

# Leonard Green & Partners, L.P.

## Part 2A of Form ADV

### The Brochure

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This brochure (“Brochure”) provides information about the qualifications and business practices of Leonard Green & Partners, L.P. (“LGP”), an investment adviser that is registering with the United States Securities and Exchange Commission (the “SEC”). Registration with the SEC does not imply a certain level of skill or training. The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

If you have any questions about the contents of this Brochure, please contact LGP at 310-954-0414. Additional information about LGP is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

Our original brochure was dated February 14, 2012. This brochure contains material changes from our last brochure. The section titled “Methods of Analysis, Investment Strategies and Risk of Loss” has been modified to reflect additional investment risks which were outlined in the offering materials of a new fund. We also provide additional information concerning the allocation of co-investment opportunities in the section titled “Brokerage Practices – Allocation Among Clients; Aggregation.”

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## Advisory Business

LGP was founded in 1989 and is currently owned by the Managing Partners and Partners. The Managing Partners, John G. Danhaki, Peter J. Nolan and Jonathan D. Sokoloff, are the principal owners of LGP.

LGP serves as the investment manager to related private investment partnerships organized to make private equity investments (each, a “Main Fund”). In addition (as described under **Types of Clients**), for each Main Fund, LGP may create a Co-Investment Vehicle, Parallel Fund, and/or Feeder Fund (each Main Fund with its related Co-Investment Vehicle, Parallel Fund, and/or Feeder Fund, a “Fund”). In providing services to each Fund, LGP directs and manages the investment of each Fund’s assets, and provides periodic reports to the limited partners (“Limited Partners”) of each Fund. LGP makes investment decisions based on pre-acquisition due diligence and decision making procedures that help LGP identify and assess investment risks and opportunities. LGP manages the assets of each Fund in accordance with the terms of the

governing documents applicable to each Fund. Investment advice is provided directly to each Fund and not individually to the Limited Partners. Limited Partners may not impose restrictions on the management of the Funds.

As of December 31, 2012, LGP managed, on a discretionary basis, Funds with regulatory assets under management of approximately \$ 15,449,477,575.

## **Fees and Compensation**

LGP and its affiliated entities earn management fees, and have the potential to earn performance-based compensation in the form of carried interest, from each of the Funds (excluding Co-Investment Vehicles).

For each Fund (excluding Co-Investment Vehicles), LGP is entitled to a management fee and an affiliate is entitled to the carried interest, if earned. Management fees are generally payable in advance, with payment on or after the 10<sup>th</sup> day of each semi-annual period or any period that is less than a full semi-annual period. Funds (excluding Co-Investment Vehicles) are generally charged a management fee of 1.50% per annum of aggregate commitments during the commitment period, 1.00% per annum of the funded commitments for two years after the investment period is over, and .75% per annum of the funded commitments thereafter. Funds (excluding Co-Investment Vehicles) are also generally subject to a carried interest or incentive allocation as is more specifically described in each Fund's confidential offering material.

LGP's affiliates that acquire limited partnership interests in a Fund do not pay management fees and are not subject to carried interest with respect to such limited partnership interests. Co-Investment Vehicles generally do not pay any management fees or carried interest, although LGP reserves the right to charge such fees and carried interest to Co-Investment Vehicles that may be formed in the future.

LGP, its affiliated entities, partners or employees, may also receive director's fees from a portfolio company of a Fund. The director's fees may be used to pay unreimbursed related expenses and the remaining portion is applied to reduce the management fee. LGP, its affiliated entities, partners, or employees may also receive customary transaction fees, advisory fees, monitoring fees, and break-up fees (collectively, "Other Fees"). Other Fees may first be used to pay unreimbursed transaction expenses and a specified percentage of the remainder of the Other Fees (as set forth in the relevant confidential offering materials) is applied to reduce the management fee.

In addition to the management fees and any carried interest payable to LGP and its affiliated entities, respectively, the Funds bear other expenses that are more fully described in each Fund's limited partnership agreements. Examples of expenses that are borne by the Funds (and indirectly borne by the Limited Partners) include, but are not limited to, organizational costs, legal, tax, auditing, consulting, administrative and accounting expenses, professional liability

insurance premiums,<sup>1</sup> expenses of Advisory Committee meetings, expenses associated with the acquisition, holding and disposition of proposed or actual portfolio investments, extraordinary expenses (such as litigation), interest on and fees and expenses for permitted borrowings and all expenses of liquidating the Funds. Funds may also be required to bear expenses associated with unconsummated transactions

Generally, the applicable limited partnership agreements provide for the allocation of expenses amongst the Main fund and Parallel Funds on a proportionate basis. In the infrequent case that such an allocation is not addressed by these agreements, LGP allocates the costs described above among the Funds in good faith and in a manner that it believes is fair to each of its Funds.

