4: Disclosure of our new co-invest vehicles, and an update to our regulatory assets under management.

We will further provide you with either a summary of material changes or a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting the Chief Compliance Officer at (212) 771-1717.

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ITEM 4 ADVISORY BUSINESS

Arsenal Capital Management LP (“Arsenal Capital Management” or “ACM”), a Delaware limited partnership formed in 2000 provides investment advisory services on a discretionary basis to several private equity funds: (i) Arsenal Capital Partners II LP, Arsenal Capital Partners QP II LP, Arsenal Capital Partners QP II-B LP and Arsenal Capital Partners II Executive Fund LP comprise “Fund II”; (ii) Arsenal Capital Partners III LP, Arsenal Capital Partners III-B LP, Arsenal Capital Partners AIV-III LP and Arsenal Capital Partners AIV-III-B LP comprise “Fund III”; and (iii) Arsenal Capital Partners IV LP, Arsenal Capital Partners IV-B LP, comprise “Fund IV”. Fund II, Fund III, Fund IV are organized to invest in portfolio companies (each a “Fund” and collectively the “Arsenal Funds”). In addition, ACM also provides investment advisory services to three co-investment vehicles: (i) ACP WCG Co-Invest 1 LLC (ii) ACP WCG Co-Invest 2 LLC and (iii) ACP Biospecimen Holdings, LLC (collectively, the “Co-Invest Vehicles”, and together with the Arsenal Funds, the “Funds”). The Co-Invest Vehicles were organized to facilitate individual investments into portfolio companies of Arsenal Funds for a discrete group of co-investors.

Arsenal Capital Investments II LP (“Fund II GP”), a Delaware limited partnership, serves as the general partner to Fund II. Arsenal Capital Investments III LP (“Fund III GP”), a Delaware limited partnership, serves as the general partner to Fund III. Arsenal Capital Investments IV LP (“Fund IV GP”), a Delaware limited partnership, serves as the general partner to Fund IV. ACP WCG Co-Invest 1 LLC, ACP WCG Co-Invest 2 LLC and ACP Biospecimen Holdings, LLC are each controlled by a Board of Managers. Fund II GP, Fund III GP, Fund IV GP and the Board of Managers are collectively the “General Partners.”

ACM is controlled by its general partner, Arsenal Capital Group LLC, a Delaware limited liability company, which is controlled by its board of managers which consist of Jeffrey B. Kovach and Terrence M. Mullen (collectively, the “Senior Partners”). As of December 31, 2016, ACM managed approximately **\$3,254,180,996** on a discretionary basis.

ACM serves as the management company to Fund II and Fund III. Employees of ACM comprise the Board of Managers for each of the Co-Invest Vehicles. Arsenal Capital Management IV LP (“ACM IV”), a Delaware limited partnership and an affiliate of ACM, serves as the management company of Fund IV. ACM, ACM IV, the Board of Managers, the General Partners and other affiliates are collectively referred to as “Arsenal.”

In their capacity as the management companies of the Arsenal Funds and through ACM’s appointees to the Board of Managers of the Co-Invest Vehicles, ACM and ACM IV have the authority to manage the business and affairs of the Funds.

ACM’s investment advisory services to the Funds 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. From time to time, where such investments consist of portfolio companies, the senior professionals or other personnel of ACM or its affiliates may serve on such portfolio companies’ respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Funds.

Arsenal makes buyout, recapitalization, and growth equity investments in middle-market specialty industrial (specialty chemicals, specialty materials and industrial services) and healthcare (business and information services/technology to the pharmaceutical, hospital and medical science markets) companies. Within these sectors, Arsenal seeks to invest in businesses that have the potential for further value creation by accelerating growth and enhancing operational capabilities and competitiveness.

Advisory services provided to the Funds are tailored to the investment objectives and investment restrictions, if any, as set forth in the respective Fund's limited partnership agreements, limited liability company agreements, private placement or offering memorandum, and other Fund documents (together, the "Partnership Agreements"). As used herein, the term "limited partners" refers to the Funds' limited partners, shareholders and /or other investors, as applicable. Arsenal does not tailor Fund investments to the individual needs of investors in the Fund, nor may Fund investors impose restrictions on Arsenal's ability to invest in certain securities or types of securities. The Funds' General Partner may, however, enter into side letters or other written agreements with Fund investors ("Side Letters") that have the effect of establishing rights under, or altering or supplementing the terms of the Partnership Agreement of the respective Fund. Such Side Letters may be entered into with a Fund investor without the consent of or notice to any other Fund investor.

Additionally, from time to time and as permitted by the relevant Partnership Agreement, Arsenal may provide co-investment opportunities to certain investors, including limited partners, lenders, market participants, finders, other investors and Arsenal's personnel and/or certain other persons associated with Arsenal and/or its affiliates. Such co-investments typically involve investment and disposal of interests in the applicable portfolio company at the same time and on the same terms as the Fund making the investment. However, from time to time, for strategic and other reasons, a co-investor or co-invest vehicle may purchase a portion of an investment from one or more Funds after such Funds have consummated their investment in the portfolio company (also known as a post-closing sell-down or transfer). Any such purchase from a Fund by a co-investor generally occurs shortly after the Fund's completion of the investment to avoid any changes in valuation of the investment. Where appropriate, and in Arsenal's sole discretion, Arsenal 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.

ITEM 5 FEES AND COMPENSATION

Arsenal (or its operating professionals) receive the following types of fees or compensation from its Limited Partners or Fund Portfolio Companies:

1. Management fees ("Management Fee") in connection with its advisory services to the Arsenal Funds.
2. Transaction and monitoring fees ("Portfolio Company Fees") for financial and management consulting services performed for Fund portfolio companies under a management services agreement; such fees generally will offset in whole or in part the Management Fees otherwise payable to Arsenal.