Certain administrative expenses are allocated solely among the Main Funds and Parallel Funds and not to the Co-Investment Vehicles; however the Co-Investment Vehicles are required to bear certain expenses. The confidential offering materials and limited partnership agreements of each Fund provide a more detailed description of the fees and expenses borne by the Fund.

LGP may also be reimbursed for certain expenses, such as travel expenses incurred in connection with a portfolio company, by portfolio companies.

## **Performance-Based Fees and Side-by-Side Management**

The ability of LGP and/or its affiliated entities to earn performance-based compensation aligns the interests of LGP and the Funds in some ways, but the arrangements also pose potential conflicts of interest. LGP may have an incentive to invest the Funds' capital more speculatively than would otherwise be prudent in an effort to generate higher performance-based compensation. However, this incentive is mitigated in part by the substantial commitment which LGP's Partners and Managing Partners make to the Funds.

## **Types of Clients**

LGP's only clients are privately offered private equity funds. Each Fund may impose a minimum investment commitment requirement. The confidential offering materials for each Fund provide additional information about the Fund's minimum investment commitment, which may be waived.

In connection with the structuring and marketing of a new Fund, LGP forms the Main Fund, the limited partnership agreement of which typically permits the general partner of the Fund to form one or more Co-Investment Vehicles for purposes of investing in some or all of the investments made by the Main Fund. Certain of these vehicles are structured as limited liability companies or other similar entities, where applicable. When we refer to Limited Partners and general partners in this Brochure, we are also referring to the equivalent investors and managers of such entities.

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<sup>1</sup> LGP maintains one professional liability insurance policy that covers all entities. While each entity pays an equal portion of the insurance premium, it is possible that one or more entities could exhaust all of the coverage of the policy and that there would be no coverage benefit available for other entities.

LGP may also organize parallel funds (each a “Parallel Fund”) or “feeder” fund (each a “Feeder Fund”) to facilitate investment in the Funds by a group or category of Limited Partners. LGP may also organize investment vehicles to permit Limited Partners or others to make co-investments with the Fund in certain portfolio companies.

LGP or the Funds may enter into separate agreements, commonly referred to as “side letters,” or other similar agreements with a particular Limited Partner in connection with its admission to one of the Funds without the approval of any other Limited Partner, which would have the effect of establishing rights under or supplementing the terms of the applicable Fund’s limited partnership agreement with respect to such Limited Partner in a manner more favorable to such Limited Partner than those applicable to other Limited Partners. Such rights or terms in any such side letter or other similar agreement may include, without limitation, (i) excuse rights applicable to particular investments (which may increase the percentage interest of other Limited Partners in, and contribution obligations of other Limited Partners with respect to, such investments), (ii) reporting obligations of the general partner, (iii) waiver of certain confidentiality obligations, (iv) consent of the general partner to certain transfers by such Limited Partner or (v) rights or terms necessary in light of particular legal, tax, regulatory or public policy characteristics of a Limited Partner.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

The Funds invest primarily in North American-based companies, pursuing investments that meet LGP’s target middle market investment criteria. LGP seeks to achieve the Funds’ investment objectives by proactively sourcing investment opportunities, conducting rigorous due diligence of potential investments, developing creative structuring and financing structures to facilitate these investments, being actively involved in value creation post-acquisition, and seeking opportunities for timely realization of Fund investments.

LGP generally targets investments in middle-market companies with market-leading franchises, defensible competitive positions and a successful track record, with a preference for companies in the following sectors: retail, distribution, healthcare, aerospace/defense and consumer/business services. While LGP is primarily a control investor, the Funds also invest in minority positions, generally in “shared control” transactions

Regardless of industry, LGP generally focuses on growing, cash flow positive businesses with strong management and dependable, market-leading franchises. Accordingly, LGP generally avoids cyclical industries, highly regulated industries, commodity producers, and companies with high fixed operating cost structures or unpredictable cash flows.

LGP believes that optimal investment returns generally result from examining a large number of investment opportunities which meet its target middle market investment criteria, while at the same time maintaining strict discipline in due diligence, decision making and valuation.

Before making an investment, LGP conducts due diligence on a number of issues, which generally include the acquisition candidate’s operations, competitive position, industry conditions and prospects, management capabilities and other relevant factors. The due diligence effort involves LGP’s investment professionals, as well as operating management teams, legal,

tax, insurance and accounting advisors, and third party consultants. In particular, early in the due diligence process, LGP identifies areas where third party consultants will be needed and seeks specialized knowledge and expertise as appropriate.

In making an investment decision, LGP considers several questions such as:

- What is the company's growth trajectory?
- How has this company and similar companies fared through different economic cycles?
- How is the company positioned competitively?
- What are the cash flow characteristics of the company?
- How talented is the existing management team?
- What add-on acquisitions could be consummated?
- Where are industry valuation multiples versus historical levels?

Acquiring an interest in a Fund involves a number of risks. An investment in a Fund may be deemed a speculative investment and is not intended as a complete investment program. It is designed for sophisticated investors who fully understand and are capable of bearing the risk of an investment in a Fund. Investment risks include, but are not limited to, the following:

- The risky nature of a Fund's investments including the risks associated with:
  - portfolio company leverage;
  - non-U.S. investments;
  - minority investments in certain portfolio companies;
  - the management of portfolio companies;
  - investments in restructurings;
  - investing in publicly-traded securities; and
  - investing in debt securities;
- The difficulty in locating suitable investments;
- The risk that a Fund may not be able to dispose of investments;
- The failure or inability of a Fund to make follow-on investments in a portfolio company;
- Financial and business risks associated with Fund investments;
- The risks arising from the limited number of investments that a Fund may make (lack of diversification);
- The risks associated with financing the acquisition of Fund investments;
- The risks associated with the management of portfolio companies;
- The risks associated with general economic conditions;
- Unforeseen event risks; and
- The risks associated with increased government regulation.

In addition, investing in a Fund presents certain risks, including (but not limited to):

- Dependence on the skill of LGP;
- Lack of operating history;
- Remedies available to a Fund if a Limited Partner defaults on its commitments;
- Lack of control over Fund operations;
- Limitations on transfer of interests in, or withdrawal from, a Fund;
- Involuntary sale of interest;

- Recourse to the Fund's assets;
- Distribution of marketable or restricted securities;
- LGP's right to be indemnified by a Fund;
- Absence of regulatory oversight;
- Benefits provided to certain investors through side letters
- Risks related to Fund leverage;
- Targeted Returns;
- Certain tax risks; and
- Risks associated with potential conflicts of interest.

No guarantee or representation is made that a Fund will achieve its investment objective or that Limited Partners will receive a return of their capital. All investing involves a risk of loss and the investment strategy offered by LGP could lose money over short or even long periods.

The preceding discussion identifies only some of the potentially applicable risks. Each Fund's confidential offering materials include a more detailed description of the relevant risks.

## **Disciplinary Information**

LGP, its partners, and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to an investor's evaluation of LGP or its personnel.

## **Other Financial Industry Activities and Affiliations**

LGP, its partners, and its employees do not have any relationships or arrangements with third parties that are material to LGP's provision of advisory services to its Funds.

LGP organizes and sponsors the Funds. Affiliates of LGP serve as general partners of, and control, the Funds. LGP or its affiliated entities are responsible for all decisions regarding portfolio transactions of the Funds and have full discretion over the management of the Funds' investment activities.

Partners and employees of LGP may serve as directors and officers of certain portfolio companies and, in that capacity, will be required to make decisions that consider the best interests of such portfolio companies and their respective shareholders. In certain circumstances, for example in situations involving bankruptcy or near-insolvency of a portfolio company, actions that may be in the best interests of the portfolio company may not be in the best interests of the Fund, and vice versa. Accordingly, in these situations, there will be conflicts of interest between such individual's duties as an employee of LGP and such individual's duties as a director or officer of such portfolio company.

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

LGP has adopted a written Code of Ethics (the "Code") that includes policies and procedures governing the conduct of LGP's employees. Among other things, the Code requires employees to:

- Act as fiduciaries, putting the interests of clients ahead of the interests of LGP and its employees and fully disclosing all material conflicts of interest;
- Comply with all applicable laws and regulations;
- Periodically report personal securities transactions, and obtain pre-clearance before personally trading certain types of securities; and
- Promptly report any suspected violations of the Code to the Chief Compliance Officer.