3. Compensation as employee of a Fund portfolio company or as an Industry & Operations Partner, who are primarily engaged to provide strategy, portfolio company board roles, general commercial activities, sales, marketing, human resources, operations, technology, integration/transition services, sourcing, due diligence, or other similar activities to portfolio companies, as well as provide due diligence or similar services to the Fund (“Portfolio Company Services”). Any compensation, including fees, incentive equity or other stock awards, received by the Industry & Operations Partners are generally outside the scope of a management services agreement, and therefore are generally not offset against Management Fees.

In addition, investors in the Funds also bear certain fund expenses.

Management Fees

Management Fees from Fund II were 2% of Limited Partner capital commitments during the Commitment Period. After the Commitment Period, or upon certain events, the Management Fees are based on Investment Contributions and charged at either 2% or 1.5% as described in the Partnership Agreements. Fund II currently pays Management Fees at 1.5% of Investment Contributions. Arsenal Capital Partners II Executive Fund LP does not pay a Management Fee.

Management Fees from Fund III are 2% of capital commitments during the Commitment Period. After the Commitment Period, or upon certain events, the Management Fees are based on Investment Contributions and charged at either 2% or 1.5% as described in the Partnership Agreements. Fund III Management Fees are currently 1.5% of Investment Contributions. Limited partners designated as affiliated partners by Fund III GP do not pay a Management Fee.

Management Fees from Fund IV are 2% of capital commitments during the Commitment Period. After the Commitment Period, or upon certain events, the Management Fees are based on Investment Contributions and charged at either 2% or 1.5% as described in the Partnership Agreements. Limited partners designated as affiliated partners by Fund IV GP do not pay a Management Fee.

The Co-Invest Vehicles do not pay a Management Fee.

Each of the applicable Funds’ Management Fees is reduced by an amount determined by the applicable General Partner. As a result of such reduction, the amount of capital contributions the General Partner would otherwise be required to contribute to such Arsenal Fund will be reduced by an equivalent amount, and the amount of such reduction instead shall be contributed by the applicable Limited Partners, on behalf of the General Partner, *pro rata* based upon their respective capital commitments. Waived Management Fees are not subject to the Management Fee offsets described below.

Portfolio Company Fees

Arsenal and its affiliates may receive Portfolio Company Fees associated with investments, proposed investments or commitments made by each Fund. Upon receipt of Portfolio Company Fees, Arsenal attributes such fees (net of expenses) to the investors of the applicable portfolio company in proportion to the ownership in such portfolio company. The portion of the Portfolio

Company Fees not attributed to Arsenal Funds is generally retained by ACM and not offset against Management Fees. The portion of the Portfolio Company Fees attributed to the Arsenal Funds (excluding affiliated partners in Fund II and Fund III) is credited against Management Fees as follows:

- 80% for Fund II (previously 50%, but in 2016 the aggregate threshold of \$25 million of Portfolio Company Fees was reached, increasing the offset to 80%);
- 100% for Fund III; and
- 100% for Fund IV

In the event that the aggregate amount of Portfolio Company Fees applied against the respective Arsenal Fund's Management Fee exceeds the Management Fee for a specific period (the "Unapplied Excess"), such amount will be carried forward to reduce the Management Fee payable in future periods. In Fund II, Fund III and Fund IV, any Unapplied Excess will be returned *pro rata* to the non-affiliated Limited Partners at the end of the Fund term, as provided in the Partnership Agreements.

Portfolio Company Services

Certain operating professionals of Arsenal (both Arsenal employees and outside contractors) provide services to Fund portfolio companies as employees (e.g. Chief Executive Officer); in a "seconded" capacity (e.g. interim management); or as Industry & Operations Partners (e.g. individuals who provide strategy, portfolio company board roles, general commercial activities, sales, marketing, human resources, operations, technology, integration/transition services, sourcing, due diligence, or other similar activities). In these situations, either the operating professional or Arsenal (on behalf of the operating professional) may receive compensation for such services, including commissions associated with the sourcing of investments. Portfolio Company Services provided in this context are compensated at market rates and are above and beyond the scope of a standard management services agreement; therefore, as provided in the Partnership Agreements, such compensation is generally not offset against Management Fees. Under the terms of the Fund IV Partnership Agreement, the General Partner is required to report to the Advisory Board, on a semi-annual basis, the amount of fees received by each Industry & Operations Partner from each Portfolio Company during such period and not offset against the Management Fee.

Co-Investment Expenses

As described above, in certain circumstances, Arsenal is expected to permit certain investors to invest in portfolio companies alongside one or more Funds, subject to Arsenal's related policies and the relevant Partnership Agreement(s) and/or Side Letter(s). In the event that a transaction in which a co-investment was planned, including a transaction for which a co-investment was believed necessary in order to consummate such transaction, ultimately is not consummated, all Broken Deal Expenses relating to such unconsummated transaction will be borne by the Fund(s), and not by any prospective co-investors, that were to have participated in such transaction. In a

situation where a co-invest vehicle is formed, such entity will bear the expenses related to its formation and operation, many of which are similar in nature to those borne by the Funds.

Other Information

The Funds invest on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the Partnership Agreements, over the terms of the Funds and investors generally are not permitted to withdraw or redeem interests in the Funds. The Senior Partners and other employees and partners of Arsenal may receive a portion of the Management Fee, Carried Interest (as defined below) or other compensation received by Arsenal. Arsenal waives a portion of Management Fees and reserves the right to waive all or a portion of Carried Interest payable by Fund investors.

Incentive Fees (Carried Interest)

The Arsenal Funds, in addition to the base fee, is also entitled to generally 20% of the applicable Arsenal Funds' distributions in excess of a limited partner's capital contributions and expenses, which is referred to as "carried interest" ("Carried Interest"), assuming the Arsenal Fund delivers a preferred return of at least 8% to the limited partners and subject to a General Partner catch-up provision, as more fully described in the applicable Partnership Agreement.

ACI WCG is entitled to Carried Interest generally of 10% of ACP WCG Co-Invest 2's distributions in excess of an investors capital contributions and expenses, assuming ACP WCG Co-Invest 2 delivers a preferred return of at least 8% to the limited partners and subject to a General Partner catch-up provision, as more fully described in ACP WCG Co-Invest 2's Partnership Agreement.