All employees must acknowledge their receipt of, understanding of, and agreement to adhere to the Code. A copy of LGP's Code is available to current and prospective Limited Partners upon request.

LGP or an affiliated entity has an investment in each Fund (other than any Co-Investment Vehicle) by agreeing to commit a certain percentage of the Main Fund's total capital commitments or a specified dollar amount set out in the Fund's governing documents. In addition, LGP may organize one or more parallel investment entities in which junior employees and related persons and portfolio company related persons may invest. Such parallel investments are on effectively the same terms and conditions as the applicable Main Fund, and the junior professionals are not permitted to select the investments in which they participate. Therefore, LGP, its employees or a related entity may participate in transactions effected for the Funds.

Apart from transactions, the terms of which are expressly contemplated or approved by the Funds' governing documents, LGP, its affiliated entities and employees are precluded from engaging in any transaction with a Fund or any material transaction with a portfolio company unless the terms of the transaction are on an arm's-length basis and on terms which are no less favorable to the Fund or such portfolio company than would be obtained in a transaction with an unaffiliated party. Any material transactions between a Fund and LGP, its affiliated entities or an employee must also be approved or ratified by the relevant Fund's Advisory Committee.

## **Brokerage Practices**

LGP focuses on making investments in private securities, thus it does not ordinarily deal with financial intermediaries such as broker-dealers, and commissions are not ordinarily payable in connection with such investments. To the limited extent LGP transacts in public securities it intends to select brokers based upon the broker's ability to provide best execution for the Funds (that is, it seeks the best net price considering all relevant circumstances). LGP is generally authorized to make the following determinations, subject to the Fund's investment objectives and restrictions, without obtaining prior consent from the relevant Fund or any of their Limited Partners: (1) which securities or other instruments to buy or sell; (2) the total amount of securities or other instruments to buy or sell; (3) the executing broker or dealer for any transaction; and (4) the commission rates or commission equivalents charged for transactions.

In making its decisions regarding the allocation of brokerage transactions for Funds, LGP will consider a variety of factors including but not limited to the broker-dealer's: (i) ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); (ii) operational efficiency with which transactions are effected (such as prompt and accurate confirmation and delivery), taking into account the size of order and



difficulty of execution; (iii) financial strength, integrity and stability of the broker-dealer or counter party; (iv) competitiveness of commission rates in comparison with other broker-dealers; and (v) research products/services provided by a broker-dealer. Although LGP generally seeks competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent. Transactions may involve specialized services on the part of a broker-dealer, which may justify higher commissions and equivalents than would be the case for more routine services. LGP does not select broker-dealers based on investor referrals.

LGP does not participate in any soft dollar arrangements outside of receiving research available to other institutional investors. Research services received from brokers and dealers are supplemental to LGP's own research effort. To the best of LGP's knowledge, these services are generally made available to all institutional investors doing business with such broker-dealers. LGP does not separately compensate such broker-dealers for the research and does not believe that it "pays-up" for such broker-dealers' services (although these brokers will generally not separately disclose their costs in providing such research).

#### Allocations Among Clients; Aggregation

Based upon the facts and circumstances of a particular investment opportunity, the Funds may share investment opportunities with Co-Investment Vehicles. Such available investments are allocated among the particular Fund, the Co-Investment Vehicle and any other investors. LGP may offer co-investment opportunities to investors in a Fund, certain LGP employees and other associated persons and to other investors, including third parties whom LGP believes will be of strategic benefit to the Funds and/or may provide a strategic benefit to LGP and its Funds.

Typically, only one Fund (including any related Co-Investment Vehicles, Parallel Funds, and/or Feeder Funds) is actively investing capital and accordingly, LGP generally does not need to allocate private equity fund investments among multiple Funds. However, should more than one Fund be investing capital at a given time, LGP seeks to allocate investment opportunities in a manner that it believes to be in the best interest of all of the Funds involved and that it believes to be appropriate on an equitable basis. Among the factors that can impact allocation and investment decisions across Funds are differing investment strategies and objectives, concentration restrictions, risk parameters, cash flows, liquidity needs, tax considerations and other factors. In addition, the limited partnership agreements of the Funds may contain provisions that address the allocation of investments as between active Funds, and sale and disposition opportunities.