ACP WCG Co-Invest 1 LLC and ACP Biospecimen Holdings, LLC do not pay incentive fees.

See below, "Performance-Based Fees and Side-by-Side Management."

Other Fees and Expenses

In addition to any Management Fee payable to Arsenal, the Funds bear certain expenses. As set forth in the applicable Partnership Agreements, the Funds may bear all expenses to the extent not paid by portfolio companies, including legal, administration, accounting, investment banking, travel, consulting, research, brokerage, finder's fees, custody, transfer, registration, insurance, advisory board, interest, taxes, conferences or meetings with limited partner(s), extraordinary expense and other similar fees and expenses. In general, expenses incurred are specifically related to individual Funds, however, to the extent expenses relate to a matter that is shared across funds (e.g. annual meeting or insurance), Arsenal allocates such costs across the Funds in a reasonable manner, as determined by the General Partner. In certain circumstances, one Fund may be expected to pay an expense common to multiple Funds (including fees or expenses in connection with services for which the benefits are received by other Funds over time), and be reimbursed by the other Funds by their share of such expense, without interest. While Arsenal believes such circumstances to be highly unlikely, it is possible that one of the other Funds could default on its obligation to reimburse the paying Fund. In certain circumstances, Arsenal is expected to advance amounts related to the foregoing and receive reimbursement from the Funds to which such expenses relate.

ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Certain Funds' General Partners may receive performance based compensation in the form of Carried Interest, as more fully described in Item 5 above, and in the applicable Partnership Agreements. Performance based compensation may cause Arsenal to engage in a higher risk, more speculative investment strategy than might be the case in the absence of such compensation arrangement. If any General Partner receives Carried Interest distributions during the life of the applicable Fund which are, in the aggregate, in excess of generally 20% (10% with respect to ACP WCG Co-Invest 2) of such Fund's cumulative net profits (including a preferred return of 8% and subject to a General Partner catch-up provision, as more fully described in the applicable Partnership Agreement), then such excess Carried Interest distributions will be subject to repayment by such General Partner.

Arsenal also manages accounts that are not charged performance based compensation. This scenario presents a conflict of interest for Arsenal, as it would be beneficial for Arsenal to favor accounts for which it receives performance based compensation or a relatively higher level of performance based competition.

Arsenal manages each Fund in accordance with the investment strategy disclosed in the Funds' Partnership Agreements to help ensure that investors are aware of the investment strategy and the risks associated with the strategy. Arsenal engages in certain procedures to fair value securities in a manner deemed to establish the most accurate valuations possible based on information gathered by Arsenal.

Fund investors should review the respective Partnership Agreements for detailed information with respect to performance based allocations and distributions and the allocation of investment opportunities.

ITEM 7 TYPES OF CLIENTS

ACM provides investment advice to the Funds.

Generally, only "accredited investors" or "qualified purchasers" as specified in the Funds' Partnership Agreements may invest in the Funds. Fund investors may include individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations, corporations or business entities and may include, directly or indirectly, principals or employees of Arsenal.

Details concerning applicable fees, minimum investment amounts and suitability criteria are set forth in the respective Funds' Partnership Agreements. The General Partner of each Fund typically reserves the right, in its sole discretion, to waive the minimum investment amount requirement.

ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

General

Arsenal primarily makes control investments in growing lower-middle-market companies in which Arsenal believes there are opportunities to create value post-acquisition. More specifically, Arsenal principally seeks to invest within the specialty industrials and healthcare sectors.

Within its targeted sectors, Arsenal seeks to invest in growing, niche market-leading companies that provide specialized and / or technical products or services with competitive and defensible market positions and sustainable cash flow. Following acquisition, Arsenal uses its team of investment and operating professionals to apply a prioritized growth and improvement investment strategy designed to accelerate growth, mitigate risks, and improve businesses. Arsenal works collaboratively with management teams to set a clear strategy and drive well-resourced execution. Finally, Arsenal works to sell its companies to buyers, particularly strategic buyers, seeking acquisition candidates.

Arsenal typically invests in established businesses with enterprise values ranging from \$100 million to \$250 million. Arsenal seeks to invest in specific industry segments within the specialty industrials and healthcare sectors that it has identified as attractive for long-term growth, cash flow generation, and sustainable profitability. Arsenal has a team, which it believes consists of professionals with investment and transaction acumen, industry knowledge within the specialty industrials and sectors, and operating capabilities that it leverages from investment sourcing to exit.

There can be no assurance that Arsenal will achieve the investment objectives of the Funds and a loss of investment is possible.

Investment and Operating Strategy

Middle Market Focus. Arsenal is focused on sectors of the lower-middle-market (“LMM”), which is composed of thousands of established companies with revenues between \$50 million and \$500 million. Arsenal believes this segment of the market sustainably offers attractive opportunities to invest in companies to which Arsenal’s Strategic Company Building strategy is well-suited and, therefore, remains committed to investing in this segment. Arsenal believes the LMM is attractive for private equity investment as it is a large fragmented marketplace with many niche markets that consist of companies with innovative business models and differentiated technologies that offer strong future growth potential.

Targeted Industry Focus. Arsenal carefully selected Specialty Industrials and Healthcare for what it believes are their sustainable and exploitable long-term trends, applicability of the Arsenal strategy and model, size and high degree of fragmentation, number of attractive niche markets with high value-add and technology-based differentiation and ability to support LMM companies becoming niche market leaders. Because of these characteristics, Arsenal believes the Specialty Industrials and Healthcare sectors offer continuous and compelling long-term investment opportunities. Within these sectors, Arsenal believes that it has developed the requisite domain

and technical expertise and established the networks and resources essential to function in a highly strategic and impactful manner. Arsenal believes that its depth of knowledge and insight enable it to operate like an industry insider and a strategic investor, capable of developing insightful forward-looking perspectives and strategies.

Arsenal believes that each of the Specialty Industrials and Healthcare sectors includes a multitude of sub-sectors with promising growth trends and is populated with companies possessing innovative technologies and advantaged business models. Arsenal regularly performs a rigorous review of sector trends and conditions to identify sub-sectors and opportunities that are most attractive for Arsenal's Strategic Company Building strategy. Arsenal believes that these sub-sectors are target-rich, possess valuable intersections of technologies and attractive end markets, and contain many LMM companies with barriers to entry, customer intimacy, potential to broaden and better apply their product and service solution and global expansion opportunities. Arsenal believes that many of these companies have the potential for further differentiated solutions, consolidation of their market spaces and superior growth through add-on acquisitions.

Investment Parameters. Within its target sectors, Arsenal seeks companies that typically exhibit some or all of the following characteristics:

- Defensible market leading positions in niche segments,
- Significant growth potential through organic and strategic acquisition avenues,
- Opportunities to improve efficiency, reduce costs and improve margins,
- Options to expand the value-added component of the company's offering, and
- Global market and supply chain opportunities.

Collaborative / Multidisciplinary Approach. Arsenal believes that its team of investment and operating professionals has the skills and experience necessary to create advantages throughout the investment process. This team combines industry-specific knowledge and relationships, experience in managing and improving businesses, and functional resources to support management teams. Arsenal strives to work in a coordinated manner designed to improve the efficiency and effectiveness of execution in all phases of the investment cycle.

Source and Complete Investments. Arsenal professionals engage in leveraging their broad network of relationships within Arsenal's targeted industries to access high-quality deal flow. In addition, industry expertise creates advantages in diligence, strategy formulation, and value assessment through an improved understanding of key business drivers, competitive and structural dynamics, and potential opportunities and risks. Arsenal incorporates this industry and operating knowledge into its disciplined valuation approach, carefully balancing the risks and opportunities identified with respect to a given investment and making sure they are appropriately reflected in a reasonable valuation.

Employ a Prioritized Growth and Improvement Program. Prior to acquisition, Arsenal identifies and prioritizes what it believes are the key value creators and holdbacks for a particular investment.

Arsenal will not make an investment if it does not believe that there is an opportunity for Arsenal to create significant value post-acquisition. The Arsenal team works in active collaboration with the management teams of portfolio companies to address these value creators and holdbacks. This process is often enabled by an Arsenal assessment and strengthening of the management team and improvement of a company's business processes. In any given investment, Arsenal looks to: (i) accelerate growth, (ii) mitigate key risks, and (iii) fundamentally improve businesses.

Capture Value on Exit. Arsenal's realization process begins prior to acquisition with the development of an investment strategy to guide the business toward attractive exits. With its experience in its focus industries, Arsenal believes it is equipped to understand the acquisition interests and criteria of strategic buyers and strives to take a proactive approach to developing relationships with these buyers that could ultimately lead to attractive exits.

Arsenal seeks to take a conservative approach to the amount of leverage in the capital structures of its portfolio companies so that they can invest in growth and improvement initiatives that will fundamentally improve cash flow and build long-term value. Arsenal believes that conservative leverage also provides additional downside protection, allowing companies greater flexibility as well as an ability to address unforeseen issues. Once Arsenal determines that a company has sufficiently improved but still has significant upside, Arsenal often seeks to appropriately recapitalize the business and return capital to investors.

Risk of Loss

Investing in securities involves risk of loss that investors in the Funds should be prepared to bear.

The risks involved with Arsenal's investment strategy and an investment in the Funds include, but are not limited to the following:

Business Risks. The Funds' investment portfolios 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 Arsenal's prior investments is not necessarily indicative of the Funds' future results. While Arsenal intends for the Funds to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that the targeted internal rates of return will be achieved. On any given investment, loss of the entire principal is possible.

Investment in Junior Securities. The securities in which the Funds 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 Funds 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 Funds' investment portfolios could become highly concentrated, and the performance of a few holdings may substantially affect aggregate returns. Furthermore, to the extent that capital raised

is less than the targeted amounts, the Funds may invest in fewer portfolio companies and thus be less diversified.

Lack of Sufficient Investment Opportunities. It is possible that the Funds will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring private equity transactions is highly competitive and involves a high degree of uncertainty. However, Fund investors will be required to pay annual management fees during the respective Funds' commitment period based on the entire amount of their commitments.

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 the Funds and their 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 the Fund's portfolio companies.

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, if any, on successful investments are realized. The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating the Funds (including the annual management fee payable to Arsenal) may exceed its income, thereby requiring that the difference be paid from the applicable Funds' capital.

Leveraged Investments. The Funds may make use of leverage by incurring or having a portfolio company incur debt to finance a portion of an investment in a given portfolio company. Leverage generally magnifies both opportunities for gain and risks of loss from a particular investment. The use of leverage will also result in interest expense and other costs to the Funds that may not be covered by distributions made to the Funds or appreciation of investments. In addition, this leverage could accelerate and magnify declines in the value of the Funds' 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, the Funds may suffer a partial or total loss of capital invested in such portfolio company, which could adversely affect the returns of the Funds. Furthermore, the companies in which the Funds invest generally will not be rated by a credit rating agency.

A Fund may also borrow money or guaranty indebtedness (such as a guaranty of a portfolio company's debt). The use of leverage by a Fund also will 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 Funds and entities managed by Arsenal or any of its affiliates and may have a right of contribution, subrogation or reimbursement from or against such entities. In addition, to the extent a Fund incurs leverage (or provides such guaranties), such amounts may be secured by capital commitments made by such Fund's investors and such investors' contributions may be required to be made directly to the lenders instead of such Fund.

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

Certain investments may be distributed in kind to the partners of a 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 partners. After a distribution of securities is made to the partners, many 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 partners may be lower than the value of such securities determined pursuant to the Partnership Agreement, including the value used to determine the amount of carried interest available to Arsenal with respect to such investment.