Certain transactions may involve conflicts of interest between LGP and the Funds or among Funds. To address many of these situations, the general partner of each Fund establishes a Fund Advisory Committee comprised of selected voluntary individual representatives of the Fund's Limited Partners. Among other things, the functions of the Fund Advisory Committee is to review and approve or disapprove conflicts of interest; and to consult with and advise the general partner or LGP on such other matters about which the general partner or LGP may from time to time determine to consult the Fund Advisory Committee. With certain exceptions as detailed in each Fund's confidential offering materials, a Fund Advisory Committee generally does not have any power to approve or disapprove investments or to manage the applicable Fund or any such investments.

LGP may aggregate Fund transactions when such aggregation is expected to be in the best interest of all participating Funds. All Funds participating in an aggregated transaction will generally participate on a pro rata basis and receive the average price and pay a proportional share of any transaction costs, and will similarly exit the investment on the same terms and at the same time.

#### Trade errors

The cost of errors in the Funds will generally be borne by the Funds unless an error is the result of bad faith, gross negligence, or willful misconduct by LGP.

### **Review of Accounts**

All investments are carefully reviewed and approved by LGP's investment professionals. The progress of all portfolio companies is carefully monitored on a periodic basis and is subject to the constant supervision and review by LGP investment professionals. The investments made by the Funds are generally private, illiquid and long-term in nature. Accordingly, the Fund review process is not directed toward a short term decision to dispose of securities.

LGP provides each Limited Partner with audited financials of the Fund in which they invest, periodic descriptive investment information for each portfolio company of the Fund, and annual tax information for the completion of income tax returns.

### **Client Referrals and Other Compensation**

During a fundraising cycle for a Fund, LGP has previously and may in the future compensate placement agents who introduce new investors that commit capital to a Fund. The use of placement agents to raise capital for a Fund, and the fees paid to such placement agent, will be disclosed in the Fund's confidential offering materials or to the Limited Partners identified by such placement agents, as appropriate.

LGP personnel may receive discounted goods or services from certain portfolio companies. Such discounts are similar to those provided to management or employees of the portfolio companies.

### **Custody**

The Funds are audited annually, and audited financial statements are provided to each Limited Partner within 120 days of the end of the Funds' fiscal years. The Funds' cash and securities are held by qualified custodians that are not affiliated with LGP, and LGP regularly reconciles its records to those of the qualified custodians.

### **Investment Discretion**

LGP has full discretionary authority over each of the Funds, as described in each Fund's limited partnership agreement and confidential offering materials.

## **Voting Client Securities**

The Funds are primarily invested in private companies which typically do not issue proxies. When LGP receives proxies in connection with its publicly traded portfolio companies, it is LGP's policy to exercise the proxy vote in the best interest of the Funds, taking into consideration all relevant factors, including without limitation, acting in a manner that LGP believes will: (i) maximize the economic benefits to the Fund, and (ii) promote sound corporate governance by the issuer. Whenever LGP is required to exercise a vote for a privately-held portfolio company, the same standards and procedures shall apply. LGP will seek to avoid material conflicts of interest between its own interests on the one hand, and the interests of its Funds on the other.

LGP seeks and accepts the election of LGP representatives to serve on the board of directors on behalf of a Fund and will typically, but not always, vote in favor of board recommendations. In situations where LGP is required to vote the proxy for a company in which partners or employees of LGP serve on the board of directors, LGP has determined that this does not inherently present a conflict of interest, as the sole purpose of this representation is to maximize the return for the applicable Fund's investment in such company. Accordingly, while LGP is generally, but not automatically, fully supportive of recommendations made by a company's board of directors with respect to proxy votes related to that issuer, it will review all proxies in accordance with the proxy voting guidelines outlined herein and may or may not vote in favor of the board's recommendation.

LGP has adopted written policies and procedures governing the proxy voting process and addressing conflicts of interest that may arise in connection with voting proxies. These policies and procedures are available to current and prospective Limited Partners upon request. Information about the specific ways in which LGP voted proxies is also available to Limited Partners upon request.

LGP generally does not participate in class actions on behalf of the Funds because LGP generally does not have the opportunity for such participation.

Current and prospective Limited Partners may contact LGP's Chief Compliance Officer, Michael Gennaro, at (310) 954-0414 for more information about proxy voting.

## **Financial Information**

LGP has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage the Funds.