Reliance on the General Partner and Portfolio Company Management. Control over the operation of the Funds will be vested entirely with Arsenal, and future profitability will depend largely upon the business and investment acumen of Arsenal. The loss of service of one or more of the Senior Partners could have an adverse effect on the Funds' abilities to realize their investment objectives. Fund investors generally have no right or power to take part in the management of the Funds, and as a result, the investment performance of the Funds will depend entirely on the actions of Arsenal. Although Arsenal will monitor the performance of each Fund investment, it will primarily be the responsibility of each portfolio company's management team to operate the portfolio company on a day-to-day basis. Although the Funds generally intend to invest in companies with strong management, there can be no assurance that the existing management of such companies will continue to operate a portfolio company successfully.

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

Need for Follow-On Investments. Following an initial investment in a given portfolio company, Arsenal 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 a Fund will make follow-on investments or that a Fund will have sufficient funds to make all

or any of such investments. Any decision by Arsenal 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 such Fund to increase its participation in a successful operation.

Non-U.S. Investments. The Funds 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 risks 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 terms of the Funds), the application of complex U.S. and foreign tax rules to cross-border investments, possible imposition of foreign taxes on the Funds and/or the Fund investors with respect to applicable Fund's income, and possible foreign tax return filing requirements for the Funds and/or the Fund investors.

Public Company Holdings. The Funds' investment portfolios may contain securities issued by public companies. Such investments may subject the Funds to risks that differ in type or degree from those involved with investments in private 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 Funds to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members, including Arsenal, if serving in such capacity, and increased costs associated with each of the aforementioned risks.

Material Non-Public Information. Due to the nature of the operations, Arsenal frequently comes into possession of confidential or material non-public information. Therefore, Arsenal may have access to material, non-public information that may be relevant to an investment decision to be made by the Fund. Consequently, the 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 Arsenal's internal policies. Due to these restrictions, the 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.

Director Liability. The Funds will often obtain the right to appoint a representative to the board of directors of the companies in which they invest. Serving on the board of directors of a portfolio company exposes the Funds' representatives, and ultimately the Funds, 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.

Valuation of Investments. Market quotations will not be available for virtually all of a Fund's investments because, among other things, the securities of portfolio companies held by such Fund generally will be illiquid and not quoted on any exchange. Each General Partner will determine the value of all the Fund's investments that are not readily marketable based on ASC 820 guidelines as promulgated by the Financial Accounting Standards Board and any subsequent valuation guidelines required of an investment fund reporting under generally accepted accounting principles as promulgated in the United States. There can be no assurance that the relevant General

Partner will have all the information necessary to make valuation decisions in respect of these investments, or that any information provided by third parties on which such decisions are based will be correct. There can be no assurance that the valuation decision of a General Partner with respect to an investment will represent the value realized by the relevant Fund on the eventual disposition of such investment or that would, in fact, be realized upon an immediate disposition of such investment on the date of its valuation. Accordingly, the valuation decisions made by such General Partner may cause it to ineffectively manage the relevant Fund's investment portfolios and risks, and may also affect the diversification and management of such Fund's portfolio of investments.

Cybersecurity Risks. Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject, particularly operating companies in historically vulnerable industries such as the food services and retail industries. To the extent that a portfolio company is subject to cyber-attack or other unauthorized access is gained to a portfolio company's systems, such portfolio company may be subject to substantial losses in the form of stolen, lost or corrupted (i) customer data or payment information; (ii) customer or portfolio company financial information; (iii) portfolio company software, contact lists or other databases; (iv) portfolio company proprietary information or trade secrets; or (v) other items. In certain events, a portfolio company's failure or deemed failure to address and mitigate cybersecurity risks may be the subject of civil litigation or regulatory or other action. Any of such circumstances could subject a portfolio company, or the relevant Fund, to substantial losses. In addition, in the event that such a cyber-attack or other unauthorized access is directed at Arsenal or one of its service providers holding its financial or investor data, Arsenal, its affiliates or the Funds may also be at risk of loss, despite efforts to prevent and mitigate such risks.

Conflicts of Interest

Arsenal and its related entities engage in a broad range of advisory and non-advisory activities, including investment activities for their own account and for the account of others, and providing transaction-related, investment advisory, management and other services to Funds and portfolio companies. Arsenal will devote such time, personnel and internal resources as are necessary to conduct the business affairs of the Funds in an appropriate manner, as required by the relevant Partnership Agreement, although the Funds and their respective investments will place varying levels of demand on these over time. In the ordinary course of Arsenal conducting its activities, the interests of a Fund may conflict with the interests of Arsenal, one or more other Funds, portfolio companies or their respective affiliates. Certain of these conflicts of interest are discussed herein. As a general matter, Arsenal will determine all matters relating to structuring transactions and Fund operations using its best judgment considering all factors it deems relevant, but in its sole discretion, subject in certain cases to the required approvals by the advisory boards of the participating Funds.

General

During the commitment period of an Arsenal Fund, all appropriate investment opportunities generally will be pursued by Arsenal principals through such Arsenal Fund, subject to certain limited exceptions. Without limitation, Arsenal principals may manage several other investments similar to those in which the Arsenal Funds may be investing, and for reasons set forth in the

Partnership Agreements (e.g. no Arsenal Fund capital available to invest, etc.) may direct certain investment opportunities to those investments. Arsenal principals and investment staff will manage and monitor such investments until their realization. Such other investments that Arsenal principals may control, may also potentially compete with companies acquired by the Funds. Arsenal principals may and will likely continue to spend time on other opportunities and areas unrelated to the Funds' investments, subject to limitations set forth in the Partnership Agreements. Where necessary, Arsenal consults and receives consent to conflicts from an advisory board consisting of limited partners of the applicable Fund and such other investment vehicles.

Multiple Clients in Same Investment

Investment opportunities may be appropriate for multiple Funds at the same, different or overlapping levels of a portfolio company's capital structure. Conflicts may arise when a Fund makes investments in conjunction with an investment being made by another Fund, or if it were to invest in the securities of a company in which another Fund has already made an investment. Such conflicts may include determining the terms of each such investment, particularly where certain Funds are intended to invest in different types of securities in a single portfolio company and the risk of using assets of a client of Arsenal to support positions taken by other clients of Arsenal. When and to the extent that employees and related persons of Arsenal and its affiliates make capital investments in or alongside certain Funds, Arsenal and its affiliates are subject to conflicting interests in connection with these investments. Further, questions may arise subsequently as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced or restructured. In troubled situations, decisions including whether to enforce claims, or whether to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any workout or restructuring may raise conflicts of interest, particularly with respect to Funds that have invested in different securities within the same portfolio company. Arsenal and its affiliates may express inconsistent views of commonly held investments or of market conditions more generally. There can be no assurance that the return on one Fund's investments will be the same as the returns obtained by other Funds participating in such transaction. Given the nature of the relevant conflicts there can be no assurance that any such conflict can be resolved in a manner that is beneficial to both Funds. In that regard, actions may be taken for one or more Funds that adversely affect other Funds.

Investment Allocations

From time to time, Arsenal will be presented with investment opportunities that the Arsenal Funds cannot complete on their own (e.g. limitations under the Partnership Agreements, industry concentration, etc.). When such situation arises, Arsenal applies its Investment Allocation Policy in determining which investment vehicles should participate in such investment opportunities; Arsenal may be subject to conflicts of interest among the investors in such investment vehicles and the Funds.

The Funds Investment Allocation Policy requires Arsenal to allocate investment opportunities first to Arsenal Funds in a fair and equitable manner, consistent with its fiduciary obligations and underlying documents, as applicable. Arsenal generally assesses whether an investment opportunity is appropriate for a particular Fund based on the Fund's Partnership Agreement, as well as factors including but not limited to: investment restrictions and objectives, strategies

(including those set forth in the relevant Fund's Partnership Agreement, where applicable), risk profile, time horizon, tax sensitivity, tolerance for turnover, asset composition, cash level (if any), applicable regulatory restrictions, life-cycle and structure. For example, a newly organized Arsenal Fund generally will seek to purchase a disproportionate amount of investments until it is substantially invested. Following such determination of allocation among Arsenal Funds, Arsenal will determine if the amount of an investment opportunity in which one or more Arsenal Fund(s) will invest exceeds the amount that would be appropriate for such Arsenal Fund(s) and any such excess may be offered to one or more potential co-investors, including third parties, as determined by the Arsenal Funds' Partnership Agreements, Side Letters and Arsenal's procedures regarding allocation. Arsenal does not guarantee any co-investors the right to invest in any particular transaction.

Arsenal's procedures to allocate co-investments permit it to take into consideration a variety of factors, including but not limited to: the size of the investment allocation available to Arsenal (and not being allocated to Arsenal Funds), and the practicality of splitting the allocation into smaller tranches; any requirements of any third-party lenders as to the identity of any investors participating as co-investors, or as to the creditworthiness of any co-investors, or as to the number of co-investors, or as to other matters with respect to the investors in the transaction; the knowledge and sophistication of the prospective co-investor with respect to the issuer, segment, industry, geographic region or other characteristics that are relevant to the investment (as determined by Arsenal in good faith); the prospective co-investor's ability to approve the investment pursuant to any applicable internal approval processes, and to otherwise execute the transaction, in a timely manner with respect to the timeframe in which Arsenal believes favorable transaction terms may be achieved (as determined by Arsenal in good faith); any tax, regulatory and/or securities law considerations (i.e., qualified purchaser or qualified institutional buyer status); and other factors that Arsenal considers important in connection with the specific transaction or investment, including, without limitation, expected investment holding period, services provided by the prospective co-investor to the issuer of the investment (or otherwise provided by the prospective co-investor with respect to the investment) and other factors.

Furthermore, decisions regarding whether and to whom to offer co-investment opportunities may be made by Arsenal or its related persons in consultation with other participants in the relevant transactions. Co-investment opportunities may, and typically will, be offered to some and not to other Arsenal investors.

While Arsenal will allocate investment opportunities in a manner that it believes will be beneficial to the investment opportunity, considering relevant factors, the allocation among the persons and in the manner discussed herein will mostly likely not result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others.

Allocation of Fees and Expenses

Subject to any relevant restrictions or other limitations contained in the Partnership Agreements of the Funds, Arsenal will allocate fees and expenses in a manner that it believes in good faith is fair and equitable to its clients under the circumstances and considering such factors as it deems relevant. In exercising such discretion, Arsenal may be faced with a variety of potential conflicts

of interest. As a general matter, Fund expenses typically will be allocated among all relevant Funds or co-invest vehicles eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made by Arsenal or its affiliates using their best judgment, considering such factors as they deem relevant. The allocations of such expenses may not be proportional, and any such determinations involve inherent matters of discretion, e.g., in determining whether to allocate *pro rata* based on number of Funds or co-invest vehicles receiving related benefits or proportionately in accordance with asset size. The Funds have different expense reimbursement terms, including with respect to Management Fee offsets, which may result in the Funds bearing different levels of expenses with respect to the same investment.

Operating Professionals

As described above, portfolio companies (and, to a lesser extent, the Funds) typically pay certain fees to Industry & Operations Partners or Advisors (including Advisors introduced or arranged by Arsenal and/or its affiliates that regularly provide services to one or more portfolio companies) (collectively, “Operating Professionals”), and such fees do not offset the Management Fee. Operating Professionals compensation is expected to include cash fees, securities of a portfolio company and/or a share of proceeds upon sale of a portfolio company. Additionally, portfolio companies may provide opportunities for Operating Professionals to invest in such portfolio company and reimburse costs and expenses (including travel) incurred by Operating Professionals. Operating Professionals also may have a limited partner interest in the General Partners and/or one or more Funds, may receive remuneration from Arsenal and/or its Funds or affiliates and/or be entitled to other forms of compensation. Such investment opportunities, reimbursements and other compensation paid to an Operating Professional will not offset the Management Fee of any Fund as described herein. Although the use of Operating Professionals and the allocation of compensation paid to them by Arsenal, its affiliates and/or the portfolio companies subjects Arsenal and/or its affiliates to potential conflicts of interest, Arsenal believes that such potential conflicts may be reduced 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 services of the Operating Professionals align with Arsenal’s model for the portfolio company and improve portfolio company performance. Although Arsenal seeks to retain Operating Professionals with a view to reducing costs to portfolio companies (and, ultimately, the Funds) and/or improving portfolio company performance, a number of factors may result in limited or no cost savings from such retention. Arsenal also seeks to reduce potential conflicts of interest resulting from such arrangements by structuring compensation packages for such persons in a manner that Arsenal believes will align such persons’ interests with those of the Funds’ limited partners, and seeks to retain only Operating Professionals and service providers which it believes provide a level of service at a value generally consistent with other relevant market alternatives. However, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

Joint and Several Liability to Lenders

If a Fund enters into any indebtedness with another Fund on a joint and several basis, the applicable General Partner is expected to enter into one or more agreements that provide each Fund with a right of contribution, subrogation or reimbursement. In administering, or seeking to reinforce,

these agreements, Arsenal may be subject to conflicts of interest, for example between a Fund with a reimbursement obligation and a Fund seeking reimbursement. Arsenal intends to mitigate any potential conflicts by structuring such agreement in a manner intended to cause each Fund to bear its proportionate share of the applicable indebtedness, without undue favoritism over time.

Relationships with Portfolio Company Board Members

As a result of the Funds' controlling interests in portfolio companies, Arsenal and/or its affiliates typically have the right to appoint portfolio company board members (including current or former Arsenal personnel or persons serving at their request), or to influence their appointment, and to determine or influence a determination of their compensation. From time to time, portfolio company board members approve compensation and/or other amounts payable to Arsenal and/or its affiliates. Such amounts will be in addition to any Management Fees or carried interest paid by a Fund to Arsenal.

Additionally, a portfolio company typically will reimburse Arsenal or service providers retained at Arsenal's discretion for expenses (including without limitation travel expenses) incurred by Arsenal or such service providers in connection with its performance of services for such portfolio company. Any fee paid or expense reimbursed to Arsenal or such service providers generally is subject to: agreements with or review by 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.

Relationships with Service Providers

Arsenal generally exercises its discretion to recommend to a Fund or to a portfolio company thereof that it contract for services with (i) Arsenal or a related person of Arsenal (which may include a portfolio company of such Fund), or (ii) certain limited partners or their affiliates. For example, Arsenal may be presented with opportunities to receive financing and/or other services in connection with a Fund's investments from certain limited partners or their affiliates that are engaged in lending or related business. This subjects Arsenal to conflicts of interest, because although Arsenal selects service providers that it believes are aligned with its operational strategies and will enhance portfolio company performance and, relatedly, returns of the relevant Fund, Arsenal may have an incentive to recommend the related or other person (including a limited partner) because of its financial or other business interest. There is a possibility that Arsenal, because of such belief or for other reasons (including whether the use of such persons could establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the relevant Funds or Arsenal), may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. Whether or not Arsenal 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 lesser cost.

Arsenal 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 Arsenal and/or its affiliates; conversely, former personnel or executives of Arsenal and/or its affiliates may serve in significant management roles at portfolio companies or service

providers recommended by Arsenal. Similarly, Arsenal, 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 these persons or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, Arsenal and/or its affiliates, and/or the Funds or other investment vehicles they advise. Arsenal 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, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more Funds, will provide Arsenal information about markets and industries in which Arsenal operates (or is contemplating operations) or will provide other services that are beneficial to Arsenal. Arsenal may have a conflict of interest in making such recommendations, in that Arsenal 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.

Conclusion

Any of these situations subjects Arsenal and/or its affiliates to potential conflicts of interest. Arsenal attempts to resolve such conflicts of interest in light of its obligations to investors in its Funds and the obligations owed by Arsenal'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, Arsenal will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict. Where necessary, Arsenal consults and receives consent to conflicts from an advisory committee consisting of limited partners of the relevant Fund(s) and such other investment vehicles.

ITEM 9 DISCIPLINARY INFORMATION

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

ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

ACM's affiliates include the Funds' General Partners and investment advisers. These affiliated investment advisers operate as a single advisory business together with ACM 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.

ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Arsenal Capital Management has adopted a Code of Ethics and Securities Trading Policy and Procedures (the "Code"), which sets forth standards of conduct that are expected of Arsenal

principals and employees and addresses conflicts that arise from personal trading. Among others, the Code requires employees to:

- Place the interest of the Funds above personal interests;
- Seek to identify conflicts of interest;
- Keep confidential all material nonpublic information;
- Not effect transactions based on material nonpublic information;
- Pre-clear transactions in initial public offerings and limited offerings of securities; and
- Report personal securities transactions and holdings.

Arsenal, 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. The operative documents and investment programs of certain vehicles sponsored by Arsenal may restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such vehicles or may give priority with respect to investments to such vehicles. Some of these restrictions could be waived by investors (or their representatives) in such vehicles.

From time to time, the General Partners may borrow funds on behalf of their respective Funds and contribute such borrowed amounts to their respective Funds as a special capital contribution for investment, to be redeemed at a later date. Interest in connection with such borrowing is borne by the limited partners consistent with the applicable Partnership Agreement. In borrowing on behalf of the Funds, the General Partners are subject to conflicts of interest between repaying their obligations and retaining such borrowed amounts for the benefit of their respective Funds. The General Partners will engage in such borrowings in a manner they believe to be fair and equitable to their respective Funds, and consistent with the General Partners' obligations to their respective Funds and the applicable Partnership Agreements.

Employees must acknowledge understanding and agree to comply with the Code initially upon employment and must certify on an annual basis that they have read and understand the Code and have complied with it.

Employees who violate the Code are subject to disciplinary action including, but not limited to, written warnings and termination of employment.

A copy of the Code will be provided to any investor or prospective investor upon request made to the Chief Compliance Officer.

ITEM 12 **BROKERAGE PRACTICES**

Arsenal typically does not utilize broker-dealers to effect transactions of private companies and generally purchase and sell such companies through privately-negotiated transactions. However, the Funds may receive portfolio company shares registered for sale as part of a portfolio company's general distribution or Arsenal may buy or sell publicly traded securities. In these instances, Arsenal may utilize a broker-dealer to effect these transactions.

Generally, Arsenal selects broker-dealers on the basis of best execution. "Best execution" does not mean effecting transactions at the lowest possible commission rate, transaction costs and best price, but includes a number of factors including, but not limited to, (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the broker being considered; (iv) responsiveness to requests for trade data and other financial information; (v) experience in liquidating distributions from private equity funds; (vi) nature and size of the transaction; and (vii) willingness to commit capital, access to a particular trading market, and security conditions (e.g., liquidity, volatility, etc.).

Arsenal has discretion to determine without obtaining prior consent from the Funds the broker-dealer to execute transactions and the commission rates or commission equivalents charged for effecting the transaction.

Research and Other Soft Dollar Benefits: Arsenal does not obtain proprietary and third-party research services or products with the Funds' commissions or "soft dollars."

Brokerage for Client Referrals: Arsenal does not consider investor referrals in selecting broker-dealers.

Directed Brokerage: Arsenal does not accept instructions to effect Fund transactions with certain broker-dealers.

Cross Trades: From time-to-time, Arsenal may effect a purchase of a security for one or more Funds at the same time as a sale of the same security for another Fund. Such transactions may be effected to rebalance the positions held in the Funds' portfolios in order to achieve uniform results among Funds, to take into account Funds' cash flows or to comply with investment guidelines and restrictions. Such transactions, at Arsenal's discretion, may generally be effected at a price and time as it deems appropriate under the circumstances.

Principal Transactions: "Principal transactions" are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. Arsenal is neither registered as, nor is affiliated with, a broker-dealer.

Aggregation and Allocation: Generally, aggregation of the purchase and sale of securities for the Funds does not apply as investments are primarily in private equity securities.

However, where practical and appropriate, Arsenal will generally aggregate orders for Funds transacting in the same publicly traded security and will generally allocate the purchase or sale of

such security or proceeds to the Funds in the order based on an average price and on a *pro rata* basis if the order is partially filled.

ITEM 13 REVIEW OF ACCOUNTS

The investments made by the 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, ACM's investment professionals closely monitor companies in which the Funds invest. These reviews include, but are not limited to, reviewing the operational and financial performance as well as strategic direction of each portfolio company in that the respective Fund has invested.

The Funds provide to their limited partners (i) annual GAAP audited financial statements and partner's capital statements, (ii) and quarterly unaudited reports and partner's capital statements, (iii) annual tax information necessary for each limited partner's tax return and (iv) annual and quarterly reports providing a narrative summary of the status of each portfolio company investment.

ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION

As discussed in Item 5, certain operating professionals of Arsenal (both Arsenal employees and outside contractors) may provide services to Fund portfolio companies as employees (e.g. Chief Executive Officer), advisors (e.g. sourcing agent; member of the board of directors), in a "seconded" capacity (e.g. interim management), consultants or in support for operational projects (e.g. functional experts focused on operations, sales & marketing, etc.). In these situations, either Arsenal or the operating professional may receive compensation for such services, including commissions associated with the sourcing of investments. Portfolio Company Services provided in this context are compensated at market rates and are above and beyond the scope of a standard management services agreement; therefore, as provided in the Partnership Agreements, such compensation is not offset against Management Fees. See "Fees and Compensation."

Arsenal has entered into placement agent arrangements pursuant to which it compensates placement agents for referrals that result in a potential investor becoming a limited partner in an Arsenal Fund. Any fees and expenses payable to placement agents will be paid by the applicable Arsenal Fund but borne by Arsenal indirectly through an offset against the Management Fee.

ITEM 15 CUSTODY

ACM is deemed to have custody by virtue of the fact that it or a related person serves as General Partner of certain private funds. The SEC's Custody Rule sets forth certain requirements for the safekeeping of client assets.

ACM's policy is to have the Funds audited annually by an independent auditor registered with and subject to regular inspection by the Public Company Accounting Oversight Board, and to distribute copies of the audited financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") to Fund investors within 120 days of the end of a Funds' fiscal year.

In addition, upon the final liquidation of a Fund, ACM will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP to Fund investors in the liquidated Fund promptly after completion of the audit.

ITEM 16 INVESTMENT DISCRETION

ACM has discretionary authority to manage investments on behalf of the Funds.

ACM assumes this discretionary authority pursuant to the terms of the limited partnership agreements and powers of attorney executed by the limited partners in the Funds. As a general policy, ACM does not allow clients to place limitations on this authority. The Funds' General Partner may enter into Side Letter agreements with certain limited partners whereby the terms applicable to such limited partner's investment in the applicable Fund may be altered or varied including, but not limited to, the right to opt-out of certain investments for legal, tax, regulatory or other reasons.

ITEM 17 VOTING CLIENT SECURITIES

Arsenal has discretionary authority to vote proxies on Fund securities.

Arsenal may represent a Fund by its representation on the board of directors of a Fund's portfolio company. In such circumstance, Arsenal typically is involved in establishing the agenda and matters to be voted upon by shareholders. Accordingly, in these situations, Arsenal typically will vote with management. Arsenal exercises its discretion with respect to the voting of proxies in a manner that is intended to serve the best interests of the Fund.

In the event that there is or may be a conflict of interest in voting proxies, Arsenal may address the conflict using several alternatives including, but not limited to, seeking the approval or concurrence of the applicable Fund's advisory board on the proposed proxy vote or through other alternatives.

Fund investors may obtain a free copy of Arsenal's Proxy Voting Policy, as well as relevant proxy voting records, upon written request to the Chief Compliance Officer.

ITEM 18 FINANCIAL INFORMATION

Arsenal Capital Management has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.